TESCO

Interim Results 2019/20

TURNAROUND GOALS DELIVERED – WELL-POSITIONED FOR SUSTAINABLE, PROFITABLE GROWTH

	1H 2019/20	1H 2018/19[1]	Change at actual rates	Change at constant rates	Like-for-like sales change[8]
Headline measures[2]:					
Group sales[3]	**£28.3bn**	£28.3bn	0.1%	(0.4)%	(0.4)%
- UK & ROI	£22.4bn	£22.4bn	0.2%	0.2%	0.1%
- Central Europe	£2.8bn	£3.0bn	(7.0)%	(6.3)%	(3.1)%
- Asia	£2.6bn	£2.4bn	8.4%	1.0%	(1.3)%
- Tesco Bank	£0.6bn	£0.5bn	2.8%	2.8%	n/a
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£1,406m**	£1,121m	25.4%	24.4%	
Diluted EPS before exceptional and other items[5]	**8.17p**	5.45p	49.8%		
Interim dividend per share	**2.65p**	1.67p	58.7%		
Retail free cash flow[6]	**£814m**	£397m	105.0%		
Net debt[6]	**£(12.6)bn**	£(13.7)bn	down 7.8%		
Statutory measures:					
Revenue	**£31.9bn**	£31.7bn	0.6%	0.1%	
Operating profit	**£1,134m**	£1,007m	12.6%	11.4%	
Profit before tax	**£494m**	£463m	6.7%	3.7%	
Diluted EPS[7]	**3.31p**	3.47p	(4.6)%		

Headlines

Customer satisfaction

- Shopping trip satisfaction improved across all measures and all channels; +8 point increase year-on-year[9]
- Strong fresh food offer driving +0.4% UK volume outperformance in the half
- 'Exclusively at Tesco' brands gaining volume share from all competitors; full range now in 550 stores
- Brand perception further improved on value, quality and trust[10]
- Brand net promoter score improved in the half, versus declines for all key competitors

Cash profitability

- Group operating profit before exceptional items and amortisation of acquired intangibles[4] £1,406m, +25.4%, margin 4.41%, up 87 bps;
  - Significant improvement driven by space right-sizing, cost savings and improved product mix
    - UK & ROI £1,085m +28.4%
    - Central Europe £63m (16.0)% (+1.3% excl. £(13)m provision re. potential historic VAT liabilities)
    - Asia £171m +54.1%
  - Bank £87m, (3.3)%: invested in competitiveness of insurance offer
- Group margin target (pre-IFRS 16 excl. Booker) delivered six months early: 12-month margin 3.73% incl. 1H 3.67%[11]
- Cost savings to date £1.6bn, already ahead of £1.5bn FY 19/20 target[12]
- EBITDA[13] up 15.3% to £2.3bn

Cash flow

- Retail free cash flow[6] of £814m, +£417m YoY
- Working capital inflow +£114m (LY: £(12)m) driven by UK & ROI +£216m (LY: £(52)m)
- Agreed 73 property disposals since year-end, primarily in Poland for total proceeds of £210m (of which 1H: £65m)
- Interim dividend 2.65p, +58.7%; expect full year dividend pay-out ratio of 50%
- Net debt[6] £(12.6)bn, down £0.6bn since year-end; Pension deficit £0.2bn lower following strong asset performance

CEO succession

- Group CEO succession announced: Dave Lewis stepping down next year; Ken Murphy appointed as successor

Dave Lewis, Chief Executive:

"Despite challenging external conditions we have delivered a very good start to the year. I'm very pleased to say that we have now delivered every element of the turnaround plan and from this position of strength, the transformation of our business continues at pace.

The Capital Markets Day in June laid out many opportunities for further, profitable growth and I'm delighted to share today the plans to step up our store opening programme, to increase our online capacity, the introduction of Clubcard Plus in the UK and the acquisition of Best Food Logistics as the next step in our Booker growth strategy.

With the turnaround complete and as we begin to implement the next steps of our sustainable growth strategy, now is the right time to plan a smooth and orderly succession. As such, I will step down as Group CEO next summer and pass the baton to Ken Murphy."

Looking ahead

With the turnaround complete we move to the opportunities outlined at the Capital Markets Day in June. We are in a strong position to generate sustainable growth within our existing capital expenditure allocation of £1.1bn to £1.4bn per year, this includes:

Growth

- Stores: as a result of lowering build costs, reducing operating costs and improvements in margin we will:
  - Open 750 Express stores in Thailand over the next three years
  - Increase rate of Express store expansion in the UK, opening 150 stores over the next three years
  - Proceed with 4 new superstores in UK & ROI
- Online: having established a more profitable, increasingly cash generative operating model, we will double our online capacity in the UK
  - Open 3 Urban Fulfilment Centres by Summer 2020 (incl. first in West Bromwich by March 2020) as part of plan to open more than 25 over the next three years
- Loyalty: continue the innovation in loyalty (Digital Clubcard, Clubcard pricing) with the introduction of Clubcard Plus in the UK before the end of 2019
- Booker: building on the organic growth since merger (£0.7bn additional sales to date), we are announcing today the acquisition of the assets and operations of Best Food Logistics for a nominal consideration, adding a further £1.1bn additional foodservice sales*. Best Food Logistics distributes food to customers including Pret a Manger, KFC and Burger King.

Innovation

- Simplify to serve: continue our journey to focus on improving customer service and lowering operating costs
  - In UK & ROI: repurpose proposition in 153 Metro stores and complete new counters proposition in 692 stores
  - In Asia: roll out new Express propositions, customer satisfaction +16%
  - In CE: addressing 2.7m sq. ft. unproductive space; moving to two-format model in Poland
- Jack's: 3 more stores to open by February 2020
- Product: new seasonal 'Fresh 5' offer driving additional 2% sales volumes in fruit and vegetables
- Plant-based food: number of lines to be doubled by January incl. six new brands
- Plastic: new strategy launched with 1,500 supplier partners

Enabling technology

- Growth-enabling:
  - 1.54m Clubcard app users, +77% YoY; more than 1.5m customers benefiting from Clubcard Prices
  - Cost to serve model with 440bn data points continues to support making the right decisions for customers
  - Equity investment in Trigo frictionless shopping technology and 'Scan, Pay, Go' app now available to over 5,000 colleagues
- Cost efficiency:
  - Tesco Connect supplier platform and new algorithms improving fresh sales forecast accuracy by 6.7%
  - Changed stock control process moving to simpler 'by exception' model saving c.£40m annually
  - Pay+ transactions +18% in 1H; 4% increase in cashless transactions, lowering cash handling costs
- Simplification:
  - All large stores using new Scheduler tool, optimising 300 million colleague hours per year
  - Improved online grocery transport planning algorithm saving over 11.2 million miles this year
  - First time automation of lease management of 30,000+ leases in Thailand

*Subject to review by the Competition and Markets Authority

Outlook

We have had a strong start to the year, leaving us well-positioned to continue to be highly competitive in challenging markets.

As we move beyond our turnaround goals, we are expecting a more even balance of profitability between the first and second half.

We remain disciplined in our approach to capital allocation, delivering the growth, innovation and enabling technology opportunities outlined above whilst maintaining capital expenditure within a range of £1.1bn and £1.4bn per year.

Our merger with Booker continues to generate synergies ahead of plan and we are very confident that we will reach our cumulative target of c.£140m this year and c.£200m by 2020/21.

We will report our 3Q and Christmas Trading statement on Thursday 9 January 2020.

CEO SUCCESSION

We have announced this morning that Dave Lewis has decided to step down as Group CEO of Tesco. He will leave the business next year and will be succeeded by Ken Murphy.

John Allan, Chairman:

"It is with regret that I have accepted the resignation of Dave Lewis as Group CEO of Tesco, who has decided that he wants to leave the business in the summer of 2020.

Dave has done an outstanding job in rebuilding Tesco since 2014 and he continues to have unwavering support from the Board. Some time ago, however, he indicated to me that he was considering the best time to hand over to a successor. His openness allowed me to begin a thorough and orderly process to identify a potential candidate to replace him. As a result, today, we have appointed Ken Murphy to succeed Dave as Group CEO of Tesco next summer.

Ken is unquestionably, a seasoned, growth-orientated business leader. He has deep commercial, marketing and brand experience within retail and wholesale businesses, first with Alliance Unichem, and then with Boots. He was Joint Chief Operating Officer at Boots UK & Ireland before rising to Executive Vice President, Chief Commercial Officer and President Global Brands at Walgreens Boots Alliance. Ken has values which align with our own, strong strategic and operating acumen, and is proven at the very top of a large and respected multinational retail group. I firmly believe we have the right person for the job. Ken has contractual commitments to his previous employer, and therefore we will announce his precise start date in due course.

Today's results confirm that the Tesco turnaround has been delivered. Under Dave's leadership Tesco has transformed customer satisfaction and rebuilt the business. We can now move forward with renewed confidence. We have an exceptional leadership team, a very clear strategy, a re-invigorated brand and financial strength."

Dave Lewis, Chief Executive:

"My decision to step down as Group CEO is a personal one. I believe that the tenure of the CEO should be a finite one and that now is the right time to pass the baton. Our turnaround is complete, we have delivered all the metrics we set for ourselves. The leadership team is very strong, our strategy is clear and it is delivering. The Tesco brand is stronger and customer satisfaction is the highest it has been for many years. Colleagues are doing an extraordinary job and their expertise shows in every store and channel every day.

With these firm foundations and a competitive, sustainable growth strategy in place, I have no doubt that Tesco will kick on again under new leadership next year.

When that time comes, I will watch progress from outside with interest, deep affection and pride. In the meantime, you can be sure that I will give the job everything I have until my very last day."

Dave Lewis's full departure terms will be confirmed close to his final date of service. However, we can confirm that the Remuneration Committee has approved good leaver status for Dave for his outstanding awards and that departure terms will be in line with Tesco's Remuneration Policy.

Ken Murphy will receive CEO employment terms in line with Tesco's remuneration policy. His basic salary will be £1,350,000 per annum and his pension contribution will be 7.5% of basic salary, in line with the pension saving opportunity of the wider UK workforce.

Ken may forfeit payments from his previous employment for which he will be compensated if they arise on a like for like basis. Mr Murphy will also be provided with appropriate relocation assistance. Costs will be disclosed in due course.

There are no additional matters that would require disclosure under LR 9.6.13 R (1) to (6) in respect of Ken Murphy.

Headline Group results

Key segmental results:

	Sales[3]	Year-on-year change (actual rates)	Year-on-year change (constant rates)	Like-for-like sales change[8]	Operating Profit before exceptional items and amortisation of acquired intangibles	Year-on-year change (actual rates)	Year-on-year change (constant rates)
UK & ROI	**£22,416m**	0.2%	0.2%	0.1%	**£1,085m** **4.19%**	28.4% +90bp	28.4% +90bp
- UK	*£18,146m*	*(0.9)%*	*(0.9)%*	*(0.3)%*			
- ROI	*£1,137m*	*0.5%*	*0.6%*	*0.1%*			
*- Booker**	*£3,133m*	*6.5%*	*6.5%*	*2.4%*			
Central Europe	**£2,762m**	(7.0)%	(6.3)%	(3.1)%	**£63m** **2.18%**	(16.0)% (23)bp	(14.7)% (21)bp
Asia	**£2,556m**	8.4%	1.0%	(1.3)%	**£171m** **6.69%**	54.1% +200bp	42.3% +194bp
Bank	**£562m**	2.8%	2.8%	-	**£87m** **15.47%**	(3.3)% (97)bp	(3.3)% (97)bp
Group*	**£28,296m**	0.1%	(0.4)%	(0.4)%	**£1,406m** **4.41%**	25.4% +87bp	24.4% +86bp

A full Group income statement can be found on page 16.

26 weeks ended 24 August 2019	1H 2019/20	1H 2018/19[1]	Year-on-year change (Actual exchange rates)	Year-on-year change (Constant exchange rates)
Group sales (exc. VAT, exc. fuel)[3*]	**£28,296m**	**£28,294m**	**0.1%**	**(0.4)%**
Fuel	£3,613m	£3,440m	5.0%	5.1%
Revenue (exc. VAT, inc. fuel)	**£31,909m**	**£31,734m**	**0.6%**	**0.1%**
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£1,406m**	**£1,121m**	**25.4%**	**24.4%**
Include exceptional items and amortisation of acquired intangibles	£(272)m	£(114)m		
Group statutory operating profit	£1,134m	£1,007m	12.6%	11.4%
Adjusted Group profit before tax[5]	£1,039m	£705m	47.4%	
Group statutory profit before tax	**£494m**	**£463m**	6.7%	3.7%
Adjusted diluted EPS[5]	8.17p	5.45p	49.8%	
Statutory diluted EPS	3.31p	3.47p		
Statutory basic EPS	3.34p	3.49p		
Dividend per share	**2.65p**	1.67p	58.7%	
Capex[14]	**£0.4bn**	**£0.4bn**		
Net debt[6]	**£(12.6)bn**	**£(13.7)bn**		
Retail free cash flow[6]	**£0.8bn**	**£0.4bn**		

*Note: Booker consolidated from 5 March 2018 and therefore includes 9 additional days in 1H 2019/20 vs. 1H 2018/19. Booker sales change on a comparable days basis (at actual and constant rates) is 2.3% for 1H 2019/20. The 9 additional days of Booker sales in the current year contributed 0.4% to Group sales growth in the half. Further detail can be found in Appendix 1, on page 67.

Notes
1. Last half-year figures restated for adoption of IFRS 16.
2. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary on page 61.
3. Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis.
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 'diluted earnings per share' and 'adjusted Group profit before tax' measures exclude exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments. Full details of the diluted earnings per share measure can be found in Note 8, starting on page 39.
6. Net debt and retail free cash flow exclude the impact of Tesco Bank in order to provide further analysis of the retail cash flow statement. Net debt also includes lease liabilities following the adoption of IFRS 16. Net debt excluding lease liabilities was £(2.3)bn, down £0.4bn since year-end.
7. Statutory diluted earnings per share includes the impact of a net post-tax charge of £(396)m in respect of exceptional items. More detail can be found in Note 3 on page 36.
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. UK Multichannel tracker. Based on your most recent experience, how likely is it that you would recommend this store to a friend or colleague?
10. Reflects year-on-year change in YouGov Brand UK perception measures of quality, value and trust.
11. Group margin target (pre-IFRS 16 and excluding Booker) of 3.5% to 4.0% set in October 2016.
12. Group operating cost reduction target of £1.5bn by the end of the 2019/20 financial year, set in October 2016.
13. Retail EBITDA i.e. excludes the impact of Tesco Bank.
14. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 26 weeks ended 24 August 2019 was £0.5bn (LY £0.4bn).

Financial Results

These interim results are the first Tesco accounts prepared under IFRS 16, the new financial reporting standard on accounting for leases. All comparative figures included within this announcement have been restated for IFRS 16 and as previously indicated, we have adopted the standard fully retrospectively. Further detail on this can be found in Note 1 on page 24.

On 29 April 2019 we issued full year 2018/19 financial statements on an IFRS 16 basis. These can be found at www.tescoplc.com/investors.

Sales:

	UK & ROI[1]	Central Europe[2]	Asia[3]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£22,416m**	**£2,762m**	**£2,556m**	**£562m**	**£28,296m**
change at constant exchange rates[4] %	0.2%	(6.3)%	1.0%	2.8%	(0.4)%
change at actual exchange rates[4] %	0.2%	(7.0)%	8.4%	2.8%	0.1%
Like-for-like sales (exc. VAT, exc. fuel)	**0.1%**	**(3.1)%**	**(1.3)%**	**-**	**(0.4)%**
Statutory revenue (exc. VAT, inc. fuel)	**£25,895m**	**£2,896m**	**£2,556m**	**£562m**	**£31,909m**
Includes: Fuel	£3,479m	£134m	-	-	£3,613m

1. UK & ROI consists of Tesco UK, ROI, 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 declined by (0.5)% at constant exchange rates and were stable (0.0%) at actual exchange rates.

Group sales grew by 0.1% at actual rates, including a 0.5% foreign exchange translation benefit due to the depreciation of Sterling. At constant rates sales grew in all regions apart from Central Europe, where sales were held back by the steps we are taking to reposition the business for profitable growth. All regions were impacted by our actions to refocus our general merchandise offer on sustainable, profitable categories, with total Group sales impacted by c.(0.4)% as a result. Further information on sales performance is included in Appendices 1 to 4 starting on page 67 of this statement.

In the UK and the Republic of Ireland (ROI), total sales grew by 0.2% against a backdrop of subdued market growth, particularly in the second quarter with significant headwinds from last year's exceptionally warm weather, the World Cup and Royal Wedding. The closure of Tesco Direct, our UK online general merchandise business, in July 2018 impacted overall UK & ROI performance by (0.4)%.

In the UK, we outperformed the market in volume terms, supported by further investments in range, price and loyalty as part of our '100 Years of Great Value' celebrations. In particular, 'Exclusively at Tesco' contributed to positive volume switching from all of our competitors' comparable ranges. 'Exclusively at Tesco' now comprises 417 products, priced consistently cheaper than or matching the next most competitive retailer in the market, with the full range available in 550 large stores.

Following further improvements in picking and fulfilment efficiency, we accelerated the rate of growth in our online grocery business. Sales increased by 7.4% in the half compared to 2.5% in the previous six months, driven by strong growth in order numbers and a further 3% growth in delivery saver subscribers. The proportion of click and collect orders also increased, supported by a reduction to the minimum basket spend from £40 to £25. Following a successful trial involving 33 stores, we were the first retailer to roll out carrier bag-free deliveries to all our customers in August, resulting in a reduction of c.250 million bags per year.

Booker sales grew (on a comparable days basis) by 3.6% excluding tobacco (2.3% including tobacco) despite lapping exceptionally strong growth last year driven by significant contract wins and favourable weather. With small business confidence remaining low, we supported our retail and catering customers with increased promotional activity.

In the last year, we helped over 10,000 young people to develop their employability and life skills through our partnership with the Prince's Trust and the Institute of Grocery Distribution. In July we held 'Dance Beats', our biggest fundraising event to date involving thousands of colleagues and members of the public, with £2 million proceeds donated to Cancer Research UK, The British Heart Foundation and Diabetes UK.

In ROI, sales grew by 0.5% at actual rates. We saw particularly strong sales growth in core fresh food, including bakery and produce, as customers responded well to our 'You won't pay more' value campaign. Our total sales performance includes a new store contribution of 0.5%, principally relating to the opening of Liffey Valley Extra in May last year.

We are undertaking a significant transformation of our business in Central Europe, fundamentally changing our approach in Poland and re-sizing, simplifying and improving the relevance of our businesses in the Czech Republic, Hungary and Slovakia. Excluding Poland, sales reduced by (2.7)% (at actual exchange rates) in the first half principally driven by the impact of store closures and by c.(1)% from reduced general merchandise sales. This includes the impact on sales from the disruption caused by refitting stores as we address the 2.7m sq. ft. of unproductive space across the region.

