TESCO

Preliminary Results 2018/19

FULL-YEAR AHEAD OF EXPECTATIONS
SECOND HALF MARGIN OF 3.96% INC. BOOKER (3.79% EXC. BOOKER)

On a continuing operations basis	**2018/19***	2017/18	Change at constant rates	Change at actual rates
Headline measures[1]:				
Group sales[2]	**£56.9bn**	£51.0bn[3]	11.3%	11.5%
Group operating profit[4]	**£2,206m**	£1,646m[3]	33.5%	34.0%
Diluted EPS before exceptional and other items[5]	**15.40p**	11.90p		29.4%
Dividend per share	**5.77p**	3.00p		92.3%
Retail operating cash flow[6]	**£2,502m**	£2,773m		(9.8)%
Net debt[6,7]	**£(2,863)m**	£(2,625)m		up (9.1)%
Statutory measures:				
Revenue	£63.9bn	£57.5bn	11.0%	11.2%
Operating profit	£2,153m	£1,839m	16.7%	17.1%
Profit before tax	£1,674m	£1,300m	28.3%	28.8%
Diluted EPS	13.55p	12.11p		11.9%

*Note: Booker consolidated from completion date of 5 March 2018 and therefore included in the 2018/19 figures for 51 weeks

Headlines

- Group sales[2] £56.9bn, +11.5%
  - UK & ROI LFL sales[8] +2.9% incl. Tesco UK +1.7% and Booker +11.1%
  - Central Europe LFL sales[8] (2.3)%: fewer trading days and less general merchandise
  - Asia LFL sales[8] (6.2)%: improvement to (3.0)% in 4Q
- Group operating profit[4] £2,206m,+34.0%
  - UK & ROI £1,537m, +45.1%; incl. £196m Booker (last year: £185m[9]) and £79m synergies
  - Central Europe £186m, +56.3%: significant cost reductions and improved profit mix
  - Asia £286m, (4.3)%: supplier negotiations concluded and significant restructuring complete
  - Bank £197m, +16.6%: strong banking performance and one-off contract renewal benefit[10]
- Group operating margin[4] 3.45%; 2H operating margin[4] 3.96% (3.79% excl. Booker)
- Retail operating cash flow[6] £2.5bn: c.£(490)m working capital timing impact year-on-year
- Retail free cashflow of £906m: impacted y-o-y by working capital timing, higher tax and market purchases of shares
- Net debt[6,7] £(2.9)bn: increased by £(238)m after £(766)m Booker cash consideration
- Final dividend 4.10p, giving FY dividend of 5.77p – now expect to reach c.2.0x EPS cover[11] in 2019/20
- Statutory revenue +11.2% to £63.9bn; operating profit +17.1% to £2,153m; profit before tax +28.8% to £1,674m

Further progress against each of our six strategic drivers

- **Brand** health[12] continues to strengthen; quality perception +1.9 points and value perception +1.3 points[13]
- In-year **cost** savings £532m; savings of £1.4bn to date towards £1.5bn target
- Generated £2.5bn retail operating **cash**[6]; £8.6bn retail operating cash[14] generated over three years
- Improving the **mix** across geographies, channels and product; closure of Tesco Direct; less general merchandise in CE
- Released a further £285m value[15] from **property**; three store buybacks in Cirencester, Stroud and Shepton Mallet
- **Innovations** including 10,000 own brand product relaunch; eight new 'Exclusively at Tesco' brands; launch of Jack's

Dave Lewis, Chief Executive:

"After four years we have met or are about to meet the vast majority of our turnaround goals. I'm very confident that we will complete the journey in 2019/20.

I'm delighted with the broad-based improvement across the business. We have restored our competitiveness for customers - including through the introduction of 'Exclusively at Tesco' - and rebuilt a sustainable base of profitability. The full year margin of 3.45% represents clear progress and the second half level of 3.79%, even before the benefit of Booker, puts us comfortably in the aspirational range we set four years ago.

I'm pleased that we are able to accelerate the recovery in the dividend as a result of our continued capital discipline and strong improvement in cash profitability."

Like-for-like sales performance[8]

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**3.5%**	**4.2%**	**1.9%**	**1.9%**	**3.8%**	**1.9%**	**2.9%**
Tesco UK	2.1%	2.5%	0.7%	1.7%	2.3%	1.2%	1.7%
ROI	3.0%	3.1%	(0.2)%	(0.4)%	3.1%	(0.3)%	1.3%
Booker	14.3%	15.1%	11.0%	4.3%	14.7%	7.6%	11.1%
Central Europe	**(1.0)%**	**(2.0)%**	**(3.0)%**	**(3.0)%**	**(1.5)%**	**(3.0)%**	**(2.3)%**
Asia	**(9.0)%**	**(4.8)%**	**(8.0)%**	**(3.0)%**	**(7.0)%**	**(5.4)%**	**(6.2)%**
Group	**1.8%**	**2.7%**	**0.5%**	**0.9%**	**2.2%**	**0.7%**	**1.4%**

Headline Group results

A full Group income statement can be found on page 14.

52 weeks ended 23 February 2019 **On a continuing operations basis**	**2018/19**	**2017/18 (restated)[3]**	**Year-on-year change** (Constant exchange rates)	**Year-on-year change** (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)[2]	**£56,883m**	**£50,993m**	**11.3%**	**11.5%**
Fuel	£7,028m	£6,500m	8.1%	8.1%
Revenue (exc. VAT, inc. fuel)	**£63,911m**	**£57,493m**	**11.0%**	**11.2%**
Group operating profit[4]	**£2,206m**	**£1,646m**	**33.5%**	**34.0%**
- UK & ROI	£1,537m	£1,059m	45.0%	45.1%
- Central Europe	£186m	£119m	56.3%	56.3%
- Asia	£286m	£299m	(6.7)%	(4.3)%
- Tesco Bank	£197m	£169m	16.6%	16.6%
Include exceptional items and amortisation of acquired intangibles	£(53)m	£193m		
Group statutory operating profit	£2,153m	£1,839m	16.7%	17.1%
Group profit before tax before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	£1,958m	£1,284m		52.5%
Group statutory profit before tax	**£1,674m**	**£1,300m**		28.8%
Diluted EPS before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	15.40p	11.90p		29.4%
Statutory diluted EPS	13.55p	12.11p		
Statutory basic EPS	13.65p	12.15p		
Dividend per share	**5.77p**	3.00p		92.3%
Capex[16]	**£1.1bn**	**£1.1bn**		
Net debt[6,7]	**£(2.9)bn**	**£(2.6)bn**		
Cash generated from retail operations[6]	**£2.5bn**	**£2.8bn**		

Notes
1. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary on page 58.
2. 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 reporting of consignment sales.
3. Last year figures restated for impact of IFRS 15 'Revenue from contracts with customers'. Impacts include a £2m increase in revenue and operating profit.
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 underlying performance.
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 38.
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 Group online sales and sales from stores that have been open for at least a year (at constant foreign exchange rates).
9. In the current year, Booker is consolidated for 51 weeks. Booker operating profit last year is adjusted to reflect a comparable 51 week period and to exclude property profits. Previously referenced profit of c.£195m last year reflects the 53 weeks to 30 March 2018.
10. Relates to £13m up-front recognition of insurance renewals following a contract renewal with our pet insurance provider, as required by IFRS 15.
11. On a post-IFRS 16 basis.
12. As per YouGov BrandIndex (customers recommend) February 2019.
13. Reflects year-on-year change in YouGov Brand perception measures of quality and value.
14. Cumulative retail cash generated from operations excluding pension deficit repayments, cash outflows relating to SFO fine and shareholder compensation scheme payments and cash payments in lieu of colleague bonus shares.
15. Value released from property relates to gross proceeds from property disposals in the year.
16. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 52 weeks ended 23 February 2019 was £1.2bn (LY £1.5bn).

Creating value for our key stakeholders

We have continued to make strong progress this year, 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

- 149,000 more customers are shopping at Tesco[1]
- continued improvement in Brand perception measures of quality (+1.9 points) and value (+1.3 points)[2]
- introduced eight new 'Exclusively at Tesco' brands; relaunch of 10,000 own brand products
- launched 'Jack's' – a new brand and store format – as part of celebrating 100 years of great value at Tesco
- refreshed Clubcard app in August with Faster Vouchers functionality; users up 34% year-on-year
- offering Booker 'bulk buys' in 70 Tesco stores; wider roll-out to continue next year
- unlocking benefits of 'Joining Forces' for Booker customers, with greater choice, lower prices and better quality
- continued to work in partnership with Cancer Research UK, Diabetes UK and the British Heart Foundation to promote healthy living and support prevention and cure for the nation's biggest health challenges
- committed to making customers' shopping more sustainable through long-term partnership with WWF

Colleagues

- maintained colleague engagement: 83% recommend Tesco as a great place to work
- implemented the third stage of a 10.5% increase for hourly paid store colleagues in November 2018
- launched new Colleague Clubcard Plus, providing easier access to Tesco benefits in one place
- conducted the UK's largest ever workplace health survey, with over 8,000 colleagues taking part
- further simplified our operations, making changes to stores and offices to enable investment in serving customers
- new partnership with The Prince's Trust, helping 10,000 young people to develop skills and employability
- offered 1,193 new UK apprenticeships in areas such as HGV driving and food technology

Supplier partners

- retailer with most improved supplier relationships for third successive year in June 2018 GCA survey
- Supplier Viewpoint Group measure reached a high of 77.5%, up 260bps year-on-year
- ranked first for the third successive year in the independently-run Advantage supplier survey
- enabled suppliers to access higher level of combined UK sales growth through our merger with Booker
- worked alongside 358 of our existing suppliers to create new 'Jack's' brand with 1,800 products
- working in partnership with Carrefour to identify opportunities in own-label, branded products and goods not for resale

Shareholders

- delivered Group operating margin of 3.45%; 2H operating margin 3.96% (3.79% excl. Booker)
- generated £2.5bn retail operating cash flow; £8.6bn retail operating cash generated over three years
- retail free cashflow of £906m; impacted y-o-y by working capital timing, higher tax and market purchases of shares
- announced final dividend of 4.10p per share taking full-year dividend to 5.77p per share; now expect to reach c.2.0x EPS cover[3] in 2019/20
- strategic repositioning of the Group: delivering faster growth through Booker; benefiting from long-term, strategic alliance with Carrefour; more sustainable general merchandise business, including closure of Tesco Direct in July
- delivered Booker synergies ahead of plan; well on track to meet target of c.£200m p.a. by end of third year

Looking ahead

We are confident that we will meet the remaining goals in our turnaround plan in 2019/20 and deliver a level of profitability (pre-IFRS 16 and excluding Booker) within the 3.5%-4.0% margin range.

Whilst the market remains uncertain, our performance to date is strong, leaving us well-positioned to invest in our competitiveness as we continue to celebrate 100 years of great value for customers. We remain comfortable with consensus profit expectations for 2019/20.

We are continuing to focus on customer satisfaction, cash profitability, free cash flow and earnings growth and are using these measures to inform our decisions as we look to create sustainable value for shareholders.

As a result of the progress we are making strengthening the balance sheet and delivering free cash flow we now expect to reach a dividend cover level of around two times earnings[3] in the 2019/20 financial year. We will maintain our focus on balance sheet strength, targeting a leverage range of 3 times to 2.5 times total indebtedness to EBITDAR[3].

Forthcoming events

As we move beyond our medium-term ambitions, we plan to host a capital markets day on 18 June 2019 to share some of the 'untapped value opportunities' available for Tesco. We will also hold an ESG-focused event on 26 June 2019. Both events will be held at our Welwyn Garden City campus, with invitations being issued shortly.

We will be issuing full 2018/19 financial statements on an IFRS 16 basis on 29 April 2019, as described on page 13 below.

Notes

1. KantarWorldpanel UK data for the 52 weeks ending 24 February 2019
2. Reflects year-on-year change in YouGov Brand perception measures of quality and value.
3. On a post-IFRS 16 basis.

Financial Results

Sales:

On a continuing operations basis	UK & ROI[1]	Central Europe[2]	Asia[3]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£44,883m**	**£6,030m**	**£4,873m**	**£1,097m**	**£56,883m**
change at constant exchange rates[4] %	16.1%	(4.5)%	(4.1)%	4.7%	11.3%
change at actual exchange rates[4] %	16.1%	(4.9)%	(1.6)%	4.7%	11.5%
incl. first-time contribution of Booker	*15.1%*				
Like-for-like sales (exc. VAT, exc. fuel)	**2.9%**	**(2.3)%**	**(6.2)%**	**-**	**1.4%**
Statutory revenue (exc. VAT, inc. fuel)	**£51,643m**	**£6,298m**	**£4,873m**	**£1,097m**	**£63,911m**
Includes: Fuel	£6,760m	£268m	-	-	£7,028m

1. UK & ROI consists of Tesco UK, ROI and Booker. Booker consolidated from 5 March 2018.
2. Central Europe consists of Czech Republic, Hungary, Poland and Slovakia.
3. Asia consists of Thailand and Malaysia.
4. Sales change shown on a comparable days basis; based on statutory accounting dates, Group sales grew by 11.0% at constant exchange rates and 11.2% at actual exchange rates.

Group sales grew by 11.3% at constant exchange rates with like-for-like growth of 1.4%. At actual exchange rates, sales grew by 11.5%. Booker, which is run as part of the UK & ROI business, was consolidated into the Group for 51 weeks from 5 March 2018 and contributed 11.4% to Group sales growth. Further information on sales performance is included in Appendices 1 to 3 on page 70 of this statement.

In the UK and the Republic of Ireland (ROI), like-for-like sales grew by 2.9%, representing the third full year of growth. Tesco UK like-for-like sales grew by 1.7% as we improved both our quality and value perception. We have completed the roll-out of our range of eight new 'Exclusively at Tesco' brands, such as 'Ms Molly's' and 'Hearty Food Co.', as part of the overall relaunch of 10,000 own brand products. In the third quarter, as expected, we saw an increase in customers trading into the outstanding value offered by these products. The continuing success of 'Exclusively at Tesco' contributed to our overall UK market sales and volume outperformance during the fourth quarter.

In general merchandise, we continue to focus on sustainable categories that complement the grocery shop. We are driving growth in those categories by differentiating our offer. For example, our Fox & Ivy and Go Cook ranges contributed to like-for-like sales growth of 4.2% in our Home category. Our clothing like-for-like sales grew by 3.0% and in February 2019 we launched selected F&F Womenswear items on Next.co.uk. We closed Tesco Direct from 9 July, with our like-for-like sales performance removing the impact of this closure.

All store formats and channels delivered like-for-like sales growth, with particularly strong performance in our convenience business, including One Stop, where we launched a further 100 own brand products, offering excellent quality and value to customers. Our online grocery sales grew by 2.8% year-on-year including our biggest ever sales week at Christmas with nearly 51 million items delivered and 776,000 orders. We have seen a strong response to the launch of 'Jack's' – our new brand and store format – with a net promoter score of 53% and very high levels of customer awareness.

Booker's like-for-like sales grew by 11.1% (10.8% excluding tobacco) during the year, including a strong performance from symbol group stores. Sales growth in the fourth quarter eased as we started to annualise contract wins secured in the prior year. We are continuing to unlock the benefits of 'Joining Forces' for Booker's customers, with greater choice, lower prices and better quality.

In ROI, like-for-like sales grew by 1.3%. In a competitive market, we have continued to make good progress during the year, growing volumes across all food categories.

In Central Europe, overall like-for-like sales declined by (2.3)%. A planned reduction of unprofitable general merchandise sales, including a decision not to participate in 'Black Friday' promotions, impacted like-for-like sales performance by (1.2)% for the full year. In addition, changes to Sunday trading regulations in Poland resulted in 25 fewer trading days in the year which, in addition to a public holiday announced at short notice, impacted like-for-like sales in the region by (1.3)%. Sunday trading regulations effective from January 2019 mean that our stores in Poland are now only able to open on the last Sunday of each month, compared with two Sundays per month previously. In the second half, we saw a strong customer response as we launched our 'Star lines' initiative across the region, reducing the price of more than 600 key products.

Overall like-for-like sales performance in Asia was (6.2)% for the year, including the impact of significant changes to our sales mix and promotional strategy, particularly in the first half. Like-for-like sales performance improved to (3.0)% in the fourth quarter. For the year, we saw an impact of (1.2)% from the issuance of government welfare cards in Thailand but this had eased by the end of the fourth quarter.

Group statutory revenue of £63.9bn grew by 11.2% year-on-year and includes fuel sales of £7.0bn.

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	**£1,537m**	**£186m**	**£286m**	**£197m**	**£2,206m**
change at constant exchange rates %	45.0%	56.3%	(6.7)%	16.6%	33.5%
change at actual exchange rates %	45.1%	56.3%	(4.3)%	16.6%	34.0%
Operating profit margin before exceptional items and amortisation of acquired intangibles	**2.98%**	**2.95%**	**5.87%**	**17.95%**	**3.45%**
change at constant exchange rates (basis points)	62bp	113bp	(17)bp	182bp	**58bp**
change at actual exchange rates (basis points)	62bp	115bp	(17)bp	182bp	**59bp**
Statutory operating profit	**£1,535m**	**£232m**	**£219m**	**£167m**	**£2,153m**

1. 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.

Group operating profit before exceptional items and amortisation of acquired intangibles was £2,206m, up 33.5% at constant exchange rates and up 34.0% at actual rates. In the second half, Group operating margin[1] was 3.96%. Excluding Booker, second half margin[1] was 3.79%, well within our ambition range of 3.5%-4.0%.

Statutory operating profit of £2,153m was up 17.1% year-on-year, and includes the impact of exceptional items and amortisation of acquired intangibles, which are described in more detail below and in Note 4 on page 33 of this statement.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £1,537m, up 45.1%, with operating margin growth of 62 basis points year-on-year. During the year, our cost savings programme progressed well and we further simplified what we do and how we serve customers in our store operations and in head office. Our strategic ambition to maximise the mix led to our focus on more sustainable general merchandise categories, including closing Tesco Direct in July. The operating loss relating to Tesco Direct was £(94)m in the 2017/18 financial year.

UK & ROI operating profit also includes a benefit of £52m relating to a change in Clubcard accounting estimates. The change follows a detailed review of our accounting treatment ahead of the implementation of IFRS 15 and results in a more precise match between the redemption value per point and the historic issuance value.

