

## COVID-19 UPDATE AND PRELIMINARY RESULTS 2019/20

*Before sharing our results for the financial year ending 29 February 2020, we would like to update you on the impact of COVID-19.*

### COVID-19 Update

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Our priority in dealing with the exceptional challenges posed by COVID-19 is to ensure the safety of our customers and colleagues, support our suppliers and maintain the availability of food. In every region we are working closely with the government and public health authorities to ensure we are supporting wherever we can and following all the relevant guidelines.

The specific challenges across the Group are three-fold, and most keenly felt in the UK. First, the significant change in buying behaviour of our customers. Second, the impact of the virus on our colleagues and thirdly, helping the more vulnerable in society, as defined by the UK Government.

In the first few weeks of the crisis, significant panic buying (c.30% uplift in the UK) cleared the supply chain of certain items. This has now stabilised across the Group and more normal sales volumes are being experienced. The size and nature of our workforce means we have experienced a significant absence of colleagues. Full colleague sickness support is in place and in the last two weeks alone, we recruited more than 45,000 colleagues in the UK.

Whilst we have already stepped up our capacity on Grocery Home Shopping by more than 20%, and will continue to increase this, there is simply not enough capacity to supply the whole market. Between 85% and 90% of all food bought will require a visit to a store and here significant changes to the store environment have been implemented to maximise safety for colleagues and customers. We will continue to try and prioritise home delivery for the most vulnerable in society as defined by the UK Government.

#### Dave Lewis, Chief Executive:

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“COVID-19 has shown how critical the food supply chain is to the UK and I’m very proud of the way Tesco, as indeed the whole UK food industry, has stepped forward.

In this time of crisis we have focused on four things; food for all, safety for everyone, supporting our colleagues and supporting our communities.

Initial panic buying has subsided and service levels are returning to normal. There are significant extra costs in feeding the nation at the moment but these are partially offset by the UK Business rates relief.

Tesco is a business that rises to a challenge and this will be no different. I would like to thank colleagues for their unbelievable commitment and customers for their help and understanding. Together, we can do this.”

#### Our response to date

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##### Food for all

- introduced a restriction of three items per customer on every product line; now removed on majority of products as stock levels stabilise
- introduced special hours in stores for NHS workers, and more vulnerable and elderly customers
- expanded Grocery Home Shopping capacity by +20% in the last two weeks, adding 145,000 slots
- working with Government to prioritise delivery slots for vulnerable people without a support network
- temporarily closed all cafes, phone shops, meat, fish, deli counters and salad bars
- asked our office colleagues to volunteer for shifts in stores where they can
- working closely with supplier partners to simplify our range to get more of the most popular products on shelves
- focusing on simple pricing for single products, removing many multi-buy promotions

##### Safety for everyone

- introduced social distancing measures in stores; filmed a new advertisement with colleagues summarising them
- created one-way aisles and ‘one-in, one-out’ system to help limit flow
- using directional floor markings to help everyone keep a safe distance
- installing protective screens at the front and back of our checkouts
- enhanced cleaning routines and new cleaning stations in stores
- inviting customers that can, to pay at the checkout by card

## Supporting our colleagues

- colleagues ill with COVID-19 or in isolation receiving full pay from their first day of absence
- fully paid absence for 12 weeks for colleagues who are over 70, vulnerable or pregnant
- paying a 10% bonus on the hourly rate for hours worked to colleagues across stores, distribution centres and customer engagement centres
- range of policies to support parents during school closures, including new school closure leave policy
- more than 45,000 new colleagues have joined Tesco since 20 March, including pickers and drivers
- colleague discount increased to 15% from 6 April to 7 May

## Supporting our communities

- we will continue our ongoing donations of £3m of food every month through our Community Food Connection scheme and distribution centres
- a further £15m of food to be donated to FareShare and the Trussell Trust over the next 12 weeks and a further £1m donation between the two organisations
- focusing £2m funding from Bags of Help community donation scheme to charities helping the most vulnerable
- building on our partnership with the British Red Cross, donating £2m to help with extra costs in supporting people in need
- over £1m of funding in stores so they can support causes in their local neighbourhood
- donating food for 1m free meal parcels for front-line NHS workers, supporting 'SaluteTheNHS.org' initiative
- constructing our first dedicated NHS Nightingale Hospital pop-up store, at the NEC in Birmingham

## Looking ahead

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COVID-19 is having a material impact on the operations of our business and we are incurring significant additional costs, particularly in payroll as we recruit additional colleagues to meet demand and cover the work of those colleagues who are absent and being paid.

Whilst the full financial impact of the crisis for 2020/21 is impossible to predict with a high degree of certainty, we have considered a range of scenarios to understand potential outcomes on our business and plan appropriately. Dependent on the scenario, the estimated impact on our retail cost lines is between c.£(650)m and c.£(925)m including significant cost increases in payroll, distribution and store expenses.

At this stage it would not be prudent to provide financial guidance for 2020/21, however if customer behaviour were to return to normal by August it is likely that the additional cost headwinds incurred in our retail operations would be largely offset by the benefits of food volume increases, twelve months' business rates relief in the UK and prudent operations management.

Tesco Bank, which operates as a stand-alone regulated entity, is expected to be impacted by a reduction in income from all its activities, including credit cards, loans and travel money. This expected decrease in income, in addition to provisions for potential bad debts, is likely to result in a loss for the Bank in the year ending February 2021. Notwithstanding this, the Bank's capital ratios (Tier 1 ratio: 20.6% and Total ratio: 23.1% as at 29 February 2020) and liquidity are expected to remain strong.

Up to date information on our response to COVID-19 can be found on our website at [www.tescopl.com/covid-19](http://www.tescopl.com/covid-19).

## TURNAROUND COMPLETE – WELL-PLACED TO SERVE ALL OF OUR STAKEHOLDERS

On a continuing operations basis

	2019/20	2018/19 <sup>1</sup>	Change at actual rates	Change at constant rates
<b>Headline measures<sup>2</sup> (on a 52 week comparable basis):</b>				
Group sales <sup>3</sup>	<b>£56.5bn</b>	£56.9bn	(0.7)%	(1.0)%
- UK & ROI	£44.9bn	£44.9bn	0.1%	0.2%
- Central Europe	£5.3bn	£6.0bn	(12.1)%	(10.1)%
- Asia	£5.2bn	£4.9bn	6.7%	0.1%
- Tesco Bank	£1.1bn	£1.1bn	(2.6)%	(2.6)%
Group operating profit before exceptional items and amortisation of acquired intangibles <sup>4</sup>	<b>£2,959m</b>	£2,607m	13.5%	12.6%
Retail free cash flow <sup>5</sup>	<b>£2,063m</b>	£889m	132.1%	
Net debt <sup>5</sup>	<b>£(12.1)bn</b>	£(13.2)bn	down 8.4%	
Diluted EPS before exceptional and other items <sup>6</sup>	<b>17.92p</b>	14.01p	27.9%	
Dividend per share	<b>9.15p</b>	5.77p	58.6%	
<b>Statutory measures (on a 53 week basis):</b>				
Revenue	<b>£64.8bn</b>	£63.9bn	1.3%	
Operating profit	<b>£2,518m</b>	£2,649m	(4.9)%	
Profit before tax	<b>£1,315m</b>	£1,617m	(18.7)%	
Diluted EPS <sup>7</sup>	<b>9.54p</b>	13.04p	(26.8)%	

For UK & ROI our reported statutory performance is for the 53 weeks ended 29 February 2020. For all other operations, these results are for the calendar year ended 29 February 2020. To aid comparability, headline results are shown on a 52 week basis. A reconciliation between statutory results and headline alternative performance measures is shown on page 4.

### Headlines (52 week comparable basis)

#### Customer satisfaction

- Shopping trip satisfaction improved across all formats; brand net promoter score +7 points year-on-year<sup>8</sup>
- Brand perception further improved across range, quality and value<sup>9</sup>
- 'Aldi Price Match' launched in March across hundreds of Tesco and branded products

#### Cash profitability

- Retail operating profit before exceptional items and amortisation of acquired intangibles<sup>10</sup> of £2,766m, +14.9%, margin 4.4%;
  - Strong performance in UK & ROI and Asia, partly offset by disruption impact of transformation in Central Europe
    - UK & ROI £2,184m, +16.9%, margin 4.2%
    - Central Europe £156m, (29.4)%, margin 2.8%
    - Asia £426m, +33.5%, margin 8.2%
- Bank operating profit before exceptional items £193m, (3.0)%
- Cumulative Booker synergies £207m, delivered a year ahead of target; acquisition of Best Food Logistics in early March
- Group operating margin<sup>4</sup> of 4.64% (+56bps); Retail EBITDA<sup>10</sup> up 8.8% to £4.7bn

#### Cash flow

- Retail free cash flow<sup>5</sup> of £2,063m, including CE property disposals of £167m and £277m from sale of China joint venture<sup>11</sup>
- Final dividend 6.50p, reflecting strength of last year's performance and our robust liquidity and balance sheet; full-year dividend of 9.15p representing a pay-out ratio of 50%
- Net debt<sup>5</sup> of £(12.1)bn, down £1.1bn year-on-year

#### Proposed sale of businesses in Thailand and Malaysia<sup>12</sup>

- Consideration of \$10.6bn (c.£8.2bn) on a cash and debt free basis, conditional on shareholder and regulatory approval
- Plan to return c.£5bn to shareholders via a special dividend; £2.5bn one-off pension contribution to eliminate funding deficit
- Completion of sale expected 2H 2020; Thailand and Malaysia to be treated as discontinued for 2020/21 financial year

### Dave Lewis, Chief Executive:

"Over the last five years we have focused on serving customers better, re-engaging our colleagues, completely resetting our relationships with our suppliers and as a result we have been able to add value for our shareholders.

These endeavours put us in a strong operational and financial position to deal with the challenges of COVID-19.

I would like to thank Tesco colleagues for their contribution to this turnaround journey and for their unbelievable commitment as we face into the COVID-19 crisis. Their contribution continues to be immense."

**Serving shoppers a little better every day**

## Headline Group results for financial year ending 29 February 2020

### Key segmental results:

	Sales <sup>3</sup>					Operating Profit before exceptional items and amortisation of acquired intangibles			
	2019/20 53 week basis	2019/20 52 week basis	YoY 52 week change (actual rates)	YoY 52 week change (constant rates)	LFL sales change <sup>13</sup>	2019/20 53 week basis	2019/20 52 week basis	YoY 52 week change (actual rates)	YoY 52 week change (constant rates)
<b>UK &amp; ROI</b>	<b>£45,752m</b>	<b>£44,909m</b>	0.1%	0.2%	0.2%	<b>£2,230m</b> 4.22%	<b>£2,184m</b> 4.21%	16.9% +59bp	16.9% +51bp
- UK	£37,215m	£36,521m	(0.6)%	(0.6)%	(0.3)%				
- ROI	£2,333m	£2,290m	(0.7)%	0.8%	1.2%				
- Booker	£6,204m	£6,098m	5.0%	5.0%	3.3%				
<b>Central Europe</b>	<b>£5,332m</b>	<b>£5,332m</b>	(12.1)%	(10.1)%	(6.4)%	<b>£156m</b> 2.80%	<b>£156m</b> 2.80%	(29.4)% (71)bp	(27.6)% (70)bp
<b>Asia</b>	<b>£5,218m</b>	<b>£5,218m</b>	6.7%	0.1%	(1.9)%	<b>£426m</b> 8.16%	<b>£426m</b> 8.16%	33.5% +161bp	24.8% +158bp
<b>Bank</b>	<b>£1,068m</b>	<b>£1,068m</b>	(2.6)%	(2.6)%	-	<b>£193m</b> 18.07%	<b>£193m</b> 18.07%	(3.0)% (7)bp	(3.0)% (7)bp
<b>Group</b>	<b>£57,370m</b>	<b>£56,527m</b>	(0.7)%	(1.0)%	(0.6)%	<b>£3,005m</b> 4.64%	<b>£2,959m</b> 4.64%	13.5% +56bp	12.6% +47bp

A full Group income statement can be found on page 28.

53 weeks ended 29 February 2020	2019/20 53 week basis	Exclude: Week 53	2019/20 52 week basis	2018/19 <sup>1</sup>	YoY 53 week change (Actual exchange rates)	YoY 52 week change (Actual exchange rates)	YoY 52 week change (Constant exchange rates)
On a continuing operations basis							
<b>Group sales (exc. VAT, exc. fuel)<sup>3</sup></b>	<b>£57,370m</b>	<b>£(843)m</b>	<b>£56,527m</b>	<b>£56,883m</b>	<b>1.1%</b>	<b>(0.7)%</b>	<b>(1.0)%</b>
Fuel	£7,390m	£(140)m	£7,250m	£7,028m	5.1%	3.2%	3.2%
<b>Revenue (exc. VAT, inc. fuel)</b>	<b>£64,760m</b>	<b>£(983)m</b>	<b>£63,777m</b>	<b>£63,911m</b>	<b>1.3%</b>	<b>(0.2)%</b>	<b>(0.5)%</b>
<b>Group operating profit before exceptional items and amortisation of acquired intangibles<sup>4</sup></b>	<b>£3,005m</b>	<b>£(46)m</b>	<b>£2,959m</b>	<b>£2,607m</b>	<b>15.3%</b>	<b>13.5%</b>	<b>12.6%</b>
Include exceptional items and amortisation of acquired intangibles	£(487)m	£34m	£(453)m	£42m			
Group statutory operating profit	£2,518m	-	n/a	£2,649m	(4.9)%		
Adjusted Group profit before tax <sup>6</sup>	£2,276m	£(37)m	£2,239m	£1,806m	26.0%	24.0%	
<b>Group statutory profit before tax</b>	<b>£1,315m</b>	<b>-</b>	<b>n/a</b>	<b>£1,617m</b>	<b>(18.7)%</b>		
Adjusted diluted EPS <sup>6</sup>	18.23p	(0.31)p	17.92p	14.01p	30.1%	27.9%	
Statutory diluted EPS	9.54p	-	n/a	13.04p	(26.8)%		
Statutory basic EPS	9.60p	-	n/a	13.13p			
<b>Dividend per share</b>	<b>9.15p</b>	<b>-</b>	<b>n/a</b>	<b>5.77p</b>	<b>58.6%</b>		
<b>Capex<sup>14</sup></b>	<b>£1.1bn</b>	<b>-</b>	<b>n/a</b>	<b>£1.1bn</b>			
<b>Net debt<sup>5</sup></b>	<b>£(12.3)bn</b>	<b>£0.2bn</b>	<b>£(12.1)bn</b>	<b>£(13.2)bn</b>	<b>6.9%</b>	<b>8.4%</b>	
<b>Retail free cash flow<sup>5</sup></b>	<b>£1.9bn</b>	<b>£0.2bn</b>	<b>£2.1bn</b>	<b>£0.9bn</b>	<b>109.9%</b>	<b>132.1%</b>	

#### Notes

1. Last 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 starting on page 117.
3. Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis for Central Europe and Asia. Booker consolidated from 5 March 2018 and therefore includes 9 additional days in FY 2019/20 vs. FY 2018/19. The 9 additional days of Booker sales in the current year contributed 0.2% to Group sales growth in the year. Further detail can be found in the supplementary information starting on page 114.
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. 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 £(2.6)bn, down £0.2bn year-on-year.
6. 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 9, starting on page 54.
7. Statutory diluted earnings per share includes the impact of a net post-tax charge of £(593)m in respect of exceptional items. More detail can be found in Note 4 on page 48.
8. BASIS Global Brand Tracker. Based on your most recent experience, how likely is it that you would recommend Tesco to a friend or colleague?
9. Reflects year-on-year change in YouGov Brand UK perception measures of range, quality and value.
10. Retail figure i.e. excludes the impact of Tesco Bank.
11. On 28 February 2020 we completed the sale of our 20% share in Gain Land to a subsidiary of China Resources Holdings. The disposal resulted in net cash proceeds of £277m.
12. On 9 March 2020 we announced the proposed sale of our businesses in Thailand and Malaysia to a combination of CP Group entities. Completion of the disposal, which is conditional on shareholder approval and customary regulatory approvals in Thailand and Malaysia, is expected during the second half of 2020. Thailand and Malaysia will be treated as discontinued operations for the 2020/21 financial year. All guidance and forward looking statements throughout this statement are on a continuing operations basis.
13. 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).
14. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 53 weeks ended 29 February 2020 was £2.1bn (LY £1.2bn).

## Creating value for our key stakeholders

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At our Capital Markets Day in June 2019, we set out further opportunities available to the Group in terms of selective growth, innovation and enabling technology. These opportunities will enable us to continue to create long-term and sustainable value for all our key stakeholders.

### Customers

- **Price:** 'Aldi Price Match' campaign launched in March 2020 across hundreds of Tesco and branded products
- **Stores:** opened 18 Express stores in the UK and converted 54 One Stop to Express, allowing a wider fresh food offer
- **Online:** taking steps to double online capacity in the UK; first Urban Fulfilment Centre planned in West Bromwich Extra as part of a programme to open more than 25 over the next three years
- **Loyalty:** Clubcard Plus launched in November; retention rate 90%+; basket size uplift exceeding expectations
- **Booker:** leveraging Tesco network, including roll out of 'Top up at Tesco'; re-launched Booker.co.uk in January
- **Simplify to serve:** continued focus on improving customer service whilst reducing operating costs; including right-sizing 545 large stores in Central Europe and rolling out a new Express proposition to 51 stores in Asia

### Colleagues

- 82% of colleagues recommended Tesco as a great place to work in January 2020 survey; 10% higher vs. peers<sup>2</sup>
- First stage of a 10.45% increase for hourly paid store colleagues completed in September 2019
- All large stores using new Scheduler tool, optimising 300 million colleague hours per year
- 81% of colleagues agree there is an inclusive culture; five long-standing executive-sponsored inclusion networks
- 10,000+ young people developing employability and life skills through partnership with Prince's Trust
- Continued partnership with Mind, the mental health charity; colleagues completed over 170,000 hours of mental health e-learning

### Supplier partners

- Overall Group supplier satisfaction reached its highest score to date of 77.8%, +1.6% pts. vs 1H 2019/20
- Booker's acquisition of Best Food Logistics completed as planned in early March 2020 for a nominal consideration
- Carrefour alliance; 24 global agreements in place; more opportunity in own brand and goods & services not for resale
- Working together with suppliers to reduce packaging
  - Replaced plastic-wrapped multipacks with plastic-free multibuy on Tesco and branded tinned food
  - Loose fruit and vegetables price matched to pre-packed products
  - Fresh flowers being transitioned to paper packaging

### Shareholders

- Announced final dividend of 6.50p per share, reflecting the strength of last year's performance and our robust liquidity and balance sheet; full-year dividend of 9.15p per share with pay-out ratio of 50%
- Proposed sale of Thailand & Malaysia businesses for c.£8.2bn<sup>3</sup>; releasing material value, allowing us to further simplify and focus the business, and to return significant value to shareholders
- Cumulative Booker synergies delivered one year ahead of target at £207m
- Task Force on Climate-related Financial Disclosures: signatory since 2017; phase one scenario analysis completed; informing business continuity planning; phase two scenario analysis in 2020/21
- Zero-carbon business by 2050; roadmap to 100% renewable electricity, with plans to fit solar panels to 187 stores

1. 'Top up at Tesco' allows Booker catering customers to use their reward card at a Tesco till.

2. Measurement is against a benchmark composed of global retail companies.

3. c.£8.2bn consideration is on a cash and debt free basis.

## Proposed sale of Thailand & Malaysia businesses for c.£8.2bn

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In March we announced that we had agreed to sell our businesses in Thailand and Malaysia to a combination of CP Group entities<sup>12</sup>, following inbound interest and a detailed strategic review. Consideration for the disposal represents an enterprise value of \$10.6bn (c.£8.2bn) on a cash and debt free basis. Following completion of the disposal, we intend to return c.£5bn to shareholders via a special dividend and further de-risk the business by reducing indebtedness through a £2.5bn pension contribution, which is expected to eliminate the funding deficit.

The disposal was unanimously agreed by the Board to be in the best interests of all stakeholders and completion is expected in the second half of 2020, conditional on shareholder and regulatory approval. As the disposal is a Class 1 transaction under the Listing Rules, the completion is conditional on shareholder approval at a General Meeting. Shortly after completion, there will then be a separate General Meeting to seek shareholder approval for the return of proceeds and associated share consolidation. The disposal will further simplify the Group, enabling a stronger focus on driving cash generation and returns to shareholders from our retail businesses in the UK and Ireland and in Central Europe.

## Financial Results

All comparative figures included within this announcement have been restated for IFRS 16, the financial reporting standard on accounting for leases introduced by the International Accounting Standards Board, effective for accounting periods beginning on or after 1 January 2019. As previously indicated, we have adopted the standard fully retrospectively. Further detail on this can be found in Note 1 starting on page 34.

For UK & ROI our reported statutory performance is for the 53 weeks ended 29 February 2020. For all other operations, these results are for the calendar year ended 29 February 2020. To aid comparability, headline results are shown on a 52 week comparable basis, with additional disclosure provided to explain the impact of week 53 on the statutory measures. Reconciliations between statutory results and headline alternative performance measures are shown in the glossary starting on page 117 of this statement.

### Sales:

	UK & ROI <sup>1</sup>	Central Europe <sup>2</sup>	Asia <sup>3</sup>	Tesco Bank	Group
On a 52 week basis:					
<b>Sales (exc. VAT, exc. fuel)</b>	<b>£44,909m</b>	<b>£5,332m</b>	<b>£5,218m</b>	<b>£1,068m</b>	<b>£56,527m</b>
change at constant exchange rates <sup>4</sup> %	0.2%	(10.1)%	0.1%	(2.6)%	(1.0)%
change at actual exchange rates <sup>4</sup> %	0.1%	(12.1)%	6.7%	(2.6)%	(0.7)%
<b>Like-for-like sales (exc. VAT, exc. fuel)</b>	<b>0.2%</b>	<b>(6.4)%</b>	<b>(1.9)%</b>	<b>-</b>	<b>(0.6)%</b>
On a 53 week basis:					
<b>Statutory revenue (exc. VAT, inc. fuel)</b>	<b>£52,898m</b>	<b>£5,576m</b>	<b>£5,218m</b>	<b>£1,068m</b>	<b>£64,760m</b>
Includes: Week 53 sales (exc. VAT, exc. fuel)	£843m	-	-	-	£843m
Includes: Fuel	£7,146m	£244m	-	-	£7,390m

1. UK & ROI consists of Tesco UK, ROI and Booker. Booker consolidated from 5 March 2018.

2. Central Europe consists of Czech Republic, Hungary, Poland and Slovakia.

3. Asia consists of Thailand and Malaysia.

4. Sales change shown on a comparable days basis for Central Europe and Asia. Based on statutory accounting dates, Group sales grew by 0.8% at constant exchange rates and by 1.1% at actual exchange rates.

Group sales declined by (0.7)% at actual exchange rates, including a 0.3% foreign exchange translation benefit due to the depreciation of Sterling. In the UK and the Republic of Ireland (ROI) total sales increased by 0.1% at actual exchange rates, against a backdrop of subdued market growth.

In the UK, we continued our Centenary celebrations offering significant savings to customers through our '100 Years of Great Value' events, and introduced exclusive Clubcard Prices for our 19 million Clubcard holders. We have further strengthened our value proposition with the launch of our 'Aldi Price Match campaign' in March 2020, price matching to Aldi on hundreds of Tesco and branded products.

The customer reaction to the launch of Clubcard Plus in November has been encouraging. For a £7.99 monthly subscription, customers can benefit from 10% off 2 big shops in-store as well as savings on popular Tesco brands and double data on Tesco Mobile. Subscribers can also apply for a Clubcard Plus credit card from Tesco Bank with no foreign exchange fees abroad<sup>5</sup>.

Our fresh food volumes outperformed the market by 0.5%<sup>6</sup> supported by strong performance in our 'food to go' offer. We continue to improve our overall product mix, making our general merchandise offer more relevant by focusing on categories that are complementary to our food offer such as Home and Cook. In the coming year we are planning to rebalance space further, in particular by augmenting our F&F clothing offer in a number of our large stores.

Our online grocery customer service ratings all improved year-on-year. Following a strong sales performance in the first half, a slower rate of growth in the second half of the year reflected our decision to maintain a sustainable approach to incentivising new customers in a highly competitive environment. We are taking steps to increase our online capacity to align to the long-term growth in customer demand in this channel, with our first Urban Fulfilment Centre planned in our West Bromwich Extra store. This year we will also increase the number of vans and trial unmanned Click & Collect sites to further support order growth.

5. Subject to status.

6. Data is for the 52-weeks ending 22 February 2020 and is sourced from IRI Retail Advantage™, global insight providers to the retail industry. Aldi and Lidl do not submit data to IRI and are therefore excluded from their market definition.



In November we announced we will become the first UK retailer to remove plastic-wrapped tinned multipacks from all stores and replace them with plastic-free multibuy, eliminating 67 million pieces of plastic. This forms part of our commitment to remove one billion pieces of plastic from our own brand products by the end of 2020.

Booker sales grew (on a comparable days basis) by 3.8% excluding tobacco (2.9% including tobacco) despite a challenging market in both wholesale and retail, with small business confidence remaining low. The continued focus on customer service was recognised in November when Booker was named 'Best National Wholesaler' for overall customer satisfaction<sup>1</sup>. The acquisition of Best Food Logistics in early March 2020 will provide more customers with the benefits of the sourcing capabilities of the wider Tesco business.

In ROI sales grew by 0.8% at constant exchange rates, and we saw particularly strong sales growth in core fresh food, including bakery and produce, as customers responded well to the continued investment in our 'You won't pay more' value campaign.

In Central Europe we have undertaken a significant transformation, fundamentally changing our approach in Poland and re-sizing, simplifying and improving the relevance of our businesses in the Czech Republic, Hungary and Slovakia. Sales fell by (10.1)% at constant exchange rates, reflecting disruption from the actions we have taken including the rationalisation of our general merchandise offer, making our customer offer more relevant and compelling. Across the region we right-sized 545 hypermarkets, closed 28 stores and, in Poland, completed the transition to a two-format model (compact hypermarkets and supermarkets). We also invested to improve the shopping trip for customers, focusing on availability, which improved by 1% and our key 'Star lines' products which saw like-for-like growth of 20%.

In Asia sales grew by 6.7% at actual rates and by 0.1% at constant rates. In Thailand, our new Express proposition roll out and large store re-invention programme are both progressing well and as part of our innovation in store formats we now have two of our 'ultra convenient' E-Pop stores in the Bangkok region. We have simplified our fresh food offer, with more competitive prices and our 'Food Love Stories' campaign has further improved customer quality perceptions. The simplification of our general merchandise ranges impacted our headline sales by c.(1)% in the year. In Malaysia, we increased our market share, opening two new small stores following favourable legislation changes, with plans for a further four openings in 2020/21. Across the region we are building trust with customers through our focus on reducing food waste and plastic usage.

Group statutory revenue of £64.8bn grew by 1.3% year-on-year and includes fuel sales of £7.4bn. Further information on sales performance is included in the supplementary information starting on page 114 of this statement.

1. HIM annual Wholesale Tracking programme.

#### Operating profit before exceptional items and amortisation of acquired intangibles:

	UK & ROI	Central Europe	Asia	Retail	Tesco Bank	Group
On a 52 week basis:						
<b>Operating profit before exceptional items and amortisation of acquired intangibles</b>	<b>£2,184m</b>	<b>£156m</b>	<b>£426m</b>	<b>£2,766m</b>	<b>£193m</b>	<b>£2,959m</b>
change at constant exchange rates %	16.9%	(27.6)%	24.8%	13.9%	(3.0)%	12.6%
change at actual exchange rates %	16.9%	(29.4)%	33.5%	14.9%	(3.0)%	13.5%
<b>Operating profit margin before exceptional items and amortisation of acquired intangibles</b>	<b>4.21%</b>	<b>2.80%</b>	<b>8.16%</b>	<b>4.41%</b>	<b>18.07%</b>	<b>4.64%</b>
change at constant exchange rates (basis points)	51bp	(70)bp	158bp	48bp	(7)bp	47bp
change at actual exchange rates (basis points)	59bp	(71)bp	161bp	58bp	(7)bp	56bp
On a 53 week basis:						
<b>Statutory operating profit</b>	<b>£1,944m</b>	<b>£85m</b>	<b>£415m</b>	<b>£2,444m</b>	<b>£74m</b>	<b>£2,518m</b>
Includes: Week 53	£46m	-	-	£46m	-	£46m
Includes: Exceptional items and amortisation of acquired intangibles	£(286)m	£(71)m	£(11)m	£(368)m	£(119)m	£(487)m

Group operating profit before exceptional items and amortisation of acquired intangibles of £2,959m grew by 13.5% at actual exchange rates. Retail operating profit before exceptional items and amortisation of acquired intangibles of £2,766m increased by 14.9% year-on-year (at actual exchange rates) following strong performance in UK & ROI and Asia, partly offset by the impact of disruption as we transform our business in Central Europe to improve long-term profitability in the region.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles grew by 16.9% at actual rates to £2,184m, with operating margin up 59 basis points year-on-year. The increase in profitability was driven by the actions we have taken to improve product mix, and cost savings through further refinements to our operating model including changes to our in-store counters offer and simplification of stock control processes.

We have now delivered cumulative synergies (comprising the in-year benefit of new initiatives combined with the carry forward of prior year activity) of £207m from the Booker merger, exceeding our c.£200m target a year earlier than planned. Whilst we still see many opportunities to deliver further synergies, these will no longer be considered separately to our overall UK & ROI performance. In the period the challenge of a weak market in both the wholesale and catering sectors was exacerbated by the effect of the clearance of excess stock that had been built up in anticipation of Brexit disruption. Despite these challenges Booker's profit growth (including synergies) outperformed the industry as a whole.

In Central Europe operating profit before exceptional items was £156m, (29.4)% lower year-on-year. The actions described above to simplify our operations resulted in significant sales disruption and stock clearance costs, particularly in the second half of the year. In addition, performance reflected investments to improve the competitiveness of our offer, in particular our key 'Star lines' products, over 600 everyday items which we have made available to customers at market-leading prices. Excluding a £(13)m provision made in the first half in respect of potential historic VAT liabilities, the change in operating profit was (23.5)%.

In Asia, we saw a strong increase in profitability, with growth of 33.5% at actual exchange rates and 24.8% at constant exchange rates. We accelerated our cost savings initiatives in Thailand, including a more efficient distribution operation and more focused, more effective marketing activity. In addition, we benefited from the flow through of prior year initiatives. We continued to optimise the mix of our product ranges as we focus on sustainable, profitable ranges in general merchandise. Performance also included a £24m benefit as a result of changes to how property tax is levied on businesses in Thailand.

In 2020/21, Asia will be treated as a discontinued operation following the announcement on 9 March 2020 of the proposed sale of our businesses in Thailand and Malaysia<sup>1</sup>.

Further information on operating profit performance is included in Note 2, starting on page 42 of this statement.

1. Completion of the disposal is subject to shareholder and regulatory approval.



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

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
Net restructuring and redundancy costs	£(151)m	£44m	£(107)m	£(182)m
Net property disposals	£55m	£(11)m	£44m	£104m
Booker integration costs	£(23)m	-	£(23)m	£(15)m
Acquisition of property joint venture	£(136)m	-	£(136)m	-
Net impairment (loss)/reversal of non-current assets	£(15)m	-	£(15)m	£106m
Impairment of investment in India joint venture	£(47)m	-	£(47)m	-
Profit on disposal of Gain Land	£37m	-	£37m	-
Other corporate activity costs	£(22)m	-	£(22)m	-
Tesco Bank mortgage disposal	£(5)m	-	£(5)m	-
Closure of Tesco Bank current accounts to new customers	£(56)m	-	£(56)m	-
Provision for customer redress	£(45)m	-	£(45)m	£(16)m
Tesco Direct closure costs	-	-	-	£(38)m
Tesco Bank FCA provision	-	-	-	£(16)m
Release of amounts provided in relation of FCA obligations	-	-	-	£37m
Release of provision relating to HMRC VAT appeal	-	-	-	£176m
Sale of Lazada	-	-	-	£7m
Guaranteed minimum pensions (GMP) equalisation	-	-	-	£(43)m
<b>Total exceptional items in statutory operating profit</b>	<b>£(408)m</b>	<b>£33m</b>	<b>£(375)m</b>	<b>£120m</b>
Amortisation of acquired intangible assets	£(79)m	£1m	£(78)m	£(78)m
<b>Total exceptional items and amortisation of acquired intangibles in statutory operating profit</b>	<b>£(487)m</b>	<b>£34m</b>	<b>£(453)m</b>	<b>£42m</b>

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.

This year, total exceptional items resulted in a net cost of £(375)m, compared to a net credit of £120m in the prior year. This year-on-year movement is principally due to provision releases and net impairment reversals in the base, as well as the accounting impact of obtaining full control of one of our property joint ventures (Tesco Atrato Limited) through the acquisition of our partner's 50% stake in September 2019. All of these significant movements are non-cash.

Exceptional restructuring and redundancy costs of £(107)m include a £(51)m charge relating to the simplification of our store operating model in the UK and a £(43)m charge relating to the transformation we have undertaken in Central Europe.

Exceptional net profits on property transactions of £44m have arisen from property disposals within the UK (£18m) and Central Europe (£26m).

We have incurred a £(23)m exceptional charge relating to Booker integration costs, bringing costs to date to £(38)m.

The acquisition of our partner's stake in Tesco Atrato Limited results in the Group taking on the joint venture's external debt in addition to its freehold assets (15 stores and two distribution centres). The exceptional charge of £(136)m represents the net effect of the de-recognition of the previously held IFRS 16 lease liabilities and right of use assets, and the impairment of the acquired assets (further detail can be found in Note 33 on page 91 of this statement).

As announced at the half year, the impairment charge of £(47)m relating to our Trent Hypermarket joint venture relates to reduced profit expectations due to investments in the competitiveness of our offer and reduced store expansion plans.

Other exceptional items include a profit of £37m on the disposal of our 20% share in Gain Land in China, and a £(22)m charge relating to corporate activity, which includes costs relating to the proposed sale of our businesses in Thailand and Malaysia in addition to other Group projects.

Tesco Bank recognised a £(56)m exceptional accelerated depreciation charge following the decision to close our current account business to new customers. Also, as announced at the half year, Tesco Bank recognised an additional £(45)m provision for customer redress due to an unexpectedly high number of claims received in the weeks prior to the 29 August deadline in respect of Payment Protection Insurance.

Net exceptional items of £(33)m in week 53 comprise a £(44)m charge relating to further changes to our UK store operating model and £11m of net profits on property transactions in the UK.

Further detail on exceptional items can be found in Note 4 on page 48 of this statement.

Amortisation of acquired intangible assets is also excluded from our headline performance measures. The £(78)m charge primarily relates to our merger with Booker in March 2018, which resulted in the recognition of goodwill of £3,093m and a £755m intangible asset.

#### Joint ventures and associates:

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
Share of post-tax profits from JVs and associates before exceptional items	£26m	-	£26m	£21m
Exceptional items	£(8)m	-	£(8)m	£11m
Share of post-tax profits from JVs and associates	£18m	-	£18m	£32m

Our share of post-tax profits from joint ventures and associates before exceptional items was £26m, an increase of £5m year-on-year primarily due to a reduced level of losses from Gain Land, our former associate in China.

Exceptional items of £(8)m comprise a £(12)m charge for land penalties arising in our 20% share of Gain Land, and in Tesco Bank, an exceptional gain of £4m in our insurance joint venture, Tesco Underwriting, reflecting a revision to the Ogden compensation tables which are used to calculate future losses in personal injury and fatal accident claims.

Following the sale of our 20% share in Gain Land and proposed sale of our business in Thailand, which is inclusive of our 25% share of the Tesco Lotus Retail Growth Freehold and Leasehold Property Fund (TLGF), our share of post-tax profits from JVs and associates will primarily relate to our UK property joint ventures. In 2019/20 TLGF contributed £26m to profit.

#### Finance income and finance costs:

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

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
Net interest on medium term notes, loans and bonds	£(212)m	£3m	£(209)m	£(238)m
Other interest receivable and similar income	£23m	-	£23m	£25m
Other finance charges and interest payable	£(25)m	-	£(25)m	£(49)m
Finance charges payable on lease liabilities	£(541)m	£6m	£(535)m	£(561)m
Capitalised interest	-	-	-	£1m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	£(755)m	£9m	£(746)m	£(822)m
Fair value remeasurements of financial instruments	£(244)m	£18m	£(226)m	£(153)m
Net pension finance costs	£(71)m	-	£(71)m	£(89)m
Net finance costs before exceptional charges	£(1,070)m	£27m	£(1,043)m	£(1,064)m
Exceptional items:				
- Fair value remeasurement on restructuring derivative financial instruments	£(180)m	-	£(180)m	-
- Gain on Tesco Bank mortgage disposal	£29m	-	£29m	-
Net finance costs	£(1,221)m	£27m	£(1,194)m	£(1,064)m

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £76m year-on-year to £(746)m, mainly driven by a reduction in net interest payable following debt maturities, bond tenders and new debt issued at a significantly lower rate of interest. In addition, finance charges payable on lease liabilities reduced by £26m year-on-year due to ongoing lease utilisation and the buyback of 21 leasehold properties in the year.

Fair value remeasurements of financial instruments increased by £73m year-on-year driven by a fall in inflation expectations impacting the new index-linked swaps, which offset those put in place as part of historical sale and

leaseback property transactions. The swaps were restructured to eliminate the impact of future inflation on the Group's cash flow in relation to these property transactions. Fair value remeasurements also includes £(65)m primarily relating to the premium paid on the repurchase on long-dated bonds (LY: £(121)m).

Net pension finance costs decreased by £18m year-on-year, primarily due to a lower opening pension deficit. For the 2020/21 financial year, net pension finance costs are expected to be no more than c.£55m. The exact cost will depend on the timing of the one-off pension contribution of £2.5bn, described above.

The exceptional charge of £(180)m included in net finance costs relates to actions taken to remove inflation risk from the historical sale and leaseback property transactions. The charge, which is non-cash, relates to the revaluation of credit risk associated with the historical swaps, described above, over a shorter timeframe.

An exceptional credit of £29m relates to a fair value remeasurement as part of the sale of Tesco Bank's mortgage book that was completed in September.

Further detail on finance income and costs can be found in Note 5 on page 50, as well as further detail on the exceptional items in Note 4 on page 48.

#### Group tax:

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
Tax on profit before exceptional items and amortisation of acquired intangibles	£(433)m	£3m	£(430)m	£(397)m
Tax on exceptional items and amortisation of acquired intangibles	£53m	£(7)m	£46m	£50m
<b>Tax on profit</b>	<b>£(380)m</b>	<b>£(4)m</b>	<b>£(384)m</b>	<b>£(347)m</b>

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(430)m, £33m higher than last year due to increased profitability. This year's charge also includes a credit arising from closing a number of issues relating to prior years across the Group. Group cash tax paid in the year was £340m, including £207m of corporate tax paid in the UK.

Following the reversal of the enacted 2% reduction in the rate of UK corporation tax from 1 April 2020, we now expect the Group's effective tax rate to be around 21% in the medium term. For the 2020/21 financial year we expect an effective tax rate of c.24% as a result of a one-off rate change impact from revaluing deferred tax from 17% to 19%.

As previously announced, following changes 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.

As part of the use of proceeds from the proposed sale of our businesses in Thailand and Malaysia, we will make a £2.5bn one-off contribution into the UK defined benefit pension scheme. As the Group will receive tax relief on this contribution, it is anticipated that the level of cash tax payable will be reduced by c.£120m in the year of payment and c.£60m per annum in the following three years.

On a statutory basis, the total tax charge is £(380)m which includes a £53m credit relating to exceptional items.

#### Earnings per share:

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
Diluted EPS pre-exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	18.23p	(0.31)p	17.92p	14.01p
Statutory diluted earnings per share	9.54p	-	n/a	13.04p
Statutory basic earnings per share	9.60p	-	n/a	13.13p

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 17.92p, 27.9% higher year-on-year, due to our improved profit performance.

Statutory basic earnings per share from continuing operations were 9.60p, (26.9)% lower year-on-year, primarily reflecting the change in the level of exceptional items year-on-year.

#### Dividend:

Reflecting the strength of our performance last year and given our robust liquidity and balance sheet, we propose to pay a final dividend of 6.50 pence per ordinary share. This takes the total dividend for the year to 9.15 pence per ordinary share, up 58.6% year-on-year, including the payment of an interim dividend of 2.65 pence per ordinary share in November 2019. This represents a full-year dividend pay-out ratio of 50% on a 53 week basis.

We expect to maintain a full-year dividend pay-out ratio of 50% going forward and from 2020/21 our interim dividend will be set at 35% of the prior year full-year dividend.

The proposed final dividend was approved by the Board of Directors on 7 April 2020 and is subject to the approval of shareholders at this year's Annual General Meeting. The final dividend will be paid on 3 July 2020 to shareholders who are on the register of members at close of business on 22 May 2020 (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 12 June 2020.

#### Summary of total indebtedness<sup>1</sup>:

	Feb 2020 53 week basis	Exclude: Week 53	Feb 2020 52 week basis	Feb 2019	Movement
Underlying net debt (excludes Tesco Bank)	£(2,765)m	£191m	£(2,574)m	£(2,734)m	£160m
Lease liabilities	£(9,533)m	£6m	£(9,527)m	£(10,470)m	£943m
Pension deficit, IAS 19 basis (post-tax)	£(2,573)m	-	£(2,573)m	£(2,338)m	£(235)m
<b>Total indebtedness</b>	<b>£(14,871)m</b>	<b>£197m</b>	<b>£(14,674)m</b>	<b>£(15,542)m</b>	<b>£868m</b>

1. Total indebtedness is defined in the glossary, starting on page 117.

Total indebtedness was £14,674m, down £868m year-on-year driven by a reduction in our lease liabilities and underlying net debt, partly offset by an increase in the pension deficit.

Our lease liabilities decreased by £943m year-on-year, principally reflecting the purchase of our partner's 50% stake in the Tesco Atrato Limited property joint venture. The acquisition, which is treated as an asset acquisition, increases our freehold property ownership and borrowings, replacing associated right of use assets and lease liabilities. In addition, our lease liabilities reduced due to capital repayments made in the year and the buyback of a number of other leasehold properties.

On an IAS 19 basis, our pension deficit increased by £(235)m to £(2.6)bn. An increase in the measurement of scheme liabilities due to a fall in corporate bond yields was largely offset by strong asset performance, including that of our liability-driven investment portfolio, in addition to continued deficit contributions and the application of the latest actuarial assumptions.

As part of the use of proceeds from the proposed sale of our businesses in Thailand and Malaysia, we have reached agreement with the Trustees to make a £2.5bn one-off contribution into the Scheme. This, along with other measures, is expected to eliminate the funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future.

The agreement with the Trustees also covers the key principles of the triennial scheme valuation, which will now be calculated as at 31 December 2019. 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 29 which begins on page 83.

Our key credit metrics, which are fixed charge cover and total indebtedness/EBITDA, have further improved since the end of the last financial year, from 3.0 to 3.4 times and from 3.6 to 3.1 times respectively. We are now targeting leverage of c.2.5 times.

## Summary retail cash flow:

	This year 53 week basis	Exclude: Week 53	This year 52 week basis	Last year
<b>Operating profit before exceptional items and amortisation of acquired intangibles</b>	<b>£3,005m</b>	<b>£(46)m</b>	<b>£2,959m</b>	<b>£2,607m</b>
Less: Tesco Bank operating profit before exceptional items	£(193)m	-	£(193)m	£(199)m
<b>Retail operating profit before exceptional items and amortisation of acquired intangibles</b>	<b>£2,812m</b>	<b>£(46)m</b>	<b>£2,766m</b>	<b>£2,408m</b>
Add back: Depreciation and amortisation	£1,937m	£(29)m	£1,908m	£1,887m
Other reconciling items	£66m	£12m	£78m	£70m
Pension deficit contribution	£(267)m	-	£(267)m	£(266)m
Underlying (increase) / decrease in working capital	£(77)m	£240m	£163m	£(306)m
<b>Retail cash generated from operations before exceptional items</b>	<b>£4,471m</b>	<b>£177m</b>	<b>£4,648m</b>	<b>£3,793m</b>
Exceptional cash items:	£(230)m	-	£(230)m	£(156)m
Relating to prior years:				
- Shareholder Compensation Scheme payments & SFO fine	-	-	-	£(43)m
- Onerous contract provisions	-	-	-	£(1)m
- Restructuring payments	£(133)m	-	£(133)m	£(60)m
Relating to current year:				
- Restructuring payments	£(64)m	-	£(64)m	£(68)m
- Integration costs	£(23)m	-	£(23)m	£(12)m
- Corporate costs	£(10)m	-	£(10)m	-
- Other <sup>1</sup>	-	-	-	£28m
<b>Retail operating cash flow</b>	<b>£4,241m</b>	<b>£177m</b>	<b>£4,418m</b>	<b>£3,637m</b>
Cash capex	£(988)m	£4m	£(984)m	£(1,126)m
Net interest	£(777)m	£27m	£(750)m	£(830)m
Tax	£(271)m	-	£(271)m	£(302)m
Property proceeds	£269m	£(11)m	£258m	£285m
Property purchases – store buybacks	£(172)m	-	£(172)m	£(136)m
Market purchases of shares (net of proceeds)	£(149)m	-	£(149)m	£(146)m
Acquisitions & disposals and dividends received	£345m	-	£345m	£(635)m
Add back: Booker acquisition costs (included above)	-	-	-	£747m
Repayments of obligations under leases	£(632)m	-	£(632)m	£(605)m
<b>Retail free cash flow</b>	<b>£1,866m</b>	<b>£197m</b>	<b>£2,063m</b>	<b>£889m</b>

1. Booker integration costs were previously included within 'Other'.

Retail free cash flow increased by £1,174m year-on-year to £2,063m, reflecting a strong increase in cash profitability, a decrease in working capital and the contribution from the sale of our share in Gain Land.

We generated a net working capital inflow of £163m. This improvement is lower than initially planned, and includes 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. Our planned progress was held back by the timing of non-trade related payments, the deleveraging effect of lower sales in Central Europe and the continued prioritisation of securing availability for customers ahead of potential Brexit deadlines. These factors were partly offset by a refinement of payment terms with our largest suppliers.

