TESCO

Interim Results 2018/19

STEP UP IN SECOND QUARTER DRIVEN BY UK & ROI

On a continuing operations basis	**1H 2018/19***	1H 2017/18 (restated – IFRS 15)[1]	Change at constant rates	Change at actual rates
Headline measures[2]:				
Group sales[3]	**£28.3bn**	£25.2bn	12.5%	12.8%
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£933m**	£750m	23.9%	24.4%
Diluted EPS before exceptional and other items[5]	**6.36p**	5.37p		18.4%
Interim dividend per share	**1.67p**	1.00p		67.0%
Retail operating cash flow[6]	**£1,123m**	£1,139m		(1.4)%
Net debt[6,7]	**£(3,126)m**	£(3,260)m		4.1% lower
Statutory measures:				
Revenue	£31.7bn	£28.3bn	11.8%	12.0%
Operating profit	£819m	£876m	(6.8)%	(6.5)%
Profit before tax	£564m	£553m	2.2%	2.0%
Diluted EPS	4.37p	5.13p		(14.8)%

*Note: Booker consolidated from 5 March 2018 and included in the 2018/19 figures

Headlines

- Group sales[3] of £28.3bn, up 12.8%
  - UK & ROI LFL sales[8] up 3.8%, strengthening from 3.5% in 1Q to 4.2% in 2Q
    - incl. Tesco UK LFL sales up 2.3% (1Q: 2.1%; 2Q: 2.5%) and Booker LFL sales up 14.7% (1Q: 14.3%; 2Q: 15.1%)
    - significant investment in 'Exclusively at Tesco' brands; roll-out 81% complete
  - Central Europe LFL sales declined by (1.5)% due to impact of Sunday trading regulations
  - Asia LFL sales decline reduced from (9.0)% in 1Q to (4.8)% in 2Q following annualisation of bulk-selling impact; Government-issued welfare cards continue to impact sales in Thailand by c.(2)%
- Group operating profit before exceptional items and amortisation of acquired intangibles[4] up 24.4% to £933m
  - UK & ROI profit of £685m, up 47.6%; incl. first-time consolidation of £97m Booker profit and £16m synergies
  - Central Europe profit of £59m, down (3.3)% reflecting £9m profit on property-related items in prior year
  - Asia profit of £100m, down (29.1)% due to combined impact of sales deleverage, price investment and renegotiation of promotional investment
  - Bank profit of £89m, up 6.0% mainly due to increased income and ongoing cost reductions
- Group operating margin[4] of 2.94% (+29bps); margin of 3.02% excl. Tesco Direct
- Retail operating cash flow[6] of £1.1bn, down (1.4)% (up 10.8% before £(139)m timing impact of P&H failure last year)
- £404m retail free cash flow (after net outflow of £(139)m relating to market purchase of shares)
- Interim dividend of 1.67p, up 67% year-on-year; on track to deliver c.2.0x EPS cover in the medium-term
- Statutory revenue up 12.0% to £31.7bn; operating profit down (6.5)% to £819m; profit before tax up 2.0% to £564m

Further progress against each of our six strategic drivers

- **Brand** health[9] continues to strengthen; quality perception +3.6 points[10]
- In-year **cost** savings of £241m; savings of £1.1bn to date towards £1.5bn target
- Generated £1.1bn of retail operating **cash**[6]; net debt of £(3.1)bn is after £(766)m Booker cash consideration
- Improving the **mix** across geographies, channels and product; focus on sustainable general merchandise categories by closing Tesco Direct; on track to achieve 3.5-4.0% margin ambition[11] by 2019/20
- Released a further £134m value[12] from **property**; further buyback (Cirencester Extra) announced Sept 2018
- **Innovations** including 5,038 of 10,000 own brand products re-launched; eight new 'Exclusively at Tesco' brands; launched 'Jack's' as part of celebrating 100 years of great value at Tesco

Dave Lewis, Chief Executive:

"We have made a good start to the year. The step up in Q2 is driven mainly by the UK & ROI and delivers our eleventh consecutive quarter of growth.

At the same time, we have made further strategic progress. We completed our merger with Booker in March and are delighted with performance so far. We announced a strategic alliance with Carrefour in July which goes live this month. And we are now more than half-way through the biggest own brand re-launch in our nearly 100-year history, including a significant investment in over 300 new 'Exclusively at Tesco' products at market-leading prices.

We are firmly on track to deliver our medium-term ambitions and are continuing to improve the quality and value of our offer for customers in all of our markets. In doing so, we are well-positioned to deliver strong, sustainable returns for shareholders."

Serving shoppers a little better every day

Like-for-like sales performance[8]

	1H 2017/18	2H 2017/18	FY 2017/18	1Q 2018/19	2Q 2018/19	1H 2018/19
UK & ROI	**2.1%**	**2.4%**	**2.3%**	**3.5%**	**4.2%**	**3.8%**
Tesco UK	2.2%	2.3%	2.2%	2.1%	2.5%	2.3%
ROI	1.1%	4.3%	2.7%	3.0%	3.1%	3.1%
Booker	n/a	n/a	n/a	14.3%	15.1%	14.7%
Central Europe	**0.1%**	**0.6%**	**0.3%**	**(1.0)%**	**(2.0)%**	**(1.5)%**
Asia	**(8.3)%**	**(11.8)%**	**(10.0)%**	**(9.0)%**	**(4.8)%**	**(7.0)%**
Group	**0.8%**	**0.6%**	**0.7%**	**1.8%**	**2.7%**	**2.2%**

Headline Group results

A full Group income statement can be found on page 13.

26 weeks ended 25 August 2018 On a continuing operations basis	1H 2018/19	1H 2017/18 (restated)[1]	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)[3]	**£28,294m**	**£25,163m**	**12.5%**	**12.8%**
Fuel	£3,440m	£3,176m	8.2%	8.3%
Revenue (exc. VAT, inc. fuel)	**£31,734m**	**£28,339m**	**11.8%**	**12.0%**
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£933m**	**£750m**	**23.9%**	**24.4%**
- UK & ROI	£685m	£464m	47.0%	47.6%
- Central Europe	£59m	£61m	(4.9)%	(3.3)%
- Asia	£100m	£141m	(29.1)%	(29.1)%
- Tesco Bank	£89m	£84m	6.0%	6.0%
Include exceptional items and amortisation of acquired intangibles	£(114)m	£126m		
Group operating profit	£819m	£876m	(6.8)%	(6.5)%
Group profit before tax before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	£806m	£566m		42.4%
Group statutory profit before tax	**£564m**	**£553m**		2.0%
Diluted EPS before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	6.36p	5.37p		18.4%
Diluted EPS	4.37p	5.13p		
Basic EPS	4.40p	5.13p		
Dividend per share	**1.67p**	**1.00p**		67.0%
Capex[13]	**£0.4bn**	**£0.4bn**		
Net debt[6,7]	**£(3.1)bn**	**£(3.3)bn**		
Cash generated from retail operations[6]	**£1.1bn**	**£1.1bn**		

Notes
1. Last half-year figures restated for impact of IFRS 15 'Revenue from contracts with customers'. Impacts include a £(9)m reduction in revenue and operating profit.
2. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary starting on page 49.
3. Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales.
4. Excludes amortisation of acquired intangibles and excludes exceptional items by virtue of their size and nature in order to reflect management's view of the performance of the Group.
5. Headline earnings per share measure excludes exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments. Full details of this measure can be found in Note 9, starting on page 34.
6. 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.
7. Net debt includes both continuing and discontinued operations.
8. Like-for-like is a measure of growth in online sales and sales from stores that have been open for at least a year (at constant foreign exchange rates).
9. As per YouGov BrandIndex (customers recommend) August 2018.
10. Reflects year-on-year change in YouGov Brand perception measure of quality.
11. Ambition announced in October 2016 and excludes Booker. Booker contributed 9bps of the Group margin accretion in the half.
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 25 August 2018 was £0.4bn (LY £0.6bn).

Creating value for our key stakeholders

We have continued to make further good progress in the half, guided by the six strategic drivers that we set out in October 2016, as we create long-term and sustainable value for our key stakeholders.

Customers

- 189,500 more customers are shopping at Tesco[1]
- continued improvement in Brand perception – quality up 3.6 pts, with stable value perception
- more than half-way through own brand re-launch; roll out to be largely complete by end-February
- significant investment in eight new 'Exclusively at Tesco' brands; already shopped by 51% of customers
- launched partnership with Jamie Oliver to make it easier for customers to eat well and live healthier lives
- Tesco customers now able to access Booker products: top 30 Booker products now rolled out to 70 Tesco stores; integrated Booker offer in Gallions Reach to be rolled out to eight more stores
- voted 'Britain's Favourite Supermarket' by customers for the fourth year running
- launched 'Jack's' - a new brand and store format – as part of celebrating 100 years of great value at Tesco

Colleagues

- 84% of colleagues recommend Tesco as a great place to work; scores improved in all markets
- implemented second stage of two-year, 10.5% hourly pay increase for UK store colleagues in July 2018
- continuing commitment to colleague health; over 17,000 colleagues benefited from mental health e-learning
- conducted UK's largest ever workplace health survey, with over 8,000 colleagues taking part
- new partnership with The Prince's Trust, helping 10,000 young people to develop skills and employability
- opened 'Heart' building in Welwyn Garden City in May, bringing together innovation and learning capability

Supplier partners

- retailer with most improved supplier relationships for third successive year in June 2018 GCA survey
- Supplier Viewpoint measure improved 330bps year-on-year to 74.7% for the Group
- ranked first for the third successive year in the independently-run Advantage supplier survey
- suppliers now accessing faster UK sales growth; joint Tesco Booker terms agreed with top 60 suppliers
- working together with suppliers to remove hard-to-recycle materials from all packaging by 2019, moving towards creating a closed loop approach
- established our tenth Sustainable Farming Group, with 1,600 beef farmers in the UK now benefiting from 12 month contracts that guarantee above-market prices
- worked alongside 358 of our existing suppliers to create new 'Jack's' brand with 1,800 products

Shareholders

- operating margin of 2.94%, up 29bps year-on-year; margin of 3.02% excluding Tesco Direct
- generated £1.1bn of retail operating cash flow (up 10.8% before £(139)m timing impact of P&H failure last year)
- retail free cash flow of £404m (after net outflow of £(139)m relating to market purchase of shares)
- announced interim dividend of 1.67p per share; targeting around two times EPS cover in medium term
- continue to take steps to strategically re-position the Group: Booker contributing to faster growth as planned; entered into long-term, strategic alliance with Carrefour; closure of Tesco Direct in July
- Booker delivering synergies; £16m in first half and on track to deliver at least £60m in full-year

Looking ahead

We remain firmly on track to deliver the medium-term ambitions set out in October 2016: to reduce our costs by £1.5bn, to generate £9bn of retail cash from operations and to improve Group operating margins to between 3.5% and 4.0% by 2019/20. In addition, we will continue to strengthen the balance sheet and place increasing focus on growth in earnings and free cash flow generation.

We continue to maintain a disciplined approach to capital. Capital expenditure for the year is now expected to be no more than £1.2bn. Going forward, we expect annual capital expenditure to remain between £1.1bn and £1.4bn.

In Thailand, the combined effects of sales deleverage, price investment and renegotiation of promotional investment as we reposition our offer have impacted Asian profits in the first half. We expect this impact to continue in the second half as we maintain our investment in price in order to position the business for growth in a competitive and challenging market.

As planned, we anticipate that synergies associated with our merger with Booker will generate a benefit of at least £60m this year, growing to a cumulative c.£140m in 2019/20 and c.£200m by 2020/21.

1. KantarWorldpanel UK data for the 52 weeks ending 9 September 2018.

Financial Results

Sales:

On a continuing operations basis	UK & ROI[1]	Central Europe[2]	Asia[3]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£22,399m**	**£2,983m**	**£2,365m**	**£547m**	**£28,294m**
change at constant exchange rates[4] %	17.7%	(3.5)%	(5.0)%	4.2%	12.5%
change at actual exchange rates[4] %	17.7%	(2.7)%	(4.1)%	4.2%	12.8%
incl. first-time contribution of Booker	*15.6%*	-	-	-	*11.8%*
Like-for-like sales (exc. VAT, exc. fuel)	**3.8%**	**(1.5)%**	**(7.0)%**	**-**	**2.2%**
Statutory revenue (exc. VAT, inc. fuel)	**£25,706m**	**£3,116m**	**£2,365m**	**£547m**	**£31,734m**
Includes: Fuel	£3,307m	£133m	-	-	£3,440m

1. UK & ROI consists of Tesco UK, ROI and Booker. Booker consolidated from 5 March.
2. Central Europe consists of Czech Republic, Hungary, Poland and Slovakia.
3. Asia consists of Thailand and Malaysia.
4. Sales change shown between 1H 2017/18 and 1H 2018/19 on a comparable days basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales; statutory Group sales change was 12.2% at constant exchange rates and 12.4% at actual exchange rates.

Group sales grew by 12.5% at constant exchange rates with like-for-like growth of 2.2%. At actual exchange rates, sales grew by 12.8% including a 0.3% foreign exchange translation benefit due to the depreciation of Sterling. Booker was consolidated into the Group from 5 March, contributing 11.8% to Group sales growth. Further information on sales performance is included in Appendices 1 to 3 on page 55 of this statement.

In the UK and the Republic of Ireland (ROI), like-for-like sales growth improved from 3.5% in the first quarter to 4.2% in the second quarter. In Tesco UK, like-for-like sales grew by 2.3% in the half and we gained 189,500 customers in the course of the last year. We are now more than half-way through the re-launch of 10,000 own brand products, initially focused on fresh food, and we expect the programme to be largely complete by the end of February. In addition, more than half of our customers have now bought at least one product from our eight new 'Exclusively at Tesco' brands, including 'Eastman's Deli', 'Hearty Food Co.' and 'Ms Molly's'. We have made a significant investment in lowering the price of these ranges, enabling us to offer our customers great quality food and market-leading value.

We continue to refine our range of general merchandise, focusing on sustainable categories that complement the grocery shop and deliver a simpler, more profitable business. As a result, we have reduced the number of products by a further 15% since the start of the year. Overall general merchandise like-for-like sales declined by (4.8)%, contributing c.(0.3)% to UK like-for-like sales as a whole, driven by selectively reducing certain categories such as Electrical, Media and Entertainment. Areas of focus such as Home and Seasonal continue to perform well, growing like-for-like sales by 3.6% combined. Our decision to close Tesco Direct from 9 July 2018 reflects our focus on achieving sustainable profitability. Our like-for-like sales performance has been adjusted to remove the impact of the closure from July onwards.

Clothing like-for-like sales outperformed the market with growth of 2.4%. Growth in menswear was particularly pleasing with a good customer response to our World Cup ranges. Improved stock routines and a strong summer season contributed to our lowest-ever level of realised markdown across the clothing business.

All store formats and channels achieved like-for-like sales growth, with our large store business growing at 1.8% and our online grocery sales up 3.5% supported by increasing customer numbers. Growth in like-for-like sales of 14.7% at Booker (13.3% growth excluding tobacco) reflects a strong performance across the business as a whole. It includes particularly strong growth in symbol group sales and the benefit of new contract wins secured during the fourth quarter last year.

In ROI, like-for-like sales grew by 3.1% as we continue to gain customers and extend our market-leading position. Own brand volumes increased by 9.0% as customers responded to an increasingly competitive offer.

In Central Europe, changes to Sunday trading regulations in Poland resulted in thirteen fewer trading days in the first half, impacting like-for-like sales for the region as a whole by (1.2)%. We have continued to exit unprofitable stores in the region, with 18 store closures in Poland earlier in the year contributing to an overall sales reduction of (3.5)% at constant exchange rates. We announced the closure of a further 13 Polish stores in August.