Booker contributed £196m to operating profit before exceptional items and amortisation of acquired intangibles for the 51 weeks consolidated since completion of our merger on 5 March 2018. We delivered £79m of the synergies identified in the Booker merger process – ahead of our initial expectation of £60m in the first year - and are well on track to deliver our target of c.£200m synergies per annum by the end of the third year. We now anticipate that exceptional integration costs over the three years will total £(50)m-£(75)m, lower than the £(145)m which had been originally planned.

Excluding Booker operating profit and synergies, UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was up 19.2%, with margin expansion of 39bps.

Central Europe operating profit before exceptional items was £186m, up 56.3% year-on-year at actual exchange rates. We are improving the quality of our business by focusing on more sustainable product categories and reducing less profitable ranges, such as electricals. In addition, operating costs are being reduced across the region as we simplify the store service model, for example, we reduced the number of price changes by 28% in the year. In Poland, we closed 62 loss-making stores which contributed to Poland making a small profit in the second half.

Asia operating profit before exceptional items was £286m. In the first half, profit was impacted by the combined effect of sales deleverage, price investment and repositioning of promotional investment in Thailand. Performance improved significantly during the second half as we successfully concluded renegotiations with our suppliers and accelerated plans to restructure our store and office operations in Thailand. As a result, we have been able to recover our operating margin more fully and quickly than we had anticipated at the half year stage.

Further information on operating profit performance is included in Note 2, starting on page 25 of this statement. The impact of exceptional items and amortisation of acquired intangibles is described in more detail below and in Note 4 on page 33 of this statement.

Property-related items in operating profit:

	This year	Last year
Profits/(losses) arising on property-related items	£(21)m	£31m
Exceptional property-related items	£105m	£89m
Total profits arising on property-related items	**£84m**	**£120m**

Property-related losses before exceptional items of £(21)m relate primarily to store pre-opening and closure costs.

An exceptional profit of £105m related to disposals within the UK and Central Europe. This includes a £50m gain on the disposal of our Kennington superstore as part of our ‘air-rights’ programme, £37m profit on the sale of three retail sites in Central Europe and a number of other small disposals in the UK.

Further detail on exceptional property transactions and property-related items can be found in Note 4 on page 33 of this statement.

Exceptional items and amortisation of acquired intangibles in statutory operating profit:

	This Year	Last Year
Net restructuring and redundancy costs	£(220)m	£(102)m
Provision for customer redress	£(16)m	£(24)m
FCA obligations	£37m	£25m
Property transactions	£105m	£79m
Tesco Bank FCA charge	£(16)m	-
Booker integration costs	£(15)m	-
Release of provision relating to HMRC VAT appeal	£176m	-
Guaranteed minimum pensions (GMP) equalisation	£(43)m	-
Net impairment reversal of non-current assets and onerous lease provision	£10m	£53m
Sale of Lazada	£7m	£124m
Disposal of opticians business	-	£38m
Total exceptional items in statutory operating profit	**£25m**	**£193m**
Amortisation of acquired intangible assets	£(78)m	-
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	**£(53)m**	**£193m**

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 underlying performance of the Group.

Restructuring and redundancy costs of £(220)m relate to the simplification of our business and working practices across the Group. These include charges of £(38)m incurred as a result of the closure of our loss-making online general merchandise business, Tesco Direct.

Provision for customer redress of £(16)m relating to Tesco Bank, reflects additional costs in respect of Payment Protection Insurance (PPI) as a result of higher claim rates than previously estimated. PPI compensation claims must be made before the deadline of 29 August 2019.

There is an exceptional credit of £37m in relation to the Shareholder Compensation Scheme which comprises a provision release of £17m as we have now processed all outstanding claims and an insurance recovery of £20m.

As mentioned above, exceptional profits on property transactions of £105m have arisen from disposals within the UK and Central Europe.

We have incurred a charge of £(16)m relating to a settlement payment agreed with the Financial Conduct Authority following an online fraudulent attack on Tesco Bank in November 2016.

Booker integration costs of £(15)m relate to costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

In 2017/18, we recovered £160m of VAT from HMRC following a favourable court ruling regarding the treatment of VAT on Clubcard rewards. We subsequently recognised a provision of £176m for VAT and interest as HMRC appealed the court decision. Following HMRC's decision not to appeal a further court judgement in our favour in January this year, this provision has now been released.

Following a recent High Court ruling on equalisation of guaranteed minimum pensions (GMP), we have recognised a £(43)m non-cash charge in respect of the Group's defined benefit pension liability.

Net impairment reversal of non-current assets and onerous lease provision totals £10m. This includes a net reversal of £69m in property, plant and equipment, a charge of £(14)m in software and intangible assets and a net charge of £(44)m in onerous property provisions.

Further detail on exceptional items can be found in Note 4 on page 33 of this statement.

Amortisation of acquired intangible assets is excluded from our headline performance measures. Our combination with Booker resulted in the recognition of goodwill of £3,093m and a £755m intangible asset, driving amortisation of acquired intangible assets of £(78)m for the full year. More detail of this and the impact of Booker on the Group's balance sheet can be found in Notes 4 and 19 on page 33 and 53, respectively.

The net effect of exceptional items and acquired intangibles amortisation on operating profit during the year was £(53)m. This compares to a net £193m last year, which includes £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	**£24m**	**£(6)m**
Exceptional items: Share of property disposal gain in Gain Land	£11m	-
Share of post-tax profits from JVs and associates	**£35m**	**£(6)m**

Our share of post-tax profits from joint ventures and associates before exceptional items was £24m, an increase of £30m year-on-year due to a further reduction in losses recognised 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	£(256)m	£(363)m
Interest receivable on associated derivatives	£18m	£31m
Net interest on medium term notes, loans and bonds	£(238)m	£(332)m
Other interest receivable and similar income	£22m	£44m
Other finance charges and interest payable	£(57)m	£(70)m
Capitalised interest	£1m	£2m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	**£(272)m**	**£(356)m**
Fair value remeasurements of financial instruments	£(153)m	£23m
Net pension finance costs	£(89)m	£(162)m
Exceptional charge - translation of Korea proceeds	-	£(38)m
Net finance costs	**£(514)m**	**£(533)m**

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £84m year-on-year to £(272)m. This improvement was mainly driven by a lower level of gross debt. We saw a £94m reduction in net interest on medium term notes, loans and bonds from £(332)m to £(238)m as a result of debt maturities and bond tenders. We undertook two bond tenders during the year which reduced interest payable by £34m and we expect an annualised benefit of £52m.

Net finance costs of £(514)m were £19m lower year-on-year. Within net finance costs, fair value remeasurements includes £(121)m relating to the premium paid on the repurchase of long-dated bonds. Net pension finance costs decreased by £73m year-on-year to £(89)m, driven by a lower opening pension deficit, partly offset by a higher discount rate. For 2019/20, net pension finance costs are expected to decrease to c.£(72)m.

Last year, an exceptional loss of £(38)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea. This translation effect did not represent an economic cost to the Group.

Further detail on finance income and costs can be found in Note 5 on page 35.

Group tax:

	This year	Last year
Tax on profit before exceptional items and amortisation of acquired intangibles	£(413)m	£(286)m
Tax on exceptional items and amortisation of acquired intangibles	£59m	£(20)m
Tax on profit	**£(354)m**	**£(306)m**

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(413)m.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles for the year is 24.1%. 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. The effective tax rate on profit before exceptional items for the 2019/20 financial year is expected to be around 22%.

On a statutory basis, the total tax charge is £(354)m which includes a £59m credit relating to exceptional items. Cash tax paid in the year was £370m (up £194m year-on-year) including £232m of corporate tax paid in the UK (up £157m year-on-year). This increase principally reflects our improved profitability and the benefit last year from utilising remaining UK tax losses.

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	15.40p	11.90p
Statutory diluted earnings per share	13.55p	12.11p
Statutory basic earnings per share	13.65p	12.15p

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 15.40p, 29.4% higher year-on-year principally due to our stronger profit performance. Statutory basic earnings per share from continuing operations were 13.65p, 12.3% higher year-on-year.

Dividend:

Reflecting the continued improvement in the business and our confidence in ongoing cash generation, we propose to pay a final dividend of 4.10 pence per ordinary share. This takes the total dividend for the year to 5.77 pence per ordinary share, up 92.3% year-on-year, following the payment of an interim dividend of 1.67 pence per ordinary share in November 2018.

We now expect to reach a dividend cover level of around two times earnings (on a post-IFRS 16 basis) in the 2019/20 financial year. We would then expect to maintain this level going forward, expressed as an earnings pay-out ratio of around 50%, with an anticipated split of broadly one-third to two-thirds between interim and final dividends in any given year.

The proposed final dividend was approved by the Board of Directors on 9 April 2019 and is subject to the approval of shareholders at the Annual General Meeting to be held on 13 June 2019. The final dividend will be paid on 21 June 2019 to shareholders who are on the register of members at close of business on 17 May 2019 (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 31 May 2019.

Summary of total indebtedness[1]:

	Feb 2019	Feb 2018	Movement
Net debt (excludes Tesco Bank)	£(2,863)m	£(2,625)m	£(238)m
Discounted operating lease commitments	£(6,999)m	£(6,931)m	£(68)m
Pension deficit, IAS 19 basis (post-tax)	£(2,338)m	£(2,728)m	£390m
Total indebtedness	**£(12,200)m**	**£(12,284)m**	**£84m**

1. Total indebtedness is defined in the glossary, on page 58.

Overall, total indebtedness has decreased by £84m year-on-year.

Retail net debt increased by £(0.2)bn to £(2.9)bn, after the cash outflow of £(0.8)bn relating to our combination with Booker. Discounted operating lease commitments increased by £(68)m, including the consolidation of £(0.4)bn Booker lease commitments.

On 13 September 2018, we exercised our option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by our property joint venture partner. The acquisition is scheduled to complete in September 2019, and will lead to a reduction in discounted lease commitments of £400m (undiscounted £790m), and consolidation of the debt held by the joint venture. Further details can be found in Note 21 on page 55.

On an IAS 19 basis, our pension deficit (net of deferred tax) has reduced from £2.7bn last year to £2.3bn at the end of the current year. The movement during the year is primarily attributable to continued deficit contributions in addition to strong asset performance.

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 3.2 times and from 3.3 to 2.8 times, respectively.

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 25.

	This year	Last year
Operating profit before exceptional items and amortisation of acquired intangibles	**£2,206m**	**£1,646m**
Less: Tesco Bank operating profit before exceptional items	£(197)m	£(169)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	**£2,009m**	**£1,477m**
Add back: Depreciation and amortisation	£1,214m	£1,212m
Other reconciling items	£94m	£28m
Pension deficit contribution	£(266)m	£(245)m
Underlying (increase) / decrease in working capital	£(312)m	£493m
Retail cash generated from operations before exceptional items	**£2,739m**	**£2,965m**
Exceptional cash items:	£(237)m	£(192)m
Relating to prior years:		
- Shareholder Compensation Scheme payments and SFO fine	*£(43)m*	*£(149)m*
- Utilisation of onerous lease provisions	*£(81)m*	*£(92)m*
- Restructuring payments	*£(60)m*	*£(53)m*
Relating to current year:		
- Restructuring payments	*£(68)m*	*£(67)m*
Other	£15m	£169m
Retail operating cash flow	**£2,502m**	**£2,773m**
Cash capex	£(1,126)m	£(1,190)m
Net interest	£(283)m	£(297)m
Tax	£(302)m	£(131)m
Property proceeds	£285m	£253m
Property purchases – store buybacks	£(136)m	£(393)m
Market purchases of shares (net of proceeds)	£(146)m	£11m
Acquisitions & disposals and dividends received	£(635)m	£362m
Add back: Booker acquisition costs (included in Acquisition & disposals above)[1]	£747m	-
Retail free cash flow[2]	**£906m**	**£1,388m**

1. The cost of major acquisitions and disposals are removed from the Group's definition of free cash flow. Note 19 (p.53) provides a full breakdown of the total Booker acquisition cost.
2. Retail free cash flow includes £(146)m market purchases of shares (net of proceeds) in relation to share schemes. Last year's retail free cash flow has been restated by £11m to reflect this.

Retail operating cash flow of £2,502m reflects a strong underlying improvement in cash profitability offset by a c.£(490)m working capital timing impact year-on-year, driven by two factors:

First, this year's working capital net outflow of £(312)m includes payments of £(139)m which were delayed from the last financial year following the failure of a key supplier (Palmer & Harvey). Together with the corresponding benefit in last year's working capital net inflow, this creates a £(278)m year-on-year timing impact.

Second, a further £(210)m impact within working capital relates to decisions made in the second half of 2018/19. The most significant of these relates to a decision to delay the implementation of a new general ledger system in the UK & ROI by a few months, which resulted in some receipts being postponed into the beginning of the 2019/20 financial year. In addition, we chose to deprioritise some ongoing working capital initiatives in order to safeguard availability and service levels for customers at a time of political uncertainty.

In addition to the working capital timing impacts, the lower level of retail free cash flow year-on-year principally reflects two factors. First, a higher tax charge as our profitability continues to improve and second, a net cash outflow of £(146)m relating to the market purchase of shares. The market purchase 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 similar amount of cash in future years in line with this commitment, with the exact amount dependent on performance.

Other items described in the table above include an exceptional cash outflow of £(43)m relating to final payments under the Shareholder Compensation Scheme which have now been processed.

Exceptional cash items also include the utilisation of £(81)m of our exceptional onerous lease provision in the year, of which £(23)m related to one-off costs to surrender leases and £(58)m related to ongoing lease agreements.

We reduced cash capital expenditure by 5.3% year-on-year to £(1.1)bn reflecting our disciplined approach to capital investment.

In net cash interest, the benefit of lower interest paid was partially offset by the timing of £55m of interest payable on our largest sterling-denominated bond. The timing of our year end date has meant that last year's annual coupon payment on this bond was made in this financial year.

Retail cash tax paid in the year was £(302)m, higher than last year reflecting our improved profitability and the benefit last year from utilising remaining UK tax losses.

We generated £285m of proceeds from property sales including £129m relating to Kennington and a number of small disposals in the UK, £92m relating to three retail sites in Central Europe and £58m relating to two Booker properties. We completed the buyback of Stroud superstore in the first half and Cirencester Extra and Shepton Mallet superstore in the second half.

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	£709m	£676m	£130m	£133m	£235m	£239m	£31m	£50m	£1,105m	£1,098m
Openings (k sq ft)	176	104	-	13	622	477	-	-	798	594
Closures (k sq ft)	(270)	(75)	(1,013)	(435)	(196)	(175)	-	-	(1,479)	(685)
Repurposed (k sq ft)	-	(75)	(669)	(492)	(341)	(527)	-	-	(1,010)	(1,094)
Net space change (k sq ft)	(94)	(46)	(1,682)	(914)	85	(225)	-	-	(1,691)	(1,185)

1. The definition of space has been updated to reflect 'Retail Selling Space'. This is defined as net space in store adjusted to exclude checkouts, space behind checkouts, customer service desks and customer toilets. Appendix 5 (p.71) provides a full breakdown of space by segment.

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group. Our capital expenditure for the year was £1.1bn, a similar level to last year and lower than we originally anticipated for this year as we continue to exercise discipline in our investment decisions. In the UK & ROI, spend was focused on maintaining and refreshing our stores, alongside convenience store openings in the UK. Capital spend in Central Europe and Asia has remained at a broadly similar level as last year. The focus of spend in Central Europe was on repurposing our existing store estate and in Asia, spend primarily related to our new store opening programme in Thailand. Going forward, we expect our annual capital expenditure to remain within a range of £1.1bn to £1.4bn.

Statutory capital expenditure of £1.2bn includes £136m relating to the three UK property buybacks.

We reduced the total amount of retailing selling space across the Group by just under 1.7 million square feet in the year. Across Central Europe and Asia, our repurposing programme has contributed a net reduction of 1.0 million square feet. In Central Europe, we have repurposed 669,000 square feet across 14 stores, partnering with H&M, Reserved, Decathlon and Rossman. In Asia, we have repurposed 26 stores, mainly in Thailand where we have partnered with Mr.DIY home improvement and additional leisure partners including cinemas and play centres.

In the UK & ROI, we opened 24 new stores in the period, including 13 in our convenience formats in the UK and eight Jack's stores. We closed a further 20 stores in the UK, including two Booker stores. Our net reduction of 66 stores in Central Europe during the year was driven primarily by the closure of 62 stores in Poland. In Asia, we opened 72 stores including 70 in Thailand, principally in our convenience format. We closed a further 56 stores in Thailand as we optimise our convenience store network.

Further details of current and forecast space can be found in Appendix 5 starting on page 71, including details of our restated space measures.

Property

	This year				Last year			
	UK & ROI	Central Europe	Asia	Group	UK & ROI	Central Europe	Asia	Group
Property[1] - fully owned								
- Estimated market value	£14.3bn	£3.0bn	£4.0bn	**£21.3bn**	£13.9bn	£3.1bn	£3.7bn	**£20.7bn**
- NBV[2]	£13.3bn	£2.7bn	£2.6bn	**£18.6bn**	£12.9bn	£2.8bn	£2.5bn	**£18.2bn**
% net selling space owned	51%	79%	68%	**61%**	54%	78%	69%	**64%**
% property owned – by value[3]	51%	77%	77%	**58%**	52%	77%	78%	**58%**

1. Stores, malls, investment property, offices, distribution centres, fixtures and fittings and work-in-progress. Excludes joint ventures.
2. Property, plant and equipment excluding vehicles.
3. Excludes fixtures and fittings.

The estimated market value of our fully owned property has increased by £0.6bn to £21.3bn, with £0.2bn of this increase resulting from our merger with Booker. The market value of £21.3bn represents a surplus of £2.7bn over the net book value (NBV).

Our Group freehold property ownership percentage, by value, has remained stable at 58% year-on-year. In addition to an increase in market value of existing properties, we regained ownership of three stores in the UK. This was offset by the impact of consolidating Booker's 183 leasehold properties. The repurchase of the three UK stores will result in an annualised rental saving of £7m. We continue to seek opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation where the economics are attractive.