The £(240)m impact shown in the table above in working capital relating to week 53 is primarily driven by the timing of a fuel payment.

Cash capital expenditure was £142m lower year-on-year as we maintain our disciplined approach to capital investment.

An £80m reduction in cash interest principally relates to debt maturities and bond tenders at a significantly lower rate of interest. Cash interest also includes the interest element of lease rental payments, which reduced by £20m<sup>2</sup> year-on-year as leases were utilised and we bought back a number of other leasehold properties.

2. This has been updated from the originally reported figure of £26m.

Retail cash tax paid in the year was £271m, a decrease of £31m year-on-year. The decrease year-on-year was due to IFRS 16 transitional adjustments and a higher charge for fair value remeasurements in the period, which are both eligible for cash tax relief.

We generated £258m of property proceeds including £167m from the sale of properties in Central Europe, mainly in Poland. We utilised £172m of cash primarily for the buyback of our Blandford, Chesterfield and High Wycombe stores, which will result in an annual cash rental saving of £8m.

We purchased £149m of shares in the market following our commitment to offset any dilution from the issuance of new shares to satisfy the requirements of share schemes. Going forward we continue to expect to utilise c.£150m a year, with the precise amount depending on performance and market conditions.

The increase in repayments of obligations under leases of £27m is largely offset by a corresponding decrease within the interest element of lease rental payments included in net interest.

As previously announced, we will make a £0.3bn pension deficit contribution in the 2020/21 financial year, which in addition to the proposed one-off £2.5bn contribution in the second half of 2020, is expected to eliminate the funding deficit and significantly reduce the prospect of having to make further deficit contributions in the future, releasing c.£260m of annual free cash flow.

### Capital expenditure and space<sup>1</sup>:

	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	£769m	£709m	£108m	£130m	£134m	£235m	£52m	£31m	£1,063m	£1,105m
Openings (k sq ft)	270	176	-	-	195	622	-	-	465	798
Closures (k sq ft)	(400)	(270)	(1,047)	(1,013)	(67)	(196)	-	-	(1,514)	(1,479)
Repurposed (k sq ft)	-	-	(1,936)	(669)	(777)	(341)	-	-	(2,713)	(1,010)
Net space change (k sq ft)	(130)	(94)	(2,983)	(1,682)	(649)	85	-	-	(3,762)	(1,691)

1. 'Retail Selling Space' is defined as net space in store adjusted to exclude checkouts, space behind checkouts, customer service desks and customer toilets. Supplementary information starting on page 114 provides a full breakdown of space by segment.

Group capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group. Our capital expenditure for the year was £1.1bn, broadly level on the prior year, and was primarily focused on store maintenance and refits.

In the UK & ROI spend has related to the maintenance of our stores in addition to 18 new Express store openings and our temporary replacement store in Kennington. We also opened five Jack's stores in the UK, bringing the total to twelve.

In Central Europe, our programme to address unproductive selling space by either refitting, downsizing or repurposing stores is now largely complete. In Poland we moved to a two-format model, which involved closing or re-sizing all hypermarkets to our better performing compact hypermarket format. The total space reduction in Central Europe was c.3 million sq. ft. with c.2.1 million sq. ft. of this within Poland.

In Asia we opened two new stores in Malaysia, following favourable legislation changes and a further 54 new stores in Thailand, primarily in our Express format.

Following the proposed sale of our businesses in Thailand and Malaysia, in future years we expect our annual Group capital expenditure to be within a range of £0.9bn to £1.2bn.

Statutory capital expenditure of £2.1bn includes £914m relating to the acquisition of full control of the Tesco Atrato Limited partnership (comprising 15 stores and two distribution centres) and £136m relating to the buyback of a number of other leasehold properties in the year.

Further details of current and forecast space can be found in the supplementary information starting on page 114.



## Property

	This year				Last year			
	UK & ROI	Central Europe	Asia	Group	UK & ROI	Central Europe	Asia	Group
<b>Property<sup>1</sup> – fully owned</b>								
– Estimated market value	£15.0bn	£2.7bn	£4.0bn	<b>£21.7bn</b>	£14.3bn	£3.0bn	£4.0bn	<b>£21.3bn</b>
– NBV <sup>2</sup>	£14.4bn	£2.2bn	£2.3bn	<b>£18.9bn</b>	£13.6bn	£2.7bn	£2.4bn	<b>£18.7bn</b>
% net selling space owned	53%	77%	68%	<b>61%</b>	51%	79%	68%	<b>61%</b>
% property owned – by value <sup>3</sup>	55%	74%	79%	<b>60%</b>	51%	77%	77%	<b>58%</b>

1. Stores, malls, investment property, offices, distribution centres, fixtures and fittings and work-in-progress. Excludes joint ventures. Last year numbers restated for adoption of IFRS 16.

2. Property, plant and equipment excluding vehicles.

3. Excludes fixtures and fittings.

The estimated market value of our fully owned property as at the year end increased by £0.4bn to £21.7bn. The market value of £21.7bn represents a surplus of £2.8bn over the net book value (NBV).

Our Group freehold property ownership percentage, by value, has increased by 2% year-on-year. In September we completed the purchase of our partner's 50% stake in the Tesco Atrato Limited property joint venture, which includes 15 stores and two distribution centres. This acquisition increased our percentage of fully owned property in UK & ROI by c.2% and will lead to an annualised cash rental saving of £41m. The repurchasing of three large stores in the UK also supported an improvement in the percentage of fully owned property, in addition to an annualised cash rental saving of £8m.

In Central Europe, we released £167m of value through the disposal of 58 properties in the year as part of the significant transformation of the business that we are undertaking. This has resulted in a year-on-year decrease in the market value of our fully owned property in Central Europe, to £2.7bn.

## Tesco Bank:

	This year	Last year	YoY
<b>Revenue</b>	<b>£1,068m</b>	<b>£1,097m</b>	<b>(2.6)%</b>
<b>Operating profit before exceptional items</b>	<b>£193m</b>	<b>£199m</b>	<b>(3.0)%</b>
Statutory operating profit	£74m	£169m	(56.2)%
Lending to customers	£8,451m	£12,426m	(32.0)%
Customer deposits	£7,707m	£10,465m	(26.4)%
Net interest margin	4.1%	3.8%	0.3%
Total capital ratio	23.1%	18.3%	4.8%

Tesco Bank focuses on providing simple banking and insurance products to a broad range of Tesco customers. Tesco Bank sales were impacted by our decision to exit the mortgage market in September, which also drove the decline in lending to customers. The insurance market remains highly competitive and we continue to focus our investment on retention of existing customers. This year we have also invested in the customer experience through a number of initiatives, including the launch of the Clubcard Plus Credit Card, and a new Student Shopper Card as part of our Gift Card range. In addition, we upgraded the Tesco Mobile 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 decreased by (3.0)% year-on-year to £193m. Our insurance income decreased as we focused on competitive pricing, however we delivered increased income from our loans portfolio in line with increased lending to customers, and higher income from our Gift Cards and Travel Money. The significant cost savings made this year include lower fraud costs resulting from the Bank's continued focus on improved technology and safeguarding our customers, and lower ATM maintenance costs as a result of optimisation efficiencies. This has contributed to the cost:income ratio improving by 1.9% pts year-on-year.

In February we stopped accepting new applications for personal current accounts, as part of our repositioning of Tesco Bank to focus on the right products and services for Tesco customers. This resulted in an exceptional charge of £(56)m relating to accelerated depreciation of intangible and fixed assets. Total exceptional items within statutory operating profit relating to Tesco Bank were £(119)m and further detail can be found in Note 4 on page 48 of this statement.

An income statement for Tesco Bank can be found in the supplementary information on page 116 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 42 of this statement. Tesco Bank's full year results are also published today and are available at <https://bank.tescopl.com>.

## Contacts

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This document is available at [www.tescopl.com/prelims2020](http://www.tescopl.com/prelims2020)

A live webcast will be held today at 8.30am for investors and analysts and will be available on our website at [www.tescopl.com/prelims2020](http://www.tescopl.com/prelims2020). 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.

We will report our 1Q Trading Statement on Friday 26 June 2020.

## Disclaimer

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

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

The independent auditor's report to the shareholders of Tesco Plc included within the preliminary announcement of Tesco is a direct extract from the independent auditor's report included within the annual report and financial statements. Therefore it references certain elements of the annual report which are not included within the preliminary announcement and the page numbers included in the opinion relate to the annual report and financial statements.

## Report on the audit of the financial statements

### Opinion

#### In our opinion:

- the financial statements of Tesco PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 February 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 37 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements.

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

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Summary of our audit approach

### Key audit matters

The key audit matters that we identified in the current year were:

Newly identified:

- proposed disposal of the Asia business;

Similar level of risk:

- store impairment review;
- recognition of commercial income;
- pension obligation valuation;
- contingent liabilities;
- presentation of the Group's income statement;
- Tesco Bank loan impairment; and
- retail technology environment, including IT security.

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

### Materiality

We have considered a number of benchmarks and determined that it is appropriate to base materiality on profit before tax before exceptional items and amortisation of acquired intangibles. The materiality that we used for the Group financial statements was £85m (2018/19: £80m) which equates to 4.3% (2018/19: 5.1% restated) of profit before tax before exceptional items and amortisation of acquired intangibles. Refer to page 97 for further details of exceptional items and amortisation of acquired intangibles.

### Scoping

Our audit scoping provides full scope audit coverage of 96% (2018/19: 95%) of revenue and 92% (2018/19: 94% restated) of net assets.

### Significant changes in our approach

Our 2019/20 report includes a new key audit matter relating to the proposed disposal of the Asia business.

We no longer report the following as key audit matters:

- Booker IFRS 3 acquisition accounting judgements and presentation of results – as the related judgements were concluded upon in 2018/19; and
- IFRS 16 presentation and disclosure key audit matter – as the key estimates and judgements underpinning management's IFRS 16 impact assessment and related transition disclosures were concluded upon in 2018/19.

There are no other significant changes in our approach except for changes in key audit matters as described above.

### Conclusions relating to going concern, principal risks and viability statement

#### Going concern

We have reviewed the directors' statement on page 68 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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

#### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 13 to 18 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 13 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 18 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

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

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Proposed disposal of the Asia business</b>		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 36 (Events after the reporting period) of the financial statements, on 9 March 2020, the Group announced the proposed sale of its Asia business for net cash proceeds of \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. The transaction is subject to shareholder and regulatory approval and is expected to complete during the second half of calendar year 2020.</p> <p>Under IFRS 5— Non-current Assets Held for Sale and Discontinued Operations, the Group is required to assess whether the Asia business should be presented as 'Held for sale' and the financial results of the business be included within 'Discontinued operations'.</p> <p>We identified a key audit matter relating to management's judgement that the Group was not committed to the disposal as at 29 February 2020 and therefore the results continue to be presented within continuing operations.</p> <p>As disclosed in Note 1 of the financial statements, the Group has concluded that at the balance sheet date the criteria for held for sale were not met and consequently the financial results of the Asia business have not been classified as discontinued operations.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included challenging whether the presentation of assets and liabilities in the balance sheet and financial results in the income statement of the Asia business was in line with the requirements of IFRS 5, which would have required the sale to be approved by the Board before year-end. In order to assess this, we discussed the matter with members of the Board and reviewed minutes of the relevant Board meetings.</p>	<p>We are satisfied that the Group was not committed to a disposal of the businesses as at 29 February 2020 and therefore the results of the Asia business are appropriately presented within continuing operations.</p>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Store impairment review</b>		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 11 (Property, plant and equipment) of the financial statements, the Group held £19,234m (2018/19: £19,186m) of property, plant and equipment and £6,874m of right of use assets (2018/19: £7,713m) at 29 February 2020.</p> <p>Under IAS 36, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal.</p> <p>Judgement is required in identifying indicators of impairment and estimation is required in determining the recoverable amount of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods.</p> <p>There is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' or 'fair value less costs of disposal'.</p> <p>The two areas which are key to management's impairment review are as follows:</p> <ul style="list-style-type: none"> <li>- value-in-use derived from cash flow projections, which rely upon Directors' assumptions and estimates of future trading performance, including the Group's ability to realise forecast cost savings; and</li> <li>- fair value of properties or sublet rental potential supporting the carrying value of store assets in each of the Group's territories.</li> </ul> <p>As disclosed within Note 15 of the financial statements, the Group has incorporated a Brexit risk adjustment in the UK &amp; ROI segment and a Covid-19 risk adjustment for all segments to reflect the associated risks in the Group's modelling based on reasonable and supportable information available to management at year end.</p> <p>As a result of the Group's store impairment review completed during the year, a net impairment charge of £312m (2018/19: net impairment reversal of £129m) was recognised.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls around the impairment review processes.</p> <p>In relation to the Group's value-in-use assessment our procedures have included:</p> <ul style="list-style-type: none"> <li>- challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and the reasonableness of management's forecasts;</li> <li>- reviewing and challenging the adequacy of management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular forecast cash flows and property fair values and sublet rental potential; and</li> <li>- assessing the extent to which the need for large scale government intervention in response to Covid-19 was evident as at 29 February 2020.</li> </ul> <p>With the involvement of our property valuation specialists we challenged the assumptions used by the Group in determining the fair market value including those completed by external valuers and assessed whether appropriate valuation methodologies have been applied.</p>	<p>We concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and that the overall level of net impairment charge was reasonable.</p>



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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Recognition of commercial income</b>		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 22 (Commercial Income) of the financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from those suppliers.</p> <p>In accordance with IFRS 15, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held.</p> <p>The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement. As such we have identified this as a key audit matter and considered that there was a potential for fraud through possible manipulation of this income.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls the Group has established in relation to commercial income recognition.</p> <p>In addition, we performed the following:</p> <p>testing whether amounts recognised were accurate and recorded in the correct period, by agreeing to the contractual performance obligations in a sample of individual supplier agreements;</p> <ul style="list-style-type: none"> <li>- testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables (as set out in Note 22) via balance sheet reconciliation procedures;</li> <li>- circularising a sample of suppliers to test whether the arrangements recorded were complete. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements;</li> <li>- holding discussions with a sample of the Group's buying personnel to further understand the buying processes;</li> <li>- using data analytics to profile commercial income, identify deals which exhibited characteristics of audit interest upon which we completed detailed audit testing;</li> <li>- reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas of non-compliance which may require further investigation; and</li> <li>- considering the adequacy of related disclosure within the Group's financial statements.</li> </ul>	<p>The results of our testing are satisfactory. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet.</p>
<b>Pension obligation valuation</b>		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 29 (Post-employment benefits) of the financial statements, the Group has a defined benefit pension plan in the UK retail business. At 29 February 2020, the Group recorded a net retirement obligation before deferred tax of £3,085m (2018/19: £2,808m), comprising scheme assets of £17,425m (2018/19: £15,054m) and scheme liabilities of £20,510m (2018/19: £17,862m).</p> <p>The pension obligation valuation is material, dependent on market conditions, and sensitive to changes in key assumptions. The key audit matter specifically relates to the following key assumptions: discount rate, inflation expectations and life expectancy assumptions.</p> <p>The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls in relation to the pension obligation valuation process.</p> <p>In addition, we performed the following:</p> <ul style="list-style-type: none"> <li>- worked with our internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions; and</li> <li>- benchmarked and performed a sensitivity analysis on the key assumption determined by the Directors.</li> </ul>	<p>We are satisfied that the overall methodology is appropriate and the assumptions applied in relation to determining the pension valuation are within an acceptable range. The actual discount rate applied of 1.93% is within the market range. The methodology used by the Group applies a different approach to estimating yields of longer term high quality corporate bonds compared to the majority of companies, which results in a discount rate which is at the optimistic end of the market range.</p>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Contingent liabilities</b>		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 34 (Contingent liabilities) of the financial statements, the Group has a number of contingent liabilities. Judgement is required in assessing the likelihood of outflow, the potential quantum of any outflow and the associated disclosure requirements. This key audit matter specifically relates to the following exposures:</p> <ul style="list-style-type: none"> <li>- in 2016/17 UK shareholder actions were initiated against the Group linked to the overstatement of expected profits in 2014 which may result in legal exposures;</li> <li>- following the sale of Homeplus in 2015 the Group has received claims from the purchaser relating to the sale of the business; and</li> <li>- Tesco Stores Limited has received claims from current and former store colleagues alleging that their work is of equal value to that of colleagues working in the Group's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable.</li> </ul> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls in relation to the monitoring of known exposures.</p> <p>In assessing the potential exposures to the Group, we have completed a range of procedures including:</p> <ul style="list-style-type: none"> <li>- assessing the risks the business faces;</li> <li>- reading Board and other meeting minutes to identify areas subject to Group consideration;</li> <li>- meeting with the Group's internal legal advisors to understand ongoing and potential legal matters and reviewing third party correspondence and reports;</li> <li>- assessing the reasonableness of management's likelihood and quantification of outflow assessment; and</li> <li>- reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.</li> </ul>	<p>We conclude that the Group's contingent liabilities disclosure is complete. Specifically, the accounting and disclosures in relation to the ongoing UK shareholder actions, claims from the purchasers of the Homeplus business and the Group's equal pay matter are appropriate.</p>
<b>Presentation of the Group's income statement</b>		
<p>One of the Group's key performance indicators is 'Group operating profit before exceptional items and amortisation of acquired intangibles' (2019/20: £3,005m, 2018/19: £2,607m).</p> <p>Refer to page 49 of the annual report for management's reconciliation of this key performance indicator to the Group's statutory profit measure.</p> <p>Management judgement is required when applying this accounting policy and when determining the classification of items as exceptional within the Group's income statement. Additionally, we have considered the impact of the 2019/20 financial period being a 53-week year on the disclosures.</p> <p>We have determined that there was a potential for fraud through possible manipulation of the Group's income statement presentation due to the level of judgement involved and remuneration targets being linked to the key performance indicator.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls which address the risk of inappropriate presentation of the Group's income statement.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> <li>- considering exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures;</li> <li>- assessing whether any bias exists in management's presentation of results and assessing consistency of application across multiple financial years;</li> <li>- assessing transactions completed outside of the normal course of business;</li> <li>- assessing the appropriateness of excluding amortisation of intangible assets acquired in business combinations from Group's operating profit alternative performance measure; and</li> <li>- evaluating the impact of the 2019/20 financial period being a 53-week year.</li> </ul>	<p>Consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items and amortisation of acquired intangibles which do not meet the Group's definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items and amortisation of acquired intangibles.</p> <p>We have reviewed the calculation of the Alternative Performance Measures which have been calculated on a 52-week basis, where relevant, and are satisfied that this has been done on an appropriate basis.</p>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<b>Tesco Bank loan impairment</b>		
<p>As described in Note 19 (Loans and advances to customers and banks) the Group held an impairment provision in respect of loans and advances to customers and banks of £488m at 29 February 2020 (2018/19: £485m). The expected credit loss on these loans and advances was £178m in the year to 29 February 2020 (2018/19: £163m). The impact of further deterioration in the economic outlook on expected credit losses ("ECLs") after the reporting date is discussed in note 36 (Events after the reporting period).</p> <p>Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in the UK and, at the reporting date the potential impact of the global Covid-19 outbreak. As described in Note 1 (Accounting policies, estimates and judgements) management's provisioning methodology is based on an "expected loss" model as required under IFRS 9 'Financial Instruments'.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of the relevant controls over the impairment review processes and the determination of the judgements within the model.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> <li>- with support from internal economic modelling experts, challenging the macro-economic scenario forecasts that were incorporated into the ECL model;</li> <li>- challenging how management had assessed the impact of Covid-19 within the ECL model to assess whether that it was appropriately considered in the measurement of ECLs at year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by Covid-19 at the reporting date with reference to the reasonable and supportable information available to management at that date;</li> <li>- considering whether events arising after the reporting date, such as the declaration of the outbreak as a global pandemic by the World Health Organisation on 11 March 2020, nationwide lockdowns, and the fiscal and monetary policy responses to combat the economic effects of Covid-19, provided evidence that such events were possible future events which management could assign an appropriate probability to at the reporting date, based on reasonable and supportable information available to management at that date;</li> <li>- challenging whether management's severe downside macro-economic scenario adequately captured the potential macro-economic downside risks arising as a result of the Covid-19 outbreak, based on reasonable and supportable information available to management at the reporting date;</li> <li>- assessing management's methodology, including the refinements made, against the requirements of IFRS 9 with input from our internal credit risk-modelling specialists and we tested the application of that methodology within the impairment models;</li> <li>- challenging the quantitative and qualitative triggers used to identify significant increases in credit risk to assess whether they were consistently applied, and whether they were based on reasonable information indicative of a significant increased risk of default since initial recognition;</li> <li>- assessing and challenging the key assumptions used by management to estimate the expected life of both credit cards and unsecured personal loans using historical observed data; and</li> <li>- challenging the appropriateness and completeness of management overlays, assessing and independently recalculating those which were included.</li> </ul>	<p>Based on our audit procedures above, we concluded that management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.</p>
<b>Retail technology environment, including IT security</b>		
<p>The Group's retail operations utilise a range of information systems. In 2015/16, 2016/17, 2017/18 and 2018/19 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.</p> <p>IT remediation is a complex, multi-year project involving management judgement and activities which are at risk of being inappropriately designed, executed or at risk of error. These areas include:</p> <ul style="list-style-type: none"> <li>- inappropriate controls in place to govern the IT changes such as inappropriate approval controls; and</li> <li>- appropriateness of remediated access controls and whether the remediated controls address previously identified deficiencies.</li> </ul> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>We have continued to challenge and assess changes to the IT environment through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes.</p> <p>During the year we have assessed the design and implementation of the Group's relevant controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme.</p> <p>Consistent with 2018/19, in 2019/20 we did not plan to take a controls reliant audit approach in the retail business due to the ongoing weaknesses in the IT environment.</p> <p>Accordingly, we extended the scope of our substantive audit procedures in response to the deficiencies which affected the applications and databases within the scope of our audit.</p>	<p>Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment.</p> <p>Management's actions have reduced the number of deficiencies in the year by closing the deficiencies relating to batch management and change management controls linked to the Group's financial reporting. Further remediation work is ongoing.</p>

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

### Our application of materiality

#### Materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group Financial statements	Parent Company financial statements
Materiality	£85m (2018/19: £80m)	£55m (2018/19: £52m)
Basis for determining materiality	4.3% (2018/19: 5.1% restated) of profit before tax before exceptional items and amortisation of acquired intangibles of £1,961m (2018/19 restated: £1,564m).  Refer to Note 4 for additional details of profit before tax before exceptional items and amortisation of acquired intangibles and management's reconciliation to the Group's statutory measure.	Materiality represents less than 1% (2018/19: less than 1%) of net assets.
Rationale for the benchmark applied	Profit before tax before exceptional items and amortisation of acquired intangibles is an appropriate metric since it is a key performance indicator and is not impacted by any potential volatility which may be caused by exceptional items and amortisation as a result of acquired intangibles recognised under IFRS 3.  The materiality selected represents 0.6% (2018/19: 0.6% restated) of the Group's net assets.	As this is the Parent Company of the Group, it does not generate significant revenues but instead incurs costs.  Net assets are of most relevance to users of the financial statements.

#### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 66% of Group materiality for the 2019/20 audit (2018/19: 70%). As we continue to be unable to rely on internal controls in the retail business we have used a lower percentage of materiality to determine our performance materiality for 2019/20. In determining performance materiality, we have also considered the uncorrected misstatements identified in the previous period.

#### Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4.25m (2018/19: £4m) for the Group and the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

#### Identification and scoping of components

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

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on eight significant retail locations (UK, Booker, Republic of Ireland, Czech Republic, Hungary, Poland, Slovakia and Thailand) and Tesco Bank. The operations in Czech Republic, Hungary, Poland and Slovakia are managed as one combined business. All of these were subject to a full audit and represent 96% (2018/19: 95%) of the Group's revenue, 92% (2018/19: 93%) restated of profit before tax and 92% (2018/19: 94% restated) of net assets.

In addition, three other businesses (Malaysia, dunnhumby and Tesco Mobile) were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the size of the Group's operations at those locations. The three businesses accounted for 2% (2018/19: 3%) of the Group's revenue, 8% (2018/19: 3% restated) of profit before tax and 6% (2018/19: 6% restated) of net assets.

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

The most significant component of the Group is its retail business in the UK. As such, there is extensive interaction between the Group and UK audit team to ensure an appropriate level of direction and supervision in this audit work. During the course of our audit, the UK audit team visited 52 (2018/19: 50) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 5 (2018/19: 4) distribution centre inventory counts.

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

### An overview of the scope of our audit continued

The Group audit team visited 7 (2018/19: 7) of the 8 (2018/19: 8) significant locations set out above, in addition to Tesco Bank and the Group's shared service centre in Bengaluru, with the Group audit partner visiting 5 (2018/19: 3) of these locations. We also had a dedicated audit partner of the audit team focused on overseeing the role of the component audit teams located outside of the UK and the Republic of Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's international business.

The audit visits by the Group audit team were timed to enable us to be involved during the planning and risk assessment process in addition to the execution of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

Subsequent to the travel restrictions being put in place as a result of the Covid-19 pandemic, we arranged for the component audit files to be reviewed remotely and held regular calls with the local teams to discuss the results and resolve any queries.

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

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

### Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we have considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, the Group's Internal Audit function, the Group's Security function, the Group's Compliance Officer, the Group's General Counsel and the Audit Committee, about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations including the Group's controls relating to Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP) requirements;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including IT, tax, valuations and pensions actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: timing of recognition of commercial income, posting of unusual journals and complex transactions and manipulating the Group's alternative performance profit measures and other key performance indicators to meet remuneration targets and externally communicated targets. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included Group's ongoing compliance with the GSCOP, UK Companies Act, Listing Rules, employment law, health and safety, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

### Audit response to risks identified

As a result of performing the above, we identified presentation of the Group's income statement, accounting for the UK customer loyalty scheme and recognition of commercial income as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. In relation to accounting for the UK customer loyalty scheme, which is not a key audit matter, our procedures included:

- obtaining an understanding of relevant controls relating to the UK customer loyalty scheme;
- re-calculating the average fair value of unredeemed points and assessing the appropriateness of the methodology applied;
- agreeing the inputs to the UK loyalty scheme calculation, recalculating the year end accrual and assessing whether the redemption percentages used in the calculation were reasonable; and
- assessing that the accounting entries have been recorded in accordance with IFRS 15: Revenue.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



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

### Report on other legal and regulatory requirements

#### *Opinions on other matters prescribed by the Companies Act 2006*

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

#### *Adequacy of explanations received and accounting records*

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

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

**We have nothing to report in respect of these matters.**

#### *Directors' remuneration*

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

**We have nothing to report in respect of these matters.**

### Other matters

#### *Auditor tenure*

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the year ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 27 February 2016 to 29 February 2020.

#### *Consistency of the audit report with the additional report to the Audit Committee*

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

### Use of our report

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

#### **Simon Letts (Senior statutory auditor)**

For and on behalf of Deloitte LLP Statutory Auditor  
London, United Kingdom  
7 April 2020

## Group income statement

	Notes	53 weeks ended 29 February 2020			52 weeks ended 23 February 2019 (restated*)		
		Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m
<b>Continuing operations</b>							
<b>Revenue</b>	2	<b>64,760</b>	<b>-</b>	<b>64,760</b>	<b>63,911</b>	<b>-</b>	<b>63,911</b>
Cost of sales		(59,871)	(309)	(60,180)	(59,325)	110	(59,215)
<b>Gross profit/(loss)</b>		<b>4,889</b>	<b>(309)</b>	<b>4,580</b>	<b>4,586</b>	<b>110</b>	<b>4,696</b>
Administrative expenses		(1,884)	(178)	(2,062)	(1,979)	(68)	(2,047)
<b>Operating profit/(loss)</b>		<b>3,005</b>	<b>(487)</b>	<b>2,518</b>	<b>2,607</b>	<b>42</b>	<b>2,649</b>
Share of post-tax profits/(losses) of joint ventures and associates	14	26	(8)	18	21	11	32
Finance income	5	23	-	23	25	-	25
Finance costs	5	(1,093)	(151)	(1,244)	(1,089)	-	(1,089)
<b>Profit/(loss) before tax</b>		<b>1,961</b>	<b>(646)</b>	<b>1,315</b>	<b>1,564</b>	<b>53</b>	<b>1,617</b>
Taxation	6	(433)	53	(380)	(397)	50	(347)
<b>Profit/(loss) for the year from continuing operations</b>		<b>1,528</b>	<b>(593)</b>	<b>935</b>	<b>1,167</b>	<b>103</b>	<b>1,270</b>
<b>Discontinued operations</b>							
Profit/(loss) for the year from discontinued operations	7	-	38	38	-	-	-
<b>Profit/(loss) for the year</b>		<b>1,528</b>	<b>(555)</b>	<b>973</b>	<b>1,167</b>	<b>103</b>	<b>1,270</b>
<b>Attributable to:</b>							
Owners of the parent		1,526	(555)	971	1,169	103	1,272
Non-controlling interests		2	-	2	(2)	-	(2)
		<b>1,528</b>	<b>(555)</b>	<b>973</b>	<b>1,167</b>	<b>103</b>	<b>1,270</b>
<b>Earnings/(losses) per share from continuing and discontinued operations</b>							
Basic	9			9.99p			13.13p
Diluted	9			9.93p			13.04p
<b>Earnings/(losses) per share from continuing operations</b>							
Basic	9			9.60p			13.13p
Diluted	9			9.54p			13.04p

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 and reclassification of profits/(losses) arising on property-related items as explained in Note 1 and Note 37.

## Group statement of comprehensive income/(loss)

		53 weeks 2020	52 weeks 2019 (restated*)
	Notes	£m	£m
<b>Items that will not be reclassified to the Group income statement</b>			
Remeasurements of defined benefit pension schemes	29	(466)	364
Net fair value gains/(losses) on inventory cash flow hedges		49	–
Tax on items that will not be reclassified	6	71	(61)
		<b>(346)</b>	<b>303</b>
<b>Items that may subsequently be reclassified to the Group income statement</b>			
Change in fair value of debt instruments at fair value through other comprehensive income		9	(10)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		(68)	90
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		57	130
Reclassified and reported in the Group income statement		(7)	(57)
Tax on items that may be reclassified	6	(9)	5
		<b>(18)</b>	<b>158</b>
<b>Total other comprehensive income/(loss) for the year</b>		<b>(364)</b>	<b>461</b>
Profit/(loss) for the year		973	1,270
<b>Total comprehensive income/(loss) for the year</b>		<b>609</b>	<b>1,731</b>
<b>Attributable to:</b>			
Owners of the parent		607	1,733
Non-controlling interests		2	(2)
<b>Total comprehensive income/(loss) for the year</b>		<b>609</b>	<b>1,731</b>
<b>Total comprehensive income/(loss) attributable to owners of the parent arising from:</b>			
Continuing operations		569	1,733
Discontinued operations		38	–
		<b>607</b>	<b>1,733</b>

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 and reclassification of profits/(losses) arising on property-related items as explained in Note 1 and Note 37.

## Group balance sheet

	Notes	29 February 2020 £m	23 February 2019 (restated*) £m	25 February 2018 (restated*) £m
<b>Non-current assets</b>				
Goodwill and other intangible assets	10	6,119	6,264	2,661
Property, plant and equipment	11	19,234	19,186	18,712
Right of use assets	12	6,874	7,713	7,527
Investment property	13	26	36	100
Investments in joint ventures and associates	14	307	602	597
Financial assets at fair value through other comprehensive income	16	866	979	860
Trade and other receivables	18	166	243	217
Loans and advances to customers and banks	19	4,171	7,868	6,885
Derivative financial instruments	25	1,083	1,178	1,117
Deferred tax assets	6	292	251	401
		<b>39,138</b>	<b>44,320</b>	<b>39,077</b>
<b>Current assets</b>				
Financial assets at fair value through other comprehensive income	16	202	67	68
Inventories	17	2,433	2,617	2,264
Trade and other receivables	18	1,396	1,550	1,415
Loans and advances to customers and banks	19	4,280	4,882	4,637
Derivative financial instruments	25	63	52	27
Current tax assets		21	6	12
Short-term investments	20	1,076	390	1,029
Cash and cash equivalents	20	3,408	2,916	4,059
		<b>12,879</b>	<b>12,480</b>	<b>13,511</b>
Assets classified as held for sale	7	285	98	149
		<b>13,164</b>	<b>12,578</b>	<b>13,660</b>
<b>Current liabilities</b>				
Trade and other payables	21	(8,922)	(9,131)	(8,773)
Borrowings	23	(1,490)	(1,563)	(1,467)
Lease liabilities	12	(598)	(646)	(712)
Derivative financial instruments	25	(61)	(250)	(69)
Customer deposits and deposits from banks	26	(6,377)	(8,832)	(7,812)
Current tax liabilities		(324)	(325)	(335)
Provisions	27	(155)	(226)	(416)
		<b>(17,927)</b>	<b>(20,973)</b>	<b>(19,584)</b>
<b>Net current liabilities</b>		<b>(4,763)</b>	<b>(8,395)</b>	<b>(5,924)</b>
<b>Non-current liabilities</b>				
Trade and other payables	21	(170)	(365)	(364)
Borrowings	23	(6,005)	(5,580)	(7,032)
Lease liabilities	12	(8,968)	(9,859)	(9,560)
Derivative financial instruments	25	(887)	(389)	(594)
Customer deposits and deposits from banks	26	(1,830)	(3,296)	(2,972)
Post-employment benefit obligations	29	(3,085)	(2,808)	(3,282)
Deferred tax liabilities	6	(40)	(49)	(82)
Provisions	27	(137)	(147)	(129)
		<b>(21,122)</b>	<b>(22,493)</b>	<b>(24,015)</b>
<b>Net assets</b>		<b>13,253</b>	<b>13,432</b>	<b>9,138</b>
<b>Equity</b>				
Share capital	30	490	490	410
Share premium		5,165	5,165	5,107
All other reserves		3,658	3,770	717
Retained earnings		3,962	4,031	2,926
<b>Equity attributable to owners of the parent</b>		<b>13,275</b>	<b>13,456</b>	<b>9,160</b>
Non-controlling interests		(22)	(24)	(22)
<b>Total equity</b>		<b>13,253</b>	<b>13,432</b>	<b>9,138</b>

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.

**Dave Lewis**  
**Alan Stewart**

### Directors

The financial statements on pages 28 to 99 were approved and authorised for issue by the Directors on 7 April 2020.

## Group statement of changes in equity

	All other reserves								Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
	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				
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) (Note 37)	–	–	–	–	–	(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 year	–	–	–	–	–	–	–	–	971	971	2	973
Other comprehensive income/(loss)												
Currency translation differences	–	–	–	–	–	(68)	–	–	–	(68)	–	(68)
Change in fair value of debt instruments at fair value through other comprehensive income	–	–	–	–	–	–	–	–	9	9	–	9
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(466)	(466)	–	(466)
Gains/(losses) on cash flow hedges	–	–	(12)	–	111	–	–	–	–	99	–	99
Tax relating to components of other comprehensive income	–	–	2	–	(11)	1	–	–	70	62	–	62
Total other comprehensive income/(loss)	–	–	(10)	–	100	(67)	–	–	(387)	(364)	–	(364)
Total comprehensive income/(loss)	–	–	(10)	–	100	(67)	–	–	584	607	2	609
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	–	–	–	–	(64)	–	–	–	–	(64)	–	(64)
Total inventory cash flow hedge movements	–	–	–	–	(64)	–	–	–	–	(64)	–	(64)
Transactions with owners												
Purchase of own shares	–	–	–	–	–	–	(221)	–	–	(221)	–	(221)
Share-based payments	–	–	–	–	–	–	150	–	5	155	–	155
Dividends (Note 8)	–	–	–	–	–	–	–	–	(656)	(656)	–	(656)
Tax on items charged to equity	–	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Total transactions with owners	–	–	–	–	–	–	(71)	–	(653)	(724)	–	(724)
At 29 February 2020	490	5,165	(15)	16	154	663	(250)	3,090	3,962	13,275	(22)	13,253

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.

## Group statement of changes in equity continued

	All other reserves											
	Share capital £m	Share premium £m	Currency	Capital	Hedging reserve £m	Translation reserve £m	Own	Merger reserve £m	Retained earnings £m	Total £m	Non- controlling interests £m	Total equity £m
			basis reserve £m	redemption reserve £m			shares held £m					
At 24 February 2018 (as previously reported)	410	5,107	-	16	40	655	(16)	40	4,250	10,502	(22)	10,480
Adjustment on initial application of IFRS 16 (net of tax) (Note 37)	-	-	-	-	-	(18)	-	-	(1,324)	(1,342)	-	(1,342)
At 25 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 year (as previously reported)	-	-	-	-	-	-	-	-	1,322	1,322	(2)	1,320
IFRS 16 adjustment to profit/(loss) for the year (Note 37)	-	-	-	-	-	-	-	-	(50)	(50)	-	(50)
Profit/(loss) for the year (restated*)	-	-	-	-	-	-	-	-	1,272	1,272	(2)	1,270
Other comprehensive income/(loss)												
Currency translation differences (as previously reported)	-	-	-	-	-	100	-	-	-	100	-	100
IFRS 16 adjustment to currency translation differences	-	-	-	-	-	(10)	-	-	-	(10)	-	(10)
Currency translation differences (restated*)	-	-	-	-	-	90	-	-	-	90	-	90
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(10)	(10)	-	(10)
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	364	364	-	364
Gains/(losses) on cash flow hedges	-	-	(6)	-	79	-	-	-	-	73	-	73
Tax relating to components of other comprehensive income	-	-	-	-	-	3	-	-	(59)	(56)	-	(56)
Total other comprehensive income/(loss) (restated*)	-	-	(6)	-	79	93	-	-	295	461	-	461
Total comprehensive income/(loss) (restated*)	-	-	(6)	-	79	93	-	-	1,567	1,733	(2)	1,731
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(277)	-	-	(277)	-	(277)
Share-based payments	-	-	-	-	-	-	114	-	67	181	-	181
Issue of shares	80	58	-	-	-	-	-	3,050	-	3,188	-	3,188
Dividends (Note 8)	-	-	-	-	-	-	-	-	(357)	(357)	-	(357)
Tax on items charged to equity	-	-	-	-	-	-	-	-	5	5	-	5
Total transactions with owners	80	58	-	-	-	-	(163)	3,050	(285)	2,740	-	2,740
At 23 February 2019 (restated*)	490	5,165	(5)	16	118	730	(179)	3,090	4,031	13,456	(24)	13,432

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.



## Group cash flow statement

	Notes	53 weeks 2020 £m	52 weeks 2019 (restated*) £m
<b>Cash flows generated from/(used in) operating activities</b>			
Operating profit/(loss) of continuing operations		2,518	2,649
Depreciation and amortisation		2,157	2,050
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale and early termination of leases		(170)	(131)
(Profit)/loss arising on sale financial assets		(3)	(8)
(Profit)/ loss arising on sale of joint ventures and associates		(68)	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property		302	(114)
Impairment of joint ventures		47	-
Adjustment for non-cash element of pensions charge		9	45
Other defined benefit pension scheme payments	29	(267)	(266)
Share-based payments		87	77
Tesco Bank fair value movements included in operating profit/(loss)		100	127
Retail (increase)/decrease in inventories		178	11
Retail (increase)/decrease in development stock		1	(2)
Retail (increase)/decrease in trade and other receivables		175	108
Retail increase/(decrease) in trade and other payables		(391)	(310)
Retail increase/(decrease) in provisions		(87)	(197)
Retail (increase)/decrease in working capital		(124)	(390)
Tesco Bank (increase)/decrease in loans and advances to customers and banks		127	(1,585)
Tesco Bank (increase)/decrease in trade and other receivables		310	4
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		(3,849)	1,348
Tesco Bank increase/(decrease) in provisions		5	(25)
Tesco Bank (increase)/decrease in working capital		(3,407)	(258)
<b>Cash generated from/(used in) operations</b>		<b>1,181</b>	<b>3,781</b>
Interest paid		(803)	(859)
Corporation tax paid		(340)	(370)
<b>Net cash generated from/(used in) operating activities</b>		<b>38</b>	<b>2,552</b>
<b>Cash flows generated from/(used in) investing activities</b>			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		3,965	286
Purchase of property, plant and equipment and investment property		(1,003)	(1,101)
Purchase of intangible assets		(201)	(191)
Disposal of subsidiaries, net of cash disposed		4	8
Acquisition of subsidiaries, net of cash acquired		-	(715)
Disposal of associate	33	277	-
Net (increase)/decrease in loans to joint ventures and associates		8	5
Investments in joint ventures and associates		(9)	(11)
Net (investments in)/proceeds from sale of short-term investments		(687)	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		(6)	(122)
Dividends received from joint ventures and associates		42	41
Interest received		18	21
<b>Net cash generated from/(used in) investing activities</b>		<b>2,408</b>	<b>(1,140)</b>
<b>Cash flows generated from/(used in) financing activities</b>			
Proceeds from issue of ordinary share capital	30	-	60
Own shares purchased		(149)	(206)
Repayment of obligations under leases		(634)	(606)
Increase in borrowings		1,332	975
Repayment of borrowings		(1,788)	(2,471)
Net cash flows from derivative financial instruments		(17)	35
Dividends paid to equity owners	8	(656)	(357)
<b>Net cash generated from/(used in) financing activities</b>		<b>(1,912)</b>	<b>(2,570)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>534</b>	<b>(1,158)</b>
Cash and cash equivalents at the beginning of the year		2,916	4,059
Effect of foreign exchange rate changes		(42)	15
<b>Cash and cash equivalents at the end of the year</b>	20	<b>3,408</b>	<b>2,916</b>

The notes on pages 34 to 99 form part of these financial statements.

\* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.

# Notes to the Group financial statements

## Note 1 Accounting policies, judgements and estimates

### General information

Tesco PLC (the Company) is a public limited company incorporated and domiciled in the United Kingdom (UK) under the Companies Act 2006 (Registration number 445790). The address of the registered office is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City AL7 1GA, UK.

The main activities of the Company and its subsidiaries (together, the Group) are those of retailing and retail banking.

### Basis of preparation

The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pension assets that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Unless otherwise stated, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The following standards and amendments were adopted in the current financial year, and further details of their impact on the Group financial statements are given in Note 37 and Note 25 respectively:

- IFRS 16 'Leases', which has been applied fully retrospectively; and
- 'Interest rate benchmark reform' amendments, which have been adopted early.

Other standards, interpretations and amendments effective in the current financial year have not had a material impact on the Group financial statements.

The Group has not applied any other standards, interpretations or amendments that have been issued but are not yet effective. The impact of the following is still under assessment:

- IFRS 17 'Insurance contracts'.

Other standards, interpretations and amendments issued but not yet effective are not expected to have a material impact on the Group financial statements.

### Basis of consolidation

The consolidated Group financial statements consist of the financial statements of the ultimate Parent Company (Tesco PLC), all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

The financial year represents the 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For the UK and the Republic of Ireland (UK & ROI), the results are for the 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For all other operations, the results are for the calendar year ended 29 February 2020 (prior calendar year ended 28 February 2019).

### Subsidiaries

Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

### Joint ventures and associates

The Group's share of the results of joint ventures and associates is included in the Group income statement and Group statement of comprehensive income/(loss) using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Dividends received from joint ventures or associates with nil carrying value are recognised in the Group income statement as part of the Group's share of post-tax profits/ (losses) of joint ventures and associates.

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

### 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 Group 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 liabilities'.

### Revenue

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

### Sale of goods

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

## Notes to the Group financial statements

### Note 1 Accounting policies, judgements and estimates continued

#### *Clubcard (customer loyalty programme)*

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

#### *Financial services*

Revenue consists of interest, fees and income from the provision of retail banking and insurance.

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

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

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

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

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

#### **Commercial income**

Consistent with standard industry practice, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning. While there is no standard industry definition, these amounts receivable from suppliers in connection with the purchase of goods for resale are generally termed commercial income.

Commercial income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at the reporting date, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

Amounts due relating to commercial income are recognised within trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued commercial income is recognised within accrued income when commercial income earned has not been invoiced at the reporting date.

#### **Finance income**

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

#### **Finance costs**

Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognised in the Group income statement in finance costs, excluding those arising from financial services, in the period in which they occur. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

#### **Business combinations and goodwill**

The Group accounts for all business combinations by applying the acquisition method. All acquisition-related costs are expensed.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair values. Non-controlling interests are stated at the non-controlling interests' proportion of the fair values of the assets and liabilities recognised.

Goodwill arising on consolidation represents the excess of the consideration transferred over the net fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired subsidiary, joint venture or associate and the fair value of the non-controlling interest in the acquiree. If the consideration is less than the fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired entity (i.e. a bargain purchase), the difference is credited to the Group income statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units or groups of cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill. Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where the Group obtains control of a joint venture or associate, the Group's previously held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the Group income statement.

# Notes to the Group financial statements

## Note 1 Accounting policies, judgements and estimates continued

### Cloud software licence agreements

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

### Intangible assets

Intangible assets, such as software, acquired customer relationships and pharmacy licences, are measured initially at acquisition cost or costs incurred to develop the asset. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives of 3 to 10 years for software and up to 10 years for customer relationships.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised only if specific criteria are met.

### Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life:

- freehold buildings – 10 to 40 years; and
- fixtures and fittings, office equipment and motor vehicles – 3 to 20 years.

### Impairment of non-financial assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates. For all other non-financial assets (including other intangible assets, property, plant and equipment and right of use assets) the Group performs impairment testing where there are indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value in use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Goodwill impairments are not subsequently reversed. Where an impairment loss on other non-financial assets subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the Group income statement.

### Investment property

Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for property, plant and equipment.

### Inventories

Inventories comprise goods and development properties held for resale. Inventories are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of inventories.

### Cash and cash equivalents

Cash and cash equivalents in the Group balance sheet consist of cash at bank, in hand, credit and debit card receivables, demand deposits with banks, loans and advances to banks, certificates of deposits and other receivables together with short-term deposits with an original maturity of three months or less.

### Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

The net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated). Refer to Note 7 for further details.