The majority of our overall sales reduction of (7.0)% (at actual exchange rates) in Central Europe was driven by our actions to re-shape our business in Poland. We are moving to a two-format model - compact hypermarkets and supermarkets – with a tighter range, significantly lower operating costs and reduced central overheads.

In Asia, total sales grew by 8.4% at actual exchange rates, and by 1.0% at constant rates. Like-for-like sales reduced by (1.3)%, principally as a result of reduced general merchandise sales. We are focusing on differentiating our customer proposition in Thailand, across both large and small stores. We opened our first urban supermarket in June and our large store re-invention trial stores have been well received by customers, generating a sales uplift of 4.8%.

The trials of our new Express proposition in Thailand have also proved successful and we plan to roll out the enhanced offer to all Express stores. We have introduced 300 products in smaller pack sizes, added 100 products to our 'ready to eat' range and extended our 'food to go' drinks offer, in addition to maintaining our focus on fresh evening meal solutions. Our own brand expertise and price investment on key fresh food products supported positive sales growth in Malaysia.

Group statutory revenue of £31.9bn grew by 0.6% year-on-year and includes fuel sales of £3.6bn.

Operating profit before exceptional items and amortisation of acquired intangibles:

	UK & ROI	Central Europe	Asia	Tesco Bank	Group
Operating profit before exceptional items and amortisation of acquired intangibles	**£1,085m**	**£63m**	**£171m**	**£87m**	**£1,406m**
change at constant exchange rates %	28.4%	(14.7)%	42.3%	(3.3)%	24.4%
change at actual exchange rates %	28.4%	(16.0)%	54.1%	(3.3)%	25.4%
Operating profit margin before exceptional items and amortisation of acquired intangibles	**4.19%**	**2.18%**	**6.69%**	**15.47%**	**4.41%**
change at constant exchange rates (basis points)	90bp	(21)bp	194bp	(97)bp	**86bp**
change at actual exchange rates (basis points)	90bp	(23)bp	200bp	(97)bp	**87bp**
Statutory operating profit / (loss)	**£1,014m**	**£(34)m**	**£124m**	**£30m**	**£1,134m**

Group operating profit before exceptional items and amortisation of acquired intangibles was £1,406m, up 24.4% at constant exchange rates and up 25.4% at actual rates. Statutory operating profit of £1,134m includes the impact of exceptional items and amortisation of acquired intangibles, which are described in more detail below and in Note 3 on page 36 of this statement.

In October 2016 we set out an ambition to deliver a Group operating profit margin of 3.5% to 4.0% for the 2019/20 full year. On a comparable basis, i.e. pre-IFRS 16 and excluding Booker, we have achieved this ambition six months ahead of plan, delivering a Group operating profit margin of 3.73% for the last 12 months.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £1,085m, up 28.4%, with operating margin growth of 90 basis points year-on-year. This strong increase in profitability was driven by improved product mix and cost savings of £127m, primarily due to further refinements to our store operating model. The year-on-year performance also benefits from the inclusion of Tesco Direct operating losses of £(23)m and Booker transaction costs of £(22)m in the prior year.

As part of our 'Simplify to Serve' programme, we have made changes to our in-store counters offer, responding to changing customer shopping habits and reducing costs in order to create a sustainable, relevant offer for the future. As a result we removed counters from 82 stores and adapted our offer in a further 610 stores, saving over £64m per year. We have also further simplified the way we manage stock in all large stores, significantly reducing workload.

In August we announced further changes to simplify our store operations, focusing on our 153 Metro stores and around 130 Express convenience stores. These changes, which principally involve more efficient stock management and replenishment, leaner management structures and increased flexibility, allow us to better align the way we run these stores to the way that customers are now shopping them.

Booker's 'Joining Forces' programme is continuing to deliver benefits to the Group, with £54m synergies delivered in the half. We are very confident we will reach our cumulative target (comprising the in-year benefit of new initiatives combined with the carry forward of prior year activity) of c.£140m of synergies by the end of this financial year and c.£200m by the end of the third year post-merger.

Whilst Central European operating profit before exceptional items was lower year-on-year (by (16.0)% to £63m), this included a provision in respect of potential historic VAT liabilities. Prior to this provision, the underlying rate of improvement of +1.3% was held back by the disruptive impact of the fundamental transformation we are undertaking. This primarily relates to the flow through of the sales impacts described above, in addition to stock clearance costs and further investments to reposition our offer.

The steps we are undertaking to address the structural challenges we face in Poland have resulted in reduced losses in the first half and leave us on course to create a more focused, profitable, c.£1bn sales business.

Whilst the actions we are taking to reposition and simplify our operations in Central Europe will improve long-term profitability in the region, we expect further disruption in the second half.

Asia operating profit before exceptional items was up 54.1% year-on-year to £171m. This includes the benefit of annualising the temporary first half 2018/19 impact of renegotiating promotional investment from suppliers. In addition we have accelerated our cost savings initiatives in Thailand including distribution efficiency improvements and more focused, effective marketing activity.

Further information on operating profit performance is included in Note 2, starting on page 27 of this statement.

We have simplified the presentation of our income statement, removing the 'property-related items' line, as profits relating to property transactions are treated as exceptional items and disclosed separately within Note 3 on page 36. As a result, residual entries on this line are relatively low and stable and more appropriately included in either cost of sales or administrative expenses. This has no impact on operating profit or any other statutory or alternative performance measure. Further detail on this change can be found in Note 1 on page 24 of this statement.

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

	This Year	Last Year
Net restructuring and redundancy costs	£(75)m	£(22)m
Impairment of assets in Poland	£(71)m	-
Impairment of investment in India joint venture	£(47)m	-
Property transactions	£24m	£13m
Booker integration costs	£(6)m	-
Provision for customer redress	£(45)m	£(7)m
Bank Transformation costs	£(12)m	-
Tesco Bank FCA provision	-	£(16)m
Release of amounts provided in relation of FCA obligations	-	£15m
Tesco Direct closure costs	-	£(57)m
Total exceptional items in statutory operating profit	**£(232)m**	**£(74)m**
Amortisation of acquired intangible assets	£(40)m	£(40)m
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	**£(272)m**	**£(114)m**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group.

In the first half, exceptional restructuring and redundancy costs of £(75)m include £(39)m relating to the simplification of our store operating model in the UK. The transformation we are undertaking in Poland resulted in a further £(36)m of restructuring costs, as well as an impairment charge of £(71)m as we reassessed the carrying value of our net assets in light of these changes.

As a result of investments in our offer to remain competitive in the market, combined with a strategic decision to reduce store expansion due to availability of sites, we have reduced our profit expectations for our Trent Hypermarket joint venture leading to an impairment charge of £(47)m.

Exceptional profits on property transactions of £24m have arisen from a number of small property disposals within the UK and Central Europe.

As part of the anticipated exceptional Booker integration costs of £(50)m-£(75)m in the three years post-merger, we have incurred a £(6)m charge in the half, with costs to date totalling £(21)m.

Due to an unexpectedly high number of claims received in the weeks prior to the 29 August deadline in respect of Payment Protection Insurance, we have recognised an additional £(45)m provision for customer redress. Tesco Bank also incurred a £(12)m restructuring charge including changes made relating to the sale of our mortgage portfolio.

Further detail on exceptional items can be found in Note 3 on page 36 of this statement.

Amortisation of acquired intangible assets is also excluded from our headline performance measures. Our merger with Booker in March 2018 resulted in the recognition of goodwill of £3,093m and a £755m intangible asset, driving amortisation of acquired intangible assets of £(40)m for the half.

The net effect of exceptional items and acquired intangibles amortisation on operating profit during the half was £(272)m. This compares to £(114)m last year, which includes the Tesco Direct closure costs.

Joint ventures and associates:

	This year	Last year
Share of post-tax profits from JVs and associates before exceptional items	**£10m**	**£18m**
Exceptional items	£4m	£11m
Share of post-tax profits from JVs and associates	**£14m**	**£29m**

Our share of post-tax profits from joint ventures and associates before exceptional items was £10m, a decrease of £(8)m year-on-year primarily due to a reduced contribution from Gainland, our associate in China. An exceptional gain of £4m in our insurance joint venture, Tesco Underwriting, reflects a revision to the Ogden compensation tables which are used to calculate future losses in personal injury and fatal accident claims.

Finance income and finance costs:

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

	This year	Last year
Net interest on medium term notes, loans and bonds	**£(98)m**	**£(127)m**
Other interest receivable and similar income	£16m	£9m
Other finance charges and interest payable	£(24)m	£(24)m
Finance charges payable on lease liabilities	£(271)m	£(293)m
Capitalised interest	-	£1m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	**£(377)m**	**£(434)m**
Fair value remeasurements of financial instruments	£(61)m	£(94)m
Net pension finance costs	£(36)m	£(45)m
Net finance costs before exceptional charges	**£(474)m**	**£(573)m**
Exceptional charge – Fair value remeasurement on restructuring derivative financial instruments	£(180)m	-
Net finance costs	**£(654)m**	**£(573)m**

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £57m year-on-year to £(377)m. This improvement was mainly driven by a reduction in interest payable following debt maturities in both the first half and the prior year, bond tenders and new issues at a significantly lower rate of interest. Finance charges payable on lease liabilities, which are included following the adoption of IFRS 16, reduced by £22m, primarily due to ongoing lease utilisation and the buyback of two stores in the first half.

Fair value remeasurements includes £(62)m relating to the premium paid on the repurchase on long-dated bonds (LY: £(75)m).

Net pension finance costs decreased by £9m year-on-year, primarily due to a lower opening deficit. As previously indicated, for the full year, net pension finance costs are expected to be c.£(72)m.

The exceptional charge of £(180)m included in net finance costs relates to actions taken to remove inflation risk from swaps put in place as part of historical sale and leaseback property transactions. These swaps have been restructured to allow us to move from very complex financial instruments to a simpler form of financing. The charge, which is non-cash, relates to the revaluation of credit risk associated with the swaps over a shorter timeframe.

Further detail on finance income and costs can be found in Note 4 on page 38, as well as further detail on the exceptional charge in Note 3 on page 36.

Group tax:

	This year	Last year
Tax on profit before exceptional items and amortisation of acquired intangibles	£(222)m	£(147)m
Tax on exceptional items and amortisation of acquired intangibles	£52m	£22m
Tax on profit	**£(170)m**	**£(125)m**

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(222)m, £75m higher than last year due to increased profitability.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles was 23.6%. As previously indicated, it is expected to be around 22% for the full year - 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 effective tax rate to reduce to around 20% in the medium term as our overall level of profitability continues to increase and we benefit from the UK corporation tax rate reduction of 2%, to 17% in April 2020. Further detail can be found in Note 5 on page 38.

On a statutory basis, an exceptional credit of £52m is included and relates to the tax on exceptional items contained within operating profit.

Following changes announced to the timing of UK corporation tax payments, in common with other large UK companies we will have two additional quarterly cash payments in the 2021 fiscal year. This change effectively moves from payment of around half the tax liability after the financial year-end to full payment in-year, and is expected to create a one-off additional cash outflow in the first half of our 2020/21 financial year.

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	8.17p	5.45p
Statutory diluted earnings per share	3.31p	3.47p
Statutory basic earnings per share	3.34p	3.49p

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 8.17p, 49.8% higher year-on-year, due to our stronger profit performance. Statutory basic earnings per share from continuing operations were 3.34p, (4.5)% lower year-on-year, reflecting a higher statutory effective tax rate year-on-year due to the impact of non tax-deductible exceptional items.

Dividend:

The interim dividend has been set at 2.65 pence per ordinary share, an increase of 58.7% year-on-year. The interim dividend was approved by the Board of Directors on 1 October 2019. As previously announced, we anticipate a split of broadly one-third to two-thirds between the interim and final dividend and expect a full year dividend pay-out ratio of 50%.

The interim dividend will be paid on 22 November 2019 to shareholders who are on the register of members at close of business on 11 October 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 1 November 2019.

Summary of total indebtedness[1]:

	Aug 2019	Feb 2019	Movement
Net debt (excludes Tesco Bank) inc. lease liabilities	£(12,593)m	£(13,204)m	£611m
Pension deficit, IAS 19 basis (post-tax)	£(2,098)m	£(2,338)m	£240m
Total indebtedness	**£(14,691)m**	**£(15,542)m**	**£851m**

1. Total indebtedness is defined in the glossary, on page 63.

Overall, total indebtedness has decreased by £851m since the year-end driven by a £611m reduction in net debt, from a higher level of cash profitability and a reduced pension deficit. With the transition to IFRS 16, lease liabilities are now included as part of net debt and these liabilities decreased by £166m from the year-end principally reflecting capital repayments made in the period.

On an IAS 19 basis, our pension deficit decreased by £240m to £(2.1)bn. An increase in the measurement of scheme liabilities due to a fall in corporate bond yields was offset by strong asset performance, including of our liability-driven investment portfolio, in addition to continued deficit contributions and the application of the latest actuarial assumptions.

The next triennial actuarial valuation is effective as at 31 March 2020 and the Trustees will aim to conclude the valuation as soon as is reasonably possible. Further information on the Group's pension liability is available in Note 17 which begins on page 49.

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 3.0 to 3.2 times and from 3.6 to 3.2 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 32.

	This year	Last year
Operating profit before exceptional items and amortisation of acquired intangibles	**£1,406m**	**£1,121m**
Less: Tesco Bank operating profit before exceptional items	£(87)m	£(90)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	**£1,319m**	**£1,031m**
Add back: Depreciation and amortisation	£947m	£935m
Other reconciling items	£1m	£(8)m
Pension deficit contribution	£(144)m	£(142)m
Underlying (increase) / decrease in working capital	£114m	£(12)m
Retail cash generated from operations before exceptional items	**£2,237m**	**£1,804m**
Exceptional cash items:	£(116)m	£(115)m
Relating to prior years:		
- Shareholder Compensation Scheme payments and SFO fine	-	*£(27)m*
- Restructuring payments	*£(112)m*	*£(58)m*
Relating to current year:		
- Restructuring payments	-	*£(30)m*
- Integration costs	*£(4)m*	
Retail operating cash flow	**£2,121m**	**£1,689m**
Cash capex	£(389)m	£(459)m
Net interest & tax	£(529)m	£(560)m
Property proceeds	£65m	£134m
Property purchases – store buybacks	£(89)m	£(35)m
Market purchases of shares (net of proceeds)	£(52)m	£(139)m
Acquisitions & disposals and dividends received	£12m	£(693)m
Add back: Booker acquisition costs (included in Acquisition & disposals above)[1]	-	£747m
Repayments of obligations under leases	£(325)m	£(287)m
Retail free cash flow	**£814m**	**£397m**

1. The cost of major acquisitions and disposals are removed from the Group's definition of free cash flow.

Retail operating free cash flow increased by £417m year-on-year to £814m, primarily reflecting a strong increase in cash profitability.

In addition, we generated a net working capital inflow of £114m. This improvement principally reflects the reversal of the £(210)m impact seen in the second half of last year primarily relating to our decision to delay the implementation of a new general ledger system, offset by the phasing of working capital initiatives in the UK and the impact from lower sales as we undertake a fundamental repositioning of our business in Central Europe. The phasing in the UK weights working capital benefits to the second half, including the implementation of new payment terms with our largest suppliers.

Cash capital expenditure was £70m lower year-on-year as we maintain our disciplined approach to capital investment.

Cash tax paid increased by £(30)m year-on-year due to continued increases in cash profitability. A £61m reduction in cash interest principally relates to debt maturities in both the first half and the prior year and bond tenders at a significantly lower rate of interest. Cash interest also includes the interest element of lease rental payments, which reduced by £22m year-on-year as leases were utilised.

We generated £65m of proceeds from 50 property sales including 21 sites in Poland. In addition we have agreed the sale of a further 23 properties with aggregate proceeds of c.£145m due to be received in the second half of this financial year and beyond.

We utilised £(89)m of cash for the buy-back of Blandford and Chesterfield stores in the UK which will result in an annual cash rental saving of £6m.

We purchased £52m of shares in the market to offset dilution from the issuance of new shares. This was £87m lower than the prior year due to the phasing of purchases last year. We still expect to utilise c.£150m for the full year, with the precise amount depending on performance and market conditions.

As previously communicated, our definition of retail free cash flow has been updated to include the repayment of obligations under leases following the adoption of IFRS 16. The increase in these repayments is largely offset by a corresponding decrease within the interest element of lease rental payments included in net interest.

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	£276m	£251m	£35m	£35m	£42m	£109m	£19m	£13m	£372m	£408m
Openings (k sq ft)	74	92	21	-	79	314	-	-	174	406
Closures (k sq ft)	(176)	(157)	(329)	(229)	(4)	(105)	-	-	(509)	(491)
Repurposed (k sq ft)	-	-	(408)	(271)	(134)	(167)	-	-	(542)	(438)
Net space change (k sq ft)	(102)	(65)	(716)	(500)	(59)	42	-	-	(877)	(523)

1. 'Retail Selling Space' is defined as net space in store adjusted to exclude checkouts, space behind checkouts, customer service desks and customer toilets. Appendix 6 (p.69) 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 half was £0.4bn, a similar level to the prior year, and was primarily focused on store maintenance and refits.

Due to our continued focus on strong capital discipline we anticipate full year capital expenditure to be c.£1.1bn. In future years we continue to expect our annual capital expenditure to remain within a range of £1.1bn to £1.4bn.

In the UK & ROI, spend has related to the maintenance of our stores in addition to five new convenience store openings and our temporary replacement store in Kennington. In August we opened our tenth Jack's store in the UK, achieving a 40% reduction in fit out costs compared to previous conversions.

In Central Europe, our programme to address c.2.7 million sq. ft. of unproductive selling space by either refitting, downsizing or repurposing stores is now two-thirds complete. In addition, we recently announced our intention to move to a two-format model in Poland by closing or re-sizing all 63 hypermarkets to our better performing compact hypermarket format. This will reduce space in the region by around a further 3.6 million sq. ft. in total.

In Asia we opened one new store in Malaysia and a further four new stores in Thailand. As part of our medium-term ambition to open 750 new convenience stores in Thailand, we plan to open 50 stores in the second half.

Across the Group we have closed 40 loss-making stores in the half, principally in our One Stop convenience format and in Poland.

Statutory capital expenditure of £0.5bn includes £89m relating to the buyback of our Blandford and Chesterfield stores.

Further details of current and forecast space can be found in Appendix 6 starting on page 69.