Tesco Bank:

	This year	Last year	YoY
Revenue	**£1,097m**	**£1,047m**	**4.7%**
Operating profit before exceptional items	**£197m**	**£169m**	**16.6%**
Statutory operating profit	£167m	£145m	15.2%
Lending to customers	£12,426m	£11,522m	7.8%
Customer deposits	£10,465m	£9,245m	13.2%
Net interest margin	3.8%	3.9%	(0.1)%
Risk asset ratio	18.4%	19.4%	(1.0)%

Tesco Bank has continued to focus on delivering a positive experience for our banking and insurance customers. We have made significant improvements to the online credit card journey and relaunched a Banking app, making it easier for customers to self-serve. In a difficult and competitive Insurance market, investment has been focused on retention of existing customers. Overall, active customer numbers have reduced by (1.0)% year-on-year with growth in Banking offset by a reduction in Insurance.

Operating profit before exceptional items increased by 16.6% year-on-year to £197m, including strong retail banking performance with both cards and loans continuing to perform well. The insurance contribution has fallen year-on-year, impacted by competitive market conditions, albeit partly offset by a £13m one-off benefit relating to upfront recognition of insurance renewals following a contact renewal with our third party insurance provider. Exceptional items of £(30)m relating to Tesco Bank are detailed in Note 4 on page 33 and include a payment of £(16)m in relation to a settlement agreed with the Financial Conduct Authority (FCA) following an online fraudulent attack on Tesco Bank in November 2016 and a PPI charge of £(16)m recognised in the year. On an underlying basis, the cost-to-income ratio has improved to 56.2% from 60.0%.

Lending balances rose 7.8% year-on-year to £12.4bn, comprising £3.8bn secured lending (up 25%) and £8.7bn unsecured lending (up 1.8%). 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 18.4%.

The Group has adopted IFRS 9 'Financial Instruments' for the period ending 24 February 2019. 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 opening total assets of £223m, with a related deferred tax asset of £57m. The overall impact on opening 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 56.

An income statement for Tesco Bank can be found in Appendix 6 on page 74 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 25 of this statement. Tesco Bank's full year results are also published today and are available at www.corporate.tescobank.com.

Introducing IFRS 16

Tesco is introducing IFRS 16, the new financial reporting standard on accounting for leases, for its 2019/20 financial year. As previously indicated, we intend to adopt the standard fully retrospectively.

The first Tesco accounts prepared under IFRS 16 will be the 2019/20 interim results, published in October 2019, followed by the 2019/20 preliminary results, published in April 2020. In order to help investors and analysts update their models in advance of these results, we will be issuing the full 2018/19 financial statements on an IFRS 16 basis on Monday 29 April 2019. A summary of the impacts on our 2018/19 results is included in Note 1 on page 23.

Further details on the implementation of IFRS 16 were outlined in the Group's 'Introducing IFRS 16' analyst and investor briefing which was held on 15 February 2019. The relevant release, presentation and webcast of the briefing are available on www.tescoplc.com/investors/reports-results-and-presentations.

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This document is available at www.tescoplc.com/prelims2019

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/prelims2019. 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.

Disclaimer

Group income statement

	Notes	52 weeks ended 23 February 2019 Before exceptional items and amortisation of acquired intangibles £m	52 weeks ended 23 February 2019 Exceptional items and amortisation of acquired intangibles (Note 4) £m	52 weeks ended 23 February 2019 Total £m	52 weeks ended 24 February 2018 (restated*) Before exceptional items and amortisation of acquired intangibles £m	52 weeks ended 24 February 2018 (restated*) Exceptional items and amortisation of acquired intangibles (Note 4) £m	52 weeks ended 24 February 2018 (restated*) Total £m
Continuing operations							
Revenue	2	**63,911**	**-**	**63,911**	**57,493**	**-**	**57,493**
Cost of sales		(59,695)	(72)	(59,767)	(54,092)	(49)	(54,141)
Gross profit/(loss)		**4,216**	**(72)**	**4,144**	**3,401**	**(49)**	**3,352**
Administrative expenses		(1,989)	(86)	(2,075)	(1,786)	153	(1,633)
Profits/(losses) arising on property-related items		(21)	105	84	31	89	120
Operating profit/(loss)		**2,206**	**(53)**	**2,153**	**1,646**	**193**	**1,839**
Share of post-tax profits/(losses) of joint ventures and associates	12	24	11	35	(6)	-	(6)
Finance income	5	22	-	22	67	-	67
Finance costs	5	(536)	-	(536)	(562)	(38)	(600)
Profit/(loss) before tax		**1,716**	**(42)**	**1,674**	**1,145**	**155**	**1,300**
Taxation	6	(413)	59	(354)	(286)	(20)	(306)
Profit/(loss) for the year from continuing operations		**1,303**	**17**	**1,320**	**859**	**135**	**994**
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	-	-	-	-	216	216
Profit/(loss) for the year		**1,303**	**17**	**1,320**	**859**	**351**	**1,210**
Attributable to:							
Owners of the parent		1,305	17	1,322	859	349	1,208
Non-controlling interests		(2)	-	(2)	-	2	2
		1,303	**17**	**1,320**	**859**	**351**	**1,210**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			13.65p			14.80p
Diluted	9			13.55p			14.75p
Earnings/(losses) per share from continuing operations							
Basic	9			13.65p			12.15p
Diluted	9			13.55p			12.11p

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

* 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)

	Notes	52 weeks 2019 £m	52 weeks 2018 (restated*) £m
Items that will not be reclassified to income statement			
Remeasurement gains/(losses) of defined benefit pension schemes	17	364	3,265
Tax on items that will not be reclassified		(61)	(554)
		303	**2,711**
Items that may subsequently be reclassified to income statement			
Change in fair value of debt instruments at fair value through other comprehensive income		(10)	-
Change in fair value of available-for-sale financial assets and investments		-	(62)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		100	179
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)		130	(146)
Reclassified and reported in the Group income statement		(57)	(52)
Tax on items that may be reclassified		5	22
		168	**81**
Total other comprehensive income/(loss) for the year		**471**	**2,792**
Profit/(loss) for the year		1,320	1,210
Total comprehensive income/(loss) for the year		**1,791**	**4,002**
Attributable to:			
Owners of the parent		1,793	3,995
Non-controlling interests		(2)	7
Total comprehensive income/(loss) for the year		**1,791**	**4,002**
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		1,793	3,639
Discontinued operations		-	356
		1,793	**3,995**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

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

Group balance sheet

	Notes	23 February 2019 £m	24 February 2018 (restated*) £m
Non-current assets			
Goodwill and other intangible assets	10	6,264	2,661
Property, plant and equipment	11	19,023	18,521
Investment property		36	100
Investments in joint ventures and associates	12	704	689
Financial assets at fair value through other comprehensive income		979	860
Trade and other receivables		195	186
Loans and advances to customers and banks		7,868	6,885
Derivative financial instruments		1,178	1,117
Deferred tax assets		132	116
		36,379	**31,135**
Current assets			
Financial assets at fair value through other comprehensive income		67	68
Inventories		2,617	2,264
Trade and other receivables		1,640	1,504
Loans and advances to customers and banks		4,882	4,637
Derivative financial instruments		52	27
Current tax assets		6	12
Short-term investments	13	390	1,029
Cash and cash equivalents	13	2,916	4,059
		12,570	**13,600**
Non-current assets classified as held for sale	7	98	149
		12,668	**13,749**
Current liabilities			
Trade and other payables		(9,354)	(8,994)
Borrowings	15	(1,599)	(1,479)
Derivative financial instruments		(250)	(69)
Customer deposits and deposits from banks		(8,832)	(7,812)
Current tax liabilities		(325)	(335)
Provisions	16	(320)	(544)
		(20,680)	**(19,233)**
Net current liabilities		**(8,012)**	**(5,484)**
Non-current liabilities			
Trade and other payables		(384)	(364)
Borrowings	15	(5,673)	(7,142)
Derivative financial instruments		(389)	(594)
Customer deposits and deposits from banks		(3,296)	(2,972)
Post-employment benefit obligations	17	(2,808)	(3,282)
Deferred tax liabilities		(236)	(96)
Provisions	16	(747)	(721)
		(13,533)	**(15,171)**
Net assets		**14,834**	**10,480**
Equity			
Share capital		490	410
Share premium		5,165	5,107
All other reserves		3,798	735
Retained earnings		5,405	4,250
Equity attributable to owners of the parent		**14,858**	**10,502**
Non-controlling interests		(24)	(22)
Total equity		**14,834**	**10,480**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

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

Group statement of changes in equity

			All other reserves									
	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve[b] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 24 February 2018 (as previously reported)	**410**	**5,107**	**-**	**16**	**40**	**655**	**(16)**	**40**	**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[a])	**410**	**5,107**	**-**	**16**	**40**	**655**	**(16)**	**40**	**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**	**1**	**16**	**39**	**655**	**(16)**	**40**	**4,073**	**10,325**	**(22)**	**10,303**
Profit/(loss) for the year	-	-	-	-	-	-	-	-	1,322	1,322	(2)	1,320
Other comprehensive income/(loss)												
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(10)	(10)	-	(10)
Currency translation differences	-	-	-	-	-	100	-	-	-	100	-	100
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	364	364	-	364
Gains/(losses) on cash flow hedges	-	-	(6)	-	79	-	-	-	-	73	-	73
Tax relating to components of other comprehensive income	-	-	-	-	-	3	-	-	(59)	(56)	-	(56)
Total other comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**79**	**103**	**-**	**-**	**295**	**471**	**-**	**471**
Total comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**79**	**103**	**-**	**-**	**1,617**	**1,793**	**(2)**	**1,791**
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(277)	-	-	(277)	-	(277)
Share-based payments	-	-	-	-	-	-	114	-	67	181	-	181
Issue of shares	80	58	-	-	-	-	-	3,050	-	3,188	-	3,188
Dividends (Note 8)	-	-	-	-	-	-	-	-	(357)	(357)	-	(357)
Tax on items charged to equity	-	-	-	-	-	-	-	-	5	5	-	5
Total transactions with owners	**80**	**58**	**-**	**-**	**-**	**-**	**(163)**	**3,090**	**(285)**	**2,740**	**-**	**2,740**
At 23 February 2019	**490**	**5,165**	**(5)**	**16**	**118**	**758**	**(179)**	**3,090**	**5,405**	**14,858**	**(24)**	**14,834**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

[a] Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

[b] 'Merger reserve' was previously titled 'Other reserves' in prior financial years.

Group statement of changes in equity continued

			All other reserves									
	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve[b] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 25 February 2017 (as previously reported)	**409**	**5,096**	**-**	**16**	**217**	**350**	**(22)**	**40**	**332**	**6,438**	**(24)**	**6,414**
Adjustment on initial application of IFRS 15 (net of tax)	-	-	-	-	-	-	-	-	20	20	-	20
At 25 February 2017 (restated[a])	**409**	**5,096**	**-**	**16**	**217**	**350**	**(22)**	**40**	**352**	**6,458**	**(24)**	**6,434**
Profit/(loss) for the year (as previously reported)	-	-	-	-	-	-	-	-	1,206	1,206	2	1,208
IFRS 15 adjustment to profit/(loss) for the year	-	-	-	-	-	-	-	-	2	2	-	2
Profit/(loss) for the year (restated[a])	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,208**	**1,208**	**2**	**1,210**
Other comprehensive income/(loss)												
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(62)	(62)	-	(62)
Currency translation differences	-	-	-	-	-	314	-	-	-	314	5	319
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	3,265	3,265	-	3,265
Gains/(losses) on cash flow hedges	-	-	-	-	(198)	-	-	-	-	(198)	-	(198)
Tax relating to components of other comprehensive income	-	-	-	-	21	(9)	-	-	(544)	(532)	-	(532)
Total other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**(177)**	**305**	**-**	**-**	**2,659**	**2,787**	**5**	**2,792**
Total comprehensive income/(loss) (restated[a])	**-**	**-**	**-**	**-**	**(177)**	**305**	**-**	**-**	**3,867**	**3,995**	**7**	**4,002**
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(14)	-	-	(14)	-	(14)
Share-based payments	-	-	-	-	-	-	20	-	105	125	-	125
Issue of shares	1	11	-	-	-	-	-	-	-	12	-	12
Dividends (Note 8)	-	-	-	-	-	-	-	-	(80)	(80)	-	(80)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(5)	(5)
Tax on items charged to equity	-	-	-	-	-	-	-	-	6	6	-	6
Total transactions with owners	**1**	**11**	**-**	**-**	**-**	**-**	**6**	**-**	**31**	**49**	**(5)**	**44**
At 24 February 2018 (restated[a])	**410**	**5,107**	**-**	**16**	**40**	**655**	**(16)**	**40**	**4,250**	**10,502**	**(22)**	**10,480**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

[a] Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.

[b] 'Merger reserve' was previously titled 'Other reserves' in prior financial years.

	Notes	52 weeks 2019 £m	52 weeks 2018 (restated*) £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) from continuing operations		**2,153**	**1,839**
Depreciation and amortisation		1,375	1,295
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(107)	(66)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income		(8)	(165)
(Profit)/loss arising on sale of joint ventures and associates		-	(23)
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		(58)	(167)
Adjustment for non-cash element of pensions charge		45	4
Additional contribution into defined benefit pension schemes	17	(266)	(245)
Share-based payments		77	113
Tesco Bank fair value movements included in operating profit/(loss)		127	156
Retail (increase)/decrease in inventories		11	55
Retail (increase)/decrease in development stock		(2)	21
Retail (increase)/decrease in trade and other receivables		98	(8)
Retail increase/(decrease) in trade and other payables		(307)	280
Retail increase/(decrease) in provisions		(238)	132
Retail (increase)/decrease in working capital		(438)	480
Tesco Bank (increase)/decrease in loans and advances to customers and banks		(1,585)	(1,738)
Tesco Bank (increase)/decrease in trade and other receivables		4	34
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		1,348	1,820
Tesco Bank increase/(decrease) in provisions		(25)	(6)
Tesco Bank (increase)/decrease in working capital		(258)	110
Cash generated from/(used in) operations		**2,642**	**3,309**
Interest paid		(306)	(328)
Corporation tax (paid)/received		(370)	(176)
Net cash generated from/(used in) operating activities		**1,966**	**2,805**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

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

	Notes	52 weeks 2019 £m	52 weeks 2018 (restated*) £m
Net cash generated from/(used in) operating activities		**1,966**	**2,805**
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		286	253
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(1,101)	(1,440)
Purchase of intangible assets		(191)	(197)
Disposal of subsidiaries, net of cash disposed		8	66
Acquisition of subsidiaries, net of cash acquired	19	(715)	(27)
Proceeds from sale of joint ventures and associates		-	23
Net (increase)/decrease in loans to joint ventures and associates		5	-
Investments in joint ventures and associates		(11)	(21)
Net (investments in)/proceeds from sale of short-term investments		639	1,697
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		(122)	236
Dividends received from joint ventures and associates		41	26
Interest received		18	27
Net cash generated from/(used in) investing activities		**(1,143)**	**643**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital		60	11
Own shares purchased		(206)	-
Increase in borrowings		975	313
Repayment of borrowings		(2,471)	(3,721)
Net cash flows from derivative financial instruments		35	253
Repayments of obligations under finance leases		(17)	(10)
Dividends paid to equity owners	8	(357)	(82)
Net cash generated from/(used in) financing activities		**(1,981)**	**(3,236)**
Net increase/(decrease) in cash and cash equivalents		**(1,158)**	**212**
Cash and cash equivalents at the beginning of the year		4,059	3,832
Effect of foreign exchange rate changes		15	15
Cash and cash equivalents at the end of the year	13	**2,916**	**4,059**

The notes on pages 21 to 57 form part of this condensed consolidated financial information.

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

Note 1 Basis of preparation

This preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union. The accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those used in preparing the Annual Report and Group financial statements 2019, which are the same as those used in preparing the Annual Report and Group financial statements 2018, except as noted below. The financial year represents the 52 weeks ended 23 February 2019 (prior financial year 52 weeks ended 24 February 2018). This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the 52 weeks ended 23 February 2019 as defined under section 434 of the Companies Act 2006.

The Annual Report and Group financial statements for the 52 weeks ended 23 February 2019 were approved by the Board of Directors on 9 April 2019. The report of the auditor on those Group financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. An abbreviated copy of the audit report can be found on page 63. The Annual Report and Group financial statements for 2019 will be filed with the Registrar in due course.

The Annual Report and Group financial statements for the 52 weeks ended 24 February 2018 were approved by the Board of Directors on 10 April 2018. The report of the auditor on those Group financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The Directors consider that the Group has, at the time of approving the Group financial statements, adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the preliminary consolidated financial information.

Discontinued operations

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated) and the assets and liabilities of these operations are presented separately in the Group balance sheet.

Adoption of new IFRSs

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the year ending 23 February 2019. IFRS 15 has been applied fully retrospectively and comparatives for the prior financial year 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 impact of adoption of these standards is described in Note 23.

Prior financial year reclassification of derivative interest income

During the current financial year, 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 year comparatives have been restated to align to the current year approach.

The impact of this reclassification on prior year amounts has been a reduction of finance costs and finance income in the Group income statement by £31m, and a reduction of interest received and interest paid in the Group cash flow statement by £27m.

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 years.

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

Accounting policies

Revenue

Revenue is income arising from the sale of goods and services in the ordinary course of the Group's activities, net of value added taxes. Revenue is recognised when performance obligations are satisfied and control has transferred to the customer. For the majority of revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control.

Sale of goods

The sale of goods represents the vast majority of the Group's revenue. For goods sold in store, revenue is recognised at the point of sale. For online or wholesale sales of goods, revenue is recognised on collection by, or delivery to, the customer. Revenue is reduced by a provision for expected returns (refund liability). An asset and corresponding adjustment to cost of sales is recognised for the Group's right to recover goods from customers.

Clubcard (customer loyalty)

Clubcard points issued by Tesco when a customer purchases goods are a separate performance obligation providing a material right to a future discount. The total transaction price (sales price of goods) is allocated to the Clubcard points and the goods sold based on their relative standalone selling prices, with the Clubcard points standalone price based on the value of the points to the customer, adjusted for expected redemption rates (breakage). The amount allocated to Clubcard points is deferred as a contract liability within trade and other payables. Revenue is recognised as the points are redeemed by the customer.

Financial services
Revenue consists of interest, fees and income from the provision of retail banking and insurance. Interest income on financial assets that are measured at amortised cost is determined using the effective interest rate method.

Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the amortised cost.

The majority of the fees in respect of services (credit card interchange fees, late payment and ATM revenue) are recognised at the point in time at which the transaction with the customer takes place and the service is performed. For services performed over time, payment is generally due monthly in line with the satisfaction of performance obligations.

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

In the case of some commission income on insurance policies managed and underwritten by a third party, the Group recognises commission income from policy renewals as such policies are sold. This is when the Group has satisfied all of its performance obligations in relation to the policy sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates. A contract asset is recognised in relation to this revenue. This is unwound over the remainder of the contract with the customer, in this case being the third party insurance provider.

The end policy holders have the right to cancel an insurance policy at any time. Therefore, a contract liability is recognised for the amount of any expected refunds due and the revenue recognised in relation to these sales is reduced accordingly. This contract refund liability is estimated using prior experience of customer refunds. The appropriateness of the assumptions used in this calculation is reassessed at each reporting date.

Financial instruments
Financial assets and financial liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit and loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent remeasurement depends on the Group's business model for managing the financial asset and its cash flow characteristics. Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost.

Investments
Debt instruments are classified as at fair value through other comprehensive income. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement. When the debt instrument is derecognised, cumulative amounts in other comprehensive income are reclassified to the income statement.

Equity investments have been irrevocably designated as at fair value through other comprehensive income. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, and are not subsequently reclassified to the Group income statement, including on derecognition. Impairment losses are not recognised separately from other changes in fair value. Dividends are recognised in the Group income statement when the Group's right to receive payment is established.

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 (ECLs) associated with its financial assets carried at amortised cost and debt instruments at fair value through other comprehensive income. The ECLs are updated at each reporting date to reflect changes in credit risk.

The three-stage model for impairment has been applied to loans and advances to customers and banks, debt instruments 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 and taking in to account the time value of money. A 12-month ECL is recognised, unless the credit risk on the financial asset increases significantly after initial recognition, when the lifetime ECL is recognised.

For trade and other receivables, contract assets and lease receivables, the Group applies the simplified approach permitted by IFRS 9, with lifetime ECLs recognised from initial recognition of the receivable. These assets are grouped based on shared credit risk characteristics and days past due, with ECLs 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 banks, 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

Business combinations
The acquisition of Booker Group PLC (Booker) on 5 March 2018 has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations', resulting in the recognition of goodwill of £3,093m. This goodwill is allocated to, and tested for impairment at, the UK group of cash-generating units, which is the level at which management monitor the goodwill. Refer to Note 10 and Note 19 for further additional disclosures.

Operating segments
Following the acquisition of Booker, 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.

Key sources of estimation uncertainty

Tesco Bank expected credit loss measurement
The measurement of ECLs for Tesco Bank financial assets requires the use of complex models and significant assumptions about future macro-economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses.

Standard issued but not yet effective

As of the date of authorisation of these condensed consolidated financial statements, the following standard was in issue but not yet effective and is expected to have a material impact:

IFRS 16 'Leases'

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

IFRS 16 has a significant impact on reported assets, liabilities and the income statement of the Group, as well as the classification of cash flows relating to lease contracts and a number of APMs used by the Group.

The Group will recognise additional lease liabilities of £10.2 billion and right of use assets of £7.5 billion as at 24 February 2018. The Group will also derecognise onerous lease provisions and other working capital balances associated with leases, resulting in a £1.3 billion post-tax reduction in net assets. Net debt will increase by £10.1 billion and total indebtedness by £3.2 billion.

Under IFRS 16, straight line operating lease rental expense is replaced by depreciation of the right of use asset and interest on the lease liability. Operating profit for the 52 weeks ended 23 February 2019 increases by £496 million, finance costs increase by £553 million and profit before tax (which includes the impact of exceptional impairment reversals) decreases by £57 million. Operating profit before exceptional items and amortisation of acquired intangibles increases by £401 million, operating margin increases by 0.6%, and profit before tax before exceptional items and amortisation of acquired intangibles decreases by £152 million. Basic EPS decreases by 0.52p and diluted adjusted EPS decreases by 1.39p.

IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. Cash generated from operations for the 52 weeks ended 23 February 2019 increases by £1,139 million as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows are instead split between interest paid (included in operating activities) and repayments of obligations under leases (included in financing activities), which increase by £553 million and £589 million respectively.

Further details on the impact of IFRS 16 can be found in the Group's 'Introducing IFRS 16' analyst and investor briefing held on 15 February 2019 and available on www.tescoplc.com/investors/reports-results-and-presentations.

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 financial year 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 underlying 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.

Note 2 Segmental reporting

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

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 year 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:

52 weeks ended 23 February 2019 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	44,876	6,058	4,746	1,097	56,777	106	56,883
Revenue	51,636	6,325	4,746	1,097	63,804	107	63,911
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,536**	**186**	**279**	**197**	**2,198**	**8**	**2,206**
Exceptional items and amortisation of acquired intangibles	(2)	46	(66)	(30)	(52)	(1)	(53)
Operating profit/(loss)	**1,534**	**232**	**213**	**167**	**2,146**	**7**	**2,153**
Operating margin	**3.0%**	**2.9%**	**5.9%**	**18.0%**	**3.4%**		**3.5%**

52 weeks ended 23 February 2019 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	44,883	6,030	4,873	1,097	56,883
Revenue	51,643	6,298	4,873	1,097	63,911
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,537**	**186**	**286**	**197**	**2,206**
Exceptional items and amortisation of acquired intangibles	(2)	46	(67)	(30)	(53)
Operating profit/(loss)	**1,535**	**232**	**219**	**167**	**2,153**
Operating margin	**3.0%**	**3.0%**	**5.9%**	**18.0%**	**3.5%**
Share of post-tax profits/(losses) of joint ventures and associates					35
Finance income					22
Finance costs					(536)
Profit/(loss) before tax					**1,674**

Tesco Bank revenue of £1,097m (2018: £1,047m) comprises interest and similar revenues of £729m (2018: £673m) and fees and commissions revenue of £368m (2018: £374m).

Income statement continued 52 weeks ended 24 February 2018 (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	38,656	6,343	4,947	1,047	50,993
Revenue	44,914	6,585	4,947	1,047	57,493
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,059**	**119**	**299**	**169**	**1,646**
Exceptional items and amortisation of acquired intangibles	146	93	(22)	(24)	193
Operating profit/(loss)	**1,205**	**212**	**277**	**145**	**1,839**
Operating margin	**2.4%**	**1.8%**	**6.0%**	**16.1%**	**2.9%**
Share of post-tax profits/(losses) of joint ventures and associates					(6)
Finance income					67
Finance costs					(600)
Profit/(loss) before tax					**1,300**

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 23 February 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	4,927	27	284	1,026	–	6,264
Property, plant and equipment and investment property	13,638	2,669	2,690	62	–	19,059
Investments in joint ventures and associates	12	1	605	86	–	704
Non-current financial assets at fair value through other comprehensive income	3	–	–	976	–	979
Non-current trade and other receivables[(a)]	52	5	14	19	–	90
Non-current loans and advances to customers and banks	–	–	–	7,868	–	7,868
Deferred tax assets	–	24	50	58	–	132
Non-current assets[(b)]	**18,632**	**2,726**	**3,643**	**10,095**	**–**	**35,096**
Inventories and current trade and other receivables[(c)(d)]	3,066	487	390	285	–	4,228
Current loans and advances to customers and banks	–	–	–	4,882	–	4,882
Current financial assets at fair value through other comprehensive income	–	–	–	67	–	67
Total trade and other payables	(7,627)	(801)	(1,069)	(241)	–	(9,738)
Total customer deposits and deposits from banks	–	–	–	(12,128)	–	(12,128)
Total provisions	(889)	(65)	(61)	(52)	–	(1,067)
Deferred tax liabilities	(196)	(28)	(12)	–	–	(236)
Net current tax	(265)	(12)	(11)	(31)	–	(319)
Post-employment benefits	(2,788)	–	(20)	–	–	(2,808)
Assets classified as held for sale	68	30	–	–	–	98
Net debt (including Tesco Bank)[(e)]	–	–	–	(378)	(2,863)	(3,241)
Net assets	**10,001**	**2,337**	**2,860**	**2,499**	**(2,863)**	**14,834**

(a) Excludes loans to joint ventures of £105m (2018: £138m) which form part of net debt.
(b) Excludes derivative financial instrument non-current assets of £1,178m (2018: £1,117m).
(c) Excludes net interest and other receivables of £1m (2018: £1m) which form part of net debt.
(d) Excludes loans to joint ventures of £28m (2018: £nil) which form part of net debt.
(d) Refer to Note 18.

Balance sheet continued

At 24 February 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill 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][d]	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)[e]	-	-	-	(288)	(2,625)	(2,913)
Net assets	**5,249**	**2,532**	**2,753**	**2,571**	**(2,625)**	**10,480**

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

Other segment information

52 weeks ended 23 February 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment[a]	1,028	113	232	4	1,377	-	1,377
Investment property	-	-	-	-	-	-	-
Goodwill and other intangible assets[b]	4,005	17	3	27	4,052	-	4,052
Depreciation and amortisation:							
Property, plant and equipment	(699)	(136)	(234)	(10)	(1,079)	-	(1,079)
Investment property	(1)	-	-	-	(1)	-	(1)
Other intangible assets	(201)	(14)	(7)	(73)	(295)	-	(295)
Impairment:							
Property, plant and equipment loss	(46)	(64)	(36)	-	(146)	-	(146)
Property, plant and equipment reversal	129	86	4	-	219	-	219
Investment property loss	-	(1)	-	-	(1)	-	(1)
Investment property reversal	2	-	-	-	2	-	2
Goodwill and other intangible assets loss	(5)	(16)	-	-	(21)	-	(21)
Other intangible assets reversal	-	5	-	-	5	-	5
Financial assets net (loss)/reversal	(20)	-	(1)	(164)	(185)	-	(185)

[a] Includes £326m acquired through business combinations.

[b] Includes £3,861m (2018: £8m) of goodwill and other intangible assets acquired through business combinations.

Other segment information continued

52 weeks ended 24 February 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment	940	117	236	7	1,300	–	1,300
Investment property	1	–	–	–	1	–	1
Goodwill and other intangible assets	141	16	3	43	203	–	203
Depreciation and amortisation:							
Property, plant and equipment	(686)	(147)	(230)	(12)	(1,075)	–	(1,075)
Investment property	(1)	–	–	–	(1)	–	(1)
Other intangible assets	(121)	(18)	(9)	(71)	(219)	–	(219)
Impairment:							
Property, plant and equipment loss	(50)	(6)	(32)	–	(88)	–	(88)
Property, plant and equipment reversal	154	112	9	–	275	–	275
Investment property loss	–	(1)	–	–	(1)	–	(1)
Investment property reversal	3	2	–	–	5	–	5
Goodwill and other intangible assets loss	(20)	(8)	–	–	(28)	–	(28)
Other intangible assets reversal	4	–	–	–	4	–	4
Financial assets net (loss)/reversal	(6)	3	(1)	(137)	(141)	–	(141)

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
52 weeks ended 23 February 2019	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	**2,009**	**(23)**	**1,986**	**197**	**(30)**	**167**	**2,153**
Depreciation and amortisation	1,214	78	1,292	83	-	83	1,375
ATM net income	(34)	-	(34)	34	-	34	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	5	(104)	(99)	(8)	-	(8)	(107)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(1)	(7)	(8)	-	-	-	(8)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(3)	(55)	(58)	-	-	-	(58)
Adjustment for non-cash element of pensions charge	45	-	45	-	-	-	45
Additional contribution into defined benefit pension schemes	(266)	-	(266)	-	-	-	(266)
Share-based payments	82	-	82	(5)	-	(5)	77
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	127	-	127	127
Cash flows generated from operations excluding working capital	**3,051**	**(111)**	**2,940**	**428**	**(30)**	**398**	**3,338**
(Increase)/decrease in working capital	(312)	(126)	(438)	(223)	(35)	(258)	(696)
Cash generated from/(used in) operations*	**2,739**	**(237)**	**2,502**	**205**	**(65)**	**140**	**2,642**
Interest paid	(301)	-	(301)	(5)	-	(5)	(306)
Corporation tax (received)/paid	(302)	-	(302)	(68)	-	(68)	(370)
Net cash generated from/(used in) operating activities	**2,136**	**(237)**	**1,899**	**132**	**(65)**	**67**	**1,966**

* APM: 'Retail operating cash flow' of £2,502m (2018: £2,773m) is the cash generated from operations of the continuing Retail business.

Cash flow statement continued	Retail			Tesco Bank			Tesco Group
52 weeks ended 23 February 2019	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
Net cash generated from/(used in) operating activities	**2,136**	**(237)**	**1,899**	**132**	**(65)**	**67**	**1,966**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	22	263	285	1	–	1	286
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buy backs	(136)	–	(136)	–	–	–	(136)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(962)	–	(962)	(3)	–	(3)	(965)
Purchase of intangible assets	(164)	–	(164)	(27)	–	(27)	(191)
Disposal of subsidiaries, net of cash disposed	8	–	8	–	–	–	8
Acquisition of subsidiaries, net of cash acquired	(715)	–	(715)	–	–	–	(715)
Proceeds from sale of joint ventures and associates	–	–	–	5	–	5	5
Investments in joint ventures and associates	(11)	–	(11)	–	–	–	(11)
Net (investments in)/proceeds from sale of short-term investments	639	–	639	–	–	–	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	(5)	7	2	(124)	–	(124)	(122)
Dividends received from joint ventures and associates	31	–	31	10	–	10	41
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	18	–	18	–	–	–	18
Net cash generated from/(used in) investing activities	**(1,225)**	**270**	**(955)**	**(188)**	**–**	**(188)**	**(1,143)**
Proceeds from issue of ordinary share capital	60	–	60	–	–	–	60
Own shares purchased	(206)	–	(206)	–	–	–	(206)
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	(639)	–	(639)	–	–	–	(639)
APM: Free cash flow	**873**	**33**	**906**	**(61)**	**(65)**	**(126)**	**780**
Increase in borrowings	704	–	704	271	–	271	975
Repayment of borrowings	(2,046)	–	(2,046)	(425)	–	(425)	(2,471)
Net cash flows from derivative financial instruments	35	–	35	–	–	–	35
Repayment of obligations under finance leases	(17)	–	(17)	–	–	–	(17)
Dividends paid to equity owners	(357)	–	(357)	–	–	–	(357)
Net cash generated from/(used in) financing activities	**(1,827)**	**–**	**(1,827)**	**(154)**	**–**	**(154)**	**(1,981)**
Intra-Group funding and intercompany transactions	**(14)**	**–**	**(14)**	**14**	**–**	**14**	**–**
Net increase/(decrease) in cash and cash equivalents	**(930)**	**33**	**(897)**	**(196)**	**(65)**	**(261)**	**(1,158)**
Cash and cash equivalents at the beginning of the year			2,755			1,304	4,059
Effect of foreign exchange rate changes			15			–	15
Cash and cash equivalents at the end of the year			**1,873**			**1,043**	**2,916**

Cash flow statement continued

52 weeks ended 24 February 2018 (restated)	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	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 Total £m	Tesco Group: Total £m
Operating profit / (loss) from continuing operations	**1,477**	**217**	**1,694**	**169**	**(24)**	**145**	**1,839**
Depreciation and amortisation	1,212	-	1,212	83	-	83	1,295
ATM net income	(37)	-	(37)	37	-	37	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(8)	(58)	(66)	-	-	-	(66)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(3)	(162)	(165)	-	-	-	(165)
(Profit)/loss arising on sale of joint ventures and associates	(7)	(16)	(23)	-	-	-	(23)
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	(8)	(159)	(167)	-	-	-	(167)
Adjustment for non-cash element of pensions charge	4	-	4	-	-	-	4
Additional contribution into defined benefit pension schemes	(245)	-	(245)	-	-	-	(245)
Share-based payments	109	-	109	4	-	4	113
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	156	-	156	156
Cash flows generated from operations excluding working capital	**2,472**	**(178)**	**2,294**	**449**	**(24)**	**425**	**2,719**
(Increase)/decrease in working capital	493	(14)	479	114	(3)	111	590
Cash flows generated from/(used in) operations*	**2,965**	**(192)**	**2,773**	**563**	**(27)**	**536**	**3,309**
Interest paid	(324)	-	(324)	(4)	-	(4)	(328)
Corporation tax (paid)/received	(131)	-	(131)	(45)	-	(45)	(176)
Net cash generated from/(used in) operating activities	**2,510**	**(192)**	**2,318**	**514**	**(27)**	**487**	**2,805**

* APM: Refer to previous table for footnotes.