### 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, extension or 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 Group income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

## Notes to the Group financial statements

### Note 1 Accounting policies, judgements and estimates continued

#### *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.

#### **Post-employment obligations**

For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) while plan assets are recorded at fair value.

The operating and financing costs of such plans are recognised separately in the Group income statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group statement of comprehensive income/(loss).

Payments to defined contribution schemes are recognised as an expense as they fall due.

#### **Share-based payments**

The fair value of employee share option plans, which are all equity-settled, is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Group income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

#### **Taxation**

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group income statement, except when it relates to items charged or credited directly to the Group statement of changes in equity or the Group statement of comprehensive income/(loss), in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

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

#### **Foreign currencies**

The consolidated financial statements are presented in Pounds Sterling, which is the ultimate Parent Company's functional currency.

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the balance sheet date. Exchange differences are recognised in the Group income statement in the period in which they arise, apart from exchange differences on transactions entered into to hedge certain foreign currency risks, and exchange differences on monetary items forming part of the net investment in a foreign operation.

The assets and liabilities of the Group's foreign operations are translated into Pounds Sterling at exchange rates prevailing at the balance sheet date. Profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group statement of comprehensive income/(loss) and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.



## Notes to the Group financial statements

### Note 1 Accounting policies, judgements and estimates continued

#### Financial instruments

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

#### Trade receivables

Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less allowance for expected credit losses.

#### Investments

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

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

#### Loans and advances to customers and banks

Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any expected credit losses.

#### Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (ECLs) associated with its financial assets carried at amortised cost and debt instruments at fair value through other comprehensive income. The ECLs are updated at each reporting date to reflect changes in credit risk.

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

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

#### Interest-bearing borrowings

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

#### Trade payables

Trade payables are non interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, inflation, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument, including whether the change in cash flows of the hedged item and hedging instrument are expected to offset each other.

As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of IAS 39 'Financial instruments: Recognition and measurement' for its portfolio hedge accounting until a new macro hedge accounting standard is implemented.

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

#### Fair value hedging

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

#### Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative designated as the hedging instrument is recognised directly in the Group statement of comprehensive income/(loss) and accumulated in the hedging reserve. Any cost of hedging, such as the change in fair value related to forward points and currency basis adjustment is separately accumulated in the currency basis reserve. The ineffective element is recognised immediately in the Group income statement within finance income or costs.



## Notes to the Group financial statements

### Note 1 Accounting policies, judgements and estimates continued

Where the hedged item subsequently results in the recognition of a non-financial asset such as inventory, the amounts accumulated in the hedging reserve and currency basis reserve are included in the initial cost of the asset. For all other cash flow hedges, the amounts accumulated in the hedging reserve and currency basis reserve are recognised in the Group income statement when the hedged item or transaction affects the Group income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer meets the Group's risk management objective. The cumulative gain or loss in the hedging reserve and currency basis reserve remains until the forecast transaction occurs or the original hedged item affects the Group income statement. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in the hedging reserve and currency basis reserve is reclassified to the Group income statement.

#### *Net investment hedging*

Financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the instrument is recognised directly in other comprehensive income. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in other comprehensive income are included in the Group income statement when the foreign operation is disposed of.

#### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the Group balance sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### *Provisions*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting or exiting the contract exceed the economic benefits expected to be received under the contract.

#### *Supplier financing arrangements*

Suppliers can choose to access supplier financing arrangements provided by different third party banks in different countries. Commercial requirements, including payment terms or the price paid for goods, do not depend on whether a supplier chooses to access such arrangements. The arrangements support our suppliers by giving them the option to access funding early, often at a lower cost than they could obtain themselves.

Under the arrangements, suppliers may choose to access payment early rather than on our normal payment terms, at a funding cost to the supplier that is set by the provider banks but based on Tesco's credit risk and the appropriate country risk premium. If suppliers choose not to access early payment, the provider banks pay the suppliers on our normal payment terms. The Group pays the provider banks on our normal payment terms, regardless of whether the supplier has chosen to access funding early.

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

Balances outstanding under current supplier financing arrangements are classified as trade payables, and cash flows are included in operating cash flows, since the financing arrangements are agreed between the supplier and the banks, and the Group does not provide additional credit enhancement nor obtain any working capital benefit from the arrangements. Refer to Note 21.

#### *Judgements and sources of estimation uncertainty*

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

#### *Critical accounting judgements*

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

#### *Assets held for sale and discontinued operations*

On 27 September 2019, the Group completed the sale of the majority of Tesco Bank's mortgage portfolio to Bank of Scotland, which is part of Lloyds Banking Group. As is customary in such a transaction, the Group continued to recognise a small element of the mortgage business, representing new advances to existing mortgage customers, until migration of all mortgage accounts to the purchaser, which took place on 30 March 2020. The remaining assets and liabilities of the mortgage operations were classified as a disposal group held for sale in the Group balance sheet. Based on the relative size of the mortgage business to the Group, management concluded that it does not represent a separate major line of business or geographical area and hence has not been classified as a discontinued operation.

On 9 March 2020, the Group reached agreement on the terms of a sale of its operations in Thailand and Malaysia. The transaction is subject to shareholder and regulatory approval and is expected to complete during the second half of 2020. As at the balance sheet date, the Board had not formally received final offers, including, for example, pricing and commercial terms, details of bidders' secured financing, or indications of the level of activities to be undertaken regarding competition clearance. Discussions were also ongoing regarding the level of a possible one-off contribution to the Group's pension scheme from any sale proceeds. The Board had therefore not given approval for any sale to proceed.

Management therefore concluded that these operations did not meet the criteria to be classified as held for sale as at the balance sheet date, and consequently they have not been classified as discontinued operations. It is expected that these operations will meet the criteria to be classified as held for sale and presented as discontinued operations in the 2020/2021 interim financial statements.

# Notes to the Group financial statements

## Note 1 Accounting policies, judgements and estimates continued

### 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 12 for additional disclosures relating to leases.

### Joint ventures and associates

The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint Arrangements' and determined them to be joint ventures. These assessments required the exercise of judgement as set out in Note 14.

### Alternative performance measures (APMs) – Exceptional items

Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive APMs which provide additional useful information on the underlying trends, performance and position of the Group. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

An analysis of the exceptional items included in the Group income statement, together with the impact of these items on the Group cash flow statement, is disclosed in Note 4.

Refer to pages 117 to 122 for further details on the Group's APMs.

### Impact of coronavirus (COVID-19)

In light of the rapidly escalating COVID-19 pandemic, the Group has considered whether any adjustments are required to reported amounts in the financial statements.

As at the 29 February 2020 balance sheet date, no global pandemic had been declared, the UK was still in the 'containment' phase, large global share price falls had not yet occurred, and larger-scale outbreaks were only apparent in China, Republic of Korea, Iran and northern Italy where the Group does not have operations. The full ramifications of COVID-19, and the extent of Government interventions in response, were not apparent. To the extent that there were indicators of some level of disruption observable at the balance sheet date, these have been factored in to the Group's financial statements as at 29 February 2020, in particular assessing the impact of incorporating an additional COVID-19 risk factor in to discount rates used in impairment testing of goodwill and non-current assets and incorporating an additional downside scenario in to expected credit loss calculations in Tesco Bank.

Subsequent to the balance sheet date, the World Health Organisation declared a pandemic on 11 March, the UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The first large falls in stock markets occurred in early March, and Tesco introduced a '3 items only' limit on purchases on 19 March in response to customer demand. The Group has therefore concluded that the necessity for large scale Government interventions (both in the UK and the other countries in which the Group operates) in response to COVID-19 only became apparent after the balance sheet date and therefore that the consequences of such interventions represent non-adjusting post balance sheet events. However, given these events are of such significance, further disclosures, including additional sensitivities, are given in Note 36.

### Key sources of estimation uncertainty

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

### Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate, inflation rate and mortality assumptions. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions and sensitivities for post-employment benefit obligations are disclosed in Note 29.

### 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 and sensitivities are disclosed in Note 15.

### Commercial income

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

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

## Notes to the Group financial statements continued

### Note 1 Accounting policies, judgements and estimates continued

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the Group balance sheet. Refer to Note 22 for commercial income disclosures.

#### Tesco Bank expected credit loss measurement

The measurement of ECLs for Tesco Bank financial assets requires the use of complex models and significant assumptions about future macro-economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Key assumptions and sensitivities for Tesco Bank ECLs are disclosed in Note 25.

#### Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to Note 34 for the disclosures.

#### 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.

#### Changes to APMs

As with many retail businesses, the Group has a 53 week financial year every 5 to 6 years. As the financial year to 29 February 2020 is a 53 week period, alternative performance measures are presented on a 52 week basis excluding week 53, in order to provide comparability with the prior year.

Retail operating profit is introduced as a measure of the Group's operating profit from the Retail business excluding Tesco Bank. It is based on Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles.

As a result of adopting IFRS 16 in the current financial year, 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.
- Retail EBITDA is introduced as a measure of the Group's operating performance and cash profitability. It is based on Retail operating profit from continuing operations before exceptional items, excluding Retail depreciation and amortisation. It is also now used to derive the Total indebtedness ratio and Fixed charge cover APMs. Rent expense is now de-minimis following the adoption of IFRS 16, and so the Total indebtedness ratio denominator has changed from EBITDAR (Retail EBITDA before Retail rent expense) to Retail EBITDA, consistent with the Group's use of Retail EBITDA as a measure of operating performance and profitability. Similarly, the Fixed charge cover numerator has changed from EBITDAR to Retail EBITDA.
- Total indebtedness has also 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 also been redefined to exclude interest on lease liabilities from net finance costs and include all lease liability payments made in the period. Amending the calculation ensures that all cash payments made in the period with respect to the Group's lease liabilities continue to be included in the calculation of fixed charge cover.

Refer to the Glossary on pages 117 to 122 for a full list, comprehensive descriptions and purpose of the Group's APMs.

## Notes to the Group financial statements continued

### 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 year under evaluation. Operating profit before exceptional items and amortisation of acquired intangibles is a consistent measure within the Group as defined within the glossary. Refer to Note 4 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating segments is not material.

### Income statement

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

53 weeks ended 29 February 2020 At constant exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at constant exchange rates £m	Foreign exchange £m	Total at actual exchange £m
<b>Continuing operations</b>							
Group sales	45,784	5,447	4,896	1,068	57,195	175	57,370
Revenue	52,931	5,695	4,896	1,068	64,590	170	64,760
<b>Operating profit/(loss) before exceptional items and amortisation of acquired intangibles</b>	<b>2,231</b>	<b>160</b>	<b>398</b>	<b>193</b>	<b>2,982</b>	<b>23</b>	<b>3,005</b>
Exceptional items and amortisation of acquired intangibles	(286)	(73)	(11)	(119)	(489)	2	(487)
<b>Operating profit/(loss)</b>	<b>1,945</b>	<b>87</b>	<b>387</b>	<b>74</b>	<b>2,493</b>	<b>25</b>	<b>2,518</b>
<b>Operating margin</b>	<b>4.2%</b>	<b>2.8%</b>	<b>8.1%</b>	<b>18.1%</b>	<b>4.6%</b>		<b>4.6%</b>

53 weeks ended 29 February 2020 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
<b>Continuing operations</b>					
Group sales*	45,752	5,332	5,218	1,068	57,370
Revenue	52,898	5,576	5,218	1,068	64,760
<b>Operating profit/(loss) before exceptional items and amortisation of acquired intangibles*</b>	<b>2,230</b>	<b>156</b>	<b>426</b>	<b>193</b>	<b>3,005</b>
Exceptional items and amortisation of acquired intangibles	(286)	(71)	(11)	(119)	(487)
<b>Operating profit/(loss)</b>	<b>1,944</b>	<b>85</b>	<b>415</b>	<b>74</b>	<b>2,518</b>
<b>Operating margin*</b>	<b>4.2%</b>	<b>2.8%</b>	<b>8.2%</b>	<b>18.1%</b>	<b>4.6%</b>
Share of post-tax profits/(losses) of joint ventures and associates					18
Finance income					23
Finance costs					(1,244)
<b>Profit/(loss) before tax</b>					<b>1,315</b>

\* Refer to page 120 for a reconciliation from Group sales, Operating profit before exceptional items and amortisation of acquired intangibles and Operating margin shown above to the Group's 52 week alternative performance measures.

52 weeks ended 23 February 2019 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
<b>Continuing operations</b>					
Group sales	44,883	6,030	4,873	1,097	56,883
Revenue	51,643	6,298	4,873	1,097	63,911
<b>Operating profit/(loss) before exceptional items and amortisation of acquired intangibles</b>	<b>1,868</b>	<b>221</b>	<b>319</b>	<b>199</b>	<b>2,607</b>
Exceptional items and amortisation of acquired intangibles	81	58	(67)	(30)	42
<b>Operating profit/(loss)</b>	<b>1,949</b>	<b>279</b>	<b>252</b>	<b>169</b>	<b>2,649</b>
<b>Operating margin</b>	<b>3.6%</b>	<b>3.5%</b>	<b>6.5%</b>	<b>18.1%</b>	<b>4.1%</b>
Share of post-tax profits/(losses) of joint ventures and associates					32
Finance income					25
Finance costs					(1,089)
<b>Profit/(loss) before tax</b>					<b>1,617</b>

Tesco Bank revenue of £1,068m (2019: £1,097m) comprises interest and similar revenues of £733m (2019: £729m) and fees and commissions revenue of £335m (2019: £368m).

# Notes to the Group financial statements continued

## Note 2 Segmental reporting continued

### 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.

	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
At 29 February 2020						
Goodwill and other intangible assets	4,892	28	285	914	–	6,119
Property, plant and equipment and investment property	14,635	2,199	2,365	61	–	19,260
Right of use assets	5,719	491	650	14	–	6,874
Investments in joint ventures and associates	11	1	208	87	–	307
Non-current financial assets at fair value through other comprehensive income	7	–	–	859	–	866
Non-current trade and other receivables <sup>(a)</sup>	65	–	13	65	–	143
Non-current loans and advances to customers and banks	–	–	–	4,171	–	4,171
Deferred tax assets	129	33	61	69	–	292
<b>Non-current assets<sup>(b)</sup></b>	<b>25,458</b>	<b>2,752</b>	<b>3,582</b>	<b>6,240</b>	<b>–</b>	<b>38,032</b>
Inventories and current trade and other receivables <sup>(c)(d)</sup>	2,678	410	384	252	–	3,724
Current loans and advances to customers and banks	–	–	–	4,280	–	4,280
Current financial assets at fair value through other comprehensive income	–	–	–	202	–	202
Total trade and other payables	(7,215)	(639)	(989)	(249)	–	(9,092)
Total customer deposits and deposits from banks	–	–	–	(8,207)	–	(8,207)
Total provisions	(161)	(25)	(49)	(57)	–	(292)
Deferred tax liabilities	(4)	(36)	–	–	–	(40)
Net current tax	(270)	9	(16)	(26)	–	(303)
Post-employment benefits	(3,056)	–	(29)	–	–	(3,085)
Assets classified as held for sale	75	165	–	45	–	285
Net debt (including Tesco Bank) <sup>(e)</sup>	(8,203)	(663)	(667)	47	(2,765)	(12,251)
<b>Net assets</b>	<b>9,302</b>	<b>1,973</b>	<b>2,216</b>	<b>2,527</b>	<b>(2,765)</b>	<b>13,253</b>

<sup>(a)</sup> Excludes loans to joint ventures of £23m (2019: £105m) which form part of net debt.

<sup>(b)</sup> Excludes derivative financial instrument non-current assets of £1,083m (2019: £1,178m).

<sup>(c)</sup> Excludes net interest and other receivables of £1m (2019: £1m) which form part of net debt.

<sup>(d)</sup> Excludes loans to joint ventures of £104m (2019: £28m) which form part of net debt.

<sup>(e)</sup> 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. The prior financial year has been restated. Refer to Note 37.

	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
At 23 February 2019 (restated)						
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 <sup>(a)</sup>	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
<b>Non-current assets<sup>(b)</sup></b>	<b>25,682</b>	<b>3,240</b>	<b>4,003</b>	<b>10,112</b>	<b>–</b>	<b>43,037</b>
Inventories and current trade and other receivables <sup>(c)(d)</sup>	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 classified as held for sale	68	30	–	–	–	98
Net debt (including Tesco Bank) <sup>(e)</sup>	(9,060)	(728)	(682)	(413)	(2,734)	(13,617)
<b>Net assets</b>	<b>8,924</b>	<b>2,161</b>	<b>2,587</b>	<b>2,494</b>	<b>(2,734)</b>	<b>13,432</b>

<sup>(a)-(e)</sup> Refer to previous table for footnotes.

# Notes to the Group financial statements continued

## Note 2 Segmental reporting continued

### Other segment information

53 weeks ended 29 February 2020	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment <sup>(a)(b)</sup>	1,674	97	128	7	1,906
Goodwill and other intangible assets <sup>(c)</sup>	145	12	6	44	207
Depreciation and amortisation:					
Property, plant and equipment	(771)	(137)	(221)	(9)	(1,138)
Right of use assets	(537)	(45)	(67)	(2)	(651)
Investment property	(1)	–	–	–	(1)
Other intangible assets	(218)	(13)	(6)	(130)	(367)
Impairment of financial assets					
Financial asset net (loss)/reversal	(4)	–	3	(179)	(180)

  

52 weeks ended 23 February 2019 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment <sup>(b)</sup>	1,028	113	228	4	1,373
Goodwill and other intangible assets <sup>(c)</sup>	4,005	17	3	27	4,052
Depreciation and amortisation:					
Property, plant and equipment	(756)	(151)	(222)	(10)	(1,139)
Right of use assets	(519)	(40)	(54)	(2)	(615)
Investment property	(1)	–	–	–	(1)
Other intangible assets	(201)	(14)	(7)	(73)	(295)
Impairment of financial assets					
Financial asset net (loss)/reversal	(20)	–	(1)	(164)	(185)

<sup>(a)</sup> Includes £914m related to obtaining control of the Tesco Atrato Limited partnership.

<sup>(b)</sup> Includes £nil (2019: £326m) of property, plant and equipment acquired through business combinations.

<sup>(c)</sup> Includes £nil (2019: £3,861m) of goodwill and other intangible assets acquired through business combinations.



# Notes to the Group financial statements continued

## 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
	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
53 weeks ended 29 February 2020							
<b>Operating profit/(loss) of continuing operations</b>	<b>2,812</b>	<b>(368)</b>	<b>2,444</b>	<b>193</b>	<b>(119)</b>	<b>74</b>	<b>2,518</b>
Depreciation and amortisation	1,937	79	2,016	77	64	141	2,157
ATM net income	(34)	–	(34)	34	–	34	–
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	5	(175)	(170)	–	–	–	(170)
(Profit)/loss arising on sale of financial assets	–	–	–	–	(3)	(3)	(3)
(Profit)/loss arising on sale of joint ventures and associates	–	(68)	(68)	–	–	–	(68)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	–	302	302	–	–	–	302
Impairment of joint ventures	–	47	47	–	–	–	47
Adjustment for non-cash element of pensions charge	9	–	9	–	–	–	9
Other defined benefit pension scheme payments	(267)	–	(267)	–	–	–	(267)
Share-based payments	86	–	86	1	–	1	87
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	100	–	100	100
<b>Cash flows generated from operations excluding working capital</b>	<b>4,548</b>	<b>(183)</b>	<b>4,365</b>	<b>405</b>	<b>(58)</b>	<b>347</b>	<b>4,712</b>
(Increase)/decrease in working capital	(77)	(47)	(124)	(3,422)	15	(3,407)	(3,531)
<b>Cash generated from/(used in) operations<sup>(a)(b)</sup></b>	<b>4,471</b>	<b>(230)</b>	<b>4,241</b>	<b>(3,017)</b>	<b>(43)</b>	<b>(3,060)</b>	<b>1,181</b>
Interest paid	(795)	–	(795)	(8)	–	(8)	(803)
Corporation tax paid	(271)	–	(271)	(69)	–	(69)	(340)
<b>Net cash generated from/(used in) operating activities</b>	<b>3,405</b>	<b>(230)</b>	<b>3,175</b>	<b>(3,094)</b>	<b>(43)</b>	<b>(3,137)</b>	<b>38</b>
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	3	266	269	–	3,696	3,696	3,965
Purchase of property, plant and equipment and investment property – store buybacks	(136)	(36)	(172)	–	–	–	(172)
Purchase of property, plant and equipment and investment property – other capital expenditure	(826)	–	(826)	(5)	–	(5)	(831)
Purchase of intangible assets	(162)	–	(162)	(39)	–	(39)	(201)
Disposal of subsidiaries, net of cash disposed	4	–	4	–	–	–	4
Acquisition of subsidiaries, net of cash acquired	–	–	–	–	–	–	–
Disposal of associate (Note 33)	–	277	277	–	–	–	277
Net (increase)/decrease in loans to joint ventures and associates	–	–	–	8	–	8	8
Investments in joint ventures and associates	(9)	–	(9)	–	–	–	(9)
Net (investments in)/proceeds from sale of short-term investments	(687)	–	(687)	–	–	–	(687)
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	(3)	–	(3)	(3)	–	(3)	(6)
Dividends received from joint ventures and associates	26	–	26	16	–	16	42
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	18	–	18	–	–	–	18
<b>Net cash generated from/(used in) investing activities</b>	<b>(1,722)</b>	<b>507</b>	<b>(1,215)</b>	<b>(73)</b>	<b>3,696</b>	<b>3,623</b>	<b>2,408</b>
Proceeds from issue of ordinary share capital	–	–	–	–	–	–	–
Own shares purchased	(149)	–	(149)	–	–	–	(149)
Repayments of obligations under leases	(632)	–	(632)	(2)	–	(2)	(634)
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	687	–	687	–	–	–	687
<b>Free cash flow<sup>(a)</sup></b>	<b>1,589</b>	<b>277</b>	<b>1,866</b>	<b>(3,177)</b>	<b>3,653</b>	<b>476</b>	<b>2,342</b>
Increase in borrowings	1,082	–	1,082	250	–	250	1,332
Repayment of borrowings	(1,378)	–	(1,378)	(410)	–	(410)	(1,788)
Net cash flows from derivative financial instruments	(17)	–	(17)	–	–	–	(17)
Dividends paid to equity holders	(656)	–	(656)	–	–	–	(656)
<b>Net cash generated from/(used in) financing activities</b>	<b>(1,750)</b>	<b>–</b>	<b>(1,750)</b>	<b>(162)</b>	<b>–</b>	<b>(162)</b>	<b>(1,912)</b>
<b>Intra-Group funding and intercompany transactions</b>	<b>3</b>	<b>–</b>	<b>3</b>	<b>(3)</b>	<b>–</b>	<b>(3)</b>	<b>–</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(64)</b>	<b>277</b>	<b>213</b>	<b>(3,332)</b>	<b>3,653</b>	<b>321</b>	<b>534</b>
Cash and cash equivalents at the beginning of the year			1,873			1,043	2,916
Effect of foreign exchange rate changes			(42)			–	(42)
<b>Cash and cash equivalents at the end of the year</b>			<b>2,044</b>			<b>1,364</b>	<b>3,408</b>

<sup>(a)</sup> Refer to page 122 for a reconciliation from Retail operating cash flow, Retail free cash flow and Free cash flow shown above to the Group's 52 week alternative performance measures.

<sup>(b)</sup> APM: 'Retail operating cash flow' of £4,241m (2019: £3,637m (restated)) is the cash generated from operations of the continuing Retail business.

# Notes to the Group financial statements continued

## Note 2 Segmental reporting continued

### Cash flow statement

	Retail			Tesco Bank			Tesco Group
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	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
52 weeks ended 23 February 2019 (restated)							
<b>Operating profit/(loss) of continuing operations</b>	<b>2,408</b>	<b>72</b>	<b>2,480</b>	<b>199</b>	<b>(30)</b>	<b>169</b>	<b>2,649</b>
Depreciation and amortisation	1,887	78	1,965	85	–	85	2,050
ATM net income	(34)	–	(34)	34	–	34	–
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	(19)	(104)	(123)	(8)	–	(8)	(131)
(Profit)/loss arising on sale of financial assets	(1)	(7)	(8)	–	–	–	(8)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(3)	(111)	(114)	–	–	–	(114)
Impairment of joint ventures	–	–	–	–	–	–	–
Adjustment for non-cash element of pensions charge	45	–	45	–	–	–	45
Other defined benefit pension scheme payments	(266)	–	(266)	–	–	–	(266)
Share-based payments	82	–	82	(5)	–	(5)	77
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	127	–	127	127
<b>Cash flows generated from operations excluding working capital</b>	<b>4,099</b>	<b>(72)</b>	<b>4,027</b>	<b>432</b>	<b>(30)</b>	<b>402</b>	<b>4,429</b>
(Increase)/decrease in working capital	(306)	(84)	(390)	(223)	(35)	(258)	(648)
<b>Cash generated from/(used in) operations</b>	<b>3,793</b>	<b>(156)</b>	<b>3,637</b>	<b>209</b>	<b>(65)</b>	<b>144</b>	<b>3,781</b>
Interest paid	(851)	–	(851)	(8)	–	(8)	(859)
Corporation tax paid	(302)	–	(302)	(68)	–	(68)	(370)
<b>Net cash generated from/(used in) operating activities</b>	<b>2,640</b>	<b>(156)</b>	<b>2,484</b>	<b>133</b>	<b>(65)</b>	<b>68</b>	<b>2,552</b>
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	22	263	285	1	–	1	286
Purchase of property, plant and equipment and investment property – store buybacks	(136)	–	(136)	–	–	–	(136)
Purchase of property, plant and equipment and investment property – other capital expenditure	(962)	–	(962)	(3)	–	(3)	(965)
Purchase of intangible assets	(164)	–	(164)	(27)	–	(27)	(191)
Disposal of subsidiaries, net of cash disposed	8	–	8	–	–	–	8
Acquisition of subsidiaries, net of cash acquired	(715)	–	(715)	–	–	–	(715)
Net (increase)/decrease in loans to joint ventures and associates	–	–	–	5	–	5	5
Investments in joint ventures and associates	(11)	–	(11)	–	–	–	(11)
Net (investments in)/proceeds from sale of short-term investments	639	–	639	–	–	–	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	(5)	7	2	(124)	–	(124)	(122)
Dividends received from joint ventures and associates	31	–	31	10	–	10	41
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	21	–	21	–	–	–	21
<b>Net cash generated from/(used in) investing activities</b>	<b>(1,222)</b>	<b>270</b>	<b>(952)</b>	<b>(188)</b>	<b>–</b>	<b>(188)</b>	<b>(1,140)</b>
Proceeds from issue of ordinary share capital	60	–	60	–	–	–	60
Own shares purchased	(206)	–	(206)	–	–	–	(206)
Repayments of obligations under leases	(605)	–	(605)	(1)	–	(1)	(606)
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	(639)	–	(639)	–	–	–	(639)
<b>APM: Free cash flow*</b>	<b>775</b>	<b>114</b>	<b>889</b>	<b>(61)</b>	<b>(65)</b>	<b>(126)</b>	<b>763</b>
Increase in borrowings	704	–	704	271	–	271	975
Repayment of borrowings	(2,046)	–	(2,046)	(425)	–	(425)	(2,471)
Net cash flows from derivative financial instruments	35	–	35	–	–	–	35
Dividends paid to equity holders	(357)	–	(357)	–	–	–	(357)
<b>Net cash generated from/(used in) financing activities</b>	<b>(2,415)</b>	<b>–</b>	<b>(2,415)</b>	<b>(155)</b>	<b>–</b>	<b>(155)</b>	<b>(2,570)</b>
<b>Intra-Group funding and intercompany transactions</b>	<b>(14)</b>	<b>–</b>	<b>(14)</b>	<b>14</b>	<b>–</b>	<b>14</b>	<b>–</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,011)</b>	<b>114</b>	<b>(897)</b>	<b>(196)</b>	<b>(65)</b>	<b>(261)</b>	<b>(1,158)</b>
Cash and cash equivalents at the beginning of the year			2,755			1,304	4,059
Effect of foreign exchange rate changes			15			–	15
<b>Cash and cash equivalent at the end of the year</b>			<b>1,873</b>			<b>1,043</b>	<b>2,916</b>

\* Free cash flow has been redefined to include 'Repayments of obligations under leases' due to IFRS 16. This results in a minor adjustment of £17m, restating previously reported Retail free cash flow of £906m to £889m. There is no overall impact to cash and cash equivalents at the end of the year.

## Notes to the Group financial statements continued

### Note 3 Income and expenses

#### Auditor's remuneration

	53 weeks 2020 £m	52 weeks 2019 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.6	1.6
The audit of the accounts of the Company's subsidiaries	5.8	6.4
<b>Total audit services</b>	<b>7.4</b>	<b>8.0</b>
Audit-related assurance services	0.5	0.5
<b>Total audit and audit-related assurance services</b>	<b>7.9</b>	<b>8.5</b>
Fees payable to the Company's auditor and its associates for other services:		
Transaction services	0.2	–
All other non-audit services	1.6	3.5
<b>Total non-audit services</b>	<b>1.8</b>	<b>3.5</b>
<b>Total auditor's remuneration</b>	<b>9.7</b>	<b>12.0</b>

Other non-audit services of £1.6m (2019: £3.5m) represents: retail consultancy services £nil (2019: £1.3m), provision of data repository services for information needed by the Group and Serious Fraud Office (SFO) £0.6m (2019: £1.7m), SFO Monitor role £0.6m (2019: £0.1m), and other services £0.4m (2019: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.1m (2019: £0.2m) for the audit of the main Group pension scheme.

#### Employment costs, including Directors' remuneration

	Notes	53 weeks 2020 £m	52 weeks 2019 £m
Continuing operations			
Wages and salaries		6,266	6,447
Social security costs		497	520
Post-employment defined benefits <sup>(a)</sup>	29	45	78
Post-employment defined contributions	29	343	332
Share-based payments expense	28	129	118
Termination benefits <sup>(b)</sup>		116	151
<b>Total</b>		<b>7,396</b>	<b>7,646</b>

<sup>(a)</sup> Includes £nil (2019: £43m) past service cost related to guaranteed minimum pensions (GMPs). This is treated as an exceptional item. Refer to Note 4 and Note 29.

<sup>(b)</sup> Includes £110m (2019: £145m) of redundancy costs included within exceptional items. Refer to Note 4.

Post-employment defined contribution charges include £116m (2019: £110m) of salaries paid as pension contributions.

The table below shows the average number of employees by operating segment during the financial year.

	Average number of employees		Average number of full-time equivalents	
	2020	2019	2020	2019
Continuing operations				
UK & ROI	319,303	344,117	210,768	223,542
Central Europe	44,199	54,301	40,864	50,068
Asia	56,003	62,403	39,026	44,473
Tesco Bank	3,587	3,684	3,305	3,407
<b>Total</b>	<b>423,092</b>	<b>464,505</b>	<b>293,963</b>	<b>321,490</b>

# Notes to the Group financial statements continued

## Note 4 Exceptional items and amortisation of acquired intangibles

### Group income statement

53 weeks ended 29 February 2020

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 venture and associates profits/(losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
<b>Exceptional items:</b>							
Net restructuring and redundancy costs <sup>(a)</sup>	(138)	(13)	(151)	–	–	21	–
Property transactions <sup>(b)</sup>	55	–	55	–	–	15	–
Booker integration costs <sup>(c)</sup>	(18)	(5)	(23)	–	–	4	–
Derivative restructuring <sup>(d)</sup>	–	–	–	–	(180)	34	–
Acquisition of property joint venture <sup>(e)</sup>	(136)	–	(136)	–	–	(23)	–
Net impairment loss of non-current assets <sup>(f)</sup>	(19)	4	(15)	–	–	17	–
Impairment of investment in India joint venture <sup>(g)</sup>	–	(47)	(47)	–	–	–	–
Disposal of China associate <sup>(h)</sup>	–	37	37	–	–	(30)	–
China land penalties <sup>(i)</sup>	–	–	–	(12)	–	–	–
China tax liability release <sup>(j)</sup>	–	–	–	–	–	–	38
Other corporate activity costs <sup>(k)</sup>	–	(22)	(22)	–	–	–	–
Tesco Bank mortgage disposal <sup>(l)</sup>	(8)	3	(5)	–	29	(14)	–
Tesco Bank current accounts <sup>(m)</sup>	–	(56)	(56)	–	–	14	–
Provision for customer redress <sup>(n)</sup>	(45)	–	(45)	–	–	–	–
Ogden rate change <sup>(o)</sup>	–	–	–	4	–	–	–
<b>Total exceptional items</b>	<b>(309)</b>	<b>(99)</b>	<b>(408)</b>	<b>(8)</b>	<b>(151)</b>	<b>38</b>	<b>38</b>
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets (Note 10)	–	(79)	(79)	–	–	15	–
<b>Total exceptional items and amortisation of acquired intangibles</b>	<b>(309)</b>	<b>(178)</b>	<b>(487)</b>	<b>(8)</b>	<b>(151)</b>	<b>53</b>	<b>38</b>

<sup>(a)</sup> This charge relates to simplification of our operating model in Tesco Bank £(13)m, Central Europe £(43)m, and the UK & ROI £(95)m.

<sup>(b)</sup> As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit in Central Europe £26m and the UK & ROI £29m.

<sup>(c)</sup> Costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

<sup>(d)</sup> 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 year. This resulted in the remeasurement of the fair value of these derivatives, giving rise to a non-cash exceptional charge of £(180)m.

<sup>(e)</sup> The Group obtained control of the Tesco Atrato Limited partnership, previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest in the partnership for a net cash consideration of £36m. 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. Refer to Note 33 for further details.

<sup>(f)</sup> Net impairment loss relating to the Group's non-current assets. Refer to Note 15 for further details.

<sup>(g)</sup> 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 year.

<sup>(h)</sup> Gain from completing the sale of the Group's 20% share of Gain Land to China Resources Holdings. Refer to Note 33 for further details.

<sup>(i)</sup> The Group's China associate recognised certain penalties in the year relating to delays in property development. This charge represents the Group's 20% share of these penalties.

<sup>(j)</sup> During the current financial year, the Group reached a settlement with the Chinese tax authority relating to a withholding tax liability arising on the formation of the Gain Land associate with China Resources Holdings in 2014. As a result of the settlement, the Group has released the remaining withholding tax liability of £38m – this has been classified within discontinued operations, consistent with the classification of the original liability in 2014.

<sup>(k)</sup> Includes costs incurred relating to the announced sale of the Group's operations in Asia and other corporate activity during the current financial year.

<sup>(l)</sup> The Group completed the majority of the transfer of the beneficial ownership of Tesco Bank's mortgage portfolio to Lloyds Banking Group, of which £30m is related to the gain on the disposal, this is offset by the Group disposing of a proportion of Tesco Bank's goodwill amounting to £(27)m. The Group also incurred £(8)m related to accelerated amortisation and generated a £29m fair value remeasurement gain.

<sup>(m)</sup> Following the decision to close the Bank's current accounts to new customers, accelerated depreciation was charged on related intangible and fixed assets, resulting in an additional charge of £(56)m.

<sup>(n)</sup> 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.

<sup>(o)</sup> 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.

## Notes to the Group financial statements continued

### Note 4 Exceptional items and amortisation of acquired intangibles continued

52 weeks ended 23 February 2019

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/(losses) £m	Taxation £m	Exceptional items included with discontinued operations £m
<b>Exceptional items (restated):</b>						
Tesco Direct closure costs	(38)	–	(38)	–	7	–
Net restructuring and redundancy costs	(159)	(23)	(182)	–	30	–
Provision for customer redress	(16)	–	(16)	–	–	–
Release of amounts provided in relation to FCA obligations	–	17	17	–	–	–
Insurance recovery of amounts in relation to FCA obligations	–	20	20	–	–	–
Property transactions*	87	17	104	11	7	–
Tesco Bank FCA charge	–	(16)	(16)	–	–	–
Booker integration costs	(8)	(7)	(15)	–	3	–
Freetime VAT provision release	176	–	176	–	(33)	–
Lazada contingent proceeds	–	7	7	–	–	–
GMP equalisation	(37)	(6)	(43)	–	7	–
Net impairment reversal of non-current assets and onerous property provisions*	105	1	106	–	14	–
<b>Total exceptional items</b>	<b>110</b>	<b>10</b>	<b>120</b>	<b>11</b>	<b>35</b>	<b>–</b>
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 10)	–	(78)	(78)	–	15	–
<b>Total exceptional items and amortisation of acquired intangibles</b>	<b>110</b>	<b>(68)</b>	<b>42</b>	<b>11</b>	<b>50</b>	<b>–</b>

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

#### Group 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	
	53 weeks 2020 £m	52 weeks 2019 (restated) £m	53 weeks 2020 £m	52 weeks 2019 £m
Payments relating to Tesco Direct closure	–	(38)	–	–
Prior year restructuring and redundancy costs	(133)	(60)	–	–
Current year restructuring and redundancy costs	(69)	(30)	–	–
Onerous contract provisions	–	(1)	–	–
Property transactions <sup>(a)</sup>	–	–	266	263
Settlement of claims for customer redress in Tesco Bank	(38)	(49)	–	–
DPA/shareholder compensation scheme payments	–	(43)	–	–
Freetime VAT refund <sup>(b)</sup>	–	12	–	–
Tesco Bank FCA settlement payment	–	(16)	–	–
Insurance recovery of amounts in relation to FCA obligations	–	16	–	–
Booker integration cash payments	(23)	(12)	–	–
Proceeds from sale of Tesco Bank's mortgage book	–	–	3,696	–
Proceeds from sale of Lazada	–	–	–	7
Acquisition of property joint venture (Note 33)	–	–	(36)	–
Proceeds from disposal of China associate (Note 33)	–	–	277	–
Corporate activity costs	(10)	–	–	–
<b>Total</b>	<b>(273)</b>	<b>(221)</b>	<b>4,203</b>	<b>270</b>

<sup>(a)</sup> These relate to proceeds from disposal of properties primarily in UK & ROI and Central Europe.

<sup>(b)</sup> VAT recovered in relation to the appeal against HMRC regarding the treatment of VAT on Clubcard rewards.

## Notes to the Group financial statements continued

### Note 5 Finance income and costs

		53 weeks 2020	52 weeks 2019 (restated)
	Notes	£m	£m
Continuing operations			
<b>Finance income</b>			
Interest receivable and similar income		19	22
Finance income receivable on net investment in leases		4	3
<b>Total finance income</b>		<b>23</b>	<b>25</b>
<b>Finance costs</b>			
GBP MTNs and Loans		(142)	(144)
EUR MTNs		(59)	(77)
USD Bonds		(11)	(17)
Finance charges payable on lease liabilities		(541)	(561)
Other interest payable		(25)	(49)
Capitalised interest	11	–	1
Fair value remeasurements of financial instruments*		(244)	(153)
<b>Total finance costs before exceptional items and net pension finance costs</b>		<b>(1,022)</b>	<b>(1,000)</b>
Net pension finance costs	29	(71)	(89)
<b>Total finance costs before exceptional items</b>		<b>(1,093)</b>	<b>(1,089)</b>
Fair value remeasurement loss on derivative restructuring	4	(180)	–
Fair value remeasurement gain on Tesco Bank mortgage book disposal	4	29	–
<b>Total finance costs</b>		<b>(1,244)</b>	<b>(1,089)</b>
<b>Net finance costs</b>		<b>(1,221)</b>	<b>(1,064)</b>

\* Fair value remeasurements of financial instruments included £(65)m (2019: £(121)m) relating to the premium paid on the repurchase of long-dated bonds.

### Note 6 Taxation

#### Recognised in the Group income statement

		53 weeks 2020	52 weeks 2019 (restated)
		£m	£m
Continuing operations			
<b>Current tax (credit)/charge</b>			
UK corporation tax		254	221
Overseas tax		154	131
Adjustments in respect of prior years		(41)	(8)
		<b>367</b>	<b>344</b>
<b>Deferred tax (credit)/charge</b>			
Origination and reversal of temporary differences		30	3
Adjustments in respect of prior years		(17)	–
		<b>13</b>	<b>3</b>
<b>Total income tax (credit)/charge</b>		<b>380</b>	<b>347</b>

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these consolidated financial statements. Temporary differences have been measured using these enacted tax rates. Legislation has been substantively enacted after the current financial year balance sheet date to repeal the reduction of the main corporation tax rate thereby maintaining the current rate of corporation tax at 19%. The Group expects to recognise a charge of £30m in the Group income statement for the rate change impact from remeasuring opening temporary differences to be reported in the financial year ending 27 February 2021.



## Notes to the Group financial statements continued

### Note 6 Taxation continued

#### Reconciliation of effective tax charge

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
<b>Profit/(loss) before tax</b>	<b>1,315</b>	<b>1,617</b>
Tax credit/(charge) at 19.0% (2019: 19.0%)	(250)	(307)
Effect of:		
Non-qualifying depreciation	(34)	(35)
Expenses not deductible <sup>(a)</sup>	(58)	(26)
Unrecognised tax losses	(35)	(10)
Property items taxed on a different basis to accounting entries <sup>(b)</sup>	(3)	21
Impairment of non-current assets	(36)	20
Banking surcharge tax	(11)	(18)
Differences in overseas taxation rates	4	13
Adjustments in respect of prior years <sup>(c)</sup>	58	1
Share of losses of joint ventures and associates	3	7
Irrecoverable withholding taxes	(18)	(13)
<b>Total income tax credit/(charge)</b>	<b>(380)</b>	<b>(347)</b>
<b>Effective tax rate</b>	<b>28.9%</b>	<b>21.5%</b>

<sup>(a)</sup> This includes current year movements on uncertain tax positions. Prior year includes the release of amounts provided for in relation to DPA and FCA obligations.

<sup>(b)</sup> This includes property items where the carrying values differ from their valuation for tax purposes and recognition of capital losses on property asset disposals.

<sup>(c)</sup> This includes adjustments to prior years uncertain tax positions

#### Reconciliation of effective tax charge on profit before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
<b>Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles</b>	<b>1,961</b>	<b>1,564</b>
Tax credit/(charge) at 19.0% (2019: 19.0%)	(373)	(297)
Effect of:		
Non-qualifying depreciation	(34)	(35)
Expenses not deductible <sup>(a)</sup>	(40)	(24)
Unrecognised tax losses	(13)	(9)
Banking surcharge tax	(17)	(19)
Differences in overseas taxation rates	4	3
Adjustments in respect of prior years <sup>(b)</sup>	53	(8)
Share of losses of joint ventures and associates	5	5
Irrecoverable withholding taxes	(18)	(13)
<b>Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles</b>	<b>(433)</b>	<b>(397)</b>
<b>Effective tax rate before exceptional items and amortisation of acquired intangibles</b>	<b>22.1%</b>	<b>25.4%</b>
Tax charge on net pension finance costs and fair value remeasurements of financial instruments at 19.0% on £315m (2019: 19.0% on £242m)	(60)	(46)
Change in tax rate	2	2
<b>Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments</b>	<b>(491)</b>	<b>(441)</b>
<b>Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments<sup>(c)</sup></b>	<b>21.6%</b>	<b>24.4%</b>

<sup>(a)</sup> This includes current year movements on uncertain tax positions and expenses not qualifying for tax relief.

<sup>(b)</sup> This includes adjustments to prior years uncertain tax positions.

<sup>(c)</sup> Refer to page 121 for a reconciliation from Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52 week alternative performance measures.

## Notes to the Group financial statements continued

### Note 6 Taxation continued

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

	53 weeks 2020 £m	52 weeks 2019 £m
Current tax credit/(charge) on:		
Share-based payments	1	2
Deferred tax credit/(charge) on:		
Share-based payments	(3)	3
<b>Total tax on items credited/(charged) to the Group statement of changes in equity</b>	<b>(2)</b>	<b>5</b>

#### Tax relating to components of the Group statement of comprehensive income/(loss)

	53 weeks 2020 £m	52 weeks 2019 £m
Current tax credit/(charge) on:		
Foreign exchange movements	1	3
Deferred tax credit/(charge) on:		
Pensions	71	(61)
Fair value of movement on financial assets at fair value through other comprehensive income	(1)	2
Fair value movements on cash flow hedges	(9)	-
<b>Total tax on items credited/(charged) to Group statement of comprehensive income/(loss)</b>	<b>62</b>	<b>(56)</b>

#### Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years.

	Property- related items <sup>(a)</sup> £m	Acquired intangibles £m	Retirement benefit obligation <sup>(b)</sup> £m	Share- based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Total £m
<b>At 25 February 2018 (restated)</b>	<b>(414)</b>	<b>-</b>	<b>554</b>	<b>43</b>	<b>143</b>	<b>1</b>	<b>(8)</b>	<b>319</b>
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	59	59
(Charge)/credit to the Group income statement	53	15	(23)	-	(28)	2	(22)	(3)
(Charge)/credit to the Group statement of changes in equity	-	-	-	3	-	-	-	3
(Charge)/credit to the Group statement of comprehensive income/(loss)	-	-	(61)	-	-	-	2	(59)
Disposals	4	-	-	-	-	-	-	4
Business combinations	(7)	(129)	-	4	3	3	-	(126)
Foreign exchange and other movements <sup>(c)</sup>	-	-	-	1	3	-	1	5
<b>At 23 February 2019 (restated)</b>	<b>(364)</b>	<b>(114)</b>	<b>470</b>	<b>51</b>	<b>121</b>	<b>6</b>	<b>32</b>	<b>202</b>
(Charge)/credit to the Group income statement	37	14	(31)	2	(28)	(2)	(5)	(13)
(Charge)/credit to the Group statement of changes in equity	-	-	-	(3)	-	-	-	(3)
(Charge)/credit to the Group statement of comprehensive income/(loss)	-	-	71	-	-	-	(10)	61
Disposals	1	-	-	-	-	-	-	1
Foreign exchange and other movements <sup>(c)</sup>	1	-	2	1	-	-	-	4
<b>At 29 February 2020<sup>(d)</sup></b>	<b>(325)</b>	<b>(100)</b>	<b>512</b>	<b>51</b>	<b>93</b>	<b>4</b>	<b>17</b>	<b>252</b>

<sup>(a)</sup> Property-related items include a deferred tax liability on rolled-over gains of £291m (2019: £287m), deferred tax assets on capital losses of £166m (2019: £140m) and deferred tax assets on IFRS 16 transitional adjustments of £276m (2019: £306m). The remaining balance relates to accelerated tax depreciation. The Group does not expect a material reversal in the next financial year.