Tesco Bank:

	This year	Last year	YoY
Revenue	**£562m**	**£547m**	**2.8%**
Operating profit before exceptional items	**£87m**	**£90m**	**(3.3)%**
Statutory operating profit	£30m	£69m	(56.5)%
Lending to customers	£12,379m	£12,144m	1.9%
Customer deposits	£9,903m	£10,070m	(1.7)%
Net interest margin	3.8%	3.8%	-
Total capital ratio	18.4%	18.2%	0.2%

Tesco Bank continues to focus on providing simple banking and insurance products to a broad range of Tesco customers. The number of loans and savings accounts grew strongly in the first half by 3% and 5% respectively and in a highly competitive motor insurance market we invested in price for customers, resulting in an improvement in retention rates year-on-year. We continue to improve our Travel Money offering. In the half we upgraded the Tesco Bank app to allow customers to purchase foreign currency and we rolled out our click and collect service to more stores.

Operating profit before exceptional items declined by (3.3)% year-on-year to £87m driven mainly by the investment in the competitiveness of our insurance products as well as an increase in the provision for bad debts.

Card balances reduced by (1)% as we adopt a more targeted strategy, resulting in a lower level of new business. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective with a total capital ratio of 18.4%.

In September we confirmed the sale of our c.£3.7bn mortgage portfolio to Lloyds Banking Group as part of our repositioning of Tesco Bank to focus on the right products and services for Tesco customers.

An income statement for Tesco Bank can be found in Appendix 7 on page 72 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 29 of this statement. Tesco Bank's half year results are also published today and are available at www.corporate.tescobank.com.

Contacts

Investor Relations:	Chris Griffith	01707 912 900
Media:	Christine Heffernan	01707 918 701
	Philip Gawith, Teneo	0207 420 3143

This document is available at www.tescoplc.com/interims2019

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/interims2019. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

Additional Disclosures

Principal Risks and Uncertainties

As with any business, effective risk management and controls are critical to successfully achieving the Group's strategy. Tesco has an established risk management process to identify, assess and monitor the principal risks faced by the business. A robust review of those risks that the Group believe could seriously affect its performance, future prospects, reputation or its ability to deliver against its priorities, is performed on a regular basis. This review includes an assessment of emerging and principal risks we believe would threaten the Group's business model, future performance, solvency or liquidity. The Tesco Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. At the Group level each principal risk has an Executive Owner. The Group Chief Executive has overall accountability for the control and management of risk.

The principal risks and uncertainties faced by the Group remain those as set out on pages 32 to 36 of our Annual Report and Financial Statements 2019: customer; transformation; liquidity; competition and markets; brand, reputation and trust; technology; political, regulatory and compliance; health and safety; people; responsible sourcing and supply chain; Brexit and Tesco Bank. Having reassessed the risks that could seriously affect the performance, future prospects or reputation of the Group and reflecting on the good progress made and the time elapsed since completion of the Booker merger, the Board considered it appropriate to remove Booker synergy realisation and integration as a principal risk. With the exception of Booker synergy realisation and integration, there have been no further significant changes to the description of the remaining principal risks, key controls and mitigating factors currently expected for the remaining six months of the year.

As previously reported on page 152 of the Tesco PLC Annual Report and Financial Statements 2019, 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 58 investors) and the second was received on 5 December 2016 from an investment company and a trust company. The merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure. Further details relating to this matter and the Group's other contingent liabilities can be found in Note 20.

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 216bn (£145m) and KRW 350bn (£235m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 162bn (£109m), 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 KRW 89bn (£59m). 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, 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 vigorously defend them.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the 26 week period ended 24 August 2019 in accordance with applicable law, regulations and accounting standards. Each of the Directors confirm that to the best of their knowledge the condensed consolidated interim financial statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a true and fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of the important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remainder of the financial year; and
- material related party transactions in the first 26 weeks of the year and any material changes in the related party transactions described in the last annual report.

The Directors of Tesco PLC are listed on pages 40 to 42 of the Tesco PLC Annual Report and Financial Statements 2019. A list of current directors is maintained on the Tesco PLC website at: www.tescoplc.com.

By order of the Board

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

*Non-executive Directors

Robert Welch, Company Secretary
1 October 2019

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

Disclaimer

	Notes	26 weeks ended 24 August 2019 Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 24 August 2019 Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 24 August 2019 Total £m	26 weeks ended 25 August 2018 (restated*) Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 25 August 2018 (restated*) Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 25 August 2018 (restated*) Total £m
Continuing operations							
Revenue	2	**31,909**	**–**	**31,909**	**31,734**	**–**	**31,734**
Cost of sales		(29,574)	(183)	(29,757)	(29,608)	(83)	(29,691)
Gross profit/(loss)		**2,335**	**(183)**	**2,152**	**2,126**	**(83)**	**2,043**
Administrative expenses		(929)	(89)	(1,018)	(1,005)	(31)	(1,036)
Operating profit/(loss)		**1,406**	**(272)**	**1,134**	**1,121**	**(114)**	**1,007**
Share of post-tax profits/(losses) of joint ventures and associates		10	4	14	18	11	29
Finance income	4	16	–	16	9	–	9
Finance costs	4	(490)	(180)	(670)	(582)	–	(582)
Profit/(loss) before tax		**942**	**(448)**	**494**	**566**	**(103)**	**463**
Taxation	5	(222)	52	(170)	(147)	22	(125)
Profit/(loss) for the period		**720**	**(396)**	**324**	**419**	**(81)**	**338**
Attributable to:							
Owners of the parent		720	(396)	324	419	(81)	338
Non-controlling interests		–	–	–	–	–	–
		720	**(396)**	**324**	**419**	**(81)**	**338**
Earnings/(losses) per share							
Basic	8			3.34p			3.49p
Diluted	8			3.31p			3.47p

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

* Restated for the adoption of IFRS 16 and reclassification of profits/(losses) arising on property-related items as explained in Note 1 and Note 22.

Group statement of comprehensive income/(loss)

	26 weeks 2019 £m	26 weeks 2018 (restated*) £m
Items that will not be reclassified to income statement		
Remeasurement gains/(losses) of defined benefit pension schemes	202	639
Net fair value gains/(losses) on inventory cash flow hedges	78	-
Tax on items that will not be reclassified	(50)	(108)
	230	**531**
Items that may subsequently be reclassified to income statement		
Change in fair value of debt instruments at fair value through other comprehensive income	7	(8)
Currency translation differences:		
Retranslation of net assets of overseas subsidiaries, joint ventures and associates	323	147
Gains/(losses) on other cash flow hedges:		
Net fair value gains/(losses)	234	107
Reclassified and reported in the Group income statement	(99)	-
Tax on items that may be reclassified	(26)	(9)
	439	**237**
Total other comprehensive income/(loss) for the period	**669**	**768**
Profit/(loss) for the period	324	338
Total comprehensive income/(loss) for the period	**993**	**1,106**
Attributable to:		
Owners of the parent	993	1,105
Non-controlling interests	-	1
Total comprehensive income/(loss) for the period	**993**	**1,106**

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

Group balance sheet

	Notes	24 August 2019 £m	23 February 2019 (restated*) £m	25 August 2018 (restated*) £m
Non-current assets				
Goodwill and other intangible assets	9	6,253	6,264	6,453
Property, plant and equipment	10	19,042	19,186	18,953
Right of use assets	11	7,605	7,713	7,878
Investment property		36	36	92
Investments in joint ventures and associates		548	602	600
Financial assets at fair value through other comprehensive income		1,012	979	648
Trade and other receivables		262	243	221
Loans and advances to customers and banks		4,186	7,868	7,547
Derivative financial instruments		1,679	1,178	1,199
Deferred tax assets		179	251	196
		40,802	**44,320**	**43,787**
Current assets				
Financial assets at fair value through other comprehensive income		30	67	42
Inventories	12	2,719	2,617	2,821
Trade and other receivables		1,620	1,550	1,495
Loans and advances to customers and banks		4,962	4,882	4,846
Derivative financial instruments		132	52	194
Current tax assets		1	6	-
Short-term investments	13	362	390	760
Cash and cash equivalents	13	2,656	2,916	3,243
		12,482	**12,480**	**13,401**
Assets classified as held for sale	6	3,880	98	123
		16,362	**12,578**	**13,524**
Current liabilities				
Trade and other payables		(9,641)	(9,131)	(9,509)
Borrowings	15	(814)	(1,563)	(2,520)
Lease liabilities	11	(638)	(646)	(712)
Derivative financial instruments		(53)	(250)	(117)
Customer deposits and deposits from banks		(8,864)	(8,832)	(8,842)
Current tax liabilities		(320)	(325)	(333)
Provisions		(229)	(226)	(348)
		(20,559)	**(20,973)**	**(22,381)**
Liabilities directly associated with assets classified as held for sale	6	(4)	-	-
Net current liabilities		**(4,201)**	**(8,395)**	**(8,857)**
Non-current liabilities				
Trade and other payables		(171)	(365)	(380)
Borrowings	15	(6,104)	(5,580)	(5,292)
Lease liabilities	11	(9,700)	(9,859)	(9,975)
Derivative financial instruments		(931)	(389)	(522)
Customer deposits and deposits from banks		(3,038)	(3,296)	(3,041)
Post-employment benefit obligations	17	(2,514)	(2,808)	(2,574)
Deferred tax liabilities		(42)	(49)	(58)
Provisions		(138)	(147)	(160)
		(22,638)	**(22,493)**	**(22,002)**
Net assets		**13,963**	**13,432**	**12,928**
Equity				
Share capital		490	490	490
Share premium		5,165	5,165	5,163
All other reserves		4,238	3,770	3,821
Retained earnings		4,094	4,031	3,475
Equity attributable to owners of the parent		**13,987**	**13,456**	**12,949**
Non-controlling interests		(24)	(24)	(21)
Total equity		**13,963**	**13,432**	**12,928**

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

These unaudited condensed consolidated interim financial statements for the 26 weeks ended 24 August 2019 were approved by the Board on 1 October 2019.

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 £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 23 February 2019 (as previously reported)	**490**	**5,165**	**(5)**	**16**	**118**	**758**	**(179)**	**3,090**	**5,405**	**14,858**	**(24)**	**14,834**
Cumulative adjustment to opening balances from application of IFRS 16 (net of tax)	-	-	-	-	-	(28)	-	-	(1,374)	(1,402)	-	(1,402)
At 23 February 2019 (restated*)	**490**	**5,165**	**(5)**	**16**	**118**	**730**	**(179)**	**3,090**	**4,031**	**13,456**	**(24)**	**13,432**
Profit/(loss) for the period	-	-	-	-	-	-	-	-	324	324	-	324
Other comprehensive income/(loss)												
Currency translation differences	-	-	-	-	-	323	-	-	-	323	-	323
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	7	7	-	7
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	202	202	-	202
Gains/(losses) on cash flow hedges	-	-	5	-	208	-	-	-	-	213	-	213
Tax relating to components of other comprehensive income	-	-	(1)	-	(36)	(3)	-	-	(36)	(76)	-	(76)
Total other comprehensive income/(loss)	**-**	**-**	**4**	**-**	**172**	**320**	**-**	**-**	**173**	**669**	**-**	**669**
Total comprehensive income/(loss)	**-**	**-**	**4**	**-**	**172**	**320**	**-**	**-**	**497**	**993**	**-**	**993**
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	-	-	-	-	(35)	-	-	-	-	(35)	-	(35)
Tax on gains/(losses) transferred to the cost of inventory	-	-	-	-	6	-	-	-	-	6	-	6
Total inventory cash flow hedge movements	**-**	**-**	**-**	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**	**-**	**(29)**
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(95)	-	-	(95)	-	(95)
Share-based payments	-	-	-	-	-	-	96	-	(35)	61	-	61
Dividends (Note 7)	-	-	-	-	-	-	-	-	(399)	(399)	-	(399)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(434)**	**(433)**	**-**	**(433)**
At 24 August 2019	**490**	**5,165**	**(1)**	**16**	**261**	**1,050**	**(178)**	**3,090**	**4,094**	**13,987**	**(24)**	**13,963**

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

Group statement of changes in equity continued

	Share capital £m	Share premium £m	All other reserves: Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £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**	**4,250**	**10,502**	**(22)**	**10,480**
Cumulative adjustment to opening balance from application of IFRS 16 (net of tax)	-	-	-	-	-	(18)	-	-	(1,324)	(1,342)	-	(1,342)
At 24 February 2018 (restated*)	**410**	**5,107**	**-**	**16**	**40**	**637**	**(16)**	**40**	**2,926**	**9,160**	**(22)**	**9,138**
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**	**637**	**(16)**	**40**	**2,749**	**8,983**	**(22)**	**8,961**
Profit/(loss) for the period (as previously reported)	-	-	-	-	-	-	-	-	426	426	-	426
IFRS 16 adjustment to profit/(loss) for the period (Note 22)	-	-	-	-	-	-	-	-	(88)	(88)	-	(88)
Profit/(loss) for the period (restated*)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**338**	**338**	**-**	**338**
Other comprehensive income/(loss)												
Currency translation differences (as previously reported)	-	-	-	-	-	161	-	-	-	161	1	162
IFRS 16 adjustment to currency translation differences	-	-	-	-	-	(15)	-	-	-	(15)	-	(15)
Currency translation differences (restated*)	**-**	**-**	**-**	**-**	**-**	**146**	**-**	**-**	**-**	**146**	**1**	**147**
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(8)	(8)	-	(8)
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	639	639	-	639
Gains/(losses) on cash flow hedges	-	-	(7)	-	114	-	-	-	-	107	-	107
Tax relating to components of other comprehensive income	-	-	1	-	(10)	(2)	-	-	(106)	(117)	-	(117)
Total other comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**104**	**144**	**-**	**-**	**525**	**767**	**1**	**768**
Total comprehensive income/(loss)	**-**	**-**	**(6)**	**-**	**104**	**144**	**-**	**-**	**863**	**1,105**	**1**	**1,106**

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

	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 £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			All other reserves									
Transactions with owners												
Purchase of own shares	–	–	–	–	–	–	(235)	–	–	(235)	–	(235)
Share-based payments	–	–	–	–	–	–	47	–	58	105	–	105
Issue of shares	80	56	–	–	–	–	–	3,050	–	3,186	–	3,186
Dividends (Note 7)	–	–	–	–	–	–	–	–	(195)	(195)	–	(195)
Total transactions with owners	**80**	**56**	**–**	**–**	**–**	**–**	**(188)**	**3,050**	**(137)**	**2,861**	**–**	**2,861**
At 25 August 2018	**490**	**5,163**	**(5)**	**16**	**143**	**781**	**(204)**	**3,090**	**3,475**	**12,949**	**(21)**	**12,928**

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

	26 weeks 2019 £m	26 weeks 2018 (restated*) £m
Cash flows generated from/(used in) operating activities		
Operating profit/(loss)	**1,134**	**1,007**
Depreciation and amortisation	1,029	1,019
(Profit)/loss arising on sale of property, plant and equipment and intangible assets, and early termination of leases	(32)	(21)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	-	(15)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	71	4
Impairment of joint ventures	47	-
Adjustment for non-cash element of pensions charge	7	2
Other defined benefit pension scheme payments	(144)	(142)
Share-based payments	20	34
Tesco Bank fair value movements included in operating profit/(loss)	72	55
Retail (increase)/decrease in inventories	(61)	(180)
Retail (increase)/decrease in development stock	1	-
Retail (increase)/decrease in trade and other receivables	(72)	67
Retail increase/(decrease) in trade and other payables	254	112
Retail increase/(decrease) in provisions	(43)	(74)
Retail (increase)/decrease in working capital	79	(75)
Tesco Bank (increase)/decrease in loans and advances to customers and banks	(150)	(1,164)
Tesco Bank (increase)/decrease in trade and other receivables	(53)	5
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables	(219)	1,106
Tesco Bank increase/(decrease) in provisions	29	(6)
Tesco Bank (increase)/decrease in working capital	(393)	(59)
Cash generated from/(used in) operations	**1,890**	**1,809**
Interest paid	(407)	(476)
Corporation tax paid	(171)	(144)
Net cash generated from/(used in) operating activities	**1,312**	**1,189**

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

	Notes	26 weeks 2019 £m	26 weeks 2018 (restated*) £m
Net cash generated from/(used in) operating activities		**1,312**	**1,189**
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		65	134
Purchase of property, plant and equipment and investment property		(418)	(425)
Purchase of intangible assets		(79)	(84)
Disposal of subsidiaries, net of cash disposed		–	8
Acquisition of subsidiaries, net of cash acquired		–	(715)
Net (increase)/decrease in loans to joint ventures and associates		8	5
Net (investments in)/proceeds from sale of short-term investments		28	269
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		14	235
Dividends received from joint ventures and associates		28	24
Interest received		13	22
Net cash generated from/(used in) investing activities		**(341)**	**(527)**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital		–	58
Own shares purchased		(52)	(197)
Repayments of obligations under leases		(326)	(288)
Increase in borrowings		882	266
Repayment of borrowings		(1,407)	(1,139)
Net cash flows from derivative financial instruments		42	(15)
Dividends paid to equity owners	7	(399)	(195)
Net cash generated from/(used in) financing activities		**(1,260)**	**(1,510)**
Net increase/(decrease) in cash and cash equivalents		(289)	(848)
Cash and cash equivalents at the beginning of the period		2,916	4,059
Effect of foreign exchange rate changes		29	32
Cash and cash equivalents at the end of the period	13	**2,656**	**3,243**

The notes on pages 24 to 60 form part of this condensed consolidated financial information.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.

Note 1 Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those used in preparing the Annual Report and Financial Statements 2019. The financial period represents the 26 weeks ended 24 August 2019 (prior financial period 26 weeks ended 25 August 2018, prior financial year 52 weeks ended 23 February 2019).

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

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

Adoption of new IFRSs

The Group has adopted IFRS 16 'Leases' effective for the period ending 24 August 2019. IFRS 16 has been applied fully retrospectively and comparatives for the prior periods have been restated. Further details of the impact of adoption of IFRS 16 is described in Note 22.

Prior period reclassifications

The Group no longer presents 'Profits/(losses) arising on property-related items' separately in the Group income statement. Amounts previously reported within 'Profits/(losses) arising on property-related items' are presented within 'Cost of sales' or 'Administrative expenses'. Items previously determined to be exceptional by virtue of their size and nature continue to be reported within 'Exceptional items and amortisation of acquired intangibles' in the Group income statement, with further details of such items provided in the notes to the financial statements. Prior period comparatives have been reclassified to align to the current period presentational approach.

Following the adoption of IFRS 16, the Group now presents right of use assets and lease liabilities on the face of the Balance sheet. Assets previously held under finance leases have been reclassified from 'Property, plant and equipment' to 'Right of use assets' and the associated lease liability has been reclassified from 'Borrowings' to 'Lease liability'.

Accounting policies

Leases
The Group assesses whether a contract is, or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

The Group as a lessee
A right of use asset and corresponding lease liability are recognised at commencement of the lease.

