TESCO

Interim Results 2020/21

SUPPORTING CUSTOMERS THROUGH CHALLENGING TIMES

On a continuing operations basis	1H 2020/21	1H 2019/20[1]	Change at actual rates	Change at constant rates
Headline measures[2]:				
Group sales[3]	**£26.7bn**	£25.0bn	6.6%	6.8%
- UK & ROI	£24.3bn	£22.4bn	8.6%	8.5%
- Central Europe	£1.9bn	£2.0bn	(4.3)%	(1.5)%
- Tesco Bank	£0.4bn	£0.6bn	(31.4)%	(31.4)%
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£1,037m**	£1,229m	(15.6)%	(15.8)%
- Retail	£1,192m	£1,142m	4.4%	4.2%
- Tesco Bank	£(155)m	£87m	n/m	n/m
Retail free cash flow[5]	**£554m**	£645m	(14.1)%	
Net debt[5]	**£(12.5)bn**	£(12.6)bn	down 0.4%	
Interim dividend per share	**3.20p**	2.65p	20.8%	
Statutory measures:				
Revenue	**£28.7bn**	£28.5bn	0.7%	
Operating profit	**£1,007m**	£1,054m	(4.5)%	
Profit before tax	**£551m**	£428m	28.7%	

Headlines

Throughout the COVID-19 crisis, we have been guided by four key priorities: providing food for all, safety for everyone, supporting our colleagues and supporting our communities. As a result, our 440,000 colleagues have been able to make a significant and lasting contribution towards keeping their nations fed. At the same time, we have invested in value for customers and continued to make strategic progress as the business moves beyond the turnaround:

Customer satisfaction

- Adapted offer to major shifts in customer buying habits; in UK, food sales up 9.2%, clothing down (17.2)%, GM down (0.3)%
- Online delivery capacity more than doubled to reach 1.5m slots a week, including serving 674,000 vulnerable customers
- c.90% of customers rating store safety highly; >1.1m customers more loyal to Tesco vs. pre-COVID[6]
- 'Aldi Price Match' launched in March and then extended to >500 lines; switching gains from Aldi for first time in a decade[7]
- Rewarding loyal customers through exclusive deals with extension of Clubcard Prices to c.2,000 products
- Brand net promoter score up 2pts; recognised as 'Brand of the Year' in Marketing Week Masters Awards last month
- Resilient Booker performance: Retail sales up 22%; Catering sales down (12)% - an improvement from 1Q driven by doubling of market share and benefit of Best Food Logistics

Cash profitability

- Response to COVID-19 leading to £(533)m 1H UK costs as we prioritise customer and colleague safety
- Retail operating profit before exceptional items and amortisation of acquired intangibles[4] of £1,192m, +4.4%, margin 4.2%;
  - UK & ROI volume and business rates relief offset COVID-19 costs; CE held back by COVID-19 costs and new Hungarian tax
    - UK & ROI £1,133m, +6.4%, margin 4.3%
    - Central Europe £59m, (23.4)%, margin 3.0%
- Bank operating loss before exceptional items £(155)m driven by provision for potential bad debts and reduced income; continue to expect operating loss of £(175)m-£(200)m this year; capital ratios and liquidity remain strong
- Retail EBITDA[8] £1,994m, +4.1% higher YoY

Cash flow

- Retail free cash flow[5] of £554m; stable YoY exc. £(148)m relating to buyback of five UK stores and lower property proceeds
- Interim dividend 3.20p; 35% of last year's full year dividend, in line with policy
- Net debt[5] of £(12.5)bn, down £0.1bn year-on-year

Sales of businesses in Thailand, Malaysia and Poland progressing well

- £8.2bn[9] sale of Thailand and Malaysia businesses approved by shareholders in May; regulatory approval and completion expected by the end of the calendar year, to be followed immediately by shareholder meeting to approve c.£5bn capital return and £2.5bn one-off contribution to eliminate pension funding deficit
- Sale of Polish business to Salling Group A/S agreed in June; completion expected Spring 2021

Imran Nawaz to join Board as CFO in April 2021 – as separately announced this morning

Ken Murphy, Chief Executive:

"The first half of this year has tested our business in ways we had never imagined, and our colleagues have risen brilliantly to every challenge, acting in the best interests of our customers and local communities throughout. I would like to thank all our colleagues for their amazing contribution and I am delighted and proud to be part of such an incredible team.

We are absolutely committed to continuing to invest in value for customers and safety for all in these uncertain times.

Tesco is a great business with many strategic advantages. I'm excited by the range of opportunities we have to use those advantages to create further value for our customers and, in doing so, create value for all of our other stakeholders."

Serving shoppers a little better every day

Headline Group results

Key segmental results:

	Sales[2]	Year-on-year change (actual rates)	Year-on-year change (constant rates)	Like-for-like sales change[10]	Operating Profit/(Loss) before exceptional items and amortisation of acquired intangibles	Year-on-year change (actual rates)	Year-on-year change (constant rates)
UK & ROI	**£24,337m**	8.6%	8.5%	7.2%	**£1,133m** **4.30% margin**	6.4% +19bp	6.2% +19bp
- UK	*£19,537m*	*7.7%*	*7.7%*	*7.6%*			
- ROI	*£1,322m*	*16.3%*	*14.5%*	*15.5%*			
- Booker	*£3,478m*	*11.0%*	*11.0%*	*2.2%*			
Central Europe	**£1,929m**	(4.3)%	(1.5)%	(0.9)%	**£59m** **2.96% margin**	(23.4)% (79)bp	(23.4)% (82)bp
Retail	**£26,266m**	7.5%	7.7%	6.5%	**£1,192m** **4.21% margin**	4.4% +12bp	4.2% +11bp
Bank	**£386m**	(31.4)%	(31.4)%	-	**£(155)m** **n/m**	(278.2)% n/m	(278.2)% n/m
Group	**£26,652m**	6.6%	6.8%	6.5%	**£1,037m** **3.61% margin**	(15.6)% (70)bp	(15.8)% (71)bp

A full Group income statement can be found on page 15.

26 weeks ended 29 August 2020 **On a continuing operations basis**	**1H 2020/21**	**1H 2019/20[1]**	**Year-on-year change** (actual rates)	**Year-on-year change** (constant rates)
Group sales (exc. VAT, exc. fuel)[3]	**£26,652m**	**£24,952m**	**6.6%**	**6.8%**
Fuel	£2,066m	£3,560m	(42.0)%	(41.9)%
Revenue (exc. VAT, inc. fuel)	**£28,718m**	**£28,512m**	**0.7%**	**0.7%**
Group operating profit before exceptional items and amortisation of acquired intangibles[4]	**£1,037m**	**£1,229m**	**(15.6)%**	**(15.8)%**
Include exceptional items and amortisation of acquired intangibles	£(30)m	£(175)m		
Group statutory operating profit	£1,007m	£1,054m	(4.5)%	(4.6)%
Adjusted Group profit before tax[11]	£717m	£873m	(17.9)%	
Group statutory profit before tax	**£551m**	**£428m**	**28.7%**	28.0%
Interim dividend per share	**3.20p**	2.65p	20.8%	
Capex[12]	**£0.4bn**	**£0.3bn**		
Net debt[5]	**£(12.5)bn**	**£(12.6)bn**		
Retail free cash flow[5]	**£0.6bn**	**£0.6bn**		

We have not included the usual EPS measures in the tables above as we consider they do not provide a meaningful reflection of performance in the first half. Adjusted diluted EPS of 5.75p (LY: 6.85p), which is our usual alternative performance measure, excludes earnings from our discontinued operations but does not take account of the share consolidation that is expected to take place following completion of the sale of our Asian businesses. Statutory EPS of 4.72p (LY: 3.34p) does include earnings from discontinued operations, however the year-on-year shape is distorted as no depreciation has been charged this year after the related assets were reclassified as 'held for sale' on the balance sheet.