<sup>(b)</sup> The deferred tax asset on retirement benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 29.

<sup>(c)</sup> The deferred tax charge for foreign exchange and other movements is a £4m credit (2019: £5m credit) relating to the re-translation of deferred tax balances at the balance sheet date and is included within the Group statement of comprehensive income/(loss) under the heading 'Currency translation differences'.

<sup>(d)</sup> Remeasurement of temporary differences for the UK corporation tax rate change substantively enacted post the balance sheet date will increase the opening deferred tax asset in the financial year ended 27 February 2021 by £23m.

## Notes to the Group financial statements continued

### Note 6 Taxation continued

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances after offset:

	2020	2019 (restated)
	£m	£m
Deferred tax assets	292	251
Deferred tax liabilities	(40)	(49)
	<b>252</b>	<b>202</b>

No deferred tax liability is recognised on temporary differences of £6.8bn (2019 revised: £6.0bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 29 February 2020 is estimated to be £237m (2019: £237m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

#### Unrecognised deferred tax assets

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

	2020	2019
	£m	£m
Deductible temporary differences	78	90
Tax losses	226	199
	<b>304</b>	<b>289</b>

As at 29 February 2020, the Group has unused trading tax losses from continuing operations of £1,016m (2019: £894m) available for offset against future profits. A deferred tax asset has been recognised in respect of £25m (2019: £35m) of such losses. No deferred tax asset has been recognised in respect of the remaining £991m (2019: £859m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £219m that will expire by 2024 (2019: £69m in 2023) and £142m that will expire between 2025 and 2040 (2019: £139m between 2024 and 2039). Other losses will be carried forward indefinitely.

#### Changes in tax law or its interpretation

The Group operates in a number of territories which leads to the Group's profits being subject to tax in many jurisdictions. The Group monitors income tax developments in these territories (which include the OECD Base Erosion and Profit Shifting (BEPS) initiative and European Union's state aid investigations) which could affect the Group's tax liabilities.

### Note 7 Discontinued operations and assets classified as held for sale

#### Assets classified as held for sale

	2020	2019
	£m	£m
Assets classified as held for sale	285	98

The assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year and the remaining assets of Tesco Bank's mortgage operations of £45m (2019: £nil). Refer to Note 1 Critical accounting judgements for further details on the mortgage book disposal.

#### Discontinued operations

During the current financial year, the Group reached a settlement with the Chinese tax authority relating to a withholding tax liability arising on the formation of the Gain Land associate with China Resources Holdings in 2014. As a result of the settlement, the Group has released the remaining withholding tax liability of £38m – this has been classified within discontinued operations, consistent with the classification of the original withholding tax liability in 2014. Refer to Note 4 for further details.

### Note 8 Dividends

	2020		2019	
	Pence/share	£m	Pence/share	£m
<b>Amounts recognised as distributions to owners in the financial year:</b>				
Prior financial year final dividend <sup>(a)</sup>	4.10	399	2.00	195
Paid interim dividend <sup>(b)</sup>	2.65	257	1.67	162
<b>Dividends paid to equity owners in the financial year</b>	<b>6.75</b>	<b>656</b>	<b>3.67</b>	<b>357</b>
<b>Proposed final dividend at financial year end</b>	<b>6.50</b>	<b>637</b>	<b>4.10</b>	<b>402</b>

<sup>(a)</sup> Excludes £3m prior financial year final dividend waived (2019: £nil).

<sup>(b)</sup> Excludes £3m interim dividend waived (2019: £2m).

The proposed final dividend was approved by the Board of Directors on 7 April 2020 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 29 February 2020, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 3 July 2020 to shareholders who are on the Register of members at close of business on 22 May 2020.

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 12 June 2020.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles. £nil (2019: £nil) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 30 for further details.

## Notes to the Group financial statements continued

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

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

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

For the 53 weeks ended 29 February 2020 there were 67 million (2019: 72 million) potentially dilutive share options. As the Group has recognised a profit for the year from its continuing operations, dilutive effects have been considered in calculating diluted earnings per share.

	2020			2019 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
<b>Profit/(loss) (£m)</b>						
Continuing operations*	933	–	933	1,272	–	1,272
Discontinued operations	38	–	38	–	–	–
<b>Total</b>	<b>971</b>	<b>–</b>	<b>971</b>	<b>1,272</b>	<b>–</b>	<b>1,272</b>
<b>Weighted average number of shares (millions)</b>	<b>9,716</b>	<b>67</b>	<b>9,783</b>	<b>9,686</b>	<b>72</b>	<b>9,758</b>
<b>Earnings/(losses) per share (pence)</b>						
Continuing operations	9.60	(0.06)	9.54	13.13	(0.09)	13.04
Discontinued operations	0.39	–	0.39	–	–	–
<b>Total</b>	<b>9.99</b>	<b>(0.06)</b>	<b>9.93</b>	<b>13.13</b>	<b>(0.09)</b>	<b>13.04</b>

\* Excludes profits/(losses) from non-controlling interests of £2m (2019: £(2)m).

### Diluted earnings/(losses) per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments

	Notes	53 weeks 2020	52 weeks 2019 (restated)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,961	1,564
Add: Net pension finance costs (£m)	5	71	89
Add/(less): Fair value remeasurements of financial instruments (£m)	5	244	153
<b>Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (£m)<sup>(a)</sup></b>		<b>2,276</b>	<b>1,806</b>
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) <sup>(b)</sup>		2,273	1,806
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) <sup>(c)</sup>		(490)	(439)
<b>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)</b>		<b>1,783</b>	<b>1,367</b>
Basic weighted average number of shares (millions)		9,716	9,686
<b>Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)</b>		<b>18.35</b>	<b>14.11</b>
Diluted weighted average number of shares (millions)		9,783	9,758
<b>Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)<sup>(a)</sup></b>		<b>18.23</b>	<b>14.01</b>

<sup>(a)</sup> Refer to page 121 for a reconciliation from Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments and Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52 week alternative performance measures.

<sup>(b)</sup> Excludes profit before tax attributable to non-controlling interests of £3m (2019: £nil).

<sup>(c)</sup> Excludes tax charges on profits attributable to non-controlling interests of £(1)m (2019: £(2)m).

## Notes to the Group financial statements continued

### Note 10 Goodwill and other intangible assets

	Goodwill £m	Software <sup>(a)</sup> £m	Customer relationships £m	Intangible assets £m	Total £m
<b>Cost</b>					
<b>At 23 February 2019</b>	<b>5,550</b>	<b>1,840</b>	<b>715</b>	<b>447</b>	<b>8,552</b>
Foreign currency translation	(5)	(2)	–	(1)	(8)
Additions	–	188	–	19	207
Reclassification	–	40	–	(5)	35
Disposals <sup>(b)</sup>	(27)	(198)	–	(2)	(227)
<b>At 29 February 2020</b>	<b>5,518</b>	<b>1,868</b>	<b>715</b>	<b>458</b>	<b>8,559</b>
<b>Accumulated amortisation and impairment losses</b>					
<b>At 23 February 2019</b>	<b>641</b>	<b>1,254</b>	<b>72</b>	<b>321</b>	<b>2,288</b>
Foreign currency translation	(4)	(1)	–	–	(5)
Charge for the year <sup>(c)</sup>	–	281	76	10	367
Impairment losses <sup>(d)</sup>	–	15	–	12	27
Reversal of impairment losses <sup>(d)</sup>	–	(31)	–	(7)	(38)
Reclassification	–	2	–	(3)	(1)
Disposals	–	(196)	–	(2)	(198)
<b>At 29 February 2020</b>	<b>637</b>	<b>1,324</b>	<b>148</b>	<b>331</b>	<b>2,440</b>
<b>Net carrying value</b>					
<b>At 29 February 2020</b>	<b>4,881</b>	<b>544</b>	<b>567</b>	<b>127</b>	<b>6,119</b>
At 23 February 2019	4,909	586	643	126	6,264

<sup>(a)</sup> Software includes £341m (2019: £297m) of internally generated development costs.

<sup>(b)</sup> The disposal of goodwill relates to the sale of Tesco Bank's mortgage book.

<sup>(c)</sup> Of the £86m (2019: £85m) amortisation of customer relationships and other intangible assets, £79m (2019: £78m) has been included within exceptional items and amortisation of intangible assets. £76m (2019: £74m) of this balance arises from amortisation of intangible assets recognised upon the Booker acquisition. Refer to Note 4 for further details.

<sup>(d)</sup> Refer to Note 15.

	Goodwill £m	Software <sup>(a)</sup> £m	Customer relationships £m	Intangible assets £m	Total £m
<b>Cost</b>					
<b>At 24 February 2018</b>	<b>2,458</b>	<b>3,166</b>	<b>–</b>	<b>392</b>	<b>6,016</b>
Foreign currency translation	(6)	1	–	(1)	(6)
Additions	–	167	–	24	191
Acquired through business combinations	3,098	–	715	48	3,861
Reclassification	–	(140)	–	2	(138)
Disposals	–	(308)	–	(15)	(323)
Fully amortised assets	–	(1,046)	–	(3)	(1,049)
<b>At 23 February 2019</b>	<b>5,550</b>	<b>1,840</b>	<b>715</b>	<b>447</b>	<b>8,552</b>
<b>Accumulated amortisation and impairment losses</b>					
At 24 February 2018	662	2,378	–	315	3,355
Foreign currency translation	(21)	–	–	(2)	(23)
Charge for the year <sup>(c)</sup>	–	210	72	13	295
Impairment losses <sup>(d)</sup>	–	15	–	27	42
Reversal of impairment losses <sup>(d)</sup>	–	(2)	–	(24)	(26)
Disposals	–	(301)	–	(5)	(306)
Fully amortised assets	–	(1,046)	–	(3)	(1,049)
<b>At 23 February 2019</b>	<b>641</b>	<b>1,254</b>	<b>72</b>	<b>321</b>	<b>2,288</b>

<sup>(a)</sup>–<sup>(d)</sup> Refer to previous table for footnotes.

# Notes to the Group financial statements continued

## Note 11 Property, plant and equipment

	Land and buildings £m	Other <sup>(a)</sup> £m	Total £m
<b>Cost</b>			
<b>At 23 February 2019 (restated)</b>	<b>24,484</b>	<b>6,993</b>	<b>31,477</b>
Foreign currency translation	(69)	(15)	(84)
Additions <sup>(b)(c)</sup>	1,285	621	1,906
Reclassification	(24)	(28)	(52)
Classified as held for sale	(589)	(36)	(625)
Disposals	(219)	(610)	(829)
<b>At 29 February 2020</b>	<b>24,868</b>	<b>6,925</b>	<b>31,793</b>
<b>Accumulated depreciation and impairment losses</b>			
<b>At 23 February 2019 (restated)</b>	<b>7,523</b>	<b>4,768</b>	<b>12,291</b>
Foreign currency translation	(23)	(11)	(34)
Charge for the year	525	613	1,138
Impairment losses <sup>(d)</sup>	611	111	722
Reversal of impairment losses <sup>(d)</sup>	(391)	(104)	(495)
Reclassification	41	(23)	18
Classified as held for sale	(298)	(34)	(332)
Disposals	(147)	(602)	(749)
<b>At 29 February 2020</b>	<b>7,841</b>	<b>4,718</b>	<b>12,559</b>
<b>Net carrying value<sup>(e)</sup></b>			
<b>At 29 February 2020</b>	<b>17,027</b>	<b>2,207</b>	<b>19,234</b>
At 23 February 2019 (restated)	16,961	2,225	19,186
<b>Construction in progress included above<sup>(f)</sup></b>			
<b>At 29 February 2020</b>	<b>88</b>	<b>114</b>	<b>202</b>
At 23 February 2019	37	109	146

<sup>(a)</sup> Other assets consist of fixtures and fittings with a net carrying value of £1,712m (2019: £1,720m), office equipment with a net carrying value of £245m (2019: £304m) and motor vehicles with a net carrying value of £250m (2019: £201m).

<sup>(b)</sup> Includes £nil (2019: £1m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.3% (2019: 4.5%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

<sup>(c)</sup> Includes £914m of land and buildings related to obtaining control of the Tesco Atrato Limited partnership, which was impaired by £(287)m on acquisition. Refer to the breakdown of assets and liabilities acquired within Note 33.

<sup>(d)</sup> Refer to Note 15.

<sup>(e)</sup> Includes £1,406m (2019: £803m) of assets pledged as security for secured bonds and £478m (2019: £489m) of property held as security in favour of the Tesco PLC Pension Scheme. Refer to Notes 23 and 29.

<sup>(f)</sup> Construction in progress does not include land.

	Land and buildings £m	Other <sup>(a)</sup> £m	Total £m
<b>Cost (restated)</b>			
<b>At 25 February 2018</b>	<b>23,018</b>	<b>10,852</b>	<b>33,870</b>
Foreign currency translation	24	36	60
Additions <sup>(b)</sup>	514	533	1,047
Acquired through business combinations	258	68	326
Reclassification	926	(796)	130
Classified as held for sale	(48)	5	(43)
Disposals	(73)	(450)	(523)
Fully depreciated assets*	(135)	(3,255)	(3,390)
<b>At 23 February 2019</b>	<b>24,484</b>	<b>6,993</b>	<b>31,477</b>
<b>Accumulated depreciation and impairment losses (restated)</b>			
<b>At 25 February 2018</b>	<b>6,559</b>	<b>8,599</b>	<b>15,158</b>
Foreign currency translation	(6)	18	12
Charge for the year	542	597	1,139
Impairment losses <sup>(d)</sup>	421	167	588
Reversal of impairment losses <sup>(d)</sup>	(568)	(141)	(709)
Reclassification	790	(796)	(6)
Classified as held for sale	(20)	5	(15)
Disposals	(60)	(426)	(486)
Fully depreciated assets*	(135)	(3,255)	(3,390)
<b>At 23 February 2019</b>	<b>7,523</b>	<b>4,768</b>	<b>12,291</b>
<b>Net carrying value</b>	<b>16,961</b>	<b>2,225</b>	<b>19,186</b>

<sup>(a)-(d)</sup> Refer to previous table for footnotes.

\* During the prior financial year, the Group performed a comprehensive review of all fully-depreciated assets held in the Group's fixed asset registers, and removed £3,390m of cost and accumulated depreciation and impairment losses relating to those fully-depreciated assets which are no longer in use by the Group.

## Notes to the Group financial statements continued

### Note 12 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 sold and leased back properties to and from these joint ventures 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 is repaid. The lease liability in respect of these leases assumes that the lease break option is not exercised.

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, at which point the associated property leases from the joint venture became intercompany leases and are eliminated on consolidation. Refer to Note 33 for further details.

#### Right of use assets

	Land and buildings £m	Other £m	Total £m
<b>Net carrying value at 23 February 2019</b>	<b>7,561</b>	<b>152</b>	<b>7,713</b>
Additions	146	58	204
Depreciation charged	(584)	(67)	(651)
Impairment losses <sup>(a)</sup>	(267)	–	(267)
Reversal of impairment losses <sup>(a)</sup>	182	–	182
Derecognition on acquisition of property joint venture (Note 33)	(335)	–	(335)
Other <sup>(b)</sup>	31	(3)	28
<b>Net carrying value at 29 February 2020</b>	<b>6,734</b>	<b>140</b>	<b>6,874</b>

  

	Land and buildings £m	Other £m	Total £m
<b>Net carrying value at 25 February 2018</b>	<b>7,362</b>	<b>165</b>	<b>7,527</b>
Additions (including acquisitions through business combinations)	619	44	663
Depreciation charged	(556)	(59)	(615)
Impairment losses <sup>(a)</sup>	(195)	–	(195)
Reversal of impairment losses <sup>(a)</sup>	203	–	203
Other <sup>(b)</sup>	128	2	130
<b>Net carrying value at 23 February 2019</b>	<b>7,561</b>	<b>152</b>	<b>7,713</b>

\* Refer to Note 15.

\* Other movements include lease terminations, modifications and reassessments, foreign exchange, reclassifications to assets held for sale and entering into finance subleases.

#### 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:

	2020 £m	2019 (restated) £m
Current	598	646
Non-current	8,968	9,859
<b>Total lease liabilities</b>	<b>9,566</b>	<b>10,505</b>

  

	2020 £m	2019 (restated) £m
Maturity analysis – contractual undiscounted lease payments		
Within one year	1,081	1,202
Greater than one year but less than five years	3,958	4,218
Greater than five years but less than ten years	4,178	4,539
Greater than ten years but less than fifteen years	2,810	3,267
After fifteen years	2,596	3,209
<b>Total undiscounted lease payments</b>	<b>14,623</b>	<b>16,435</b>

A reconciliation of the Group's opening to closing lease liabilities balance is presented in Note 32.

#### Amounts recognised in the Group income statement

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
Interest on lease liabilities	541	561
Variable payment expenses not included in lease liabilities	6	9
Expenses relating to short-term leases	19	16
Expenses relating to leases of low value assets (excluding amounts already included in short-term leases above)	1	2



## Notes to the Group financial statements continued

### Note 12 Leases continued

#### Amounts recognised in the Group cash flow statement

	53 weeks 2020	52 weeks 2019 (restated)
	£m	£m
Total cash outflow for leases*	1,175	1,167

\* Includes £5m (2019: £4m) related to Tesco Bank.

#### Future possible cash outflows not included in the lease liability

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term and hence not included in lease liabilities total £11.8bn (2019: £12.0bn).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 72% (2019: 73%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 12% (2019: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or 5-yearly basis.

The Group is committed to payments totalling £93m (2019: £42m) in relation to leases that have been signed but have not yet commenced.

#### Sale and leaseback

In October 2019, the Group completed a sale and leaseback transaction in respect of a store and mall in Poland. Cash proceeds of £24m were received and a gain of £11m was recognised. The store and mall are being leased back over a 3 year lease term at market rentals.

#### Group as lessor

The Group leases out owned properties and sublets leased properties under operating and finance leases. Such properties include malls, mall units, stores, units within stores, distribution centres and residential properties.

#### Amounts recognised in the Group income statement

	53 weeks 2020	52 weeks 2019 (restated)
	£m	£m
Finance lease – interest income <sup>(a)</sup>	4	3
Operating lease – rental income <sup>(b)</sup>	341	328

<sup>(a)</sup> Includes £4m (2019: £3m) of sublease interest income.

<sup>(b)</sup> Includes £74m (2019: £70m) of sublease rental income.

#### Finance lease payments receivable

The finance lease receivable (net investment in the lease) included in the Group balance sheet is £48m (2019: £54m).

#### Operating lease payments receivable maturity analysis

	2020	2019 (restated)
	£m	£m
Within one year	220	223
Greater than one year but less than two years	128	138
Greater than two years but less than three years	71	75
Greater than three years but less than four years	38	40
Greater than four years but less than five years	27	28
Greater than five years but less than ten years	83	77
Greater than ten years but less than fifteen years	44	40
After fifteen years	82	84
<b>Total undiscounted operating lease payments receivable</b>	<b>693</b>	<b>705</b>

### Note 13 Investment property

	2020 £m	2019 £m
<b>Cost</b>		
<b>At the beginning of the year</b>	<b>118</b>	<b>208</b>
Foreign currency translation	(1)	(3)
Reclassification	(11)	(1)
Disposals	(6)	(86)
<b>At the end of the year</b>	<b>100</b>	<b>118</b>
<b>Accumulated depreciation and impairment losses</b>		
<b>At the beginning of the year</b>	<b>82</b>	<b>108</b>
Foreign currency translation	(1)	(2)
Charge for the year	1	1
Impairment losses for the year*	5	1
Reversal of impairment losses for the year*	(4)	(2)
Reclassification	(4)	(2)
Disposals	(5)	(22)
<b>At the end of the year</b>	<b>74</b>	<b>82</b>
<b>Net carrying value at the end of the year</b>	<b>26</b>	<b>36</b>
Rental income earned from investment properties under operating leases	11	18
Direct operating expenses incurred on rental-earning investment properties	(3)	(19)

\* Refer to Note 15.

The estimated fair value of the Group's investment property is £0.2bn (2019: £0.2bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

## Notes to the Group financial statements continued

### Note 14 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 107 to 113 for a complete list of Group entities.

#### Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 29 February 2020.

#### Consolidated structured entities

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

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 29 February 2020 within these financial statements.

#### Unconsolidated structured entities

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

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

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

#### Interests in joint ventures and associates

##### Principal joint ventures and associates

The Group's principal joint ventures and associates are:

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

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2019 to 29 February 2020. The accounting period end dates of joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

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

Prior to the Group's sale of its 20% share in Gain Land Limited (Gain Land), management applied judgement in determining that Gain Land was an associate of the Group. The Group had significant influence by virtue of holding 20% equity interest which presumed significant influence per IAS 28, together with having a contractual right to appoint two out of 10 Directors, while taking into account that the remaining 80% interest was held by one other party.

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

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

## Notes to the Group financial statements continued

### Note 14 Group entities continued

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

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

### Summarised financial information for joint ventures and associates

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

	UK property joint ventures		Gain Land Limited	
	2020	2019	2020	2019 (restated)
	£m	£m	£m	£m
<b>Summarised balance sheet</b>				
Non-current assets <sup>(a)</sup>	3,242	3,786	–	6,360
Current assets (excluding cash and cash equivalents)	101	98	–	2,238
Cash and cash equivalents	28	40	–	649
Current liabilities <sup>(b)</sup>	(487)	(359)	–	(6,102)
Non-current liabilities <sup>(b)</sup>	(3,621)	(4,529)	–	(3,313)
<b>Net assets/(liabilities)</b>	<b>(737)</b>	<b>(964)</b>	<b>–</b>	<b>(168)</b>
<b>Summarised income statement</b>				
Revenue	258	289	8,551	9,038
<b>Profit/(loss) after tax</b>	<b>–</b>	<b>–</b>	<b>(95)</b>	<b>(64)</b>
<b>Reconciliation to carrying amounts:</b>				
<b>Opening balance</b>	<b>–</b>	<b>–</b>	<b>263</b>	<b>274</b>
Foreign currency translation	–	–	(4)	2
Share of profits/(losses) <sup>(c)</sup>	12	15	(19)	(13)
Dividends received from joint ventures and associates	(12)	(15)	–	–
Additions/(disposals) <sup>(d)</sup>	–	–	(240)	–
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>263</b>
Group's share in ownership	50%	50%	–	20%
Group's share of net assets/(liabilities)	(369)	(482)	–	(34)
Goodwill	–	–	–	297
Deferred property profits offset against carrying amounts	(61)	(61)	–	–
Cumulative unrecognised losses <sup>(c)</sup>	205	183	–	–
Cumulative unrecognised hedge reserves <sup>(c)</sup>	225	360	–	–
<b>Carrying amount</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>263</b>

<sup>(a)</sup> The non-current asset balances of UK property joint ventures are reflected at historical depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the UK property joint ventures are £4,338m (2019: £5,053m).

<sup>(b)</sup> The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,616m (2019: £3,809m) and derivative swap balances of £452m (2019: £720m) entered into to hedge the cash flow variability exposures of the joint ventures.

<sup>(c)</sup> The share of profit for the year for UK property joint ventures related to £12m dividends received from joint ventures with £nil carrying amounts. £3m of losses and £37m of increases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.

<sup>(d)</sup> The Group completed the sale of its 20% investment in Gain Land on 28 February 2020 for a consideration of £277m. Refer to Note 33 for further details.

As at 29 February 2020, the Group has £106m (2019: £105m) loans to UK property joint ventures.

### Other joint ventures and associates

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

	Joint ventures		Associates	
	2020	2019	2020	2019
	£m	£m	£m	£m
Aggregate carrying amount of individually immaterial joint ventures and associates	230	275	77	64
Group's share of profits/(losses) for the year	14	15	11	15

## Notes to the Group financial statements continued

### Note 15 Impairment of non-current assets

#### Impairment losses and reversals

No goodwill impairment losses were recognised by the Group in 2020 (2019: £nil).

The table below summarises the Group's pre-tax impairment losses and reversals on other non-current assets and investments in joint ventures and associates, with the former aggregated by segment due to the large number of individually immaterial store cash-generating units. This excludes any losses recognised on classifying an asset or disposal group as held for sale. Impairment losses and reversals are presented gross, and prior financial year comparatives have been re-presented on the same basis and restated following adoption of IFRS 16, 'Leases'.

	UK & ROI		Central Europe		Asia		Tesco Bank		Total*	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
<b>Group balance sheet</b>										
Other intangible assets	(27)	36	–	2	–	–	–	–	(27)	38
Property, plant and equipment	(428)	272	(266)	195	(28)	28	–	–	(722)	495
Right of use assets	(242)	142	(10)	28	(15)	12	–	–	(267)	182
Investment property	(5)	–	–	4	–	–	–	–	(5)	4
<b>Other non-current assets</b>	<b>(702)</b>	<b>450</b>	<b>(276)</b>	<b>229</b>	<b>(43)</b>	<b>40</b>	<b>–</b>	<b>–</b>	<b>(1,021)</b>	<b>719</b>
Investments in joint ventures and associates	–	–	–	–	(47)	–	–	–	(47)	–
<b>Total impairment (loss)/reversal</b>	<b>(702)</b>	<b>450</b>	<b>(276)</b>	<b>229</b>	<b>(90)</b>	<b>40</b>	<b>–</b>	<b>–</b>	<b>(1,068)</b>	<b>719</b>
<b>Group income statement</b>										
Cost of sales – underlying	–	–	(5)	8	(2)	–	–	–	(7)	8
Cost of sales – exceptional	(658)	407	(271)	217	(41)	40	–	–	(970)	664
Administrative expenses – underlying	(44)	43	–	–	–	–	–	–	(44)	43
Administrative expenses – exceptional	–	–	–	4	(47)	–	–	–	(47)	4
<b>Total impairment (loss)/reversal</b>	<b>(702)</b>	<b>450</b>	<b>(276)</b>	<b>229</b>	<b>(90)</b>	<b>40</b>	<b>–</b>	<b>–</b>	<b>(1,068)</b>	<b>719</b>

\* Of the £302m other non-current assets net impairment loss for the Group (2019: £114m reversal), a net loss of £302m (2019: £111m reversal) has been classified within exceptional items, of which a net loss of £251m (2019: £109m reversal) related to the UK & ROI, a net loss of £50m (2019: £44m reversal) related to Central Europe and a net loss of £1m (2019: £42m loss) related to Asia.

	UK & ROI		Central Europe		Asia		Tesco Bank		Total*	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
52 weeks ended 23 February 2019 (restated)										
<b>Group balance sheet</b>										
Other intangible assets	(26)	21	(16)	5	–	–	–	–	(42)	26
Property, plant and equipment	(426)	534	(128)	163	(34)	12	–	–	(588)	709
Right of use assets	(147)	150	(25)	49	(23)	4	–	–	(195)	203
Investment property	–	2	(1)	–	–	–	–	–	(1)	2
<b>Other non-current assets</b>	<b>(599)</b>	<b>707</b>	<b>(170)</b>	<b>217</b>	<b>(57)</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>(826)</b>	<b>940</b>
Investments in joint ventures and associates	–	–	–	–	–	–	–	–	–	–
<b>Total impairment (loss)/reversal</b>	<b>(599)</b>	<b>707</b>	<b>(170)</b>	<b>217</b>	<b>(57)</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>(826)</b>	<b>940</b>
<b>Group income statement</b>										
Cost of sales	–	–	(1)	1	–	–	–	–	(1)	1
– underlying	–	–	–	–	–	–	–	–	–	–
Cost of sales – exceptional	(597)	704	(162)	206	(56)	15	–	–	(815)	925
Administrative expenses – underlying	(2)	1	(7)	10	–	1	–	–	(9)	12
Administrative expenses – exceptional	–	2	–	–	(1)	–	–	–	(1)	2
<b>Total impairment (loss)/reversal</b>	<b>(599)</b>	<b>707</b>	<b>(170)</b>	<b>217</b>	<b>(57)</b>	<b>16</b>	<b>–</b>	<b>–</b>	<b>(826)</b>	<b>940</b>

\* Refer to previous table for footnote.

## Notes to the Group financial statements continued

### Note 15 Impairment of non-current assets continued

The impairment loss in UK & ROI includes an impairment loss of £287m (2019: £nil) in the UK in respect of the Group obtaining control of the Tesco Atrato Limited partnership. Refer to Note 33 for further details.

The impairment loss/reversal in Central Europe includes an impairment loss of £220m (2019: £nil) / reversal of £142m (2019: £nil) in Poland following the announcement in July 2019 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. A full impairment review was conducted in Poland at the time of the announced changes.

The remaining Other non-current assets impairment losses and reversals for the Group largely reflect normal fluctuations expected from store level performance, property fair values and changes in discount rates, as well as any specific store closures.

The Group recognised an impairment loss of £47m (2019: £nil) against its investment in its joint venture Trent Hypermarket Private Limited in India, reflecting investments in our offer to remain competitive in the market, combined with a strategic decision to reduce store expansion, which has impacted our profit expectations of the joint venture.

#### Net carrying value of non-current assets

The net carrying values of Other non-current assets and recoverable amounts of impaired Other non-current assets for which an impairment loss has been recognised or reversed have been aggregated by segment due to the large number of individually immaterial store cash-generating units. The amounts below exclude assets or disposal groups classified as held for sale.

At 29 February 2020	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
<b>Net carrying value</b>					
Other intangible assets	1,055	28	16	139	1,238
Property, plant and equipment	14,612	2,196	2,365	61	19,234
Right of use assets	5,719	491	650	14	6,874
Investment property	23	3	–	–	26
<b>Other non-current assets</b>	<b>21,409</b>	<b>2,718</b>	<b>3,031</b>	<b>214</b>	<b>27,372</b>
Goodwill <sup>(a)</sup>	3,837	–	269	775	4,881
Investments in joint ventures and associates <sup>(b)</sup>	11	1	208	87	307
<b>Net carrying value of non-current assets</b>	<b>25,257</b>	<b>2,719</b>	<b>3,508</b>	<b>1,076</b>	<b>32,560</b>
<b>Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:</b>					
Value in use	3,448	254	163	–	3,865
Fair value less costs of disposal <sup>(c)</sup>	2,105	269	209	–	2,583
	<b>5,553</b>	<b>523</b>	<b>372</b>	<b>–</b>	<b>6,448</b>

  

At 23 February 2019 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
<b>Net carrying value</b>					
Other intangible assets	1,090	27	14	224	1,355
Property, plant and equipment	13,988	2,687	2,449	62	19,186
Right of use assets	6,537	479	682	15	7,713
Investment property	29	7	–	–	36
<b>Other non-current assets</b>	<b>21,644</b>	<b>3,200</b>	<b>3,145</b>	<b>301</b>	<b>28,290</b>
Goodwill <sup>(a)</sup>	3,837	–	270	802	4,909
Investments in joint ventures and associates <sup>(b)</sup>	12	1	503	86	602
<b>Net carrying value of non-current assets</b>	<b>25,493</b>	<b>3,201</b>	<b>3,918</b>	<b>1,189</b>	<b>33,801</b>
<b>Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:</b>					
Value in use	3,311	426	184	–	3,921
Fair value less costs of disposal <sup>(c)</sup>	1,976	498	213	–	2,687
	<b>5,287</b>	<b>924</b>	<b>397</b>	<b>–</b>	<b>6,608</b>

<sup>(a)</sup> Goodwill of £4,881m (2019: £4,909m) consists of UK £3,834m (2019: £3,834m), ROI £3m (2019: £3m), Thailand £193m (2019: £193m), Malaysia £76m (2019: £77m) and Tesco Bank £775m (2019: £802m).

<sup>(b)</sup> The carrying value of the Group's investments include: Gain Land £nil (2019: £263m), Trent Hypermarket Private Limited £59m (2019: £102m) and Tesco Underwriting Limited £87m (2019: £86m).

<sup>(c)</sup> Due to the individual nature of each property, fair values are classified as Level 3 within the fair value hierarchy.

#### Impairment methodology

##### Cash-generating units

The Group treats each store as a separate cash-generating unit for impairment testing of other intangible assets, property, plant and equipment, right of use assets and investment property. Refer to Note 1 for further details. The Group allocates goodwill to groups of cash-generating units, where each country represents a group of cash-generating units for the Group's retail operations, as this represents the lowest level at which goodwill is monitored by management. Tesco Bank represents a separate cash-generating unit.

The recoverable amount of each store cash-generating unit is the higher of its value in use and its fair value less costs of disposal. The recoverable amount of a group of cash-generating units to which goodwill has been allocated is determined based on value in use calculations.

Head office and central assets such as distribution centres and associated costs are allocated to store cash-generating units based on level of use, estimated with reference to sales. Customer fulfilment centres and associated costs that are part of a store are included in the store cash-generating unit. Standalone customer fulfilment centres and associated costs are allocated to the store cash-generating units in the area that they serve to match the customer base, based on level of use, estimated with reference to sales.

## Notes to the Group financial statements continued

### Note 15 Impairment of non-current assets continued

#### Value in use

Estimates for value in use calculations include discount rates, long term growth rates and expected changes to future cash flows, including volumes and prices. Estimates are based on past experience and expectations of future changes in the market, including the prevailing economic climate and global economy, competitor activity, market dynamics, changing customer behaviours, structural challenges facing retail and the resilience afforded by the Group's operational scale.

Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates. Long-term growth rates for the Retail business are based on inflation forecasts by recognised bodies. The long-term growth rate for Tesco Bank is based on inflation and GDP growth forecasts by recognised bodies.

Management estimates discount rates using pre-tax rates that reflect the market assessment as at the balance sheet date of the time value of money and the risks specific to the cash-generating units, including a Brexit risk adjustment in the UK & ROI segment, and a COVID-19 risk adjustment to the discount rates for all cash-generating units to reflect the impact of increased volatility in forecast cash flows observable at that time. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region. Risk free rates are based on government bond rates in each geographical region and equity risk premia are based on forecasts by recognised bodies.

#### Fair value less costs of disposal

Fair values of owned properties are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. Fair values of leased properties are determined with regard to the discounted market rent for the property over the remaining period of the lease, reflecting the condition and location of the property and the local rental market. Fair values of the Group's properties were determined with the assistance of independent, professional valuers where appropriate. Costs of disposal are estimated based on past experience in each geographical region.

#### Investments in joint ventures and associates

The recoverable values of investments in joint ventures and associates are estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses.

### Key assumptions and sensitivity

#### Key assumptions

For value in use calculations, the key assumptions to which the recoverable amounts are most sensitive are discount rates, long-term growth rates and the impact on cash generated from operations from year one sales growth (incorporating sales and costs, volumes and prices). For fair value less costs of disposal calculations, the key assumption is property fair values.

The discount rates and long-term growth rates for each group of cash-generating units to which goodwill has been allocated are:

	UK		ROI		Thailand		Malaysia		Tesco Bank	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	%	%	%	%	%	%	%	%	%	%
Pre-tax discount rates	8.0	8.8	8.1	8.5	9.0	9.6	11.5	11.8	9.7	10.4
Post-tax discount rates	6.6	7.1	7.1	7.4	7.2	7.7	8.7	9.0	7.2	7.8
Long-term growth rates	2.0	2.0	1.9	1.9	1.6	1.9	2.4	2.4	1.8	2.0

The discount rates and long-term growth rates for the Group's portfolio of store cash-generating units, aggregated by segment due to the large number of individually immaterial store cash-generating units, are:

	UK & ROI		Central Europe		Asia		Tesco Bank	
	2020	2019	2020	2019	2020	2019	2020	2019
	%	%	%	%	%	%	%	%
Pre-tax discount rates	8.0 – 8.1	8.5 – 8.8	7.0 – 9.3	7.4 – 9.8	9.0 – 11.5	9.6 – 11.8	9.7	10.4
Post-tax discount rates	6.6 – 7.1	7.1 – 7.4	5.5 – 8.3	5.9 – 8.4	7.2 – 8.7	7.7 – 9.0	7.2	7.8
Long-term growth rates	1.9 – 2.0	1.9 – 2.0	2.0 – 3.0	2.0 – 2.7	1.6 – 2.4	1.9 – 2.4	1.8	2.0

#### Sensitivity

The Group has carried out sensitivity analyses on the reasonably possible changes in key assumptions in the impairment tests for (a) each group of cash-generating units to which goodwill has been allocated and (b) for its portfolio of store cash-generating units.

- (a) Neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in year one sales growth nor a one percentage point decrease in long-term growth rates would indicate impairment in any group of cash-generating units to which goodwill has been allocated.
- (b) Whilst there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year, the table below summarises the reasonably possible changes in each key assumption and its impact on the impairment of the Group's entire portfolio of store cash-generating units, presented in aggregate due to the large number of individually immaterial store cash-generating units:

Key assumption	Reasonably possible change	Impact on impairment	2020*	2019 (restated)
			£m	£m
Post-tax discount rates	Increase of 1.0%pt for each geographic region	Increase	(482)	(477)
	Decrease of 1.0%pt for each geographic region	Decrease	485	406
Year one sales growth	Increase of 1.0%pt for each geographic region	Decrease	61	51
	Decrease of 1.0%pt for each geographic region	Increase	(61)	(52)
Long-term growth rates	Increase of 1.0%pt for each geographic region	Decrease	445	379
	Decrease of 1.0%pt for each geographic region	Increase	(410)	(404)
Property fair values	Increase of 5.0%pt for each geographic region	Decrease	105	129
	Decrease of 5.0%pt for each geographic region	Increase	(105)	(130)

\* These sensitivities are presented on a consistent basis with the prior financial year to aid comparability. Commentary on the additional sensitivities adjusted for the impact of increased volatility as a result of the coronavirus pandemic is given in Note 36.



## Notes to the Group financial statements continued

### Note 16 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise investments in debt and equity instruments of other entities.

	2020 £m	2019 £m
Investments in debt instruments	1,058	1,040
Investments in equity instruments	10	6
<b>Total financial assets at fair value through other comprehensive income</b>	<b>1,068</b>	<b>1,046</b>
Of which:		
Current	202	67
Non-current	866	979
	<b>1,068</b>	<b>1,046</b>

### Note 17 Inventories

	2020 £m	2019 £m
Goods held for resale	2,429	2,611
Development properties	4	6
	<b>2,433</b>	<b>2,617</b>

Goods held for resale are net of commercial income. Refer to Note 22.

Cost of inventories recognised as an expense for the 53 weeks ended 29 February 2020 was £48,260m (52 weeks ended 23 February 2019: £48,124m). Inventory losses and provisions recognised as an expense for the 53 weeks ended 29 February 2020 were £1,320m (52 weeks ended 23 February 2019: £1,399m).

### Note 18 Trade and other receivables

	2020 £m	2019 (restated) £m
Trade receivables	495	598
Prepayments	192	279
Accrued income <sup>(a)</sup>	262	297
Other receivables	439	449
Amounts owed by joint ventures and associates (Note 31) <sup>(b)</sup>	174	170
<b>Total trade and other receivables</b>	<b>1,562</b>	<b>1,793</b>
Of which:		
Current	1,396	1,550
Non-current	166	243
	<b>1,562</b>	<b>1,793</b>

<sup>(a)</sup> Accrued income includes contract assets of £60m (2019: £54m) primarily related to insurance renewal income. The expected credit loss was immaterial as at 29 February 2020 (2019: immaterial).

<sup>(b)</sup> Expected credit losses on amounts owed by joint ventures and associates is not material.

Trade and other receivables include commercial income. Refer to Note 22. Trade and other receivables are generally non-interest-bearing. Credit terms vary by country and the nature of the debt, ranging from 7 to 60 days.

The tables below present the aging of receivables and related allowances for expected credit losses:

	Not past due £m	Up to 6 months past due £m	6 to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 29 February 2020					
Trade receivables	438	70	6	15	529
Other receivables	431	7	4	17	459
<b>Trade and other receivables</b>	<b>869</b>	<b>77</b>	<b>10</b>	<b>32</b>	<b>988</b>

#### Allowance for expected credit losses:

<b>At the beginning of the year</b>	<b>(5)</b>	<b>(11)</b>	<b>(14)</b>	<b>(29)</b>	<b>(59)</b>
Foreign currency translation	–	1	–	–	1
Increase in allowance, net of recoveries, charged to the Group income statement	(2)	–	4	(3)	(1)
Amounts written off	–	1	2	2	5
<b>At the end of the year</b>	<b>(7)</b>	<b>(9)</b>	<b>(8)</b>	<b>(30)</b>	<b>(54)</b>

	Not past due £m	Up to 6 months past due £m	6 to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 23 February 2019					
Trade receivables	499	106	18	17	640
Other receivables	435	16	2	13	466
<b>Trade and other receivables</b>	<b>934</b>	<b>122</b>	<b>20</b>	<b>30</b>	<b>1,106</b>

#### Allowance for expected credit losses:

<b>At the beginning of the year</b>	<b>(3)</b>	<b>(10)</b>	<b>(16)</b>	<b>(17)</b>	<b>(46)</b>
Increase in allowance, net of recoveries, charged to the Group income statement	(2)	(2)	–	(17)	(21)
Amounts written off	–	1	2	5	8
<b>At the end of the year</b>	<b>(5)</b>	<b>(11)</b>	<b>(14)</b>	<b>(29)</b>	<b>(59)</b>



## Notes to the Group financial statements continued

### Note 19 Loans and advances to customers and banks

Tesco Bank has loans and advances to customers and banks, as follows:

	2020 £m	2019 £m
Current	4,280	4,882
Non-current	4,171	7,868
	<b>8,451</b>	<b>12,750</b>

The maturity of these loans and advances is as follows:

	2020 £m	2019 £m
Repayable on demand or at short notice	4	4
Within three months	4,543	4,858
Greater than three months but less than one year	86	323
Greater than one year but less than five years	3,322	3,057
After five years	984	4,993
	<b>8,939</b>	<b>13,235</b>
Expected credit loss allowance for loans and advances to customers and banks	(488)	(485)
	<b>8,451</b>	<b>12,750</b>

At 29 February 2020, £3.5bn (2019: £3.2bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £0.8bn (2019: £2.3bn).

At 29 February 2020, Delamare Cards MTN Issuer plc had £2.0bn (2019: £2.4bn) notes in issue in relation to securitisation transactions, of which £0.6bn (2019: £0.9bn) was externally issued. The Group owned £1.2bn (2019: £1.1bn) class A Credit Card backed notes and £0.2bn (2019:

£0.3bn) class D Credit Card backed notes.

Of the total £1.2bn (2019: £1.1bn) class A notes, £nil (2019: £0.5bn) is held in a distinct pool for the purposes of collateralising the Bank of England's Term Funding Scheme drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Refer to Note 25 for allowance for expected credit losses disclosures.

### Note 20 Cash and cash equivalents and short-term investments

#### Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	3,251	2,683
Short-term deposits	157	233
	<b>3,408</b>	<b>2,916</b>

#### Short-term investments

	2020 £m	2019 £m
Money market funds	1,076	390

Cash and cash equivalents includes £35m (2019: £62m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

### Note 21 Trade and other payables

	2020 £m	2019 (restated) £m
Trade payables	5,579	5,750
Other taxation and social security	477	521
Other payables	1,793	1,552
Amounts payable to joint ventures and associates (Note 31)	26	20
Accruals	841	1,230
Contract liabilities	376	423
<b>Total trade and other payables</b>	<b>9,092</b>	<b>9,496</b>
Of which:		
Current	8,922	9,131
Non-current	170	365
	<b>9,092</b>	<b>9,496</b>

Trade and other payables are net of commercial income. Refer to Note 22.

Contract liabilities represent consideration received for performance obligations not yet satisfied, predominantly in relation to Clubcard points. Substantially all of the revenue deferred at the current financial year end will be recognised in the following financial year.

Trade payables include £393m (2019: £348m) that suppliers have chosen to early-fund under supplier financing arrangements. Refer to Note 1. Amounts in trade payables that are overdue for payment to the provider banks are immaterial.

## Notes to the Group financial statements continued

### Note 22 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.

	2020 £m	2019 £m
<b>Current assets</b>		
Inventories	(55)	(69)
Trade and other receivables		
Trade/other receivables	138	183
Accrued income	157	155
<b>Current liabilities</b>		
Trade and other payables		
Trade payables	292	327
Accruals	(3)	(4)

### Note 23 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 balance sheet date.

#### Current

	Par value	Maturity	2020 £m	2019 (restated) £m
Bank loans and overdrafts	–	–	413	387
1.375% MTN	€726m	Jul 2019	–	636
5.5% MTN	£97m	Dec 2019	–	98
1% RPI Tesco Bank Retail Bond <sup>(a)</sup>	£73m	Dec 2019	–	72
2.125% MTN <sup>(b)</sup>	€296m	Nov 2020	255	–
1m USD LIBOR + 0.70% Tesco Bank Bond	\$350m	Nov 2020	273	–
5% Tesco Bank Retail Bond	£200m	Nov 2020	202	–
LIBOR + 0.65% Tesco Bank Bond <sup>(c)</sup>	£350m	May 2021	–	350
LIBOR + 0.53% Tesco Bank Bond <sup>(d)</sup>	£300m	Oct 2022	299	–
5.5457% Secured Bond <sup>(e)(f)</sup>	£312m	Feb 2029	22	20
6.0517% Secured Bond <sup>(g)(h)</sup>	£471m	Oct 2039	26	–
			<b>1,490</b>	<b>1,563</b>

#### Non-current

	Par value	Maturity	2020 £m	2019 (restated) £m
2.125% MTN <sup>(b)</sup>	€296m	Nov 2020	–	436
1m USD LIBOR + 0.70% Tesco Bank Bond	\$350m	Nov 2020	–	262
5% Tesco Bank Retail Bond	£200m	Nov 2020	–	203
6.125% MTN <sup>(b)</sup>	£417m	Feb 2022	416	561
LIBOR + 0.53% Tesco Bank Bond <sup>(d)</sup>	£300m	Oct 2022	–	299
5% MTN <sup>(b)</sup>	£93m	Mar 2023	103	183
1.375% MTN	€750m	Oct 2023	660	658
2.5% MTN	€750m	Jul 2024	653	658
2.5% MTN	£400m	May 2025	418	–
3.5% Tesco Bank Senior MREL Notes <sup>(i)</sup>	£250m	Jul 2025	250	–
3.322% LPI MTN <sup>(j)</sup>	£354m	Nov 2025	358	349
0.875% MTN	€750m	May 2026	640	–
5.5457% Secured Bond <sup>(e)(f)</sup>	£312m	Feb 2029	281	303
6.067% Secured Bond <sup>(e)</sup>	£200m	Feb 2029	192	191
LIBOR + 1.2% Secured Bond <sup>(e)</sup>	£50m	Feb 2029	36	34
6% MTN <sup>(b)</sup>	£48m	Dec 2029	58	119
5.5% MTN <sup>(b)</sup>	£109m	Jan 2033	133	186
1.982% RPI MTN <sup>(k)</sup>	£294m	Mar 2036	297	288
6.15% USD Bond	\$525m	Nov 2037	555	428
6.0517% Secured Bond <sup>(g)(h)</sup>	£471m	Oct 2039	590	–
4.875% MTN <sup>(b)</sup>	£20m	Mar 2042	20	32
5.125% MTN	€356m	Apr 2047	316	319
5.2% MTN <sup>(b)</sup>	£30m	Mar 2057	29	71
			<b>6,005</b>	<b>5,580</b>

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

<sup>(b)</sup> During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 2.125% MTN Nov 2020 €204m, 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.