The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term, country, currency and start date of the lease. Lease payments include: fixed payments; variable lease payments dependent on an index or rate, initially measured using the index or rate at commencement; the exercise price under a purchase option if the Group is reasonably certain to exercise; penalties for early termination if the lease term reflects the Group exercising a break option; and payments in an optional renewal period if the Group is reasonably certain to exercise an extension option or not exercise a break option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right of use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate such as inflation, or change in the Group's assessment of whether it is reasonably certain to exercise a purchase or extension option or not exercise a break option.

The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs; and any dilapidation or restoration costs. The right of use asset is subsequently depreciated on a straight line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

Leases of low value assets and short term leases of 12 months or less are expensed to the income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

The Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Where the Group is an intermediate lessor, the sub lease classification is assessed with reference to the head lease right of use asset. Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Sale and leaseback

A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. A sale occurs when control of the underlying asset passes to the buyer. A lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right of use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer.

Critical accounting judgements

Leases
Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term. Break and extension options are included to provide operational flexibility should the economic outlook for an asset be different to expectations, and hence at commencement of the lease, break or extension options are not typically considered reasonably certain to be exercised, unless there is a valid business reason otherwise.

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Management uses the rate implicit in the lease where the lessor is a related party (such as leases from joint ventures) and the lessee's incremental borrowing rate for all other leases. Incremental borrowing rates are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk free rate based on government bond rates; a country specific risk adjustment; a credit risk adjustment based on Tesco bond yields; and an entity specific adjustment where the entity risk profile is different to that of the Group.

Refer to Note 11 for additional disclosures relating to leases.

Assets held for sale and discontinued operations
On 21 May 2019, the Group announced that Tesco Bank had ceased new mortgage lending and was actively exploring options to sell its existing mortgage portfolio. Management has applied the guidance in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' in determining the presentation of the mortgage operations' performance and position. The mortgage portfolio was available for immediate sale at the reporting date, and management considered that the sale was highly probable, with the sale subsequently confirmed on 3 September 2019. Management therefore considered it appropriate to present the assets and related liabilities of the mortgage operations as held for sale.

Based on the relative size of the mortgage operations to the Group, management concluded that they do not represent a separate major line of business or geographical area and hence have not been classified as discontinued operations.

Key sources of estimation uncertainty

Impairment
The Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right of use assets. Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less cost of disposal, and value in use.

Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate. Key estimates are disclosed in Note 10.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

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

Purpose

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

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

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

Alternative performance measures (APMs) continued

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

- Group sales: This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.
- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates.
- Operating profit before exceptional items and amortisation of acquired intangibles: This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the 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, the market purchase of shares net of proceeds from shares issued in relation to share schemes and repayments of obligations under leases, 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

As a result of adopting IFRS 16 in the current period, the Directors and management have applied the following changes to the Group's APMs:

- Free cash flow and Retail free cash flow have been redefined to include 'Repayments of obligations under leases'. The impact of adopting IFRS 16 has been to replace rental payments presented within operating profit with a combination of interest payments and capital repayments of the lease obligation, with no overall change in total cash flow for the Group. Redefining Free cash flow and Retail free cash flow to include the capital repayments of obligations under leases ensures that the Group's reported free cash flow measures are consistent with those previously reported.
- Total indebtedness has been redefined to no longer include the present value of future minimum lease payments under non-cancellable operating leases. Following the adoption of IFRS 16, the Group's measure of Total indebtedness includes lease liabilities (with the exception of short-term and low value asset leases).
- The fixed charge cover denominator has been redefined to exclude interest on lease liabilities from net finance costs and include all lease payments made in the period. Amending the calculation ensures that all cash payments made in the period with respect to the Group's leases continue to be included in the calculation of fixed charge cover.

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.

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

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom and Republic of Ireland;
  - Central Europe – Czech Republic, Hungary, Poland, Slovakia; and
  - Asia – Malaysia and Thailand.
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

This presentation reflects how the Group's operating performance is reviewed internally by management.

The CODM uses operating profit before exceptional items and amortisation of acquired intangibles, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' underlying performance for the financial period under evaluation. Operating profit before exceptional items and amortisation of acquired intangibles is a consistent measure within the Group as defined within Note 1. Refer to Note 3 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating segments is not material.

Income statement

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

26 weeks ended 24 August 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	22,413	2,782	2,382	562	28,139	157	28,296
Revenue	25,893	2,916	2,382	562	31,753	156	31,909
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,085**	**64**	**158**	**87**	**1,394**	**12**	**1,406**
Exceptional items and amortisation of acquired intangibles	(71)	(98)	(47)	(57)	(273)	1	(272)
Operating profit/(loss)	**1,014**	**(34)**	**111**	**30**	**1,121**	**13**	**1,134**
Operating margin	**4.2%**	**2.2%**	**6.6%**	**15.5%**	**4.4%**		**4.4%**

26 weeks ended 24 August 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	22,416	2,762	2,556	562	28,296
Revenue	25,895	2,896	2,556	562	31,909
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,085**	**63**	**171**	**87**	**1,406**
Exceptional items and amortisation of acquired intangibles	(71)	(97)	(47)	(57)	(272)
Operating profit/(loss)	**1,014**	**(34)**	**124**	**30**	**1,134**
Operating margin	**4.2%**	**2.2%**	**6.7%**	**15.5%**	**4.4%**
Share of post-tax profits/(losses) of joint ventures and associates					14
Finance income					16
Finance costs					(670)
Profit/(loss) before tax					**494**

Tesco Bank revenue of £562m (26 weeks ended 25 August 2018: £547m) comprises interest and similar revenues of £379m (26 weeks ended 25 August 2018: £354m) and fees and commissions revenue of £183m (26 weeks ended 25 August 2018: £193m).

Income statement continued

26 weeks ended 25 August 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	22,399	2,983	2,365	547	28,294
Revenue	25,706	3,116	2,365	547	31,734
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**845**	**75**	**111**	**90**	**1,121**
Exceptional items and amortisation of acquired intangibles	(72)	(21)	-	(21)	(114)
Operating profit/(loss)	**773**	**54**	**111**	**69**	**1,007**
Operating margin	**3.3%**	**2.4%**	**4.7%**	**16.5%**	**3.5%**
Share of post-tax profits/(losses) of joint ventures and associates					29
Finance income					9
Finance costs					(582)
Profit/(loss) before tax					**463**

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, lease liabilities, derivative financial instruments and net debt of the disposal group). With the exception of lease liabilities which have been allocated to each segment, all other components of net debt 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 24 August 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	4,918	26	302	1,007	-	6,253
Property, plant and equipment and investment property	13,979	2,477	2,563	59	-	19,078
Right of use assets	6,351	512	728	14	-	7,605
Investments in joint ventures and associates	12	1	451	84	-	548
Non-current financial assets at fair value through other comprehensive income	3	-	-	1,009	-	1,012
Non-current trade and other receivables[(a)]	78	7	13	37	-	135
Non-current loans and advances to customers and banks	-	-	-	4,186	-	4,186
Deferred tax assets	2	36	80	61	-	179
Non-current assets[(b)]	**25,343**	**3,059**	**4,137**	**6,457**	**-**	**38,996**
Inventories and current trade and other receivables[(c)(d)]	3,082	475	462	319	-	4,338
Current loans and advances to customers and banks	-	-	-	4,962	-	4,962
Current financial assets at fair value through other comprehensive income	-	-	-	30	-	30
Total trade and other payables	(7,688)	(819)	(1,064)	(241)	-	(9,812)
Total customer deposits and deposits from banks	-	-	-	(11,902)	-	(11,902)
Total provisions	(174)	(60)	(52)	(81)	-	(367)
Deferred tax liabilities	(8)	(25)	(9)	-	-	(42)
Net current tax	(263)	(9)	(24)	(23)	-	(319)
Post-employment benefits	(2,486)	-	(28)	-	-	(2,514)
Assets held for sale	40	150	-	3,690	-	3,880
Liabilities directly associated with assets held for sale	-	-	-	(4)	-	(4)
Net debt (including Tesco Bank)[(e)]	(8,853)	(714)	(737)	(690)	(2,289)	(13,283)
Net assets	**8,993**	**2,057**	**2,685**	**2,517**	**(2,289)**	**13,963**

(a) Excludes loans to joint ventures of £127m (23 February 2019: £105m, 25 August 2018: £119m) which form part of net debt.
(b) Excludes derivative financial instrument non-current assets of £1,679m (23 February 2019: £1,178m, 25 August 2018: £1,199m).
(c) Excludes net interest and other receivables of £1m (23 February 2019: £1m, 25 August 2018: £1m) which form part of net debt.
(d) Excludes loans to joint ventures of £nil (23 February 2019: £28m, 25 August 2018: £nil) which form part of net debt.
(e) On adoption of IFRS 16, lease liabilities included within Net debt have been presented within their respective segments. Previously the Group's finance lease liabilities were presented within the Unallocated segment. Prior periods have been restated. Refer to Note 18.

Balance sheet continued

At 23 February 2019 (restated)	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	14,017	2,694	2,449	62	-	19,222
Right of use assets	6,537	479	682	15	-	7,713
Investments in joint ventures and associates	12	1	503	86	-	602
Non-current financial assets at fair value through other comprehensive income	3	-	-	976	-	979
Non-current trade and other receivables[a]	100	5	14	19	-	138
Non-current loans and advances to customers and banks	-	-	-	7,868	-	7,868
Deferred tax assets	86	34	71	60	-	251
Non-current assets[b]	**25,682**	**3,240**	**4,003**	**10,112**	**-**	**43,037**
Inventories and current trade and other receivables[c][d]	2,999	482	372	285	-	4,138
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	(7,452)	(800)	(1,016)	(228)	-	(9,496)
Total customer deposits and deposits from banks	-	-	-	(12,128)	-	(12,128)
Total provisions	(245)	(27)	(49)	(52)	-	(373)
Deferred tax liabilities	(15)	(24)	(10)	-	-	(49)
Net current tax	(265)	(12)	(11)	(31)	-	(319)
Post-employment benefits	(2,788)	-	(20)	-	-	(2,808)
Assets held for sale	68	30	-	-	-	98
Net debt (including Tesco Bank) [e]	(9,060)	(728)	(682)	(413)	(2,734)	(13,617)
Net assets	**8,924**	**2,161**	**2,587**	**2,494**	**(2,734)**	**13,432**

At 25 August 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	5,090	35	281	1,047	-	6,453
Property, plant and equipment and investment property	13,770	2,789	2,422	64	-	19,045
Right of use assets	6,673	497	692	16		7,878
Investments in joint ventures and associates	13	1	502	84	-	600
Non-current financial assets at fair value through other comprehensive income	3	-	-	645	-	648
Non-current trade and other receivables[a]	79	7	11	5		102
Non-current loans and advances to customers and banks	-	-	-	7,547	-	7,547
Deferred tax assets	25	44	70	57		196
Non-current assets[b]	**25,653**	**3,373**	**3,978**	**9,465**	**-**	**42,469**
Inventories and current trade and other receivables[c][d]	3,042	561	414	298	-	4,315
Current loans and advances to customers and banks	-	-	-	4,846	-	4,846
Current financial assets at fair value through other comprehensive income	-	-	-	42	-	42
Total trade and other payables	(7,713)	(926)	(1,019)	(231)	-	(9,889)
Total customer deposits and deposits from banks	-	-	-	(11,883)	-	(11,883)
Total provisions	(364)	(28)	(47)	(69)	-	(508)
Deferred tax liabilities	(15)	(33)	(10)	-	-	(58)
Net current tax	(263)	(30)	(9)	(31)	-	(333)
Post-employment benefits	(2,551)	-	(23)	-	-	(2,574)
Assets held for sale	69	54	-	-	-	123
Net debt (including Tesco Bank) [e]	(9,195)	(789)	(668)	31	(3,001)	(13,622)
Net assets	**8,663**	**2,182**	**2,616**	**2,468**	**(3,001)**	**12,928**

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

Other segment information

26 weeks ended 24 August 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment	307	31	42	1	381
Goodwill and other intangible assets	55	5	1	18	79
Depreciation and amortisation:					
Property, plant and equipment	(372)	(71)	(107)	(5)	(555)
Right of use assets	(265)	(23)	(34)	(1)	(323)
Investment property	–	–	–	–	–
Other intangible assets	(105)	(7)	(3)	(36)	(151)
Impairment:					
Property, plant and equipment loss	(3)	(79)	–	–	(82)
Property, plant and equipment reversal	5	–	–	–	5
Right of use assets loss	(3)	–	(1)	–	(4)
Right of use assets reversal	2	7	–	–	9
Investment property reversal	–	1	–	–	1
Investment in joint ventures and associates loss	–	–	(47)	–	(47)
Financial assets net (loss)/reversal	(4)	–	–	(113)	(117)

26 weeks ended 25 August 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment[(a)]	549	29	102	1	681
Goodwill and other intangible assets[(b)]	3,926	5	1	11	3,943
Depreciation and amortisation:					
Property, plant and equipment	(372)	(75)	(107)	(5)	(559)
Right of use assets	(260)	(23)	(26)	(1)	(310)
Investment property	(1)	–	–	–	(1)
Other intangible assets	(101)	(7)	(3)	(38)	(149)
Impairment:					
Property, plant and equipment loss	(3)	(7)	(1)	–	(11)
Property, plant and equipment reversal	4	–	1	–	5
Right of use assets loss	–	–	–	–	–
Right of use assets reversal	–	–	–	–	–
Investment property reversal	2	–	–	–	2
Investment in joint ventures and associates loss	–	–	–	–	–
Financial assets net (loss)/reversal	(6)	(2)	–	(90)	(98)

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

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

Note 2 Segmental reporting continued

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, including a split of cash flows between Retail and Tesco Bank.

	Retail			Tesco Bank			Tesco Group
26 weeks ended 24 August 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)	**1,319**	**(215)**	**1,104**	**87**	**(57)**	**30**	**1,134**
Depreciation and amortisation	947	40	987	39	3	42	1,029
ATM net income	(17)	-	(17)	17	-	17	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets, and early termination of leases	(8)	(24)	(32)	-	-	-	(32)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	-	71	71	-	-	-	71
Impairment of joint ventures	-	47	47	-	-	-	47
Adjustment for non-cash element of pensions charge	7	-	7	-	-	-	7
Other defined benefit pension scheme payments	(144)	-	(144)	-	-	-	(144)
Share-based payments	19	-	19	1	-	1	20
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	72	-	72	72
Cash flows generated from operations excluding working capital	**2,123**	**(81)**	**2,042**	**216**	**(54)**	**162**	**2,204**
(Increase)/decrease in working capital	114	(35)	79	(427)	34	(393)	(314)
Cash generated from/(used in) operations*	**2,237**	**(116)**	**2,121**	**(211)**	**(20)**	**(231)**	**1,890**
Interest paid	(403)	-	(403)	(4)	-	(4)	(407)
Corporation tax paid	(139)	-	(139)	(32)	-	(32)	(171)
Net cash generated from/(used in) operating activities	**1,695**	**(116)**	**1,579**	**(247)**	**(20)**	**(267)**	**1,312**

* APM: 'Retail operating cash flow' of £2,121m (23 February 2019: £3,637m (restated), 25 August 2018: £1,689m (restated)) is the cash generated from operations of the continuing Retail business.

Cash flow statement continued

26 weeks ended 24 August 2019	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
Net cash generated from/(used in) operating activities	**1,695**	**(116)**	**1,579**	**(247)**	**(20)**	**(267)**	**1,312**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	3	62	65	-	-	-	65
Purchase of property, plant and equipment and investment property – store buy backs	(89)	-	(89)	-	-	-	(89)
Purchase of property, plant and equipment and investment property – other capital expenditure	(328)	-	(328)	(1)	-	(1)	(329)
Purchase of intangible assets	(61)	-	(61)	(18)	-	(18)	(79)
Disposal of subsidiaries, net of cash disposed	-	-	-	-	-	-	-
Acquisition of subsidiaries, net of cash acquired	-	-	-	-	-	-	-
Net (increase)/decrease in loans to joint ventures and associates	-	-	-	8	-	8	8
Net (investments in)/proceeds from sale of short-term investments	28	-	28	-	-	-	28
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	-	-	-	14	-	14	14
Dividends received from joint ventures and associates	12	-	12	16	-	16	28
Interest received	13	-	13	-	-	-	13
Net cash generated from/(used in) investing activities	**(422)**	**62**	**(360)**	**19**	**-**	**19**	**(341)**
Proceeds from issue of ordinary share capital	-	-	-	-	-	-	-
Own shares purchased	(52)	-	(52)	-	-	-	(52)
Repayment of obligations under leases	(325)	-	(325)	(1)	-	(1)	(326)
Add: Cash outflow from major acquisition	-	-	-	-	-	-	-
Less: Net increase/(decrease) in loans to joint ventures and associates	-	-	-	(8)	-	(8)	(8)
Less: Net investments in/(proceeds from sale of) short-term investments	(28)	-	(28)	-	-	-	(28)
APM: Free cash flow	**868**	**(54)**	**814**	**(237)**	**(20)**	**(257)**	**557**
Increase in borrowings	632	-	632	250	-	250	882
Repayment of borrowings	(1,057)	-	(1,057)	(350)	-	(350)	(1,407)
Net cash flows from derivative financial instruments	42	-	42	-	-	-	42
Dividends paid to equity owners	(399)	-	(399)	-	-	-	(399)
Net cash generated from/(used in) financing activities	**(1,159)**	**-**	**(1,159)**	**(101)**	**-**	**(101)**	**(1,260)**
Intra-Group funding and intercompany transactions	**1**	**-**	**1**	**(1)**	**-**	**(1)**	**-**
Net increase/(decrease) in cash and cash equivalents	**115**	**(54)**	**61**	**(330)**	**(20)**	**(350)**	**(289)**
Cash and cash equivalents at the beginning of the period			1,873			1,043	2,916
Effect of foreign exchange rate changes			29			-	29
Cash and cash equivalents at the end of the period			**1,963**			**693**	**2,656**

Note 2 Segmental reporting continued

Cash flow statement continued	Retail			Tesco Bank			Tesco Group
26 weeks ended 25 August 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
Operating profit/(loss)	**1,031**	**(93)**	**938**	**90**	**(21)**	**69**	**1,007**
Depreciation and amortisation	935	40	975	44	-	44	1,019
ATM net income	(18)	-	(18)	18	-	18	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets, and early termination of leases	(8)	(13)	(21)	-	-	-	(21)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(7)	-	(7)	(8)	-	(8)	(15)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(10)	14	4	-	-	-	4
Impairment of joint ventures	-	-	-	-	-	-	-
Adjustment for non-cash element of pensions charge	2	-	2	-	-	-	2
Other defined benefit pension scheme payments	(142)	-	(142)	-	-	-	(142)
Share-based payments	33	-	33	1	-	1	34
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	55	-	55	55
Cash flows generated from operations excluding working capital	**1,816**	**(52)**	**1,764**	**200**	**(21)**	**179**	**1,943**
(Increase)/decrease in working capital	(12)	(63)	(75)	(52)	(7)	(59)	(134)
Cash flows generated from/(used in) operations*	**1,804**	**(115)**	**1,689**	**148**	**(28)**	**120**	**1,809**
Interest paid	(473)	-	(473)	(3)	-	(3)	(476)
Corporation tax paid	(109)	-	(109)	(35)	-	(35)	(144)
Net cash generated from/(used in) operating activities	**1,222**	**(115)**	**1,107**	**110**	**(28)**	**82**	**1,189**

* APM: Refer to previous table for footnotes.