Cash flow statement continued	Retail			Tesco Bank		Tesco Group	
52 weeks ended 24 February 2018 (restated)	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
Net cash generated from/(used in) operating activities	**2,510**	**(192)**	**2,318**	**514**	**(27)**	**487**	**2,805**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	175	78	253	-	-	-	253
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buy backs	(204)	(189)	(393)	-	-	-	(393)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(1,038)	-	(1,038)	(9)	-	(9)	(1,047)
Purchase of intangible assets	(152)	-	(152)	(45)	-	(45)	(197)
Disposal of subsidiaries, net of cash disposed	-	66	66	-	-	-	66
Acquisition of subsidiaries, net of cash acquired	(27)	-	(27)	-	-	-	(27)
Proceeds from sale of joint ventures and associates	4	19	23	-	-	-	23
Investments in joint ventures and associates	(6)	-	(6)	(15)	-	(15)	(21)
Net (investments in)/proceeds from sale of short-term investments	1,697	-	1,697	-	-	-	1,697
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	34	196	230	6	-	6	236
Dividends received from joint ventures and associates	26	-	26	-	-	-	26
Dividends received from Tesco Bank	50	-	50	(50)	-	(50)	-
Interest received	27	-	27	-	-	-	27
Net cash generated from/(used in) investing activities	**586**	**170**	**756**	**(113)**	**-**	**(113)**	**643**
Proceeds from issue of ordinary share capital	11	-	11	-	-	-	11
Less: Net investments in/(proceeds from sale of) short-term investments	(1,697)	-	(1,697)	-	-	-	(1,697)
APM: Free cash flow	**1,410**	**(22)**	**1,388**	**401**	**(27)**	**374**	**1,762**
Increase in borrowings	13	-	13	300	-	300	313
Repayment of borrowings	(3,571)	-	(3,571)	(150)	-	(150)	(3,721)
Net cash flows from derivative financial instruments	253	-	253	-	-	-	253
Repayment of obligations under finance leases	(10)	-	(10)	-	-	-	(10)
Dividends paid to equity owners	(82)	-	(82)	-	-	-	(82)
Net cash generated from/(used in) financing activities	**(3,386)**	**-**	**(3,386)**	**150**	**-**	**150**	**(3,236)**
Intra-Group funding and intercompany transactions	**9**	**-**	**9**	**(9)**	**-**	**(9)**	**-**
Net increase/(decrease) in cash and cash equivalents	**(281)**	**(22)**	**(303)**	**542**	**(27)**	**515**	**212**
Cash and cash equivalents at the beginning of the year			3,043			789	3,832
Effect of foreign exchange rate changes			15			-	15
Cash and cash equivalents at the end of the year			**2,755**			**1,304**	**4,059**

Note 3 Income and expenses

Continuing operations	52 weeks 2019 £m	52 weeks 2018 £m
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £(35)m (2018: £(34)m) relates to investment properties	(398)	(372)
Other rental income	(56)	(55)
Direct operating expenses arising on rental earning investment properties	19	17
Costs of inventories recognised as an expense	48,124	42,297
Inventory losses and provisions	1,399	1,373
Depreciation and amortisation charged	1,375	1,295
Operating lease expenses, of which £76m (2018: £70m) relates to hire of plant and machinery	1,078	1,018
Net impairment loss/(reversal) on property, plant and equipment and investment property	(73)	(191)
Net impairment loss/(reversal) of goodwill and other intangible assets	16	24
Net impairment loss/(reversal) on financial assets	185	141

Note 4 Exceptional items and amortisation of acquired intangibles

Income statement

52 weeks ended 23 February 2019

Profit/(loss) for the year 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	Discontinued operations £m
Exceptional items:							
Tesco Direct closure costs[a]	(38)	–	–	(38)	–	7	–
Net restructuring and redundancy costs[b]	(159)	(23)	–	(182)	–	30	–
Provision for customer redress[c]	(16)	–	–	(16)	–	–	–
Release of amounts provided in relation to DPA and FCA obligations[d]	–	17	–	17	–	–	–
Insurance recovery of amounts in relation to DPA and FCA obligations[e]	–	20	–	20	–	–	–
Property transactions[f]	–	–	104	104	11	7	–
Tesco Bank FCA charge[g]	–	(16)	–	(16)	–	–	–
Booker integration[h]	(8)	(7)	–	(15)	–	3	–
Freetime VAT provision release[i]	176	–	–	176	–	(33)	–
Lazada contingent proceeds[j]	–	7	–	7	–	–	–
GMP equalisation[k]	(37)	(6)	–	(43)	–	7	–
Net impairment reversal of non-current assets and onerous property provisions[l]	10	–	1	11	–	23	–
Total exceptional items	**(72)**	**(8)**	**105**	**25**	**11**	**44**	**–**
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets (Note 10)	–	(78)	–	(78)	–	15	–
Total exceptional items and amortisation of acquired intangibles	**(72)**	**(86)**	**105**	**(53)**	**11**	**59**	**–**

[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 relates to simplification of our business and working practices in Central Europe £(27)m, UK & ROI £(131)m and Asia £(26)m netted off against a £2m reduction in business simplification costs previously provided for in Tesco Bank.
[c] The charge of £(16)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), including the Shareholder Compensation Scheme, in the 52 weeks to 25 February 2017. £17m charges relating to the Shareholder Compensation Scheme have been released in the 52 weeks ended 23 February 2019.
[e] This relates to an insurance recovery recognised relating to the Shareholder Compensation Scheme.
[f] As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit of £104m. The £11m gain relates to the Group's share of the property disposal gain in Gain Land Limited, an associated undertaking of the Group.
[g] This relates to the settlement payment to the Financial Conduct Authority (FCA) in respect of an online fraudulent attack on Tesco Bank in 2016, as detailed in Note 16.
[h] This covers the costs incurred in integrating Booker within the Tesco Group, mainly focussed on aligning distribution networks and operating platforms.
[i] After the resolution of a dispute with HMRC regarding the treatment of VAT on Clubcard rewards, the related provision of £176m was released. Refer to Note 16.
[j] This relates to receipt of contingent proceeds previously held back and not recognised in our sale proceeds.
[k] This relates to a non-cash charge in respect of the Group's defined benefit pension liability arising from equalisation of guaranteed minimum pensions (GMPs) following recent high court ruling, as detailed in Note 17.
[l] This comprises a net impairment reversal of £69m in property, plant and equipment, a net impairment charge of £(14)m in software and intangible assets and a net charge of £(44)m in onerous property provisions.

Income statement continued

52 weeks ended 24 February 2018

Profit/(loss) for the year 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 within discontinued operations £m
Exceptional items:							
Net restructuring and redundancy costs	(75)	(34)	7	(102)	-	19	-
Net impairment reversal of non-current assets and onerous lease provisions	50	-	3	53	-	28	-
Provision for customer redress	(24)	-	-	(24)	-	(3)	-
Investment disposal	-	124	-	124	-	(25)	-
Disposal of opticians business	-	38	-	38	-	(7)	-
Release of amounts provided in relation to DPA and FCA obligations	-	25	-	25	-	-	-
Property transactions	-	-	79	79	-	(32)	-
Foreign exchange losses on GBP short-term investments held in overseas entities	-	-	-	-	(38)	-	-
Exceptional items relating to discontinued operations	-	-	-	-	-	-	216
Total exceptional items	**(49)**	**153**	**89**	**193**	**(38)**	**(20)**	**216**
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets	-	-	-	-	-	-	-
Total exceptional items and amortisation of acquired intangibles	**(49)**	**153**	**89**	**193**	**(38)**	**(20)**	**216**

Cash flow statement

52 weeks ended 23 February 2019

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	
	52 weeks 2019 £m	52 weeks 2018 £m	52 weeks 2019 £m	52 weeks 2018 £m
Payments relating to Tesco Direct Closure	(38)	-	-	-
Prior year restructuring and redundancy costs[(a)]	(60)	(56)	-	-
Current year restructuring and redundancy costs[(a)]	(30)	(67)	-	-
Utilisation of onerous lease provisions	(82)	(93)	-	-
Property transactions[(b)]	-	9	263	(111)
Property transactions - sale of investment in joint venture	-	-	-	19
Settlement of claims for customer redress in Tesco Bank	(49)	(23)	-	-
DPA/shareholder compensation scheme payments	(43)	(149)	-	-
Freetime VAT refund[(c)]	12	160	-	-
Tesco Bank FCA settlement payment	(16)	-	-	-
Insurance recovery of amounts in relation to FCA obligations	16	-	-	-
Booker integration cash payments	(12)	-	-	-
Proceeds from sale of investments – Lazada	-	-	7	196
Proceeds from sale of opticians business	-	-	-	45
Proceeds from sale of subsidiaries treated as discontinued	-	-	-	26
Exceptional cash flows from discontinued operations	-	-	-	(5)
Total	**(302)**	**(219)**	**270**	**170**

(a) These are cash outflows on settlement of restructuring and redundancy costs.

(b) These relate to proceeds from property disposals primarily in UK & ROI and Central Europe.

(c) VAT recovered in relation to the appeal against HMRC regarding the treatment of VAT on Clubcard rewards.

Note 5 Finance income and costs

Continuing operations	Notes	52 weeks 2019 £m	52 weeks 2018 (restated[a]) £m
Finance income			
Interest receivable and similar income		22	44
Financial instruments – fair value remeasurements		–	23
Total finance income		**22**	**67**
Finance costs			
GBP MTNs and Loans		(144)	(207)
EUR MTNs		(77)	(94)
USD Bonds		(17)	(31)
Finance charges payable under finance leases and hire purchase contracts		(8)	(8)
Other interest payable		(49)	(62)
Capitalised interest	11	1	2
Financial instruments – fair value remeasurements[b]		(153)	-
Total finance costs before exceptional items and net pension finance costs		**(447)**	**(400)**
Net pension finance costs	17	(89)	(162)
Foreign exchange losses on GBP short-term investments held in overseas entities	4	–	(38)
Total finance costs		**(536)**	**(600)**
Net finance cost		**(514)**	**(533)**

[a] Restated for reclassification of derivative interest income as detailed in Note 1.
[b] Fair value remeasurements includes £(121)m (2018: £(30)m) relating to the premium paid on the repurchase of long-dated bonds.

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Current tax (credit)/charge		
UK corporation tax	221	143
Overseas tax	131	118
Adjustments in respect of prior years	(8)	(29)
	344	**232**
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	3	25
Adjustments in respect of prior years	7	49
	10	**74**
Total income tax (credit)/charge	**354**	**306**

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 are 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.

Reconciliation of effective tax charge

	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Profit/(loss) before tax	**1,674**	**1,300**
Tax credit/(charge) at 19% (2018: 19.1%)	(318)	(248)
Effect of:		
Non-qualifying depreciation	(30)	(31)
Expenses not deductible[(a)]	(26)	(25)
Unrecognised tax losses	(9)	(27)
Property items taxed on a different basis to accounting entries[(b)]	21	25
Impairment of non-current assets	17	35
Banking surcharge tax	(18)	(19)
Differences in overseas taxation rates	14	5
Adjustments in respect of prior years	1	(20)
Share of losses of joint ventures and associates	7	(1)
Irrecoverable withholding taxes	(13)	-
Total income tax credit/(charge)	**(354)**	**(306)**
Effective tax rate	**21.1%**	**23.5%**

(a) This includes current year movements on uncertain tax positions and the release of amounts provided for in relation to DPA and FCA obligations.
(b) This includes property items where the carrying values differ from their valuation for tax purposes and recognition of capital losses on property asset disposals.

Reconciliation of effective tax charge on APMs

	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles	**1,716**	**1,145**
Tax credit/(charge) at 19% (2018: 19.1%)	(326)	(219)
Effect of:		
Non-qualifying depreciation	(30)	(31)
Expenses not deductible[(a)]	(24)	(26)
Unrecognised tax losses	(5)	(18)
Property items taxed on a different basis to accounting entries[(b)]	-	18
Banking surcharge tax	(19)	(19)
Differences in overseas taxation rates	7	5
Adjustments in respect of prior years	(8)	5
Share of losses of joint ventures and associates	5	(1)
Irrecoverable withholding taxes	(13)	-
Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles	**(413)**	**(286)**
Effective tax rate before exceptional items and amortisation of acquired intangibles	**24.1%**	**25.0%**
Tax charge on net pension finance costs and fair value remeasurements at 19% on £242m (2018: 19.1% on £139m)	(46)	(26)
Change in tax rate	2	3
Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements	**(457)**	**(309)**
Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements	**23.3%**	**24.1%**

(a) This includes current year movements on uncertain tax positions and expenses not qualifying for tax relief.
(b) This includes property items where the carrying values differ from their valuation for tax purposes and recognition of capital losses on property asset disposals.

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

Non-current assets classified as held for sale

	23 February 2019 £m	24 February 2018 £m
Non-current assets classified as held for sale	98	149

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

Discontinued operations

There were no discontinued operations in the year. The discontinued operations in the prior financial year related to the Group's Turkish and Korean operations.

The tables below show the results of the discontinued operations which were included in the Group income statement and Group cash flow statement in the prior year.

Income statement	52 weeks 2019 £m	52 weeks 2018 £m
Loss after tax on disposal of Turkish operations	-	(128)
Net adjustments to profit/(loss) of past disposals	-	344
Total profit/(loss) after tax of discontinued operations	**-**	**216**

Cash flow statement

	52 weeks 2019 £m	52 weeks 2018 £m
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**-**	**(11)**

Note 8 Dividends

	2019		2018	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	2.00	195	-	-
Paid interim dividend*	1.67	162	1.00	82
Dividends paid to equity owners in the financial year	**3.67**	**357**	**1.00**	**82**
Proposed final dividend at financial year end	**4.10**	**402**	**2.00**	**195**

* Excludes £2m dividends waived (2018: £nil).

The proposed final dividend was approved by the Board of Directors on 9 April 2019 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 23 February 2019, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 21 June 2019 to shareholders who are on the Register of members at close of business on 17 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 31 May 2019.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles. £nil (2018: £2m) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings.

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

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

Diluted earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive 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 52 weeks ended 23 February 2019 there were 72 million (2018: 27 million) potentially dilutive share options. As the Group has recognised a profit for the year from its continuing operations, dilutive effects have been considered in calculating diluted earnings per share.

	2019			2018 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations*	1,322	-	1,322	992	-	992
Discontinued operations	-	-	-	216	-	216
Total	**1,322**	**-**	**1,322**	**1,208**	**-**	**1,208**
Weighted average number of shares (millions)	**9,686**	**72**	**9,758**	**8,165**	**27**	**8,192**
Earnings/(losses) per share (pence)						
Continuing operations	13.65	(0.10)	13.55	12.15	(0.04)	12.11
Discontinued operations	-	-	-	2.65	(0.01)	2.64
Total	**13.65**	**(0.10)**	**13.55**	**14.80**	**(0.05)**	**14.75**

* Excludes profits/(losses) from non-controlling interests of £(2)m (2018: £2m).

APM: Diluted 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	52 weeks 2019	52 weeks 2018 (restated)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,716	1,145
Add: Net pension finance costs (£m)	5	89	162
Add/(less): Fair value remeasurements on financial instruments (£m)	5	153	(23)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (£m)		**1,958**	**1,284**
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)		1,958	1,284
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)		(455)	(309)
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)		**1,503**	**975**
Basic weighted average number of shares (millions)		9,686	8,165
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**15.52**	**11.94**
Diluted weighted average number of shares (millions)		9,758	8,192
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**15.40**	**11.90**

Goodwill

Goodwill and other intangible assets of £6,264m (2018: £2,661m) comprise £4,909m Goodwill (2018: £1,796m), £586m Software (2018: £788m), Customer relationships of £643m (2018: £nil) and intangible assets of £126m (2018: £77m).

The acquisition of Booker on 5 March 2018 resulted in recognition of additional goodwill of £3,093m, customer relationships of £715m and other intangible assets of £40m. This goodwill is supported by the 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 £74m impact of the amortisation of the intangible assets recognised upon the Booker acquisition has been included within 'exceptional items and amortisation of intangible assets'. Refer to Note 4 and Note 19 for further details.

Impairment of goodwill

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

	Balances £m		Pre-tax discount rates		Post-tax discount rates		Long-term growth rates	
	2019	2018	2019	2018	2019	2018	2019	2018
Tesco Bank	802	802	10.4%	10.6%	7.8%	8.0%	2.0%	2.5%
UK	3,834	735	8.8%	8.9%	7.1%	7.2%	2.0%	2.1%
Thailand	193	180	9.6%	9.3%	7.7%	7.5%	1.9%	2.2%
Malaysia	77	75	11.8%	11.6%	9.0%	8.8%	2.4%	3.2%
ROI	3	4	8.5%	8.3%	7.4%	7.3%	1.9%	1.8%
	4,909	**1,796**						

The key estimates for the value in use calculations are those regarding discount rates and expected changes to future cash flows.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units, including a Brexit risk adjustment in the UK & ROI segment. The pre-tax discount rates used to calculate value in use are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each group of cash-generating units.

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

The Group has carried out sensitivity analysis on the impairment tests of each group of cash-generating units to which goodwill has been allocated, using various reasonably possible scenarios based on recent market movements. Neither a one percentage point increase in discount rates nor a one percentage point decrease in year one sales growth would indicate impairment in any group of cash-generating units.

Impairment of other intangible assets

A net impairment loss of £16m (£21m losses offset by £5m reversal) has been recognised against other intangible assets as part of the impairment review discussed in Note 11. Of this loss, £14m has been included within exceptional items, classified as 'Net impairment reversal of non-current assets and onerous property provisions' within cost of sales in Note 4.

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	50	40	90
Additions[b]	518	533	1,051
Acquired through business combinations[c]	258	68	326
Reclassification[d]	926	(787)	139
Classified as held for sale	(48)	5	(43)
Disposals	(73)	(450)	(523)
Fully depreciated assets[e]	(135)	(3,255)	(3,390)
At 23 February 2019	**24,949**	**7,063**	**32,012**
Accumulated depreciation and impairment losses			
At 24 February 2018	**7,116**	**8,725**	**15,841**
Foreign currency translation	9	21	30
Charge for the year	500	579	1,079
Impairment losses	80	66	146
Reversal of impairment losses	(181)	(38)	(219)
Reclassification[d]	790	(787)	(3)
Classified as held for sale	(20)	5	(15)
Disposals	(60)	(426)	(486)
Fully depreciated assets[e]	(135)	(3,255)	(3,390)
At 23 February 2019	**8,099**	**4,890**	**12,989**
Net carrying value[f]			
At 23 February 2019	**16,850**	**2,173**	**19,023**
At 24 February 2018	16,337	2,184	18,521
Construction in progress included above[g]			
At 23 February 2019	**37**	**109**	**146**
At 24 February 2018	68	57	125

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,657m (2018: £1,752m), office equipment with a net carrying value of £292m (2018: £116m) and motor vehicles with a net carrying value of £224m (2018: £316m).
[b] Includes £1m (2018: £2m) 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 year was 4.5% (2018: 4.5%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.
[c] £326m relates to the acquisition of Booker. Refer to Note 19 for further details.
[d] Reclassification includes £892m related to fully depreciated assets no longer in use that were reclassified within property, plant and equipment, and £105m reclassified between property, plant and equipment and software and intangible assets, prior to removal from the fixed assets registers.
[e] During the current financial year, the Group performed a comprehensive review of all fully depreciated assets held in the Group's fixed asset registers, and removed £3,390m of cost and accumulated depreciation and impairment losses relating to those fully depreciated assets which are no longer in use by the Group. This change will provide users with a greater understanding of the imputed depreciation rates on the Group's assets.
[f] Includes £803m (2018: £786m) of assets pledged as security for secured bonds (Note 15) and £489m (2018: £509m) of property held as security in favour of the Tesco PLC pension scheme.
[g] Construction in progress does not include land.