<sup>(c)</sup> This bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date in May 2019.

<sup>(d)</sup> This bond was issued on 7 November 2017. The scheduled redemption date of this bond is October 2020.

<sup>(e)</sup> 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 £794m (23 February 2019: £803m).

<sup>(f)</sup> This is an amortising bond which matures in Feb 2029. £22m (23 February 2019: £20m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Feb 2029.

<sup>(g)</sup> This bond is secured by a charge over the property, plant and equipment held within The Tesco Atrato Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amount of assets pledged as security for secured bonds is £612m.

<sup>(h)</sup> This is an amortising bond which matures in Oct 2039. £26m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Oct 2039.

<sup>(i)</sup> These Notes are Tesco Bank MREL compliant senior debt and were issued on 25 July 2019. The scheduled redemption date is July 2024.

<sup>(j)</sup> 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%.

<sup>(k)</sup> The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

## Notes to the Group financial statements continued

### Note 24 Financial instruments

The carrying value and fair value of the following financial assets and liabilities are set out below:

	2020		2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
<b>Assets</b>				
Loans and advances to customers and banks – Tesco Bank	8,451	8,672	12,750	12,931
Joint ventures and associates loan receivables*	127	193	133	205
<b>Liabilities</b>				
Short-term borrowings:				
Amortised cost	(1,015)	(928)	(1,491)	(1,499)
Bonds in fair value hedge relationships	(475)	(478)	(72)	(70)
Long-term borrowings:				
Amortised cost	(4,049)	(4,714)	(3,954)	(4,369)
Bonds in fair value hedge relationships	(1,956)	(1,954)	(1,626)	(1,622)
Customer deposits – Tesco Bank	(7,707)	(7,711)	(10,465)	(10,427)
Deposits from banks – Tesco Bank	(500)	(500)	(1,663)	(1,663)

\* Joint ventures and associates loan receivables carrying amounts of £127m (2019: £133m) are presented in the Group balance sheet net of deferred profits of £54m (2019: £54m) historically arising from the sale of property assets to joint ventures.

The above table excludes cash and cash equivalents, short-term investments, trade and other receivables/payables, derivative financial instruments and financial assets at fair value through other comprehensive income where the carrying values are either fair value or approximate fair value.

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates.

The expected maturity of financial assets and liabilities is not considered to be materially different to their current and non-current classification.

#### Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 29 February 2020 and 23 February 2019 are as follows:

	Financial assets at fair value through other comprehensive income £m	Financial assets/ liabilities at amortised cost £m	Fair value through profit or loss £m	Total £m
At 29 February 2020				
Cash and cash equivalents	–	3,382	26	3,408
Loans and advances to customers and banks – Tesco Bank	–	8,451	–	8,451
Short-term investments	–	1,076	–	1,076
Financial assets at fair value through other comprehensive income	1,068	–	–	1,068
Joint ventures and associates loan receivables	–	127	–	127
Customer deposits – Tesco Bank	–	(7,707)	–	(7,707)
Deposits from banks – Tesco Bank	–	(500)	–	(500)
Short-term borrowings	–	(1,490)	–	(1,490)
Long-term borrowings	–	(6,005)	–	(6,005)
Lease liabilities	–	(9,566)	–	(9,566)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(23)	(23)
Cross-currency swaps	–	–	497	497
Index-linked swaps	–	–	(275)	(275)
Forward contracts	–	–	(1)	(1)
	<b>1,068</b>	<b>(12,232)</b>	<b>224</b>	<b>(10,940)</b>

## Notes to the Group financial statements continued

### Note 24 Financial instruments continued

	Financial assets at fair value through other comprehensive income £m	Financial assets/ liabilities at amortised cost £m	Fair value through profit or loss £m	Total £m
At 23 February 2019 (restated)				
Cash and cash equivalents	–	2,885	31	2,916
Loans and advances to customers and banks – Tesco Bank	–	12,750	–	12,750
Short-term investments	–	390	–	390
Financial assets at fair value through other comprehensive income	1,046	–	–	1,046
Joint ventures and associates loan receivables	–	133	–	133
Customer deposits – Tesco Bank	–	(10,465)	–	(10,465)
Deposits from banks – Tesco Bank	–	(1,663)	–	(1,663)
Short-term borrowings	–	(1,563)	–	(1,563)
Long-term borrowings	–	(5,580)	–	(5,580)
Lease liabilities	–	(10,505)	–	(10,505)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(29)	(29)
Cross-currency swaps	–	–	325	325
Index-linked swaps	–	–	292	292
Forward contracts	–	–	3	3
	<b>1,046</b>	<b>(13,618)</b>	<b>622</b>	<b>(11,950)</b>

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

#### Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 29 February 2020 and 23 February 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 (that is, unobservable inputs) (Level 3).

At 29 February 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Financial assets at fair value through other comprehensive income	1,058	–	10	1,068
Financial assets at fair value through profit or loss	–	26	–	26
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	47	–	47
Cross-currency swaps	–	497	–	497
Index-linked swaps	–	541	–	541
Forward contracts	–	61	–	61
<b>Total assets</b>	<b>1,058</b>	<b>1,172</b>	<b>10</b>	<b>2,240</b>
<b>Liabilities</b>				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(70)	–	(70)
Index-linked swaps	–	(816)	–	(816)
Forward contracts	–	(62)	–	(62)
<b>Total liabilities</b>	<b>–</b>	<b>(948)</b>	<b>–</b>	<b>(948)</b>
<b>Net assets/(liabilities)</b>	<b>1,058</b>	<b>224</b>	<b>10</b>	<b>1,292</b>

At 23 February 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Assets</b>				
Financial assets at fair value through other comprehensive income	1,040	–	6	1,046
Financial assets at fair value through profit or loss	–	31	–	31
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
<b>Total assets</b>	<b>1,040</b>	<b>1,261</b>	<b>6</b>	<b>2,307</b>
<b>Liabilities</b>				
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)
<b>Total liabilities</b>	<b>–</b>	<b>(632)</b>	<b>(7)</b>	<b>(639)</b>
<b>Net assets/(liabilities)</b>	<b>1,040</b>	<b>629</b>	<b>(1)</b>	<b>1,668</b>

## Notes to the Group financial statements continued

### Note 24 Financial instruments continued

The following table presents the changes in Level 3 instruments for the 53 weeks ended 29 February 2020 and 52 weeks ended 23 February 2019:

	2020 £m	2019 £m
<b>At the beginning of the year</b>	<b>(1)</b>	<b>5</b>
Gains/(losses) recognised in the Group statement of comprehensive income/(loss)	1	1
Addition of financial instrument at fair value through profit or loss	–	(7)
Disposal of financial instrument at fair value through profit or loss	6	–
Addition of financial asset at fair value through other comprehensive income	4	–
<b>At the end of the year</b>	<b>10</b>	<b>(1)</b>

During the financial year, there were no transfers (2019: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2019: no transfers).

#### Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of financial assets/ (liabilities) recognised in the Group balance sheet £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		
				Financial instruments £m	Collateral £m	Net amount £m
At 29 February 2020						
<b>Financial assets</b>						
Cash and cash equivalents	4,137	(729)	3,408	–	–	3,408
Derivative financial instruments	1,146	–	1,146	(168)	–	978
Total trade and other receivables <sup>(a)</sup>	1,802	(240)	1,562	–	–	1,562
<b>Total assets</b>	<b>7,085</b>	<b>(969)</b>	<b>6,116</b>	<b>(168)</b>	<b>–</b>	<b>5,948</b>
<b>Financial liabilities</b>						
Bank loans and overdrafts	(1,142)	729	(413)	–	–	(413)
Derivative financial instruments	(948)	–	(948)	168	45	(735)
Total trade and other payables <sup>(b)</sup>	(9,332)	240	(9,092)	–	–	(9,092)
<b>Total liabilities</b>	<b>(11,422)</b>	<b>969</b>	<b>(10,453)</b>	<b>168</b>	<b>45</b>	<b>(10,240)</b>

	Gross amounts of financial assets/ (liabilities) recognised in the Group balance sheet £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		
				Financial instruments £m	Collateral £m	Net amount £m
At 23 February 2019 (restated)						
<b>Financial assets</b>						
Cash and cash equivalents	4,227	(1,311)	2,916	–	–	2,916
Derivative financial instruments	1,230	–	1,230	(223)	(12)	995
Total trade and other receivables <sup>(a)</sup>	2,063	(270)	1,793	–	–	1,793
<b>Total assets</b>	<b>7,520</b>	<b>(1,581)</b>	<b>5,939</b>	<b>(223)</b>	<b>(12)</b>	<b>5,704</b>
<b>Financial liabilities</b>						
Bank loans and overdrafts	(1,698)	1,311	(387)	–	–	(387)
Deposits from banks – repurchases, securities lending and similar agreements (Note 26)	(324)	–	(324)	–	3,006	2,682
Derivative financial instruments	(639)	–	(639)	223	33	(383)
Total trade and other payables <sup>(b)</sup>	(9,766)	270	(9,496)	–	–	(9,496)
<b>Total liabilities</b>	<b>(12,427)</b>	<b>1,581</b>	<b>(10,846)</b>	<b>223</b>	<b>3,039</b>	<b>(7,584)</b>

<sup>(a)</sup> Total trade and other receivables includes £192m (2019: £279m) of prepayments.

<sup>(b)</sup> Total trade and other payables includes £376m (2019: £423m) of contract liabilities.

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## Notes to the Group financial statements continued

### Note 25 Financial risk management

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below.

Financial risk management is carried out by a central treasury department under policies approved and delegated by the Board of Directors. The Board provides written principles for risk management.

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IFRS 9.

The fair values of derivative financial instruments have been disclosed in the Group balance sheet as follows:

	2020		2019	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	63	(61)	52	(250)
Non-current	1,083	(887)	1,178	(389)
	<b>1,146</b>	<b>(948)</b>	<b>1,230</b>	<b>(639)</b>

The Group's hedging policies are further described below. The main sources of hedge ineffectiveness are the effect of the counterparties' and the Group's own credit risk on the fair value of derivatives.

#### Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group.

These derivative contracts receive a fixed rate of interest and pay a variable interest rate. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the swap contracts match the terms of the fixed rate borrowings, including notional amount, maturity, payment and rate set dates. The Group has established a hedge ratio of 1:1 for the hedging relationship as the underlying risk of the swap contract is identical to the hedged item.

#### Cash flow hedges

##### Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group entities.

The Group uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale and designates the spot element of these contracts to hedge the foreign currency risk, and designates the spot component of foreign currency forwards in hedge relationships.

Under the Group's hedging policy, the critical terms of the forward contracts must align with the hedged items. The foreign currency forwards are denominated in the same currency as the highly probable future sales and purchases, which are expected to occur within a maximum 24-month period, therefore determines the hedge relationship to be 1:1.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies. During the current financial year, a bond tender took place relating to the Euro 2.125% €500m 2020 MTN which was in a cash flow hedge relationship. Of the outstanding €500m,

€204m of the bond was bought back and the associated hedging instrument was monetised. As the interest payment cash flows on the bought back element will now not take place, cash flow hedging was discontinued on this portion.

##### Commodity price risk

The Group is affected by the price of certain commodities, and uses forward contracts to hedge future purchases of diesel for own use, which are forecast to occur within a 12 month period.

#### Net investment hedges

The Group uses Euro-denominated borrowings to hedge the exposure of a portion of its net investments in overseas operations which have a Euro functional currency, against changes in value due to changes in foreign exchange rates. The hedged risk in the net investment hedge is the risk of a weakening Euro against Pound Sterling that will result in a reduction in the carrying amount of the Group's Euro net investments.

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in foreign operations due to movements in the spot rate.

The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

The details of the hedging instruments and movements in cumulative losses on net investment hedges in other comprehensive income are set out below:

	Notional £m	Movement on continued hedges £m	Movement on discontinued hedges £m
Gains/(losses) on net investment hedges			
<b>At 24 February 2018</b>	<b>1,368</b>	<b>(58)</b>	<b>(978)</b>
Borrowings – movement		16	2
<b>At 23 February 2019</b>	<b>1,281</b>	<b>(42)</b>	<b>(976)</b>
Borrowings – movement		48	(89)
<b>At 29 February 2020</b>	<b>1,281</b>	<b>6</b>	<b>(1,065)</b>

During the current financial year, the €726m 1.375% MTN matured in July 2019 which reduced the amount of net investment hedging. In November 2019, the Group issued the €750m 0.875% MTN, maturing in May 2026, which was designated as a net investment hedge at inception, thereby increasing net investment hedging. There were no reclassifications from foreign currency translation reserve and net investment hedge ineffectiveness was £nil (2019: £nil) during the year.

#### IBOR reform

The Group has early adopted the 'Interest rate benchmark reform' amendments in the current financial year. These allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms. The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows.

None of the Groups current GBP LIBOR- or EURIBOR-linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. The Group is monitoring the market and the output from various industry working groups managing the transition to new benchmark interest rates, and will look to implement fall back language for different instruments and IBORs when appropriate. For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements in 2020.

Details of the hedging relationships for which the Group has applied the 'Interest rate benchmark reform' amendments are given below. These relate to the utilisation of derivatives to achieve the desired mix of fixed and floating debt.

The following table sets out the extent of the risk exposure associated with managing the fixed and floating debt mix as at 29 February 2020.

Hedging instrument	Carrying value			Interest rate benchmark	Hedged item	Hedge relationship
	Notional	Asset	Liability			
Interest rate swaps	645	17	–	EURIBOR	MTN	Fair value hedge
Interest rate swaps	3,469	30	(51)	LIBOR	MTN	Fair value hedge
Cross currency interest rate swaps	409	232	–	LIBOR	MTN	Fair value hedge

#### Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group income statement. These instruments include index-linked swaps and forward foreign currency contracts.

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

	2020				2019			
	Asset		Fair value		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
<b>Fair value hedges</b>								
Interest rate swaps and similar instruments	47	1,710	(51)	2,404	37	3,844	(49)	2,701
Cross-currency swaps	232	409	–	–	126	180	(8)	222
<b>Cash flow hedges</b>								
Interest rate swaps and similar instruments	–	–	(19)	50	–	–	(17)	110
Cross-currency swaps	265	1,477	–	–	216	1,394	(9)	272
Index-linked swaps	186	649	–	–	187	692	–	–
Forward contracts	38	1,133	(29)	954	32	1,558	(18)	1,010
<b>Derivatives not in a formal hedge relationship</b>								
Interest rate swaps and similar instruments	–	35	–	13	1	432	(1)	244
Cross-currency swaps	–	–	–	–	–	–	–	–
Index-linked swaps	355	3,025	(816)	5,130	624	3,589	(519)	3,589
Forward contracts	23	1,139	(33)	1,416	7	901	(18)	1,511
<b>Total</b>	<b>1,146</b>	<b>9,577</b>	<b>(948)</b>	<b>9,967</b>	<b>1,230</b>	<b>12,590</b>	<b>(639)</b>	<b>9,659</b>



## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

The following tables set out the maturity profile and average interest rates and foreign currency exchange rates of the hedging instruments used in the Group's non-dynamic hedging strategies.

Maturity profile	2020			2019		
	Up to one year	One to five years	More than five years	Up to one year	One to five years	More than five years
<b>Fair value hedges</b>						
<b>Interest rate risk</b>						
Interest rate swaps – GBP						
– Notional amount (£m)	953	1,910	607	1,383	4,351	160
– Average net interest rate (pay)/receive	1.08%	0.84%	1.39%	(0.83%)	(1.00%)	4.12%
Interest rate swaps – EUR						
– Notional amount (£m)	–	645	–	–	651	–
– Average net interest rate (pay)/receive	–	0.63%	–	–	0.55%	–
<b>Interest rate/Foreign currency risk</b>						
Cross currency swaps (GBP:USD)						
– Notional amount (£m)	–	–	409	–	–	402
– Average exchange rate	–	–	1.50	–	–	1.50
– Average net interest rate (pay)/receive	–	–	3.15%	–	–	3.04%
<b>Cash flow hedges</b>						
<b>Interest rate risk</b>						
Index linked swaps						
– Notional amount (£m)	–	–	649	60	–	632
– Average net interest rate (pay)/receive	–	–	(4.22%)	(1.99%)	–	(4.22%)
Interest rate swaps						
– Notional amount (£m)	–	–	50	60	–	50
– Average net interest rate (pay)/receive	–	–	(4.23%)	1.57%	–	(4.12%)
<b>Interest rate/Foreign currency risk</b>						
Cross currency swaps (GBP:USD) floating						
– Notional amount (£m)	272	–	–	–	272	–
– Average exchange rate	1.29	–	–	–	1.29	–
– Average net interest rate (pay)/receive	0.84%	–	–	–	1.62%	–
Cross currency swaps (GBP:EUR) fixed						
– Notional amount (£m)	254	645	306	–	434	960
– Average exchange rate	1.19	1.25	1.47	–	1.19	1.31
– Average net interest rate (pay)/receive	(0.87%)	(1.46%)	(0.32%)	–	(0.87%)	(1.09%)

At 29 February 2020, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2.1bn were outstanding (2019: £2.6bn). These forward contracts are largely in relation to purchases of Euro (notional €0.8bn) (2019: notional €2.0bn) and US Dollar (notional \$0.9bn) (2019: notional \$1.1bn) with varying maturities up to August 2021. The notional and fair values of these contracts is shown in the table on page 71.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

The following table sets out the details of the hedged exposures covered by the Group's fair value hedges.

	Carrying value		Accumulated amounts of fair value adjustments on hedged item		Changes in fair value for calculating hedge ineffectiveness	Residual hedge adjustments <sup>(a)</sup>
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£m
At 29 February 2019						
<b>Fair value hedges</b>						
<b>Interest rate risk</b>						
Fixed rate loans <sup>(b)</sup>	4,416	–	10	–	12	6
Fixed rate savings	–	(3,003)	–	(1)	(1)	(1)
Fixed rate investment securities <sup>(b)</sup>	650	–	2	–	7	–
Fixed rate bonds <sup>(c)</sup>	–	(2,348)	–	(216)	140	(34)

<sup>(a)</sup> Accumulated amount of fair value hedge adjustments remaining in the Group balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses.

<sup>(b)</sup> Classified as loans and advances to customers.

<sup>(c)</sup> Classified as borrowings.

	Carrying value		Accumulated amounts of fair value adjustments on hedged item		Changes in fair value for calculating hedge ineffectiveness	Residual hedge adjustments <sup>(a)</sup>
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£m
At 23 February 2019						
<b>Fair value hedges</b>						
<b>Interest rate risk</b>						
Fixed rate loans and mortgages <sup>(b)</sup>	7,974	–	(3)	–	14	–
Fixed rate savings	–	(3,691)	–	–	(1)	–
Fixed rate investment securities <sup>(b)</sup>	473	–	(5)	–	(3)	–
Fixed rate bonds <sup>(c)</sup>	–	(1,778)	–	95	(57)	(59)

<sup>(a)-(c)</sup> Refer to previous table for footnotes

The following tables set out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the cash flow hedge reserve and currency basis reserve.

	Hedging instrument	Change in value of hedged instrument for calculating hedge ineffectiveness £m	Change in value of hedged item for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve and currency basis reserve*	
				Continued hedges £m	Discontinued hedges £m
<b>Interest rate risk</b>					
Index-linked bonds	Index-linked swaps	22	(22)	69	–
Borrowings	Interest rate swaps	(2)	2	(4)	–
<b>Foreign currency risk</b>					
Trade payables	Forward contracts	55	(55)	8	–
<b>Interest rate/Foreign currency risk</b>					
MTNs	Cross-currency swaps	28	(28)	137	(44)

\* Excludes deferred tax.

	Hedging instrument	Change in value of hedged instrument for calculating hedge ineffectiveness £m	Change in value of hedged item for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve and currency basis reserve*	
				Continued hedges £m	Discontinued hedges £m
At 23 February 2019					
<b>Interest rate risk</b>					
Index-linked bonds	Index-linked swaps	(1)	1	72	–
Borrowings	Interest rate swaps	–	–	–	–
<b>Foreign currency risk</b>					
Trade payables	Forward contracts	–	–	22	–
<b>Interest rate/Foreign currency risk</b>					
MTNs	Cross-currency swaps	(9)	9	83	(46)

\* Excludes deferred tax.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

The following table sets out information regarding the effectiveness of hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income:

		2020	2019
	Line item in Group income statement that includes hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss £m	Hedge ineffectiveness recognised in profit or loss £m
<b>Cash flow hedges</b>	Net finance costs	–	–
<b>Net investment hedges</b>	Net finance costs	–	–
<b>Fair value hedges – interest rate risk</b>			
Borrowings	Net finance costs	(6)	(22)
Derivatives	Net finance costs	–	–

The following table presents a reconciliation by risk category of the cash flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

	2020			2019		
	Cash flow hedge reserve £m	Currency basis reserve £m	Line item	Cash flow hedge reserve £m	Currency basis reserve £m	Line item
<b>Opening balance</b>	<b>118</b>	<b>(5)</b>		<b>40</b>	<b>–</b>	
Adjustment on initial application of IFRS 9 (net of tax) – 2019	–	–		(1)	1	
<b>Opening balance (restated)</b>	<b>118</b>	<b>(5)</b>		<b>39</b>	<b>1</b>	
<b>Interest rate risk</b>						
<b>Index-linked swaps</b>						
– Net fair value gains/(losses)	1	–		30	–	
– Amount reclassified to Group income statement	(2)	–	Net finance costs	(20)	–	Net finance costs
<b>Interest rate swaps</b>						
– Net fair value gains/(losses)	(2)	–		(1)	–	
– Amount reclassified to Group income statement	(1)	–	Net finance costs	–	–	Net finance costs
<b>Interest rate/Foreign currency risk</b>						
<b>Cross currency swaps</b>						
– Net fair value gains/(losses)	70	(12)		15	(6)	
– Amount reclassified to Group income statement	(4)	–	Net finance costs	8	–	Net finance costs
<b>Foreign currency risk</b>						
<b>Forward contracts</b>						
– Net fair value gains/(losses)	49	–		92	–	
– Amount reclassified to Inventory	(64)	–	Inventory	(45)	–	Inventory
Tax	(11)	2		–	–	
<b>Closing balance</b>	<b>154</b>	<b>(15)</b>		<b>118</b>	<b>(5)</b>	

#### Interest rate risk

Debt issued at variable rates, as well as cash deposits and short-term investments, expose the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk.

The Group's policy is to target fixing a minimum of 50% of interest costs for senior unsecured debt and a range of 55% to 85% for fixed rate leases of the Group excluding Tesco Bank. At 29 February 2020, the percentage of interest-bearing debt at fixed rates was 68% (2019: 78%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 3.30% (2019: 3.76%).

Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

The Group has RPI-linked debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has LPI-linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt. RPI-linked debt and LPI-linked debt are hedged for the effects of inflation until maturity.

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 77. During 2020 and 2019, net debt was managed using derivative instruments to hedge interest rate risk.

	2020			2019 (restated)		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	3,408	3,408	–	2,916	2,916
Loans and advances to customers and banks – Tesco Bank	4,370	4,081	8,451	8,328	4,422	12,750
Short-term investments	–	1,076	1,076	–	390	390
Financial assets at fair value through other comprehensive income	659	409	1,068	475	571	1,046
Joint ventures and associates loan receivables	106	21	127	76	57	133
Lease liabilities	(9,566)	–	(9,566)	(10,505)	–	(10,505)
Bank and other borrowings	(6,260)	(1,235)	(7,495)	(5,810)	(1,333)	(7,143)
Customer deposits – Tesco Bank	(3,164)	(4,543)	(7,707)	(3,714)	(6,751)	(10,465)
Deposits from banks – Tesco Bank	(500)	–	(500)	(1,663)	–	(1,663)
Derivative effect:						
Interest rate swaps	(1,092)	1,092	–	(5,899)	5,899	–
Cross-currency swaps	410	(410)	–	402	(402)	–
Index-linked swaps	(294)	294	–	(346)	346	–
<b>Total</b>	<b>(15,331)</b>	<b>4,193</b>	<b>(11,138)</b>	<b>(18,656)</b>	<b>6,115</b>	<b>(12,541)</b>

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations leading to a financial loss for the Group. Credit risk arises from cash and cash equivalents, trade and other receivables, loans to joint ventures and associates, derivative assets and loans and advances to customers and banks, and investments.

For financial assets (other than trade and other receivables), the Group holds positions with an approved list of investment-grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. Counterparty credit limits are reviewed on an annual basis, and may be updated throughout the year. The limits are set to minimise the concentration of risk and are set taking into account the type and value of the specific financial asset.

For trade and other receivables, credit risk is managed with various mitigating controls including credit checks, credit insurance and master netting agreements. Due to the nature of the retail business, there is little concentration of risk due to the large number of customers which are spread across wide geographical areas.

The net counterparty exposure under derivative contracts is £1.0bn (2019: £1.0bn). The Group considers its maximum credit risk to be £15.6bn (2019: £19.7bn) largely based on the Group's total financial assets.

The low credit risk exemption has been applied to cash, cash equivalents and investments as these are held with counterparties with investment grade ratings (BBB or above) or are short-term in nature.

A reconciliation of the Group's expected credit loss (ECL) allowance on loans to related parties is provided below:

	£m
<b>24 February 2018 (as previously reported)</b>	–
Adjustment on initial application of IFRS 9	13
<b>25 February 2018 (restated)</b>	<b>13</b>
Increase/(decrease) in the allowance recognised in the Group income statement	(13)
<b>23 February 2019</b>	–
Increase/(decrease) in the allowance recognised in the Group income statement during the year	2
<b>29 February 2020</b>	<b>2</b>

Gross loans to related parties of £183m (2019: £200m) are presented net of loss allowances of £2m (2019: £nil) and deferred profits of £54m (2019: £54m) on the Group balance sheet. The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) for the relevant time period and for each specific loan.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 78 and 79.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

The Group finances its liquidity position and finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases. The policy is to maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise, to maintain a smooth debt profile and maturing senior unsecured debt will not exceed £1.5bn in any 12-month period.

The Group retains access to capital markets so that maturing debt may be refinanced as it falls due. The Group has a £15.0bn Euro Medium Term Note programme, of which £4bn was in issue at 29 February 2020 (2019: £4.2bn), plus £0.4bn equivalent of USD denominated notes issued under 144A documentation (2019: £0.4bn).

Liquidity risk is continuously monitored by short-term and long-term cash flow forecasts. In addition, the Group has the following undrawn committed facilities which mature between 2020 and 2021.

#### Borrowing facilities

The Group has the following undrawn committed facilities available at 29 February 2020, in respect of which all conditions precedent had been met as at that date:

	2020 £m	2019 £m
Expiring in less than one year	38	38
Expiring between one and two years	3,000	–
Expiring in more than two years	–	3,000
	<b>3,038</b>	<b>3,038</b>

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

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 77.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivative liabilities taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow of £19.3bn is considered acceptable as it is offset by financial assets of £16.8bn (2019: £21.3bn offset by financial assets of £19.7bn).

The undiscounted cash flows will differ from both the carrying values and fair values. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
At 29 February 2020						
<b>Non-derivative financial liabilities</b>						
Bank and other borrowings	(1,391)	(467)	(53)	(795)	(956)	(3,776)
Interest payments on borrowings	(227)	(208)	(181)	(179)	(159)	(1,237)
Customer deposits – Tesco Bank	(6,426)	(797)	(233)	(187)	(115)	–
Deposits from banks – Tesco Bank	(3)	(1)	(501)	–	–	–
Lease liabilities	(1,081)	(1,018)	(996)	(993)	(951)	(9,584)
Trade and other payables*	(8,922)	(22)	(18)	(2)	(1)	(127)
<b>Derivative financial liabilities</b>						
Net settled derivative contracts – receipts	10	11	467	116	–	25
Net settled derivative contracts – payments	(717)	(42)	(470)	(148)	(160)	(18)
Gross settled derivative contracts – receipts	2,534	–	–	–	–	–
Gross settled derivative contracts – payments	(2,585)	–	–	–	–	–
<b>Total</b>	<b>(18,808)</b>	<b>(2,544)</b>	<b>(1,985)</b>	<b>(2,188)</b>	<b>(2,342)</b>	<b>(14,717)</b>
	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
At 23 February 2019 (restated)						
<b>Non-derivative financial liabilities</b>						
Bank and other borrowings	(1,515)	(1,221)	(556)	(28)	(854)	(3,118)
Interest payments on borrowings	(258)	(205)	(176)	(142)	(141)	(1,267)
Customer deposits – Tesco Bank	(8,569)	(1,348)	(336)	(108)	(186)	(1)
Deposits from banks – Tesco Bank	(337)	(410)	(945)	–	–	–
Lease liabilities	(1,202)	(1,107)	(1,071)	(1,034)	(1,006)	(11,015)
Trade and other payables*	(9,131)	(28)	(22)	(11)	(11)	(293)
<b>Derivative financial liabilities</b>						
Net settled derivative contracts – receipts	6	3	2	–	–	–
Net settled derivative contracts – payments	(291)	(340)	(59)	(79)	(6)	(20)
Gross settled derivative contracts – receipts	2,438	(262)	14	–	–	–
Gross settled derivative contracts – payments	(2,460)	260	(43)	–	–	–
<b>Total</b>	<b>(21,319)</b>	<b>(4,658)</b>	<b>(3,192)</b>	<b>(1,402)</b>	<b>(2,204)</b>	<b>(15,714)</b>

\* Trade and other payables includes £376m (2019: £423m) of contract liabilities. Refer to Note 21.

### Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Group income statement are hedged. These exposures are hedged via forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges and the policy is to have minimum (20%) and maximum (80%) hedge level of forecast uncommitted exposure within next 12 months;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group's policy is to hedge a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. During the current financial year, currency movements decreased the net value, after the effects of hedging, of the Group's overseas assets by £70m (2019: increased by £100m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries in currencies other than in the Group's functional currency. The Group's policy is that 100% of the foreign exchange risk is hedged. The risk exposure is managed by the use of foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

### Sensitivity analysis

The impact on the Group financial statements from foreign currency, inflation and interest rate volatility is discussed below.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 29 February 2020. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked borrowings, which has been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group statement of comprehensive income/(loss); changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group income statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

Using the above assumptions, the following table shows the illustrative effect on the Group income statement and equity that would result, at the balance sheet date, from changes in interest rates, inflation rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	2020*		2019	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2019: 1%)	39	(42)	58	(32)
10% appreciation of the Euro (2019: 10%)	1	(117)	1	(96)
10% appreciation of the US Dollar (2019: 10%)	5	78	–	100
25 basis points parallel upward shift in the forward inflation curve (2019: 25 basis points)	86	–	–	–

\* These sensitivities are presented on a consistent basis with the prior year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of the coronavirus pandemic is given in Note 36.

A decrease in interest rates, depreciation of foreign currencies and downward shift in the forward inflation curve would have the opposite effect to the impact in the table above.

The impact on the Group income statement resulting from changes in foreign exchange rates against GBP in relation to financial instruments (excluding those arising for consolidation) are minimal as Group policy dictates that all material income statement foreign exchange exposures are hedged.

During the current financial year, the Group entered into a number of derivative index-linked contracts with external counterparties, to economically hedge a proportion of the Group's exposure to index-linked lease liabilities with its joint ventures. These are specifically not designated as accounting hedges, but are economic hedges. However, the gains and losses on the hedging instrument and hedged item do not naturally offset in the Group income statement. This mismatch arises due to different accounting outcomes of IFRS 9 and IFRS 16 which results in a timing difference.

The impact on the Group statement of comprehensive income/(loss) from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group statement of comprehensive income/(loss) will largely be offset by the revaluation in equity of the hedged assets.

#### Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the Group balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares.

The Group raises finance in the public debt markets and borrows centrally and locally from financial institutions, using a variety of capital market instruments and borrowing facilities to meet the requirements of each local business.

In line with the Group's objectives, during the current financial year, the Group issued a £400m bond maturing in 2025 and €750m bond maturing in 2026.

Refer to Note 32 for the value of the Group's net debt (£12.3bn; 2019: £13.2bn), and the Group statement of changes in equity for the value of the Group's equity (£13.3bn; 2019: £13.4bn).

#### Insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events. The Group purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only.

The risk not transferred to the insurance market is retained within the Group with some cover being provided by the Group's captive insurance company, ELH Insurance Limited in Guernsey, which covers Assets, Earnings and Combined Liability.

#### Tesco Bank

##### Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates and from unexpected changes to the yield curve. Tesco Bank is exposed to interest rate risk through dealings with retail customers as well as through lending to and borrowing from the wholesale market. Tesco Bank has established limits for risk appetite and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. Tesco Bank also use the Capital at Risk (CaR) approach which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates.

The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

##### Liquidity and funding risk

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

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

Liquidity and funding risks are assessed through the Individual Liquidity Adequacy Assessment Process (ILAAP) on at least an annual basis. Formal limits are set within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board and key liquidity measures are monitored on a regular basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

#### Credit risk

Credit risk is the risk that a retail customer or counterparty to a wholesale transaction will fail to meet its obligations in accordance with contractually agreed terms and Tesco Bank will incur losses as a result. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time. To minimise the potential to be exposed to bad debts that are outside risk appetite, processes, systems and limits have been established that cover the end to end retail credit risk customer like cycle. These include credit scoring, affordability, credit policies and guides, and monitoring and reporting. The Bank is also exposed to wholesale credit risk primarily through its treasury activities. Controls and risk mitigants include daily monitoring of exposures, investing in counterparties with investment grade ratings, restricting the amount that can be invested with one counterparty and credit rating mitigation techniques. Assessment of the expected credit loss (ECL) on loans and advances to customers has taken into account a range of macro-economic scenarios.

	2020			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
29 February 2020				
Gross exposure	7,688	953	289	8,930
Loan commitments	11,755	116	1	11,872
<b>Total exposure</b>	<b>19,443</b>	<b>1,069</b>	<b>290</b>	<b>20,802</b>
<b>Allowance for expected credit losses</b>				
<b>At 23 February 2019</b>	<b>(84)</b>	<b>(229)</b>	<b>(172)</b>	<b>(485)</b>
<b>Transfers:</b>				
Transfers from stage 1 to stage 2	11	(11)	–	–
Transfers from stage 2 to stage 1	(64)	64	–	–
Transfers to stage 3	3	50	(53)	–
Transfer from stage 3	(2)	(2)	4	–
<b>Movements recognised in the Group income statement:</b>				
Net remeasurement following transfer of stage	38	(23)	(93)	(78)
New financial assets originated	(27)	(21)	(10)	(58)
Financial assets derecognised during the year	9	12	3	24
Changes in risk parameters and other movements	32	(63)	(60)	(91)
Other movements:				
Write-offs and asset disposals	–	3	195	198
Reclassification of mortgage balances to fair value through profit or loss	1	1	–	2
<b>At 29 February 2020</b>	<b>(83)</b>	<b>(219)</b>	<b>(186)</b>	<b>(488)</b>
<b>Reconciliation to Group balance sheet</b>				
Gross exposure	7,688	953	289	8,930
Allowance for expected credit losses	(83)	(219)	(186)	(488)
	<b>7,605</b>	<b>734</b>	<b>103</b>	<b>8,442</b>
Fair value adjustment				9
<b>Carrying value at 29 February 2020*</b>				<b>8,451</b>

\* Excludes loans and advances to banks of £nil (2019: £324m). Refer to Note 19.

	2019			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
23 February 2019				
Gross exposure	11,464	1,179	271	12,914
Loan commitments	12,115	110	1	12,226
<b>Total exposure</b>	<b>23,579</b>	<b>1,289</b>	<b>272</b>	<b>25,140</b>
<b>Allowance for expected credit losses</b>				
<b>At 24 February 2018</b>	<b>(95)</b>	<b>(211)</b>	<b>(151)</b>	<b>(457)</b>
<b>Transfers:</b>				
Transfers from stage 1 to stage 2	11	(11)	–	–
Transfers from stage 2 to stage 1	(46)	46	–	–
Transfers to stage 3	3	41	(44)	–
<b>Movements recognised in the Group income statement:</b>				
Net remeasurement following transfer of stage	26	(19)	(90)	(83)
New financial assets originated	(28)	(36)	(11)	(75)
Changes in risk parameters and other movements	45	(41)	(36)	(32)
Other movements:				
Write-offs and asset disposals	2	1	160	163
Transfer from provisions for liabilities and other charges	(2)	1	–	(1)
<b>At 23 February 2019</b>	<b>(84)</b>	<b>(229)</b>	<b>(172)</b>	<b>(485)</b>
<b>Reconciliation to Group balance sheet</b>				
Gross exposure	11,464	1,179	271	12,914
Allowance for expected credit losses	(84)	(229)	(172)	(485)
	<b>11,380</b>	<b>950</b>	<b>99</b>	<b>12,429</b>
Fair value adjustment				(3)
<b>Carrying value at 23 February 2019*</b>				<b>12,426</b>

\* Refer to previous table for footnote.



## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

The Bank defines four classifications of credit quality for all credit exposures: high, satisfactory, low and below standard. Credit exposures are segmented according to the probability of default (PD), with credit impaired reflecting a PD of 100%. At 29 February 2020 the quality of the Bank's loans and advances to customers was high for 75% of the total exposure (2019: 83%), satisfactory for 17% (2019: 11%), low for 5% (2019: 4%) and below standard for 3% (2019: 2%). The quality of the loan commitments was high for 97% of the total exposure (2019: 98%), satisfactory for 3% (2019: 2%), low for 0% (2019: 0%) and below standard for 0% (2019: 0%).

#### Expected credit losses (ECL)

The ECL is determined by multiplying together the PD, exposure at default (EAD) and loss given default (LGD) for the relevant time period and for each asset category and by discounting back to the balance sheet date. The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios, with key variables being the Bank of England base rate, unemployment rate, house price index and Gross Domestic Product (GDP).

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macro-economic scenarios. The key economic variables are based on historical patterns observed over a range of economic cycles.

The Group has engaged a third-party supplier to provide relevant economic data for this purpose which, prior to incorporation into the ECL calculation, is subject to internal review and challenge with reference to other publicly available market data and benchmarks. From this data, a base case scenario has been developed, together with four additional scenarios, each of which have been assigned a relative probability. The base case represents an estimate of the most-likely outcome whilst other scenarios represent more optimistic (upside) and more pessimistic (downside) outcomes. Downside scenario 1 reflects an economic downside caused by the UK being unable to secure a favourable trade deal with the EU, while Downside scenario 2 represents a more severe recession. As a result of COVID-19 developments at the balance sheet date, a fifth scenario was introduced which used Downside 2 as a proxy, to reflect the increased risk of an adverse impact on the economy from the COVID-19 pandemic. The scenarios have been assigned weightings of 40%, 20%, 30%, 5% and 5% respectively, which is considered to be appropriate for the calculation of unbiased ECLs.

#### Default

An account is deemed to have defaulted when the Group considers that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where:

- the customer makes a declaration of significant financial difficulty;
- the customer or third-party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructure such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- an account's contractual payments are more than 90 days past due; or
- where the customer is deceased.

#### Significant increase in credit risk

At each reporting date, the change in credit risk of the financial asset is observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status. For each financial asset, the Group compares the lifetime PD at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD threshold). The Group has established PD thresholds for each type of product which vary depending on initial term and term remaining. A number of qualitative criteria are in place such as: forbearance offered to customers in financial difficulty; risk-based pricing post-origination; credit indebtedness; credit limit decrease; and pre-delinquency information. As a backstop, the Group considers that if an account's contractual payment are more than 30 days past due then a significant increase in credit risk has taken place. The Group has used the low credit risk exemption in respect of its portfolio of investment securities in both the current and prior year.

The sensitivities in the ECL allowance to reasonably possible changes in the following key assumptions are set out below:

Key assumption	Reasonably possible change	2020* £m	2019 £m
Probability of default	Increase of 2.5%	11	9
	Decrease of 2.5%	(11)	(9)
Loss given default	Increase of 2.5%	12	12
	Decrease of 2.5%	(12)	(12)
Macro-economic factors	Upside scenario	(41)	(33)
	Base scenario	(28)	(21)
	Downside scenario 1	40	67
	Downside scenario 2	103	-
	COVID-19	103	-
Probability of default threshold (staging)	Increase of 20%	(17)	(14)
	Decrease of 20%	21	10

\* These sensitivities are presented on a consistent basis with the prior year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of the coronavirus pandemic is given in Note 36.

Tesco Bank could be exposed to unacceptable levels of bad debt and also suffer reputational damage if it did not provide adequate support to customers who are experiencing financial difficulties. Forbearance is relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial distress would prevent repayment within the original terms and conditions of the contract. The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

Tesco Bank has adopted the definition of forbearance in the European Banking Authority's (EBA) final draft Implementing Technical Standards (ITS) of July 2014. The Group reports all accounts meeting this definition, providing for them appropriately.

## Notes to the Group financial statements continued

### Note 25 Financial risk management continued

#### Controls and risk mitigants

Tesco Bank has well defined forbearance policies and processes. A number of forbearance options are made available to customers by the Group. These routinely, but not exclusively, include the following:

- arrangements to repay arrears over a period of time, by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term;
- short-term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship; and
- for secured products, it may also be acceptable to allow the customer to clear the arrears over an extended period of time, provided the payments remain affordable.

	Gross loans and advances subject to Forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of Forbearance programmes covered by allowance for expected credit losses	
	2020 £m	2019 £m	2020 %	2019 %	2020 %	2019 %
Credit cards – UK	107.6	92.8	2.5	2.0	49.7	53.3
Credit cards – Europe	–	–	–	–	–	–
Credit cards – Commercial	0.1	0.1	4.7	4.8	94.1	90.8
Loans	48.9	48.4	1.0	1.1	44.3	48.0
Mortgages	–	6.0	–	0.2	–	1.2

#### Insurance risk

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

### Note 26 Customer deposits and deposits from banks

	2020 £m	2019 £m
Customer deposits	7,707	10,465
Deposits from banks	500	1,663
	<b>8,207</b>	<b>12,128</b>
Of which:		
Current	6,377	8,832
Non-current	1,830	3,296
	<b>8,207</b>	<b>12,128</b>

Deposits from banks include balances of £nil (2019: £324m) in respect of securities sold under sale and repurchase agreements and balances of £500m (2019: £1,339m) drawn under the Bank of England's Term Funding Scheme. The underlying securities sold under agreements to repurchase had a carrying value of £nil (2019: £358m).

### Note 27 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
<b>At 23 February 2019 (restated)</b>	<b>161</b>	<b>143</b>	<b>69</b>	<b>373</b>
Foreign currency translation	(6)	–	2	(4)
Amount released in the year	(2)	(20)	(4)	(26)
Amount provided in the year	9	171	53	233
Amount utilised in the year	(7)	(230)	(48)	(285)
Unwinding of discount	1	–	–	1
<b>At 29 February 2020</b>	<b>156</b>	<b>64</b>	<b>72</b>	<b>292</b>

The balances are analysed as follows:

	2020 £m	2019 (restated) £m
Current	155	226
Non-current	137	147
	<b>292</b>	<b>373</b>

#### Property provisions

Property provisions comprise onerous property provisions, including non-lease contracts related to unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions.

#### Restructuring provisions

Of the £151m net charge (£171m charge, £20m release) recognised in the year, £151m (2019: £182m) has been classified within exceptional items as 'Net restructuring and redundancy costs' and related to store and head office restructuring in the UK & ROI £95m (2019: £131m), Central Europe £43m (2019: £27m), Asia £nil (2019: £26m) and Tesco Bank £13m (2019: £2m release).

#### Other provisions

Other provisions also include provisions for Tesco Bank customer redress in respect of potential complaints arising from the historical sales of PPI, and in respect of customer redress relating to instances where certain requirements of the Consumer Credit Act (CCA) for post-contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable. During the current financial year, an additional charge of £45m was recognised in the Group income statement within exceptional items, classified as 'Provision for customer redress' within cost of sales. Refer to Note 4 for further details.

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

## Notes to the Group financial statements continued

### Note 28 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £129m (2019: £118m), which is made up of share option schemes and share bonus payments. Of this amount, £113m (2019: £103m) will be settled in equity and £16m (2019: £15m) in cash. National Insurance payable in connection with options granted is treated as a cash-settled transaction.