Adjusted diluted EPS will be refined at the full year to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year. The precise impact on the share base cannot be predicted now as it depends on the share price at the time of the consolidation. However, based on a share price of 213.2p (being the average share price for the five days to 2 October 2020), the number of shares in issue would reduce by c.(24)%. We can apply this reduction to the share base used for the interim measure to derive a 'Pro forma' Adjusted diluted EPS of 7.56p (LY: 9.01p), which we consider better reflects underlying performance in the half.

Notes

1. Prior year comparatives are restated for discontinued operations. Further details on discontinued operations can be found in Note 6, starting on page 38.
2. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary starting on page 58.
3. Group Sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe.
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 £(3.0)bn, up £0.2bn since year-end.
6. Source: Kantar. The number of customers who became more loyal through COVID-19, shopping consistently with us between April and August.
7. Source: Kantar. Net switching data 12 w/e 17 May 2020 and 12 w/e 6 September 2020.
8. Retail EBITDA excludes the impact of Tesco Bank.
9. $10.6bn enterprise value, on a cash and debt free basis, presented in GBP using a rate of USD1.29:£1.00. This is based on the average daily closing rate from Monday 2 to Friday 6 March 2020.
10. 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 exchange rates).
11. 'Adjusted Group PBT' measures exclude exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.
12. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 26 weeks ended 29 August 2020 was £0.5bn (LY £0.4bn).

Creating value for our key stakeholders

Our priorities in the half have been providing food for all, safety for everyone, supporting our colleagues and supporting our communities. Over this period, we have continued to make further good progress, creating long-term and sustainable value for our key stakeholders.

Customers

- Safety: quickly introduced series of social distancing measures in stores; c.90% of customers rating safety highly
- Price: 'Aldi Price Match' extended to over 500 Tesco and branded products; delivering consistent low prices on products and brands that customers buy every week
- Simpler shopping trip: improving customer visibility of our strong core value proposition, with fewer pack size variants, removal of unnecessary duplication from product ranges and fewer promotions
- Online: more than doubled capacity from 0.6m to 1.5m slots a week; first Urban Fulfilment Centre (UFC) in West Bromwich Extra now fulfilling orders as part of programme to open more than 25 over next three years
- Loyalty: extension of Clubcard Prices to c.2,000 products from September; Clubcard Plus subscriber base continues to grow, with basket size uplift exceeding expectations
- Booker: adapting retail offer to meet greater demand for grocery products; supporting catering customers to move to a delivery model; well-placed to emerge in a stronger competitive position
- Central Europe: completed strategic transformation to right-size all stores and simplify ranges across all markets

Colleagues

- Ensured full pay from day one for all colleagues sick or self-isolating with COVID-19
- 26,000 vulnerable colleagues supported with 12 weeks full pay as part of COVID-19 support measures
- Paid 10% bonus to all front line colleagues as a thank you for going above and beyond from 9 March to 30 May
- Created 16,000 new permanent roles in August to support the exceptional growth of our online business
- Creating 1,000 work placements for young people as a leading supporter of the 'Kickstart' programme
- Two mental wellbeing tools, Headspace and SilverCloud, made available for free to all our 300,000 UK colleagues
- Launched our first Business Diversity Internship in September

Supplier partners

- Collaborated across supply base to maintain availability and adapt to exceptional shift in demand due to COVID-19
- Supported farmers hardest hit by the closure of large parts of the food service industry, including selling white shell eggs and buying products such as chicken and potatoes originally planned for use in restaurants
- Moved to immediate payment of invoices for all small suppliers until January 2021
- Pilot partnership launched with Loop in July for online delivery of products using only reusable packaging
- Committed to a 300% increase in sales of plant-based proteins by 2025
- Supplier viewpoint reached highest ever score of 79.5% (+6.7% pts YoY)

Shareholders

- Interim dividend of 3.2p per share; set at 35% of last year's full year dividend, in line with policy
- Sale of Thailand and Malaysia businesses approved by shareholders in May, regulatory approval and completion of sale expected in 2H 2020; to be followed immediately by shareholder meeting to approve the return of capital
- Sale of Polish business to Salling Group A/S agreed in June for net cash proceeds of c.£165m; completion expected in Spring 2021; additional proceeds of c.£140m expected from the sale of residual properties in 2021; will contribute to over £0.5bn total cumulative proceeds from the sale of our loss-making Polish business
- Since outset of crisis, we have prioritised safety and colleague & customer welfare; we will continue to progress food waste and packaging reduction as part of our ongoing efforts to reduce our environmental footprint

Looking ahead

We will continue to be guided by our four key priorities in response to the COVID-19 crisis: providing food for all, safety for everyone, supporting our colleagues and supporting our communities.

We are continuing to invest in delivering great value to help customers in increasingly challenging times and, as a result, expect a broadly even balance to the year in terms of 1H/2H retail profitability. Whilst significant uncertainties remain, we now expect retail operating profit in the current year to be at least the same level as 2019/20 on a continuing operations basis.

We continue to expect to report a loss for the Bank of between £(175)m and £(200)m for the 2020/21 financial year. We will review any changes made to macro-economic forecasts and this could result in releases from or further additions to the bad debt provision. Whilst headline profitability is impacted in the short term, the Bank's capital ratios and liquidity remain strong.

We will report our 3Q and Christmas Trading statement on Thursday 14 January 2021.

Financial results

The results of our businesses in Thailand and Malaysia, and of our business in Poland, have been classified as discontinued operations following the announcements of their proposed sale (subject to regulatory clearances) on 9 March 2020 and 18 June 2020 respectively.

Sales:

On a continuing operations basis	UK & ROI	Central Europe	Retail	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£24,337m**	**£1,929m**	**£26,266m**	**£386m**	**£26,652m**
change at constant exchange rates %	8.5%	(1.5)%	7.7%	(31.4)%	6.8%
change at actual exchange rates %	8.6%	(4.3)%	7.5%	(31.4)%	6.6%
Like-for-like sales (exc. VAT, exc. fuel)	**7.2%**	**(0.9)%**	**6.5%**	**n/a**	**6.5%**
Statutory revenue (exc. VAT, inc. fuel)	**£26,341m**	**£1,991m**	**£28,332m**	**£386m**	**£28,718m**
Includes: Fuel	£2,004m	£62m	£2,066m	-	£2,066m

1. UK & ROI consists of Tesco UK, ROI and Booker.
2. Central Europe consists of Czech Republic, Hungary and Slovakia. Poland is now reported as a discontinued operation.
3. Sales change shown on a comparable days basis; based on statutory accounting dates, Group sales grew by 7.0% at constant exchange rates and grew by 6.8% at actual exchange rates.

Group sales grew by 6.6% at actual rates, including a (0.2)% foreign exchange translation impact due to the appreciation of Sterling. The COVID-19 crisis has had far reaching implications on customer shopping behaviour, impacting all areas of our business.

In the UK and the Republic of Ireland (ROI), total sales grew by 8.6%. In the UK, first quarter growth was particularly strong in essential categories such as grocery and household, as customers sought to stock up on key items ahead of COVID-19 lockdown restrictions and consumed more meals at home. During demand peaks, we worked very closely with our supplier partners to simplify ranges and protect availability of the most important products for customers. Whilst like-for-like sales growth eased slightly from the first to second quarter, we continued to see elevated demand across our food range, particularly in the meat, fish and poultry category and in beers, wines and spirits.