Assets held under finance leases

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

	2019		2018	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	70	34	75	32

Land and buildings

The net carrying value of land and buildings comprises:

	2019 £m	2018 £m
Freehold assets[(a)(b)]	14,563	14,117
Long leasehold improvements – 50 years or more	323	412
Short leasehold improvements – less than 50 years[(a)]	1,894	1,733
Assets held under finance leases[(b)]	70	75
Net carrying value	**16,850**	**16,337**

(a) £413m of freehold assets previously classified as short leasehold in the prior financial year have now been reclassified.
(b) Assets held under finance leases previously included within freehold land have now been disclosed separately.

	Land and buildings £m	Other[(a)] £m	Total £m
Cost			
At 25 February 2017	**22,690**	**10,681**	**33,371**
Foreign currency translation	312	116	428
Additions[(b)]	819	481	1,300
Reclassification	(83)	(49)	(132)
Classified as held for sale	(146)	(21)	(167)
Disposals	(139)	(299)	(438)
At 24 February 2018	**23,453**	**10,909**	**34,362**
Accumulated depreciation and impairment losses			
At 25 February 2017	**7,095**	**8,168**	**15,263**
Foreign currency translation	121	97	218
Charge for the year	470	605	1,075
Impairment losses	44	44	88
Reversal of impairment losses	(268)	(7)	(275)
Reclassification	(147)	100	(47)
Classified as held for sale	(92)	(11)	(103)
Disposals	(107)	(271)	(378)
At 24 February 2018	**7,116**	**8,725**	**15,841**
Net carrying value	**16,337**	**2,184**	**18,521**

(a)-(b) Refer to previous page for footnotes.

Commitments for capital expenditure contracted for, but not incurred, at 23 February 2019 were £70m (2018: £116m), principally relating to store development.

Impairment of property, plant and equipment

The key estimates for the value in use calculations are those regarding discount rates and expected changes to future cash flows.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units, including a Brexit risk adjustment in the UK & ROI segment. The discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region and range from 7% to 12% (2018: 7% to 12%). On a post-tax basis, the discount rates range from 6% to 9% (2018: 5% to 9%).

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on long-term average growth rates, which are derived from inflation forecasts by recognised bodies. These long-term average growth rates range from 1% to 3% (2018: 1% to 4%).

Fair values are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. The key inputs to the valuation are the potential market rents and yields, both of which are largely based on rentals and yields for similar properties in that location. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £19,023m (2018: £18,521m) above comprises £15,067m (2018: £14,056m) of unimpaired assets and £3,956m (2018: £4,465m) of impaired assets. Of the impaired assets, £1,871m (2018: £1,795m) carrying value was supported by value in use and £2,085m (2018: £2,670m) was supported by fair value. Due to the individual nature of each property, these fair values are classified as Level 3 within the fair value hierarchy.

The total net impairment reversal of £73m (£219m reversal offset by £146m losses) largely reflects normal fluctuations expected from store level performance, property fair values and changes in discount rates. These losses and reversals have been largely presented net at a country level to reflect the underlying trends in the businesses. The impairment reversal of £219m (2018: £275m) relates to properties in the UK & ROI of £129m (2018: £154m), Central Europe of £86m (2018: £112m) and Asia of £4m (2018: £9m), while the impairment losses of £146m (2018: £88m) relate to properties in the UK & ROI of £46m (2018: £50m), Central Europe of £64m (2018: £6m) and Asia of £36m (2018: £32m).

Of the £73m net reversal (2018: £187m net reversal), a £68m reversal (2018: £183m reversal) within exceptional items related to trading stores has been classified as 'Net impairment reversal of non-current assets and onerous property provisions' within cost of sales. In addition, a £1m reversal (2018: £1m loss) within exceptional items related to closed stores has been classified as 'Net impairment reversal of non-current assets and onerous property provisions' within profits/(losses) arising on property-related items. In the prior financial year, a further £3m loss within exceptional items related to the unwind of the Group's joint venture with British Land has been classified as 'Property transactions' within profits/(losses) arising on property-related items. The remaining £4m reversal (2018: £8m reversal) has not been included within exceptional items as it relates to the Group's day to day management of the property portfolio.

The Group has carried out a sensitivity analysis on the impairment tests for its trading stores portfolio using various reasonably possible scenarios based on recent market movements, including discount rates, sales growth and property fair values:

- An increase of one percentage point in the discount rates for each geographic region would increase impairment by £265m (2018: £231m). A decrease of one percentage point would decrease impairment by £227m (2018: £239m).
- An increase of one percentage point in year one sales growth for each geographic region would decrease impairment by £55m (2018: £40m). A decrease of one percentage point in year one sales growth would increase impairment by £64m (2018: £41m).
- An increase of five percentage points in property fair values for each geographic region would decrease impairment by £95m. A decrease of five percentage points in property fair values would increase impairment by £99m.

Note 12 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 23 February 2019.

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

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

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2018 to 28 February 2019. The accounting period end dates for joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the parents, other than those imposed by the Companies Act 2006 or equivalent local regulations, and for Tesco Underwriting Limited, regulatory capital requirements.

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

On 13 September 2018, the Group exercised its option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by the other joint venture partner. Refer to Note 21.

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

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

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

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

Summarised financial information for joint ventures and associates

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

	UK property joint ventures		Gain Land Limited	
	2019 £m	2018 £m	12 months to Dec 2018 £m	12 months to Dec 2017 £m
Summarised balance sheet				
Non-current assets[a]	3,786	3,851	3,864	3,924
Current assets (excluding cash and cash equivalents)	98	92	2,291	1,801
Cash and cash equivalents	40	37	649	414
Current liabilities[b]	(359)	(304)	(5,943)	(5,318)
Non-current liabilities[b]	(4,529)	(4,561)	(519)	(409)
Net assets/(liabilities)	**(964)**	**(885)**	**342**	**412**
Summarised income statement				
Revenue	289	280	9,038	9,097
Profit/(loss) after tax	**–**	**–**	**(48)**	**(230)**
Reconciliation to carrying amounts:				
Opening balance	–	–	**366**	**433**
Additions/(disposals)	–	–	–	–
Foreign currency translation	–	–	9	(21)
Share of profits/(losses)[c]	15	12	(10)	(46)
Dividends received from joint ventures and associates	(15)	(12)	–	–
Deferred profits offset against carrying amounts[d]	–	–	–	–
Closing balance	**–**	**–**	**365**	**366**
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/(liabilities)	(482)	(443)	68	82
Goodwill	–	–	297	284
Deferred property profits offset against carrying amounts[d]	(61)	(61)	–	–
Cumulative unrecognised losses[c]	183	168	–	–
Cumulative unrecognised hedge reserves[c]	360	336	–	–
Carrying amount	**–**	**–**	**365**	**366**

[a] The non-current asset balances of UK property joint ventures are reflected at historic depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the UK property joint ventures are £5,503m (2018: £4,983m).

[b] The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,809m (2018: £3,892m) and derivative swap balances of £720m (2018: £672m) entered into to hedge the cash flow variability exposures of the joint ventures.

[c] The share of profit for the year for UK property joint ventures related to £15m dividends received from joint ventures with £nil carrying amounts. £2m of losses and £24m of increases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.

[d] Deferred profits that arose from the transfer of properties into the UK property joint ventures have been offset against the carrying amounts of the related joint ventures. £2m relating to BLT Properties Limited has been released during the year as a result of the joint venture being wound up on 6 April 2017.

At 23 February 2019, the Group has £105m (2018: £104m) loans to UK property joint ventures.

Other joint ventures and associates

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

	Joint ventures		Associates	
	2019 £m	2018 £m	2019 £m	2018 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	275	262	64	61
Group's share of profits/(losses) for the year	15	17	15	11

Impairment

Management has performed impairment tests and sensitivity analysis on its investments in Gain Land, Trent Hypermarket Limited and Tesco Underwriting Limited. The carrying values of Trent Hypermarket Limited of £102m (2018: £98m) and Tesco Underwriting Limited of £86m (2018: £90m) are included within 'Other joint ventures and associates' as discussed above.

The recoverable values of these investments were estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses. No impairment was recognised in the year for these investments.

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

Note 13 Cash and cash equivalents and short-term investments

Cash and cash equivalents	2019 £m	2018 £m
Cash at bank and in hand	2,683	3,580
Short-term deposits	233	479
	2,916	**4,059**

Short-term investments	2019 £m	2018 £m
Money market funds	390	1,029

Cash and cash equivalents includes £62m of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts. At the prior financial year end, £777m was set aside for completion of the merger with Booker, with £766m being paid on completion. Refer to Note 19 for further details on the Booker merger.

Note 14 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.

	2019 £m	2018 £m
Current assets		
Inventories	(69)	(69)
Trade and other receivables		
Trade/other receivables	183	169
Accrued income	155	186
Current liabilities		
Trade and other payables		
Trade payables*	327	199
Accruals	(4)	(7)

* The commercial income balance netted against trade payables increased from £199m to £327m. This increase primarily relates to the delayed settlement of commercial income receivables, due to the decision to delay the implementation of a new general ledger system in the UK & ROI, and inclusion of commercial income balances related to Booker.

Borrowings are classified as current and non-current based on their scheduled redemption date, and not their maturity date. Repayments of principal amounts are classified as current if the repayment is scheduled to be made within one year of the reporting date.

Current

	Par value	Maturity	2019 £m	2018 £m
Bank loans and overdrafts	–	–	387	351
Loans from joint ventures	–	–	-	6
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	-	126
3.375% MTN	€750m	Nov 2018	-	667
1.375% MTN[(a)]	€726m	Jul 2019	636	-
5.5% MTN[(a)]	£97m	Dec 2019	98	-
1% RPI Tesco Bank Retail Bond[(b)]	£72m	Dec 2019	72	-
LIBOR + 0.65% Tesco Bank Bond[(c)]	£300m	Apr 2020	-	300
LIBOR + 0.65% Tesco Bank Bond[(d)]	£350m	May 2021	350	-
5.5457% Secured Bond[(e)(f)]	£332m	Feb 2029	20	17
Finance leases			36	12
			1,599	**1,479**

(a) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 1.375% MTN Jul 2019 €205m, 5.5% MTN Dec 2019 £84m, 6.125% MTN Feb 2022 £369m, 5% MTN Mar 2023 £67m, 6% MTN Dec 2029 £61m, 5.5% MTN Jan 2033 £26m, 6.15% USD Bond Nov 2037 $325m, 4.875% MTN Mar 2042 £70m and 5.2% MTN Mar 2057 £95m.

(b) The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.

(c) This bond was issued on 13 May 2015 and was redeemed on its scheduled redemption date in April 2018.

(d) This bond was issued on 6 June 2014. The scheduled redemption date of this bond is May 2019.

(e) 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 £803m (2018: £786m).

(f) This is an amortising bond which matures in Feb 2029. £20m (2018: £17m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Feb 2029.

(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	2019 £m	2018 £m
1.375% MTN[(a)]	€726m	Jul 2019	-	826
5.5% MTN[(a)]	£97m	Dec 2019	-	183
1% RPI Tesco Bank Retail Bond[(b)]	£72m	Dec 2019	-	70
2.125% MTN	€500m	Nov 2020	436	441
1m USD LIBOR + 0.70% Tesco Bank Bond	$350m	Nov 2020	262	-
5% Tesco Bank Retail Bond	£200m	Nov 2020	203	204
LIBOR + 0.65% Tesco Bank Bond[(d)]	£350m	May 2021	-	350
6.125% MTN[(a)]	£531m	Feb 2022	561	952
LIBOR + 0.53% Tesco Bank Bond[(g)]	£300m	Oct 2022	299	298
5% MTN[(a)]	£171m	Mar 2023	183	254
1.375% MTN	€750m	Oct 2023	658	-
2.5% MTN	€750m	Jul 2024	658	666
3.322% LPI MTN[(h)]	£346m	Nov 2025	349	338
5.5457% Secured Bond[(e)(f)]	£332m	Feb 2029	303	322
6.067% Secured Bond[(e)]	£200m	Feb 2029	191	190
LIBOR + 1.2% Secured Bond[(e)]	£50m	Feb 2029	34	33
6% MTN[(a)]	£98m	Dec 2029	119	198
5.5% MTN[(a)]	£150m	Jan 2033	186	221
1.982% RPI MTN[(i)]	£286m	Mar 2036	288	279
6.15% USD Bond[(a)]	$525m	Nov 2037	428	616
4.875% MTN[(a)]	£32m	Mar 2042	32	103
5.125% MTN	€356m	Apr 2047	319	323
5.2% MTN[(a)]	£73m	Mar 2057	71	165
Finance leases			93	110
			5,673	**7,142**

* Refer to previous table for footnotes.

Borrowing facilities

The Group has the following undrawn committed facilities available at 23 February 2019, in respect of which all conditions precedent had been met as at that date:

	2019 £m	2018 £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
	3,038	**4,270**

The undrawn committed facilities include £0.4bn (2018: £1.6bn) of bilateral facilities and a £2.6bn (2018: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates.

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 25 February 2017 (as previously reported)	**851**	**98**	**174**	**1,123**
IFRS 15 restatement (Note 23)	-	-	(3)	(3)
At 26 February 2017 (restated)	**851**	**98**	**171**	**1,120**
Foreign currency translation	5	1	-	6
Amount released in the year	(33)	(32)	(14)	(79)
Amount provided in the year	153	157	211	521
Amount utilised in the year	(120)	(146)	(50)	(316)
Unwinding of discount	13	-	-	13
At 24 February 2018	**869**	**78**	**318**	**1,265**
Foreign currency translation	2	(1)	-	1
Acquired through business combinations (Note 19)	40	-	4	44
Amount released in the year	(68)	(26)	(196)	(290)
Amount provided in the year	115	221	53	389
Amount utilised in the year	(118)	(129)	(110)	(357)
Unwinding of discount	15	-	-	15
At 23 February 2019	**855**	**143**	**69**	**1,067**

The balances are analysed as follows:

	2019 £m	2018 £m
Current	320	544
Non-current	747	721
	1,067	**1,265**

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions.

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

Based on the factors set out above, the Group has recognised a net onerous property provision charge in the year of £47m (2018: £120m), of which a £115m charge and £68m release, largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties.

Of the net £47m (2018: £120m) onerous property provision charge recognised in the year, a £44m (2018: £105m) charge has been recognised as an exceptional item within cost of sales classified as 'Net impairment reversal of non-current assets and onerous property provisions'. The remaining £3m charge was not included in exceptional items.

The Group has performed sensitivity analysis on the onerous lease provisions using reasonably possible scenarios based on recent market movements. Neither a half a percentage point increase nor decrease in the risk-free rate would result in a material change to the onerous lease provisions.

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

Restructuring provisions

Of the £195m net charge (£221m charge, £26m release) recognised in the year, £182m (2018: £102m) has been classified within exceptional items as 'Net restructuring and redundancy costs' and related to store and head office restructuring in the UK & ROI £131m (£102m), Central Europe £27m (2018: £nil), Asia £26m (2018: £nil) and Tesco Bank £2m release (2018: £nil),.

Other provisions

In prior financial years Tesco PLC and Tesco Freetime Limited, a wholly-owned subsidiary undertaking of the Group, initiated an appeal against Her Majesty's Revenue and Customs (HMRC) regarding the treatment of VAT on Clubcard rewards. Following the Upper Tier Tribunal ruling in the Group's favour on 24 January 2019, HMRC's Solicitors Office confirmed that they would not appeal the ruling, the Group has therefore released the £176m provision within exceptional items, classified as 'Freetime VAT provision release' within cost of sales.

On 1 October 2018, the FCA issued a warning notice to the Group in relation to an online fraudulent attack against Tesco Bank's debit cards in November 2016. The Group agreed to a settlement payment of £16m which was paid in the year.

Other provisions also includes provisions for Tesco Bank customer redress in respect of potential complaints arising from the historic sales of PPI, and in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act (CCA) for post-contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable. During the current financial year, an additional charge of £16m was recognised in the Group income statement within exceptional items, classified as 'Provision for customer redress' within cost of sales. Refer to Note 4 for further details.

Other provisions are expected to be utilised in the next financial year.

Note 17 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and defined contribution schemes.

Business Combinations

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 Budgens or Londis schemes.

Guaranteed Minimum Pension

On 26 October 2018 a High Court judgement was handed down regarding the Lloyds Banking Group's defined benefit pension scheme which affects many pension schemes in the UK, including the Group's UK schemes. The judgement concluded that schemes should be amended to ensure that members who have guaranteed minimum pensions (GMPs) receive the same benefits regardless of their gender. This change impacts GMP benefits accrued between 1990 and 1997. The trustees of the Group's UK schemes are considering the impact of the judgement on scheme liabilities and individual members, and at 23 February this work is ongoing.

In consultation with independent actuaries, the Group has estimated the financial effect of equalising benefits is to increase the Group accounting pension deficit by £43m. This has been recognised as a past service cost, and is presented as an exceptional item in the income statement (Note 4).

Summary of movements in Group deficit during the current financial year

	2019 £m	2018 £m
Deficit in schemes at the beginning of the year	**(3,282)**	**(6,621)**
Current service cost	(35)	(38)
Past service cost	(43)	–
Net pension finance cost	(89)	(162)
Contributions by employer	33	34
Additional contributions by employer	266	245
Foreign currency translation	–	(5)
Return on plan assets excluding finance income	932	(57)
Financial assumption gains/(losses)	(478)	2,190
Demographic assumption gains/(losses)	(51)	680
Experience gains/(losses)	(39)	452
Deficit acquired through business combination*	(22)	–
Deficit in schemes at the end of the year	**(2,808)**	**(3,282)**
Deferred tax asset	470	554
Deficit in schemes at the end of the year, net of deferred tax	**(2,338)**	**(2,728)**

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

Scheme principal financial assumptions

The principal defined benefit pension plan within the Group is the Tesco PLC Pension Scheme (the Scheme), a UK scheme closed to future accrual. The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation for the Scheme were as follows:

	2019 %	2018 %
Discount rate	2.8	2.9
Price inflation	3.1	3.1
Rate of increase in deferred pensions*	2.1	2.1
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.9	2.9
Benefits accrued after 1 June 2012	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 £401m or £3,406m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £401m or £4,709m respectively.

If the inflation assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £334m or £3,607m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £301m or £2,839m respectively.