#### Share option schemes

The Company had 10 share option schemes in operation during the financial year, all of which are equity-settled schemes:

- i. The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- ii. The Irish Savings-related Share Option Scheme (2000) permits the grant to ROI colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- iii. The Executive Incentive Plan (2004) permitted the grant of options in respect of ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.
- iv. The Executive Incentive Plan (2014) permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' remuneration report.
- v. The Performance Share Plan (2011) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.
- vi. The Discretionary Share Option Plan (2004) permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and 10 years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.
- vii. The Group Bonus Plan permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.
- viii. The Long Term Incentive Plan (2015) permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.
- ix. The Booker Group PLC Savings Related Share Option Plan 2008 (Booker SAYE) permitted the grant to Booker colleagues of options in respect of ordinary shares in Booker Group PLC (Booker Shares) linked to a building society/bank save-as-you-earn contract for a term of three years with contributions from Booker colleagues of an amount between £5 and £500 per four-weekly period. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker colleagues elected to roll over their existing options over Booker shares under the Booker SAYE into equivalent options over ordinary shares in Tesco PLC (Tesco Shares). The options over Tesco Shares are capable of being exercised at the end of the three year period at a subscription price equivalent to not less than 80% of the average of the middle-market quotations of a Booker Share over the three dealing days immediately preceding the offer date.
- x. The Booker Group PLC Performance Share Plan 2008 (Booker PSP) permitted the grant of options in respect of Booker Shares to selected Booker senior colleagues (Booker PSP Options). Under the Booker PSP, tax approved Company Share Option Plan options (Booker CSOP Options) were also granted to selected Booker senior colleagues. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker senior colleagues elected to roll over their existing Booker PSP and Booker CSOP Options over Booker Shares into equivalent options over Tesco Shares. Booker PSP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant for nil consideration. The vesting of options is normally conditional upon the achievement of specified performance targets over a three year period and continuous employment. Conditional on the vesting of the relevant Booker PSP Options, Booker CSOP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant at a subscription price equivalent to the market value of the Booker Shares at the time of grant.

## Notes to the Group financial statements continued

### Note 28 Share-based payments continued

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

#### For the 53 weeks ended 29 February 2020

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group PLC Savings Related		Booker Group PLC Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
<b>Outstanding at 23 February 2019</b>	<b>215,591,248</b>	<b>168.04</b>	<b>6,470,978</b>	<b>175.06</b>	<b>25,377,129</b>	<b>-</b>	<b>9,827,705</b>	<b>145.36</b>	<b>11,222,347</b>	<b>-</b>	<b>12,379,637</b>	<b>-</b>
Granted	44,387,158	219.00	1,977,339	219.00	537,271	-	-	-	-	-	-	-
Forfeited	(23,512,462)	200.62	(1,062,090)	187.69	(5,502,793)	-	(766,057)	147.40	(2,870,980)	-	(12,379,637)	-
Exercised	(20,653,850)	167.18	(530,614)	180.60	(1,955,766)	-	(3,961,499)	137.46	(3,375,131)	-	-	-
<b>Outstanding at 29 February 2020</b>	<b>215,812,094</b>	<b>175.06</b>	<b>6,855,613</b>	<b>185.35</b>	<b>18,455,841</b>	<b>-</b>	<b>5,100,149</b>	<b>151.21</b>	<b>4,976,236</b>	<b>-</b>	<b>-</b>	<b>-</b>
Exercise price range (pence)	150.00 to 322.00		150.00 to 219.00		-		137.13 to 152.78		-		-	
Weighted average remaining contractual life (years)	2.09		2.55		6.39		1.32		0.51		-	
<b>Exercisable at 29 February 2020</b>	<b>2,948,571</b>	<b>189.92</b>	<b>243,886</b>	<b>190.00</b>	<b>9,359,089</b>	<b>-</b>	<b>523,817</b>	<b>137.45</b>	<b>977,437</b>	<b>-</b>	<b>-</b>	<b>-</b>
Exercise price range (pence)	151.00 to 322.00		190.00		-		137.45		-		-	
Weighted average remaining contractual life (years)	0.41		0.42		5.60		0.42		-		-	

\* Other Schemes includes Approved Share Option Scheme (Approved), Unapproved Share Option Scheme (Unapproved), and International Executive Share Option Scheme (International). Respectively: WAEP for Outstanding at 23 February 2019 were 338.40p (2018: 391.25p), 338.40p (2018: 375.18p) and 338.40p (2018: 375.69p); WAEP for Forfeited during the current financial year were 338.40p (2019: 416.94p), 338.40p (2019: 400.96p) and 338.40p (2019: 396.04p); WAEP for Outstanding at 29 February 2020 were nil (2019: 338.40p), nil (2019: 338.40p) and nil (2019: 338.40p).

Share options were exercised on a regular basis throughout the financial year. The average share price during the 53 weeks ended 29 February 2020 was 237.69p (2019: 228.55p).

#### For the 52 weeks ended 23 February 2019

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group PLC Savings Related		Booker Group PLC Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
<b>Outstanding at 24 February 2018</b>	<b>244,886,709</b>	<b>162.21</b>	<b>6,926,980</b>	<b>167.88</b>	<b>36,015,512</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,377,140</b>	<b>-</b>
Granted	50,220,486	188.00	1,925,295	168.00	411,499	-	15,684,396	141.47	17,446,916	-	-	-
Forfeited	(25,820,506)	188.17	(1,215,831)	178.35	(6,321,392)	-	(1,566,612)	145.59	(662,887)	-	(19,997,503)	-
Exercised	(53,695,441)	150.43	(1,165,466)	150.34	(4,728,490)	-	(4,290,079)	131.06	(5,561,682)	-	-	-
<b>Outstanding at 23 February 2019</b>	<b>215,591,248</b>	<b>168.04</b>	<b>6,470,978</b>	<b>175.06</b>	<b>25,377,129</b>	<b>-</b>	<b>9,827,705</b>	<b>145.36</b>	<b>11,222,347</b>	<b>-</b>	<b>12,379,637</b>	<b>-</b>
Exercise price range (pence)	150.00 to 322.00		150.00 to 322.00		-		88.26 to 163.76		-		338.40 to 427.00	
Weighted average remaining contractual life (years)	2.46		2.71		7.31		1.89		0.96		0.20	
<b>Exercisable at 23 February 2019</b>	<b>10,629,678</b>	<b>210.24</b>	<b>406,100</b>	<b>192.01</b>	<b>6,491,384</b>	<b>-</b>	<b>573,798</b>	<b>137.13</b>	<b>1,740,392</b>	<b>-</b>	<b>12,379,637</b>	<b>-</b>
Exercise price range (pence)	150.00 to 322.00		150.00 to 322.00		-		137.40		-		338.40 to 427.00	
Weighted average remaining contractual life (years)	0.43		0.43		6.16		0.35		-		0.20	

\* Refer to previous table for footnotes.

## Notes to the Group financial statements continued

### Note 28 Share-based payments continued

The fair value of share options is estimated at the date of grant using the Black-Scholes or Monte Carlo option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2020		2019	
	SAYE	Nil cost	SAYE	Nil cost
Expected dividend yield (%)	3.7%–4.3%	–	1.5–4.2%	1.5%
Expected volatility (%)	23–28%	–	29%	25–30%
Risk-free interest rate (%)	0.8%	–	0.8–1.1%	0.8–0.9%
Expected life of option (years)	3 or 5	–	3 or 5	3–6
Weighted average fair value of options granted (pence)	38.56	–	41.01	68.04–180.35
Probability of forfeiture (%)	7–10%	–	7–11%	–
Share price (pence)	243.00	–	212.40	204.00
Weighted average exercise price (pence)	219.00	–	0.88–188.00	–

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

#### Share bonus and incentive schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long Term Incentive Plan (2015). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The Executive Directors participate in short-term bonus and long-term incentive schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' remuneration report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

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

	2020		2019	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Group Bonus Plan	11,496,310	237.80	16,489,286	242.07
Performance Share Plan	39,136,637	233.77	25,570,973	254.79

### Note 29 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.

#### Defined contribution

Defined contribution schemes are open to all Tesco employees in the UK.

Under the Group's defined contribution pension schemes, employees of the Group pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the employee's contributions. The Group has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes of £343m (2019: £332m) have been recognised in the Group income statement. This includes £116m (2019: £110m) of salaries paid as pension contributions.

#### Defined benefit schemes

The Group has a defined benefit pension deficit of £3,085m (2019: £2,808m), comprising a number of schemes. The most significant of these are for the Group's employees in the UK, which are closed to future accrual, and ROI. The defined benefit pension deficit in the UK represents 92% of the Group deficit (2019: 96%).

#### Business combinations

In the prior year, the Group acquired Booker, which has three UK defined benefit pension schemes. The Booker Pension Scheme, closed to future accrual, is the primary scheme, with two smaller closed schemes relating to retail partners Budgens and Londis. The combined defined benefit pension deficit acquired on business combination in the prior year was £22m.

#### Guaranteed minimum pension

In the prior year a high court judgement was handed down regarding the Lloyds Banking Group's defined benefit pension scheme which affects many pension schemes in the UK, including the Group's UK schemes. The judgement concluded that schemes should be amended to ensure that members who have guaranteed minimum pensions (GMPs) receive the same benefits regardless of their gender. This change impacts GMP benefits accrued between 1990 and 1997. In consultation with independent actuaries, the Group recognised the financial effect of equalising benefits as a one-off £43m exceptional past service cost in the prior year. This was presented as an exceptional item in the Group income statement (Note 4).

## Notes to the Group financial statements continued

### Note 29 Post-employment benefits continued

#### United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with all relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

1. representatives of the Group; and
2. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

#### Scheme funding

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial assessment, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities based on corporate bond yields.

The most recent completed triennial actuarial assessment of the Scheme was performed on 31 March 2017 using the projected unit credit method. The funding position was a deficit of £3,016m. The market value of the Scheme's assets was £13,141m and these assets represented 81% of the benefits that had accrued to members, after allowing for expected increases in pensions in payment. Work is underway on the next triennial valuation, with an effective date of 31 December 2019, with the Trustee concluding as soon as reasonably possible.

The Group has a plan to fund the Scheme pension deficit and to meet the expenses of the Scheme. Annual contributions of £285m for 9 years from April 2018 were agreed, with contributions being assessed at the next triennial review. The expenses for the year, which include the Pension Protection Fund levy, were £28m (2019: £23m). In the event that the Pension Protection Fund levy for the Scheme exceeds £75m over three years, the Group agreed to pay this excess amount to the Scheme over the following three years. The market value of assets held as security in favour of the Scheme is at least £575m.

Subject to the Group's sale of its operations in Thailand and Malaysia (refer to Note 36), the Group has agreed with the Trustee to contribute £2.5bn to the Tesco PLC Pension Scheme, to eliminate the current funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future.

The most recent Booker Pension Scheme triennial valuation showed a funding deficit of £103m at 31 March 2019, with agreed contributions of £15m per annum until end of 2028. No contributions were required for the Budgens or Londis schemes.

#### IFRIC 14

The Group is not required to recognise any additional liabilities in relation to funding plans, or limit the recognition of any surpluses, as any future economic benefits will be available to the Group by way of future refunds or reductions to future contributions.

#### Maturity profile of obligations

The estimated duration of the Scheme obligations is an indicator of the weighted average term of benefit payments after discounting. For the Scheme this is 25 years.

Around half of the undiscounted benefits are due to be paid beyond 30 years' time, with the last payments expected to be over 80 years from now. The estimated undiscounted benefit payments expected to be paid out over the life of the Scheme is shown in a graph in the Annual Report and Financial Statements 2020.

The liabilities held by the Scheme as at 31 March 2017, the date of the last triennial valuation, are broken down as follows:

	%
Deferred	81
Pensioner	19



## Notes to the Group financial statements continued

### Note 29 Post-employment benefits continued

#### Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

Risk	Description of risk	Mitigation
Investment	The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Group.	The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy. The Trustee and Group take a balanced approach to investment risk and use a long-term plan to manage investment risk.
Inflation	The Scheme's benefit obligations are linked to inflation. A higher rate of expected long-term inflation will therefore lead to higher liabilities, both for the IAS 19 and funding liability. If the Scheme's funding liability increases, this may require additional contributions to be made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as inflation expectations increase. This mitigates the impact of any adverse movement in long-term inflation expectations. The Scheme's holdings are designed to hedge against inflation risk up to the value of the funded liabilities. Additionally, changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).
Interest rate	A decrease in corporate bond yields will increase the accounting deficit under IAS 19. Similarly, a decrease in gilt yields will have an adverse impact on the funding position of the Scheme. This may lead to additional contributions to be made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as interest rates decrease. The Scheme's holdings are designed to hedge against interest rate risk up to the value of the funded liabilities. Because the aim of the portfolio is to mitigate risk for the funding position, ineffectiveness in hedging for the accounting deficit under IAS 19 can arise where corporate bond and gilt yields diverge. This is partially offset by Scheme holdings in corporate bonds.
Life expectancy	The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities.	To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years. The Trustee and Group regularly monitor the impact of changes in longevity on Scheme obligations.

The Operations and Audit Pensions Committee was established to further strengthen the Group's Trustee Governance and provide greater oversight and stronger internal control over the Group's risks. The Group Pensions Committee was also set up to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance and impacts of any regulatory changes.

#### Scheme principal assumptions

##### Financial assumptions

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

	2020 %	2019 %
Discount rate	1.9	2.8
Price inflation	2.8	3.1
Rate of increase in deferred pensions*	2.0	2.1
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.7	2.9
Benefits accrued after 1 June 2012	2.1	2.2

\* In excess of any guaranteed minimum pension (GMP) element.

##### Mortality assumptions

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

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2019 improvements. In addition, the allowance for future mortality improvements from 2017 have been updated to be in line with CMI 2019, with a long-term improvement rate of 1.25% per annum.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

		Pensioner	Non-Pensioner
Male	Staff	100% of SAPS S2 Normal	105% of SAPS S2 Normal
	Senior Manager	85% of SAPS S2 Normal Light	87% of SAPS S2 Normal Light
Female	Staff	100% of SAPS S2 All	98% of SAPS S2 All
	Senior Manager	85% of SAPS S2 All	86% of SAPS S2 All



## Notes to the Group financial statements continued

### Note 29 Post-employment benefits continued

The following table illustrates the expectation of life of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 at the balance sheet date +25 years. A comparison between the two retiree dates illustrates the expected improvements in mortality over the next 25 years.

		2020 Years	2019 Years
Retiring at the balance sheet date at age 65:	Male	22.0	22.3
	Female	23.8	24.0
Retiring at the balance sheet date +25 years at age 65:	Male	23.4	23.7
	Female	25.8	26.0

### Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligations are detailed below:

	2020*		2019	
	Discount rate £m	Inflation rate £m	Discount rate £m	Inflation rate £m
Financial assumptions – Increase/(decrease) in UK defined benefit obligation				
Impact of 0.1% increase of the assumption	(460)	383	(401)	334
Impact of 0.1% decrease of the assumption	479	(383)	401	(301)
Impact of 1.0% increase of the assumption	(4,002)	4,289	(3,406)	3,607
Impact of 1.0% decrease of the assumption	5,572	(3,313)	4,709	(2,839)
Mortality assumptions – Increase/(decrease) in UK defined benefit obligation				
Impact of 1 year increase in longevity			881	685
Impact of 1 year decrease in longevity			(881)	(685)

\* These sensitivities are presented on a consistent basis with the prior year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of the coronavirus pandemic is given in Note 36.

Sensitivities are calculated by changing the relevant assumption whilst holding all other assumptions constant. The sensitivities reflect the range of recent assumption movements, and illustrate that the financial assumption sensitivities do not move in a linear fashion. Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

### Overseas

The most significant overseas scheme is the funded defined benefit scheme which operates in ROI. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the ROI scheme as at 29 February 2020. At the financial year end, the IAS 19 deficit relating to ROI was £206m (2019: £106m).

### Post-employment benefits other than pensions

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 29 February 2020 of £8m (2019: £9m) was determined in accordance with the advice of independent actuaries. During the financial year, £nil (2019: £nil) has been charged to the Group income statement and £nil (2019: £nil) of benefits were paid.

### Plan assets

The Group's pension schemes hold assets that both provide returns and mitigate risk, including the volatility of future pension payments. The table below shows a breakdown of the combined investments held by the Group's schemes:

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
<b>Equities</b>								
UK	255	–	255	2	203	–	203	1
Europe	746	–	746	4	684	–	684	5
Rest of the world	4,347	–	4,347	25	4,224	–	4,224	28
	<b>5,348</b>	<b>–</b>	<b>5,348</b>	<b>31</b>	<b>5,111</b>	<b>–</b>	<b>5,111</b>	<b>34</b>
<b>Bonds</b>								
Government	750	–	750	4	1,174	–	1,174	8
Corporates – investment grade	1,362	–	1,362	8	648	–	648	4
Corporates – non-investment grade	2	–	2	0	2	–	2	0
	<b>2,114</b>	<b>–</b>	<b>2,114</b>	<b>12</b>	<b>1,824</b>	<b>–</b>	<b>1,824</b>	<b>12</b>
<b>Property</b>								
UK	44	1,036	1,080	6	83	1,032	1,115	7
Rest of the world	7	475	482	3	6	423	429	3
	<b>51</b>	<b>1,511</b>	<b>1,562</b>	<b>9</b>	<b>89</b>	<b>1,455</b>	<b>1,544</b>	<b>10</b>
<b>Alternative assets</b>								
Hedge funds	2	304	306	2	2	383	385	3
Private equity	–	881	881	5	–	851	851	6
Other	225	1,043	1,268	7	230	827	1,057	7
	<b>227</b>	<b>2,228</b>	<b>2,455</b>	<b>14</b>	<b>232</b>	<b>2,061</b>	<b>2,293</b>	<b>16</b>
<b>Liability Driven Investment (LDI) portfolios</b>	<b>4,580</b>	<b>444</b>	<b>5,024</b>	<b>29</b>	<b>3,695</b>	<b>287</b>	<b>3,982</b>	<b>26</b>
<b>Cash</b>	<b>922</b>	<b>–</b>	<b>922</b>	<b>5</b>	<b>300</b>	<b>–</b>	<b>300</b>	<b>2</b>
<b>Total fair value of assets</b>	<b>13,242</b>	<b>4,183</b>	<b>17,425</b>	<b>100</b>	<b>11,251</b>	<b>3,803</b>	<b>15,054</b>	<b>100</b>

Quoted assets are those with a quoted price in an active market.

The LDI category consists of assets, including gilts and index-linked gilts, of the value of £8,115m (2019: £6,683m) and associated repurchase agreements and swaps of £(3,091)m (2019: £(2,701)m). Other derivatives are included in the asset category to which they relate, reflecting the underlying nature and exposure of the derivative.

## Notes to the Group financial statements continued

### Note 29 Post-employment benefits continued

The plan assets include £209m (2019: £198m) relating to property used by the Group. Group property with net carrying value of £478m (2019: £489m) (Note 11) and a value to the Scheme of at least £575m (2019: £575m) is held as security in favour of the Scheme.

#### Movement in the Group pension deficit during the current financial year

	Fair value of plan assets		Defined benefit obligations		Net defined benefit surplus/(deficit)	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
<b>Opening balance</b>	<b>15,054</b>	<b>13,235</b>	<b>(17,862)</b>	<b>(16,517)</b>	<b>(2,808)</b>	<b>(3,282)</b>
Current service cost	–	–	(40)	(35)	(40)	(35)
Past service cost	–	–	(5)	(43)	(5)	(43)
Finance income/(cost)	409	396	(480)	(485)	(71)	(89)
<b>Included in the Group income statement</b>	<b>409</b>	<b>396</b>	<b>(525)</b>	<b>(563)</b>	<b>(116)</b>	<b>(167)</b>
Remeasurement gain/(loss):						
Financial assumptions gain/(loss)	–	–	(2,867)	(478)	(2,867)	(478)
Demographic assumptions gain/(loss)	–	–	182	(51)	182	(51)
Experience gain/(loss)	–	–	61	(39)	61	(39)
Return on plan assets excluding finance income	2,158	932	–	–	2,158	932
Foreign currency translation	(3)	(3)	5	3	2	–
<b>Included in the Group statement of comprehensive income/(loss)</b>	<b>2,155</b>	<b>929</b>	<b>(2,619)</b>	<b>(565)</b>	<b>(464)</b>	<b>364</b>
Member contributions	2	2	(2)	(2)	–	–
Employer contributions	36	33	–	–	36	33
Additional employer contributions	262	266	–	–	262	266
Benefits paid	(493)	(547)	498	547	5	–
Acquired through business combination	–	740	–	(762)	–	(22)
<b>Other movements</b>	<b>(193)</b>	<b>494</b>	<b>496</b>	<b>(217)</b>	<b>303</b>	<b>277</b>
<b>Closing balance</b>	<b>17,425</b>	<b>15,054</b>	<b>(20,510)</b>	<b>(17,862)</b>	<b>(3,085)</b>	<b>(2,808)</b>
Deferred tax asset					512	470
<b>Deficit in schemes at the end of the year, net of deferred tax</b>					<b>(2,573)</b>	<b>(2,338)</b>

### Note 30 Called up share capital

	2020		2019	
	Number of 5p shares	£m	Number of 5p shares	£m
<b>Allotted, called up and fully paid:</b>				
<b>At the beginning of the year</b>	<b>9,793,496,561</b>	<b>490</b>	<b>8,192,116,619</b>	<b>410</b>
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
<b>At the end of the year</b>	<b>9,793,496,561</b>	<b>490</b>	<b>9,793,496,561</b>	<b>490</b>

No shares were issued during the current financial year in relation to share options. During the previous financial year, 41.5 million ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £60m. No (2019: 12 million) ordinary shares of 5p each were issued in relation to the 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 the acquisition of 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 merger reserve, included within Other reserves on the Group statement of changes in equity.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme the shares and dividends associated with shares of untraced members are forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. During the current financial year, the Group received £nil (2019: £nil) proceeds from sale of untraced shares and £nil (2019: £nil) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 29 February 2020, the Directors were authorised to purchase up to a maximum in aggregate of 979.3 million (2019: 977.2 million) ordinary shares before the Annual General Meeting 2020 on 26 June 2020.

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

#### 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 from the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans (refer to Note 28). The number of ordinary shares held by the Tesco International Employee Benefit Trust at 29 February 2020 was 87.6 million (2019: 68.1 million). This represents 0.89% of called-up share capital at the end of the year (2019: 0.70%).

No own shares held of Tesco PLC were cancelled during the financial years presented.

## Notes to the Group financial statements continued

### Note 31 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

#### Transactions

	Joint ventures		Associates	
	2020	2019 (restated)	2020	2019 (restated)
	£m	£m	£m	£m
Sales to related parties	491	486	–	–
Purchases from related parties	100	96	12	11
Dividends received	29	29	13	12
Injection of equity funding	–	11	12	–

Sales to related parties consist of services/management fees and loan interest. Transactions between the Group and the Group's pension plans are disclosed in Note 29.

#### Balances

	Joint ventures		Associates	
	2020	2019 (restated)	2020	2019 (restated)
	£m	£m	£m	£m
Amounts owed to related parties	26	20	–	–
Amounts owed by related parties	47	37	–	–
Lease liabilities payable to related parties	3,206	3,718	146	141
Loans to related parties (net of deferred profits)*	127	133	–	–

\* Loans to related parties of £127m (2019: £133m) are presented net of deferred profits of £54m (2019: £54m) historically arising from the sale of property assets to joint ventures. For loans to related parties, a 12-month expected credit loss is recorded on initial recognition. The expected credit loss was immaterial as at the current balance sheet date.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 (Regulations) apply. The financial statements for those partnerships have been consolidated into these financial statements pursuant to Regulation 7 of the Regulations.

#### Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel. Cost of key management personnel compensation for the financial year was as follows:

	2020 £m	2019 £m
Salaries and short-term benefits	20	17
Pensions and cash in lieu of pensions	2	2
Share-based payments	16	13
Joining costs and loss of office costs	1	1
	<b>39</b>	<b>33</b>
Attributable to:		
The Board of Directors (including Non-executive Directors)	10	10
Executive Committee (members not on the Board of Directors)	29	23
	<b>39</b>	<b>33</b>

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the financial year end:

	Credit card, mortgage and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
<b>At 29 February 2020</b>	<b>6</b>	<b>–</b>	<b>13</b>	<b>1</b>
At 23 February 2019	3	–	10	2

## Notes to the Group financial statements continued

### Note 32 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					At 29 February 2020 £m
				Fair value gains/(losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisition of property joint venture £m	Other £m	
<b>Total Group</b>									
Bank and other borrowings	(7,143)	456	255	(192)	2	(251)	(622)	–	(7,495)
Lease liabilities	(10,505)	634	541	–	1	(541)	455	(151)	(9,566)
Net derivative financial instruments	591	17	7	(208)	–	14	(223)	–	198
<b>Arising from financing activities</b>	<b>(17,057)</b>	<b>1,107</b>	<b>803</b>	<b>(400)</b>	<b>3</b>	<b>(778)</b>	<b>(390)</b>	<b>(151)</b>	<b>(16,863)</b>
Cash and cash equivalents	2,916	–	534	–	(42)	–	–	–	3,408
Short-term investments	390	–	687	–	(1)	–	–	–	1,076
Joint venture loans	133	–	(8)	–	–	2	–	–	127
Interest and other receivables	1	–	(18)	–	(1)	19	–	–	1
<b>Total Group</b>	<b>(13,617)</b>	<b>1,107</b>	<b>1,998</b>	<b>(400)</b>	<b>(41)</b>	<b>(757)</b>	<b>(390)</b>	<b>(151)</b>	<b>(12,251)</b>
<b>Tesco Bank</b>									
Bank and other borrowings	(1,421)	160	5	1	–	(5)	–	–	(1,260)
Lease liabilities	(35)	2	3	–	–	(3)	–	–	(33)
Net derivative financial instruments	(29)	–	–	(16)	–	–	–	–	(45)
<b>Arising from financing activities</b>	<b>(1,485)</b>	<b>162</b>	<b>8</b>	<b>(15)</b>	<b>–</b>	<b>(8)</b>	<b>–</b>	<b>–</b>	<b>(1,338)</b>
Cash and cash equivalents	1,043	–	321	–	–	–	–	–	1,364
Joint ventures loans	29	–	(8)	–	–	–	–	–	21
<b>Tesco Bank</b>	<b>(413)</b>	<b>162</b>	<b>321</b>	<b>(15)</b>	<b>–</b>	<b>(8)</b>	<b>–</b>	<b>–</b>	<b>47</b>
<b>Retail</b>									
Bank and other borrowings	(5,722)	296	250	(193)	2	(246)	(622)	–	(6,235)
Lease liabilities	(10,470)	632	538	–	1	(538)	455	(151)	(9,533)
Net derivative financial instruments	620	17	7	(192)	–	14	(223)	–	243
<b>Arising from financing activities</b>	<b>(15,572)</b>	<b>945</b>	<b>795</b>	<b>(385)</b>	<b>3</b>	<b>(770)</b>	<b>(390)</b>	<b>(151)</b>	<b>(15,525)</b>
Cash and cash equivalents	1,873	–	213	–	(42)	–	–	–	2,044
Short-term investments	390	–	687	–	(1)	–	–	–	1,076
Joint ventures loans	104	–	–	–	–	2	–	–	106
Interest and other receivables	1	–	(18)	–	(1)	19	–	–	1
<b>Net debt<sup>(b)</sup></b>	<b>(13,204)</b>	<b>945</b>	<b>1,677</b>	<b>(385)</b>	<b>(41)</b>	<b>(749)</b>	<b>(390)</b>	<b>(151)</b>	<b>(12,298)</b>

<sup>(a)</sup> Movements in net debt arising from the Group's acquisition of the Tesco Atrato Limited partnership. Refer to Note 33.

<sup>(b)</sup> Refer to page 121 for a reconciliation from Net debt shown above to the Group's 52 week alternative performance measures.

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.

# Notes to the Group financial statements continued

## Note 32 Analysis of changes in net debt continued

	At 25 February 2018 (restated) £m	IFRS 9 adjustment £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Non-cash movements					At 23 February 2019 (restated) £m
					Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisition of subsidiary £m	Other £m	
<b>Total Group</b>										
Bank and other borrowings	(8,499)	–	1,496	298	(136)	(8)	(294)	–	–	(7,143)
Lease liabilities	(10,272)	–	606	561	–	(16)	(561)	(504)	(319)	(10,505)
Net derivative financial instruments	481	–	(35)	–	128	–	17	–	–	591
<b>Arising from financing activities</b>	<b>(18,290)</b>	<b>–</b>	<b>2,067</b>	<b>859</b>	<b>(8)</b>	<b>(24)</b>	<b>(838)</b>	<b>(504)</b>	<b>(319)</b>	<b>(17,057)</b>
Cash and cash equivalents	4,059	–	–	(1,158)	–	15	–	–	–	2,916
Short-term investments	1,029	–	–	(639)	–	–	–	–	–	390
Joint venture loans	138	(13)	–	(5)	–	–	–	–	13	133
Interest and other receivables	1	–	–	(21)	–	–	21	–	–	1
<b>Total Group</b>	<b>(13,063)</b>	<b>(13)</b>	<b>2,067</b>	<b>(964)</b>	<b>(8)</b>	<b>(9)</b>	<b>(817)</b>	<b>(504)</b>	<b>(306)</b>	<b>(13,617)</b>
<b>Tesco Bank</b>										
Bank and other borrowings	(1,584)	–	154	5	9	–	(5)	–	–	(1,421)
Lease liabilities	(36)	–	1	3	–	–	(3)	–	–	(35)
Net derivative financial instruments	(42)	–	–	–	13	–	–	–	–	(29)
<b>Arising from financing activities</b>	<b>(1,662)</b>	<b>–</b>	<b>155</b>	<b>8</b>	<b>22</b>	<b>–</b>	<b>(8)</b>	<b>–</b>	<b>–</b>	<b>(1,485)</b>
Cash and cash equivalents	1,304	–	–	(261)	–	–	–	–	–	1,043
Joint ventures loans	34	–	–	(5)	–	–	–	–	–	29
<b>Tesco Bank</b>	<b>(324)</b>	<b>–</b>	<b>155</b>	<b>(258)</b>	<b>22</b>	<b>–</b>	<b>(8)</b>	<b>–</b>	<b>–</b>	<b>(413)</b>
<b>Retail</b>										
Bank and other borrowings	(6,915)	–	1,342	293	(145)	(8)	(289)	–	–	(5,722)
Lease liabilities	(10,236)	–	605	558	–	(16)	(558)	(504)	(319)	(10,470)
Net derivative financial instruments	523	–	(35)	–	115	–	17	–	–	620
<b>Arising from financing activities</b>	<b>(16,628)</b>	<b>–</b>	<b>1,912</b>	<b>851</b>	<b>(30)</b>	<b>(24)</b>	<b>(830)</b>	<b>(504)</b>	<b>(319)</b>	<b>(15,572)</b>
Cash and cash equivalents	2,755	–	–	(897)	–	15	–	–	–	1,873
Short-term investments	1,029	–	–	(639)	–	–	–	–	–	390
Joint venture loans	104	(13)	–	–	–	–	–	–	13	104
Interest and other receivables	1	–	–	(21)	–	–	21	–	–	1
<b>Net debt</b>	<b>(12,739)</b>	<b>(13)</b>	<b>1,912</b>	<b>(706)</b>	<b>(30)</b>	<b>(9)</b>	<b>(809)</b>	<b>(504)</b>	<b>(306)</b>	<b>(13,204)</b>

### Reconciliation of net cash flow to movement in Net debt

	2020 £m	2019 (restated) £m
Net increase/(decrease) in cash and cash equivalents	534	(1,158)
Elimination of Tesco Bank movement in cash and cash equivalents	(321)	261
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	687	(639)
Net increase/(decrease) in joint venture loans	–	–
Net (increase)/decrease in borrowings and lease liabilities	928	1,947
Net cash flows from derivative financial instruments	17	(35)
Net interest paid on components of Net debt	777	830
<b>Change in Net debt resulting from cash flow</b>	<b>2,622</b>	<b>1,206</b>
Retail IFRS 9 adjustment	–	(13)
Retail net interest charge on components of Net debt	(749)	(809)
Retail fair value and foreign exchange movements	(426)	(39)
Retail other non-cash movements	(151)	(306)
Acquisition of property joint venture (Note 33)	(390)	–
Acquisition of subsidiary	–	(504)
<b>(Increase)/ decrease in Net debt</b>	<b>906</b>	<b>(465)</b>
Opening Net debt	(13,204)	(12,739)
<b>Closing Net debt*</b>	<b>(12,298)</b>	<b>(13,204)</b>

\* Refer to page 121 for a reconciliation from Net debt shown above to the Group's 52 week alternative performance measures.

## Notes to the Group financial statements continued

### Note 33 Acquisitions and disposals

#### Acquisition of property joint venture – Tesco Atrato Limited partnership

On 23 September 2019, the Group obtained control of the Tesco Atrato Limited partnership (the partnership or Atrato), previously accounted for as a joint venture. The Group obtained control through the acquisition of the other partner's 50% interest in the partnership for £32m (net of derecognition of a £5m purchase commitment derivative). The partnership had bond and derivative liabilities, and owns 15 stores and two distribution centres, which the partnership previously leased to the Group. The acquisition, which has been treated as an asset acquisition, increased 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.

The table below sets out the values to the Group in respect of obtaining control of the partnership:

	Notes	£m
Property, plant and equipment	11	914
Cash and cash equivalents		1
Borrowings	32	(622)
Derivative liabilities	32	(223)
Other payables		(7)
<b>Total assets and liabilities acquired</b>		<b>63</b>
Revaluation of the Group's original 50% investment		31
Consideration paid (net of derecognition of a £5m purchase commitment derivative)	4	32
<b>Total cost</b>		<b>63</b>

The Group recognised the following gains and losses as an exceptional item within cost of sales on the Group income statement. The related tax charge of £(23)m has also been classified as an exceptional item. Refer to Note 4 for further details.

	Notes	£m
Revaluation of the Group's original 50% investment		31
Impairment of property, plant and equipment acquired	15	(287)
Derecognition of the Group's lease liabilities with the partnership	32	455
Derecognition of the Group's right of use assets with the partnership	12	(335)
<b>Total exceptional loss within cost of sales</b>		<b>(136)</b>
Taxation – exceptional	4	(23)
<b>Total exceptional loss after taxation</b>		<b>(159)</b>

#### Disposal of investment in associate – Gain Land

On 28 February 2020, the Group completed the sale of its 20% share in its associate Gain Land Limited (Gain Land) in China. The Group recognised a gain on disposal of £37m which has been recognised as an exceptional item within administrative expenses classified as 'Disposal of China associate'. The carrying value of Gain Land on the disposal date was £240m. The Group received cash proceeds of £277m, recognised as an exceptional item within cash flows from investing activities. Refer to Note 4 for exceptional items.

### Note 34 Commitments and contingencies

#### Capital commitments

At 29 February 2020, there were commitments for capital expenditure contracted for, but not incurred, of £140m (2019: £70m), principally relating to store development.

#### Contingent liabilities

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

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 56 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. At 29 February 2020, five guarantees remained 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 205bn (£132m) and KRW 333bn (£214m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 161bn (£103m), with funds of KRW 65bn (£42m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 96bn (£62m). 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.

On 23 March 2020 the Group was released from one of the guarantees, reducing the maximum potential liability under the remaining four outstanding guarantees to between KRW 116bn (£74m) and KRW 198bn (£127m). In the event that the remaining four guarantees are called, the potential economic outflow is estimated at KRW 112bn (£72m), with funds of KRW 37bn (£24m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore reduced to an estimated KRW 75bn (£48m).

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.

## Notes to the Group financial statements continued

### Note 34 Commitments and contingencies continued

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.

#### Subsidiary audit exemptions

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

Name	Company number	Name	Company Number	Name	Company Number
Adminstore Limited	01882853	Spen Hill Development Limited	04827219	Tesco Mobile Communications Limited	04780729
Armitage Finance Limited	05966324	Spen Hill Management Limited	02460426	Tesco Mobile Services Limited	04780734
Buttoncable Limited	05294246	Spen Hill Properties (Holdings) PLC	02412674	Tesco PEG Limited	06480309
Buttoncase Limited	05298861	Spen Hill Regeneration Limited	06418300	Tesco PENL Limited	06479938
Day and Nite Stores Limited	01746058	T & S Stores Limited	01228935	Tesco Red (3LP) Limited	010127765
Dillons Newsagents Limited	00140624	Tapesilver Limited	05205362	Tesco Red (GP) Limited	05721630
Launchgrain Limited	05260856	Tesco Aqua (3LP) Limited	09947521	Tesco TLB Finance Limited	04967622
Oakwood Distribution Limited	05721635	Tesco Aqua (GP) Limited	05721654	Tesco TLB Properties Limited	03159425
One Stop Community Stores Limited	00198980	Tesco Family Dining Limited	08514605	The Tesco Aqua Limited Partnership	LP011520
One Stop Convenience Stores Limited	02467178	Tesco Freetime Limited	04345023	The Tesco Red Limited Partnership	LP011522
Paper Chain (East Anglia) Limited	0256555	Tesco Gateshead Property Limited	08312532		

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 29 February 2020 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Tesco PLC will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

Tesco PLC has irrevocably guaranteed the liabilities and commitments of the following Irish subsidiary undertakings, which have been exempted pursuant to Section 357 of the Companies Act 2014 of Ireland from the provisions of Section 347 and 348 of that Act: Chirac Limited; Cirrus Finance (2009) Limited; Clondalkin Properties Limited; Commercial Investments Limited; Edson Investments Limited; Edson Properties Limited; Monread Developments Limited; Nabola Development Limited; Orpingford; Pharaway Properties Limited; R.J.D. Holdings; Tesco Ireland Holdings Limited; Tesco Ireland Limited; Tesco Ireland Pension Trustees Limited; Tesco Mobile Ireland Limited; Tesco Trustee Company of Ireland Limited; Thundridge; Wanze Properties (Dundalk) Limited; WSC Properties Limited. The irrevocable guarantee may be relied upon for the purposes of the aforementioned exemption, while the United Kingdom remains part of the European Economic Area for the duration of the transition period, to 31 December 2020.

#### Tesco Bank

At 29 February 2020, Tesco Bank had contractual lending commitments totalling £11.9bn (2019: £12.2bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

### Note 35 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date:

	2020 £m	2019 (restated) £m
<b>Common equity tier 1 capital:</b>		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,567	1,434
<b>Tier 2 capital:</b>		
Qualifying subordinated debt	235	235
Other interests	–	–
Total tier 2 regulatory adjustments	(21)	(29)
<b>Total regulatory capital</b>	<b>1,781</b>	<b>1,640</b>

On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules are currently being phased in. The following tables analyse the regulatory capital resources of TPF (being the regulated entity) applicable as at the financial year end.



## Notes to the Group financial statements continued

### Note 35 Tesco Bank capital resources continued

The movement in common equity tier 1 capital during the financial year is analysed as follows:

	2020 £m	2019 (restated) £m
<b>At the beginning of the year</b>	<b>1,434</b>	<b>1,497</b>
Initial application of IFRS 9	–	(166)
Share capital and share premium	–	–
Profit attributable to shareholders	93	136
Other reserves	4	(15)
Ordinary dividends	(50)	(60)
Movement in material holdings	–	–
Increase in intangible assets	86	47
Other – Tier 1	–	–
<b>At the end of the year, excluding CRD IV adjustments</b>	<b>1,567</b>	<b>1,439</b>
CRD IV adjustments – deferred tax (assets)/liabilities related to intangible assets	–	(5)
	<b>1,567</b>	<b>1,434</b>

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

### Note 36 Events after the reporting period

On 7 March 2020, the Group acquired the trade and assets of Best Food Logistics (trading name of BFS Group Ltd), which will be accounted for as a business combination. The cash consideration value will be finalised when the completion accounts are agreed, but is likely to be negative. Best Food Logistics provides a food supply chain and logistics services to a number of national fast food and casual dining clients, including Pret-a-Manger, KFC, Burger King and others. Best Food Logistics employs c.1,500 staff and operates out of three main distribution centres. The initial accounting for the transaction is not yet complete and so it is not possible to include any further disclosures.

On 9 March 2020, the Group announced the proposed sale of Tesco Thailand and Tesco Malaysia to a combination of CP Group entities for net cash proceeds of \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. The transaction is subject to shareholder and customary regulatory approvals and is expected to complete during the second half of calendar year 2020. Following completion of the disposal, the Board intends to return c.£5.0 billion to shareholders via a special dividend with associated share consolidation, and reduce indebtedness through a £2.5 billion pension contribution that is expected to significantly reduce the prospect of having to make further pension deficit contributions in the future. Refer to Note 1.

#### Impact of coronavirus (COVID-19)

The Group's operational response to COVID-19 is set out on pages 1 to 2.

Refer to Note 1 for details of the Group's judgement that the extent of Government interventions in response to the COVID-19 pandemic only became apparent after the balance sheet date and represent a non-adjusting post balance sheet event. Given these events are of such significance, further explanation of the impact of increased volatility of assumptions on sensitivities presented in the financial statements are given below.

#### Impairment of non-current assets

Refer to Notes 1 and 15 for details of the Group's impairment methodology, impairment losses and reversals, net carrying value of non-current assets, and key assumptions and sensitivity analysis. As at 29 February 2020, indicators observable at the balance sheet date have been factored in to the Group's impairment testing of goodwill and fixed assets, including a COVID-19 risk adjustment to discount rates to reflect the impact of increased volatility in forecast cash flows.

Subsequent to the balance sheet date, the Group has incurred significant additional costs in meeting customer demand and protecting the health and safety of customers and colleagues. In particular, payroll costs will be higher than normal as additional colleagues have been recruited both to meet demand and cover the work of those colleagues who are absent and being paid. The Group has also simplified ranges, and Booker's wholesale business has seen a significant shift in balance from catering to retail sales. The Group's businesses in Central Europe and Asia have incurred similar cost increases and also expect to generate a lower level of mall income as the vast majority of tenants in malls have not been able to remain open. The UK Government's emergency policy changes (most notably the 12-month business rates holiday) will be an important offsetting benefit.

The Group has carried out further sensitivity analysis for its portfolio of store cash-generating units, in addition to the sensitivity analysis detailed in Note 15. Whilst the full financial impact of the crisis for 2020/21 is impossible to predict with a high degree of certainty, if customer behaviour were to return to normal by August it is likely that the additional cost headwinds incurred in our retail operations would be largely offset by the benefits of food volume increases, twelve months' business rates relief in the UK and prudent operations management, and so. The Group has therefore assessed that the overall impact of the above changes to cash flows would not cause a material impact on the Group's non-current asset impairment provision. An increase of 2.0%pts in post-tax discount rates for each geographic region, and a decrease in property fair values of 10%pts would increase the Group's non-current asset impairment provision by £971m and £209m respectively. These additional sensitivities would not indicate impairment in any group of cash-generating units to which goodwill has been allocated.

#### Tesco Bank expected credit loss calculations

Refer to Note 25 for details of the Group's expected credit loss calculations and sensitivity analysis. As at the balance sheet date, a five-scenario economic model is used, including a downside scenario representing a more severe recession incorporating the increased risk of an adverse impact on the economy given COVID-19 developments as at the balance sheet date. This scenario has been assigned a weighting of 5% and incorporates a higher unemployment rate and lower GDP than the base case.

Subsequent to the balance sheet date, the Group has sourced four updated economic forecasts reflecting current economic developments. The base scenario on which the Group has placed most reliance assumes a delayed 'V' shaped recovery in the third quarter of 2020 and is in line with Bank of England (BoE) guidance that there will be significant economic disruption while social distancing measures are in place, followed by an expected sharp recovery when these are lifted. The expected credit loss sensitivity to this base scenario is shown below, and excludes the estimated mitigating impact of any support the Group offers to customers who are experiencing financial difficulty as a result of the pandemic, and the effectiveness of this at reducing customer defaults.

## Notes to the Group financial statements continued

### Note 36 Events after the reporting period continued

	COVID-19 base scenario impact on ECL allowance
GDP (5 years average)	+1.2%
GDP (Q2 2020)	-12.0%
Unemployment (5 years average)	4.8%
Unemployment peak (Q3 2020)	6.2%
Base rate (5 years average)	0.1%
Increase in ECL – 100% weighted	£116m

The sensitivity of ECLs to increases in unemployment between the balance sheet date and 31 December 2020 is approximately £60m for each 1% increase in unemployment.

#### Pension deficit

Review of the key financial assumptions relating to the Group's pension schemes subsequent to the year end indicate movements that fall within the range of sensitivities described in Note 29. It is too early to assess the impact of COVID-19 upon the Group's long-term life expectancy assumptions. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

#### Financial risks

The interest rate, inflation rate and foreign exchange rate sensitivity assumptions in Note 25 have been reviewed in light of the latest market data. For all three assumptions, the sensitivities shown (1%, 25 basis points and 10% respectively) remain valid in the current economic environment. In reaching this conclusion, the Group has analysed both past and forward looking market data as well as movements in the relevant forward curves since the balance sheet date. Furthermore, interest rates are at an all-time low, the Group's fixed/floating mix policy is unchanged, inflation rates are also already low, and material foreign exchange risk exposure is largely hedged.

#### Deferred tax asset recognition

Deferred tax assets can only be recognised to the extent it is probable there will be future taxable profits. Subsequent to the balance sheet date, the Group has reviewed the current impact of COVID-19 on those future taxable profits and concluded that deferred tax assets can continue to be recognised in full.

## Notes to the Group financial statements continued

### Note 37 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 Group 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 Group 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.tescopl.com/investors/reports-results-and-presentations](http://www.tescopl.com/investors/reports-results-and-presentations).

#### Group balance sheet restatement

The table on the following page sets out the impact of IFRS 16 on the transition balance sheet at 25 February 2018 and on the comparative period Group balance sheet as at 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 Group 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.