In Asia, our like-for-like sales performance improved from (9.0)% in the first quarter to (4.8)% in the second quarter following the annualisation of our decision to remove bulk-selling. However, we are continuing to see a sales impact of nearly (2)% in Thailand from the issuance of Government welfare cards which cannot be redeemed in modern retail chains. In addition, we have made significant changes to our sales mix and promotional strategy. Combined with the deflationary effect of our own price investment in a highly competitive and challenging Thai market, this has resulted in some continued volatility in our like-for-like sales as we move into the third quarter.

Group statutory revenue of £31.7bn grew by 12.0% year-on-year and includes fuel sales of £3.4bn.

Operating profit:

On a continuing operations basis	UK & ROI	Central Europe	Asia	Tesco Bank	Group
Operating profit before exceptional items and amortisation of acquired intangibles	**£685m**	**£59m**	**£100m**	**£89m**	**£933m**
change at constant exchange rates %	47.0%	(4.9)%	(29.1)%	6.0%	23.9%
change at actual exchange rates %	47.6%	(3.3)%	(29.1)%	6.0%	24.4%
Operating profit margin before exceptional items and amortisation of acquired intangibles	**2.66%**	**1.89%**	**4.23%**	**16.27%**	**2.94%**
change at constant exchange rates (basis points)	55bp	(2)bp	(133)bp	27bp	**29bp**
change at actual exchange rates (basis points)	56bp	(1)bp	(137)bp	27bp	**29bp**
Operating profit	**£613m**	**£38m**	**£100m**	**£68m**	**£819m**

Group operating profit before exceptional items and amortisation of acquired intangibles was £933m, up 23.9% on last year at constant exchange rates and up 24.4% at actual rates. Statutory operating profit of £819m includes the impact of exceptional items and amortisation of acquired intangibles, which are described in more detail below and in Note 4 on page 31 of this statement.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £685m, up 47.6%, with operating margin growth of 56 basis points year-on-year. Booker is consolidated in these numbers from 5 March 2018 and made an operating profit in the half of £97m. Excluding Booker operating profit, UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was up 26.7%.

We have already delivered £16m of the synergies identified in the Booker merger process and are well on track to deliver at least £60m in the full year. Suppliers are benefiting from access to our combined sales growth and we have now completed negotiations of new terms with our top 60 suppliers. Tesco Magor and Middleton distribution centres are now being used by Booker to support growth, utilise spare capacity and enable us to reduce the lead time on orders for Booker customers. In addition, we have consolidated a number of core business services across Tesco UK and Booker.

Our cost savings programme is progressing well in the UK as we continue to deliver efficiencies across our store operating model. Our strategic focus on maximising the mix within our business led to the closure of Tesco Direct in July. The operating loss relating to Tesco Direct was £(23)m in the first half with one-off closure costs of £(57)m treated as an exceptional item.

Central Europe operating profit before exceptional items was £59m, down £(2)m year-on-year at actual exchange rates. The reduction reflects the inclusion of £9m profit on property-related items in the prior year. We are making good progress with the implementation of our cross-European cost reduction programme. However, in Poland, the ongoing loss of two trading days per month led to reduced volume in the half and resulted in significant operational de-leverage. Poland remains the only loss-making market within the Group, contributing a drag of £(32)m on Central European profitability in the first half. We closed 18 loss-making stores in Poland in the half and announced a further 13 store closures in August 2018.

Asia operating profit before exceptional items was £100m, down (29.1)% at both constant and actual exchange rates. In addition to operational deleverage resulting from the sales disruption mentioned above, profits in Thailand have been impacted by a significant price investment as we reposition our customer offer and the temporary effect of renegotiating promotional investment from suppliers into everyday low prices for customers. We expect this impact to continue in the second half as we maintain our investment in price in order to position the business for growth in a competitive and challenging market.

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/(losses) arising on property-related items	£(8)m	£33m
Exceptional property gains	£13m	£65m
Total profits arising on property-related items	**£5m**	**£98m**

Across the Group, £(8)m of net operating losses before exceptional items arose from a number of small property-related items. The year-on-year movement is driven by profits on the disposal of a development site in Welwyn Garden City in the UK and a department store in the Czech Republic included last year.

An exceptional profit of £13m has arisen from disposals within the UK. The year-on-year movement is driven by two transactions last year including the development of our Hackney store as part of our 'air-rights' programme and the unwind of our joint venture with British Land where we regained ownership of seven large stores.

Further detail on exceptional property transactions and property-related items can be found in Note 4 on page 31 of this statement.

Exceptional items and amortisation of acquired intangibles in operating profit:

	This Year	Last Year
Tesco Direct closure costs	£(57)m	-
Net restructuring and redundancy costs	£(22)m	£(63)m
Provision for customer redress	£(7)m	-
Release of amounts provided in relation to FCA obligations	£15m	-
Property transactions	£13m	£65m
Tesco Bank FCA provision	£(16)m	-
Profit on the sale of Lazada	-	£124m
Total exceptional items in operating profit	**£(74)m**	**£126m**
Amortisation of acquired intangible assets	£(40)m	-
Total exceptional items and amortisation of acquired intangibles in operating profit	**£(114)m**	**£126m**

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 first half, these include charges of £(57)m incurred as a result of the closure of our loss-making online general merchandise business, Tesco Direct. In addition, we have provided £(22)m restructuring costs largely in relation to announced store closures in Poland.

Higher claim rates than previously estimated in respect of Payment Protection Insurance have driven an increase of £(7)m in our provision for customer redress at Tesco Bank.

We have released £15m of the amounts provided in relation to the Shareholder Compensation Scheme in the first half, as we continue to process outstanding claims submitted before the 22 February 2018 deadline. As mentioned above, exceptional profits on property transactions of £13m have arisen from disposals in the UK.

We have also made a provision of £(16)m in relation to a settlement payment agreed with the Financial Conduct Authority (FCA) following an online fraudulent attack on Tesco Bank in November 2016.

Further detail on exceptional items can be found in Note 4 on page 31 of this statement.

Amortisation of acquired intangible assets is excluded from our headline performance measures. Our combination with Booker resulted in the recognition of a £755m intangible asset, driving amortisation of acquired intangible assets of £(40)m in the first half. More detail can be found in Notes 4 and 19 on pages 31 and 45 respectively.

In total, the net effect of exceptional items and acquired intangibles amortisation on operating profit in the first half was £(114)m. This compares to a net credit of £126m last year, including £124m profit on the sale of Lazada in June 2017.

Joint ventures and associates:

	This year	Last year
Share of post-tax profits from JVs and associates before exceptional items	**£20m**	**£12m**
Exceptional items: Share of property disposal gain in Gain Land	£11m	-
Share of post-tax profits from JVs and associates	**£31m**	**£12m**

Our share of post-tax profits from joint ventures and associates before exceptional items was £20m, an increase of £8m year-on-year due to an improved performance in Gain Land, our associate in China. An exceptional gain of £11m was also recognised on our share of profits from a mall disposal in Gain Land.

Finance income and finance costs:

The following table sets out the components of net finance costs.

	This year	Last year
Interest payable on medium term notes, loans and bonds	£(134)m	£(194)m
Interest receivable on associated derivatives	£7m	£15m
Net interest on medium term notes, loans and bonds	£(127)m	£(179)m
Other interest receivable and similar income	£7m	£17m
Other finance charges and interest payable	£(28)m	£(35)m
Capitalised interest	£1m	£1m
Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	**£(147)m**	**£(196)m**
Fair value remeasurements of financial instruments	£(94)m	£10m
Net pension finance costs	£(45)m	£(81)m
Exceptional charge - translation of Korea proceeds	-	£(68)m
Net finance costs	**£(286)m**	**£(335)m**

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £49m year-on-year to £(147)m. This improvement year-on-year was mainly driven by a £52m reduction in net interest payable on interest-bearing liabilities, resulting from debt maturities and bond tenders.

The £600m bond tender we undertook in April 2018 reduced interest costs by £10m in the half. We expect an associated reduction in interest payable of £33m on an annualised basis.

Net finance costs of £(286)m were £49m lower year-on-year. Within net finance costs, fair value remeasurements includes £(75)m relating to the premium paid on the repurchase of long-dated bonds. Net pension finance costs decreased by £36m year-on-year, driven by a lower opening deficit, partly offset by a higher discount rate.

Last year, an exceptional loss of £(68)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea. This translation effect, which did not represent an economic cost to the Group, has not arisen again in the current financial year as the funds have since been moved to a Sterling denominated entity.

Further detail on finance income and costs can be found in Note 5 on page 33.

Group tax:

	This year	Last year
Tax on profit before exceptional items and amortisation of acquired intangibles	£(160)m	£(116)m
Tax on exceptional items and amortisation of acquired intangibles	£22m	£(20)m
Tax on profit	**£(138)m**	**£(136)m**

Tax on profit before exceptional items and amortisation of acquired intangibles was £(160)m.

As previously indicated, the effective tax rate on profit before exceptional items for the 2018/19 financial year is expected to be around 24%. This tax rate is higher than the UK statutory rate primarily due to the impact of the 8% supplementary tax surcharge on bank profits and depreciation of assets that do not qualify for tax relief.

We expect the impact of these items on the effective tax rate to reduce as our overall level of profitability continues to increase. Therefore, along with the additional impact from the UK corporation tax rate reducing by 2% from April 2020, we expect the effective tax rate to reduce to around 20% in the medium term.

On a statutory basis, an exceptional credit of £22m is included and principally relates to the tax on exceptional items contained within operating profit.

Earnings per share:

On a continuing operations basis	This year	Last year
Diluted EPS pre-exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	6.36p	5.37p
Diluted earnings per share	4.37p	5.13p
Basic earnings per share	4.40p	5.13p

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 6.36p, 18.4% higher year-on-year principally due to our stronger profit performance and partially offset by a higher tax charge. Statutory basic earnings per share from continuing operations were 4.40p, (14.2)% lower year-on-year, reflecting the impact of a net charge in respect of exceptional items this year compared to a net credit last year.

Dividend:

Reflecting the continued improvement in the business, the interim dividend has been set at 1.67 pence per ordinary share, an increase of 67% year-on-year. The interim dividend was approved by the Board of Directors on 2 October 2018. We anticipate a split of broadly one-third to two-thirds 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 23 November 2018 to shareholders who are on the register of members at close of business on 12 October 2018 (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 2 November 2018.

Pension:

On an IAS 19 basis, the pension deficit (net of deferred tax) has reduced from £(2.7)bn at 24 February 2018 to £(2.1)bn at the end of the half-year. The movement in the deficit is primarily attributable to asset performance over the period, in addition to continued deficit contributions. Three Booker defined benefit schemes are now part of the Group and had a combined deficit of £(22)m on acquisition. These are all closed to future accrual.

Further information on the Group’s pension liability is available in Note 16 on page 42.

Summary of total indebtedness[1]:

	Aug 2018	Feb 2018	Movement
Net debt (excludes Tesco Bank)	£(3,126)m	£(2,625)m	£(501)m
Discounted operating lease commitments	£(7,202)m	£(6,931)m	£(271)m
Pension deficit, IAS 19 basis (post-tax)	£(2,144)m	£(2,728)m	£584m
Total indebtedness	**£(12,472)m**	**£(12,284)m**	**£(188)m**

1. Total indebtedness is defined in the glossary, on page 51.

Overall, total indebtedness has increased by £(0.2)bn in the half driven by the £766m Booker cash consideration, partially offset by a reduced pension deficit.

Retail net debt increased by £(0.5)bn to £(3.1)bn due to the cash outflow relating to our combination with Booker. Discounted operating lease commitments increased by £(0.3)bn, including the consolidation of £(0.4)bn Booker lease commitments.

As outlined above, on an IAS 19 basis, our pension deficit decreased by £0.6bn primarily as a result of strong asset performance in addition to continued deficit contributions.

Our key credit metrics, which are fixed charge cover and total indebtedness/EBITDAR, have further improved since the end of the last financial year, from 2.7 to 2.9 times and from 3.3 to 3.2 times respectively.

IFRS 16 'Leases' will be effective in the Group financial statements for the accounting period commencing 24 February 2019. The Group intends to retrospectively adopt the standard, with comparatives restated from a transition date of 25 February 2018. The standard has no impact on the Group's underlying cash flows. It is, however, expected to have a significant impact on reported assets, liabilities and the income statement of the Tesco Group, as well as the classification of cash flows relating to lease contracts. The Group is in the process of finalising this work and setting out related accounting policies and procedures for leases. Until this work has been carried out, it is not practical to provide a reasonable estimate of the financial effect of IFRS 16.

Summary retail cash flow:

The following table reconciles Group operating profit before exceptional items and amortisation of acquired intangibles to retail free cash flow. Further details are included in Note 2, beginning on page 23.

	This year	Last year
Operating profit before exceptional items and amortisation of acquired intangibles	**£933m**	**£750m**
Less: Tesco Bank operating profit before exceptional items	£(89)m	£(84)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	**£844m**	**£666m**
Add back: Depreciation and amortisation	£596m	£599m
Other reconciling items	£1m	£6m
Pension deficit contribution	£(142)m	£(129)m
Underlying (increase) / decrease in working capital	£(29)m	£244m
Retail cash generated from operations before exceptional items	**£1,270m**	**£1,386m**
Exceptional cash items:	£(147)m	£(247)m
Relating to prior years:		
- SFO fine	-	*£(132)m*
- Shareholder Compensation Scheme payments	*£(27)m*	*£(3)m*
- Utilisation of onerous lease provisions	*£(32)m*	*£(39)m*
- Restructuring payments	*£(58)m*	*£(53)m*
Relating to current year:		
- Restructuring payments	*£(30)m*	*£(29)m*
- Other	-	*£9m*
Retail operating cash flow	**£1,123m**	**£1,139m**
Cash capex	£(459)m	£(606)m
Net interest & tax	£(274)m	£(173)m
Property proceeds	£134m	£138m
Property purchases – store buybacks	£(35)m	£(189)m
Market purchases of shares (net of proceeds)	£(139)m	£6m
Acquisitions and disposals and dividends received	£(693)m	£277m
Deduct: Booker acquisition[1]	£747m	-
Retail free cash flow[2]	**£404m**	**£592m**

1 The cost of major acquisitions and disposals are removed from the Group's definition of free cash flow. Note 19 (p.45) provides a full breakdown of the total Booker acquisition cost.
2. Retail free cash flow includes the market purchase of shares (net of proceeds) of £(139)m in relation to share schemes. Last year's retail free cash flow has been restated by £6m to reflect this.

Retail operating cash flow decreased by £(16)m to £1,123m. As we outlined in April, working capital includes a £(139)m timing impact following the failure of a key supplier (Palmer & Harvey) at the end of the last financial year. Excluding this impact, retail operating cash flow was up 10.8%.

Exceptional cash items above include £(27)m relating to Shareholder Compensation Scheme payments. We expect the remaining cash outflow from claims still being processed to total £(18)m and have therefore released £15m of the c.£(60)m provision held on the balance sheet as at 24 February 2018.

We utilised £(32)m of our exceptional onerous lease provision in the half, of which £(3)m related to one-off costs to surrender leases and £(29)m related to ongoing lease agreements.

Cash capital expenditure of £(459)m was down 24.3% year-on-year as we maintained our disciplined approach to capital investment. Combined net cash interest and tax of £(274)m was £(101)m higher than last year mainly due to the resumption of tax payments in the UK.

We generated £134m of proceeds from property sales, including £66m on a number of small transactions in the UK and £58m relating to two Booker properties. We completed the buyback of Stroud superstore for £35m in the first half. Following the end of the first half we have completed the buyback of an additional store, Cirencester Extra, for £57m (net of costs and VAT).