Growth in the half was most marked in online with sales up 69% with the rate of growth reaching 90% during the second quarter. Sales in our convenience business grew by 7.6% including a particularly strong performance in our Express and One Stop stores in neighbourhood locations. In large stores, sales grew by 1.4% as our offer was well placed to serve customers seeking to shop less frequently whilst buying more on each visit, with average basket size increasing by 56% and transactions reducing by (31)%.

More than one million customers became more loyal over the course of the half. As part of our programme to reward loyalty, last month we extended Clubcard Prices, giving Clubcard holders exclusive access to more special offers across the store every week. Whilst we have not sought to accelerate take up during the COVID-19 crisis, Clubcard Plus is now generating a basket size uplift three times higher than our original expectation. We continue to leverage the benefit of Clubcard Plus across our range of products and services, with new and upgrading Tesco Mobile pay monthly customers (on eligible plans) currently benefiting from a free six-month subscription.

We are continuing to invest in our value proposition, including the extension of our ‘Aldi Price Match’ campaign to over 500 products, including brands. We are also working with suppliers to improve the visibility of our proposition by simplifying ranges, removing pack size variants and reducing promotions. We have reduced promotional participation from 30% to 22% year-on-year whilst customer ratings of value have improved by 530 basis points.

Responding to the significantly increased demand, we rapidly grew our online business, more than doubling capacity to 1.5 million orders per week, allowing us to serve 674,000 vulnerable customers. To support this accelerated shift in customer demand, we extended picking hours, widened delivery windows and brought in additional colleagues on a temporary basis. In August, we converted 16,000 of these temporary roles into new permanent ones. Online grocery sales had grown from c.9% of total UK sales to over 16% by the end of the half.

Our first UFC (Urban Fulfilment Centre) in West Bromwich Extra is now delivering to customers, providing access to more online delivery slots at a time that suits them and helping us to build sustainably our grocery home shopping service. At full capacity, colleagues in the UFC will be able to increase their pick rate significantly compared to picking on the shop floor. The continued roll-out of this new technology will enable us to capture growth beyond our original ambition, with our second UFC opening in Lakeside Extra in 2021.

Booker sales grew by 11.0% in the half, including a c.9% contribution from Best Food Logistics which was acquired in early March. This included a strong performance in retail with sales up 22% as we supported our customers to broaden their grocery range. In catering, a period of closure for many of our customers saw sales decline by (12)% in the half. We have helped customers adapt their businesses to respond to the crisis, including those moving to a delivery and take-out model by supplying a complete offer in both food and consumables. As restaurants started to re-open in July, catering returned to growth and we maintained the stronger market share we had built up versus pre-COVID-19 levels. As well as supporting the Tesco online grocery business by providing more than 100,000 additional click & collect slots, Booker also supported over 1,000 care organisations and donated three million meals to those in need.

In ROI, sales grew by 16.3% at actual rates driven by a higher conversion of 'out of home' consumption and high customer confidence in our safety measures. Growth was particularly strong in large stores and in our market leading online grocery business.

In Central Europe, sales declined by (1.5)% at constant rates with positive growth in the first quarter reflecting increased demand for food during the COVID-19 lockdown period. In the second quarter, year-on-year performance weakened as we came out of lockdown and traded over one-off activity last year. After the completion of the strategic transformation, our stores are now better placed to serve our customers, with all stores right-sized and our ranges simplified.

Group statutory revenue of £28.7bn was 0.7% higher year-on-year and includes fuel sales of £2.1bn which declined by (42.0)% year-on-year. UK fuel sales declined by as much as (70)% in April as customers travelled significantly less due to COVID-19 lockdown restrictions before recovering to c.75% of pre-COVID-19 demand by the end of August.

Further information on sales performance is included in Appendices 1 to 3 starting on page 64 of this statement.

Operating profit before exceptional items and amortisation of acquired intangibles:

On a continuing operations basis	UK & ROI	Central Europe	Retail	Tesco Bank	Group
Operating profit / (loss) before exceptional items and amortisation of acquired intangibles	**£1,133m**	**£59m**	**£1,192m**	**£(155)m**	**£1,037m**
change at constant exchange rates %	6.2%	(23.4)%	4.2%	n/m	(15.8)%
change at actual exchange rates %	6.4%	(23.4)%	4.4%	n/m	(15.6)%
Operating profit margin before exceptional items and amortisation of acquired intangibles	**4.30%**	**2.96%**	**4.21%**	**(40.16)%**	**3.61%**
change at constant exchange rates (basis points)	19bps	(82)bps	11bps	n/m	(71)bps
change at actual exchange rates (basis points)	19bps	(79)bps	12bps	n/m	(70)bps
Statutory operating profit / (loss)					**£1,007m**

Group operating profit before exceptional items and amortisation of acquired intangibles was £1,037m, down (15.8)% at constant exchange rates and down (15.6)% at actual rates. Statutory operating profit of £1,007m includes the impact of exceptional items and amortisation of acquired intangibles, which are described in more detail below and in Note 3 on page 35 of this statement.

Retail operating profit before exceptional items and amortisation of acquired intangibles was £1,192m, up 4.4% year-on-year. UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £1,133m, up 6.4% year-on-year. Operating margin increased 19 basis points year-on-year with the margin impact of increased costs more than offset by a significant reduction in margin-dilutive fuel sales. The significant changes to our operations in response to COVID-19 led to a substantial increase in costs, mostly relating to payroll. In the UK, the most significant costs were the recruitment of 47,000 temporary colleagues to cover absence and meet increased demand and the provision of twelve weeks' paid leave to 26,000 vulnerable colleagues, whilst ensuring any colleague sick or self-isolating due to COVID-19 received full pay from day one. We also incurred costs in areas such as the provision of safety-related consumables and personal protective equipment, in addition to distribution. In total, COVID-19 related costs amounted to £(533)m for the half, principally offset by business rates relief of £249m and the contribution from higher than expected food sales. Our latest estimate for these costs for the full-year is c.£(725)m.

In March, we strengthened our value proposition with the launch of the 'Aldi Price Match' campaign. We extended this to more than 500 Tesco and branded products in July, delivering consistently low prices on even more products that customers buy every week. In addition, last month, we extended our Clubcard Prices initiative, whereby Clubcard holders are now able to access c.2,000 exclusive deals. Having made these meaningful price investments, we expect to make additional investments in the value proposition across the remainder of the year.

Booker profitability was impacted by the significant decline in catering sales, partially offset by a stronger contribution from our retail business and robust cost control. To minimise the overall profit impact of weaker demand in catering, we re-deployed colleagues from the Best Food Logistics business to support both the retail side of the Booker business and our online grocery shopping business as demand increased. In the half, we also merged our 'Chef Direct' business into the Best Food Logistics operations to further optimise network efficiency and improve service levels for customers.

Central European operating profit before exceptional items reduced by (23.4)% year-on-year, to £59m. Whilst we saw an underlying improvement in profitability, this was more than offset by a number of one-off impacts, primarily the incremental costs related to COVID-19 and a one-off reduction in income following temporary mall closures between March and May. We also incurred an £(11)m charge in the first half relating to a retail sales tax which was introduced in Hungary in May.

Tesco Bank made an operating loss before exceptional items of £(155)m, reflecting an increase in the provision for potential bad debts and reduced income. Please refer to page 11 of this statement for a fuller description of Tesco Bank performance.