Cash flow statement continued	Retail			Tesco Bank			Tesco Group
26 weeks ended 25 August 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	**1,222**	**(115)**	**1,107**	**110**	**(28)**	**82**	**1,189**
Proceeds from the sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	15	119	134	-	-	-	134
Purchase of property, plant and equipment and investment property – store buy backs	(35)	-	(35)	-	-	-	(35)
Purchase of property, plant and equipment and investment property – other capital expenditure	(388)	-	(388)	(2)	-	(2)	(390)
Purchase of intangible assets	(71)	-	(71)	(13)	-	(13)	(84)
Disposal of subsidiaries, net of cash disposed	8	-	8	-	-	-	8
Acquisition of subsidiaries, net of cash acquired	(715)	-	(715)	-	-	-	(715)
Net (increase)/decrease in loans to joint ventures and associates	-	-	-	5	-	5	5
Net (investments in)/proceeds from sale of short-term investments	269	-	269	-	-	-	269
Net (investments in)/proceeds from the sale of financial assets at fair value through other comprehensive income	-	-	-	235	-	235	235
Dividends received from joint ventures and associates	14	-	14	10	-	10	24
Interest received	22	-	22	-	-	-	22
Net cash generated from/(used in) investing activities	**(881)**	**119**	**(762)**	**235**	**-**	**235**	**(527)**
Proceeds from issue of ordinary share capital	58	-	58	-	-	-	58
Own shares purchased	(197)	-	(197)	-	-	-	(197)
Repayment of obligations under leases	(287)	-	(287)	(1)	-	(1)	(288)
Add: Cash outflow from major acquisition	747	-	747	-	-	-	747
Less: Net increase/(decrease) in loans to joint ventures and associates	-	-	-	(5)	-	(5)	(5)
Less: Net investments in/(proceeds from sale of) short-term investments	(269)	-	(269)	-	-	-	(269)
APM: Free cash flow*	**393**	**4**	**397**	**339**	**(28)**	**311**	**708**
Increase in borrowings	266	-	266	-	-	-	266
Repayment of borrowings	(714)	-	(714)	(425)	-	(425)	(1,139)
Net cash flows from derivative financial instruments	(15)	-	(15)	-	-	-	(15)
Dividends paid to equity owners	(195)	-	(195)	-	-	-	(195)
Net cash generated from/(used in) financing activities	**(1,084)**	**-**	**(1,084)**	**(426)**	**-**	**(426)**	**(1,510)**
Intra-Group funding and intercompany transactions	**(12)**	**-**	**(12)**	**12**	**-**	**12**	**-**
Net increase/(decrease) in cash and cash equivalents	**(755)**	**4**	**(751)**	**(69)**	**(28)**	**(97)**	**(848)**
Cash and cash equivalents at the beginning of the period			2,755			1,304	4,059
Effect of foreign exchange rate changes			32			-	32
Cash and cash equivalents at the end of the period			**2,036**			**1,207**	**3,243**

* Free cash flow has been redefined to include 'Repayments of obligations under leases' due to IFRS 16. This results in a minor adjustment of £7m, restating previously reported Retail Free cash flow of £404m to £397m. There is no overall impact to cash and cash equivalents at the end of the period.

Note 3 Exceptional items and amortisation of acquired intangibles

Income statement

26 weeks ended 24 August 2019

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Finance costs £m	Taxation £m
Exceptional items:						
Net restructuring and redundancy costs[a]	(75)	–	**(75)**	–	–	7
Property transactions[b]	14	10	**24**	–	–	1
Booker integration[c]	(3)	(3)	**(6)**	–	–	1
Net impairment loss of non-current assets[d]	(71)	–	**(71)**	–	–	–
Impairment of investment in India joint venture[e]	–	(47)	**(47)**	–	–	–
Provision for customer redress[f]	(45)	–	**(45)**	–	–	–
Derivative restructuring[g]	–	–	**–**	–	(180)	34
Ogden rate change[h]	–	–	**–**	4	–	–
Bank transformation costs[i]	(3)	(9)	**(12)**	–	–	2
Total exceptional items	**(183)**	**(49)**	**(232)**	**4**	**(180)**	**45**
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 9)	–	(40)	**(40)**	–	–	7
Total exceptional items and amortisation of acquired intangibles	**(183)**	**(89)**	**(272)**	**4**	**(180)**	**52**

[a] This charge relates to simplification of our operating model in Poland £(36)m and the UK £(39)m.
[b] As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit of £24m.
[c] Costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.
[d] Net impairment loss relating to the Group's operations in Poland. Refer to Note 10 for further details.
[e] Investments in our offer to remain competitive in the market, combined with a strategic decision to reduce store expansion, have impacted our profit expectations of the joint venture resulting in an impairment charge in the period.
[f] The charge of £(45)m relates to additional costs in respect of Payment Protection Insurance (PPI) as a result of higher claim rates ahead of the deadline of 29 August 2019.
[g] The Group is subject to inflation risk on certain lease liabilities with its joint ventures, which increase annually with LPI (RPI restricted to a range of 0%-5%). In order to mitigate this inflation risk to the Group, a restructure of derivatives held with external counterparties was undertaken during the period. This resulted in the remeasurement of the fair value of these derivatives, giving rise to a non-cash exceptional charge of £(180)m.
[h] The Group's share of the results for the period of its joint venture, Tesco Underwriting, reflects a credit adjustment to insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims.
[i] Bank transformation costs principally relate to restructuring and accelerated amortisation related to the sale of the mortgage book.

Income statement continued

26 weeks ended 25 August 2018

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales (restated) £m	Administrative expenses (restated) £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Taxation £m
Exceptional items:					
Tesco Direct closure costs	(57)	–	(57)	–	11
Net restructuring and redundancy costs	(22)	–	(22)	–	–
Provision for customer redress	(7)	–	(7)	–	–
Release of amounts provided in relation to FCA obligations	–	15	15	–	–
Property transactions	3	10	13	11	4
Tesco Bank FCA provision	–	(16)	(16)	–	–
Total exceptional items	**(83)**	**9**	**(74)**	**11**	**15**
Amortisation of acquired intangibles:					
Amortisation of acquired intangible assets	–	(40)	(40)	–	7
Total exceptional items and amortisation of acquired intangibles	**(83)**	**(31)**	**(114)**	**11**	**22**

Cash flow statement

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

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

	Cash flows from operating activities		Cash flows from investing activities	
	26 weeks 2019 £m	26 weeks 2018 (restated) £m	26 weeks 2019 £m	26 weeks 2018 £m
Prior year restructuring and redundancy costs	(112)	(58)	–	–
Current year restructuring and redundancy costs	(1)	(30)	–	–
Property transactions*	–	–	62	119
Settlement of claims for customer redress in Tesco Bank	(19)	(28)	–	–
DPA/shareholder compensation scheme payments	–	(27)	–	–
Booker integration cash payments	(4)	–	–	–
Total	**(136)**	**(143)**	**62**	**119**

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

Note 4 Finance income and costs

Continuing operations	Notes	26 weeks 2019 £m	26 weeks 2018 (restated) £m
Finance income			
Interest receivable and similar income		14	7
Finance income receivable on net investment in leases		2	2
Total finance income		**16**	**9**
Finance costs			
GBP MTNs and Loans		(62)	(76)
EUR MTNs		(30)	(42)
USD Bonds		(6)	(9)
Finance charges payable on lease liabilities		(271)	(293)
Other interest payable		(24)	(24)
Capitalised interest	10	-	1
Financial instruments – fair value remeasurements*		(61)	(94)
Total finance costs before exceptional items and net pension finance costs		**(454)**	**(537)**
Net pension finance costs	17	(36)	(45)
Total finance costs before exceptional items		**(490)**	**(582)**
Fair value remeasurement on restructuring derivative financial instruments	3	(180)	-
Total finance costs		**(670)**	**(582)**
Net finance cost		**(654)**	**(573)**

* Fair value remeasurements includes £(62)m (26 weeks ended 25 August 2018: £(75)m) relating to the premium paid on the repurchase of long-dated bonds.

Note 5 Taxation

Recognised in the Group income statement

Continuing operations	26 weeks 2019 £m	26 weeks 2018 (restated) £m
UK	112	70
Overseas	58	55
Taxation charge	**170**	**125**

The tax charge in the Group income statement is based on management's best estimate of the full year effective tax rates by geographical unit applied to half year profits, which is then adjusted for tax on exceptional items and amortisation of acquired intangibles arising in the period to 24 August 2019.

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these condensed consolidated interim financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

Note 6 Assets classified as held for sale

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

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Assets of the disposal group	3,690	-	-
Non-current assets classified as held for sale	190	98	123
Total assets of the disposal group and non-current assets classified as held for sale	**3,880**	**98**	**123**
Total liabilities of the disposal group	(4)	-	-
Total net assets of the disposal group and non-current assets classified as held for sale	**3,876**	**98**	**123**

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.

On 21 May 2019, the Group announced that Tesco Bank had ceased new mortgage lending and was actively exploring options to sell its existing mortgage portfolio. On 3 September 2019, the Group confirmed the sale of the mortgage portfolio to Halifax, which is part of the Lloyds Banking Group, for a cash consideration of £3.8bn. Beneficial ownership of the mortgage portfolio transferred on 27 September 2019. As is customary in such a transaction, the Group will continue to recognise a small element of the mortgage business, representing new advances, net of receipts, to existing mortgage customers, until migration of all mortgage accounts to the purchaser is completed. Migration is currently expected to take place in February 2020. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the assets and liabilities of the mortgage operations have been classified as a disposal group held for sale within the current period. The assets of the disposal group consist of loans and advances to customers, with the associated trade and other payables presented as liabilities of the disposal group.

Note 7 Dividends

	26 weeks ended 24 August 2019		26 weeks ended 25 August 2018	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial period:				
Prior financial year final dividend*	4.10	399	2.00	195
Interim dividend declared for the current financial period	**2.65**	**260**	**1.67**	**164**

* Excludes £3m dividends waived (25 August 2018: £nil).

The interim dividend was approved by the Board of Directors on 1 October 2019. The interim dividend has not been included as a liability as at 24 August 2019, in accordance with IAS 10 'Events After the Reporting Period'. It will be paid on 22 November 2019 to shareholders who are on the Register of members at close of business on 11 October 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 1 November 2019.

Note 8 Earnings/(losses) per share and diluted earnings/(losses) per share

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

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

For the 26 weeks ended 24 August 2019 there were 59 million (26 weeks ended 25 August 2018: 78 million) potentially dilutive share options. As the Group has recognised a profit for the period, dilutive effects have been considered in calculating diluted earnings per share.

All operations are continuing for the periods presented.

	26 weeks ended 24 August 2019			26 weeks ended 25 August 2018 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)	324	-	324	338	-	338
Weighted average number of shares (millions)	9,715	59	9,774	9,675	78	9,753
Earnings/(losses) per share (pence)	**3.34**	**(0.03)**	**3.31**	**3.49**	**(0.02)**	**3.47**

Alternative performance measure: 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	26 weeks 2019	26 weeks 2018 (restated)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		942	566
Add: Net pension finance costs (£m)	4	36	45
Add: Fair value remeasurements on financial instruments (£m)	4	61	94
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (£m)		**1,039**	**705**
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)		1,039	704
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)		(240)	(172)
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)		**799**	**532**
Basic weighted average number of shares (millions)		9,715	9,675
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**8.22**	**5.50**
Diluted weighted average number of shares (millions)		9,774	9,753
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**8.17**	**5.45**

Note 9 Goodwill and other intangible assets

Goodwill and other intangible assets of £6,253m (23 February 2019: £6,264m, 25 August 2018: £6,453m) comprise £4,934m Goodwill (23 February 2019: £4,909m, 25 August 2018: £4,908m), £589m Software (23 February 2019: £586m, 25 August 2018: £757m), Customer relationships of £606m (23 February 2019: £643m, 25 August 2018: £680m) and Other intangible assets of £124m (23 February 2019: £126m, 25 August 2018: £108m).

The acquisition of Booker on 5 March 2018 resulted in recognition of goodwill of £3,093m, customer relationships of £715m and other intangible assets of £40m. This goodwill is supported by expected increases in cash flows for the combined UK retail business and has been reflected at the UK level, consistent with the lowest level at which management monitors that goodwill. The £37m (26 weeks ended 25 August 2018: £37m) impact of the amortisation of these intangibles in the financial period has been included within exceptional items and amortisation of acquired intangibles. Refer to Note 3 for further details.

Goodwill

The impairment review methodology for goodwill is unchanged from that described in the Annual Report and Financial Statements 2019. There were no indicators of goodwill impairment in the period; the annual goodwill impairment review will occur in the second half of the year.

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
UK	3,838	3,834	3,836
Tesco Bank	802	802	802
Thailand	210	193	188
Malaysia	80	77	78
ROI	4	3	4
	4,934	**4,909**	**4,908**

Note 10 Property, plant and equipment

	Land and buildings £m	Other[(a)] £m	Total £m
Cost			
At 23 February 2019 (restated)	**24,484**	**6,993**	**31,477**
Foreign currency translation	436	141	577
Additions[(b)]	171	210	381
Reclassification	(41)	(43)	(84)
Classified as held for sale	(216)	(36)	(252)
Disposals	(45)	(246)	(291)
At 24 August 2019	**24,789**	**7,019**	**31,808**
Accumulated depreciation and impairment losses			
At 23 February 2019 (restated)	**7,523**	**4,768**	**12,291**
Foreign currency translation	149	99	248
Charge for the period	256	299	555
Impairment losses	59	23	82
Reversal of impairment losses	(2)	(3)	(5)
Reclassification	(2)	(5)	(7)
Classified as held for sale	(98)	(25)	(123)
Disposals	(32)	(243)	(275)
At 24 August 2019	**7,853**	**4,913**	**12,766**
Net carrying value			
At 24 August 2019	**16,936**	**2,106**	**19,042**
At 25 August 2018 (restated)	16,751	2,202	18,953
Construction in progress included above[(c)]			
At 24 August 2019	**61**	**88**	**149**
At 25 August 2018	81	59	140

[(a)] Other assets consist of fixtures and fittings with a net carrying value of £1,593m (23 February 2019: £1,720m, 25 August 2018: £1,709m), office equipment with a net carrying value of £312m (23 February 2019: £304m, 25 August 2018: £191m) and motor vehicles with a net carrying value of £201m (23 February 2019: £201m, 25 August 2018: £302m).

[(b)] Includes £nil (23 February 2019: £1m, 25 August 2018: £1m) in respect of interest capitalised, principally relating to land and buildings. The capitalisation rate used to determine the amount of finance costs capitalised during the financial period was 4.4% (23 February 2019: 4.5%, 25 August 2018: 4.5%). Interest capitalised is deducted in determining taxable profit in the financial period in which it is incurred.

[(c)] Construction in progress does not include land.

Note 10 Property, plant and equipment continued

	Land and buildings £m	Other[(a)] £m	Total £m
Cost (restated)			
At 24 February 2018	**23,018**	**10,852**	**33,870**
Foreign currency translation	203	98	301
Additions[(b)]	194	161	355
Acquired through business combinations[(d)]	258	68	326
Reclassification	(1)	–	(1)
Classified (to)/from held for sale	15	–	15
Disposals	(131)	(212)	(343)
At 25 August 2018	**23,556**	**10,967**	**34,523**
Accumulated depreciation and impairment losses (restated)			
At 24 February 2018	**6,559**	**8,599**	**15,158**
Foreign currency translation	61	75	136
Charge for the period	261	298	559
Impairment losses	10	1	11
Reversal of impairment losses	(5)	–	(5)
Reclassification	(1)	3	2
Classified as held for sale	13	–	13
Disposals	(93)	(211)	(304)
At 25 August 2018	**6,805**	**8,765**	**15,570**
Net carrying value (restated)	**16,751**	**2,202**	**18,953**

(a)-(c) Refer to previous page for footnotes.
(d) £326m relates to the acquisition of Booker.

Commitments for capital expenditure contracted for, but not incurred, at 24 August 2019 were £216m (23 February 2019: £70m, 25 August 2018: £178m), principally relating to store development.

Impairment of property, plant and equipment

The impairment review methodology for property, plant and equipment is unchanged from that described in the Annual Report and Financial Statements 2019. With the exception of the Group's operations in Poland, there were no indicators of impairment in the period.

In July 2019, it was announced that Tesco Poland will re-focus its business on its best performing smaller store formats, converting its largest hypermarkets into smaller compact hypermarkets, which will be run alongside its existing smaller supermarkets. As a result of the announced changes, a full impairment review has been conducted in Poland in the period, resulting in a net exceptional impairment loss of £(71)m, of which a £(79)m loss relates to property, plant and equipment, a £7m reversal relates to right of use assets, and a £1m reversal relates to investment property.

The exceptional impairment loss relating to property, plant and equipment of £(79)m has been recognised within cost of sales, reflecting the changes expected from store level performance, operational changes, property fair values and changes in discount rates.

The key estimates for the Poland value in use calculations are those regarding the discount rate, expected changes to future cash flows, and the long-term average growth rate. Management estimates the discount rate using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit. The discount rate for Poland, derived from the Group's post-tax weighted average cost of capital as adjusted for the specific risks relating to Poland, is 10% (23 February 2019: 10%) on a pre-tax basis and 8% (23 February 2019: 8%) on a post-tax basis. The long-term average growth rate applied for Poland was 2% (23 February 2019: 2%).

Note 11 Leases

Group as lessee

Lease liabilities 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.

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 over 20 to 30 year terms. On certain transactions, the Group has an option to buy back either the leased asset or the equity of the other party, at market value and at a specified date, typically at year ten. On some of these transactions the Group also has a lease break option, which is exercisable if the buy back option is exercised and the associated debt in the joint venture or associate is repaid. The lease liability in respect of these leases assumes that the lease break option is not exercised.

Note 11 Leases continued

Group as lessee continued

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 completed on 23 September 2019. Refer to Note 21. There were no lease break options on the associated property leases from the joint venture and hence the lease liabilities on balance sheet currently reflect the full lease terms. On completion, these leases become intercompany leases and will be eliminated on consolidation.