A net cash outflow of £(139)m relating to market purchases of shares follows our commitment to offset any dilution from the issuance of new shares to satisfy the requirements of share schemes. We expect to utilise a total of around £(150)m cash in this and future years in line with this commitment, with the exact amount dependent on performance.

Acquisitions and disposals of £(693)m includes a £(704)m outflow relating to our merger with Booker in March 2018. The total cash cost excluded from our retail free cash flow definition is £(747)m, which includes a further £(43)m associated costs recorded within cash generated from operations. More detail on the breakdown of the cash impact of the Booker combination can be found in note 19 on page 45.

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	£251m	£282m	£35m	£45m	£109m	£74m	£13m	£26m	£408m	£427m
Openings (k sq ft)	92	52	-	-	314	191	-	-	406	243
Closures (k sq ft)	(157)	(18)	(229)	(166)	(105)	(66)	-	-	(491)	(250)
Repurposed (k sq ft)	-	(16)	(271)	(238)	(167)	(156)	-	-	(438)	(410)
Net space added (k sq ft)	(65)	18	(500)	(404)	42	(31)	-	-	(523)	(417)

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group. Capital expenditure for the half was £0.4bn, similar to last year. In the UK & ROI, spend has been focused on the maintenance and refresh of our stores, along with a small number of openings in our convenience format in UK. In Central Europe, capex relates mainly to the repurpose of our existing stores. In Asia, our capital spend primarily relates to our new store opening programme in Thailand.

Across Central Europe and Asia, our repurposing programme has contributed a net reduction of (438)k square feet. In Central Europe we have repurposed (271)k sq. ft. across nine stores, partnering with H&M, Decathlon and Costa Coffee. In Asia, we have also repurposed nine stores, with the majority in Thailand where we have partnered with Mr.DIY, Echo Game & Karaoke and Cosmo Beauty.

In UK & ROI, we opened eleven stores primarily in our convenience formats in the UK, and closed a further five stores, including two Booker stores in March. Central Europe had a net reduction of 20 stores, driven largely by the closure of 18 unprofitable stores in Poland. In Asia, we had a net 39 store openings, primarily related to new store openings in our convenience format in Thailand.

Capital expenditure is expected to increase in the second half mainly due to the timing of maintenance spend in the UK. Capital expenditure for the full year is now expected to be no more than £1.2bn.

Statutory capital expenditure of £443m includes £35m relating to a property buyback.

Further details of current and forecast space can be found in Appendix 5 starting on page 56.

Tesco Bank:

	This year	Last year	YoY
Revenue	**£547m**	**£525m**	**4.2%**
Operating profit before exceptional items	**£89m**	**£84m**	**6.0%**
Statutory operating profit	£68m	£84m	(19.0)%
Lending to customers	£12,144m	£10,762m	12.8%
Customer deposits	£10,070m	£8,894m	13.2%
Net interest margin	3.8%	4.0%	(0.2)%
Risk asset ratio	18.2%	19.8%	(1.6)%

Tesco Bank continues to focus on providing simple and straightforward banking and insurance products to customers. Active customer account numbers have reduced by (1)% year-on-year with growth in credit cards, loans and mortgages more than offset by a decline in car insurance policies, reflecting a highly competitive insurance market.

Operating profit before exceptional items increased by 6.0% year-on-year to £89m driven mainly by increased income and ongoing cost reductions. Exceptional items of £(21)m relating to Tesco Bank are detailed in Note 4 on page 31 and principally relate to a provision of £(16)m in relation to a settlement payment agreed with the Financial Conduct Authority (FCA) following an online fraudulent attack on Tesco Bank in November 2016.

Lending balances have grown by 13% year-on-year, with continued focus on secured lending growth. Mortgage balances have increased by 38% year-on-year and now comprise 29% of the lending portfolio. Unsecured lending grew by 5.1% to £8.6bn. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective with a Risk Asset Ratio of 18.2%.

The Group has adopted IFRS 9 'Financial Instruments' for the period ending 25 August 2018. IFRS 9 has been applied retrospectively at 25 February 2018 by adjusting the opening balance sheet at that date. For Tesco Bank, the adoption of IFRS 9 has resulted in a decrease in total assets of £223m, with a related deferred tax asset of £57m. The overall impact on equity was therefore a reduction of £166m. Further details on the impact of the adoption of this standard are described in Note 23 on page 47.

An income statement for Tesco Bank can be found in Appendix 6 on page 59 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. Tesco Bank's half year results are also published today and are available at www.corporate.tescobank.com.

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/interims2018

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/interims2018. 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.

Additional Disclosures

Principal Risks and Uncertainties

As with any business, effective risk management and controls are critical to successfully achieving the Group's strategy. Tesco has an established risk management process to identify, assess and monitor the principal risks faced by the business. A robust review of those risks that the Group believe could seriously affect its performance, future prospects, reputation or its ability to deliver against its priorities, is performed on a regular basis. 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 on pages 22 to 25 of our Annual Report and Financial Statements 2018: customer; transformation; liquidity; competition and markets; brand, reputation and trust; technology; data security and data privacy; political, regulatory and compliance; health and safety; people; responsible sourcing and supply chain; Booker synergy realisation and integration; Brexit and Tesco Bank. There have been no significant changes to the description of these principal risks or key controls and mitigating factors in the period.

As previously reported on pages 22 to 25 of the Tesco PLC Annual Report and Financial Statements 2018, 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 (now reduced to 78 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. Further details relating to this matter and the Group's other contingent liabilities can be found in Note 20.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the 26 week period ended 25 August 2018 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 26 weeks 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 26 weeks of the financial year; and
- material related party transactions in the first 26 weeks 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 on pages 28 & 29 of the Tesco PLC Annual Report and Financial Statements 2018, with the exception of Charles Wilson who was appointed to the Board until 16 July 2018 and Melissa Bethell who joined the Board on 24 September 2018. 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*
Melissa Bethell*
Steve Golsby*
Byron Grote*
Stewart Gilliland*
Mikael Olsson*
Simon Patterson*
Alison Platt*
Lindsey Pownall*

*Non-executive Directors

Company Secretary
Robert Welch
2 October 2018

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.

Group income statement

	Notes	26 weeks ended 25 August 2018 Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 25 August 2018 Exceptional items and amortisation of acquired intangibles (Note 4) £m	26 weeks ended 25 August 2018 Total £m	26 weeks ended 26 August 2017 (restated*) Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 26 August 2017 (restated*) Exceptional items and amortisation of acquired intangibles (Note 4) £m	26 weeks ended 26 August 2017 (restated*) Total £m
Continuing operations							
Revenue	2	**31,734**	**-**	**31,734**	**28,339**	**-**	**28,339**
Cost of sales		(29,783)	(86)	(29,869)	(26,757)	(24)	(26,781)
Gross profit/(loss)		**1,951**	**(86)**	**1,865**	**1,582**	**(24)**	**1,558**
Administrative expenses		(1,010)	(41)	(1,051)	(865)	85	(780)
Profits/(losses) arising on property-related items		(8)	13	5	33	65	98
Operating profit/(loss)		**933**	**(114)**	**819**	**750**	**126**	**876**
Share of post-tax profits/(losses) of joint ventures and associates		20	11	31	12	-	12
Finance income	5	7	-	7	27	-	27
Finance costs	5	(293)	-	(293)	(294)	(68)	(362)
Profit/(loss) before tax		**667**	**(103)**	**564**	**495**	**58**	**553**
Taxation	6	(160)	22	(138)	(116)	(20)	(136)
Profit/(loss) for the period from continuing operations		**507**	**(81)**	**426**	**379**	**38**	**417**
Discontinued operations							
Profit/(loss) for the period from discontinued operations	7	-	-	-	-	211	211
Profit/(loss) for the period		**507**	**(81)**	**426**	**379**	**249**	**628**
Attributable to:							
Owners of the parent		507	(81)	426	381	249	630
Non-controlling interests		-	-	-	(2)	-	(2)
		507	**(81)**	**426**	**379**	**249**	**628**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			4.40p			7.72p
Diluted	9			4.37p			7.71p
Earnings/(losses) per share from continuing operations							
Basic	9			4.40p			5.13p
Diluted	9			4.37p			5.13p

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 and reclassification of derivative interest income as explained in Note 1 and Note 23.

Group statement of comprehensive income/(loss)

	26 weeks 2018 £m	26 weeks 2017 (restated*) £m
Items that will not be reclassified to income statement		
Remeasurements on defined benefit pension schemes	639	3,639
Tax on items that will not be reclassified	(108)	(615)
	531	**3,024**
Items that may subsequently be reclassified to income statement		
Change in fair value of financial assets at fair value through other comprehensive income	(8)	-
Change in fair value of available-for-sale financial assets and investments	-	(54)
Currency translation differences:		
Retranslation of net assets of overseas subsidiaries, joint ventures and associates	162	407
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement	-	140
Gains/(losses) on cash flow hedges:		
Net fair value gains/(losses)	107	74
Reclassified and reported in the Group income statement	-	(172)
Tax on items that may be reclassified	(9)	15
	252	**410**
Total other comprehensive income/(loss) for the period	**783**	**3,434**
Profit/(loss) for the period	426	628
Total comprehensive income/(loss) for the period	**1,209**	**4,062**
Attributable to:		
Owners of the parent	1,208	4,058
Non-controlling interests	1	4
Total comprehensive income/(loss) for the period	**1,209**	**4,062**
Total comprehensive income/(loss) attributable to owners of the parent arising from:		
Continuing operations	1,208	3,707
Discontinued operations	-	351
	1,208	**4,058**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

Group balance sheet

	Notes	25 August 2018 £m	24 February 2018 (restated*) £m	26 August 2017 (restated*) £m
Non-current assets				
Goodwill, software and other intangible assets	10	6,463	2,661	2,752
Property, plant and equipment	11	18,808	18,521	18,429
Investment property		92	100	74
Investments in joint ventures and associates		702	689	750
Financial assets at fair value through other comprehensive income		648	860	832
Trade and other receivables		169	186	170
Loans and advances to customers and banks		7,547	6,885	6,362
Derivative financial instruments		1,199	1,117	1,238
Deferred tax assets		137	116	82
		35,765	**31,135**	**30,689**
Current assets				
Financial assets at fair value through other comprehensive income		42	68	122
Inventories		2,821	2,264	2,489
Trade and other receivables		1,608	1,504	1,690
Loans and advances to customers and banks		4,846	4,637	4,400
Derivative financial instruments		194	27	274
Current tax assets		-	12	10
Short-term investments	12	760	1,029	2,388
Cash and cash equivalents	12	3,243	4,059	4,319
		13,514	**13,600**	**15,692**
Non-current assets classified as held for sale	7	123	149	127
		13,637	**13,749**	**15,819**
Current liabilities				
Trade and other payables		(9,749)	(8,994)	(8,969)
Borrowings	14	(2,534)	(1,479)	(2,950)
Derivative financial instruments		(117)	(69)	(71)
Customer deposits and deposits from banks		(8,842)	(7,812)	(7,043)
Current tax liabilities		(333)	(335)	(343)
Provisions		(465)	(544)	(530)
		(22,040)	**(19,233)**	**(19,906)**
Net current liabilities		**(8,403)**	**(5,484)**	**(4,087)**
Non-current liabilities				
Trade and other payables		(399)	(364)	(340)
Borrowings	14	(5,403)	(7,142)	(8,638)
Derivative financial instruments		(522)	(594)	(550)
Customer deposits and deposits from banks		(3,041)	(2,972)	(2,790)
Post-employment benefit obligations	16	(2,574)	(3,282)	(2,945)
Deferred tax liabilities		(311)	(96)	(106)
Provisions		(739)	(721)	(671)
		(12,989)	**(15,171)**	**(16,040)**
Net assets		**14,373**	**10,480**	**10,562**
Equity				
Share capital	18	490	410	410
Share premium		5,163	5,107	5,102
All other reserves		3,854	735	1,058
Retained earnings		4,887	4,250	4,017
Equity attributable to owners of the parent		**14,394**	**10,502**	**10,587**
Non-controlling interests		(21)	(22)	(25)
Total equity		**14,373**	**10,480**	**10,562**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

	Share capital £m	Share premium £m	All other reserves: Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Retained Earnings £m	Total £m	Non-controlling interests £m	Total Equity £m
At 24 February 2018 (as previously reported)	**410**	**5,107**	**40**	**16**	**40**	**655**	**(16)**	**4,228**	**10,480**	**(22)**	**10,458**
Cumulative adjustment to opening balances from application of IFRS 15 (net of tax)	-	-	-	-	-	-	-	22	22	-	22
At 24 February 2018 (restated*)	**410**	**5,107**	**40**	**16**	**40**	**655**	**(16)**	**4,250**	**10,502**	**(22)**	**10,480**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	1	-	(1)	-	-	(177)	(177)	-	(177)
At 25 February 2018	**410**	**5,107**	**41**	**16**	**39**	**655**	**(16)**	**4,073**	**10,325**	**(22)**	**10,303**
Profit/(loss) for the period	-	-	-	-	-	-	-	426	426	-	426
Other comprehensive income/(loss)											
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(8)	(8)	-	(8)
Currency translation differences	-	-	-	-	-	161	-	-	161	1	162
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	639	639	-	639
Gains/(losses) on cash flow hedges	-	-	(7)	-	114	-	-	-	107	-	107
Tax relating to components of other comprehensive income	-	-	1	-	(10)	(2)	-	(106)	(117)	-	(117)
Total other comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**104**	**159**	**-**	**525**	**782**	**1**	**783**
Total comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**104**	**159**	**-**	**951**	**1,208**	**1**	**1,209**
Transactions with owners											
Purchase of own shares	-	-	-	-	-	-	(235)	-	(235)	-	(235)
Share-based payments	-	-	-	-	-	-	47	58	105	-	105
Issue of shares (Note 18)	80	56	3,050	-	-	-	-	-	3,186	-	3,186
Dividends	-	-	-	-	-	-	-	(195)	(195)	-	(195)
Total transactions with owners	**80**	**56**	**3,050**	**-**	**-**	**-**	**(188)**	**(137)**	**2,861**	**-**	**2,861**
At 25 August 2018	**490**	**5,163**	**3,085**	**16**	**143**	**814**	**(204)**	**4,887**	**14,394**	**(21)**	**14,373**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own Shares held £m	Retained Earnings £m	Total £m	Non-controlling interests £m	Total Equity £m
			All other reserves								
At 25 February 2017 (as previously reported)	**409**	**5,096**	**40**	**16**	**217**	**350**	**(22)**	**332**	**6,438**	**(24)**	**6,414**
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	-	-	-	-	20	20	-	20
At 25 February 2017 (restated*)	**409**	**5,096**	**40**	**16**	**217**	**350**	**(22)**	**352**	**6,458**	**(24)**	**6,434**
Profit/(loss) for the period (as previously reported)	-	-	-	-	-	-	-	637	637	(2)	635
IFRS 15 adjustment to profit/(loss) for the period	-	-	-	-	-	-	-	(7)	(7)	-	(7)
Profit/(loss) for the period (restated*)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**630**	**630**	**(2)**	**628**
Other comprehensive income/(loss)											
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	(54)	(54)	-	(54)
Currency translation differences	-	-	-	-	-	541	-	-	541	6	547
Remeasurements on 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) (restated*)	**-**	**-**	**-**	**-**	**(82)**	**530**	**-**	**3,610**	**4,058**	**4**	**4,062**
Transactions with owners											
Purchase of own 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 (restated*)	**410**	**5,102**	**40**	**16**	**135**	**880**	**(13)**	**4,017**	**10,587**	**(25)**	**10,562**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