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

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

On a continuing operations basis	This Year	Last Year
Net restructuring and redundancy costs	-	£(39)m
Impairment of investment in India joint venture	-	£(47)m
Property transactions	£(2)m	£14m
Booker integration costs	£(2)m	£(6)m
Provision for customer redress	-	£(45)m
Bank Transformation costs	-	£(12)m
UK - ATM business rates	£105m	-
Litigation costs	£(93)m	-
Total exceptional items in statutory operating profit	**£8m**	**£(135)m**
Amortisation of acquired intangible assets	£(38)m	£(40)m
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	**£(30)m**	**£(175)m**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group. On a continuing operations basis, total exceptional items resulted in a credit of £8m, compared to a charge of £(135)m last year.

A credit of £105m relates to the refund of historical ATM business rates payments after a Supreme Court ruling in May determined that retailers should not be assessed for rates on ATMs installed in or outside stores. We expect to start receiving cash related to this refund from the second half of this year and in full by the end of the next financial year.

The charge of £(93)m relates to the settlement of two shareholder litigation claims during the period, with associated costs.

We have incurred a further £(2)m exceptional charge related to Booker integration costs, bringing costs to date to £(38)m.

Further detail on exceptional items can be found in Note 3, starting on page 35 of this statement.

Amortisation of acquired intangible assets is excluded from our headline performance measures. We incurred a charge of £(38)m in the half, a similar level to the prior year, which 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:

On a continuing operations basis	This year	Last year
Share of post-tax profits/(losses) from JVs and associates before exceptional items	**£13m**	**£(2)m**
Exceptional items	-	£4m
Share of post-tax profits from JVs and associates	**£13m**	**£2m**

Our share of post-tax profits from joint ventures and associates before exceptional items was £13m, an improvement from losses of £(2)m last year. The year-on-year movement included the impact of the disposal of our associate in China, which incurred losses of £(6)m last year, as well as an increased contribution from Tesco Underwriting Ltd and joint ventures in our dunnhumby business.

Finance income and finance costs:

On a continuing operations basis	This year	Last year
Net interest on medium term notes, loans and bonds	**£(102)m**	**£(98)m**
Other interest receivable and similar income	£7m	£14m
Other finance charges and interest payable	£(9)m	£(24)m
Finance charges payable on lease liabilities	£(229)m	£(246)m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	**£(333)m**	**£(354)m**
Fair value remeasurements of financial instruments	£(108)m	£(58)m
Net pension finance costs	£(28)m	£(36)m
Net finance costs before exceptional charges	**£(469)m**	**£(448)m**
Exceptional charge – Fair value remeasurement on restructuring derivative financial instruments	-	£(180)m
Net finance costs	**£(469)m**	**£(628)m**

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £21m year-on-year to £(333)m. This improvement was driven by a reduction in finance charges payable on lease liabilities primarily due to ongoing lease utilisation and the buyback of property, including a further five UK stores in the first half.

Net interest on medium term notes, loans and bonds was £(102)m, similar to last year. A reduction in interest payable following debt maturities, bond tenders and new issues at a significantly lower rate of interest was offset by new interest payments on long dated debt acquired as part of the acquisition of our partner's stake in the Tesco Atrato Limited Partnership in September 2019. This acquisition increased our freehold property ownership and borrowings, replacing associated right of use assets and lease liabilities.

A fair value remeasurement charge of £(108)m primarily related to the mark-to-market movement on inflation-linked swaps, driven by falling future inflation rates. These swaps eliminate the impact of future inflation on the Group's cash flow in relation to historical sale and leaseback property transactions.

Net pension finance costs decreased by £8m year-on-year, primarily due to a lower opening pension deficit. As previously indicated, for the full year, net pension finance costs are expected to be no more than c.£(55)m. The exact cost will depend on the timing of the one-off pension contribution of £2.5bn, agreed with the Trustees as part of the use of proceeds from the sale of our businesses in Thailand and Malaysia.

Further detail on finance income and costs can be found in Note 4 on page 37, as well as further detail on the exceptional charge in Note 3 on page 36.

Group tax:

On a continuing operations basis	This year	Last year
Tax on profit before exceptional items and amortisation of acquired intangibles	£(129)m	£(185)m
Tax on exceptional items and amortisation of acquired intangibles	£(25)m	£52m
Tax on profit	**£(154)m**	**£(133)m**

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(129)m, £56m lower than last year primarily due to a tax credit related to Tesco Bank operating losses. This was partially offset by a one-off rate change impact from revaluing deferred tax from 17% to 19% following the Government's decision to repeal the reduction to the corporation tax rate, thereby maintaining the current tax rate of 19%.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles was 22.2%, higher than the UK statutory rate, primarily due to depreciation of assets that do not qualify for tax relief. We now expect an effective tax rate for 2020/21 of c.22% and continue to expect the effective tax rate to reduce to around 21% in the medium term. Further detail on Group tax can be found in Note 5 on page 37.

Earnings per share:

As described earlier, we do not consider the usual EPS measures to provide a meaningful reflection of performance in the first half. Adjusted diluted EPS of 5.75p (LY: 6.85p), which is our usual alternative performance measure, excludes earnings from our discontinued operations but does not take account of the share consolidation that is expected to take place following completion of the sale of our Asian businesses. Statutory EPS of 4.72p (LY: 3.34p) does include earnings from discontinued operations, however the year-on-year shape is distorted as no depreciation has been charged this year after the related assets were reclassified as 'held for sale' on the balance sheet.

Adjusted diluted EPS will be refined at the full year to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year. The precise impact on the share base cannot be predicted now as it depends on the share price at the time of the consolidation. However, based on a share price of 213.2p (being the average share price for the five days to 2 October 2020), the number of shares in issue would reduce by c.(24)%. We can apply this reduction to the share base used for the interim measure to derive a 'Pro forma' Adjusted diluted EPS of 7.56p (LY: 9.01p), which we consider better reflects underlying performance in the half.

Discontinued operations:

In March, we announced we had agreed to sell our businesses in Thailand and Malaysia to a combination of CP Group entities for an enterprise value of £8.2bn, on a cash and debt free basis. The sale received shareholder approval in May with regulatory approval and completion expected by the end of the calendar year. In June, we agreed the sale of our business in Poland to Salling Group A/S for net cash proceeds of c.£165m, with completion expected in Spring 2021. The performance of our Thailand, Malaysia and Poland businesses is classified as discontinued operations and is excluded from our headline performance measures.

In Asia, sales declined by (3.0)% at actual rates and by (2.9)% at constant rates driven by a reduction in footfall in hypermarkets and in discretionary spend categories such as clothing, despite a short period of stockpiling of food and groceries early in the first quarter. Sales in Poland declined by (38.3)% at actual rates and by (36.8)% at constant rates, driven by the continued impact from the right-sizing of our hypermarkets, closure of stores and transition to a two format model.

Operating profit before exceptional items for discontinued operations increased to £265m, up 49.7%, as depreciation was charged last year but is no longer chargeable in the current year as the assets are classified as held for sale. Before this impact, the effect of temporary mall closures due to COVID-19 restrictions resulted in a decline in profitability.

Within discontinued operations, total exceptional items in the half were £(140)m, which includes a £(43)m net loss on re-measurement of assets in our business in Poland prior to being classified as held for sale, and a provision for a legal claim of £(86)m, relating to the sale of Homeplus in 2015.

The total profit after tax of discontinued operations was £68m, up £39m on last year.

Further information on discontinued operations is included in Note 6, starting on page 38.