Right of use assets

At 24 August 2019 and for the 26 weeks ended 24 August 2019	Land and buildings £m	Other £m	Total £m
Carrying amount	7,455	150	**7,605**
Additions	69	29	**98**
Depreciation charged	290	33	**323**
Impairment charge/(reversal)	(5)	-	**(5)**

At 23 February 2019 and for the 52 weeks ended 23 February 2019 (restated)	Land and buildings £m	Other £m	Total £m
Carrying amount	7,561	152	**7,713**
Additions (including acquisitions through business combinations)	619	44	**663**
Depreciation charged	556	59	**615**
Impairment charge/(reversal)	(8)	-	**(8)**

At 25 August 2018 and for the 26 weeks ended 25 August 2018 (restated)	Land and buildings £m	Other £m	Total £m
Carrying amount	7,702	176	**7,878**
Additions (including acquisitions through business combinations)	537	40	**577**
Depreciation charged	279	31	**310**
Impairment charge/(reversal)	-	-	**-**

Lease liabilities

The following tables show the discounted lease liabilities included in the Group balance sheet and a maturity analysis of the contractual undiscounted lease payments:

Lease liabilities	24 August 2019 £m	23 February 2019 (restated) £m	25 August 2018 (restated) £m
Current	638	646	712
Non-current	9,700	9,859	9,975
Total lease liabilities	**10,338**	**10,505**	**10,687**

Maturity analysis – contractual undiscounted lease payments	24 August 2019 £m	23 February 2019 (restated) £m	25 August 2018 (restated) £m
Within one year	1,191	1,202	1,173
Greater than one year but less than five years	4,185	4,218	4,306
Greater than five years but less than ten years	4,471	4,539	4,609
Greater than ten years but less than fifteen years	3,166	3,267	3,377
After fifteen years	3,017	3,209	3,430
Total undiscounted lease payments	**16,030**	**16,435**	**16,895**

Note 12 Inventories

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Goods held for resale	2,714	2,611	2,817
Development properties	5	6	4
	2,719	**2,617**	**2,821**

Cost of inventories recognised as an expense for the 26 weeks ended 24 August 2019 were £23,814m (26 weeks ended 25 August 2018: £23,537m). Inventory losses and provisions recognised as an expense for the 26 weeks ended 24 August 2019 were £616m (26 weeks ended 25 August 2018: £704m).

Note 13 Cash and cash equivalents and short-term investments

Cash and cash equivalents	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Cash at bank and in hand	2,462	2,683	2,987
Short-term deposits	194	233	256
	2,656	**2,916**	**3,243**

Short-term investments	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Money market funds	**362**	390	760

Cash and cash equivalents includes £38m (23 February 2019: £62m, 25 August 2018: £nil) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

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.

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Current assets			
Inventories	(50)	(69)	(51)
Trade and other receivables			
Trade/other receivables	135	183	123
Accrued income	156	155	160
Current liabilities			
Trade and other payables			
Trade payables	190	327	130
Accruals and deferred income	(3)	(4)	(17)

Note 15 Borrowings

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	24 August 2019 £m	23 February 2019 (restated) £m	25 August 2018 (restated) £m
Bank loans and overdrafts	–	–	619	387	605
Loans from joint ventures	–	–	-	-	6
3.375% MTN	€750m	Nov 2018	-	-	697
1.375% MTN	€726m	Jul 2019	-	636	843
5.5% MTN	£97m	Dec 2019	101	98	-
1% RPI Tesco Bank Retail Bond[a]	£73m	Dec 2019	73	72	-
LIBOR + 0.65% Tesco Bank Bond[b]	£350m	May 2021	-	350	350
5.5457% Secured Bond[c][d]	£322m	Feb 2029	21	20	19
			814	**1,563**	**2,520**

* Refer to next page for footnotes.

Non-current

	Par value	Maturity	24 August 2019 £m	23 February 2019 (restated) £m	25 August 2018 (restated) £m
5.5% MTN	£97m	Dec 2019	-	-	188
1% RPI Tesco Bank Retail Bond[(a)]	£73m	Dec 2019	-	-	71
2.125% MTN	€500m	Nov 2020	461	436	459
1m USD LIBOR + 0.70% Tesco Bank Bond	$350m	Nov 2020	286	262	-
5% Tesco Bank Retail Bond	£200m	Nov 2020	203	203	203
6.125% MTN[(e)]	£417m	Feb 2022	429	561	545
LIBOR + 0.53% Tesco Bank Bond[(f)]	£300m	Oct 2022	299	299	298
5% MTN[(e)]	£93m	Mar 2023	102	183	179
1.375% MTN	€750m	Oct 2023	705	658	-
2.5% MTN	€750m	Jul 2024	680	658	677
2.5% MTN	£400m	May 2025	411	-	-
3.5% Tesco Bank Senior MREL Notes[(g)]	£250m	Jul 2025	250	-	-
3.322% LPI MTN[(h)]	£349m	Nov 2025	352	349	342
5.5457% Secured Bond[(c)(d)]	£322m	Feb 2029	292	303	312
6.067% Secured Bond[(c)]	£200m	Feb 2029	192	191	191
LIBOR + 1.2% Secured Bond[(c)]	£50m	Feb 2029	35	34	34
6% MTN[(e)]	£48m	Dec 2029	59	119	123
5.5% MTN[(e)]	£109m	Jan 2033	137	186	191
1.982% RPI MTN[(i)]	£288m	Mar 2036	290	288	283
6.15% USD Bond	$525m	Nov 2037	546	428	684
4.875% MTN[(e)]	£20m	Mar 2042	20	32	62
5.125% MTN	€356m	Apr 2047	326	319	324
5.2% MTN[(e)]	£30m	Mar 2057	29	71	126
			6,104	**5,580**	**5,292**

(a) The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.
(b) This bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date in May 2019.
(c) The bonds are secured by a charge over the property, plant and equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £798m (23 February 2019: £803m, 25 August 2018: £782m).
(d) This is an amortising bond which matures in Feb 2029. £21m (23 February 2019: £20m, 25 August 2018: £19m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Feb 2029.
(e) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 6.125% MTN Feb 2022 £114m, 5% MTN Mar 2023 £78m, 6% MTN Dec 2029 £50m, 5.5% MTN Jan 2033 £41m, 4.875% MTN Mar 2042 £12m and 5.2% MTN Mar 2057 £43m.
(f) This bond was issued on 7 November 2017. The scheduled redemption date of this bond is October 2020.
(g) These Notes are Tesco Bank MREL compliant senior debt and were issued on 25 July 2019. The scheduled redemption date is July 2024.
(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.

Borrowing facilities

The Group has the following undrawn committed facilities available at 24 August 2019, in respect of which all conditions precedent had been met as at that date:

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Expiring in less than one year	38	38	38
Expiring between one and two years	-	-	-
Expiring in more than two years	3,000	3,000	3,000
	3,038	**3,038**	**3,038**

The undrawn committed facilities include £0.4bn (23 February 2019: £0.4bn, 25 August 2018: £0.4bn) of bilateral facilities and a £2.6bn (23 February 2019: £2.6bn, 25 August 2018: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 16 Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 24 August 2019, by level of fair value hierarchy:

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

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

At 24 August 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	1,036	–	6	1,042
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	61	–	61
- Cross currency swaps	–	642	–	642
- Index-linked swaps	–	984	–	984
- Forward contracts	–	124	–	124
Total assets	**1,036**	**1,811**	**6**	**2,853**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(82)	–	(82)
- Cross currency swaps	–	–	–	–
- Index-linked swaps	–	(850)	–	(850)
- Forward contracts	–	(47)	(5)	(52)
Total liabilities	**–**	**(979)**	**(5)**	**(984)**
Total	**1,036**	**832**	**1**	**1,869**

At 23 February 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	1,040	–	6	1,046
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	38	–	38
- Cross currency swaps	–	342	–	342
- Index-linked swaps	–	811	–	811
- Forward contracts	–	39	–	39
Total assets	**1,040**	**1,230**	**6**	**2,276**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(67)	–	(67)
- Cross currency swaps	–	(17)	–	(17)
- Index-linked swaps	–	(519)	–	(519)
- Forward contracts	–	(29)	(7)	(36)
Total liabilities	**–**	**(632)**	**(7)**	**(639)**
Total	**1,040**	**598**	**(1)**	**1,637**

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

There were no transfers between Levels 1 and 2 during the period (23 February 2019: £nil, 25 August 2018: £nil) and no transfers into or out of Level 3 fair value measurements (23 February 2019: £nil, 25 August 2018: £nil).

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

Carrying amounts versus fair values

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

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

	24 August 2019 £m		23 February 2019 £m		25 August 2018 £m	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets						
Loans and advances to customers and banks – Tesco Bank	9,148	9,315	12,750	12,931	12,393	12,550
Loans and advances to customers held for sale – Tesco Bank	3,690	3,712	-	-	-	-
Joint venture and associate loan receivables*	127	132	133	133	119	88
Liabilities						
Short-term borrowings:						
-Amortised cost	(741)	(744)	(1,491)	(1,499)	(2,520)	(2,540)
-Bonds in fair value hedge relationships	(73)	(73)	(72)	(70)	-	-
Long-term borrowings:						
-Amortised cost	(3,628)	(4,259)	(3,954)	(4,369)	(4,332)	(4,815)
-Bonds in fair value hedge relationships	(2,476)	(2,461)	(1,626)	(1,622)	(960)	(1,006)
Customer deposits – Tesco Bank	(9,903)	(9,907)	(10,465)	(10,427)	(10,070)	(10,049)

* Joint venture and associate loan receivables carrying amounts of £127m (23 February 2019: £133m, 25 August 2018: £119m) are presented in the Group balance sheet net of deferred profits of £54m (23 February 2019: £54m, 25 August 2018: £54m).

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.

Summary of movements in Group deficit during the financial period

	24 August 2019 £m	23 February 2019 £m	25 August 2018 £m
Deficit in schemes at the beginning of the period	**(2,808)**	**(3,282)**	**(3,282)**
Current service cost	(21)	(35)	(19)
Past service cost	(5)	(43)	-
Finance income/(cost)	(36)	(89)	(45)
Employer contributions	19	33	17
Additional employer contributions	141	266	142
Benefits paid	3	-	-
Foreign currency translation	(9)	-	(4)
Return on plan assets excluding finance income	2,791	932	675
Financial assumptions gain/(loss)	(2,824)	(478)	67
Experience gain/(loss)	15	(39)	(3)
Demographic assumptions gain/(loss)	220	(51)	(100)
Acquired through business combination	-	(22)	(22)
Deficit in schemes at the end of the period	**(2,514)**	**(2,808)**	**(2,574)**
Deferred tax asset	416	470	430
Deficit in schemes at the end of the period, net of deferred tax	**(2,098)**	**(2,338)**	**(2,144)**

Scheme principal 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. During the period, the allowance for future mortality improvements has been updated from CMI 2017 to be in line with CMI 2018.

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

	24 August 2019 %	23 February 2019 %	25 August 2018 %
Discount rate	2.1	2.8	2.9
Price inflation	3.1	3.1	3.1
Rate of increase in deferred pensions*	2.1	2.1	2.1
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	2.9	2.9	2.9
Benefits accrued after 1 June 2012	2.2	2.2	2.2

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

If the discount rate assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £498m or £4,236m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £498m or £6,000m respectively.

If the inflation assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £403m or £4,619m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £422m or £3,604m respectively.

Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

Note 18 Analysis of changes in net debt

	At 23 February 2019 (restated) £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Non-cash movements: Fair value gains/ (losses) £m	Non-cash movements: Foreign exchange £m	Non-cash movements: Interest income/ (charge) £m	Non-cash movements: Other £m	At 24 August 2019 £m
Total Group								
Bank and other borrowings	(7,143)	525	144	(180)	(139)	(125)	-	**(6,918)**
Lease liabilities	(10,505)	326	271	-	(93)	(271)	(66)	**(10,338)**
Net derivative financial instruments	591	(42)	(8)	283	-	3	-	**827**
Arising from financing activities	**(17,057)**	**809**	**407**	**103**	**(232)**	**(393)**	**(66)**	**(16,429)**
Cash and cash equivalents	2,916	-	(289)	-	29	-	-	**2,656**
Short-term investments	390	-	(28)	-	-	-	-	**362**
Joint venture loans	133	-	(8)	-	2	-	-	**127**
Interest and other receivables	1	-	(13)	-	(1)	14	-	**1**
Total Group	**(13,617)**	**809**	**69**	**103**	**(202)**	**(379)**	**(66)**	**(13,283)**
Tesco Bank								
Bank and other borrowings	(1,421)	100	3	(27)	-	(2)	-	**(1,347)**
Lease liabilities	(35)	1	1	-	-	(1)	-	**(34)**
Net derivative financial instruments	(29)	-	-	6	-	-	-	**(23)**
Arising from financing activities	**(1,485)**	**101**	**4**	**(21)**	**-**	**(3)**	**-**	**(1,404)**
Cash and cash equivalents	1,043	-	(350)	-	-	-	-	**693**
Joint ventures loans	29	-	(8)	-	-	-	-	**21**
Tesco Bank	**(413)**	**101**	**(354)**	**(21)**	**-**	**(3)**	**-**	**(690)**
Retail								
Bank and other borrowings	(5,722)	425	141	(153)	(139)	(123)	-	**(5,571)**
Lease liabilities	(10,470)	325	270	-	(93)	(270)	(66)	**(10,304)**
Net derivative financial instruments	620	(42)	(8)	277	-	3	-	**850**
Arising from financing activities	**(15,572)**	**708**	**403**	**124**	**(232)**	**(390)**	**(66)**	**(15,025)**
Cash and cash equivalents	1,873	-	61	-	29	-	-	**1,963**
Short-term investments	390	-	(28)	-	-	-	-	**362**
Joint ventures loans	104	-	-	-	2	-	-	**106**
Interest and other receivables	1	-	(13)	-	(1)	14	-	**1**
Net debt	**(13,204)**	**708**	**423**	**124**	**(202)**	**(376)**	**(66)**	**(12,593)**

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.

	At 24 February 2018 £m	IFRS 9 adjustment £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Non-cash movements: Fair value gains/ (losses) £m	Non-cash movements: Foreign exchange £m	Non-cash movements: Interest income/ (charge) £m	Non-cash movements: Acquisition of subsidiary £m	Non-cash movements: Other £m	At 25 August 2018 £m
Total Group (restated)										
Bank and other borrowings	(8,499)	-	873	183	(136)	(86)	(147)	-	-	**(7,812)**
Lease liabilities	(10,272)	-	288	293	-	(44)	(293)	(504)	(155)	**(10,687)**
Net derivative financial instruments	481	-	15	(13)	266	-	5	-	-	**754**
Arising from financing activities	**(18,290)**	**-**	**1,176**	**463**	**130**	**(130)**	**(435)**	**(504)**	**(155)**	**(17,745)**
Cash and cash equivalents	4,059	-	-	(848)	-	32	-	-	-	**3,243**
Short-term investments	1,029	-	-	(269)	-	-	-	-	-	**760**
Joint venture loans	138	(13)	-	(5)	-	-	-	-	-	**120**
Interest and other receivables	1	-	-	(9)	-	-	8	-	-	**-**
Total Group	**(13,063)**	**(13)**	**1,176**	**(668)**	**130**	**(98)**	**(427)**	**(504)**	**(155)**	**(13,622)**
Tesco Bank (restated)										
Bank and other borrowings	(1,584)	-	425	2	-	-	(2)	-	-	**(1,159)**
Lease liabilities	(36)	-	1	1	-	-	(1)	-	-	**(35)**
Net derivative financial instruments	(42)	-	-	-	31	-	-	-	-	**(11)**
Arising from financing activities	**(1,662)**	**-**	**426**	**3**	**31**	**-**	**(3)**	**-**	**-**	**(1,205)**
Cash and cash equivalents	1,304	-	-	(97)	-	-	-	-	-	**1,207**
Joint ventures loans	34	-	-	(5)	-	-	-	-	-	**29**
Tesco Bank	**(324)**	**-**	**426**	**(99)**	**31**	**-**	**(3)**	**-**	**-**	**31**
Retail (restated)										
Bank and other borrowings	(6,915)	-	448	181	(136)	(86)	(145)	-	-	**(6,653)**
Lease liabilities	(10,236)	-	287	292	-	(44)	(292)	(504)	(155)	**(10,652)**
Net derivative financial instruments	523	-	15	(13)	235	-	5	-	-	**765**
Arising from financing activities	**(16,628)**	**-**	**750**	**460**	**99**	**(130)**	**(432)**	**(504)**	**(155)**	**(16,540)**
Cash and cash equivalents	2,755	-	-	(751)	-	32	-	-	-	**2,036**
Short-term investments	1,029	-	-	(269)	-	-	-	-	-	**760**
Joint ventures loans	104	(13)	-	-	-	-	-	-	-	**91**
Interest and other receivables	1	-	-	(9)	-	-	8	-	-	**-**
Net debt	**(12,739)**	**(13)**	**750**	**(569)**	**99**	**(98)**	**(424)**	**(504)**	**(155)**	**(13,653)**

Note 18 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in Net debt	24 August 2019 £m	25 August 2018 (restated) £m
Net increase/(decrease) in cash and cash equivalents	(289)	(848)
Elimination of Tesco Bank movement in cash and cash equivalents	350	97
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(28)	(269)
Net increase/(decrease) in joint venture loans	–	–
Net (increase)/decrease in borrowings and lease liabilities	750	735
Net cash flows from derivative financial instruments	(42)	15
Net interest paid on components of Net debt	390	451
Change in Net debt resulting from cash flow	**1,131**	**181**
Retail IFRS 9 adjustment	–	(13)
Retail net interest charge on components of Net debt	(376)	(424)
Retail fair value and foreign exchange movements	(78)	1
Retail other non-cash movements	(66)	(155)
Acquisition of subsidiary	–	(504)
(Increase)/decrease in Net debt	**611**	**(914)**
Opening Net debt	(13,204)	(12,739)
Closing Net debt	**(12,593)**	**(13,653)**

Note 19 Called up share capital

	26 weeks ended 24 August 2019		52 weeks ended 23 February 2019	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At the beginning of the financial period	**9,793,496,561**	**490**	**8,192,116,619**	**410**
Share options exercised	–	–	41,525,096	2
Share bonus awards issued	–	–	12,000,000	1
Shares issued for the acquisition of Booker	–	–	1,547,854,846	77
At the end of the financial period	**9,793,496,561**	**490**	**9,793,496,561**	**490**

During the current financial period, no (52 weeks ended 23 February 2019: 41.5 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £nil (52 weeks ended 23 February 2019: £60m), no (52 weeks ended 23 February 2019: 12.0 million) ordinary shares of 5p each were issued in relation to share bonus awards.