Group cash flow statement

	Notes	26 weeks 2018 £m	26 weeks 2017 (restated*) £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) from continuing operations		**819**	**876**
Depreciation and amortisation		679	640
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(12)	(52)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income		(15)	(127)
(Profit)/loss arising on sale of joint ventures and associates		-	(19)
Net impairment loss/(reversal) on financial assets at fair value through other comprehensive income		-	(22)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property		4	(2)
Adjustment for non-cash element of pensions charge		2	3
Additional contribution into defined benefit pension schemes	16	(142)	(129)
Share-based payments		34	64
Tesco Bank fair value movements included in operating profit/(loss)		55	81
Retail (increase)/decrease in inventories		(180)	(138)
Retail (increase)/decrease in development stock		-	19
Retail (increase)/decrease in trade and other receivables		40	(137)
Retail increase/(decrease) in trade and other payables		129	233
Retail increase/(decrease) in provisions		(113)	78
Retail (increase)/decrease in working capital		(124)	55
Tesco Bank (increase)/decrease in loans and advances to customers and banks		(1,164)	(877)
Tesco Bank (increase)/decrease in trade and other receivables		5	(16)
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		1,106	850
Tesco Bank increase/(decrease) in provisions		(6)	(17)
Tesco Bank (increase)/decrease in working capital		(59)	(60)
Cash generated from/(used in) operations		**1,241**	**1,308**
Interest paid		(187)	(183)
Corporation tax (paid)/received		(144)	(38)
Net cash generated from/(used in) operating activities		**910**	**1,087**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

	Notes	26 weeks 2018 £m	26 weeks 2017 (restated*) £m
Net cash generated from/(used in) operating activities		**910**	**1,087**
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		134	139
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(425)	(719)
Purchase of intangible assets		(84)	(106)
Disposal of subsidiaries, net of cash disposed		8	18
Acquisition of subsidiaries, net of cash acquired	19	(715)	-
Proceeds from sale of joint ventures and associates		-	19
Net (increase)/decrease in loans to joint ventures and associates		5	(1)
Investments in joint ventures and associates		-	(15)
Net (investments in)/proceeds from sale of short-term investments		269	345
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		235	236
Dividends received from joint ventures and associates		24	11
Interest received		20	32
Net cash generated from/(used in) investing activities		**(529)**	**(41)**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital		58	6
Own shares purchased		(197)	-
Increase in borrowings		266	435
Repayment of borrowings		(1,139)	(1,178)
Net cash flows from derivative financial instruments		(15)	188
Repayments of obligations under finance leases		(7)	(7)
Dividends paid to equity owners	8	(195)	-
Net cash generated from/(used in) financing activities		**(1,229)**	**(556)**
Net increase/(decrease) in cash and cash equivalents		**(848)**	**490**
Cash and cash equivalents at the beginning of the period		4,059	3,832
Effect of foreign exchange rate changes		32	(3)
Cash and cash equivalents at the end of the period	12	**3,243**	**4,319**

The notes on pages 20 to 48 form part of these condensed consolidated interim financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

These unaudited condensed consolidated interim financial statements for the 26 weeks ended 25 August 2018 were approved by the Directors on 2 October 2018.

Note 1 Basis of preparation

These unaudited 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. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those described in the Annual Report and Financial Statements 2018. The financial period represents the 26 weeks ended 25 August 2018 (prior financial period 26 weeks ended 26 August 2017, prior financial year 52 weeks ended 24 February 2018).

These 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 filed with 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.

Discontinued operations

In accordance with International Financial Reporting Standards (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.

Adoption of new IFRSs

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the period ending 25 August 2018. IFRS 15 has been applied fully retrospectively and comparatives for the prior periods have been restated, whilst IFRS 9 has been applied retrospectively at 25 February 2018 by adjusting the opening balance sheet at that date. Further details on the transitional impact on adoption of these standards is described in Note 23.

Prior period reclassification of hedged interest income and expenses

During the period, the Group reclassified interest income arising from derivative financial instruments hedging the Group's borrowings from finance income to finance costs. This reclassification more appropriately reflects the net finance cost to the Group. Prior period comparatives have been restated to align to the current period approach.

The impact of this reclassification on prior period balances has been a reduction of finance costs and finance income by £15m.

Line item name changes

"Loans and advances to customers" has been renamed "Loans and advances to customers and banks". There were no balances relating to banks in this line in the prior periods.

"Other investments" has been renamed "Financial assets at fair value through other comprehensive income"

Accounting policies

Impairment of financial assets
Since adoption of IFRS 9 on 25 February 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost and at fair value through other comprehensive income. The expected credit losses are updated at each reporting date to reflect changes in credit risk since initial recognition of the financial asset.

The three-stage model for impairment has been applied to loans and advances to customers and banks, financial assets at fair value through other comprehensive income, and loan receivables from joint ventures and associates. The credit risk is determined through modelling a range of possible outcomes for different loss scenarios, using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. A 12 month expected credit loss is recognised, unless the credit risk on the financial asset increases significantly after initial recognition, when the lifetime expected credit loss is recognised.

For other financial assets, primarily trade and other receivables, the Group applies the simplified approach permitted by IFRS 9, with expected lifetime credit losses recognised from initial recognition of the receivable. These assets are grouped based on shared credit risk characteristics and days past due, with expected loss allowances for each risk grouping determined based on the Group's historical credit loss experience, adjusted for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

Supplier financing arrangements
Management reviews supplier financing arrangements to determine the appropriate presentation of balances outstanding as trade payables or borrowings, dependent on the nature of each arrangement. Factors considered in determining the appropriate presentation include the commercial rationale for the arrangement, impact on the Group's working capital positions, credit enhancements or other benefits provided to the bank and recourse exposures.

Balances outstanding under current supplier financing arrangements are classified as accounts payables, since the financing arrangements are agreed between the supplier and the bank, and the Group does not provide additional credit enhancement nor obtain any benefit from the arrangements. These outstanding balances are not material to the Group.

Critical accounting judgements

During the period to 25 August 2018, the following judgements were made by management in applying the accounting policies to determine the presentation and reported amounts of assets, liabilities, income and expenses.

Operating segments
Following the acquisition of Booker Group PLC (Booker) on 5 March 2018, management has applied the guidance of IFRS 8 "Operating Segments" in determining the presentation of Booker's performance and balances within the Group. Management has carefully considered a number of areas including how the business is managed on an integrated basis with the rest of the UK retail business, the strategic rationale of the merger in forming the UK's leading Food business, the significant synergies flowing across the UK businesses, and the level at which the Chief Operating Decision Maker (CODM) monitors performance and allocates resources to the business.

Based on these considerations, management concluded that the most appropriate presentation for Booker is within the UK & ROI segment. This presentation reflects that the CODM is monitoring performance and allocating resources at a combined UK & ROI level which includes Booker.

Standard issued but not yet effective

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

IFRS 16 'Leases'

IFRS 16 'Leases' will be effective in the Group financial statements for the accounting period commencing 24 February 2019. The Group intends to adopt the standard retrospectively, with comparatives restated from a transition date of 25 February 2018.

IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for all applicable leases. IFRS 16 is expected to have a significant impact on reported assets, liabilities and the Group income statement, as well as the classification of cash flows relating to lease contracts. The standard will impact a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group.

The Group's IFRS 16 Project is governed by a Steering Committee, which regularly reports progress to the Group Audit Committee. During the current reporting period, progress continued on the collation of the additional lease data required to support IFRS 16 calculations, establishing systems and processes required for accounting and reporting under IFRS 16 and in determining the appropriate discount rates to apply to lease payments. Until this work is complete it is not practical to provide a reasonable estimate of the financial effect of IFRS 16.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. 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 users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes.

Alternative performance measures (APMs) continued

The key APMs that the Group has focused on in the period are as follows:

- Group sales: 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 and amortisation of acquired intangibles: This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. 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 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 from continuing operations, excluding the effects of Tesco Bank's cash flows.
- Retail free cash flow: Retail free cash flow includes all cash flows from operating and investing activities and the market purchase of shares net of proceeds from shares issued in relation to share schemes, excluding the effects of Tesco Bank's cash flows. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments: This relates to profit after tax before exceptional items and amortisation of acquired intangibles 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 share options.

Some of the Group's 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 change has been applied to the Group's APMs:

- The Directors and management have decided to exclude the amortisation of intangible assets acquired in business combinations from profit measures. The amortisation charge is excluded because management does not consider the incremental amortisation charge arising from acquired intangible assets when assessing the underlying trading performance of the Group. Business combinations which occurred before the acquisition of Booker did not result in a material amortisation expense arising from the acquired intangible assets.

  As a result of the change above, the following APMs have been changed to exclude the amortisation of intangible assets acquired in business combinations:

  - Operating profit before exceptional items and amortisation of acquired intangibles;
  - Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments;
  - Earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments;
  - Effective tax rate before exceptional items and amortisation of acquired intangibles; and
  - Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments.

  Operating margin is now calculated as Operating profit before exceptional items and amortisation of acquired intangibles divided by revenue.

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.

Following the acquisition of Booker on 5 March 2018, management has applied judgement in determining the presentation of Booker within the UK & ROI Retail segment. Note 1 provides further details on the rationale for this presentation.

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.

The CODM uses operating profit before exceptional items and amortisation of acquired intangibles, 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 and amortisation of acquired intangibles is a consistent measure within the Group as defined within Note 1. Refer to Note 4 for exceptional items and amortisation of acquired intangibles. 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 25 August 2018 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	22,389	2,956	2,345	547	28,237	57	28,294
Revenue	25,697	3,086	2,345	547	31,675	59	31,734
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**682**	**58**	**100**	**89**	**929**	**4**	**933**
Exceptional items and amortisation of acquired intangibles	(72)	(21)	–	(21)	(114)	–	(114)
Operating profit/(loss)	**610**	**37**	**100**	**68**	**815**	**4**	**819**
Operating margin	**2.7%**	**1.9%**	**4.3%**	**16.3%**	**2.9%**		**2.9%**

26 weeks ended 25 August 2018 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	22,399	2,983	2,365	547	28,294
Revenue	25,706	3,116	2,365	547	31,734
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**685**	**59**	**100**	**89**	**933**
Exceptional items and amortisation of acquired intangibles	(72)	(21)	–	(21)	(114)
Operating profit/(loss)	**613**	**38**	**100**	**68**	**819**
Operating margin	**2.7%**	**1.9%**	**4.2%**	**16.3%**	**2.9%**
Share of post-tax profits/(losses) of joint ventures and associates					31
Finance income					7
Finance costs					(293)
Profit/(loss) before tax					**564**

Tesco Bank revenue of £547m (26 weeks ended 26 August 2017: £525m) comprises interest and similar revenues of £354m (26 weeks ended 26 August 2017: £331m) and fees and commissions revenue of £193m (26 weeks ended 26 August 2017: £194m).

Income statement continued

26 weeks ended 26 August 2017 (restated) At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	19,024	3,094	2,520	525	25,163
Revenue	22,084	3,210	2,520	525	28,339
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**464**	**61**	**141**	**84**	**750**
Exceptional items and amortisation of acquired intangibles	126	-	-	-	126
Operating profit/(loss)	**590**	**61**	**141**	**84**	**876**
Operating margin	**2.1%**	**1.9%**	**5.6%**	**16.0%**	**2.6%**
Share of post-tax profits/(losses) of joint ventures and associates					12
Finance income					27
Finance costs					(362)
Profit/(loss) before tax					**553**

Balance sheet

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

At 25 August 2018	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	5,100	35	281	1,047	-	6,463
Property, plant and equipment and investment property	13,390	2,770	2,676	64	-	18,900
Investments in joint ventures and associates	13	1	604	84	-	702
Non-current financial assets at fair value through other comprehensive income	3	-	-	645	-	648
Non-current trade and other receivables[(a)]	27	7	11	5	-	50
Non-current loans and advances to customers and banks	-	-	-	7,547	-	7,547
Deferred tax assets	-	33	48	56	-	137
Non-current assets[(b)]	**18,533**	**2,846**	**3,620**	**9,448**	**-**	**34,447**
Inventories and current trade and other receivables[(c)]	3,133	564	433	298	-	4,428
Current loans and advances to customers and banks	-	-	-	4,846	-	4,846
Current financial assets at fair value through other comprehensive income	-	-	-	42	-	42
Total trade and other payables	(7,906)	(928)	(1,070)	(244)	-	(10,148)
Total customer deposits and deposits from banks	-	-	-	(11,883)	-	(11,883)
Total provisions	(985)	(101)	(49)	(69)	-	(1,204)
Deferred tax liabilities	(262)	(37)	(12)	-	-	(311)
Net current tax	(263)	(30)	(9)	(31)	-	(333)
Post-employment benefits	(2,551)	-	(23)	-	-	(2,574)
Assets classified as held for sale	69	54	-	-	-	123
Net debt (including Tesco Bank)[(d)]	-	-	-	66	(3,126)	(3,060)
Net assets	**9,768**	**2,368**	**2,890**	**2,473**	**(3,126)**	**14,373**

(a) Excludes loans to joint ventures of £119m (24 February 2018: £138m, 26 August 2017: £138m) which form part of net debt.
(b) Excludes derivative financial instrument non-current assets of £1,199m (24 February 2018: £1,117m, 26 August 2017: £1,238m).
(c) Excludes net interest and other receivables of £1m (24 February 2018: £1m, 26 August 2017: £1m) which form part of net debt.
(d) Refer to Note 17.

Balance sheet continued

At 24 February 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,281	36	271	1,073	-	2,661
Property, plant and equipment and investment property	13,190	2,799	2,564	68	-	18,621
Investments in joint ventures and associates	12	1	586	90	-	689
Non-current financial assets at fair value through other comprehensive income	3	-	-	857	-	860
Non-current trade and other receivables[a]	30	6	12	-	-	48
Non-current loans and advances to customers and banks	-	-	-	6,885	-	6,885
Deferred tax assets	18	33	65	-	-	116
Non-current assets[b]	**14,534**	**2,875**	**3,498**	**8,973**	**-**	**29,880**
Inventories and current trade and other receivables[c]	2,435	610	399	323	-	3,767
Current loans and advances to customers and banks	-	-	-	4,637	-	4,637
Current financial assets at fair value through other comprehensive income	-	-	-	68	-	68
Total trade and other payables	(7,236)	(853)	(1,028)	(241)	-	(9,358)
Total customer deposits and deposits from banks	-	-	-	(10,784)	-	(10,784)
Total provisions	(1,034)	(110)	(47)	(74)	-	(1,265)
Deferred tax liabilities	(21)	(35)	(32)	(8)	-	(96)
Net current tax	(263)	(9)	(16)	(35)	-	(323)
Post-employment benefits	(3,261)	-	(21)	-	-	(3,282)
Assets classified as held for sale	95	54	-	-	-	149
Net debt (including Tesco Bank)[d]	-	-	-	(288)	(2,625)	(2,913)
Net assets	**5,249**	**2,532**	**2,753**	**2,571**	**(2,625)**	**10,480**

At 26 August 2017 (restated)	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 financial assets at fair value through other comprehensive income	3	-	-	829	-	832
Non-current trade and other receivables[a]	12	8	12	-	-	32
Non-current loans and advances to customers and banks	-	-	-	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]	2,664	656	486	372	-	4,178
Current loans and advances to customers and banks	-	-	-	4,400	-	4,400
Current financial assets at fair value through other comprehensive income	-	-	-	122	-	122
Total trade and other payables	(7,009)	(962)	(1,121)	(217)	-	(9,309)
Total customer deposits and deposits from banks	-	-	-	(9,833)	-	(9,833)
Total provisions	(1,004)	(84)	(46)	(67)	-	(1,201)
Deferred tax liabilities	(53)	(30)	(12)	(11)	-	(106)
Net current tax	(269)	(11)	(23)	(30)	-	(333)
Post-employment benefits	(2,922)	-	(23)	-	-	(2,945)
Assets classified as held for sale	101	26	-	-	-	127
Net debt (including Tesco Bank)	-	-	-	(591)	(3,260)	(3,851)
Net assets	**5,859**	**2,525**	**2,849**	**2,589**	**(3,260)**	**10,562**

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

Other segment information

26 weeks ended 25 August 2018	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment	549	29	108	1	687
Goodwill, software and other intangible assets	3,926	5	1	11	3,943
Depreciation and amortisation:					
Property, plant and equipment	(344)	(68)	(112)	(5)	(529)
Investment property	(1)	–	–	–	(1)
Software and other intangible assets	(101)	(7)	(3)	(38)	(149)
Impairment:					
Property, plant and equipment loss	(3)	(7)	(1)	–	(11)
Property, plant and equipment reversal	4	–	1	–	5
Investment property reversal	2	–	–	–	2
Financial assets net (loss)/reversal	(6)	(2)	–	(90)	(98)

26 weeks ended 26 August 2017	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment	393	41	73	5	512
Goodwill, software and other intangible assets	78	4	1	21	104
Depreciation and amortisation:					
Property, plant and equipment	(341)	(74)	(111)	(6)	(532)
Investment property	(1)	–	–	–	(1)
Software and other intangible assets	(58)	(9)	(5)	(35)	(107)
Impairment:					
Property, plant and equipment loss	(13)	(5)	(1)	–	(19)
Property, plant and equipment reversal	19	–	–	–	19
Investment property reversal	2	–	–	–	2
Financial assets net (loss)/reversal	13	2	(2)	(70)	(57)

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.