## Notes to the Group financial statements continued

### Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

#### Group balance sheet restatement continued

	23 February 2019			25 February 2018		
	Reported £m	IFRS 16 impact £m	Restated £m	Reported £m	IFRS 16 impact £m	Restated £m
<b>Non-current assets</b>						
Goodwill and other intangible assets	6,264	–	6,264	2,661	–	2,661
Property, plant and equipment	19,023	163	19,186	18,521	191	18,712
Right of use assets	–	7,713	7,713	–	7,527	7,527
Investment property	36	–	36	100	–	100
Investments in joint ventures and associates <sup>(a)</sup>	704	(102)	602	689	(92)	597
Financial assets at fair value through other comprehensive income	979	–	979	860	–	860
Trade and other receivables	195	48	243	186	31	217
Loans and advances to customers and banks	7,868	–	7,868	6,885	–	6,885
Derivative financial instruments	1,178	–	1,178	1,117	–	1,117
Deferred tax assets	132	119	251	116	285	401
	<b>36,379</b>	<b>7,941</b>	<b>44,320</b>	<b>31,135</b>	<b>7,942</b>	<b>39,077</b>
<b>Current assets</b>						
Financial assets at fair value through other comprehensive income	67	–	67	68	–	68
Inventories	2,617	–	2,617	2,264	–	2,264
Trade and other receivables	1,640	(90)	1,550	1,504	(89)	1,415
Loans and advances to customers and banks	4,882	–	4,882	4,637	–	4,637
Derivative financial instruments	52	–	52	27	–	27
Current tax assets	6	–	6	12	–	12
Short-term investments	390	–	390	1,029	–	1,029
Cash and cash equivalents	2,916	–	2,916	4,059	–	4,059
	<b>12,570</b>	<b>(90)</b>	<b>12,480</b>	<b>13,600</b>	<b>(89)</b>	<b>13,511</b>
Assets classified as held for sale	98	–	98	149	–	149
	<b>12,668</b>	<b>(90)</b>	<b>12,578</b>	<b>13,749</b>	<b>(89)</b>	<b>13,660</b>
<b>Current liabilities</b>						
Trade and other payables	(9,354)	223	(9,131)	(8,994)	221	(8,773)
Borrowings	(1,599)	36	(1,563)	(1,479)	12	(1,467)
Lease liabilities	–	(646)	(646)	–	(712)	(712)
Derivative financial instruments	(250)	–	(250)	(69)	–	(69)
Customer deposits and deposits from banks	(8,832)	–	(8,832)	(7,812)	–	(7,812)
Current tax liabilities	(325)	–	(325)	(335)	–	(335)
Provisions	(320)	94	(226)	(544)	128	(416)
	<b>(20,680)</b>	<b>(293)</b>	<b>(20,973)</b>	<b>(19,233)</b>	<b>(351)</b>	<b>(19,584)</b>
<b>Net current liabilities</b>	<b>(8,012)</b>	<b>(383)</b>	<b>(8,395)</b>	<b>(5,484)</b>	<b>(440)</b>	<b>(5,924)</b>
<b>Non-current liabilities</b>						
Trade and other payables	(384)	19	(365)	(364)	–	(364)
Borrowings	(5,673)	93	(5,580)	(7,142)	110	(7,032)
Lease liabilities	–	(9,859)	(9,859)	–	(9,560)	(9,560)
Derivative financial instruments	(389)	–	(389)	(594)	–	(594)
Customer deposits and deposits from banks	(3,296)	–	(3,296)	(2,972)	–	(2,972)
Post-employment benefit obligations	(2,808)	–	(2,808)	(3,282)	–	(3,282)
Deferred tax liabilities	(236)	187	(49)	(96)	14	(82)
Provisions	(747)	600	(147)	(721)	592	(129)
	<b>(13,533)</b>	<b>(8,960)</b>	<b>(22,493)</b>	<b>(15,171)</b>	<b>(8,844)</b>	<b>(24,015)</b>
<b>Net assets</b>	<b>14,834</b>	<b>(1,402)</b>	<b>13,432</b>	<b>10,480</b>	<b>(1,342)</b>	<b>9,138</b>
<b>Equity</b>						
Share capital	490	–	490	410	–	410
Share premium	5,165	–	5,165	5,107	–	5,107
All other reserves	3,798	(28)	3,770	735	(18)	717
Retained earnings	5,405	(1,374)	4,031	4,250	(1,324)	2,926
<b>Equity attributable to the owners of the parent</b>	<b>14,858</b>	<b>(1,402)</b>	<b>13,456</b>	<b>10,502</b>	<b>(1,342)</b>	<b>9,160</b>
Non-controlling interests	(24)	–	(24)	(22)	–	(22)
<b>Total equity</b>	<b>14,834</b>	<b>(1,402)</b>	<b>13,432</b>	<b>10,480</b>	<b>(1,342)</b>	<b>9,138</b>
<b>APMs</b>						
Net debt <sup>(b)</sup>	(2,863)	(10,341)	(13,204)	(2,625)	(10,114)	(12,739)
Total indebtedness <sup>(c)</sup>	(12,200)	(3,342)	(15,542)	(12,284)	(3,183)	(15,467)

<sup>(a)</sup> 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.

<sup>(b)</sup> 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 25 February 2018, and £35m as at 23 February 2019.

<sup>(c)</sup> 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.

## Notes to the Group financial statements continued

### Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

#### Group income statement restatement

The table below sets out the impact of IFRS 16 on the comparative period Group income statement for the 52 weeks ended 23 February 2019 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.

	52 weeks ended 23 February 2019 (reported)*			IFRS 16 Impact			52 weeks ended 23 February 2019 (restated)		
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m
<b>Continuing operations</b>									
<b>Revenue</b>	<b>63,911</b>	<b>-</b>	<b>63,911</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>63,911</b>	<b>-</b>	<b>63,911</b>
Cost of sales	(59,719)	15	(59,704)	394	95	489	(59,325)	110	(59,215)
<b>Gross profit/(loss)</b>	<b>4,192</b>	<b>15</b>	<b>4,207</b>	<b>394</b>	<b>95</b>	<b>489</b>	<b>4,586</b>	<b>110</b>	<b>4,696</b>
Administrative expenses	(1,986)	(68)	(2,054)	7	-	7	(1,979)	(68)	(2,047)
<b>Operating profit/(loss)</b>	<b>2,206</b>	<b>(53)</b>	<b>2,153</b>	<b>401</b>	<b>95</b>	<b>496</b>	<b>2,607</b>	<b>42</b>	<b>2,649</b>
Share of post-tax profits/(losses) of joint ventures and associates	24	11	35	(3)	-	(3)	21	11	32
Finance income	22	-	22	3	-	3	25	-	25
Finance costs	(536)	-	(536)	(553)	-	(553)	(1,089)	-	(1,089)
<b>Profit/(loss) before tax</b>	<b>1,716</b>	<b>(42)</b>	<b>1,674</b>	<b>(152)</b>	<b>95</b>	<b>(57)</b>	<b>1,564</b>	<b>53</b>	<b>1,617</b>
Taxation	(413)	59	(354)	16	(9)	7	(397)	50	(347)
<b>Profit/(loss) for the year</b>	<b>1,303</b>	<b>17</b>	<b>1,320</b>	<b>(136)</b>	<b>86</b>	<b>(50)</b>	<b>1,167</b>	<b>103</b>	<b>1,270</b>
<b>Earnings/(losses) per share from continuing and discontinued operations</b>									
Basic			13.65p			(0.52)p			13.13p
Diluted			13.55p			(0.51)p			13.04p
<b>Earnings/(losses) per share from continuing operations</b>									
Basic			13.65p			(0.52)p			13.13p
Diluted			13.55p			(0.51)p			13.04p
<b>APMs</b>									
Operating margin			3.5%			0.6%			4.1%
Diluted EPS before exceptional and other items			15.40p			(1.39)p			14.01p

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

## Notes to the Group financial statements continued

### Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

#### Group cash flow statement restatement

The table below sets out the impact of IFRS 16 on the comparative period cash flow statement for the 52 weeks ended 23 February 2019 and related APMs. IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. Cash generated from operations 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.

	Retail			Tesco Bank			Tesco Group		
	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Tesco Group (reported) £m	IFRS 16 impact £m	Tesco Group (restated) £m
52 weeks ended 23 February 2019									
<b>Operating profit/(loss) of continuing operations</b>	<b>1,986</b>	<b>494</b>	<b>2,480</b>	<b>167</b>	<b>2</b>	<b>169</b>	<b>2,153</b>	<b>496</b>	<b>2,649</b>
Depreciation and amortisation	1,292	673	1,965	83	2	85	1,375	675	2,050
ATM net income	(34)	–	(34)	34	–	34	–	–	–
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	(99)	(24)	(123)	(8)	–	(8)	(107)	(24)	(131)
(Profit)/loss arising on sale of financial assets	(8)	–	(8)	–	–	–	(8)	–	(8)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(58)	(56)	(114)	–	–	–	(58)	(56)	(114)
Adjustment for non-cash element of pensions charge	45	–	45	–	–	–	45	–	45
Other defined benefit pension scheme payments	(266)	–	(266)	–	–	–	(266)	–	(266)
Share-based payments	82	–	82	(5)	–	(5)	77	–	77
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	127	–	127	127	–	127
<b>Cash flows generated from operations excluding working capital</b>	<b>2,940</b>	<b>1,087</b>	<b>4,027</b>	<b>398</b>	<b>4</b>	<b>402</b>	<b>3,338</b>	<b>1,091</b>	<b>4,429</b>
(Increase)/decrease in working capital	(438)	48	(390)	(258)	–	(258)	(696)	48	(648)
<b>Cash generated from/(used in) operations</b>	<b>2,502</b>	<b>1,135</b>	<b>3,637</b>	<b>140</b>	<b>4</b>	<b>144</b>	<b>2,642</b>	<b>1,139</b>	<b>3,781</b>
Interest paid	(301)	(550)	(851)	(5)	(3)	(8)	(306)	(553)	(859)
Corporation tax paid	(302)	–	(302)	(68)	–	(68)	(370)	–	(370)
<b>Net cash generated from/(used in) operating activities</b>	<b>1,899</b>	<b>585</b>	<b>2,484</b>	<b>67</b>	<b>1</b>	<b>68</b>	<b>1,966</b>	<b>586</b>	<b>2,552</b>
Proceeds from the sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	285	–	285	1	–	1	286	–	286
Purchase of property, plant and equipment and investment property – store buybacks	(136)	–	(136)	–	–	–	(136)	–	(136)
Purchase of property, plant and equipment and investment property – other capital expenditure	(962)	–	(962)	(3)	–	(3)	(965)	–	(965)
Purchase of intangible assets	(164)	–	(164)	(27)	–	(27)	(191)	–	(191)
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
Investments in joint ventures and associates	(11)	–	(11)	–	–	–	(11)	–	(11)
Net (investments in)/proceeds from sale of short-term investments	639	–	639	–	–	–	639	–	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	2	–	2	(124)	–	(124)	(122)	–	(122)
Dividends received from joint ventures and associates	31	–	31	10	–	10	41	–	41
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–	–	–
Interest received	18	3	21	–	–	–	18	3	21
<b>Net cash generated from/(used in) investing activities</b>	<b>(955)</b>	<b>3</b>	<b>(952)</b>	<b>(188)</b>	<b>–</b>	<b>(188)</b>	<b>(1,143)</b>	<b>3</b>	<b>(1,140)</b>

## Notes to the Group financial statements continued

### Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

#### Cash flow statement restatement continued

	Retail			Tesco Bank			Tesco Group		
	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Tesco Group (reported) £m	IFRS 16 impact £m	Tesco Group (restated) £m
52 weeks ended 23 February 2019									
Proceeds from issue of ordinary share capital	60	–	60	–	–	–	60	–	60
Own shares purchased	(206)	–	(206)	–	–	–	(206)	–	(206)
Repayment of obligations under leases	(17)	(588)	(605)	–	(1)	(1)	(17)	(589)	(606)
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	(639)	–	(639)	–	–	–	(639)	–	(639)
<b>APM: Free cash flow*</b>	<b>889</b>	<b>–</b>	<b>889</b>	<b>(126)</b>	<b>–</b>	<b>(126)</b>	<b>763</b>	<b>–</b>	<b>763</b>
Increase in borrowings	704	–	704	271	–	271	975	–	975
Repayment of borrowings	(2,046)	–	(2,046)	(425)	–	(425)	(2,471)	–	(2,471)
Net cash flows from derivative financial instruments	35	–	35	–	–	–	35	–	35
Dividends paid to equity owners	(357)	–	(357)	–	–	–	(357)	–	(357)
<b>Net cash generated from/(used in) financing activities</b>	<b>(1,827)</b>	<b>(588)</b>	<b>(2,415)</b>	<b>(154)</b>	<b>(1)</b>	<b>(155)</b>	<b>(1,981)</b>	<b>(589)</b>	<b>(2,570)</b>
<b>Intra-Group funding and intercompany transactions</b>	<b>(14)</b>	<b>–</b>	<b>(14)</b>	<b>14</b>	<b>–</b>	<b>14</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(897)</b>	<b>–</b>	<b>(897)</b>	<b>(261)</b>	<b>–</b>	<b>(261)</b>	<b>(1,158)</b>	<b>–</b>	<b>(1,158)</b>
Cash and cash equivalents at the beginning of the year	2,755	–	2,755	1,304	–	1,304	4,059	–	4,059
Effect of foreign exchange rate changes	15	–	15	–	–	–	15	–	15
<b>Cash and cash equivalents at the end of the year</b>	<b>1,873</b>	<b>–</b>	<b>1,873</b>	<b>1,043</b>	<b>–</b>	<b>1,043</b>	<b>2,916</b>	<b>–</b>	<b>2,916</b>

\* Free cash flow has been redefined to include ‘Repayments of obligations under leases’ due to IFRS 16. This results in a minor adjustment of £17m, restating reported Retail free cash flow of £906m to £889m. There is no overall impact to cash and cash equivalents at the end of the period.



## Tesco PLC – Parent Company balance sheet

	Notes	29 February 2020 £m	23 February 2019 £m
<b>Non-current assets</b>			
Investments	6	17,829	17,887
Receivables	7	1,043	2,139
Derivative financial instruments	12	1,167	1,043
		<b>20,039</b>	<b>21,069</b>
<b>Current assets</b>			
Receivables	7	547	1,154
Short-term investments	8	–	11
Cash and cash equivalents	9	249	6
		<b>796</b>	<b>1,171</b>
<b>Current liabilities</b>			
Borrowings	11	(43)	(766)
Payables	10	(238)	(242)
Derivative financial instruments	12	–	(213)
		<b>(281)</b>	<b>(1,221)</b>
<b>Net current assets/(liabilities)</b>		<b>515</b>	<b>(50)</b>
<b>Non-current liabilities</b>			
Borrowings	11	(2,285)	(2,536)
Payables	10	(82)	(88)
Derivative financial instruments	12	(735)	(303)
		<b>(3,102)</b>	<b>(2,927)</b>
<b>Net assets</b>		<b>17,452</b>	<b>18,092</b>
<b>Equity</b>			
Share capital	15	490	490
Share premium		5,165	5,165
All other reserves		2,950	2,969
Retained earnings (including profit/(loss) for the financial year of £(21)m (2019: £3,074m))		8,847	9,468
<b>Total equity</b>		<b>17,452</b>	<b>18,092</b>

The notes on pages 102 to 106 form part of these financial statements.

**Dave Lewis**  
**Alan Stewart**

### Directors

The Parent Company financial statements on pages 100 to 106 were approved and authorised for issue by the Directors on 7 April 2020.

Tesco PLC  
Registered number 00445790

## Tesco PLC – Parent Company statement of changes in equity

	All other reserv								Total equity £m
	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	
<b>At 23 February 2019</b>	<b>490</b>	<b>5,165</b>	<b>(13)</b>	<b>16</b>	<b>95</b>	<b>(179)</b>	<b>3,050</b>	<b>9,468</b>	<b>18,092</b>
Profit/(loss) for the year	-	-	-	-	-	-	-	(21)	(21)
<b>Other comprehensive income/(loss)</b>									
Gains/(losses) on cash flow hedges	-	-	(7)	-	92	-	-	-	85
Reclassified and reported in the Company income statement	-	-	-	-	(23)	-	-	-	(23)
Tax relating to components of other comprehensive income	-	-	1	-	(11)	-	-	-	(10)
<b>Total other comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52</b>
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>-</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>(21)</b>	<b>31</b>
<b>Transactions with owners</b>									
Purchase of own shares	-	-	-	-	-	(221)	-	-	(221)
Share-based payments	-	-	-	-	-	150	-	56	206
Issue of shares	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	(656)	(656)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(71)</b>	<b>-</b>	<b>(600)</b>	<b>(671)</b>
<b>At 29 February 2020</b>	<b>490</b>	<b>5,165</b>	<b>(19)</b>	<b>16</b>	<b>153</b>	<b>(250)</b>	<b>3,050</b>	<b>8,847</b>	<b>17,452</b>

	All other reserves								Total equity £m
	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	
<b>At 24 February 2018</b>	<b>410</b>	<b>5,107</b>	<b>-</b>	<b>16</b>	<b>62</b>	<b>(16)</b>	<b>-</b>	<b>6,693</b>	<b>12,272</b>
Adjustment on initial application of IFRS 9 (net of tax)	-	-	(13)	-	13	-	-	(5)	(5)
<b>At 25 February 2018</b>	<b>410</b>	<b>5,107</b>	<b>(13)</b>	<b>16</b>	<b>75</b>	<b>(16)</b>	<b>-</b>	<b>6,688</b>	<b>12,267</b>
Profit/(loss) for the year	-	-	-	-	-	-	-	3,074	3,074
<b>Other comprehensive income/(loss)</b>									
Gains/(losses) on cash flow hedges	-	-	-	-	38	-	-	-	38
Reclassified and reported in the Company income statement	-	-	-	-	(13)	-	-	-	(13)
Tax relating to components of other comprehensive income	-	-	-	-	(5)	-	-	-	(5)
<b>Total other comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>3,074</b>	<b>3,094</b>
<b>Transactions with owners</b>									
Purchase of own shares	-	-	-	-	-	(277)	-	-	(277)
Share-based payments	-	-	-	-	-	114	-	63	177
Issue of shares	80	58	-	-	-	-	3,050	-	3,188
Dividends	-	-	-	-	-	-	-	(357)	(357)
<b>Total transactions with owners</b>	<b>80</b>	<b>58</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(163)</b>	<b>3,050</b>	<b>(294)</b>	<b>2,731</b>
<b>At 23 February 2019</b>	<b>490</b>	<b>5,165</b>	<b>(13)</b>	<b>16</b>	<b>95</b>	<b>(179)</b>	<b>3,050</b>	<b>9,468</b>	<b>18,092</b>

The Company has considered the profits available for distribution to shareholders. At 29 February 2020, the Company had retained earnings of £8.8bn, of which the unrealised profit elements are £1.7bn of share-based payment reserves and £1.4bn of dividends received from subsidiary undertakings not yet settled by qualifying consideration. After deducting the cost of its own shares held in trust of £0.3bn, the Company had profits available for distribution of £5.4bn, sufficient to support the planned 50% ordinary dividend pay-out ratio in line with the Group's dividend policy.

The Group also has retained profits in its subsidiary companies which are expected to flow up to the Company in due course to further supplement its distributable reserves position. The Company would expect to receive such dividends from the proceeds of the proposed sale of Tesco Thailand and Tesco Malaysia, which is subject to shareholder approval. The Company has announced its intention to declare a special dividend of c.£5bn, also subject to shareholder approval, following completion of the sale and publication of interim company accounts.

The notes on pages 102 to 106 form part of these financial statements.

# Notes to the Parent Company financial statements

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

The Parent Company financial statements for the 53 weeks ended 29 February 2020 were approved by the Board of Directors on 7 April 2020 and the Company balance sheet was signed on the Board's behalf by Dave Lewis and Alan Stewart.

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

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

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

## Note 2 Accounting policies

### Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act).

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The financial year represents the 53 weeks to 29 February 2020 (prior financial year 52 weeks to 23 February 2019).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, impairment of assets, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

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

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

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

### Short-term investments

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

### Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment. The Company tests the investment balances for impairment annually or when there are indicators of impairment.

### Foreign currencies

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

### Share-based payments

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

### Own shares held

Own shares represent the shares of Tesco PLC that are held in Treasury or by the Employee Benefit Trust. The Company adopts a 'look-through' approach which, in substance, accounts for the trust as an extension of the Company. Own shares are recorded at cost and are deducted from equity.

### Financial instruments

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

### Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less any expected credit losses.

### Financial liabilities and equity instruments

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

### Interest-bearing borrowings

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

### Payables

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

### Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes; however if derivatives do not qualify for hedge accounting they are accounted for as such.

## Notes to the Parent Company financial statements continued

### Note 2 Accounting policies continued

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

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

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

#### Fair value hedging

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

#### Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative designated as the hedging instrument is recognised directly in the Company statement of comprehensive income and accumulated in the hedging reserve. Any cost of hedging, such as the change in fair value related to forward points and currency basis adjustment is separately accumulated in the currency basis reserve. The ineffective element is recognised immediately in the Company income statement.

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

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

#### Pensions

The Company participates in defined benefit pension schemes. There are no formal policies or contractual agreements for recharging within the Group and the Company cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the financial year is based upon the cash contributions payable.

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

#### Taxation

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

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

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

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

#### Judgements and sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates applied prospectively.

The preparation of the Company financial statements for the financial year did not require the exercise of any critical accounting judgements or significant estimates.

#### New standards effective for the current financial year

- IFRS 16 'Leases' which had no material impact on the Company; and
- 'Interest rate benchmark reform' amendments, which have been adopted early. Refer to Note 25 to the Group financial statements for the impact of IBOR Reform amendments on the Company.

#### Other standards and amendments

Refer to Note 1 to the Group financial statements.

## Notes to the Parent Company financial statements continued

### Note 3 Auditor remuneration

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

### Note 4 Dividends

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

### Note 5 Employment costs, including Directors' remuneration

	Notes	2020 £m	2019 £m
Wages and salaries		16	17
Social security costs		2	3
Pension costs	14	2	4
Share-based payment expense	13	7	7
<b>Total</b>		<b>27</b>	<b>31</b>

The amounts above include recharges from other Group companies for Tesco PLC related activities.

The average number of employees (all Directors of the Company) during the financial year was 13 (2019: 13).

The table below sets out remuneration received by Directors:

	2020 £'000	2019 £'000
Salaries and fees	3,758	3,815
Incentive schemes (excluding share options)	7,413	5,019
Other benefits*	681	727
<b>Total Directors' remuneration</b>	<b>11,852</b>	<b>9,561</b>

\* Dave Lewis and Alan Stewart received a cash allowance in lieu of pension of 25% of base salary. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes. The value of options exercised during the current financial year was £nil (2019: £17k).

### Note 6 Investments

	2020 £m
<b>Cost</b>	
<b>At 23 February 2019</b>	<b>21,283</b>
Additions	87
Disposals	(684)
<b>At 29 February 2020</b>	<b>20,686</b>
<b>Accumulated impairment losses</b>	
<b>At 23 February 2019</b>	<b>(3,396)</b>
Impairment losses	(144)
Disposals	683
<b>At 29 February 2020</b>	<b>(2,857)</b>
<b>Net carrying value</b>	
<b>At 29 February 2020</b>	<b>17,829</b>
At 23 February 2019	17,887

The impairment losses of £144m relate to the Group's disposal of Gain Land Limited and the subsequent impairment of its intermediate holding company Cheshunt Holdings Guernsey Limited to a recoverable amount of £241m, based on net asset value, a fair value less costs of disposal measurement at Level 3 in the fair value hierarchy. Refer to Note 33 in the Group financial statements for further details.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 107 to 113.

### Note 7 Receivables

	2020 £m	2019 £m
Amounts owed by Group undertakings*	1,530	3,232
Amounts owed by joint ventures and associates	24	21
Other receivables	36	40
	<b>1,590</b>	<b>3,293</b>
Of which:		
Current	547	1,154
Non-current	1,043	2,139
	<b>1,590</b>	<b>3,293</b>

\* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship, with interest rates ranging from 0% to 3%, with maturities up to and including March 2025.

The expected credit loss on receivables is immaterial (2019: immaterial).

### Note 8 Short-term investments

	2020 £m	2019 £m
Money market funds	-	11

### Note 9 Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	249	6

## Notes to the Parent Company financial statements continued

### Note 10 Payables

	2020 £m	2019 £m
Amounts owed to Group undertakings*	278	299
Other payables	11	11
Taxation and social security	4	3
Deferred tax liability	27	17
<b>Total payables</b>	<b>320</b>	<b>330</b>
Of which:		
Current	238	242
Non-current	82	88
	<b>320</b>	<b>330</b>

\* Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship, with interest rates ranging from 0% to 3%, with maturities up to and including February 2051.

The deferred tax asset/(liability) recognised by the Company, and the movements thereon, during the current financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
<b>At 23 February 2019</b>	<b>(17)</b>	<b>–</b>	<b>(17)</b>
Movement in other comprehensive income/(loss) for the year	(10)	–	(10)
<b>At 29 February 2020</b>	<b>(27)</b>	<b>–</b>	<b>(27)</b>

### Note 11 Borrowings

#### Current

	Par value	Maturity	2020 £m	2019 £m
Bank loans and overdrafts	–	–	43	668
5.5% MTN	£97m	Dec 2019	–	98
			<b>43</b>	<b>766</b>

#### Non-current

	Par value	Maturity	2020 £m	2019 £m
6.125% MTN <sup>(a)</sup>	£417m	Feb 2022	416	561
5% MTN <sup>(a)</sup>	£93m	Mar 2023	103	183
3.322% LPI MTN <sup>(b)</sup>	£354m	Nov 2025	358	349
6% MTN <sup>(a)</sup>	£48m	Dec 2029	58	119
5.5% MTN <sup>(a)</sup>	£109m	Jan 2033	133	186
1.982% RPI MTN <sup>(c)</sup>	£294m	Mar 2036	297	288
6.15% USD Bond	\$525m	Nov 2037	555	428
4.875% MTN <sup>(a)</sup>	£20m	Mar 2042	20	32
5.125% MTN	€356m	Apr 2047	316	319
5.2% MTN <sup>(a)</sup>	£30m	Mar 2057	29	71
			<b>2,285</b>	<b>2,536</b>

<sup>(a)</sup> During the current financial 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.

<sup>(b)</sup> 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%.

<sup>(c)</sup> The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

### Note 12 Derivative financial instruments

The fair values of derivative financial instruments have been presented in the Company balance sheet as:

	2020		2019	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	–	–	–	(213)
Non-current	1,167	(735)	1,043	(303)
<b>Total derivative financial instruments</b>	<b>1,167</b>	<b>(735)</b>	<b>1,043</b>	<b>(516)</b>

	2020				2019			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
<b>Fair value hedges</b>								
Interest rate swaps and similar instruments	10	65	–	–	11	65	–	–
Cross-currency swaps	228	409	–	–	126	180	(10)	222
<b>Cash flow hedges</b>								
Cross-currency swaps	208	306	–	–	138	309	–	–
Index-linked swaps	185	649	–	–	170	632	–	–
<b>Derivatives not in a formal hedge relationship</b>								
Index-linked swaps	536	3,339	(735)	4,461	598	3,339	(506)	3,339
<b>Total</b>	<b>1,167</b>	<b>4,768</b>	<b>(735)</b>	<b>4,461</b>	<b>1,043</b>	<b>4,525</b>	<b>(516)</b>	<b>3,561</b>

## Notes to the Parent Company financial statements continued

### Note 13 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors.

For further information on these schemes, including the valuation models and assumptions used, refer to Note 28 to the Group financial statements.

#### Share option schemes

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

*For the 53 weeks ended 29 February 2020*

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
<b>Outstanding at 23 February 2019</b>	<b>19,148</b>	<b>188.00</b>	<b>12,743,733</b>	<b>–</b>
Granted	–	–	295,554	–
Forfeited	–	–	(2,405,420)	–
Exercised	–	–	–	–
<b>Outstanding at 29 February 2020</b>	<b>19,148</b>	<b>188.00</b>	<b>10,633,867</b>	<b>–</b>
Exercise price range (pence)		188.00		–
Weighted average remaining contractual life (years)		2.01		6.15
<b>Exercisable at 29 February 2020</b>	<b>–</b>	<b>–</b>	<b>6,454,736</b>	<b>–</b>
Exercise price range (pence)		–		–
Weighted average remaining contractual life (years)		–		5.46

*For the 52 weeks ended 23 February 2019*

	Savings-related Share Option Scheme		Nil cost Share options	
	Options	WAEP	Options	WAEP
<b>Outstanding at 24 February 2018</b>	<b>23,840</b>	<b>151.00</b>	<b>14,271,355</b>	<b>–</b>
Granted	19,148	188.00	200,518	–
Forfeited	–	–	(1,704,300)	–
Exercised	(23,840)	151.00	(23,840)	–
<b>Outstanding at 23 February 2019</b>	<b>19,148</b>	<b>188.00</b>	<b>12,743,733</b>	<b>–</b>
Exercise price range (pence)		188.00	–	–
Weighted average remaining contractual life (years)		3.03	–	7.18
<b>Exercisable at 23 February 2019</b>	<b>–</b>	<b>–</b>	<b>3,837,740</b>	<b>–</b>
Exercise price range (pence)		–	–	–
Weighted average remaining contractual life (years)		–	–	6.00

#### Share bonus and incentive schemes

Executive Directors participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to Executive Directors who have completed a required service period and depend on the achievement of the corporate and individual performance targets. For further information on these schemes, including the valuation models and assumptions used, refer to Note 28 to the Group financial statements.

The number of share bonuses & share incentives awarded during the financial year were 506,768 (2019: 739,293) for Group Bonus Plan and 2,388,395 (2019: 2,071,068) for Performance Share Plan. Respectively weighted average fair value (WAFV) was 244.1p (2019: 241.8p) and 230.3p (2019: 254.8p).

### Note 14 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £1.9m (2019: £4.4m). Further disclosure relating to all schemes can be found in Note 29 to the Group financial statements.

### Note 15 Called up share capital

Refer to Note 30 to the Group financial statements.

### Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 34 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,589m (2019: £1,715m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £168m (2019: £162m) at the reporting date. These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

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

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

### Note 17 Events after the reporting period

On 9 March 2020, the Group announced the proposed sale of Tesco Thailand and Tesco Malaysia for net cash proceeds of \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. Subject to completion of the transaction, which is subject to shareholder and regulatory approval, the Board intends to return c.£5.0 billion to shareholders via a special dividend with associated share consolidation. Refer to Note 36 to the Group financial statements for further details on the transaction.

Refer to Note 36 to the Group financial statements for further details of the Group's assessment of the impact of the coronavirus pandemic (COVID-19).



## Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	–	dunnhumby Overseas Limited	4	£1.00 Ordinary	100
Adminstore Limited	1	£0.01 A Ordinary	100	dunnhumby Trustees Limited	4	£1.00 Ordinary	100
		£0.01 B Ordinary	100	Giant Bidco Limited	8	£1.00 Ordinary	100
		£0.01 C Ordinary	100	Giant Booker Limited	8	£0.25 Ordinary	100
Alfred Preedy & Sons Limited	2	£1.00 Deferred	100	Giant Midco Limited	8	£1.00 Ordinary	100
		£1.00 Ordinary	100	Highams Green Management Company Limited	1	Limited by Guarantee	–
Armitage Finance Unlimited	1	£0.90 Ordinary	100	IRTH (15) Limited	8	£1.00 Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	–	IRTH (19) Limited	8	US\$0.0000005238317 2 Ordinary	100
Berry Lane Management Company Limited	1	Limited by Guarantee	–	Launchgrain Limited†	1	£1.00 Ordinary	100
BF Limited	8	£1.00 Ordinary	100	Lincco Limited	8	£1.00 Ordinary	100
Bishop's Group Limited	8	£0.01 Ordinary	100	Londis(Holdings) Limited	8	£50.00 Ordinary	100
Booker Cash & Carry Limited	8	£1.00 Ordinary	100	Londis Pension Trustees Limited	8	£1.00 Ordinary	100
Booker Direct Limited	8	£0.01 Ordinary	100	Makro Holding Limited	8	£1.00 Ordinary	100
Booker Group Limited	8	£0.0000000055625 Ordinary	100	Makro Properties Limited	8	£1.00 Ordinary	100
Booker Limited	8	£1.00 Ordinary	100	Makro Self Service			
Booker Retail Partners (GB) Limited	8	£1.00 Ordinary	100	Wholesalers Limited	8	£1.00 Ordinary A	100
Booker Retail Limited	8	£0.10 Ordinary	100			£1.00 Ordinary B	100
Booker Pension Trustees Limited	8	Limited by Guarantee	100	Maldon Finance Limited <sup>(e)</sup>	1	£1.00 Ordinary	100
Booker Wholesale Holdings Limited	8	£0.01 Ordinary A1	100			\$1.00 A Preference	100
Booker Unapproved Scheme Trustees Ltd	8	Limited by Guarantee	–			\$0.50 B Preference	100
Bourne End Residential	1	Limited by Guarantee	–	Motorcause Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 1 Limited	1	£1.00 Ordinary	100	Murdoch Norton Limited	8	£0.05 Ordinary	100
Broughton Retail Park Nominee 2 Limited	1	£1.00 Ordinary	100	Munster Road Management Company Limited	1	Limited by Guarantee	–
Broughton Retail Park Nominee 3 Limited	1	£1.00 Ordinary	100	Oakwood Distribution Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 4 Limited	1	£1.00 Ordinary	100	One Stop Community Stores Limited	2	£0.00001200004 Ordinary	100
Budget Holdings Limited	8	£1.00 Ordinary	100	One Stop Convenience Stores Limited	2	£1.00 Ordinary	100
Budgens Pension Trustees No.2 Limited	8	£1.00 Ordinary	100	One Stop Stores Limited† <sup>(a)</sup>	2	£1.00 Ordinary	100
Budgens Property Investments Limited	8	£1.00 Ordinary	100	One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100
				Orpington (Station Road) Limited	1	£1.00 Ordinary	100
				Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	–
Budgens Stores Limited	8	£1.00 Ordinary	100	Paper Chain (East Anglia) Limited	2	£1.00 Deferred	100
Buttoncable Limited	1	£1.00 Ordinary	100				
Buttoncase Limited†	1	£1.00 Cumulative Redeemable Preference	100			US\$0.001 Ordinary	100
		£1.00 Ordinary	100	PTLL Limited	1	£1.00 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	–	Ritter-Courivaud Limited	8	£0.10 Ordinary	100
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	–	Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100
Comar Limited†	1	£1.00 Ordinary	100	Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100
		£1.00 Cumulative Convertible Participating Preferred Ordinary	100	Spenn Hill Developments Limited	1	£1.00 Ordinary	100
Day And Nite Stores Limited	2	£1.00 Cumulative Redeemable Preference	100	Spenn Hill Management Limited <sup>(b)</sup>	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Spenn Hill Properties (Holdings) plc†	1	£1.00 Ordinary	100
Dillons Newsagents Limited*	2	£0.25 Non-Voting Ordinary	100	Spenn Hill Regeneration Limited	1	£1.00 Ordinary	100
dunnhumby Holding Limited	4	£1.00 Ordinary	100	Spenn Hill Residential No 1 Limited	1	£1.00 Ordinary	100
dunnhumby International Limited	4	£1.00 Ordinary	100	Spenn Hill Residential No 2 Limited	1	£1.00 Ordinary	100
dunnhumby Limited	4	£3.59 Ordinary	100	Station House Welling Management Limited	1	Limited by Guarantee	–
				Statusfloat Limited	1	£1.00 Ordinary	100

## Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
T & S Stores Limited†	2	£0.05 Ordinary	100			£1.00 B Ordinary	100
Tapesilver Limited†	1	£1.00 Ordinary	100	Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100
Teesport (GP) Limited	1	£1.00 Ordinary	100	Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100
				Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco (Overseas) Limited†	1	£1.00 Ordinary	100	Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100
Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100	Tesco Overseas Investments Limited†	1	£1.00 Ordinary	100
Tesco Aqua (FinCo1) Limited	1	£1.00 Ordinary	100	Tesco Overseas ULC	1	£0.00000025 A Ordinary	100
Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100			£0.00000025 B Ordinary	100
Tesco Aqua (GP) Limited	1	£1.00 A Ordinary	100			£0.00000025 C Ordinary	100
		£1.00 B Ordinary	100			£0.00000025 D Ordinary	100
Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100			£0.00000025 E Ordinary	100
Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100			£0.00000025 F Ordinary	100
Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100			£0.00000025 G Ordinary	100
Tesco Atrato (ILP) Limited	1	£1.00 Ordinary	100			£0.00000025 H Ordinary	100
Tesco Atrato (GP) Limited	1	£1.00 A Ordinary	100			£0.00000025 J Ordinary	100
		£1.00 B Ordinary	100			£0.00000025 K Ordinary	100
Tesco Atrato (Nominee 1) Limited	1	£1.00 Ordinary	100			£0.00000025 L Ordinary	100
Tesco Atrato (Nominee 2) Limited	1	£1.00 Ordinary	100			£0.00000025 M Ordinary	100
Tesco Atrato (Nominee Holdco) Limited	1	£1.00 Ordinary	100			£0.00000025 N Ordinary	100
Tesco Atrato Depot Propco Limited	1	£1.00 Ordinary	100			£0.00000025 O Ordinary	100
Tesco Blue (GP) Limited	1	£1.00 A Ordinary	100			£0.00000025 P Ordinary	100
		£1.00 B Ordinary	100	Tesco Passaic (ILP) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee 1) Limited	1	£1.00 Ordinary	100	Tesco Passaic (GP) Limited	1	£1.00 A Ordinary	100
Tesco Blue (Nominee 2) Limited		£1.00 Ordinary	100			£1.00 B Ordinary	100
Tesco Blue (Nominee Holdco) Limited		£1.00 Ordinary	100				
Tesco Corporate Treasury Services PLC†	1	£1.00 Ordinary	100	Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Depot Propco Limited	1	£1.00 Ordinary	100	Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100
				Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100	Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100
Tesco Distribution Limited	1	£1.00 Ordinary	100	Tesco PEG Limited	1	£0.01 Ordinary	100
Tesco Dorney (ILP) Limited	1	£1.00 Ordinary	100				
Tesco Employees' Share Scheme Trustees Limited <sup>(ic)</sup>	1	£1.00 Ordinary	100	Tesco PEG Limited	1	£1.00 Ordinary	100
				Tesco Pension Investment Limited <sup>(id)</sup>	1	£1.00 Ordinary	100
Tesco Family Dining Limited	1	£1.00 Ordinary	100	Tesco Pension Trustees Limited†	1	£1.00 Ordinary	100
Tesco Food Sourcing Limited	1	£1.00 Ordinary	100	Tesco Personal Finance Group PLC†	6	£0.10 A Ordinary	100
						£0.10 B Ordinary	100
Tesco Freetime Limited	1	£1.00 Ordinary	100			£0.10 C Ordinary	100
Tesco Fuchsia (3LP) Limited	1	£1.00 Ordinary	100			£0.10 Ordinary	100
Tesco Gateshead Property Limited	1	£1.00 Ordinary	100	Tesco Personal Finance PLC	6	£0.10 Ordinary	100
Tesco Holdings Limited†	1	£0.10 Ordinary	100	Tesco Property (Nominees) (No.1) Limited	7	£1.00 Ordinary	100
		£1.00 Preference	100	Tesco Property (Nominees) (No.2) Limited	7	£1.00 Ordinary	100
				Tesco Property (Nominees) Limited	7	£1.00 Ordinary	100
Tesco International Services Limited†	1	£1.00 Ordinary	100	Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100
Tesco Lagoon GP Limited	5	£1.00 Ordinary	100	Tesco Property Finance 1 PLC	1	£1.00 Ordinary	100
						£0.25 Ordinary	100
Tesco Maintenance Limited	1	£1.00 Ordinary	100	Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100
Tesco Mobile Communications Limited†	1	£1.00 Ordinary	100	Tesco Property Holdings Limited	1	£1.00 Ordinary	100
Tesco Mobile Services Limited	1	£1.00 Ordinary	100	Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100
				Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
Tesco Navona (ILP) Limited	1	£1.00 Ordinary	100	Tesco Property Partner (GP) Limited†	1	£1.00 Ordinary	100
Tesco Navona (GP) Limited	1	£1.00 A Ordinary	100				

## Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Property Partner (No.1) Limited†	1	£1.00 Ordinary	100	dunnhumby Chile SpA	48	CLP 500,000 Ordinary	100
Tesco Property Partner (No.2) Limited†	1	£1.00 Ordinary	100	dunnhumby Colombia S.A.S.	74	COP 2,000 Type A	100
Tesco Red (3LP) Limited	1	£1.00 Ordinary	100			COP 41.00 Type B	
Tesco Red (GP) Limited	1	£1.00 Ordinary A	100			COP 1.00 Type C	
				dunnhumby Computer Information Technology and Consultancy Services LLC	18	TL 25.00 Ordinary	100
Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100	dunnhumby Consulting Services India Private Limited	60	INR 10.00 Ordinary	100
Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100	dunnhumby Czech s.r.o.	16	CZK 200,000 Ordinary	100
Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100	dunnhumby Denmark IvS	57	DKK 1.00 Ordinary	100
Tesco Sarum (ILP) Limited	1	£1.00 Ordinary	100	dunnhumby Finland Oy	30	100 Kovellinum Oy	100
Tesco Seacroft Limited	1	£1.00 Ordinary	100	dunnhumby France SAS	61	€2.00 Ordinary	100
Tesco Secretaries Limited	1	£1.00 Ordinary	100	dunnhumby Germany GmbH	14	€1.00 Ordinary	100
						Registered capital HUF 3,000,000	
Tesco Services Limited	1	£1.00 Ordinary	100	dunnhumby Hungary Kft	32		100
Tesco Stores Limited	1	£1.00 A Preference	100	dunnhumby Inc.	35	No par value	–
				dunnhumby Information Technology Consulting (Shanghai) Company Limited	62	Registered capital US\$140,000	100
		£1.00 B Preference	100				
		£1.00 Ordinary	100	dunnhumby Ireland Limited	67	€1.00 Ordinary	100
				dunnhumby IT Services India Private Limited	36	INR 10.00 Ordinary	100
Tesco TLB Finance Limited	1	£1.00 Ordinary	100		37	€1.00 Ordinary	100
Tesco TLB Properties Limited	1	£1.00 Ordinary A	100	dunnhumby Italia Srl.	38	JPY 10,000 Ordinary	100
		£1.00 Ordinary B	100	dunnhumby Japan K.K	69	MXN 2,970 Ordinary A	100
The Big Food Group Limited	8	£0.10 Ordinary	100	dunnhumby Mexico S. de R.L. de C.V.			
		Limited				MXN 30.00 Ordinary B	
The Teesport Limited Partnership	1	Partnership	100				
		Limited					
The Tesco Aqua Limited Partnership	1	Partnership	100	dunnhumby Netherlands B.V.	70	€1.00 Ordinary	100
		Limited					
The Tesco Blue Limited Partnership	1	Partnership	100	dunnhumby New Zealand	64	NZD 100.00 Ordinary	100
		Limited					
The Tesco Navona Limited Partnership	1	Partnership	100	dunnhumby Poland Sp. z o.o.	42	PLN 50,000 Ordinary	100
		Limited					
The Tesco Passaic Limited Partnership	1	Partnership	100	dunnhumby Russia LLC	79	RUB 1.00 Ordinary	100
		Limited					
The Tesco Property Limited Partnership	1	Partnership	100	dunnhumby Singapore Pte Ltd	19	SGD 1.00 Ordinary	100
		Limited					
The Tesco Red Limited Partnership	1	Partnership	100	dunnhumby SARL	61	€100.00 Ordinary	100
				dunnhumby Serviços de Promoção Digital Ltda	77	R\$1.00 Ordinary	100
TPI Fund Managers Limited	1	£1.00 Ordinary	100		58	No shares in issue	–
TPT Holdco No.1 Limited	1	£1.00 Ordinary	100	dunnhumby Slovakia s.r.o.			
Ventnor High Street Management Company Limited	1	Limited by Guarantee	–	dunnhumby Sp. z o.o.	47	PLN 50.00 Ordinary	100
Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100	dunnhumby Spain S.L	50	€1.00 Ordinary	100
<b>International subsidiary undertakings</b>				dunnhumby South Africa (Pty) Ltd	43	No par value Ordinary	100
Name of undertaking	Registered address	Class of share held	% held by Group	dunnhumby Ventures LLC	44	–	–
Arena (Jersey) Management Limited†	33	£1.00 Ordinary	100	Edson Investments Limited	24	€2.00 Ordinary	100
Cheshunt Holdings Guernsey Limited†	27	£1.00 Ordinary	100	Edson Properties Limited	24	€1.00 Ordinary	100
				Ek-Chai Distribution System Co., Ltd.*	34	THB 10.00 Ordinary	100
Cheshunt Hungary Servicing	32	HUF 100,00 Quota	100		71	£1.00 Ordinary	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100	ELH Insurance Limited	42	PLN 500.00 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100	Genesis sp. z o.o.	42	PLN 100.00 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100	Jasper Sp. z o.o.	42		
				Kabaty Investments Tesco (Polska) Sp. z o.o. Sp.k	42	PLN Partnership Interests	100
		€1.00 Ordinary	100		16	CZK 100,000 Ordinary	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100	Letňany Development land 1 s.r.o.	16	CZK 100,000 Ordinary	100
Commercial Investmentment Limited	24	€1.25 Ordinary	100	Letňany Development land 2 s.r.o.	75	€1.00 Ordinary	100
		CZK 100,000		Marine Coffee Company Holdings Limited	24	€0.001 Ordinary	100
Crest Ostrava a.s	16	Ordinary	100		24	€1.25 A Ordinary	100
		KRW 5,000					
dunnhumby (Korea) Limited	66	Ordinary	100	Monread Developments Limited		£1.25 B Ordinary	100
dunnhumby (Malaysia) Sdn Bhd	84	RM 1.00 Ordinary	100	Nabola Development Limited	24		
		THB 1,000,000					
dunnhumby (Thailand) Limited	73	Ordinary	100				
dunnhumby Advertising (Shanghai) Co., Ltd	23	€130,000	100	Orpingford Unlimited Company	24	€1.00 Ordinary	100
		Registered Capital					
dunnhumby Australia PTY Limited	65	AUD 100 Ordinary	100				
dunnhumby Brasil Consultora Ltda	77	BRL\$1.00 Ordinary	100				
dunnhumby Canada Limited	59	CAS\$ 1.00 Ordinary	100				

## Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Subsidiary undertakings in liquidation			
PEJ Property Developments Limited	24	€1.00 Ordinary	100	The following subsidiary undertakings were incorporated in the United Kingdom			
Pharaway Properties Limited	24	€1.00 Ordinary	100	Name of undertaking	Registered address	Class of share held	% held by Group
R.J.D. Holdings Unlimited	24	€1.269738 Ordinary	100	Adsega Limited†	9	£0.0026 Ordinary	100
Sociomantic Labs Internet Hizmetleri Limited Şirketi	51	TRY 25.00 Ordinary	100	Booker EBT Limited	9	£1.00 Ordinary £0.000000370	100
Tesco (Polska) Sp. z o.o.	42	PLN 500.00 Ordinary	100	Cullen's Holdings Limited	9	Ordinary £0.00000161	100
Tesco Akadémia Képzési és Fejlesztési Korlátolt Felelősségű Társaság	32	HUF 1.00 Business Share	100	Cullen's Stores Limited	9	Ordinary £0.000000001	100
Tesco Bengaluru Private Limited	41	INR 10.00 Ordinary	100	Cheshunt Finance Unlimited	9	Ordinary Limited Liability	100
Tesco Capital No. 1 Limited†	28	£0.50 A Ordinary	100	Cheshunt Overseas LLP	9	Partnership	100
		£0.50 B Ordinary	100	dunnhumby Advertising Limited	9	£0.001 Ordinary	100
		£0.01 Preference – Guaranteed cumulative fixed rate preference		Europa Foods Limited	9	Ordinary £0.000000176	100
		£0.01 Preferred Ordinary	100	Faraday Properties Limited	10	£0.000147 Ordinary	100
		£0.01 Floating Rate Redeemable					
Tesco Capital No. 2 Limited	28	Preference†	100	Fresh Food Trader Limited	9	£1.00 Ordinary	50
		£1.00 Ordinary	100			£1.00 Preference	100
Tesco Chile Sourcing Limitada	22	CLP 1.00 Ordinary	100	Gibbs News Limited	9	£0.00001 Ordinary	100
		Ordinary US\$ 1.00	100	NutriCentre Limited	9	£0.10 Ordinary £0.0000000180	100
Tesco Digital Ventures Pte Ltd	49	SGD 1.00 Ordinary	100	Wm. Low Supermarkets Limited	10	Ordinary	100
Tesco Dystrybucja Sp. z o.o.	42	PLN 50.00 Ordinary	100	Halesworth SPV Limited	9	£1.00 Ordinary	100
Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100	Harts the Grocers (Russell Square) Limited	9	£1.00 Ordinary	100
Tesco-Global Stores Privately Held Company Limited	32	HUF 10.00 Common	100	J.E. Cohen & Company Limited	9	£1.00 Ordinary	100
Tesco Global Employment Company Limited	34	THB 100.00 Ordinary	100	J.Smylie & Sons (IOM) Limited	72	£1.00 Ordinary	100
Tesco Guangdong (HK) Co. Limited	20	US\$ 1.00 Ordinary	100	KSS Retail Limited	9	£0.000000851	100
Tesco Holdings B.V.	40	€1.00 Ordinary	100	Linebush IV Limited	9	£0.01 Ordinary A	100
Tesco International Clothing Brand s.r.o.	68	€1.00 Ordinary	100			£1.20 Ordinary B	100
Tesco International Franchising s.r.o.	58	€1.00 Ordinary	100			£0.01 Ordinary C	100
Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100	Linebush Limited	9	£0.01 A Ordinary	100
Tesco Ireland Holdings Limited	24	€1.25 Ordinary	100			£1.00 B Ordinary	100
Tesco Ireland Limited	24	€1.25 Ordinary	100			£0.01 C Ordinary	100
Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100	Linebush V Limited	9	£1.20 Ordinary A	100
Tesco Joint Buying Service (Shanghai) Co., Limited	82	US\$ 1.00 Ordinary	100			£1.20 Ordinary B	100
				London and Home Counties Superstores Limited	9	£1.00 Ordinary A	100
Tesco Mobile (Thailand) Co. Limited	34	THB 100.00 Ordinary	100	M & W Limited	9	£0.0000000582261	100
Tesco Mobile Ireland Limited	24	€1.00 Ordinary	100	Morgam News Limited	9	£1.00 Ordinary	100
Tesco Property (No. 1) Limited	28	£1.00 Ordinary	100	Stewarts Supermarkets Limited	9	£1.00 Ordinary	100
Tesco Sourcing India Private Limited	80	INR 10.00 Ordinary	100	Snowman Retail 1 Limited	9	£1.00 Ordinary	100
Tesco Stores (Malaysia) Sdn Bhd*	86	RM 1.00 A Ordinary	100				
		RM 10.00 Non Convertible Non Cumulative Irredeemable Preference Shares	100	Tesco Treasury Services Limited†	9	£0.000001 Ordinary	100
		RM 1.00 B Ordinary	100	Tesco FFC Limited	9	£0.01 Ordinary	100
Tesco Stores (Thailand) Limited*	34	THB 10.00 A Ordinary	100	Tesco International Internet Retailing Limited	9	£0.0000013543	100
		THB 10.00 B Preference	<0.001	Tesco Kirkby (General Partner) Limited	9	£1.00 Ordinary	100
		THB 10.00 C Preference	100	Tesco Kirkby (LP) Limited	9	£1.00 Ordinary	100
Tesco Stores ČR a.s.	16	CZK 250 Ordinary	100	Tesco Kirkby (Unitholder1) Limited	9	£1.00 Ordinary	100
Tesco Stores SR, a.s.	81	€33,193.92 Ordinary	100	Tesco Kirkby (Unitholder2) Limited	9	£1.00 Ordinary	100
Tesco Trustee Company of Ireland Limited†	24	€1.25 Ordinary	100	Tesco TLB Barnstaple Limited	9	£1.00 Ordinary	100
TESCO Üzleti és Technológiai Szolgáltatások Zártkörűen Működő Részvénytársaság	25	HUF 1,000.00	100	Tesco TLB Nottingham Limited	9	£1.00 Ordinary	100
Thundridge Unlimited	24	€1.00 Ordinary	100	Tesco TLB Pontypridd Limited	9	£1.00 Ordinary	100
Victoria BB Sp. z o.o.		PLN 800.00 Ordinary	100	Verulam Properties Limited	9	£1.00 Ordinary	100
Wanze Properties (Dundalk) Limited		€1.00 Ordinary	100				
WSC Properties Limited		€0.0000005 Ordinary	100				

## Related undertakings of the Tesco Group continued

The following subsidiary undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Avantil Services Company Limited	39	£1.00 Ordinary	100
Booker Cyprus Limited	21	£1.00 Ordinary	100
Saneyia Limited	21	£1.00 Ordinary	100
sociomantic Labs Private Limited	78	INR 10.00 Ordinary	100
Tesco Mauritius Holdings Limited	85	£1.00 Ordinary	100
Tesco Vin Plus S.A.	52	£1.60 Ordinary	100

The following associated undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Arena Unit Trust	33	–	50
Booker India Private Limited	54	INR1.00 Ordinary	49
Booker Satnam Wholesale Private Limited	54	INR1.00 Ordinary	49
China Wisdom dunnhumby Limited	53	RMB 264,000 Ordinary	50
China Wisdom dunnhumby (Shanghai) Limited	63	RMB 26,400,000	50
dunnhumby Mitsui Bussan Customer Science Co., Ltd	55	Common stock 1,000	50
dunnhumby Norge A.S.	56	NOK 1,000 Ordinary	50
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51

### Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Broadfields Management Limited	12	£0.10 Ordinary	35.3
Clarepharm Limited	13	£0.10 Ordinary	26.5
Shire Park Limited	15	£0.10 Ordinary	54.5
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Coral (Nominee) Limited	1	£1.00 A Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 Ordinary	100
Tesco Dorney (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee Holdco) Limited	1	£1.00 A Ordinary	100
Tesco Jade (GP) Limited	29	£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
Tesco Property (Sparta Nominees) Limited	1	£0.90 B Ordinary	100
Tesco Property (Nominees) (No.3) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.4) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP No.2) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Underwriting Limited	31	£1.00 Limited	49.9
The Tesco Atrato Limited Partnership	1	Partnership Limited	50
The Tesco Coral Limited Partnership	1	Partnership Limited	50
The Tesco Dorney Limited Partnership	1	Partnership Limited	50
The Tesco Property (No.2) Limited Partnership	17	Partnership Limited	50
The Tesco Sarum Limited Partnership	1	Partnership	50

Retail Property Co., Limited\*  
Synergistic Property Development Co. Limited  
Tesco General Insurance Broker Limited

83	THB 100.00 Ordinary A	100
68	THB 100.00 Ordinary	50
45	THB100.00 Common	100
45	THB100.00 Common	100
45	THB 100.00 Ordinary A	100
46	THB non par value listed	25
16	CZK 100,000 Ordinary	50
81	€1.00 Ordinary	50
26	INR 10.00 Equity	50

### Consolidated Structured Entities

Name of undertaking	Registered address	Class of share held
Delamare Cards Holdco Limited	85	Securitisation entity
Delamare Cards MTN Issuer plc	85	Securitisation entity
Delamare Cards Receivables Trustee Limited	85	Securitisation entity
Delamare Cards Funding 1 Limited	85	Securitisation entity
Delamare Cards Funding 2 Limited	85	Securitisation entity
Delamare Finance PLC	11	Securitisation entity
Delamare Group Holdings Limited	11	Securitisation entity

## Related undertakings of the Tesco Group continued

1	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City AL7 1GA, United Kingdom
2	Apex Road, Brownhills, Walsall, West Midlands WS8 7HU, United Kingdom
3	KPMG LLP, 15 Canada Square, London E14 5GL, United Kingdom
4	184 Shepherds Bush Road, London W6 7NL, United Kingdom
5	C/O Morton Fraser LLP, 5th Floor, Quartermile Two, 2 Lister Square, Edinburgh, Scotland EH3 9GL, United Kingdom
6	2 South Gyle Crescent, Edinburgh, EH12 9FQ, United Kingdom
7	35 Great St Helen's, London EC3A 6AP, United Kingdom
8	Equity House, Irthlingborough Road, Wellingborough, Northamptonshire NN8 1LT, United Kingdom
9	Ernst & Young LLP, 1 More London Place, London, SE1 2AF, United Kingdom
10	Atria One, 144 Morrison Street, Edinburgh, EH3 8EX
11	40/14, Hardengreen Business Park, Dalhousie Road, Eskbank, United Kingdom, EH22 3NU
12	2 Paris Parklands, Railton Road, Guildford, Surrey, GU2 9JX
13	Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD
14	Ritterstraße 6, 10969 Berlin, Germany
15	Riverside House 3 Place Farm, Wheathampstead, St. Albans, AL4 8SB, England
16	1527/68b, Vrsovicke, Praha 10, City of Prague, 100 00, Czech Republic
17	PO Box 87 22 Grenville Street, St Helier, Jersey
18	Yeni Havaalani Caddesi, No. 40 Cigli, Izmir, 35610 Turkey
19	30 A Tanjong Pagar Road, Singapore 088453, Singapore
20	31st Floor ALA Kowloon Tower Landmark East, 100 How Ming Street, Kowloon, Hong Kong
21	5 Esperidon Street, 4th floor, 2001 Strovolos, Nicosia, Cyprus
22	Avenida Santa María 5888, Piso 2 Zona A, Oficina 4, Vitacura, Santiago, 7660268, Chile
23	Room 886S, 8/F, 1111, Changshou Road, Jing'an District, Shanghai, People's Republic of China
24	Gresham House, Marine Road, Dun Laoghaire, Co. Dublin, Ireland
25	II38 , Budapest, , Váci út, 187., Hungary
26	Taj Building, 2nd Floor, 210, Dr D.N. Road, Fort, Mumbai, 400001, India
27	PO Box 25, Regency Court, Glatigny Esplanade, St. Peter Port, Guernsey, GY1 3AP, Guernsey
28	Lime Grove House, Green Street, St Helier , Jersey , JE1 2ST, Jersey
29	20 Churchill Place, Canary Wharf, London E14 5HJ
30	c/o RSM Finland Oy, Ratamestarinkatu 7 B, 00520 Helsinki, Finland
31	Ageas House Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA
32	H-2040 Budaörs, Kinizsi, ÚT 1-3, Hungary
33	47 Esplanade, St Helier, Jersey, JE1 0BD, Jersey
34	629/1 Nawamintr Road, Nuanchan, Buengkoom, Bangkok, , 10230, Thailand
35	c/o The Corporation Trust Company, 1209 Orange Street, Corporation Trust Center, Wilmington, DE 19801, USA
36	S-22 Greater Kailash, Part 1, Lower Ground Floor, New Delhi 110048, India
37	Carrera 48 no. 32B sur - 139, Envigado, Italy
38	9th Floor, Shiroyama Trust Tower, 3-1., Toranomon 4-chome., Minato-ku, Tokyo, Japan
39	38/39 Fitzwilliam Square, Dublin 2, Ireland
40	Danzigerkade 13H 2hg, 1013AP Amsterdam, Netherlands
41	81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India
42	56 Kapelenka St, 30-347, Krakow, Poland
43	3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa
44	One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202, United States
45	87/1 Floor 10 Capital Tower, All Seasons Place, Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand
46	1 Empire Tower, 32nd Floor, South Sathorn Road, Yannawa, Sathorn, Bangkok, 10120, Thailand
47	Sociomantic labs Sp z o.o., ul. Pulawska 2, 02 566 Warszawa, Poland
48	Av. El Golf 40, 7th floor, Las Condes, Santiago de Chile, Chile
49	163 Tras Street, #03-01, Lian Huat Building, Singapore, 079024, Singapore
50	Paseo de General Martinez Campos, Campos nº 9 1º izquierda, 28010 Madrid, Spain
51	Istiklal Caddesi Beyoglu Is Merkezi No: 187/5 Galatasaray, Istanbul, Turkey
52	Centre de Commerces et de Loisirs, Cite Europe, 62231 Coquelles, France
53	Suite 1106-8, 11/F., Tai Yau Building, No 181 Johnston Road, Wanchai, Hong Kong
54	Unit 607, 6th floor, Trade Centre, Bandra Kurla Complex, Bandra East, Mumbai, 400051, Maharashtra, India
55	1-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan
56	Rosenkrantzgate 16, Oslo, 0160, Norway
57	c/o TMF Denmark A/S, Købmagergade 60, 1. tv., 1150 København K, Denmark
58	Cesta na Senec 2, Bratislava, 821 04, Slovakia
59	1400-340 Albert St, Ottawa ON K1R 0A5, Canada

## Related undertakings of the Tesco Group continued

60	4th Fl, Tower B, Paras Twin Towers, DLF Golf Course Road, Sector 54, Gurgaon, Haryana-HR, 122002, India
61	48 rue Cambon, 75001, Paris, France
62	Room 1001, Enterprise Development Tower, No. 398, Jiangsu Road Changning District, Shanghai 200050, People's Republic of China
63	Room 501-4, No.398 Jiangsu Road , Shanghai, People's Republic of China
64	RSM New Zealand, Level 2, 60 Highbrook Drive, Auckland, 2013, New Zealand
65	Level 21, 55 Collins Street, Melbourne, VIC 3000, Australia
66	13F WeWork Yeoksam Station 2,14, Teheran-ro 26-gil, Gangnam-gu, Seoul, 06236, Korea
67	Floor 3, 2 Harbour Square, Crofton Road, Dun Laoghaire, Dublin, Ireland
68	999/9, 31st Floor, Rama 1 Road, Pathumwan District, Bangkok, 10330, Thailand
69	Av President Masarik No. 111, Piso 1, Colina Polance V Seccion Delegacion Miguel Hidalgo, C.P. 11560, Mexico
70	Herikerberweg 238, Luna Arena 1101CM, Amsterdam, Zuidoost, Netherlands
71	Dorey Court, , Admiral Park, St. Peter Port, GY1 4AT, Guernsey
72	PO Box 237, Peregrine House, Peel Road, Douglas, Isle of Man, IM99 1SU
73	No. 319 Chamchuri Square Building, 16th Fl, Unit 01, Phayathi Road Pathumwan sub District, Bangkok 10330, Thailand
74	Calle 32 b sur #48-100, Envigado, Antioquia, Colombia
75	25-28 North Wall Quay, International Financial Services Centre, DUBLIN 1, Ireland
76	Paul-Lincke-Ufer 39/40, 10999 Berlin, Germany
77	Av.Brigadeiro Luis Antônio. 3530, 5° Andar, 01402-001 São Paulo, Brazil
78	C/o Vaish Associates, 106, Peninsula Centre, Dr. S. S. Rao Road, Parel Mumbai - 400012, Maharashtra, India
79	121099, Pereulok Spasopeskovskik 7/1 , Building 1, Moscow, Russian Federation
80	5th Floor, Unit 401, Tower B, The Millenia, No. 1&2 Murphy Road Ulsoor, Bangalore, 560 008, India
81	Einsteinova 24, Bratislava 851 01, Slovakia
82	Unit 01, 02, 06, 07, 08, 09, Floor 17, No. 610 Xujiahui Road, Huangpu District, Shanghai, People's Republic of China
83	313 CP Tower, Silom Road, Khwaeng Silom, Khet Bangrak, Bangkok, Thailand
84	Suite 13.03 , 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
85	c/o SGG Corporate Services (Mauritius) Ltd, 33 Edith Cavell Street, Port Louis, 11324, Mauritius
86	Level 8, Symphony House,, Pusat Dagangan Dana 1,, Jalan PJU 1A/46, 47301 Petaling Jaya,, Selangor Darul Ehsan, Malaysia



## Supplementary information (unaudited)

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

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20 <sup>(a)</sup>	1H 2019/20	2H 2019/20 <sup>(a)</sup>	FY 2019/20 <sup>(a)</sup>
<b>UK &amp; ROI</b>	<b>1.2%</b>	<b>(0.9)%</b>	<b>0.2%</b>	<b>(0.1)%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.1%</b>
<b>UK &amp; ROI (comparable growth)<sup>(b)</sup></b>	<b>0.1%</b>	<b>(0.9)%</b>	<b>0.2%</b>	<b>(0.1)%</b>	<b>(0.4)%</b>	<b>0.0%</b>	<b>(0.2)%</b>
UK	(0.4)%	(1.4)%	(0.5)%	(0.3)%	(0.9)%	(0.4)%	(0.6)%
ROI	0.8%	0.3%	(0.4)%	(3.3)%	0.5%	(1.9)%	(0.7)%
Booker	3.1%	1.6%	4.3%	2.6%	2.3%	3.5%	2.9%
<b>Central Europe</b>	<b>(10.8)%</b>	<b>(3.3)%</b>	<b>(15.9)%</b>	<b>(18.4)%</b>	<b>(7.0)%</b>	<b>(17.2)%</b>	<b>(12.1)%</b>
<b>Asia</b>	<b>7.3%</b>	<b>9.5%</b>	<b>9.7%</b>	<b>1.0%</b>	<b>8.4%</b>	<b>5.0%</b>	<b>6.7%</b>
<b>Tesco Bank</b>	<b>(1.9)%</b>	<b>7.5%</b>	<b>(5.2)%</b>	<b>(10.9)%</b>	<b>2.8%</b>	<b>(8.1)%</b>	<b>(2.6)%</b>
<b>Group</b>	<b>0.4%</b>	<b>(0.1)%</b>	<b>(0.8)%</b>	<b>(2.2)%</b>	<b>0.1%</b>	<b>(1.5)%</b>	<b>(0.7)%</b>
<b>Group (comparable growth)<sup>(b)</sup></b>	<b>(0.5)%</b>	<b>(0.1)%</b>	<b>(0.8)%</b>	<b>(2.2)%</b>	<b>(0.3)%</b>	<b>(1.5)%</b>	<b>(0.9)%</b>

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

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20 <sup>(a)</sup>	1H 2019/20	2H 2019/20 <sup>(a)</sup>	FY 2019/20 <sup>(a)</sup>
<b>UK &amp; ROI</b>	<b>1.3%</b>	<b>(1.0)%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>
<b>UK &amp; ROI (comparable growth)<sup>(b)</sup></b>	<b>0.2%</b>	<b>(1.0)%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>(0.4)%</b>	<b>0.2%</b>	<b>(0.1)%</b>
UK	(0.4)%	(1.4)%	(0.5)%	(0.3)%	(0.9)%	(0.4)%	(0.6)%
ROI	2.7%	(1.4)%	0.7%	1.3%	0.6%	1.0%	0.8%
Booker	3.1%	1.6%	4.3%	2.6%	2.3%	3.5%	2.9%
<b>Central Europe</b>	<b>(7.9)%</b>	<b>(4.7)%</b>	<b>(14.4)%</b>	<b>(13.7)%</b>	<b>(6.3)%</b>	<b>(14.0)%</b>	<b>(10.1)%</b>
<b>Asia</b>	<b>2.6%</b>	<b>(0.5)%</b>	<b>(0.1)%</b>	<b>(1.6)%</b>	<b>1.0%</b>	<b>(0.9)%</b>	<b>0.1%</b>
<b>Tesco Bank</b>	<b>(1.9)%</b>	<b>7.5%</b>	<b>(5.2)%</b>	<b>(10.9)%</b>	<b>2.8%</b>	<b>(8.1)%</b>	<b>(2.6)%</b>
<b>Group</b>	<b>0.4%</b>	<b>(1.2)%</b>	<b>(1.4)%</b>	<b>(1.7)%</b>	<b>(0.4)%</b>	<b>(1.6)%</b>	<b>(1.0)%</b>
<b>Group (comparable growth)<sup>(b)</sup></b>	<b>(0.5)%</b>	<b>(1.2)%</b>	<b>(1.4)%</b>	<b>(1.7)%</b>	<b>(0.8)%</b>	<b>(1.6)%</b>	<b>(1.2)%</b>

<sup>(a)</sup> 4Q on a 13 weeks basis, 2H on a 26 weeks basis and FY on a 52 weeks basis.

<sup>(b)</sup> Comparable growth presents growth with Booker sales included in the prior year base using a comparable number of weeks. Booker sales growth was 12.4% for Q1 2019/20, 6.5% for 1H 2019/20 and 5.0% for FY 2019/20, reflecting 9 additional days of Booker sales in the current year.

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

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20	1H 2019/20	2H 2019/20	FY 2019/20
<b>UK &amp; ROI</b>	<b>0.8%</b>	<b>(0.6)%</b>	<b>0.4%</b>	<b>0.3%</b>	<b>0.1%</b>	<b>0.4%</b>	<b>0.2%</b>
UK	0.4%	(1.0)%	(0.4)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%
ROI	1.3%	(1.0)%	2.0%	2.4%	0.1%	2.2%	1.2%
Booker	3.1%	1.9%	5.0%	3.5%	2.4%	4.2%	3.3%
<b>Central Europe</b>	<b>(4.9)%</b>	<b>(1.4)%</b>	<b>(11.0)%</b>	<b>(8.7)%</b>	<b>(3.1)%</b>	<b>(9.8)%</b>	<b>(6.4)%</b>
<b>Asia</b>	<b>0.1%</b>	<b>(2.7)%</b>	<b>(1.6)%</b>	<b>(3.1)%</b>	<b>(1.3)%</b>	<b>(2.4)%</b>	<b>(1.9)%</b>
<b>Tesco Bank</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Group</b>	<b>0.2%</b>	<b>(0.9)%</b>	<b>(0.9)%</b>	<b>(0.9)%</b>	<b>(0.4)%</b>	<b>(0.9)%</b>	<b>(0.6)%</b>

### Country detail – Retail

	Revenue (exc. VAT, inc fuel)*		Average exchange rate	Closing exchange rate
	Local Currency (m)	£m		
UK	44,302	44,302	1.0	1.0
ROI	2,746	2,392	1.1	1.2
Booker	6,204	6,204	1.0	1.0
Czech Republic	42,201	1,437	29.4	29.6
Hungary	557,052	1,479	376.6	393.8
Poland	7,144	1,451	4.9	5.0
Slovakia	1,381	1,203	1.1	1.2
Malaysia	4,593	867	5.3	5.4
Thailand	172,163	4,351	39.6	40.4

\* Excludes franchising revenue within Central Europe of £6m, which is not allocated to individual countries.

### UK sales area by size of store

Store size (sq. ft.)	29 February 2020			23 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	2,508	5.4	14.0%	2,518	5.4	13.9%
3,001-20,000	284	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	8.8	22.9%	182	8.8	22.9%
60,001-80,000	120	8.4	21.8%	120	8.5	22.1%
80,001-100,000	45	3.7	9.6%	50	3.7	9.7%
Over 100,000	8	1.0	2.6%	8	0.9	2.3%
<b>Total*</b>	<b>3,431</b>	<b>38.5</b>	<b>100.0%</b>	<b>3,438</b>	<b>38.5</b>	<b>100.0%</b>

\* Excludes Booker and franchise stores.

## Supplementary information (unaudited) continued

### Group space summary

Actual Group space – store numbers<sup>(a)</sup>

	2018/19 year end	Openings	Closures/ disposals	Net gain/ (reduction) <sup>(b)</sup>	2019/20 year end	Repurposing/ extensions <sup>(c)</sup>
Large	797	2	(3)	(1)	796	-
Small <sup>(d)</sup>	1,855	72	(7)	65	1,920	-
Dotcom only	6	-	-	-	6	-
<b>Total Tesco</b>	<b>2,658</b>	<b>74</b>	<b>(10)</b>	<b>64</b>	<b>2,722</b>	-
One Stop <sup>(d)(e)</sup>	772	7	(82)	(75)	697	-
Booker	197	-	(1)	(1)	196	-
Jack's	8	5	(1)	4	12	-
<b>UK<sup>(e)</sup></b>	<b>3,635</b>	<b>86</b>	<b>(94)</b>	<b>(8)</b>	<b>3,627</b>	-
<b>ROI</b>	<b>152</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>	<b>150</b>	-
<b>UK &amp; ROI<sup>(e)</sup></b>	<b>3,787</b>	<b>86</b>	<b>(96)</b>	<b>(10)</b>	<b>3,777</b>	-
Czech Republic <sup>(e)</sup>	188	-	(2)	(2)	186	10
Hungary	204	-	(2)	(2)	202	13
Poland	353	-	(24)	(24)	329	59
Slovakia	150	-	-	-	150	10
<b>Central Europe<sup>(e)</sup></b>	<b>895</b>	<b>-</b>	<b>(28)</b>	<b>(28)</b>	<b>867</b>	<b>92</b>
Malaysia	73	2	-	2	75	5
Thailand	1,965	54	(31)	23	1,988	158
<b>Asia</b>	<b>2,038</b>	<b>56</b>	<b>(31)</b>	<b>25</b>	<b>2,063</b>	<b>163</b>
<b>Group<sup>(e)</sup></b>	<b>6,720</b>	<b>142</b>	<b>(155)</b>	<b>(13)</b>	<b>6,707</b>	<b>255</b>
UK (One Stop)	174	35	(18)	17	191	-
Czech Republic	99	8	-	8	107	-
<b>Franchise stores</b>	<b>273</b>	<b>43</b>	<b>(18)</b>	<b>25</b>	<b>298</b>	-

Actual Group space – '000 sq.ft.<sup>(a)</sup>

	2018/19 year end	Openings	Closures/ disposals	Repurposing/ extensions <sup>(c)</sup>	Net gain/ (reduction) <sup>(b)</sup>	2019/20 year end
Large	31,368	34	(66)	-	(32)	31,336
Convenience <sup>(d)</sup>	5,097	149	(42)	-	107	5,204
Dotcom only	716	-	-	-	-	716
<b>Total Tesco</b>	<b>37,181</b>	<b>183</b>	<b>(108)</b>	<b>-</b>	<b>75</b>	<b>37,256</b>
One Stop <sup>(d)(e)</sup>	1,261	13	(135)	-	(122)	1,139
Booker	8,436	-	(60)	-	(60)	8,376
Jack's	81	74	(36)	-	38	119
<b>UK<sup>(e)</sup></b>	<b>46,959</b>	<b>270</b>	<b>(339)</b>	<b>-</b>	<b>(69)</b>	<b>46,890</b>
<b>ROI</b>	<b>3,335</b>	<b>-</b>	<b>(61)</b>	<b>-</b>	<b>(61)</b>	<b>3,274</b>
<b>UK &amp; ROI<sup>(e)</sup></b>	<b>50,294</b>	<b>270</b>	<b>(400)</b>	<b>-</b>	<b>(130)</b>	<b>50,164</b>
Czech Republic <sup>(e)</sup>	4,602	-	(64)	(249)	(313)	4,289
Hungary	6,281	-	(6)	(275)	(281)	6,000
Poland	7,804	-	(977)	(1,154)	(2,131)	5,673
Slovakia	3,438	-	-	(258)	(258)	3,180
<b>Central Europe<sup>(e)</sup></b>	<b>22,125</b>	<b>-</b>	<b>(1,047)</b>	<b>(1,936)</b>	<b>(2,983)</b>	<b>19,142</b>
Malaysia	3,533	50	-	(133)	(83)	3,450
Thailand	15,024	145	(67)	(644)	(566)	14,458
<b>Asia</b>	<b>18,557</b>	<b>195</b>	<b>(67)</b>	<b>(777)</b>	<b>(649)</b>	<b>17,908</b>
<b>Group<sup>(e)</sup></b>	<b>90,976</b>	<b>465</b>	<b>(1,514)</b>	<b>(2,713)</b>	<b>(3,762)</b>	<b>87,214</b>
UK (One Stop)	227	34	(24)	-	10	237
Czech Republic	95	6	-	-	6	101
<b>Franchise stores</b>	<b>322</b>	<b>40</b>	<b>(24)</b>	<b>-</b>	<b>16</b>	<b>338</b>

<sup>(a)</sup> Continuing operations.

<sup>(b)</sup> The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.

<sup>(c)</sup> Repurposing of retail selling space.

<sup>(d)</sup> Included within openings and closures/disposals are 54 stores (113,065 sq.ft.) which were converted from One Stop stores into Tesco Express stores.

<sup>(e)</sup> Excludes franchise stores.

## Supplementary information (unaudited) continued

Group space forecast to 27 February 2021 – '000 sq. ft. <sup>(a)</sup>

	2019/20 year end	Openings	Closures/ disposals	Repurposing/ extensions	Net gain/ (reduction)	2020/21 year end
Large	31,336	12	–	–	12	31,348
Small	5,204	69	(29)	–	40	5,244
Dotcom only	716	–	–	–	–	716
<b>Total Tesco</b>	<b>37,256</b>	<b>81</b>	<b>(29)</b>	<b>–</b>	<b>52</b>	<b>37,308</b>
One Stop <sup>(b)</sup>	1,139	–	–	–	–	1,139
Booker	8,376	–	–	–	–	8,376
Jack's	119	96	–	–	96	215
<b>UK<sup>(b)</sup></b>	<b>46,890</b>	<b>177</b>	<b>(29)</b>	<b>–</b>	<b>148</b>	<b>47,038</b>
<b>ROI</b>	<b>3,274</b>	<b>59</b>	<b>–</b>	<b>6</b>	<b>65</b>	<b>3,339</b>
<b>UK &amp; ROI<sup>(b)</sup></b>	<b>50,164</b>	<b>236</b>	<b>(29)</b>	<b>6</b>	<b>213</b>	<b>50,377</b>
Czech Republic <sup>(b)</sup>	4,289	14	(4)	(99)	(89)	4,200
Hungary	6,000	–	–	(147)	(147)	5,853
Poland	5,673	–	(715)	(418)	(1,133)	4,540
Slovakia	3,180	54	–	(78)	(24)	3,156
<b>Central Europe<sup>(b)</sup></b>	<b>19,142</b>	<b>68</b>	<b>(719)</b>	<b>(742)</b>	<b>(1,393)</b>	<b>17,749</b>
Malaysia	3,450	94	–	–	94	3,544
Thailand	14,458	378	(48)	(464)	(134)	14,324
<b>Asia</b>	<b>17,908</b>	<b>472</b>	<b>(48)</b>	<b>(464)</b>	<b>(40)</b>	<b>17,868</b>
<b>Group<sup>(b)</sup></b>	<b>87,214</b>	<b>776</b>	<b>(796)</b>	<b>(1,200)</b>	<b>(1,220)</b>	<b>85,994</b>
UK (One Stop)	237	–	–	–	–	237
Czech Republic	101	20	–	–	20	121
<b>Franchise stores</b>	<b>338</b>	<b>20</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>358</b>

<sup>(a)</sup> Continuing operations.

<sup>(b)</sup> Excludes franchise stores.

### Tesco Bank income statement

	2020 <sup>(a)</sup> £m	2019 <sup>(a)(b)</sup> (restated) £m
<b>Revenue</b>		
Interest receivable and similar income	733	729
Fees and commissions receivable	335	368
	<b>1,068</b>	<b>1,097</b>
<b>Direct costs</b>		
Interest payable	(166)	(175)
Fees and commissions payable	(25)	(27)
	<b>(191)</b>	<b>(202)</b>
<b>Gross profit</b>	<b>877</b>	<b>895</b>
<b>Other expenses</b>		
Staff costs	(164)	(170)
Premises and equipment	(72)	(80)
Other administrative expenses	(191)	(197)
Depreciation and amortisation	(78)	(85)
Impairment loss on financial assets	(179)	(164)
<b>Operating profit before exceptional items</b>	<b>193</b>	<b>199</b>
Exceptional items <sup>(c)</sup>	(119)	(30)
<b>Operating profit</b>	<b>74</b>	<b>169</b>
Net finance costs: movements on derivatives and hedge accounting	(11)	(4)
Net finance costs: interest	23	(6)
Share of profit/(loss) of joint venture	10	8
<b>Profit for the year</b>	<b>96</b>	<b>167</b>

<sup>(a)</sup> These results are for the 12 months ended 29 February 2020 and the previous period represents the 12 months ended 28 February 2019.

<sup>(b)</sup> Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37 of the Group financial statements.

<sup>(c)</sup> Exceptional items in 2020 comprise of a PPI provision charge of £(45)m (February 2019: £(16)m), a restructuring charge of £(13)m (February 2019: credit of £2m), accelerated amortisation and costs related to the sale of the mortgage book and PCA £(61)m (February 2019: £nil), and a regulatory provision of £nil (February 2019: £(16)m).

## Glossary

### 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.

Details of 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	Definition and purpose
<b>Income statement</b>			
<b>Revenue measures</b>			
Group sales	Revenue	–Exclude sales made at petrol filling stations	–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	–Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	–Consistent with accounting policy	–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.
<b>Profit measures</b>			
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	–Exceptional items –Amortisation of acquired intangibles	–Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance, and is based on operating profit from continuing operations before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain cost 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. This is a key management incentive metric.
Retail operating profit	Operating profit*	–Tesco Bank operating profit –Retail exceptional items –Retail amortisation of acquired intangibles	–Retail operating profit is a measure of the Group's operating profit from continuing operations from the Retail business excluding Tesco Bank. It is based on Retail operating profit before exceptional items and amortisation of acquired intangibles.
Operating margin	No direct equivalent	–Consistent with accounting policy	–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.
Retail earnings before exceptional items, interest, tax, depreciation and amortisation (Retail EBITDA)	Operating profit*	–Exceptional items –Depreciation and amortisation –Tesco Bank earnings before exceptional items, interest, tax, depreciation and amortisation –Discontinued operations	–This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation and amortisation and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.

## Glossary continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
<b>Profit measures continued</b>			
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Profit before tax	<ul style="list-style-type: none"> <li>–Exceptional items</li> <li>–Amortisation of acquired intangibles</li> <li>–Net pension finance costs</li> <li>–Fair value remeasurements on financial instruments</li> </ul>	–This is a key management incentive metric. This measure excludes exceptional items and amortisation of acquired intangibles, net finance costs of the defined benefit pension deficit and fair value remeasurements of 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 of 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	<ul style="list-style-type: none"> <li>–Exceptional items</li> <li>–Net pension finance costs</li> <li>–Fair value remeasurements on financial instruments</li> </ul>	–Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments is the net finance costs adjusted for nonrecurring one-off items, net pension finance costs and fair value remeasurements of 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 of 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	<ul style="list-style-type: none"> <li>–Exceptional items</li> <li>–Amortisation of acquired intangibles</li> <li>–Discontinued operations</li> <li>–Net pension finance costs</li> <li>–Fair value remeasurements on financial instruments</li> </ul>	<ul style="list-style-type: none"> <li>–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 adjusted for the effects of potentially dilutive share options.</li> <li>–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 of financial instruments resulting from liability management exercises.</li> </ul>
<b>Tax measures</b>			
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	<ul style="list-style-type: none"> <li>–Exceptional items and their tax impact</li> <li>–Amortisation of acquired intangibles and their tax impact</li> </ul>	–Retail operating profit is a measure of the Group's 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	<ul style="list-style-type: none"> <li>–Exceptional items and their tax impact</li> <li>–Amortisation of acquired intangibles and their tax impact</li> <li>–Net pension finance costs and their tax impact</li> <li>–Fair value remeasurements on financial instruments and their tax impact</li> </ul>	–Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of 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.
<b>Balance sheet measures</b>			
Net debt	Borrowings less cash and related hedges	–Net debt from Tesco Bank	–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.

## Glossary continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
<b>Balance sheet measures continued</b>			
Total indebtedness	Borrowings less cash and related hedges	– Consistent with accounting policy	– 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	– Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month Retail EBITDA. 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	– Fixed charge cover is calculated as the rolling 12-month Retail EBITDA 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 liability 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.
<b>Cash flow measures</b>			
Retail operating cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Discontinued operations	– Retail operating cash flow is the cash generated 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/(utilised in) investing activities, and the market purchase of shares issued in relation to scheme schemes – Repayment of obligations under leases – Investing cash flows that increase items within Group net debt – Cash flows from major corporate acquisitions and disposals	– 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	– 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.

## Glossary continued

As detailed in the basis of consolidation, refer to Note 1, for the UK and the Republic of Ireland (UK & ROI), the results are for the 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For all other operations, the results are for the calendar year ended 29 February 2020 (prior calendar year ended 28 February 2019).

In order to provide comparability with the prior year results for the 52 weeks ended 23 February 2019, the tables below present the Group's statutory results on a 53 week basis to 29 February 2020, adjusted to remove the results of week 53 for the UK & ROI to also separately present the APMs on a 52 week basis to 22 February 2020. In determining the week 53 adjustment for the UK & ROI, revenue, sales and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53 based on the reported results for the 53 weeks to 29 February 2020. No week 53 adjustments are required with respect to the Group's operations in Central Europe, Asia or Tesco Bank which report on a calendar year basis.

### APMs: Reconciliation of income statement measures

		2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
UK & ROI	Notes				
<b>Continuing operations</b>					
<b>Group Sales</b>	2	<b>45,752</b>	<b>(843)</b>	<b>44,909</b>	<b>44,883</b>
Revenue	2	52,898	(983)	51,915	51,643
<b>Operating profit before exceptional items and amortisation of acquired intangibles</b>	2	<b>2,230</b>	<b>(46)</b>	<b>2,184</b>	<b>1,868</b>
<b>Operating margin</b>	2	<b>4.2%</b>	<b>-</b>	<b>4.2%</b>	<b>3.6%</b>
<b>Growth in sales at actual rates</b>		<b>2.0%</b>	<b>(1.9)%</b>	<b>0.1%</b>	<b>16.1%</b>
<b>Growth in sales at constant rates</b>		<b>2.1%</b>	<b>(1.9)%</b>	<b>0.2%</b>	<b>16.1%</b>
		2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
Total Group	Notes				
<b>Continuing operations</b>					
<b>Group Sales</b>	2	<b>57,370</b>	<b>(843)</b>	<b>56,527</b>	<b>56,883</b>
Revenue	2	64,760	(983)	63,777	63,911
<b>Operating profit before exceptional items and amortisation of acquired intangibles</b>	2	<b>3,005</b>	<b>(46)</b>	<b>2,959</b>	<b>2,607</b>
<b>Operating margin</b>	2	<b>4.6%</b>	<b>-</b>	<b>4.6%</b>	<b>4.1%</b>
<b>Growth in sales at actual rates</b>		<b>1.1%</b>	<b>(1.8)%</b>	<b>(0.7)%</b>	<b>11.5%</b>
<b>Growth in sales at constant rates</b>		<b>0.8%</b>	<b>(1.8)%</b>	<b>(1.0)%</b>	<b>11.3%</b>



## Glossary continued

### APMs Reconciliation of income statement measures continued

	Notes	2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
<b>Operating profit before exceptional items and amortisation of acquired intangibles (£m)</b>	2	<b>3,005</b>	<b>(46)</b>	<b>2,959</b>	<b>2,607</b>
Share of post-tax profits/(losses) of joint ventures and associates before exceptional items and amortisation of acquired intangibles (£m)		26	-	26	21
Net finance costs before exceptional items and amortisation of acquired intangibles (£m)	5	(1,070)	27	(1,043)	(1,064)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,961	(19)	1,942	1,564
Add: Net pension finance costs (£m)	5	71	-	71	89
Add/(less): Fair value remeasurements of financial instruments (£m)	5	244	(18)	226	153
<b>Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)</b>		<b>2,276</b>	<b>(37)</b>	<b>2,239</b>	<b>1,806</b>
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)	9	(491)	7	(484)	(441)
<b>Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (%)</b>		<b>21.6%</b>	<b>-</b>	<b>21.6%</b>	<b>24.4%</b>
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	2,273	(37)	2,236	1,806
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	(490)	7	(483)	(439)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)		1,783	(30)	1,753	1,367
Basic weighted average number of shares (millions)	9	9,716	-	9,716	9,686
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)		18.35	(0.31)	18.04	14.11
Diluted weighted average number of shares (millions)	9	9,783	-	9,783	9,758
<b>Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)</b>		<b>18.23</b>	<b>(0.31)</b>	<b>17.92</b>	<b>14.01</b>

### Retail EBITDA

	Notes	2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
<b>Operating profit operations before exceptional items and amortisation of acquired intangibles</b>	2	<b>3,005</b>	<b>(46)</b>	<b>2,959</b>	<b>2,607</b>
Less: Tesco Bank operating profit before exceptional items	2	(193)	-	(193)	(199)
<b>Retail operating profit</b>	2	<b>2,812</b>	<b>(46)</b>	<b>2,766</b>	<b>2,408</b>
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	2	2,078	(29)	2,049	1,972
Less: Tesco Bank depreciation and amortisation	2	(141)	-	(141)	(85)
<b>Retail EBITDA</b>		<b>4,749</b>	<b>(75)</b>	<b>4,674</b>	<b>4,295</b>

### APMs Reconciliation of balance sheet measures

#### Total indebtedness ratio

	Notes	2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
<b>Net debt (£m)<sup>(a)(b)</sup></b>	32	<b>12,298</b>	<b>(197)</b>	<b>12,101</b>	<b>13,204</b>
Add: Defined benefit pension deficit, net of deferred tax (£m) <sup>(a)</sup>	29	2,573	-	2,573	2,338
<b>Total indebtedness (£m)<sup>(a)</sup></b>		<b>14,871</b>	<b>(197)</b>	<b>14,674</b>	<b>15,542</b>
<b>Retail EBITDA (£m)</b>		<b>4,749</b>	<b>(75)</b>	<b>4,674</b>	<b>4,295</b>
<b>Total indebtedness ratio</b>		<b>3.1</b>	<b>-</b>	<b>3.1</b>	<b>3.6</b>

<sup>(a)</sup> Net debt, Total indebtedness and the defined benefit pension deficit, net of deferred tax on a 52 week basis are as at 22 February 2020.

<sup>(b)</sup> Free cash outflow in week 53 of £197m has been deducted from Net debt as at 29 February 2020 to determine the Group's 52 week Total indebtedness ratio.

## Glossary continued

### Fixed charge cover

	Notes	2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
Net finance costs (£m)	5	1,221	(27)	1,194	1,064
Less: Net pension finance costs (£m)	5	(71)	-	(71)	(89)
Less: Exceptional fair value remeasurement loss on derivative restructuring (£m)	5	(180)	-	(180)	-
Add: Exceptional fair value remeasurement gain on Tesco Bank mortgage book disposal (£m)	5	29	-	29	-
Add: Fair value remeasurements of financial instruments (£m)	5	(244)	18	(226)	(153)
<b>Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)</b>		<b>755</b>	<b>(9)</b>	<b>746</b>	<b>822</b>
Add: Capitalised interest (£m)	5	-	-	-	1
Less: Finance charges payable on lease liabilities (£m)	12	(541)	6	(535)	(561)
Net finance cost, excluding net pension finance cost, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities (£m)		214	(3)	211	262
Add: Retail total lease liability payments (£m)	12	1,170	-	1,170	1,163
		<b>1,384</b>	<b>(3)</b>	<b>1,381</b>	<b>1,425</b>
<b>Retail EBITDA (£m)</b>		<b>4,749</b>	<b>(75)</b>	<b>4,674</b>	<b>4,295</b>
<b>Retail charge cover</b>		<b>3.4</b>	<b>-</b>	<b>3.4</b>	<b>3.0</b>

### APMs: Reconciliation of cash flow measures

	Notes	2020 As reported on a 53 week basis £m	Exclude week 53 £m	APM 2020 52 week basis £m	APM 2019 (restated) £m
Retail cash flows generated from operations excluding working capital	2	4,365	(63)	4,302	4,027
Retail (increase)/decrease in working capital	2	(124)	240	116	(390)
<b>Retail operating cash flow</b>	<b>2</b>	<b>4,241</b>	<b>177</b>	<b>4,418</b>	<b>3,637</b>
Retail interest and corporation tax paid*	2	(1,066)	27	(1,039)	(1,153)
Retail cash generated from/(used in) operating activities	2	3,175	204	3,379	2,484
Retail cash generated from/(used in) investing activities	2	(1,215)	(7)	(1,222)	(952)
Retail proceeds from issue of ordinary share capital	2	-	-	-	60
Retail own shares purchased	2	(149)	-	(149)	(206)
Retail repayments of obligations under leases	2	(632)	-	(632)	(605)
Add: Retail cash outflow from major acquisition	2	-	-	-	747
Less: Retail net investments in/(proceeds from sale of) short-term investments	2	687	-	687	(639)
<b>Retail free cash flow</b>	<b>2</b>	<b>1,866</b>	<b>197</b>	<b>2,063</b>	<b>889</b>
Tesco Bank free cash flow	2	476	-	476	(126)
<b>Free cash flow</b>		<b>2,342</b>	<b>197</b>	<b>2,539</b>	<b>763</b>

\* Retail interest paid in week 53 amounted to £27m.

### Other.

#### Capital expenditure (Capex)

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

#### Capital employed

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

#### Enterprise Value

This is calculated as market capitalisation plus net debt.

#### EURIBOR

Euro Interbank Offered Rate.

#### FTE

FTE refers to full-time equivalents.

#### LIBOR

London Inter-Bank Offered Rate.

#### LPI

LPI refers to limited price inflation.

#### Market capitalisation

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

#### MTN

MTN refers to Medium Term Note.

#### 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 and interest, after tax (applied at effective rate of tax).

#### RPI

RPI refers to the 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.