During the prior financial year, 1,548 million shares were issued in relation to the Booker acquisition. The shares issued as consideration for Booker were valued at £3,127m based on the published share price on 2 March 2018 of 202.0 pence with £77m recognised as share capital and the remaining £3,050m recognised as a merger reserve, included within Other reserves on the Group statement of changes in equity.

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

Own Shares Purchased

Own shares represent the shares of Tesco PLC that are held in Treasury or by the Employee Benefit Trust. Own shares are recorded at cost and are deducted from equity.

The own shares held represents the cost of shares in Tesco PLC purchased in the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans. The number of ordinary shares held by the Tesco International Employee Benefit Trust at 24 August 2019 was 72.8 million (23 February 2019: 68.1 million). This represents 0.74% of called-up share capital at the end of the financial period (23 February 2019: 0.70%).

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 58 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 216bn (£145m) and KRW 350bn (£235m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 162bn (£109m), with funds of KRW 73bn (£50m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 89bn (£59m). 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, 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 vigorously defend them.

Note 21 Events after reporting period

On 23 September 2019, the Group obtained control of the Tesco Atrato Limited partnership (the partnership), previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest in the partnership for £37m. The partnership has bond and derivative liabilities, and owns 15 stores and two distribution centres, which the partnership leases to the Group. The acquisition, which is treated as an asset acquisition, increases the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities, which are eliminated on consolidation. Given the proximity of the transaction to the announcement of the Group's interim results, the valuation of the assets and liabilities acquired has not yet been completed. The Group provisionally estimates that the loss on acquisition will be approximately £200m, which is subject to the finalisation of the valuation exercise.

On 27 September 2019 the Group completed the transfer of the beneficial ownership of Tesco Bank's mortgage portfolio to Halifax. Refer to Note 6 for further details.

On 1 October 2019, the Group reached an agreement on the terms of a recommended purchase of the trade and assets of Best Food Logistics (trading name of BFS Group Ltd). The transaction is subject to regulatory approval.

Note 22 Changes in accounting policies – IFRS 16 'Leases'

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial position and financial performance.

IFRS 16 is effective for the accounting period commencing 24 February 2019. The Group adopted the standard retrospectively, with comparatives restated from a transition date of 25 February 2018.

IFRS 16 requires lessees to recognise right of use assets and lease liabilities on balance sheet for all leases, except short-term and low value asset leases. At commencement of the lease, the lease liability equals the present value of future lease payments, and the right of use asset equals the lease liability, adjusted for payments already made, lease incentives, initial direct costs and any provision for dilapidation costs.

For pre-IFRS 16 operating leases, the rental charge is replaced by depreciation of the right of use asset and interest on the lease liability.

IFRS 16 therefore results in an increase to operating profit, which is reported prior to interest being deducted. Depreciation is charged on a straight-line basis, however, interest is charged on outstanding lease liabilities and therefore reduces over the life of the lease. As a result, the impact on the income statement below operating profit is highly dependent on average lease maturity. For an immature portfolio, depreciation and interest are higher than the rental charge they replace and therefore IFRS 16 is dilutive to EPS. For a mature portfolio, they are lower and therefore IFRS 16 is accretive. The Group's lease portfolio on transition is relatively immature, being approximately one-third through an average total lease term of 26 years.

Under IFRS 16, the lease liability is remeasured upon the occurrence of certain events, such as a change in lease term or a change in future lease payments resulting from a change in an index or rate (for example, inflation-linked payments or market rate rent reviews). A corresponding adjustment is made to the right of use asset. Over three-quarters of the Group's lease liability on transition is subject to inflation-linked rental uplifts. The Group no longer recognises property provisions for onerous lease contracts as the lease payments are included within the lease liability.

The Group applied the practical expedient not to reassess whether a contract is, or contains, a lease on transition. The Group has elected to recognise payments for short-term leases and leases of low value assets on a straight-line basis as an expense in the income statement.

IFRS 16 has not had a significant impact on the Group's existing finance leases or on leases in which the Group is a lessor.

The most significant IFRS 16 judgements and estimates include the determination of lease term when there are extension or termination options, the selection of an appropriate discount rate to calculate the lease liability and the impairment of right of use assets. See Note 1 for further information.

The Group's lease portfolio consists of retail, distribution and office properties and other assets such as motor vehicles.

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. The standard impacts a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group. 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.

Balance sheet restatement

The tables below set out the impact of IFRS 16 on the transition balance sheet at 24 February 2018 and on the comparative period balance sheets as at 25 August 2018 and 23 February 2019 and related debt measures. Right of use assets (net of any impairments) and lease liabilities are presented separately on the face of the balance sheet. Net debt, which includes lease liabilities, increases. Total indebtedness also increases as the IFRS 16 lease liability exceeds the discounted operating lease commitments previously included. Provisions decrease as onerous lease provisions are replaced by impairments of the right of use assets. Trade and other payables reduce as accruals for straight line rental expense on leases with fixed rent increases are eliminated. Trade and other receivables also reduce as lease prepayments are eliminated. A deferred tax asset is recognised on the transition adjustment.

The following footnotes relate to the balance sheet restatement tables presented below:

[a] The estimated impact of adopting IFRS 16 on the Group's Gain Land Limited associate has been updated to reflect new, more detailed, information received.

[b] Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables/payables, offset by cash and cash equivalents and short-term investments. It excludes the net debt of Tesco bank, which has lease liabilities of £36m as at 24 February 2018, £35m as at 25 August 2018 and £35m as at 23 February 2019.

[c] Total indebtedness pre-IFRS 16 comprises 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. Post-IFRS 16, lease liabilities are included in Net debt, replacing the present value of future minimum lease payments under non-cancellable operating leases.

Note 22 Changes in accounting policies – IFRS 16 'Leases' continued

Balance sheet restatement continued

	As at 24 February 2018		
	Reported £m	IFRS 16 impact £m	Restated £m
Non-current assets			
Goodwill and other intangible assets	2,661	–	2,661
Property, plant and equipment	18,521	191	18,712
Right of use assets	–	7,527	7,527
Investment property	100	–	100
Investments in joint ventures and associates[a]	689	(92)	597
Financial assets at fair value through other comprehensive income	860	–	860
Trade and other receivables	186	31	217
Loans and advances to customers and banks	6,885	–	6,885
Derivative financial instruments	1,117	–	1,117
Deferred tax assets	116	285	401
	31,135	**7,942**	**39,077**
Current assets			
Financial assets at fair value through other comprehensive income	68	–	68
Inventories	2,264	–	2,264
Trade and other receivables	1,504	(89)	1,415
Loans and advances to customers and banks	4,637	–	4,637
Derivative financial instruments	27	–	27
Current tax assets	12	–	12
Short-term investments	1,029	–	1,029
Cash and cash equivalents	4,059	–	4,059
	13,600	**(89)**	**13,511**
Assets classified as held for sale	149	–	149
	13,749	**(89)**	**13,660**
Current liabilities			
Trade and other payables	(8,994)	221	(8,773)
Borrowings	(1,479)	12	(1,467)
Lease liabilities	–	(712)	(712)
Derivative financial instruments	(69)	–	(69)
Customer deposits and deposits from banks	(7,812)	–	(7,812)
Current tax liabilities	(335)	–	(335)
Provisions	(544)	128	(416)
	(19,233)	**(351)**	**(19,584)**
Net current liabilities	**(5,484)**	**(440)**	**(5,924)**
Non-current liabilities			
Trade and other payables	(364)	–	(364)
Borrowings	(7,142)	110	(7,032)
Lease liabilities	–	(9,560)	(9,560)
Derivative financial instruments	(594)	–	(594)
Customer deposits and deposits from banks	(2,972)	–	(2,972)
Post-employment benefit obligations	(3,282)	–	(3,282)
Deferred tax liabilities	(96)	14	(82)
Provisions	(721)	592	(129)
	(15,171)	**(8,844)**	**(24,015)**
Net assets	**10,480**	**(1,342)**	**9,138**
Equity			
Share capital	410	–	410
Share premium	5,107	–	5,107
All other reserves	735	(18)	717
Retained earnings	4,250	(1,324)	2,926
Equity attributable to owners of the parent	**10,502**	**(1,342)**	**9,160**
Non-controlling interests	(22)	–	(22)
Total equity	**10,480**	**(1,342)**	**9,138**
KPIs and APMs			
Net debt[b]	(2,625)	(10,114)	(12,739)
Total indebtedness[c]	(12,284)	(3,183)	(15,467)

Note 22 Changes in accounting policies – IFRS 16 'Leases' continued

Balance sheet restatement continued	As at 23 February 2019			As at 25 August 2018		
	Reported £m	IFRS 16 impact £m	Restated £m	Reported £m	IFRS 16 impact £m	Restated £m
Non-current assets						
Goodwill and other intangible assets	6,264	–	6,264	6,463	(10)	6,453
Property, plant and equipment	19,023	163	19,186	18,808	145	18,953
Right of use assets	–	7,713	7,713	–	7,878	7,878
Investment property	36	–	36	92	–	92
Investments in joint ventures and associates [(a)]	704	(102)	602	702	(102)	600
Financial assets at fair value through other comprehensive income	979	–	979	648	–	648
Trade and other receivables	195	48	243	169	52	221
Loans and advances to customers and banks	7,868	–	7,868	7,547	–	7,547
Derivative financial instruments	1,178	–	1,178	1,199	–	1,199
Deferred tax assets	132	119	251	137	59	196
	36,379	**7,941**	**44,320**	**35,765**	**8,022**	**43,787**
Current assets						
Financial assets at fair value through other comprehensive income	67	–	67	42	–	42
Inventories	2,617	–	2,617	2,821	–	2,821
Trade and other receivables	1,640	(90)	1,550	1,608	(113)	1,495
Loans and advances to customers and banks	4,882	–	4,882	4,846	–	4,846
Derivative financial instruments	52	–	52	194	–	194
Current tax assets	6	–	6	–	–	–
Short-term investments	390	–	390	760	–	760
Cash and cash equivalents	2,916	–	2,916	3,243	–	3,243
	12,570	**(90)**	**12,480**	**13,514**	**(113)**	**13,401**
Assets classified as held for sale	98	–	98	123	–	123
	12,668	**(90)**	**12,578**	**13,637**	**(113)**	**13,524**
Current liabilities						
Trade and other payables	(9,354)	223	(9,131)	(9,749)	240	(9,509)
Borrowings	(1,599)	36	(1,563)	(2,534)	14	(2,520)
Lease liabilities	–	(646)	(646)	–	(712)	(712)
Derivative financial instruments	(250)	–	(250)	(117)	–	(117)
Customer deposits and deposits from banks	(8,832)	–	(8,832)	(8,842)	–	(8,842)
Current tax liabilities	(325)	–	(325)	(333)	–	(333)
Provisions	(320)	94	(226)	(465)	117	(348)
	(20,680)	**(293)**	**(20,973)**	**(22,040)**	**(341)**	**(22,381)**
Net current liabilities	**(8,012)**	**(383)**	**(8,395)**	**(8,403)**	**(454)**	**(8,857)**
Non-current liabilities						
Trade and other payables	(384)	19	(365)	(399)	19	(380)
Borrowings	(5,673)	93	(5,580)	(5,403)	111	(5,292)
Lease liabilities	–	(9,859)	(9,859)	–	(9,975)	(9,975)
Derivative financial instruments	(389)	–	(389)	(522)	–	(522)
Customer deposits and deposits from banks	(3,296)	–	(3,296)	(3,041)	–	(3,041)
Post-employment benefit obligations	(2,808)	–	(2,808)	(2,574)	–	(2,574)
Deferred tax liabilities	(236)	187	(49)	(311)	253	(58)
Provisions	(747)	600	(147)	(739)	579	(160)
	(13,533)	**(8,960)**	**(22,493)**	**(12,989)**	**(9,013)**	**(22,002)**
Net assets	**14,834**	**(1,402)**	**13,432**	**14,373**	**(1,445)**	**12,928**
Equity						
Share capital	490	–	490	490	–	490
Share premium	5,165	–	5,165	5,163	–	5,163
All other reserves	3,798	(28)	3,770	3,854	(33)	3,821
Retained earnings	5,405	(1,374)	4,031	4,887	(1,412)	3,475
Equity attributable to owners of the parent	**14,858**	**(1,402)**	**13,456**	**14,394**	**(1,445)**	**12,949**
Non-controlling interests	(24)	–	(24)	(21)	–	(21)
Total equity	**14,834**	**(1,402)**	**13,432**	**14,373**	**(1,445)**	**12,928**
KPIs and APMs						
Net debt[(b)]	(2,863)	(10,341)	(13,204)	(3,126)	(10,527)	(13,653)
Total indebtedness[(c)]	(12,200)	(3,342)	(15,542)	(12,472)	(3,325)	(15,797)

Income statement restatement

The table below sets out the impact of IFRS 16 on the comparative period income statement for the 26 weeks ended 25 August 2018 and related APMs. Cost of sales and administrative expenses reduce and finance costs increase as straight line operating lease rental expense is replaced by depreciation of the right of use asset and interest on the lease liability. This results in higher gross profit, operating profit and operating margin. As the interest expense is front-end loaded and decreases as the lease liability decreases, profit before tax is lower in the early stages of a lease and higher in the later stages when compared to a straight-line rental expense.

	26 weeks ended 25 August 2018 reported*				26 weeks ended 25 August 2018 restated		
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	IFRS 16 impact £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m
Continuing operations							
Revenue	**31,734**	**–**	**31,734**	**–**	**31,734**	**–**	**31,734**
Cost of sales	(29,793)	(83)	(29,876)	185	(29,608)	(83)	(29,691)
Gross profit/(loss)	**1,941**	**(83)**	**1,858**	**185**	**2,126**	**(83)**	**2,043**
Administrative expenses	(1,008)	(31)	(1,039)	3	(1,005)	(31)	(1,036)
Operating profit/(loss)	**933**	**(114)**	**819**	**188**	**1,121**	**(114)**	**1,007**
Share of post-tax profits/(losses) of joint ventures and associates	20	11	31	(2)	18	11	29
Finance income	7	–	7	2	9	–	9
Finance costs	(293)	–	(293)	(289)	(582)	–	(582)
Profit/(loss) before tax	**667**	**(103)**	**564**	**(101)**	**566**	**(103)**	**463**
Taxation	(160)	22	(138)	13	(147)	22	(125)
Profit/(loss) for the period	**507**	**(81)**	**426**	**(88)**	**419**	**(81)**	**338**
Earnings/(losses) per share							
Basic			4.40p	(0.91)p			3.49p
Diluted			4.37p	(0.90)p			3.47p
KPIs and APMs							
Operating margin	2.94%			0.59%	3.53%		
Diluted adjusted EPS	6.36p			(0.91)p	5.45p		

* Reclassified for the change in presentation of profits/(losses) arising on property-related items as explained in Note 1.

Cash flow statement restatement

The table below sets out the impact of IFRS 16 on the comparative period cash flow statement for the 26 weeks ended 25 August 2018 and related APMs. IFRS 16 has no impact on total cash flow for the period or cash and cash equivalents at the end of the period. Cash generated from operations and free cash flow measures increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows are instead split between interest paid and repayments of obligations under leases, which both increase.

Cash flow statement restatement for the 26 weeks ended 25 August 2018

	Retail			Tesco Bank			Tesco Group		
26 weeks ended 25 August 2018	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Total Group (reported) £m	IFRS 16 impact £m	Total Group (restated) £m
Operating profit/(loss)	**751**	**187**	**938**	**68**	**1**	**69**	**819**	**188**	**1,007**
Depreciation and amortisation	636	339	975	43	1	44	679	340	1,019
ATM net income	(18)	–	(18)	18	–	18	–	–	–
(Profit)/loss arising on sale of property, plant and equipment and intangible assets, and early termination of leases	(12)	(9)	(21)	–	–	–	(12)	(9)	(21)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(7)	–	(7)	(8)	–	(8)	(15)	–	(15)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	4	–	4	–	–	–	4	–	4
Adjustment for non-cash element of pensions charge	2	–	2	–	–	–	2	–	2
Other defined benefit pension scheme payments	(142)	–	(142)	–	–	–	(142)	–	(142)
Share-based payments	33	–	33	1	–	1	34	–	34
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	55	–	55	55	–	55
Cash flows generated from operations excluding working capital	**1,247**	**517**	**1,764**	**177**	**2**	**179**	**1,424**	**519**	**1,943**
(Increase)/decrease in working capital	(124)	49	(75)	(59)	–	(59)	(183)	49	(134)
Cash flows generated from/(used in) operations	**1,123**	**566**	**1,689**	**118**	**2**	**120**	**1,241**	**568**	**1,809**
Interest paid	(185)	(288)	(473)	(2)	(1)	(3)	(187)	(289)	(476)
Corporation tax (paid)/received	(109)	–	(109)	(35)	–	(35)	(144)	–	(144)
Net cash generated from/(used in) operating activities	**829**	**278**	**1,107**	**81**	**1**	**82**	**910**	**279**	**1,189**

Cash flow statement restatement for the 26 weeks ended 25 August 2018 continued

	Retail			Tesco Bank			Total Group		
26 weeks ended 25 August 2018	**Retail (reported) £m**	**IFRS 16 impact £m**	**Retail (restated) £m**	**Tesco Bank (reported) £m**	**IFRS 16 impact £m**	**Tesco Bank (restated) £m**	**Total Group (reported) £m**	**IFRS 16 impact £m**	**Total Group (restated) £m**
Proceeds from the sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	134	–	134	–	–	–	134	–	134
Purchase of property, plant and equipment and investment property – store buy backs	(35)	–	(35)	–	–	–	(35)	–	(35)
Purchase of property, plant and equipment and investment property – other capital expenditure	(388)	–	(388)	(2)	–	(2)	(390)	–	(390)
Purchase of intangible assets	(71)	–	(71)	(13)	–	(13)	(84)	–	(84)
Disposal of subsidiaries, net of cash disposed	8	–	8	–	–	–	8	–	8
Acquisition of subsidiaries, net of cash acquired	(715)	–	(715)	–	–	–	(715)	–	(715)
Net (increase)/decrease in loans to joint ventures and associates	–	–	–	5	–	5	5	–	5
Net (investments in)/proceeds from sale of short-term investments	269	–	269	–	–	–	269	–	269
Net (investments in)/proceeds from the sale of financial assets at fair value through other comprehensive income	–	–	–	235	–	235	235	–	235
Dividends received from joint ventures and associates	14	–	14	10	–	10	24	–	24
Interest received	20	2	22	–	–	–	20	2	22
Net cash generated from/(used in) investing activities	**(764)**	**2**	**(762)**	**235**	**–**	**235**	**(529)**	**2**	**(527)**

Cash flow statement restatement for the 26 weeks ended 25 August 2018 continued

	Retail			Tesco Bank			Total Group		
26 weeks ended 25 August 2018	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Total Group (reported) £m	IFRS 16 impact £m	Total Group (restated) £m
Proceeds from issue of ordinary share capital	58	–	58	–	–	–	58	–	58
Own shares purchased	(197)	–	(197)	–	–	–	(197)	–	(197)
Repayment of obligations under leases	(7)	(280)	(287)	–	(1)	(1)	(7)	(281)	(288)
Add: Cash outflow from major acquisition	747	–	747	–	–	–	747	–	747
Less: Net increase/(decrease) in loans to joint ventures and associates	–	–	–	(5)	–	(5)	(5)	–	(5)
Less: Net investments in/(proceeds from sale of) short-term investments	(269)	–	(269)	–	–	–	(269)	–	(269)
APM: Free cash flow*	**397**	**–**	**397**	**311**	**–**	**311**	**708**	**–**	**708**
Increase in borrowings	266	–	266	–	–	–	266	–	266
Repayment of borrowings	(714)	–	(714)	(425)	–	(425)	(1,139)	–	(1,139)
Net cash flows from derivative financial instruments	(15)	–	(15)	–	–	–	(15)	–	(15)
Dividends paid to equity owners	(195)	–	(195)	–	–	–	(195)	–	(195)
Net cash generated from/(used in) financing activities	**(804)**	**(280)**	**(1,084)**	**(425)**	**(1)**	**(426)**	**(1,229)**	**(281)**	**(1,510)**
Intra-Group funding and intercompany transactions	**(12)**	**–**	**(12)**	**12**	**–**	**12**	**–**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**(751)**	**–**	**(751)**	**(97)**	**–**	**(97)**	**(848)**	**–**	**(848)**
Cash and cash equivalents at the beginning of the period			2,755			1,304			4,059
Effect of foreign exchange rate changes			32			–			32
Cash and cash equivalents at the end of the period			**2,036**			**1,207**			**3,243**

* Free cash flow has been redefined to include 'Repayments of obligations under leases' due to IFRS 16. This results in a minor adjustment of £7m, restating previously reported Retail Free cash flow of £404m to £397m. There is no overall impact to cash and cash equivalents at the end of the period.