	Retail			Tesco Bank			Tesco Group
26 weeks ended 25 August 2018	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
Operating profit/(loss) from continuing operations	**844**	**(93)**	**751**	**89**	**(21)**	**68**	**819**
Depreciation and amortisation	596	40	636	43	-	43	679
ATM net income	(18)	-	(18)	18	-	18	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	1	(13)	(12)	-	-	-	(12)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(7)	-	(7)	(8)	-	(8)	(15)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(10)	14	4	-	-	-	4
Adjustment for non-cash element of pensions charge	2	-	2	-	-	-	2
Additional contribution into defined benefit pension schemes	(142)	-	(142)	-	-	-	(142)
Share-based payments	33	-	33	1	-	1	34
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	55	-	55	55
Cash flows generated from operations excluding working capital	**1,299**	**(52)**	**1,247**	**198**	**(21)**	**177**	**1,424**
(Increase)/decrease in working capital	(29)	(95)	(124)	(52)	(7)	(59)	(183)
Cash generated from/(used in) operations	**1,270**	**(147)**	**1,123**	**146**	**(28)**	**118**	**1,241**
Interest paid	(185)	-	(185)	(2)	-	(2)	(187)
Corporation tax received/(paid)	(109)	-	(109)	(35)	-	(35)	(144)
Net cash generated from/(used in) operating activities	**976**	**(147)**	**829**	**109**	**(28)**	**81**	**910**

Cash flow statement continued 26 weeks ended 25 August 2018	Retail Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Tesco Group Total £m
Net cash generated from/(used in) operating activities	**976**	**(147)**	**829**	**109**	**(28)**	**81**	**910**
Proceeds from the sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	15	119	134	-	-	-	134
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buy backs	(35)	-	(35)	-	-	-	(35)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(388)	-	(388)	(2)	-	(2)	(390)
Purchase of intangible assets	(71)	-	(71)	(13)	-	(13)	(84)
Disposal of subsidiaries, net of cash disposed	8	-	8	-	-	-	8
Acquisition of subsidiaries, net of cash acquired (Note 19)	(715)	-	(715)	-	-	-	(715)
Net (increase)/decrease in loans to joint ventures and associates	-	-	-	5	-	5	5
Net (investments in)/proceeds from sale of short-term investments	269	-	269	-	-	-	269
Net (investments in)/proceeds from the sale of financial assets at fair value through other comprehensive income	-	-	-	235	-	235	235
Dividends received from joint ventures and associates	14	-	14	10	-	10	24
Interest received	20	-	20	-	-	-	20
Net cash generated from/(used in) investing activities	**(883)**	**119**	**(764)**	**235**	**-**	**235**	**(529)**
Proceeds from issue of ordinary share capital	58	-	58	-	-	-	58
Own shares purchased	(197)	-	(197)	-	-	-	(197)
Add: Cash outflow from major acquisition (Note 19)	747	-	747	-	-	-	747
Less: Net increase/(decrease) in loans to joint ventures and associates	-	-	-	(5)	-	(5)	(5)
Less: Net investments in/(proceeds from sale of) short-term investments	(269)	-	(269)	-	-	-	(269)
APM: Free cash flow	**432**	**(28)**	**404**	**339**	**(28)**	**311**	**715**
Increase in borrowings	266	-	266	-	-	-	266
Repayment of borrowings	(714)	-	(714)	(425)	-	(425)	(1,139)
Net cash flows from derivative financial instruments	(15)	-	(15)	-	-	-	(15)
Repayment of obligations under finance leases	(7)	-	(7)	-	-	-	(7)
Dividends paid to equity owners	(195)	-	(195)	-	-	-	(195)
Net cash generated from/(used in) financing activities	**(804)**	**-**	**(804)**	**(425)**	**-**	**(425)**	**(1,229)**
Intra-Group funding and intercompany transactions	**(12)**	**-**	**(12)**	**12**	**-**	**12**	**-**
Net increase/(decrease) in cash and cash equivalents	**(723)**	**(28)**	**(751)**	**(69)**	**(28)**	**(97)**	**(848)**
Cash and cash equivalents at the beginning of the period			2,755			1,304	4,059
Effect of foreign exchange rate changes			32			-	32
Cash and cash equivalents at the end of the period			**2,036**			**1,207**	**3,243**

Cash flow statement continued

26 weeks ended 26 August 2017 (restated)	Retail Before exceptional items and amortisation of acquired intangibles £m	Retail Exceptional items and amortisation of acquired intangibles £m	Retail Retail Total £m	Tesco Bank Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Tesco Bank Total £m	Tesco Group Total £m
Operating profit/(loss) from continuing operations	**666**	**126**	**792**	**84**	**-**	**84**	**876**
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 financial assets at fair value through other comprehensive income	(3)	(124)	(127)	-	-	-	(127)
(Profit)/loss arising on sale of joint ventures and associates	(3)	(16)	(19)	-	-	-	(19)
Net impairment loss/(reversal) on financial assets at fair value through other comprehensive income	(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 defined benefit pension schemes	(129)	-	(129)	-	-	-	(129)
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	81	-	81	81
Cash flows generated from operations excluding working capital	**1,142**	**(58)**	**1,084**	**229**	**-**	**229**	**1,313**
(Increase)/decrease in working capital	244	(189)	55	(48)	(12)	(60)	(5)
Cash flows 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**

Cash flow statement continued

26 weeks ended 26 August 2017 (restated)	Retail Before exceptional items and amortisation of acquired intangibles £m	Retail Exceptional items and amortisation of acquired intangibles £m	Retail Retail Total £m	Tesco Bank Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Tesco Bank Total £m	Tesco Group 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
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 financial assets at fair value through other comprehensive income	33	196	229	7	-	7	236
Dividends received from joint ventures and associates	11	-	11	-	-	-	11
Interest received	32	-	32	-	-	-	32
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
Add: Net increase/(decrease) in loans to joint ventures and associates	1	-	1	-	-	-	1
Less: Net investments in/(proceeds from sale of) short-term investments	(345)	-	(345)	-	-	-	(345)
APM: Free cash flow*	**740**	**(148)**	**592**	**128**	**(12)**	**116**	**708**
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 at the end of the period			**3,556**			**763**	**4,319**

* Free cash flow has been restated to include the market purchase of shares net of proceeds from shares issued in relation to share schemes.

Note 3 Income and expenses

Continuing operations	26 weeks 2018 £m	26 weeks 2017 £m
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £(18)m (2017: £(17)m) relates to investment properties	(190)	(181)
Other rental income	(29)	(27)
Direct operating expenses arising on rental earning investment properties	8	10
Costs of inventories recognised as an expense	23,537	20,862
Inventory losses and provisions	704	665
Depreciation and amortisation	679	640
Operating lease expenses, of which £28m (2017: £34m) relates to hire of plant and machinery	538	504
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	4	(2)
Net impairment loss/(reversal) on financial assets	98	57

Note 4 Exceptional items and amortisation of acquired intangibles

Income statement

26 weeks ended 25 August 2018

Profit/(loss) for the period included the following exceptional items and amortisation of acquired intangibles:

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of JV and associates profits/(losses) £m	Taxation £m
Exceptional items:						
Tesco Direct closure costs[a]	(57)	–	–	(57)	–	11
Net restructuring and redundancy costs[b]	(22)	–	–	(22)	–	–
Provision for customer redress[c]	(7)	–	–	(7)	–	–
Release of amounts provided in relation to FCA obligations[d]	–	15	–	15	–	–
Property transactions[e]	–	–	13	13	11	4
Tesco Bank FCA provision[f]	–	(16)	–	(16)	–	–
Total exceptional items	**(86)**	**(1)**	**13**	**(74)**	**11**	**15**
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets	–	(40)	–	(40)	–	7
Total exceptional items and amortisation of acquired intangibles	**(86)**	**(41)**	**13**	**(114)**	**11**	**22**

[a] This relates to impairment, redundancy and inventory losses arising from the closure of the Group's non-food business, Tesco Direct in July 2018.
[b] This net charge includes £(21)m relating to simplification of our business and working practices in Central Europe, £(3)m relating to store colleague structures in UK & ROI netted off against a £2m reduction in business simplification costs previously provided for in Tesco Bank.
[c] The charge of £(7)m relates to additional costs in respect of Payment Protection Insurance (PPI) as a result of higher claim rates than previously estimated.
[d] The Group had taken an exceptional charge in respect of the Deferred Prosecution Agreement (DPA) and Financial Conduct Authority (FCA) obligations, including the Compensation Scheme, in the 52 weeks to 25 February 2017. £15m charges relating to the Compensation Scheme have been released in the 26 weeks ended 25 August 2018.
[e] As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit of £13m. The £11m gain relates to the Group's share of the property disposal gain in Gain Land Limited, an associated undertaking of the Group.
[f] This relates to a settlement payment to the FCA in respect of an online fraudulent attack on Tesco Bank in 2016, as detailed in Note 22.

Income statement continued

26 weeks ended 26 August 2017

Profit/(loss) for the period included the following exceptional items and amortisation of acquired intangibles:

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items included within discontinued operations £m
Exceptional items:							
Net restructuring and redundancy costs	(24)	(39)	–	(63)	–	12	–
Investment disposal	–	124	–	124	–	(25)	–
Property transactions	–	–	65	65	–	(7)	–
Foreign exchange losses on GBP short-term investments held in overseas entities	–	–	–	–	(68)	–	–
Exceptional items relating to discontinued operations	–	–	–	–	–	–	211
Total exceptional items	**(24)**	**85**	**65**	**126**	**(68)**	**(20)**	**211**
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets	–	–	–	–	–	–	–
Total exceptional items and amortisation of acquired intangibles	**(24)**	**85**	**65**	**126**	**(68)**	**(20)**	**211**

Cash flow statement

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

Amortisation of acquired intangibles does not affect the Group's cash flow.

	Cash flows from operating activities		Cash flows from investing activities	
	26 weeks 2018 £m	26 weeks 2017 £m	26 weeks 2018 £m	26 weeks 2017 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies*	(58)	(55)	–	–
Current year restructuring costs and other exceptional costs including trading store redundancies*	(30)	(29)	–	–
Utilisation of onerous lease provisions	(32)	(39)	–	–
Property transactions	–	9	119	(134)
Property transactions – sale of investment in joint venture	–	–	–	19
Settlement of claims for customer redress in Tesco Bank	(28)	(10)	–	–
DPA/compensation scheme payments	(27)	(135)	–	–
Proceeds from sale of investments – Lazada	–	–	–	196
Proceeds from sale of subsidiaries treated as discontinued	–	–	–	23
Exceptional cash flows from discontinued operations	–	–	–	(5)
Total	**(175)**	**(259)**	**119**	**99**

* Cash outflows on settlement of restructuring and redundancy costs.

Note 5 Finance income and costs

Continuing operations	Notes	26 weeks 2018 £m	26 weeks 2017 (restated[a]) £m
Finance income			
Interest receivable and similar income		7	17
Financial instruments – fair value remeasurements		-	10
Total finance income		**7**	**27**
Finance costs			
GBP MTNs and Loans		(76)	(112)
EUR MTNs		(42)	(50)
USD Bonds		(9)	(17)
Finance charges payable under finance leases and hire purchase contracts		(4)	(4)
Other interest payable		(24)	(31)
Capitalised interest	11	1	1
Financial instruments – fair value remeasurements[b]		(94)	-
Total finance costs before exceptional items and net pension finance costs		**(248)**	**(213)**
Net pension finance costs	16	(45)	(81)
Foreign exchange losses on GBP short-term investments held in overseas entities		-	(68)
Total finance costs		**(293)**	**(362)**
Net finance cost		**(286)**	**(335)**

[a] Restated for reclassification of derivative interest income as detailed in Note 1.
[b] Fair value remeasurements includes £(75)m relating to the premium paid on the repurchase of long-dated bonds.

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	26 weeks 2018 £m	26 weeks 2017 (restated) £m
UK	79	72
Overseas	59	64
Taxation charge	**138**	**136**

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 and amortisation of acquired intangibles arising in the period to 25 August 2018.

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

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

Non-current assets classified as held for sale

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Non-current assets classified as held for sale	123	149	127

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.

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

Discontinued operations

There has been no profit or loss impact from discontinued operations in the current financial period. Details of discontinued operations for prior periods can be found in the Annual Report and Financial Statements 2018. These discontinued operations have had no impact on earnings per share in the current period.

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

Income statement	26 weeks 2018 £m	26 weeks 2017 £m
Loss after tax on disposal of Turkish operations	–	(129)
Net adjustments to profit/(loss) of past disposals	–	340
Total profit/(loss) after tax of discontinued operations	**–**	**211**

Cash flow statement

	26 weeks 2018 £m	26 weeks 2017 £m
Net cash flows from disposal of subsidiary	–	(11)

Note 8 Dividends

	26 weeks ended 25 August 2018		26 weeks ended 26 August 2017	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial period:				
Prior financial year final dividend	2.00	195	–	–
Interim dividend proposed for the current financial period	**1.67**	**164**	**1.00**	**82**

The interim dividend was approved by the Board of Directors on 2 October 2018. The proposed dividend has not been included as a liability as at 25 August 2018, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 23 November 2018 to shareholders who are on the Register of members at close of business on 12 October 2018.

The £2m prior period amount in the Group statement of changes in equity relates to a write back of unclaimed dividends.

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 share 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 25 August 2018 there were 78 million (26 weeks ended 26 August 2017: 15 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 25 August 2018			26 weeks ended 26 August 2017 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations*	426	–	426	419	–	419
Discontinued operations	–	–	–	211	–	211
Total	**426**	**–**	**426**	**630**	**–**	**630**
Weighted average number of shares (millions)	**9,675**	**78**	**9,753**	**8,160**	**15**	**8,175**
Earnings/(losses) per share (pence)						
Continuing operations	4.40	(0.03)	4.37	5.13	–	5.13
Discontinued operations	–	–	–	2.59	(0.01)	2.58
Total	**4.40**	**(0.03)**	**4.37**	**7.72**	**(0.01)**	**7.71**

* Excludes profits/(losses) from non-controlling interests of £nil (26 weeks ended 26 August 2017: £(2)m).