Dividend:

The interim dividend has been set at 3.20 pence per ordinary share, 20.8% higher year-on-year, in line with our policy of setting our interim dividend at 35% of the prior year full-year dividend. The interim dividend was approved by the Board of Directors on 6 October 2020. As previously announced, we expect to maintain a full year dividend pay-out ratio of 50% going forward.

The interim dividend will be paid on 27 November 2020 to shareholders who are on the register of members at close of business on 16 October 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 6 November 2020.

Summary of total indebtedness:

	Aug-20	Feb-20	Movement
Underlying net debt (excludes Tesco Bank)	**£(3,004)m**	**£(2,765)m**	**£(239)m**
- Continuing operations	*£(3,550)m*	*£(3,167)m*	*£(383)m*
- Discontinued operations	*£546m*	*£402m*	*£144m*
Lease liabilities	**£(9,534)m**	**£(9,533)m**	**£(1)m**
- Continuing operations	*£(8,725)m*	*£(8,700)m*	*£(25)m*
- Discontinued operations	*£(809)m*	*£(833)m*	*£24m*
Pension deficit, IAS 19 basis (post-tax)	**£(3,315)m**	**£(2,573)m**	**£(742)m**
- Continuing operations	*£(3,292)m*	*£(2,550)m*	*£(742)m*
- Discontinued operations	*£(23)m*	*£(23)m*	-
Total indebtedness	**£(15,853)m**	**£(14,871)m**	**£(982)m**

Overall, total indebtedness has increased by £(982)m since the year-end, primarily due to a £(742)m increase in the IAS 19 pension deficit. This was largely driven by a reduction in the discount rate, partially offset by an increase in assets. The IAS 19 pension deficit is separate to our funding deficit and does not drive contributions made to the pension scheme.

We have agreed the actuarial pension valuation as at 31 December 2019 with the Tesco plc Trustee at a deficit of £(2.2)bn. This is subject to the completion of the sale of our businesses in Thailand and Malaysia and is before the payment of the £2.5bn one-off contribution to the Scheme. This payment will eliminate the actuarial deficit as at that date and significantly reduce the prospect of having to make further pension deficit contributions in the future. Further information on the Group's pension liability is available in Note 18 which begins on page 52.

On a continuing operations basis, lease liabilities increased by £(25)m since the year-end, driven by lease additions, including those acquired with the Best Food Logistics business, partially offset by capital repayments made in the period and the benefit from buying back five stores in the UK.

We have retained a strong cash position with a total of £2.0bn of cash liquidity at the end of the half, having completed the early redemption of a €0.2bn Euro bond, due in November 2020. In addition, we recently re-financed our committed facilities at £2.5bn for a further three years, securing access to additional liquidity. The rate of interest payable on utilisation of these facilities will be linked to the achievement of three ESG targets. Additionally, the new facility is the first syndicated loan transaction in the UK that uses Risk Free Rates (RFR) for sterling and dollars rather than LIBOR.

Our fixed charge cover further improved since the year-end, from 3.1 to 3.2 times, principally driven by a reduction in lease payments and an increase in retail EBITDA. Our retail EBITDA measure is based only on the continuing operations, and therefore excludes the earnings from our businesses in Thailand, Malaysia and Poland.

Our total indebtedness ratio of 4.0 times in these half-year accounts is heavily distorted by the timing of the sale of our businesses in Thailand and Malaysia, given that it includes the net debt related to our discontinued operations but not the earnings. It also does not yet take account of the benefit of the anticipated proceeds, including the expected elimination of our pension funding deficit.

The increase in the reported total indebtedness ratio since the year-end is driven by the increase in the IAS 19 pension deficit described above.

Summary retail cash flow:

The following table reconciles Group operating profit before exceptional items and amortisation of acquired intangibles to retail free cash flow. Further details are included in Note 2, starting on page 29.

On a continuing operations basis	This year	Last year
Operating profit before exceptional items and amortisation of acquired intangibles	**£1,037m**	**£1,229m**
Less: Tesco Bank operating profit / (loss) before exceptional items	£155m	£(87)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	**£1,192m**	**£1,142m**
Add back: Depreciation and amortisation	£802m	£773m
Other reconciling items	£(28)m	£(11)m
Pension deficit contribution	£(161)m	£(144)m
Underlying decrease in working capital	£170m	£164m
Retail cash generated from operations before exceptional items	**£1,975m**	**£1,924m**
Exceptional cash items:	£(127)m	£(107)m
Relating to prior years:		
- Restructuring payments	*£(32)m*	*£(103)m*
Relating to current year:		
- Litigation costs	*£(93)m*	-
- Other	*£(2)m*	*£(4)m*
Retail operating cash flow	**£1,848m**	**£1,817m**
Cash capex	£(369)m	£(328)m
Net interest	£(319)m	£(364)m
- Interest related to net debt (exc. lease liabilities)	*£(91)m*	*£(119)m*
- Interest related to lease liabilities	*£(228)m*	*£(245)m*
Tax paid	£(125)m	£(117)m
Property proceeds	£32m	£62m
Property purchases – store buybacks	£(148)m	£(89)m
Market purchases of shares (net of proceeds)	£(79)m	£(52)m
Acquisitions & disposals and dividends received	£6m	£5m
Repayments of obligations under leases	£(292)m	£(289)m
Retail free cash flow	**£554m**	**£645m**

Retail free cash flow decreased by £(91)m year-on-year to £554m. Excluding an increased level of store buybacks and a reduction in property proceeds, retail free cash flow was stable year-on-year.

We benefited from a working capital inflow of £170m in the first half, primarily driven by an increase in food purchases and lower levels of promotional activity. These favourable working capital movements were offset by a c.£(100)m impact from significantly lower fuel purchases.

Interest paid related to net debt (exc. lease liabilities) of £(91)m reduced by £28m year-on-year due to bonds maturing and being re-financed at a lower rate of interest and the effect of bond buybacks in the prior year.

Cash tax paid was similar to last year. Following changes to the timing of UK corporation tax payments, we had two additional quarterly payments in the half. This, in combination with a payment with respect to the refund of ATM business rates, offset a tax credit on Bank losses and a tax deduction of £60m relating to the anticipated pension contribution which will be made following the sale of our Asian businesses.

We utilised £(148)m of cash to buy back four Superstores and one Express store in the UK, which will result in an annual cash rental saving of £9m. Following the half year-end, we also acquired our partner's share in the Sparta joint venture bringing back into 100% ownership twelve stores and two distribution centres at a cost of £54m and removing rental payments which were subject to fixed uplifts each year. We continue to evaluate store buyback opportunities on an individual lease basis and will use capital for this purpose where it is economically attractive.

We purchased £79m of shares in the market to offset dilution from the issuance of new shares to satisfy the requirements of share schemes. This was £27m higher than the prior year due to the timing of share purchases. We now expect to utilise c.£100m for the full year, with the precise amount depending on performance and market conditions.

Capital expenditure and space[1]:

	UK & ROI		Central Europe		Tesco Bank		Group	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year
Capital expenditure	£310m	£275m	£39m	£32m	£25m	£19m	£374m	£326m
Openings (k sq ft)	9	74	13	21	-	-	22	95
Closures (k sq ft)	(4)	(176)	(10)	-	-	-	(14)	(176)
Repurposed (k sq ft)	1	-	(51)	(408)	-	-	(50)	(408)
Net space change (k sq ft)	6	(102)	(48)	(387)	-	-	(42)	(489)

1. 'Retail Selling Space' is defined as net space in store adjusted to exclude checkouts, space behind checkouts, customer service desks and customer toilets. Appendix 6 (p.67) provides a full breakdown of space by segment.