Introduction

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

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

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

Purpose

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

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

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

The key APMs that the Group has focused on and changes to APMs within the period can be found in Note 1.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income statement				
Revenue measures				
Group sales	Revenue	• Exclude sales made at petrol filling stations	Note 2	• Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	• Consistent with accounting policy	Not applicable	• Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 26 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	• Consistent with accounting policy	Not applicable	• Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
Profit measures				
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	• Exceptional items • Amortisation of acquired intangibles	Note 2	• Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance. This is a key management incentive metric.
Operating margin	No direct equivalent	• Consistent with accounting policy	Not applicable	• Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Earnings before exceptional items, interest, tax, depreciation, amortisation and rent expense (EBITDAR)	Operating profit*	• Exceptional items • Depreciation and amortisation • Rent expense • Tesco Bank EBITDAR • Discontinued operations	Page 64	• This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation, amortisation and rent expense and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Profit measures continued				
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Profit before tax	• Exceptional items • Amortisation of acquired intangibles • Net pension finance costs • Fair value remeasurements on financial instruments	Note 8	• 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.
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 4	• 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 8	• 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	Not applicable	• 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.
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	Not applicable	• 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.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
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, lease liabilities, 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 • IAS 19 deficit in the pension schemes	Page 64	• Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) 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 64	• 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 64	• Fixed charge cover is calculated as the rolling 12-month EBITDAR divided by the sum of net finance cost (excluding net pension finance costs, finance charges payable on lease liabilities, exceptional items, capitalised interest and fair value remeasurements) and all lease payments. 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 • Repayment of obligations under leases • 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, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and repayment of obligations under leases. 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.
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 • Repayment of obligations under leases • 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, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and the repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

APMs: Reconciliation of debt metrics

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

EBITDAR (restated)	12 months to 24 August 2019 £m	23 February 2019 £m
Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles[a]	2,892	2,607
Less: Tesco Bank operating profit/(loss) before exceptional items[a]	(196)	(199)
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)[a]	1,979	1,972
Less: Tesco Bank depreciation and amortisation[a]	(80)	(85)
Add: Retail lease rental expense[a][b]	19	18
	4,614	**4,313**

Total indebtedness ratio (restated)	Notes	24 August 2019	23 February 2019
Net debt (£m)	18	12,593	13,204
Add: Defined benefit pension deficit, net of deferred tax (£m)	17	2,098	2,338
Total indebtedness (£m)		**14,691**	**15,542**
EBITDAR (£m)		**4,614**	**4,313**
Total indebtedness ratio		**3.2**	**3.6**

Fixed charge cover (restated)	12 months to 24 August 2019	23 February 2019
Net finance cost (£m) [a]	1,145	1,064
Less: Net pension finance costs (£m) [a]	(80)	(89)
Less: Exceptional fair value remeasurement on restructuring derivative financial instruments	(180)	-
Add: Capitalised interest (£m) [a]	-	1
Less: Fair value remeasurements on financial instruments (£m) [a]	(120)	(153)
Less: Interest charged on lease liabilities (£m) [a]	(539)	(561)
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements on financial instruments (£m)	**226**	**262**
Add: Retail lease rental expense (£m) [a][b]	19	18
Add: Retail total lease liability payments (£m)	1,177	1,163
	1,422	**1,443**
EBITDAR (£m)	**4,614**	**4,313**
Fixed charge cover	**3.2**	**3.0**

[a] As the incomes and expenses included in debt APMs are calculated using a rolling 12 month period, the amounts for the 12 months to 24 August 2019 are not disclosed in the notes to the condensed consolidated interim financial statements for the current financial period.

[b] Retail lease rental expense of £19m (23 February 2019: £18m) includes leases of low value assets, short-term lease of 12 months or less, variable lease payments dependent on performance or usage and 'out of contract' payments.

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.

MREL
Minimum Requirements for Own Funds and Eligible Liabilities (European Banking Authority).

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

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

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

RPI
RPI refers to Retail Price Index.

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

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 24 August 2019 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and related Notes 1 to 22. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 24 August 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
1 October 2019

Appendix 1

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

	1H 2018/19	2H 2018/19	FY 2018/19	1Q 2019/20	2Q 2019/20	1H 2019/20
UK & ROI	**17.7%**	**14.5%**	**16.1%**	**1.2%**	**(0.9)%**	**0.2%**
UK & ROI (comparable growth[b])	**3.5%**	**0.7%**	**2.1%**	**0.1%**	**(0.9)%**	**(0.4)%**
UK	1.8%	(0.2)%	0.8%	(0.4)%	(1.4)%	(0.9)%
ROI	8.4%	2.0%	5.0%	0.8%	0.3%	0.5%
Booker[b]	13.3%	6.1%	9.6%	3.1%	1.6%	2.3%
Central Europe	**(2.7)%**	**(7.1)%**	**(4.9)%**	**(10.8)%**	**(3.3)%**	**(7.0)%**
Asia	**(4.1)%**	**1.0%**	**(1.6)%**	**7.3%**	**9.5%**	**8.4%**
Tesco Bank	**4.2%**	**5.3%**	**4.7%**	**(1.9)%**	**7.5%**	**2.8%**
Group	**12.8%**	**10.4%**	**11.5%**	**0.4%**	**(0.1)%**	**0.1%**
Group (comparable growth[b])	**2.2%**	**(0.1)%**	**1.0%**	**(0.5)%**	**(0.1)%**	**(0.3)%**

[a] Sales growth shown on a comparable days basis and includes an adjustment to 2017/18 figures to reflect a change in the reporting of consignment sales.
[b] Comparable growth presents growth with Booker sales included in the prior year base using a comparable number of weeks. On a comparable basis, Booker's growth was 3.1% for Q1 2019/20 and 2.3% for 1H 2019/20. Booker sales growth was 12.4% for Q1 2019/20 and 6.5% for 1H 2019/20, reflecting 9 additional days of Booker sales in the current year.

Appendix 2

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

	1H 2018/19	2H 2018/19	FY 2018/19	1Q 2019/20	2Q 2019/20	1H 2019/20
UK & ROI	**17.7%**	**14.5%**	**16.1%**	**1.3%**	**(1.0)%**	**0.2%**
UK & ROI (comparable growth[b])	**3.5%**	**0.7%**	**2.1%**	**0.2%**	**(1.0)%**	**(0.4)%**
UK	1.8%	(0.2)%	0.8%	(0.4)%	(1.4)%	(0.9)%
ROI	7.2%	2.1%	4.5%	2.7%	(1.4)%	0.6%
Booker[b]	13.3%	6.1%	9.6%	3.1%	1.6%	2.3%
Central Europe	**(3.5)%**	**(5.4)%**	**(4.5)%**	**(7.9)%**	**(4.7)%**	**(6.3)%**
Asia	**(5.0)%**	**(3.3)%**	**(4.1)%**	**2.6%**	**(0.5)%**	**1.0%**
Tesco Bank	**4.2%**	**5.3%**	**4.7%**	**(1.9)%**	**7.5%**	**2.8%**
Group	**12.5%**	**10.2%**	**11.3%**	**0.4%**	**(1.2)%**	**(0.4)%**
Group (comparable growth[b])	**2.0%**	**(0.3)%**	**0.8%**	**(0.5)%**	**(1.2)%**	**(0.8)%**

[a] Sales growth shown on a comparable days basis and includes an adjustment to 2017/18 figures to reflect a change in the reporting of consignment sales.
[b] Comparable growth presents growth with Booker sales included in the prior year base using a comparable number of weeks. On a comparable basis, Booker's growth was 3.1% for Q1 2019/20 and 2.3% for 1H 2019/20. Booker sales growth was 12.4% for Q1 2019/20 and 6.5% for 1H 2019/20, reflecting 9 additional days of Booker sales in the current year.

Appendix 3

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

	1H 2018/19	2H 2018/19	FY 2018/19	1Q 2019/20	2Q 2019/20	1H 2019/20
UK & ROI	**3.8%**	**1.9%**	**2.9%**	**0.8%**	**(0.6)%**	**0.1%**
UK	2.3%	1.2%	1.7%	0.4%	(1.0)%	(0.3)%
ROI	3.1%	(0.3)%	1.3%	1.3%	(1.0)%	0.1%
Booker	14.7%	7.6%	11.1%	3.1%	1.9%	2.4%
Central Europe	**(1.5)%**	**(3.0)%**	**(2.3)%**	**(4.9)%**	**(1.4)%**	**(3.1)%**
Asia	**(7.0)%**	**(5.4)%**	**(6.2)%**	**0.1%**	**(2.7)%**	**(1.3)%**
Group	**2.2%**	**0.7%**	**1.4%**	**0.2%**	**(0.9)%**	**(0.4)%**

Appendix 4

Country detail - Retail

	Revenue (exc. VAT, inc. fuel)* Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	21,593	21,593	1.0	1.0
ROI	1,327	1,169	1.1	1.1
Booker	3,133	3,133	1.0	1.0
Czech Republic	20,752	712	29.1	28.5
Hungary	272,280	744	366.0	362.0
Poland	4,093	841	4.9	4.8
Slovakia	675	594	1.1	1.1
Thailand	85,763	2,142	40.0	37.6
Malaysia	2,181	414	5.3	5.1

* Excludes franchising revenue within Central Europe of £5m, which is not allocated to individual countries.

Appendix 5

UK sales area by size of store

Store size (sq. ft.)	August 2019			February 2019		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0 – 3,000	2,503	5.3	13.9	2,518	5.4	13.9
3,001 – 20,000	275	3.0	7.8	276	3.0	7.9
20,001 – 40,000	284	8.2	21.3	284	8.2	21.2
40,001 – 60,000	182	8.9	22.9	182	8.8	22.9
60,001 – 80,000	120	8.5	22.1	120	8.5	22.1
80,001 – 100,000	50	3.7	9.7	50	3.7	9.7
Over 100,000	8	0.9	2.3	8	0.9	2.3
Total*	**3,422**	**38.5**	**100.0**	**3,438**	**38.5**	**100.0**

* Excludes Booker and franchise stores.

Actual Group space – store numbers [a]

	2018/19 year-end	Openings	Closures/ disposals	Net gain/ (reduction)[b]	As at 24 August 2019	Repurposing/ extensions
Large	797	1	(3)	(2)	795	-
Convenience	1,855	5	(3)	2	1,857	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,658**	**6**	**(6)**	**-**	**2,658**	**-**
One Stop[c]	772	4	(22)	(18)	754	-
Booker	197	-	(1)	(1)	196	-
Jack's	8	2	-	2	10	-
UK[c]	**3,635**	**12**	**(29)**	**(17)**	**3,618**	**-**
ROI	**152**	**-**	**(1)**	**(1)**	**151**	**-**
UK & ROI[c]	**3,787**	**12**	**(30)**	**(18)**	**3,769**	**-**
Czech Republic[c]	188	1	-	1	189	3
Hungary	204	-	-	-	204	5
Poland	353	-	(8)	(8)	345	-
Slovakia	150	-	-	-	150	2
Central Europe[c]	**895**	**1**	**(8)**	**(7)**	**888**	**10**
Malaysia	73	1	-	1	74	-
Thailand	1,965	4	(2)	2	1,967	69
Asia	**2,038**	**5**	**(2)**	**3**	**2,041**	**69**
Group[c]	**6,720**	**18**	**(40)**	**(22)**	**6,698**	**79**
UK (One Stop)	*174*	*21*	*(3)*	*18*	*192*	-
Czech Republic	*99*	*4*	-	*4*	*103*	-
Franchise stores	***273***	***25***	***(3)***	***22***	***295***	**-**

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

Actual Group space – '000 sq. ft.[a]

	2018/19 year-end	Openings	Closures/ disposals	Repurposing/ extensions[b]	Net gain/ (reduction)	As at 24 August 2019
Large	31,368	9	(65)	-	(56)	31,312
Convenience	5,097	13	(14)	-	(1)	5,096
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,181**	**22**	**(79)**	**-**	**(57)**	**37,124**
One Stop[c]	1,261	7	(32)	-	(25)	1,236
Booker	8,436	-	(60)	-	(60)	8,376
Jack's	81	45	-	-	45	126
UK[c]	**46,959**	**74**	**(171)**	**-**	**(97)**	**46,862**
ROI	**3,335**	**-**	**(5)**	**-**	**(5)**	**3,330**
UK & ROI[c]	**50,294**	**74**	**(176)**	**-**	**(102)**	**50,192**
Czech Republic[c]	4,602	21	-	(185)	(164)	4,438
Hungary	6,281	-	-	(125)	(125)	6,156
Poland	7,804	-	(329)	-	(329)	7,475
Slovakia	3,438	-	-	(98)	(98)	3,340
Central Europe[c]	**22,125**	**21**	**(329)**	**(408)**	**(716)**	**21,409**
Malaysia	3,533	32	-	-	32	3,565
Thailand	15,024	47	(4)	(134)	(91)	14,933
Asia	**18,557**	**79**	**(4)**	**(134)**	**(59)**	**18,498**
Group[c]	**90,976**	**174**	**(509)**	**(542)**	**(877)**	**90,099**
UK (One Stop)	*227*	*25*	*(4)*	-	*21*	*248*
Czech Republic	*95*	*3*	-	-	*3*	*98*
Franchise stores	***322***	***28***	***(4)***	**-**	***24***	***346***

[a] Continuing operations.
[b] Repurposing of retail selling space.
[c] Excludes franchise stores.

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

	As at 24 August 2019	Openings	Closures/ disposals	Repurposing /extensions[b]	Net gain/ (reduction)	2019/20 year-end
Large	31,312	29	-	-	29	31,341
Convenience	5,096	30	(26)	-	4	5,100
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,124**	**59**	**(26)**	**-**	**33**	**37,157**
One Stop[c]	1,236	10	(5)	-	5	1,241
Booker	8,376	-	-	-	-	8,376
Jack's	126	40	(36)	-	4	130
UK[c]	**46,862**	**109**	**(67)**	**-**	**42**	**46,904**
ROI	**3,330**	**-**	**-**	**-**	**-**	**3,330**
UK & ROI[c]	**50,192**	**109**	**(67)**	**-**	**42**	**50,234**
Czech Republic[c]	4,438	-	-	-	-	4,438
Hungary	6,156	-	(3)	(323)	(326)	5,830
Poland	7,475	-	(1,176)	-	(1,176)	6,299
Slovakia	3,340	10	-	(82)	(72)	3,268
Central Europe[c]	**21,409**	**10**	**(1,179)**	**(405)**	**(1,574)**	**19,835**
Malaysia	3,565	50	-	(133)	(83)	3,482
Thailand	14,933	95	(27)	(652)	(584)	14,349
Asia	**18,498**	**145**	**(27)**	**(785)**	**(667)**	**17,831**
Group[c]	**90,099**	**264**	**(1,273)**	**(1,190)**	**(2,199)**	**87,900**
UK (One Stop)	*248*	*21*	*(5)*	*-*	*16*	*264*
Czech Republic	*98*	*-*	*-*	*-*	*-*	*98*
Franchise stores	***346***	***21***	***(5)***	***-***	***16***	***362***

[a] Continuing operations.
[b] Repurposing of retail selling space.
[c] Excludes franchise stores.

Tesco Bank income statement

	1H 2019/20[(a)] £m	1H 2018/19[(a)] (restated[(b)]) £m
Revenue		
Interest receivable and similar income	379	354
Fees and commissions receivable	183	193
	562	**547**
Direct costs		
Interest payable	(94)	(84)
Fees and commissions payable	(13)	(14)
	(107)	**(98)**
Gross profit	**455**	**449**
Other expenses		
Staff costs	(86)	(88)
Premises and equipment	(37)	(37)
Other administrative expenses	(93)	(100)
Depreciation and amortisation	(39)	(44)
Impairment loss on financial assets	(113)	(90)
Operating profit before exceptional items	**87**	**90**
Exceptional items[(c)]	(57)	(21)
Operating profit	**30**	**69**
Net finance costs: movements on derivatives and hedge accounting	(10)	(4)
Net finance costs: interest	(3)	(3)
Share of profit/(loss) of joint venture	7	4
Profit before tax	**24**	**66**

(a) These results are for the six months ended 31 August 2019 and the previous comparison is made with the six months ended 31 August 2018.
(b) Restated for the adoption of IFRS 16 as explained in Note 1 and Note 22.
(c) Comprised of a PPI provision charge of £45m (1H 2018/19: £7m), a restructuring charge of £8m (1H 2018/19: credit of £2m), accelerated amortisation and costs related to the sale of the mortgage book of £4m (1H 2018/19: £nil) and a regulatory provision of £nil (1H 2018/19: £16m).