APM: Earnings/(losses) per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments

	Notes	26 weeks 2018	26 weeks (restated) 2017
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		667	495
Add: Net pension finance costs (£m)	5	45	81
Add/(less): Fair value remeasurements on financial instruments (£m)	5	94	(10)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (£m)		**806**	**566**
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		805	567
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		(185)	(128)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		**620**	**439**
Basic weighted average number of shares (millions)		9,675	8,160
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**6.41**	**5.38**
Diluted weighted average number of shares (millions)		9,753	8,175
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**6.36**	**5.37**

Note 10 Goodwill, software and other intangible assets

Goodwill, software and other intangible assets of £6,463m (24 February 2018: £2,661m, 26 August 2017: £2,752m) comprise £4,908m Goodwill (24 February 2018: £1,796m, 26 August 2017: £1,805m), £757m Software (24 February 2018: £788m, 26 August 2017: £885m) and Other intangible assets of £798m (24 February 2018: £77m, 26 August 2017: £62m).

The acquisition of Booker on 5 March 2018 resulted in recognition of additional goodwill of £3,093m and other intangible assets of £755m. This goodwill is supported by expected increase in cash flows for the combined UK retail business and has been reflected at the UK level, consistent with the lowest level at which management monitors that goodwill. The £37m impact of the amortisation of these intangibles in the financial period has been included within exceptional items and amortisation of acquired intangibles. Refer to Note 4 and Note 19 for further details.

Goodwill

The impairment review methodology for goodwill is unchanged from that described in the Annual Report and Financial Statements 2018. There were no indicators of goodwill impairment in the period; the annual goodwill impairment review will occur in the second half of the year.

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
UK	3,836	735	743
Tesco Bank	802	802	802
Thailand	188	180	185
Malaysia	78	75	75
ROI	4	4	-
	4,908	**1,796**	**1,805**

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 24 February 2018	**23,453**	**10,909**	**34,362**
Foreign currency translation	220	101	321
Additions[b]	200	161	361
Acquired through business combinations (Note 19)	258	68	326
Reclassification	(1)	-	(1)
Classified (to)/from held for sale	15	-	15
Disposals	(131)	(212)	(343)
At 25 August 2018	**24,014**	**11,027**	**35,041**
Accumulated depreciation and impairment losses			
At 24 February 2018	**7,116**	**8,725**	**15,841**
Foreign currency translation	70	76	146
Charge for the period	240	289	529
Impairment losses	10	1	11
Reversal of impairment losses	(5)	-	(5)
Reclassification	(1)	3	2
Classified (to)/from held for sale	13	-	13
Disposals	(93)	(211)	(304)
At 25 August 2018	**7,350**	**8,883**	**16,233**
Net carrying value			
At 25 August 2018	**16,664**	**2,144**	**18,808**
At 26 August 2017	16,036	2,393	18,429
Construction in progress included above[c]			
At 25 August 2018	**81**	**59**	**140**
At 26 August 2017	70	55	125

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,641m (24 February 2018: £1,752m, 26 August 2017: £1,942m), office equipment with a net carrying value of £179m (24 February 2018: £116m, 26 August 2017: £127m) and motor vehicles with a net carrying value of £324m (24 February 2018: £316m, 26 August 2017: £324m).
[b] Includes £1m (24 February 2018: £2m, 26 August 2017: £1m) 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 4.5% (24 February 2018: 4.5%, 26 August 2017: 4.2%). Interest capitalised is deducted in determining taxable profit in the financial period in which it is incurred.
[c] Construction in progress does not include land.

The impairment review methodology for property, plant and equipment is unchanged from that described in the Annual Report and Financial Statements 2018.

Note 11 Property, plant and equipment continued

	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]	341	171	512
Reclassification	48	(80)	(32)
Classified (to)/from 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 (to)/from held for sale	(84)	6	(78)
Disposals	(44)	(78)	(122)
At 26 August 2017	**7,495**	**8,538**	**16,033**

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

Commitments for capital expenditure contracted for, but not incurred, at 25 August 2018 were £178m (24 February 2018: £116m, 26 August 2017: £232m), principally relating to store development.

Note 12 Cash and cash equivalents and short-term investments

Cash and cash equivalents	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Cash at bank and in hand	2,987	3,580	4,039
Short-term deposits	256	479	280
	3,243	**4,059**	**4,319**

Short-term investments	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Money market funds	760	1,029	2,388

There was no restricted cash balance at the current financial period end (24 February 2018: £777m, 26 August 2017: £777m). The prior periods' balance related to amounts that were set aside for completion of the merger with Booker.

Note 13 Commercial income

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

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Current assets			
Inventories	(51)	(69)	(63)
Trade and other receivables			
Trade/other receivables	123	169	122
Accrued income	160	186	156
Current liabilities			
Trade and other payables			
Trade payables	130	199	114
Accruals and deferred income	(17)	(7)	(8)

Note 14 Borrowings

Current

	Par value	Maturity	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Bank loans and overdrafts	–	–	605	351	1,346
Loans from joint ventures	–	–	6	6	6
1.250% MTN	€500m	Nov 2017	–	–	465
5.5% USD Bond	$850m	Nov 2017	–	–	678
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	–	126	128
3.375% MTN	€750m	Nov 2018	697	667	–
1.375% MTN	€931m	Jul 2019	843	–	–
LIBOR + 0.65% Tesco Bank Bond[(a)]	£300m	Apr 2020	–	300	300
LIBOR + 0.65% Tesco Bank Bond[(b)]	£350m	May 2021	350	–	–
5.5457% Secured Bond[(c)(d)]	£341m	Feb 2029	19	17	16
Finance leases	–	–	14	12	11
			2,534	**1,479**	**2,950**

(a) This bond was issued on 13 May 2015 and was redeemed on its scheduled redemption date in April 2018.
(b) This bond was issued on 6 June 2014. The scheduled redemption date of this bond is May 2019.
(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 £782m (24 February 2018: £786m, 26 August 2017: £785m).
(d) This is an amortising bond which matures in February 2029. £19m (24 February 2018: £17m, 26 August 2017: £16m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.
(e) The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.
(f) During the period, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 6.125% MTN February 2022 £369m, 5% MTN March 2023 £67m, 6% MTN December 2029 £61m, 5.5% MTN January 2033 £26m, 4.875% MTN March 2042 £38m and 5.2% MTN March 2057 £39m.
(g) This bond was issued on 7 November 2017. The scheduled redemption date of this bond is October 2020.
(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.

Non-current

	Par value	Maturity	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
3.375% MTN	€750m	Nov 2018	–	–	709
1.375% MTN	€931m	Jul 2019	–	826	1,152
5.5% MTN	£181m	Dec 2019	188	183	363
1% RPI Tesco Bank Retail Bond(e)	£71m	Dec 2019	71	70	69
2.125% MTN	€500m	Nov 2020	459	441	466
5% Tesco Bank Retail Bond	£200m	Nov 2020	203	204	208
LIBOR + 0.65% Tesco Bank Bond(b)	£350m	May 2021	–	350	349
6.125% MTN(f)	£531m	Feb 2022	545	952	924
LIBOR + 0.53% Tesco Bank Bond(g)	£300m	Oct 2022	298	298	–
5% MTN(f)	£171m	Mar 2023	179	254	401
2.5% MTN	€750m	Jul 2024	677	666	689
3.322% LPI MTN(h)	£339m	Nov 2025	342	338	331
5.5457% Secured Bond(c)(d)	£341m	Feb 2029	312	322	331
6.067% Secured Bond(c)	£200m	Feb 2029	191	190	190
LIBOR + 1.2% Secured Bond(c)	£50m	Feb 2029	34	33	32
6% MTN(f)	£98m	Dec 2029	123	198	257
5.5% MTN(f)	£150m	Jan 2033	191	221	259
1.982% RPI MTN(i)	£281m	Mar 2036	283	279	272
6.15% USD Bond	$850m	Nov 2037	684	616	807
4.875% MTN(f)	£64m	Mar 2042	62	103	171
5.125% MTN	€356m	Apr 2047	324	323	330
5.2% MTN(f)	£129m	Mar 2057	126	165	222
Finance leases	–	–	111	110	106
			5,403	**7,142**	**8,638**

* Refer to previous table for footnotes.

Borrowing facilities

The Group has the following undrawn committed facilities available at 25 August 2018, in respect of which all conditions precedent had been met as at that date:

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Expiring in less than one year	38	38	–
Expiring between one and two years	–	–	–
Expiring in more than two years	3,000	4,232	4,438
	3,038	**4,270**	**4,438**

The current year undrawn committed facilities include £0.4bn (24 February 2018: £1.6bn, 26 August 2017: £1.8bn) of bilateral facilities and a £2.6bn (24 February 2018: £2.6bn, 26 August 2017: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 25 August 2018, 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 25 August 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	685	-	5	690
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	35	-	35
- Cross currency swaps	-	431	-	431
- Index-linked swaps	-	734	-	734
- Forward contracts	-	193	-	193
Total assets	**685**	**1,393**	**5**	**2,083**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	(65)	-	(65)
- Cross currency swaps	-	(6)	-	(6)
- Index-linked swaps	-	(452)	-	(452)
- Forward contracts	-	(116)	-	(116)
Total liabilities	**-**	**(639)**	**-**	**(639)**
Total	**685**	**754**	**5**	**1,444**

At 24 February 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	923	-	5	928
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	47	-	47
- Cross currency swaps	-	345	-	345
- Index-linked swaps	-	724	-	724
- Forward contracts	-	28	-	28
Total assets	**923**	**1,144**	**5**	**2,072**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	(105)	-	(105)
- Cross currency swaps	-	(48)	-	(48)
- Index-linked swaps	-	(443)	-	(443)
- Forward contracts	-	(67)	-	(67)
Total liabilities	**-**	**(663)**	**-**	**(663)**
Total	**923**	**481**	**5**	**1,409**

At 26 August 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	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**

There were no transfers between Levels 1 and 2 during the period (24 February 2018: £nil, 26 August 2017: £nil) and no transfers into or out of Level 3 fair value measurements (24 February 2018: £nil, 26 August 2017: £nil).

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 investments and financial assets at fair value through other comprehensive income, trade and other receivables, trade and other payables, 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:

	25 August 2018 £m		24 February 2018 £m		26 August 2017 £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 and banks – Tesco Bank	12,393	12,550	11,522	11,659	10,762	10,921
Joint venture and associate loan receivables	119	88	138	139	138	155
Liabilities						
Short-term borrowings:						
-Amortised cost	(2,520)	(2,540)	(1,467)	(1,240)	(2,657)	(2,665)
-Bonds in fair value hedge relationships	-	-	-	-	(282)	(279)
Long-term borrowings:						
-Amortised cost	(4,332)	(4,815)	(6,137)	(6,210)	(7,439)	(7,931)
-Bonds in fair value hedge relationships	(960)	(1,006)	(895)	(818)	(1,093)	(1,001)
Customer deposits – Tesco Bank	(10,070)	(10,049)	(9,245)	(9,224)	(8,894)	(8,912)
Finance leases	(125)	(110)	(122)	(132)	(117)	(129)

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The expected maturity of the financial assets and liabilities is not considered materially different to their current and non-current classifications.

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 Tesco PLC Pension Scheme (the Scheme), the Booker Pension Scheme, the Republic of Ireland defined benefit pension scheme, and the funded defined contribution pension scheme for employees in the UK. Both the Scheme and the Booker Pension Scheme are defined benefit pension schemes in the UK closed to future accrual.

Of these schemes, the UK defined benefit pension deficit represents 95% of the Group deficit (24 February 2018: 96%, 26 August 2017: 96%).

On 5 March 2018, the Group acquired Booker, which has three defined benefit schemes. The Booker Pension Scheme, closed to future accrual, is the primary scheme, with two smaller closed schemes relating to retail partners Budgens and Londis. The last Booker Pension Scheme triennial valuation showed a funding deficit of £41m at 31 March 2016, with agreed contributions of £5m per annum for six years from 1 April 2017. No contributions were required for the retail partner schemes.

Summary of movements in Group deficit during the financial period

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Deficit in schemes at the beginning of the period	**(3,282)**	**(6,621)**	**(6,621)**
Current service cost	(19)	(38)	(22)
Net pension finance cost	(45)	(162)	(81)
Contributions by employer	17	34	19
Additional contributions by employer	142	245	129
Foreign currency translation	(4)	(5)	(8)
Return on plan assets greater/(less) than discount rate	675	(57)	552
Gains/(losses) on change of financial assumptions	67	2,190	1,770
Experience gains/(losses)	(3)	452	606
Gains/(losses) on change of demographic assumptions	(100)	680	711
Deficit acquired in business combination*	(22)	-	-
Deficit in schemes at the end of the period	**(2,574)**	**(3,282)**	**(2,945)**
Deferred tax asset	430	554	506
Deficit in schemes at the end of the period, net of deferred tax	**(2,144)**	**(2,728)**	**(2,439)**

* Refer to Note 19 for details of the acquisition of Booker.

Scheme principal financial assumptions

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

	25 August 2018 %	24 February 2018 %	26 August 2017 %
Discount rate	2.9	2.9	2.8
Price inflation	3.1	3.1	3.1
Rate of increase in deferred pensions*	2.1	2.1	2.1
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	2.9	2.9	2.9
Benefits accrued after 1 June 2012	2.2	2.2	2.2

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

If the discount rate assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £388m or £3,382m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £405m or £4,741m respectively.

If the inflation assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £340m or £3,689m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £324m or £2,880m respectively.

Note 17 Analysis of changes in net debt

	At 24 February 2018 £m	IFRS 9 adjustment* £m	Cash flow £m	Fair value movements £m	Foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	At 25 August 2018 £m
Total Group								
Bank and other borrowings	(8,318)	-	873	(134)	(86)	(14)	-	**(7,679)**
Finance lease payables	(122)	-	7	-	(2)	-	(8)	**(125)**
Net derivative financial instruments	465	-	15	266	-	7	-	**753**
Arising from financing activities	**(7,975)**	**-**	**895**	**132**	**(88)**	**(7)**	**(8)**	**(7,051)**
Cash and cash equivalents	4,059	-	(848)	-	32	-	-	**3,243**
Short-term investments	1,029	-	(269)	-	-	-	-	**760**
Joint venture loans	138	(13)	(5)	-	-	-	-	**120**
Interest and other receivables	1	-	(7)	-	-	6	-	**-**
Interest payables	(181)	-	187	(2)	-	(137)	-	**(133)**
Net derivative interest	16	-	(13)	-	-	(2)	-	**1**
Total Group	**(2,913)**	**(13)**	**(60)**	**130**	**(56)**	**(140)**	**(8)**	**(3,060)**
Tesco Bank								
Bank and other borrowings	(1,584)	-	425	-	-	-	-	**(1,159)**
Net derivative financial instruments	(42)	-	-	31	-	-	-	**(11)**
Arising from financing activities	**(1,626)**	**-**	**425**	**31**	**-**	**-**	**-**	**(1,170)**
Cash and cash equivalents	1,304	-	(97)	-	-	-	-	**1,207**
Joint ventures loans	34	-	(5)	-	-	-	-	**29**
Interest payables	-	-	2	-	-	(2)	-	**-**
Tesco Bank	**(288)**	**-**	**325**	**31**	**-**	**(2)**	**-**	**66**
Retail								
Bank and other borrowings	(6,734)	-	448	(134)	(86)	(14)	-	**(6,520)**
Finance lease payables	(122)	-	7	-	(2)	-	(8)	**(125)**
Net derivative financial instruments	507	-	15	235	-	7	-	**764**
Arising from financing activities	**(6,349)**	**-**	**470**	**101**	**(88)**	**(7)**	**(8)**	**(5,881)**
Cash and cash equivalents	2,755	-	(751)	-	32	-	-	**2,036**
Short-term investments	1,029	-	(269)	-	-	-	-	**760**
Joint ventures loans	104	(13)	-	-	-	-	-	**91**
Interest and other receivables	1	-	(7)	-	-	6	-	**-**
Interest payables	(181)	-	185	(2)	-	(135)	-	**(133)**
Net derivative interest	16	-	(13)	-	-	(2)	-	**1**
Net debt	**(2,625)**	**(13)**	**(385)**	**99**	**(56)**	**(138)**	**(8)**	**(3,126)**

* Impact of adopting IFRS 9 as explained in Note 1 and Note 23.