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group.

Our capital expenditure for the half was £374m, £48m higher year-on-year, primarily due to higher spend on both in-store maintenance and technology. We expect full year capital expenditure to be in the middle of our £0.9bn to £1.2bn guidance range.

Statutory capital expenditure of £0.5bn includes £0.1bn relating to the buyback of five UK stores referred to above.

Further details of current and forecast space can be found in Appendix 6 starting on page 66.

Tesco Bank:

	This year	Last year	YoY
Revenue	**£386m**	**£562m**	**(31.4)%**
Operating profit/ (loss) before exceptional items	**£(155)m**	**£87m**	**n/m**
Statutory operating profit/ (loss)	£(155)m	£30m	n/m
Lending to customers	£7,285m	£12,379m	(41.2)%
Customer deposits	£6,637m	£9,903m	(33.0)%
Net interest margin	5.0%	3.8%	1.2%pts
Total capital ratio	24.3%	18.4%	5.9%pts

The COVID-19 crisis had a material impact on performance across the Bank including a reduced level of new business in loans and credit cards, lower unsecured lending and credit card retail balances, and significantly lower ATM and travel money income.

In addition, a marked deterioration in macro-economic indicators, particularly UK unemployment and GDP, drove an increase in the provision for potential bad debts. This, in combination with the reduction in income, resulted in an operating loss of £(155)m in the half compared to a profit in the first half of the prior year of £87m.

We continue to expect to report a loss for the Bank of between £(175)m and £(200)m for the 2020/21 financial year.

Lending to customers declined by (41.2)% and customer deposit balances declined by (33.0)%, driven by the sale of our mortgage portfolio in September 2019. The sale also contributed to the improvement of the Bank's capital position with the total capital ratio increasing to 24.3%, an improvement of 5.9% pts year-on-year. The balance sheet remains strong and capital adequacy is regularly assessed.

We took action to support our customers through this period by offering loan and credit card payment breaks to the end of October 2020. In addition, we increased contactless payment limits to allow more customers to shop safely, removed administration fees to allow insurance customers to change or cancel policies, reduced overdraft fees and removed fees related to early access to savings accounts. Our Pay+ app allows contactless payments of up to £250 and we now have over one million users.

An income statement for Tesco Bank can be found in Appendix 7 on page 69 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 25 of this statement. Tesco Bank's half year results are also published today and are available at www.corporate.tescobank.com.

Contacts

Investor Relations:	Chris Griffith	01707 940 900
	Sarah Titterington	01707 940 693
Media:	Christine Heffernan	0330 678 0639
	Philip Gawith, Teneo	0207 420 3143

This document is available at www.tescoplc.com/interims2020

A live webcast will be held today at 9.00am for investors and analysts and will be available on our website at www.tescoplc.com/interims2020. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

Additional Disclosures

Principal Risks and Uncertainties

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

The principal risks and uncertainties faced by the Group remain those as set out on pages 13 to 18 of our Annual Report and Financial Statements 2020: customer; transformation; liquidity; competition and markets; brand, reputation and trust; technology; data security and data privacy; political, regulatory and compliance; health and safety; people; responsible sourcing and supply chain; Brexit; Tesco Bank and COVID-19 (COVID-19 was included as a new principal risk in the Annual Report and Financial Statements 2020). In addition, the risk factors in relation to the disposal of the Asia Business were set out in the circular sent to shareholders on 22 April 2020. There have been no significant changes to the description of the principal risks, key controls and mitigating factors currently expected for the remaining six months of the year.

As previously reported on page 140 of the Tesco PLC Annual Report and Financial Statements 2020, in 2016 the Group received high court claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profits announced in 2014. These claims were settled in July and August 2020. As a result of the settlement and associated legal costs, Tesco has taken a one-off charge in the amount of £93 million. Two further claimant law firms issued proceedings against the Group in September 2020 in respect of the same matters. The merit, likely outcome and potential impact on the Group of any further litigation that 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 29 August 2020. There are substantial legal and factual defences to these claims and the Group will vigorously defend any further proceedings. Further details relating to this matter and the Group's other contingent liabilities can be found in Note 22, on page 57.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the 26 week period ended 29 August 2020 in accordance with applicable law, regulations and accounting standards. Each of the Directors confirm that to the best of their knowledge the condensed consolidated interim financial statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a true and fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

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

The Directors of Tesco PLC are listed on pages 27 to 30 of the Tesco PLC Annual Report and Financial Statements 2020. As announced on 2 October 2019, Dave Lewis resigned from the Board with effect from 30 September 2020 and Ken Murphy joined the Board on 1 October 2020 as Group Chief Executive. Further to the announcement on 2 June 2020 that Alan Stewart has decided to retire and will leave the Board on 30 April 2021, Imran Nawaz will join the Board as Chief Financial Officer in April 2021.

A list of current directors is maintained on the Tesco PLC website at: www.tescoplc.com.

By order of the Board

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

*Non-executive Directors

Robert Welch, Company Secretary
6 October 2020

Disclaimer

Certain statements made in this document are forward-looking statements. 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 are based on current expectations and assumptions and are subject to a number of known and unknown risks, uncertainties and other important factors that could cause actual results or events to differ materially from what is expressed or implied by those statements. Many factors may cause actual results, performance or achievements of Tesco to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of Tesco to differ materially from the expectations of Tesco include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and other regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, political and economic uncertainty, including as a result of global pandemics. As such, undue reliance should not be placed on forward-looking 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. Other than in accordance with legal and regulatory obligations, Tesco undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

	Notes	26 weeks ended 29 August 2020 Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 29 August 2020 Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 29 August 2020 Total £m	26 weeks ended 24 August 2019[a] Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 24 August 2019[a] Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 24 August 2019[a] Total £m
Continuing operations							
Revenue	2	**28,718**	**–**	**28,718**	**28,512**	**–**	**28,512**
Cost of sales[b]		(26,550)	103	(26,447)	(26,326)	(86)	(26,412)
Impairment (loss)/reversal on financial assets[b]	2	(264)	–	(264)	(117)	–	(117)
Gross profit/(loss)		**1,904**	**103**	**2,007**	**2,069**	**(86)**	**1,983**
Administrative expenses		(867)	(133)	(1,000)	(840)	(89)	(929)
Operating profit/(loss)		**1,037**	**(30)**	**1,007**	**1,229**	**(175)**	**1,054**
Share of post-tax profits/(losses) of joint ventures and associates		13	–	13	(2)	4	2
Finance income	4	7	–	7	14	–	14
Finance costs	4	(476)	–	(476)	(462)	(180)	(642)
Profit/(loss) before tax		**581**	**(30)**	**551**	**779**	**(351)**	**428**
Taxation	5	(129)	(25)	(154)	(185)	52	(133)
Profit/(loss) for the period from continuing operations		**452**	**(55)**	**397**	**594**	**(299)**	**295**
Discontinued operations							
Profit/(loss) for the period from discontinued operations	6	192	(124)	68	126	(97)	29
Profit/(loss) for the period		**644**	**(179)**	**465**	**720**	**(396)**	**324**
Attributable to:							
Owners of the parent		639	(179)	460	720	(396)	324
Non-controlling interests		5	–	5	–	–	–
		644	**(179)**	**465**	**720**	**(396)**	**324**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	8			4.72p			3.34p
Diluted	8			4.71p			3.31p
Earnings/(losses) per share from continuing operations							
Basic	8			4.07p			3.04p
Diluted	8			4.06p			3.02p

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

[a] Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

[b] Impairment (loss)/reversal on financial assets comparatives have been presented separately from Cost of sales. Refer to Note 1 for further details.