Note 18 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 23 February 2019 £m
Total Group								
Bank and other borrowings	(8,318)	-	1,496	(136)	(6)	(43)	-	**(7,007)**
Finance lease payables	(122)	-	17	-	(2)	-	(22)	**(129)**
Net derivative financial instruments	465	-	(35)	128	-	20	-	**578**
Arising from financing activities	**(7,975)**	**-**	**1,478**	**(8)**	**(8)**	**(23)**	**(22)**	**(6,558)**
Cash and cash equivalents	4,059	-	(1,158)	-	15	-	-	**2,916**
Short-term investments	1,029	-	(639)	-	-	-	-	**390**
Joint venture loans	138	(13)	(5)	-	-	-	13	**133**
Interest and other receivables	1	-	(18)	-	-	18	-	**1**
Interest payables	(181)	-	306	-	(2)	(259)	-	**(136)**
Net derivative interest	16	-	-	-	-	(3)	-	**13**
Total Group	**(2,913)**	**(13)**	**(36)**	**(8)**	**5**	**(267)**	**(9)**	**(3,241)**
Tesco Bank								
Bank and other borrowings	(1,584)	-	154	9	-	-	-	**(1,421)**
Net derivative financial instruments	(42)	-	-	13	-	-	-	**(29)**
Arising from financing activities	**(1,626)**	**-**	**154**	**22**	**-**	**-**	**-**	**(1,450)**
Cash and cash equivalents	1,304	-	(261)	-	-	-	-	**1,043**
Joint ventures loans	34	-	(5)	-	-	-	-	**29**
Interest payables	-	-	5	-	-	(5)	-	**-**
Tesco Bank	**(288)**	**-**	**(107)**	**22**	**-**	**(5)**	**-**	**(378)**
Retail								
Bank and other borrowings	(6,734)	-	1,342	(145)	(6)	(43)	-	**(5,586)**
Finance lease payables	(122)	-	17	-	(2)	-	(22)	**(129)**
Net derivative financial instruments	507	-	(35)	115	-	20	-	**607**
Arising from financing activities	**(6,349)**	**-**	**1,324**	**(30)**	**(8)**	**(23)**	**(22)**	**(5,108)**
Cash and cash equivalents	2,755	-	(897)	-	15	-	-	**1,873**
Short-term investments	1,029	-	(639)	-	-	-	-	**390**
Joint ventures loans	104	(13)	-	-	-	-	13	**104**
Interest and other receivables	1	-	(18)	-	-	18	-	**1**
Interest payables	(181)	-	301	-	(2)	(254)	-	**(136)**
Net derivative interest	16	-	-	-	-	(3)	-	**13**
Net debt	**(2,625)**	**(13)**	**71**	**(30)**	**5**	**(262)**	**(9)**	**(2,863)**

* 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.

Note 18 Analysis of changes in net debt continued

	At 25 February 2017 £m	Cash flow £m	Fair value movements £m	Foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	Non-cash movements -Turkey disposal £m	Re-classification of movements in net debt of the disposal group £m	At 24 February 2018 £m
Total Group									
Bank and other borrowings	(11,712)	3,408	91	(49)	(56)	-	73	(73)	**(8,318)**
Finance lease payables	(114)	10	-	(2)	-	(16)	-	-	**(122)**
Net derivative financial instruments	893	(253)	(195)	-	(20)	-	-	-	**465**
Arising from financing activities	**(10,933)**	**3,165**	**(104)**	**(51)**	**(36)**	**(16)**	**73**	**(73)**	**(7,975)**
Cash and cash equivalents	3,821	212	-	15	-	-	-	11	**4,059**
Short-term investments	2,727	(1,697)	-	(1)	-	-	-	-	**1,029**
Joint venture loans	137	-	-	-	-	1	-	-	**138**
Interest and other receivables	1	(27)	-	-	27	-	-	-	**1**
Interest payables	(167)	351	-	(3)	(362)	-	3	(3)	**(181)**
Net derivative interest	28	(23)	-	-	11	-	-	-	**16**
Net debt of the disposal group	(65)	-	-	-	-	-	-	65	**-**
Total Group	**(4,451)**	**1,981**	**(104)**	**(40)**	**(360)**	**(15)**	**76**	**-**	**(2,913)**
Tesco Bank									
Bank and other borrowings	(1,440)	(150)	6	-	-	-	-	-	**(1,584)**
Net derivative financial instruments	(105)	-	63	-	-	-	-	-	**(42)**
Arising from financing activities	**(1,545)**	**(150)**	**69**	**-**	**-**	**-**	**-**	**-**	**(1,626)**
Cash and cash equivalents	789	515	-	-	-	-	-	-	**1,304**
Joint ventures loans	34	-	-	-	-	-	-	-	**34**
Interest payables	-	4	-	-	(4)	-	-	-	**-**
Tesco Bank	**(722)**	**369**	**69**	**-**	**(4)**	**-**	**-**	**-**	**(288)**
Retail									
Bank and other borrowings	(10,272)	3,558	85	(49)	(56)	-	73	(73)	**(6,734)**
Finance lease payables	(114)	10	-	(2)	-	(16)	-	-	**(122)**
Net derivative financial instruments	998	(253)	(258)	-	20	-	-	-	**507**
Arising from financing activities	**(9,388)**	**3,315**	**(173)**	**(51)**	**(36)**	**(16)**	**73**	**(73)**	**(6,349)**
Cash and cash equivalents	3,032	(303)	-	15	-	-	-	11	**2,755**
Short-term investments	2,727	(1,697)	-	(1)	-	-	-	-	**1,029**
Joint ventures loans	103	-	-	-	-	1	-	-	**104**
Interest and other receivables	1	(27)	-	-	27	-	-	-	**1**
Interest payables	(167)	347	-	(3)	(358)	-	3	(3)	**(181)**
Net derivative interest	28	(23)	-	-	11	-	-	-	**16**
Net debt of the disposal group	(65)	-	-	-	-	-	-	65	**-**
Net debt	**(3,729)**	**1,612**	**(173)**	**(40)**	**(356)**	**(15)**	**76**	**-**	**(2,625)**

Reconciliation of net cash flow to movement in Net debt	2019 £m	2018 £m
Net increase/(decrease) in cash and cash equivalents	(1,158)	212
Elimination of Tesco Bank movement in cash and cash equivalents	261	(515)
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(639)	(1,697)
Net increase/(decrease) in joint venture loans	-	-
Net (increase)/decrease in borrowings and lease financing	1,359	3,568
Net cash flows from derivative financial instruments	(35)	(253)
Net interest paid on components of Net debt	283	297
Change in Net debt resulting from cash flow	**71**	**1,612**
Retail IFRS 9 adjustment	(13)	-
Retail net interest charge on components of Net debt	(262)	(356)
Retail fair value and foreign exchange movements	(25)	(213)
Debt acquired on disposal of Turkish operations	-	76
Retail other non-cash movements	(9)	(15)
(Increase)/decrease in Net debt	**(238)**	**1,104**
Opening Net debt	(2,625)	(3,729)
Closing Net debt	**(2,863)**	**(2,625)**

Note 19 Business combinations

On 5 March 2018, the Group acquired a 100% stake in Booker Group plc ('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 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 year 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)**

Note 19 Business combinations continued

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.

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. Refer to Note 10. 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 £5,826m and net profit after tax of £122m to the Group from 5 March 2018 to 23 February 2019. The £122m profit includes the impact of consolidation adjustments, primarily £74m 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 52 weeks ended 23 February 2019 would not be materially different. Transaction costs of £22m have been included in Administrative expenses for the 52 weeks ended 23 February 2019 (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 229bn (£156m) and KRW 377bn (£256m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 167bn (£114m), with funds of KRW 73bn (£50m) placed in escrow to provide the primary payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW94bn (£64m). 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. Whilst the claims have evolved since originally issued, the Group does not believe the claims are likely to lead to a material outflow of funds.

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.

Operating lease commitments – Group as lessee

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

	2019 £m	2018 £m
Within one year	1,148	1,077
Greater than one year but less than five years	3,536	3,552
After five years	6,688	6,788
Total undiscounted minimum lease commitments	**11,372**	**11,417**

Of the financial year end minimum lease commitments of £11,372m, £481m relates to leases held by Booker entities.

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

	2019 £m	2018 £m
Greater than five years but less than ten years	3,131	3,035
Greater than ten years but less than fifteen years	1,976	2,008
After fifteen years	1,581	1,745
Total undiscounted minimum lease commitments – after five years	**6,688**	**6,788**

The Group has used operating lease commitments discounted at 7% (2018: 7%) of £6,999m (2018: £6,931m) 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.

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.

On 13 September 2018, the Group 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 under current accounting would lead to a reduction in minimum lease commitments of £790m (discounted: £400m). The most recent financial information for the partnership as at 31 December 2018 showed net liabilities of £(6)m, principally composed of investment properties of £666m, borrowings of £(479)m and derivative financial liabilities of £(195)m.

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 (2018: £2.8bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £3.0bn (2018: £2.6bn) using current rent values, as shown below.

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

	2019 £m	2018 £m
Within one year	–	2
Greater than one year but less than five years	420	265
Greater than five years but less than ten years	761	738
Greater than ten years but less than fifteen years	761	659
After fifteen years	1,063	935
Total undiscounted contingent additional lease rentals	**3,005**	**2,599**
Total discounted contingent additional lease rentals at 7%	1,378	1,159

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 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Note 22 Events after reporting period

There were no material events after the reporting period.

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 year. 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 have transitioned 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, debt instruments at fair value through other comprehensive income and joint venture and associate 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 standalone fair value to the relative standalone selling prices. 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 financial year ended 24 February 2018, as a result of applying IFRS 15, revenue and operating profit increased by £2m and taxation expense moved by £nil leading to an increase in profit after tax of £2m.

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 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	• Consistent with accounting policy	Not applicable	• Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
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 61	• 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.

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 and amortisation of acquired intangibles divided by profit before tax before exceptional items and amortisation of acquired intangibles. This provides an indication of the ongoing tax rate across the Group.

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 18	• 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 61	• 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 61	• 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 61	• 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, and the market purchase of 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 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.

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

APMs: Debt metrics

EBITDAR (restated)	Notes	2019 £m	2018 £m
Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles	2	2,206	1,646
Less: Tesco Bank operating profit/(loss) before exceptional items	2	(197)	(169)
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	2	1,297	1,295
Less: Tesco Bank depreciation and amortisation	2	(83)	(83)
Add: Retail operating lease expense*	3	1,075	1,015
		4,298	**3,704**

* Group operating lease expense of £1,078m (2018: £1,018m) includes £3m (2018: £3m) relating to Tesco Bank.

Total indebtedness ratio (restated)		2019 £m	2018 £m
Net debt (£m)	18	2,863	2,625
Add: Defined benefit pension deficit, net of deferred tax (£m)	17	2,338	2,728
Add: Discounted operating lease commitments (£m)	21	6,999	6,931
Total indebtedness (£m)		**12,200**	**12,284**
EBITDAR (£m)		**4,298**	**3,704**
Total indebtedness ratio		**2.8**	**3.3**

Fixed charge cover (restated)	Notes	2019 £m	2018 £m
Net finance cost (£m)	5	514	533
Less: Net pension finance costs (£m)	5	(89)	(162)
Less: Exceptional foreign exchange losses on GBP short-term investments held in overseas entities (£m)	5	-	(38)
Add: Capitalised interest (£m)	5	1	2
Add: Fair value remeasurements on financial instruments (£m)	5	(153)	23
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements on financial instruments (£m)		**273**	**358**
Add: Retail operating lease expense (£m)	3	1,075	1,015
		1,348	**1,373**
EBITDAR (£m)		**4,298**	**3,704**
Fixed charge cover		**3.2**	**2.7**

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.

As the independent auditor of Tesco PLC (the “Group”) we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of the Group’s preliminary announcement statement of annual results for the period ended 23 February 2019.

The preliminary statement of annual results for the period ended 23 February 2019 includes: disclosures required by the Listing Rules, Group headlines, CEO’s statement, like-for-like sales performance, headline Group results, financial results, Group income statement, Group statement of comprehensive income/(loss), Group balance sheet, Group statement of changes in equity, Group cash flow statement and notes to the consolidated financial statements. We are not required to agree to the publication of presentations to analysts and trading statements.

The Directors of the Group are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council’s Bulletin “The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules”.

Status of our audit of the financial statements

Our audit of the annual financial statements of the Group is complete and we signed our auditor’s report on 9 April 2019. Our auditor’s report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, together with how our audit responded to those key observations arising from our work:

BOOKER IFRS 3 ACQUISITION ACCOUNTING JUDGMENT AND PRESENTATION OF RESULTS

Key audit matter description

Booker IFRS 3 acquisition accounting judgements
On 5 March 2018, the Group completed the acquisition of Booker Group plc for consideration of £3,993m. The transaction has been accounted for in accordance with IFRS 3 ‘Business Combinations’. £3,093m of goodwill and £900m of other assets or liabilities have been recognised, including £755m of acquired intangible assets.

We identified a key audit matter in relation to the completeness and valuation of separately identifiable assets recognised upon acquisition and the key assumptions underpinning the fair valuation of £220m of acquired land and buildings.

Presentation of Booker results
Following the acquisition of Booker on 5 March 2018, management has applied judgment in determining the presentation of Booker within the UK & ROI segment under IFRS 8 ‘Operating Segments’.

Management’s key considerations include the fact that Booker is managed on an integrated basis with the rest of the UK retail business and the Chief Operating Decision Maker (CODM) monitors performance and allocate resources at a combined UK & ROI level which includes Booker.

How the scope of our audit responded to the key audit matter
Booker IFRS 3 acquisition accounting judgements
Our audit procedures included assessing the design and implementation of key controls which relate to the completeness and valuation of identifiable intangible assets and the fair valuation of acquired land and buildings.

In order to address this key audit matter we have completed audit procedures including:

- engaging our valuation specialists to assist in assessing the completeness and key valuation assumptions such as the discount rate and long-term growth rates;
- challenging management’s key cash flow assumptions with reference to industry benchmarks and historical performance; and
- engaging our real estate experts to assist with the assessment of management’s property fair valuations.

Presentation of Booker results
Our audit procedures included assessing the design and implementation of the key controls relating to the segmental presentation of the Booker results.

Our procedures to assess management’s judgment include assessing the following key matters in the context of the guidance provided by IFRS 8:

- reviewing management’s internal reporting to confirm that the CODM monitors performance and allocate resources at a combined UK & ROI level which includes Booker;
- challenging management over the extent and timeliness of the integration of Booker’s performance information into the UK & ROI management information; and
- assessing whether the Group’s external reporting performance narrative and its internal reporting lines were consistent with the inclusion of Booker within the UK & ROI segment.

Key observations

Management’s key estimates underpinning the IFRS 3 acquisition accounting exercise, in relation to the completeness and valuation of separately identifiable assets and the fair valuation of land and buildings are reasonable.

The inclusion of Booker’s results within the UK & ROI segment is in compliance with IFRS 8 with the presentation being reflective of how the CODM monitors performance and allocates resources to the business.

IFRS 16 PRESENTATION AND DISCLOSURE

Key audit matter description

IFRS 16 'Leases' will be effective for the accounting period commencing 24 February 2019.

IFRS 16 will have a significant impact on the reported assets, liabilities and the income statement of the Group (a reduction in the Group's net assets of £1.3bn as at 23 February 2019 and a decrease in 2018/19 statutory profit before tax of £57m).

The expected impact of the IFRS 16 transition is reliant upon a number of key estimates, primarily determining the appropriate discount rates for each lease.

Additionally, there is a risk that the lease data which underpin the IFRS 16 transition calculation are incomplete or inaccurate.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls relating to the determination of the IFRS 16 transition impact disclosure.

Our procedures to assess management's key modelling estimates and the completeness/ accuracy of the underlying lease data included:

- assessing the discount rates used to calculate the lease obligation and measure any impairment of the right of use asset with support from our valuation specialists;
- assessing the accuracy of the lease data by testing the lease data captures by management for a sample of leases through the inspection of lease documentation;
- testing the completeness of the lease data by reconciling the Group's existing lease commitments to the lease data underpinning the IFRS 16 model; and
- assessing the treatment of historical sale and leaseback transactions and property joint venture arrangements in the context of IFRS 16.

Key observations

The key estimates and judgements underpinning the Group's IFRS 16 impact assessment are appropriate.

TESCO BANK: LOAN IMPAIRMENT

Key audit matter description

The Group holds a loan impairment provision of £485m (2017/18: £238m) against loans and advances to customers within Tesco Bank.

Loan impairment provisioning is considered a key audit matter as it involves significant judgement to be applied by management in order to estimate expected future losses. For 2018/19 management's provisioning methodology changed from an "incurred loss" model to an "expected loss" model following the adoption of IFRS 9 'Financial Instruments' resulting in a £219m transitional increase in the Group's loan impairment provision requirement.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls relating to the determination of loan impairments.

In order to address this key audit matter we have completed audit procedures including:

- challenging the quantitative and qualitative triggers used to identify significant increases in credit risk to assess whether they are appropriate, consistently applied and based on reasonable information and meet the requirements of IFSR 9;
- assessing and challenging the key assumptions used by management with reference to industry benchmarks and our credit risk specialists;
- testing that these key assumptions have been accurately reflected in the calculation of expected credit losses;
- performing completeness and accuracy testing over the data supporting management's key assumptions;
- testing that these key assumptions have been accurately reflected in the calculation of expected credit losses; and
- with support from our economic modelling experts, challenging the macro-economic scenarios, including Brexit scenarios, incorporated by management.

Key observations

Management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.

STORE IMPAIRMENT REVIEW

Key audit matter description

The Group held £19,023m (2017/18: £18,521m) of property, plant and equipment at 23 February 2019.

Under IFRS, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal.

Judgement is required in identifying indicators of impairment and estimation is required in determining the recoverable amount of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods.

There is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' and 'fair value less costs of disposal'.

The three areas which are key to management's impairment review are as follows:

- value-in-use is derived from cash flow projections which rely upon Directors' assumptions and estimates of future trading performance, including the Group's ability to realise forecast cost savings;
- value-in-use is calculated by a number of complex models. There is a risk the models are not calculating the value-in-use accurately; and
- the fair value of properties in each of the Group's territories.

The Group has incorporated a Brexit risk adjustment in the UK & ROI segment to reflect the associated risks in the Group's modelling.