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	25 August 2018 £m	26 August 2017 £m
Net increase/(decrease) in cash and cash equivalents	(848)	490
Elimination of Tesco Bank movement in cash and cash equivalents	97	26
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(269)	(345)
Net increase/(decrease) in joint venture loans	-	1
Net (increase)/decrease in borrowings and lease financing	455	600
Net cash flows from derivative financial instruments	15	(188)
Net interest paid on components of Net debt	165	149
Change in Net debt resulting from cash flow	**(385)**	**733**
Retail IFRS 9 adjustment	(13)	-
Retail net interest charge on components of Net debt	(138)	(196)
Retail fair value and foreign exchange movements	43	(63)
Retail other non-cash movements	(8)	(5)
(Increase)/decrease in Net debt for the period	**(501)**	**469**
Opening Net debt	(2,625)	(3,729)
Closing Net debt	**(3,126)**	**(3,260)**

Note 18 Called up share capital

	26 weeks ended 25 August 2018		52 weeks ended 24 February 2018	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At the beginning of the financial period	**8,192,116,619**	**410**	**8,174,932,553**	**409**
Share options exercised	40,366,861	2	5,184,066	-
Share bonus awards issued	12,000,000	1	12,000,000	1
Shares issued for the acquisition of Booker (Note 19)	1,547,854,846	77	-	-
At the end of the financial period	**9,792,338,326**	**490**	**8,192,116,619**	**410**

During the current financial period, 40.4 million (52 weeks ended 24 February 2018: 5.2 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £58m (52 weeks ended 24 February 2018: £8m), 12.0 million (52 weeks ended 24 February 2018: 12.0 million) ordinary shares of 5p each were issued in relation to share bonus awards and 1,548 million ordinary shares of 5p each were issued as a result of the acquisition of Booker.

The shares issued as consideration for Booker were valued at £3,127m based on the published share price on 2 March 2018 of 202.0 pence with £77m recognised as share capital and the remaining £3,050m recognised as a merger reserve, included within Other reserves on the Group statement of changes in equity.

Refer to Note 19 for further details on the acquisition of Booker.

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

On 5 March 2018, the Group acquired a 100% stake in Booker. Booker is the largest food wholesaler in the UK.

The acquisition builds on the Group's core expertise of sourcing, distributing and selling food in the UK market and will enable the Group to enter the faster growing out-of-home food consumption market. The Directors expect the merger to deliver financial synergies through both revenue and cost synergies.

The transaction has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. The total consideration of £3,993m was satisfied by cash, shares and other items as detailed in the table below. Booker shareholders received 0.861 Tesco PLC ordinary shares and 42.6 pence in cash per Booker share held. A total of 1,548 million new ordinary shares of the Company have been issued as a result of the transaction, with new shares carrying equal voting and distribution rights as the existing ordinary shares. The fair value of the shares is based on the published share price on 2 March 2018 of 202.0 pence.

The consideration and cash flow impacts of acquisitions in the current financial period are reflected below:

		Cash flow statement		
	Consideration £m	Operating cash flows £m	Investing cash flows £m	Cash outflow from major acquisition £m
Acquisition of Booker				
Cash consideration	766	–	(766)	(766)
Equity shares issued	3,127	–	–	–
	3,893	**–**	**(766)**	**(766)**
Fair value of Booker's share plans acquired	33	–	–	–
Dividend paid to Booker shareholders	67	–	(67)	(67)
Acquisition costs paid	–	(43)	–	(43)
Less cash acquired	–	–	129	129
Total Booker	**3,993**	**(43)**	**(704)**	**(747)**
Acquisition of another subsidiary	11	–	(11)	–
Total acquisitions	**4,004**	**(43)**	**(715)**	**(747)**

The fair value of assets and liabilities recognised as a result of the acquisition of Booker are as follows:

	Fair value £m
Property, plant and equipment	326
Acquired intangible assets	755
Asset held for sale	34
Cash and cash equivalents	129
Trade and other receivables	173
Inventories	357
Deferred tax	(126)
Trade and other payables	(663)
Non-current liabilities	(19)
Provisions	(44)
Post-employment benefit obligations	(22)
Total	**900**
Goodwill	3,093
Purchase consideration	**3,993**

The goodwill is primarily attributable to synergies, new customers, the acquired workforce and business expertise. None of the goodwill is expected to be deductible for tax purposes. Refer to Note 10 for the changes in goodwill as a result of the acquisition of Booker.

Acquired intangible assets comprise catering customer relationships of £657m, retail customer relationships of £58m, brands of £30m and a property-related purchase option valued at £10m. The customer relationships and brand assets are amortised over 9 to 15 years. The amortisation charge on the acquired intangibles is excluded from the Group's operating profit before exceptional items and amortisation of acquired intangibles.

The fair value of acquired trade and other receivables is £173m and includes trade receivables with a fair value of £123m. The gross contractual amount for trade receivables due was £132m, of which £9m is expected to be uncollectable.

Booker contributed revenues of £2,960m and net profit after tax of £57m to the Group from 5 March 2018 to 25 August 2018. The £57m profit includes the impact of consolidation adjustments, primarily £(37)m of amortisation expense on acquired intangible assets. If the acquisition had occurred on 25 February 2018, Group revenue and net profit after tax for the 26 weeks ended 25 August 2018 would not be materially different. Transaction costs of £22m have been included in Administrative expenses for the 26 weeks ended 25 August 2018 (52 weeks ended 24 February 2018: £21m).

Note 20 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 (now reduced to 78 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 Partners and Canada Pension Plan Investment Board (CPPIB), as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. Five guarantees currently remain outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2031. The maximum potential liability under these outstanding guarantees is between KRW 246bn (£171m) and KRW 405bn (£282m).

In the event that the guarantees are called, the potential economic outflow is estimated at KRW 169bn (£118m), with funds of KRW 73bn (£51m) placed in escrow to provide the primary payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW96bn (£67m). Additionally, Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made over and above the amounts in escrow.

Following the sale of Homeplus in 2015, as disclosed in the Prospectus issued by the Company on 5 February 2018, the Group has received claims from the purchasers relating to the sale of the business. The claims are being vigorously defended. The merit, likely outcome and potential impact on the Group of the claims have evolved since originally issued and are subject to a number of significant uncertainties. Consequently, the Group cannot make any assessment of the likely outcome or quantum of the claims at present.

As previously reported, Tesco Stores Limited has received claims from current and former Tesco store colleagues alleging that their work is of equal value to that of colleagues working in Tesco's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential between the pay terms looking back, and equivalence of pay terms moving forward. At present, the likely number of claims that may be received and the merit, likely outcome and potential impact on the Group of any such litigation 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. There are substantial factual and legal defences to these claims and the Group intends to defend them.

Note 21 Lease commitments

Operating lease commitments – Group as lessee

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

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Within one year	1,121	1,077	1,148
Greater than one year but less than five years	3,686	3,552	3,707
After five years	6,979	6,788	7,105
Total minimum lease commitments	**11,786**	**11,417**	**11,960**

Of the financial period end minimum lease commitments of £11,786m, £512m relates to leases held by Booker entities.

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

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Greater than five years but less than ten years	3,183	3,035	3,092
Greater than ten years but less than fifteen years	2,038	2,008	2,098
After fifteen years	1,758	1,745	1,915
Total minimum lease commitments – after five years	**6,979**	**6,788**	**7,105**

The Group has used operating lease commitments discounted at 7% (24 February 2018: 7%, 26 August 2017: 7%) of £7,202m (24 February 2018: £6,931m, 26 August 2017: £7,255m) 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 £2.8bn (24 February 2018: £2.8bn, 26 August 2017: £2.9bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £2.9bn (24 February 2018: £2.6bn, 26 August 2017: £2.6bn) using current rent values, as shown below.

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

	25 August 2018 £m	24 February 2018 £m	26 August 2017 £m
Within one year	-	2	14
Greater than one year but less than five years	339	265	198
Greater than five years but less than ten years	746	738	717
Greater than ten years but less than fifteen years	746	659	660
After fifteen years	1,114	935	976
Total undiscounted contingent additional lease rentals	**2,945**	**2,599**	**2,565**
Total discounted contingent additional lease rentals at 7%	1,353	1,159	1,151

The lease break options are exercisable between the current year 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 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.

Note 22 Events after reporting period

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group's priority throughout was to ensure customers' accounts were protected and that it communicated with customers immediately and transparently, reassuring customers that there was no data loss or breach of systems. The Group undertook immediate remedial action and an independent review of the issue and has worked closely with the authorities and regulators on this incident.

On 1 October 2018, the FCA issued a warning notice to the Group in relation to the incident and the Group has accepted this and agreed to a settlement payment of £16m. As a result, the Group has recognised a regulatory provision for this amount at 25 August 2018. Management expect to fully utilise this provision during the year ended 23 February 2019.

On 13 September 2018, Tesco exercised its option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by the other joint venture partner. The acquisition is scheduled to complete in September 2019, and will lead to a reduction in minimum lease commitments disclosed in Note 21 of £765m (discounted: £374m). The most recent audited financial statements for the partnership as at 31 December 2017 showed net liabilities of £(14)m, principally composed of investment properties of £658m, borrowings of £(490)m and derivative financial liabilities of £(184)m.

Note 23 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on the Group's financial position and financial performance.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard became applicable for the current financial period. The Group has applied the classification, measurement and impairment requirements of the standard retrospectively, adjusting the opening balance sheet at the transition date of 25 February 2018 with no restatement of comparative periods. Hedge accounting relationships within the scope of IFRS 9 will transition prospectively.

Classification and measurement

The Group has made the following classification changes:

- All financial instruments classified as loans and receivables under IAS 39 have been classified and measured at amortised cost under IFRS 9;
- All financial instruments classified as available-for-sale under IAS 39 have been classified and measured at fair value through other comprehensive income under IFRS 9; and
- All financial instruments classified as fair value through profit or loss under IAS 39 will continue to be measured at fair value through profit or loss under IFRS 9.

Impairment

IFRS 9 requires the Group to recognise expected credit losses (ECL), and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The ECL have been measured under the simplified approach, with the exception of loans and advances to customers and banks, financial assets at fair value through other comprehensive income and joint venture loans, where the general approach is applied.

The assessment of credit risk and the estimation of ECL are required to be unbiased, forward-looking and probability-weighted, determined by evaluating at the reporting date for each financial asset a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money.

Transition adjustment

The change in impairment methodology reduced the Group's opening retained earnings on 25 February 2018 by £177m, with corresponding changes in the following balance sheet items:

	24 February 2018 (restated) £m	IFRS 9 adjustment £m	25 February 2018 £m
Non-current assets			
Trade and other receivables	186	(13)	173
Loans and advances to customers and banks	6,885	(73)	6,812
Deferred tax assets	116	59	175
Current assets			
Loans and advances to customers and banks	4,637	(150)	4,487
Total adjustment		**(177)**	

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group recognises revenue from the principal activities of retailing and associated activities and retail banking and insurance services through Tesco Bank. For the majority of revenue streams, there is a low level of judgement applied in determining the consideration or the timing of transfer of control.

The following revenue streams have been impacted by the adoption of IFRS 15.

Insurance renewal commission

Prior to the adoption of IFRS 15, the Group recognised Tesco Bank insurance commission income on policy renewals at the time of the renewal. Under IFRS 15, the Group recognises commission income as policies are sold for a minority of insurance policies managed and underwritten by a third party. This is the point in time at which the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. A contract asset has been recognised in relation to this revenue, which is included within trade and other receivables.

Clubcard

Consistent with previous accounting policy, Clubcard and loyalty initiatives are considered a separate performance obligation. IFRS 15 introduces a change in the valuation of these initiatives; from the stand-alone fair value to the fair value relative to the total transaction price. A contract liability continues to be recognised for Clubcard points issued, not yet redeemed and is included within trade and other payables.

Tesco Mobile

Prior to adoption of IFRS 15, the Group recognised handset and airtime income on pay monthly telecoms contracts as airtime services were provided to the customer. Under IFRS 15, the total contract transaction price is allocated across the two performance obligations; with handset income being recognised on delivery of the handset to the customer and airtime income recognised over time as the service is provided. A contract asset has been recognised in relation to handset revenue, which is included within trade and other receivables.

Transition adjustment

The Group has adopted IFRS 15 retrospectively, with comparatives restated from a transition date of 26 February 2017. Opening retained earnings increased by £20m with a corresponding increase in trade and other receivables of £19m, an increase in inventory of £1m, a decrease in trade and other payables of £3m, a decrease in provisions of £3m, and an increase in the deferred tax liability of £(6)m.

In the six months ended 26 August 2017, as a result of applying IFRS 15, revenue and operating profit decreased by £(9)m and taxation expense decreased by £2m leading to a reduction in profit after tax of £(7)m.

Introduction

In the reporting of financial information, the Directors have adopted various APMs.

These measures are not defined by International Financial Reporting Standards (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 users 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 and changes to APMs within the period can be found in Note 1.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page 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 and amortisation of acquired intangibles	Operating profit*	• Exceptional items • Amortisation of acquired intangibles	Note 2	• Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance. 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 and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Earnings before exceptional items, interest, tax, depreciation, amortisation and rent expense (EBITDAR)	Operating profit*	• Exceptional items • Depreciation and amortisation • Rent expense • Tesco Bank EBITDAR • Discontinued operations	Page 52	• This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation, amortisation and rent expense and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.

* Operating profit is presented on the Group income statement. It is not defined per IFRS, however, is a generally accepted profit measure.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Profit measures continued				
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Profit before tax	• Exceptional items • Amortisation of acquired intangibles • Net pension finance costs • Fair value remeasurements on financial instruments	Note 9	• This measure excludes exceptional items and amortisation of acquired intangibles, net finance costs of the defined benefit pension deficit 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. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.
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 Fair value remeasurements on financial instruments	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. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Diluted earnings per share	• Exceptional items • Amortisation of acquired intangibles • Discontinued operations • Net pension finance costs • Fair value remeasurements on financial instruments	Note 9	• This relates to profit after tax before exceptional items and amortisation of acquired intangibles 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. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.
Tax measures				
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	• Exceptional items and their tax impact • Amortisation of acquired intangibles and their tax impact	Note 6	• Effective tax rate before exceptional items and amortisation of acquired intangibles 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.