Group statement of comprehensive income/ (loss)

	26 weeks 2020 £m	26 weeks 2019* £m
Items that will not be reclassified to the Group income statement		
Remeasurements of defined benefit pension schemes	(1,112)	202
Net fair value gains/(losses) on inventory cash flow hedges	(18)	78
Tax on items that will not be reclassified	288	(50)
	(842)	**230**
Items that may subsequently be reclassified to the Group income statement		
Change in fair value of financial assets through other comprehensive income	(2)	7
Currency translation differences:		
Retranslation of net assets of overseas subsidiaries, joint ventures and associates	(67)	323
Gains/(losses) on other cash flow hedges:		
Net fair value gains/(losses)	41	234
Reclassified and reported in the Group income statement	(40)	(99)
Tax on items that may be reclassified	(3)	(26)
	(71)	**439**
Total other comprehensive income/(loss) for the period	**(913)**	**669**
Profit/(loss) for the period	465	324
Total comprehensive income/(loss) for the period	**(448)**	**993**
Attributable to:		
Owners of the parent	(453)	993
Non-controlling interests	5	-
Total comprehensive income/(loss) for the period	**(448)**	**993**
Total comprehensive income/(loss) attributable to owners of the parent arising from:		
Continuing operations	(439)	735
Discontinued operations	(14)	258
	(453)	**993**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

Group balance sheet

	Notes	29 August 2020 £m	29 February 2020* £m	24 August 2019* £m
Non-current assets				
Goodwill and other intangible assets	9	5,742	6,078	6,212
Property, plant and equipment	10	16,560	19,234	19,042
Right of use assets	11	6,150	6,874	7,605
Investment property		19	26	36
Investments in joint ventures and associates		178	307	548
Financial assets at fair value through other comprehensive income		10	866	1,012
Investment securities at amortised cost		826	-	-
Trade and other receivables		254	166	262
Loans and advances to customers and banks		3,655	4,171	4,186
Derivative financial instruments		1,113	1,083	1,679
Deferred tax assets		627	449	336
		35,134	**39,254**	**40,918**
Current assets				
Financial assets at fair value through other comprehensive income		-	202	30
Investment securities at amortised cost		26	-	-
Inventories	13	2,254	2,433	2,719
Trade and other receivables		1,416	1,396	1,620
Loans and advances to customers and banks		3,630	4,280	4,962
Derivative financial instruments		284	63	132
Current tax assets		55	21	1
Short-term investments	14	942	1,076	362
Cash and cash equivalents	14	3,206	3,408	2,656
		11,813	**12,879**	**12,482**
Assets of the disposal groups and non-current assets classified as held for sale	6	5,199	285	3,880
		17,012	**13,164**	**16,362**
Current liabilities				
Trade and other payables		(8,297)	(8,922)	(9,641)
Borrowings	16	(1,291)	(1,490)	(814)
Lease liabilities	11	(557)	(598)	(638)
Derivative financial instruments		(166)	(61)	(53)
Customer deposits and deposits from banks		(5,599)	(6,377)	(8,864)
Current tax liabilities		(246)	(324)	(320)
Provisions		(198)	(155)	(229)
		(16,354)	**(17,927)**	**(20,559)**
Liabilities of the disposal groups classified as held for sale	6	(2,098)	-	(4)
Net current liabilities		**(1,440)**	**(4,763)**	**(4,201)**
Non-current liabilities				
Trade and other payables		(100)	(170)	(171)
Borrowings	16	(6,527)	(6,005)	(6,104)
Lease liabilities	11	(8,199)	(8,968)	(9,700)
Derivative financial instruments		(957)	(887)	(931)
Customer deposits and deposits from banks		(1,538)	(1,830)	(3,038)
Post-employment benefit obligations	18	(4,043)	(3,085)	(2,514)
Deferred tax liabilities		(43)	(40)	(42)
Provisions		(90)	(137)	(138)
		(21,497)	**(21,122)**	**(22,638)**
Net assets		**12,197**	**13,369**	**14,079**
Equity				
Share capital	20	490	490	490
Share premium		5,165	5,165	5,165
All other reserves		3,570	3,658	4,238
Retained earnings		2,989	4,078	4,210
Equity attributable to owners of the parent		**12,214**	**13,391**	**14,103**
Non-controlling interests		(17)	(22)	(24)
Total equity		**12,197**	**13,369**	**14,079**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

* Refer to Note 1 for further details regarding the prior year restatement.

These unaudited condensed consolidated interim financial statements for the 26 weeks ended 29 August 2020 were approved by the Board on 6 October 2020.

	Share capital £m	Share premium £m	All other reserves: Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 29 February 2020 (restated*)	**490**	**5,165**	**(15)**	**16**	**154**	**663**	**(250)**	**3,090**	**4,078**	**13,391**	**(22)**	**13,369**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**460**	**460**	**5**	**465**
Other comprehensive income/(loss)												
Currency translation differences	–	–	–	–	–	(67)	–	–	–	(67)	–	(67)
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	(1,112)	(1,112)	–	(1,112)
Gains/(losses) on cash flow hedges	–	–	(4)	–	(13)	–	–	–	–	(17)	–	(17)
Tax relating to components of other comprehensive income	–	–	1	–	(1)	–	–	–	285	285	–	285
Total other comprehensive income/(loss)	**–**	**–**	**(3)**	**–**	**(14)**	**(67)**	**–**	**–**	**(829)**	**(913)**	**–**	**(913)**
Total comprehensive income/(loss)	**–**	**–**	**(3)**	**–**	**(14)**	**(67)**	**–**	**–**	**(369)**	**(453)**	**5**	**(448)**
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	–	–	–	–	(28)	–	–	–	–	(28)	–	(28)
Tax on gains/(losses) transferred to the cost of inventory	–	–	–	–	4	–	–	–	–	4	–	4
Total inventory cash flow hedge movements	**–**	**–**	**–**	**–**	**(24)**	**–**	**–**	**–**	**–**	**(24)**	**–**	**(24)**
Transactions with owners												
Purchase of own shares	–	–	–	–	–	–	(219)	–	–	(219)	–	(219)
Share-based payments	–	–	–	–	–	–	239	–	(86)	153	–	153
Dividends (Note 7)	–	–	–	–	–	–	–	–	(634)	(634)	–	(634)
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**–**	**20**	**–**	**(720)**	**(700)**	**–**	**(700)**
At 29 August 2020	**490**	**5,165**	**(18)**	**16**	**116**	**596**	**(230)**	**3,090**	**2,989**	**12,214**	**(17)**	**12,197**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

* Refer to Note 1 for further details regarding the prior year restatement.