As a result of the Group's store impairment review completed during the year, a net impairment reversal of £73m (2017/18: net impairment reversal of £187m) was recognised.

How the scope of our audit responded to the key audit matter
Our audit procedures included assessing the design and implementation of key controls around the impairment review processes.

In relation to the Group's value-in-use assessment our procedures have included:

- challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and the reasonableness of management's forecasts;
- reviewing and challenging the adequacy of the management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular forecast cash flows and property fair values; and
- assessing the accuracy of the 'value-in-use' modelling with reference to the requirements of IAS 16 'Impairment of Assets' and checking the integrity of the Group's value-in-use models.

In relation to the Group's 'fair value less costs of disposal', we have challenged the Group's fair value assumptions using internal property valuation specialists and assessing whether appropriate valuation methodologies have been used and sufficient consideration given to comparable retail sector valuation evidence.

Key observations

We note actions are required by the Group to achieve these forecasts over the medium term. We concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and that the overall level of net reversal of impairment was reasonable.

Additionally, the Group's incorporation of the risks associated with Brexit is considered to be appropriate.

RECOGNITION OF COMMERCIAL INCOME

Key audit matter description

The Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers.

In accordance with IFRS, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held.

The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement. As such we have identified this as a key audit matter and considered that there was a potential for fraud through possible manipulation of this income.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of controls that the Group has established in relation to commercial income recognition.

In addition, we performed the following:

- testing whether amounts recognised were accurate and recorded in the correct period, by agreeing to the contractual performance obligations in a sample of individual supplier agreements;
- testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables via balance sheet reconciliation procedures;
- circularising a sample of suppliers to test whether the arrangements recorded were complete. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements;
- holding discussions with a sample of the Group's buying personnel to further understand the buying processes, where required;
- using data analytics to profile commercial income, identify deals which exhibited characteristics of audit interest upon which we completed detailed audit testing;
- reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas of non-compliance which may require further investigation;
- considering the Booker commercial income arrangements and compliance with the Group's relevant accounting practices; and
- considering the adequacy of the commercial income related disclosure within the Group's financial statements.

Key observations

The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet.

PENSION OBLIGATION VALUATION

Key audit matter description

The Group has a defined benefit pension plan in the UK retail business. At 23 February 2019, the Group recorded a net retirement obligation before deferred tax of £2,808m (2017/18: £3,282m), comprising scheme assets of £15,054m (2017/18: £13,235m) and scheme liabilities of £17,862m (2017/18: £16,517m).

The pension obligation valuation is material, dependent on market conditions, and sensitive to changes in key assumptions made. The key audit matter specifically relates to the following key assumptions: discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls in relation to the pension obligation valuation process.

In testing the pension valuation, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.

Key observations

We are satisfied that the methodology and assumptions applied in relation to determining the pension valuation are within an acceptable range.

CONTINGENT LIABILITIES

Key audit matter description

The Group has a number of contingent liabilities. Judgement is required in assessing the likelihood of outflow, the potential quantum of any outflow and the associated disclosure requirements.

This key audit matter specifically relates to the following exposures:

- in 2016/17 UK shareholder actions were initiated against the Group linked to the overstatement of expected profits in 2014 which may result in legal exposures;
- following the sale of Homeplus in 2015 the Group has received claims from the purchaser relating to the sale of the business; and
- Tesco Stores Limited has received claims from the current and former store colleagues alleging that their work is of equal value to that of colleagues working in the Group’s distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls in relation to the monitoring of known exposures.

In assessing the potential exposures to the Group, we have completed a range of procedures including:

- assessing the risks the business faces;
- reading Board and other meeting minutes to identify areas subject to Group consideration;
- meeting with the Group’s internal legal advisors to understand ongoing and potential legal matters and reviewing third party correspondence and reports;
- assessing the reasonableness of management’s likelihood and quantification of outflow assessment; and
- reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.

Key observations

We conclude that the Group’s contingent liabilities disclosure is complete. Specifically, the accounting and disclosures in relation to the ongoing UK shareholder actions, claims from the purchasers of the Homeplus business and the Group’s equal pay matter are appropriate.

PRESENTATION OF THE GROUP’S INCOME STATEMENT

Key audit matter description

One of the Group’s key performance indicators is ‘Group operating profit before exceptional items and amortisation of acquired intangibles’ (2018/19: £2,206m, 2017/18: £1,646m).

Management judgement is required when applying this accounting policy and when determining classification of items as exceptional within the Group’s income statement. We have determined that there was a potential for fraud through possible manipulation of the Group’s income statement presentation due to the level of judgement involved and remuneration targets being linked to the key performance indicator.

How the scope of our audit responded to the key audit matter

Our audit procedures included assessing the design and implementation of key controls which address the risk of inappropriate presentation of the Group’s income statement.

In order to address this key audit matter we have completed audit procedures including:

- considering exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group’s underlying profit measures;
- assessing whether any bias exists in management’s presentation of results and assessing consistency of application across multiple financial years;
- assessing transactions completed outside of the normal course of business; and
- assessing the appropriateness of excluding amortisation of intangible assets acquired in business combinations from Group’s operating profit alternative performance measure.

Key observations

We note that consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items and amortisation of acquired intangibles which do not meet the Group’s definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items and amortisation of acquired intangibles.

RETAIL TECHNOLOGY ENVIRONMENT, INCLUDING IT SECURITY

Key audit matter description

The Group's retail operations utilise a range of information systems. In 2015/16, 2016/17 and 2017/18 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.

In 2018/19 the Group has implemented a new general ledger system for the UK business and is continuing the replacement of a number of its key systems as well as making changes to key elements of the Group's IT infrastructure to address the identified deficiencies. There is a risk the related data transfer process is incomplete or inaccurate.

How the scope of our audit responded to the key audit matter

We have continued to challenge and assess changes to the IT environment through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes.

During the year we have assessed the design and implementation of the Group's key controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme.

Consistent with 2017/18, in 2018/19 we were not able to take a control reliant audit approach due to the ongoing weaknesses in the IT environment.

Where we noted deficiencies which affected applications and databases within the scope of our audit, we extended the scope of our substantive audit procedures.

Key observations

Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment.

We note that management's actions have reduced the number of deficiencies in the year relating to user access and change management controls linked to the Group's financial reporting.

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

Procedures performed to agree to the Preliminary Announcement of annual results

In order to agree to the publication of the Preliminary Announcement of annual results of the Group we carried out the following procedures:

(a) checked that the figures in the Preliminary Announcement covering the full year have been accurately extracted from the audited financial statements and reflect the presentation to be adopted in the audited financial statements;
(b) considered whether the information (including the management commentary) is consistent with other expected contents of the Annual Report and Accounts;
(c) considered whether the financial information in the Preliminary Announcement is misstated;
(d) considered whether the Preliminary Announcement includes a statement by the Directors as required by section 435 of CA 2006 and whether the Preliminary Announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;
(e) where the Preliminary Announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:
    - the use, relevance and reliability of APMs has been explained;
    - the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
    - the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
    - comparatives have been included, and where the basis of calculation has changed over time this is explained.
(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

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

Panos Kakoullis (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
9 April 2019

Appendix 1

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

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**16.6%**	**18.9%**	**14.5%**	**14.6%**	**17.7%**	**14.5%**	**16.1%**
UK & ROI (comparable growth[(b)])	**3.5%**	**3.5%**	**0.6%**	**0.7%**	**3.5%**	**0.7%**	**2.1%**
UK	1.9%	1.7%	(0.9)%	0.4%	1.8%	(0.2)%	0.8%
ROI	9.5%	7.2%	3.4%	0.7%	8.4%	2.0%	5.0%
Booker	12.8%	13.7%	9.7%	2.6%	13.3%	6.1%	9.6%
Central Europe	**0.7%**	**(5.8)%**	**(7.2)%**	**(6.9)%**	**(2.7)%**	**(7.1)%**	**(4.9)%**
Asia	**(6.8)%**	**(1.3)%**	**(3.3)%**	**5.0%**	**(4.1)%**	**1.0%**	**(1.6)%**
Tesco Bank	**7.0%**	**1.1%**	**2.2%**	**8.5%**	**4.2%**	**5.3%**	**4.7%**
Group	**12.1%**	**13.4%**	**9.9%**	**10.8%**	**12.8%**	**10.4%**	**11.5%**
Group (comparable growth[(b)])	**2.3%**	**2.0%**	**(0.5)%**	**0.3%**	**2.2%**	**(0.1)%**	**1.0%**

[(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.

Appendix 2

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

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**16.5%**	**18.9%**	**14.5%**	**14.5%**	**17.7%**	**14.5%**	**16.1%**
UK & ROI (comparable growth[(b)])	**3.4%**	**3.5%**	**0.7%**	**0.7%**	**3.5%**	**0.7%**	**2.1%**
UK	1.9%	1.7%	(0.9)%	0.4%	1.8%	(0.2)%	0.8%
ROI	6.8%	7.6%	4.1%	0.2%	7.2%	2.1%	4.5%
Booker	12.8%	13.7%	9.7%	2.6%	13.3%	6.1%	9.6%
Central Europe	**(2.9)%**	**(4.2)%**	**(5.2)%**	**(5.7)%**	**(3.5)%**	**(5.4)%**	**(4.5)%**
Asia	**(7.2)%**	**(2.5)%**	**(6.0)%**	**(0.7)%**	**(5.0)%**	**(3.3)%**	**(4.1)%**
Tesco Bank	**7.0%**	**1.1%**	**2.2%**	**8.5%**	**4.2%**	**5.3%**	**4.7%**
Group	**11.5%**	**13.5%**	**9.9%**	**10.4%**	**12.5%**	**10.2%**	**11.3%**
Group (comparable growth[(b)])	**1.8%**	**2.1%**	**(0.5)%**	**(0.0)%**	**2.0%**	**(0.3)%**	**0.8%**

[(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 3

Country detail - Retail

	Revenue (exc. VAT, inc. fuel)*			
	Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	43,445	43,445	1.0	1.0
ROI	2,683	2,372	1.1	1.1
Booker	5,826	5,826	1.0	1.0
Czech Republic	43,338	1,492	29.0	28.8
Hungary	573,887	1,585	362.1	355.5
Poland	9,613	1,986	4.8	4.7
Slovakia	1,375	1,216	1.1	1.1
Thailand	172,850	4,055	42.6	43.9
Malaysia	4,383	818	5.4	5.5

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

Appendix 4

UK sales area by size of store [a]

Store size (sq. ft.)	February 2019			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	2,518	5.4	13.9	2,512	5.2	13.1
3,001 – 20,000	276	3.0	7.9	284	3.4	8.5
20,001 – 40,000	284	8.2	21.2	284	8.2	20.6
40,001 – 60,000	182	8.8	22.9	182	9.4	23.6
60,001 – 80,000	120	8.5	22.1	120	8.5	21.4
80,001 – 100,000	50	3.7	9.7	45	4.2	10.6
Over 100,000	8	0.9	2.3	8	0.9	2.2
Total[a]	**3,438**	**38.5**	**100.0**	**3,435**	**39.8**	**100.0**

[a] Excludes Booker and franchise stores.

Appendix 5

Actual Group space – store numbers [a]

	2017/18 year-end[b]	Openings	Closures/ disposals	Net gain/ (reduction)[c]	2018/19 year-end	Repurposing/ extensions
Large	801	-	(4)	(4)	797	-
Small	1,852	9	(6)	3	1,855	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,659**	**9**	**(10)**	**(1)**	**2,658**	**-**
One Stop[d]	776	4	(8)	(4)	772	-
Booker	198	1	(2)	(1)	197	1
Jack's	-	8	-	8	8	-
UK[e]	**3,633**	**22**	**(20)**	**2**	**3,635**	**1**
ROI	**150**	**2**	**-**	**2**	**152**	**-**
UK & ROI[d]	**3,783**	**24**	**(20)**	**4**	**3,787**	**1**
Czech Republic[d]	189	-	(1)	(1)	188	5
Hungary	206	-	(2)	(2)	204	4
Poland	415	-	(62)	(62)	353	4
Slovakia	151	-	(1)	(1)	150	1
Central Europe[d]	**961**	**-**	**(66)**	**(66)**	**895**	**14**
Malaysia	72	2	(1)	1	73	6
Thailand	1,951	70	(56)	14	1,965	20
Asia	**2,023**	**72**	**(57)**	**15**	**2,038**	**26**
Group[d]	**6,767**	**96**	**(143)**	**(47)**	**6,720**	**41**
UK (One Stop)	*169*	*19*	*(14)*	*5*	*174*	-
Czech Republic	*97*	*5*	*(3)*	*2*	*99*	-
Franchise stores	***266***	***24***	***(17)***	***7***	***273***	**-**

[a] Continuing operations.
[b] Adjusted to include Booker and a change in classification of UK store formats.
[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)(c)]	Openings[(c)]	Closures/ disposals[(c)]	Repurposing/ extensions[(d)]	Net gain/ (reduction)	2018/19 year-end
Large	31,426	-	(58)	-	(58)	31,368
Small	5,128	16	(47)	-	(31)	5,097
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,270**	**16**	**(105)**	**-**	**(89)**	**37,181**
One Stop[(e)]	1,266	7	(12)	-	(5)	1,261
Booker	8,580	9	(153)	-	(144)	8,436
Jack's	-	81	-	-	81	81
UK[(e)]	**47,116**	**113**	**(270)**	**-**	**(157)**	**46,959**
ROI	**3,272**	**63**	**-**	**-**	**63**	**3,335**
UK & ROI[(e)]	**50,388**	**176**	**(270)**	**-**	**(94)**	**50,294**
Czech Republic[(e)]	4,832	-	(68)	(162)	(230)	4,602
Hungary	6,511	-	(3)	(227)	(230)	6,281
Poland	8,909	-	(861)	(244)	(1,105)	7,804
Slovakia	3,555	-	(81)	(36)	(117)	3,438
Central Europe[(e)]	**23,807**	**-**	**(1,013)**	**(669)**	**(1,682)**	**22,125**
Malaysia	3,637	79	(84)	(99)	(104)	3,533
Thailand	14,835	543	(112)	(242)	189	15,024
Asia	**18,472**	**622**	**(196)**	**(341)**	**85**	**18,557**
Group[(e)]	**92,667**	**798**	**(1,479)**	**(1,010)**	**(1,691)**	**90,976**
UK (One Stop)	*224*	*23*	*(20)*	-	*3*	*227*
Czech Republic	*92*	*5*	*(2)*	-	*3*	*95*
Franchise stores	***316***	***28***	***(22)***	**-**	***6***	***322***

[(a)] Continuing operations.
[(b)] Adjusted to include Booker.
[(c)] Our definition of space has been updated to reflect retail selling space excluding checkouts, customer service desks and customer toilets.
[(d)] Repurposing of retail selling space.
[(e)] Excludes franchise stores.

Group space forecast to 29 February 2020 – '000 sq. ft.[(a)]

	2018/19 year-end[(b)]	Openings[(b)]	Closures/ disposals[(b)]	Repurposing /extensions[(b)]	Net gain/ (reduction)[(b)]	2019/20 year-end
Large	31,368	-	-	-	-	31,368
Small	5,097	43	-	-	43	5,140
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,181**	**43**	-	**-**	**43**	**37,224**
One Stop[(d)]	1,261	16	-	-	16	1,277
Booker	8,436	-	-	-	-	8,436
Jack's	81	70	-	-	70	151
UK[(d)]	**46,959**	**129**	**-**	**-**	**129**	**47,088**
ROI	**3,335**	**3**	-	**-**	**3**	**3,338**
UK & ROI[(d)]	**50,294**	**132**	-	**-**	**132**	**50,426**
Czech Republic[(d)]	4,602	33	-	(265)	(232)	4,370
Hungary	6,281	-	-	(493)	(493)	5,788
Poland	7,804	-	(50)	-	(50)	7,754
Slovakia	3,438	54	-	(246)	(192)	3,246
Central Europe[(d)]	**22,125**	**87**	**(50)**	**(1,004)**	**(967)**	**21,158**
Malaysia	3,533	61	-	(172)	(111)	3,422
Thailand	15,024	146	-	-	146	15,170
Asia	**18,557**	**207**	**-**	**(172)**	**35**	**18,592**
Group[(d)]	**90,976**	**426**	**(50)**	**(1,176)**	**(800)**	**90,176**
UK (One Stop)	*227*	*33*	-	-	*33*	*260*
Czech Republic	*95*	*14*	-	-	*14*	*109*
Franchise stores	***322***	***47***	**-**	**-**	***47***	***369***

(a) Continuing operations.
(b) Our definition of space has been updated to reflect retail selling space excluding checkouts, customer service desks and customer toilets.
(c) Repurposing of retail selling space.
(d) Excludes franchise stores.

Tesco Bank income statement

	2019[a] £m	2018[b] £m
Revenue		
Interest receivable and similar income	729	673
Fees and commissions receivable	368	374
	1,097	**1,047**
Direct costs		
Interest payable	(175)	(176)
Fees and commissions payable	(27)	(22)
	(202)	**(198)**
Gross profit	**895**	**849**
Other expenses		
Staff costs	(170)	(174)
Premises and equipment	(80)	(77)
Other administrative expenses	(201)	(209)
Depreciation and amortisation	(83)	(83)
Provisions for bad and doubtful debts	(164)	(137)
Operating profit before exceptional items	**197**	**169**
Exceptional items[c]	(30)	(24)
Operating profit	**167**	**145**
Net finance costs: movements on derivatives and hedge accounting	(4)	11
Net finance costs: interest	(4)	(4)
Share of profit/(loss) of joint venture	8	10
Profit before tax	**167**	**162**

[a] These results are for the 12 months ended 28 February 2019 and the period represents the 12 months ended 28 February 2018.
[b] Restated for the adoption of IFRS 15 as explained in Note 1 and Note 23.
[c] Exceptional items in 2019 comprise a PPI provision charge of £16m, a regulatory charge of £16m and a restructuring credit of £2m reflecting a reduction in dilapidations and onerous lease provision. This credit is in relation to business restructuring. Exceptional items in 2018 consist of an increase in PPI provision of £35m partially offset by a decrease in CCA provision of £1m and a credit of £10m received following the conclusion of negotiations with a third party in respect of previously recognised customer redress.