Glossary – Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Tax measures continued				
Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Effective tax rate	• Exceptional items and their tax impact • Amortisation of acquired intangibles and their tax impact • Net pension finance costs and their tax impact • Fair value remeasurements on financial instruments and their tax impact	Note 6	• Effective tax rate before exceptional items and amortisation of acquired intangibles, 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 and amortisation of acquired intangibles items, net pension finance costs and fair value remeasurements divided by the profit before tax before exceptional items and amortisation of acquired intangibles, 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 52	• Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum lease payments under non-cancellable operating leases to provide an overall view of the Group's obligations. It is an important measure of the long term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	• Consistent with accounting policy	Page 52	• Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12 month EBITDAR. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Fixed charge cover	No direct equivalent	• Consistent with accounting • policy	Page 52	• Fixed charge cover is calculated as the rolling 12 month EBITDAR divided by the sum of rent expense and net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and 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 from 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 • The market purchase of shares net of proceeds from shares issued in relation to share schemes • Investing cash flows that increase/decrease items within Group net debt • Cash flows from major corporate acquisitions and disposals	Note 2	• Free cash flow includes all cash flows from operating and investing activities, and the market purchase of shares net of proceeds from shares issued in relation to share schemes. The following items are excluded: investing cash flows that increase/decrease items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Cash flow measures continued				
Retail free cash flow	Cash generated from operating activities	• Tesco Bank operating cash flow • Retail net cash generated from/(used in) investing activities, and the market purchase of shares net of proceeds from shares issued in relation to share schemes • Investing cash flows that increase/decrease items within Net debt • Cash flows from major corporate acquisitions and disposals	Note 2	Retail free cash flow includes all cash flows from operating and investing activities for the Retail business, and the market purchase of shares net of proceeds from shares issued in relation to share schemes. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

APMs: Debt metrics

The Group uses a rolling 12 month period for income and expense figures included in EBITDAR, Total indebtedness ratio and Fixed cover charge APMs.

EBITDAR (restated)	12 months to 25 August 2018 £m	24 February 2018 £m	12 months to 26 August 2017 £m
Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles[a]	1,829	1,646	1,447
Less: Tesco Bank operating profit/(loss) before exceptional items[a]	(174)	(169)	(162)
Add: Depreciation and amortisation[a]	1,294	1,295	1,314
Less: Tesco Bank depreciation and amortisation[a]	(85)	(83)	(104)
Add: Retail operating lease expense[a][b]	1,049	1,015	1,029
	3,913	**3,704**	**3,524**

Total indebtedness ratio (restated)	Notes	25 August 2018	24 February 2018	26 August 2017
Net debt (£m)	17	3,126	2,625	3,260
Add: Defined benefit pension deficit, net of deferred tax (£m)	16	2,144	2,728	2,439
Add: Discounted operating lease commitments (£m)	21	7,202	6,931	7,255
Total indebtedness (£m)		**12,472**	**12,284**	**12,954**
EBITDAR (£m)		**3,913**	**3,704**	**3,524**
Total indebtedness ratio		**3.2**	**3.3**	**3.7**

Fixed charge cover (restated)	12 months to 25 August 2018	24 February 2018	12 months to 26 August 2017
Net finance cost (£m) [a]	484	533	654
Less: Net pension finance costs (£m) [a]	(126)	(162)	(136)
Less: Exceptional foreign exchange losses on GBP short-term investments held in overseas entities (£m) [a]	30	(38)	(112)
Add: Capitalised interest (£m) [a]	2	2	4
Add: Fair value remeasurements on financial instruments (£m) [a]	(81)	23	14
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements on financial instruments (£m)	**309**	**358**	**424**
Add: Retail operating lease expense (£m) [a][b]	1,049	1,015	1,030
	1,358	**1,373**	**1,454**
EBITDAR (£m)	**3,913**	**3,704**	**3,524**
Fixed charge cover	**2.9**	**2.7**	**2.4**

[a] As the incomes and expenses included in debt APMs are calculated using a rolling 12 month period, the amounts for the 12 months to 25 August 2018 and 26 August 2017 are not disclosed in the notes to the condensed consolidated interim financial statements for the current financial period.
[b] Group operating lease expense of £1,052m (24 February 2018: £1,018m: 26 August 2017: £1,033m) includes £3m (£24 February 2018: £3m; 26 August 2017: £3m) relating to Tesco Bank.

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 year-end.

MTN
MTN refers to Medium Term Note.

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

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

Return
Profit before exceptional items, amortisation of acquired intangibles 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 25 August 2018 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 23. 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 Financial Reporting Council. 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 Financial Reporting Council 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 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 25 August 2018 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

2 October 2018

Appendix 1

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

	1H 2017/18	2H 2017/18	FY 2017/18	1Q 2018/19	2Q 2018/19	1H 2018/19
UK & ROI	**2.2%**	**2.8%**	**2.5%**	**16.6%**	**18.9%**	**17.7%**
UK & ROI (comparable growth)[b]	**n/a**	**n/a**	**n/a**	**3.5%**	**3.5%**	**3.5%**
UK	1.8%	2.4%	2.1%	1.9%	1.7%	1.8%
ROI	9.6%	10.2%	9.9%	9.5%	7.2%	8.4%
Booker	n/a	n/a	n/a	12.8%	13.7%	13.3%
Central Europe	**8.6%**	**3.8%**	**6.1%**	**0.7%**	**(5.8)%**	**(2.7)%**
Asia	**2.0%**	**(10.3)%**	**(4.4)%**	**(6.8)%**	**(1.3)%**	**(4.1)%**
Tesco Bank	**4.8%**	**3.0%**	**3.9%**	**7.0%**	**1.1%**	**4.2%**
Group	**3.0%**	**1.6%**	**2.3%**	**12.1%**	**13.4%**	**12.8%**
Group (comparable growth)[b]	**n/a**	**n/a**	**n/a**	**2.3%**	**2.0%**	**2.2%**

[a] Sales growth shown on a comparable days basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales.
[b] Comparable total growth presents growth with Booker sales included in the prior year base from Q1 2018/19 onwards.

Appendix 2

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

	1H 2017/18	2H 2017/18	FY 2017/18	1Q 2018/19	2Q 2018/19	1H 2018/19
UK & ROI	**1.8%**	**2.6%**	**2.2%**	**16.5%**	**18.9%**	**17.7%**
UK & ROI (comparable growth)[b]	**n/a**	**n/a**	**n/a**	**3.4%**	**3.5%**	**3.5%**
UK	1.8%	2.4%	2.1%	1.9%	1.7%	1.8%
ROI	1.1%	6.6%	3.9%	6.8%	7.6%	7.2%
Booker	n/a	n/a	n/a	12.8%	13.7%	13.3%
Central Europe	**(1.4)%**	**(1.7)%**	**(1.6)%**	**(2.9)%**	**(4.2)%**	**(3.5)%**
Asia	**(7.7)%**	**(11.1)%**	**(9.4)%**	**(7.2)%**	**(2.5)%**	**(5.0)%**
Tesco Bank	**4.8%**	**3.0%**	**3.9%**	**7.0%**	**1.1%**	**4.2%**
Group	**0.5%**	**0.7%**	**0.6%**	**11.5%**	**13.5%**	**12.5%**
Group (comparable growth)[b]	**n/a**	**n/a**	**n/a**	**1.8%**	**2.1%**	**2.0%**

[a] Sales growth shown on a comparable days basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales.
[b] Comparable total growth presents growth with Booker sales included in the prior year base from Q1 2018/19 onwards.

Notes

As previously reported, the Group identified a number of small sales sub-categories, in Asia and Central Europe, where Tesco is viewed as acting more as a selling agent than as a retailer principal. A change was therefore made in the prior year to reflect the net commission on these sales, instead of the previous presentation of the gross revenue and cost of sales separately. While this change was adopted in the fourth quarter of 2017/18, the total sales growth performance measures for 1H 2017/18 and 2H 2017/18 in Appendices 1 and 2 above, have been adjusted to reflect this change with an impact of c.(0.2)% at Group level.

Appendix 3

Country detail - Retail

	Revenue (exc. VAT, inc. fuel)*			
	Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	21,581	21,581	1.0	1.0
ROI	1,321	1,165	1.1	1.1
Booker	2,960	2,960	1.0	1.0
Czech Republic	21,132	728	29.0	28.5
Hungary	280,566	778	360.6	357.6
Poland	4,839	1,001	4.8	4.7
Slovakia	677	597	1.1	1.1
Malaysia	2,067	385	5.4	5.3
Thailand	85,982	1,980	43.4	41.9

* Excludes franchising revenue within Central Europe of £12m, which is not allocated to individual countries.

Appendix 4

UK sales area by size of store

Store size (sq. ft.)	August 2018			February 2018		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0 – 3,000	2,517	5.2	10.3	2,512	5.2	13.1
3,001 – 20,000	296	3.6	7.0	284	3.4	8.5
20,001 – 40,000	357	10.4	20.6	284	8.2	20.6
40,001 – 60,000	223	11.3	22.3	182	9.4	23.6
60,001 – 80,000	146	10.4	20.4	120	8.5	21.4
80,001 – 100,000	62	5.8	11.3	45	4.2	10.6
Over 100,000	36	4.1	8.1	8	0.9	2.2
Total*	**3,637**	**50.8**	**100.0**	**3,435**	**39.8**	**100.0**

* Excludes franchise stores. February 2018 does not include Booker.

Appendix 5

Actual Group space – store numbers[(a)]

	2017/18 year-end[(b)]	Openings	Closures/ disposals	Net gain/ (reduction)[(c)]	As at 25 August 2018	Repurposing/ extensions
Extra	252	-	-	-	252	-
Superstore	480	-	-	-	480	-
Metro	172	-	-	-	172	-
Express	1,749	5	-	5	1,754	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,659**	**5**	**-**	**5**	**2,664**	**-**
One Stop[(d)]	776	3	(3)	-	776	-
Booker	198	1	(2)	(1)	197	1
UK[(d)]	**3,633**	**9**	**(5)**	**4**	**3,637**	**1**
ROI	**150**	**2**	**-**	**2**	**152**	**-**
UK & ROI[(d)]	**3,783**	**11**	**(5)**	**6**	**3,789**	**1**
Czech Republic[(d)]	189	-	-	-	189	2
Hungary	206	-	(1)	(1)	205	5
Poland	415	-	(18)	(18)	397	1
Slovakia	151	-	(1)	(1)	150	1
Central Europe[(d)]	**961**	**-**	**(20)**	**(20)**	**941**	**9**
Malaysia	72	-	(1)	(1)	71	3
Thailand	1,951	48	(8)	40	1,991	6
Asia	**2,023**	**48**	**(9)**	**39**	**2,062**	**9**
Group[(d)]	**6,767**	**59**	**(34)**	**25**	**6,792**	**19**
UK (One Stop)	*169*	*9*	*(6)*	*3*	*172*	-
Czech Republic	*97*	*1*	*(2)*	*(1)*	*96*	-
Franchise stores	***266***	***10***	***(8)***	***2***	***268***	**-**

[(a)] Continuing operations.
[(b)] Restated for the acquisition of Booker.
[(c)] The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.
[(d)] Excludes franchise stores.

Actual Group space – '000 sq. ft.[a]

	2017/18 year-end[b]	Openings	Closures/ disposals	Repurposing/ extensions[d]	Net gain/ (reduction)	As at 25 August 2018
Extra	17,672	-	-	-	-	17,672
Superstore	14,097	-	-	-	-	14,097
Metro	1,961	-	-	-	-	1,961
Express	4,074	9	-	-	9	4,083
Dotcom only	716	-	-	-	-	716
Total Tesco	**38,520**	**9**	**-**	**-**	**9**	**38,529**
One Stop[c]	1,266	5	(4)	-	1	1,267
Booker	11,100	9	(153)	-	(144)	10,956
UK[c]	**50,886**	**23**	**(157)**	**-**	**(134)**	**50,752**
ROI	**3,566**	**69**	**-**	**-**	**69**	**3,635**
UK & ROI[c]	**54,452**	**92**	**(157)**	**-**	**(65)**	**54,387**
Czech Republic[c]	5,059	-	-	(30)	(30)	5,029
Hungary	6,838	-	(2)	(226)	(228)	6,610
Poland	9,281	-	(141)	1	(140)	9,141
Slovakia	3,720	-	(86)	(16)	(102)	3,618
Central Europe[c]	**24,898**	**-**	**(229)**	**(271)**	**(500)**	**24,398**
Malaysia	3,830	-	(88)	(64)	(152)	3,678
Thailand	15,472	314	(17)	(103)	194	15,666
Asia	**19,302**	**314**	**(105)**	**(167)**	**42**	**19,344**
Group[c]	**98,652**	**406**	**(491)**	**(438)**	**(523)**	**98,129**
UK (One Stop)	*224*	*11*	*(7)*	-	*4*	*228*
Czech Republic	*92*	*1*	*(2)*	-	*(1)*	*91*
Franchise stores	***316***	***12***	***(9)***	**-**	***3***	***319***

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

Group space forecast to 23 February 2019 – '000 sq. ft.[a]

	As at 25 August 2018	Openings	Closures/ disposals	Repurposing /extensions	Net gain/ (reduction)	2018/19 year-end
Extra	17,672	-	-	-	-	17,672
Superstore	14,097	-	-	-	-	14,097
Metro	1,961	-	-	-	-	1,961
Express	4,083	19	(6)	-	13	4,096
Dotcom only	716	-	-	-	-	716
Total Tesco	**38,529**	**19**	**(6)**	**-**	**13**	**38,542**
One Stop[b]	1,267	7	(21)	-	(14)	1,253
Booker	10,956	-	-	-	-	10,956
Jack's	-	129	-	-	129	129
UK[b]	**50,752**	**155**	**(27)**	**-**	**128**	**50,880**
ROI	**3,635**	**-**	**-**	**-**	**-**	**3,635**
UK & ROI[b]	**54,387**	**155**	**(27)**	**-**	**128**	**54,515**
Czech Republic[b]	5,029	-	-	(64)	(64)	4,965
Hungary	6,610	-	-	-	-	6,610
Poland	9,141	-	(672)	(142)	(814)	8,327
Slovakia	3,618	-	-	-	-	3,618
Central Europe[b]	**24,398**	**-**	**(672)**	**(206)**	**(878)**	**23,520**
Malaysia	3,678	84	-	(47)	37	3,715
Thailand	15,666	304	(39)	(36)	229	15,895
Asia	**19,344**	**388**	**(39)**	**(83)**	**266**	**19,610**
Group[b]	**98,129**	**543**	**(738)**	**(289)**	**(484)**	**97,645**
UK (One Stop)	*228*	*34*	*(8)*	-	*26*	*254*
Czech Republic	*91*	*3*	*(1)*	-	*2*	*93*
Franchise stores	***319***	***37***	***(9)***	**-**	***28***	***347***

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

Tesco Bank income statement

	1H 2018/19[a] £m	1H 2017/18[a] (restated[b]) £m
Revenue		
Interest receivable and similar income	354	331
Fees and commissions receivable	193	194
	547	**525**
Direct costs		
Interest payable	(84)	(85)
Fees and commissions payable	(14)	(12)
	(98)	**(97)**
Gross profit	**449**	**428**
Other expenses		
Staff costs	(88)	(86)
Premises and equipment	(37)	(38)
Other administrative expenses	(102)	(109)
Depreciation and amortisation	(43)	(41)
Impairment loss on financial assets	(90)	(70)
Operating profit before exceptional items	**89**	**84**
Exceptional items[c]	(21)	-
Operating profit	**68**	**84**
Net finance costs: movements on derivatives and hedge accounting	(4)	1
Net finance costs: interest	(2)	(2)
Share of profit/(loss) of joint venture	4	8
Profit before tax	**66**	**91**

(a) These results are for the six months ended 31 August 2018 and the previous comparison is made with the six months ended 31 August 2017.
(b) Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.
(c) Exceptional items in 2018/19 consist of a regulatory provision of £16m (1H 2017/18: £nil), an increase in PPI provision of £7m (1H 2017/18: £nil) partially offset by a decrease in business simplification costs of £2m (1H 2017/18: £nil) previously provided for.