			All other reserves									
	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 23 February 2019 (as previously reported)	**490**	**5,165**	**(5)**	**16**	**118**	**730**	**(179)**	**3,090**	**4,031**	**13,456**	**(24)**	**13,432**
Cumulative adjustment to opening balances	-	-	-	-	-	-	-	-	116	116	-	116
At 23 February 2019 (restated*)	**490**	**5,165**	**(5)**	**16**	**118**	**730**	**(179)**	**3,090**	**4,147**	**13,572**	**(24)**	**13,548**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**324**	**324**	**-**	**324**
Other comprehensive income/(loss)												
Currency translation differences	-	-	-	-	-	323	-	-	-	323	-	323
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	7	7	-	7
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	202	202	-	202
Gains/(losses) on cash flow hedges	-	-	5	-	208	-	-	-	-	213	-	213
Tax relating to components of other comprehensive income	-	-	(1)	-	(36)	(3)	-	-	(36)	(76)	-	(76)
Total other comprehensive income/(loss)	**-**	**-**	**4**	**-**	**172**	**320**	**-**	**-**	**173**	**669**	**-**	**669**
Total comprehensive income/(loss)	**-**	**-**	**4**	**-**	**172**	**320**	**-**	**-**	**497**	**993**	**-**	**993**
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	-	-	-	-	(35)	-	-	-	-	(35)	-	(35)
Tax on gains/(losses) transferred to the cost of inventory	-	-	-	-	6	-	-	-	-	6	-	6
Total inventory cash flow hedge movements	**-**	**-**	**-**	**-**	**(29)**	**-**	**-**	**-**	**-**	**(29)**	**-**	**(29)**
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(95)	-	-	(95)	-	(95)
Share-based payments	-	-	-	-	-	-	96	-	(35)	61	-	61
Dividends (Note 7)	-	-	-	-	-	-	-	-	(399)	(399)	-	(399)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(434)**	**(433)**	**-**	**(433)**
At 24 August 2019	**490**	**5,165**	**(1)**	**16**	**261**	**1,050**	**(178)**	**3,090**	**4,210**	**14,103**	**(24)**	**14,079**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

* Refer to Note 1 for further details regarding the prior year restatement.

	26 weeks 2020 £m	26 weeks 2019* £m
Cash flows generated from/(used in) operating activities		
Operating profit/(loss) of continuing operations	**1,007**	**1,054**
Operating profit/(loss) of discontinued operations	**95**	**80**
Depreciation and amortisation	889	1,029
(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	(32)	(32)
Transaction and derivative costs associated with sale of subsidiaries	30	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	53	71
Impairment of joint ventures	-	47
Adjustment for non-cash element of pensions charge	-	7
Other defined benefit pension scheme payments	(161)	(144)
Share-based payments	15	20
Tesco Bank fair value movements included in operating profit/(loss)	259	72
Retail (increase)/decrease in inventories	(172)	(61)
Retail (increase)/decrease in development stock	1	1
Retail (increase)/decrease in trade and other receivables	(21)	(72)
Retail increase/(decrease) in trade and other payables	201	254
Retail increase/(decrease) in provisions	64	(43)
Retail (increase)/decrease in working capital	73	79
Tesco Bank (increase)/decrease in loans and advances to customers and banks	(145)	(150)
Tesco Bank (increase)/decrease in trade and other receivables	(76)	(53)
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables	107	(219)
Tesco Bank increase/(decrease) in provisions	(16)	29
Tesco Bank (increase)/decrease in working capital	(130)	(393)
Cash generated from/(used in) operations	**2,098**	**1,890**
Interest paid	(351)	(407)
Corporation tax paid	(147)	(171)
Net cash generated from/(used in) operating activities	**1,600**	**1,312**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

	Notes	26 weeks 2020 £m	26 weeks 2019 £m
Net cash generated from/(used in) operating activities		**1,600**	**1,312**
Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		83	65
Purchase of property, plant and equipment and investment property		(537)	(418)
Purchase of intangible assets		(89)	(79)
Disposal of subsidiaries, net of cash disposed		(26)	-
Acquisition of businesses, net of cash acquired		15	-
Net (increase)/decrease in loans to joint ventures and associates		(1)	8
Investments in associates and joint ventures		(11)	-
Net (investments in)/proceeds from sale of short-term investments		134	28
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost		202	14
Dividends received from joint ventures and associates		12	28
Interest received		5	13
Net cash generated from/(used in) investing activities		**(213)**	**(341)**
Cash flows generated from/(used in) financing activities			
Own shares purchased		(79)	(52)
Repayments of obligations under leases		(321)	(326)
Increase in borrowings		583	882
Repayment of borrowings		(295)	(1,407)
Net cash flows from derivative financial instruments		(224)	42
Dividends paid to equity owners	7	(634)	(399)
Net cash generated from/(used in) financing activities		**(970)**	**(1,260)**
Net increase/(decrease) in cash and cash equivalents		**417**	**(289)**
Cash and cash equivalents at the beginning of the period		3,408	2,916
Effect of foreign exchange rate changes		(21)	29
Cash and cash equivalents including cash held in disposal groups at the end of the period		3,804	2,656
Cash held in disposal groups	6	(598)	-
Cash and cash equivalents at the end of the period	14	**3,206**	**2,656**

The notes on pages 22 to 57 form part of this condensed consolidated financial information.

Note 1 Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting', as adopted by the European Union. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those used in preparing the Annual Report and Financial Statements 2020. The financial period represents the 26 weeks ended 29 August 2020 (prior financial period 26 weeks ended 24 August 2019, prior financial year 53 weeks ended 29 February 2020).

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

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. The Directors have considered the impact of COVID-19 on the Group's operations, as set out in further detail in the Financial results, and have concluded that there are no material uncertainties relating to going concern. Further information on the Group's strong liquidity position is given in the Financial results, Summary of total indebtedness section.

Discontinued operations

During the period, the Board approved plans to dispose of the Group's operations in Thailand, Malaysia and Poland. The net results for the year are presented as discontinued operations in the Group income statement (for which the comparatives have been restated) and the assets and liabilities of the businesses are presented separately in the Group balance sheet as held for sale. See Note 6 for further details.

Income statement presentation

The Group now presents 'Impairment (loss)/reversal on financial assets' on a separate line on the face of the Group income statement, following a significant increase in expected credit losses in Tesco Bank in the period. Prior period comparatives have been reclassified. For further details, see the Financial results and Note 17, Financial instruments.

Prior year restatement

The consolidated financial statements include a prior year restatement in relation to the original accounting for deferred tax and the associated goodwill recognised on the business combination of three property partnerships in 2015/16. A reassessment of tax-related information from 2005 has identified a material difference in deferred tax. The Group has corrected this as a prior year error, as it concluded this information should reasonably have been available in 2016. The impact in both the 29 February 2020 and 24 August 2019 balance sheets is to increase deferred tax assets by £157m (being a reduction in UK deferred tax liabilities) and reduce goodwill by £41m with a corresponding net £116m increase in net assets and retained earnings. There is no impact on the comparative period income statement or cash flow statement.

Accounting policies

The Group has adopted the 'Definition of a business' amendment to IFRS 3, 'Business combinations' in the current financial year, and has applied its guidance when evaluating whether acquisitions in the period are asset acquisitions or business combinations. The Group has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' amendment to IFRS 16, 'Leases', once it is EU-endorsed, as the Group has not received material COVID-19-related rent concessions as a lessee.

On 1 March 2020, the Group's portfolio of debt instrument investments measured at fair value through comprehensive income was reclassified to investment securities at amortised cost, measured using the effective interest rate method less allowance for expected credit losses. This was following a change in business model to hold these debt instrument investments for the collection of contractual cash flows only. In the prior period, gains and losses arising from changes in fair value were recognised directly in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which were recognised in the Group income statement.

Key sources of estimation uncertainty

In light of the impact of COVID-19 on the Group's operations and performance, as set out in more detail in the Financial results, the Group has provided additional information on COVID-19 and key sources of estimation uncertainty as follows:

- Note 12, Impairment of non-current assets
- Note 17, Financial instruments
- Note 18, Post-employment benefits

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. Refer to the Glossary for a full list of the Group's APMs, including comprehensive definitions, their purpose, reconciliations to IFRS measures and details of any changes to APMs.

Note 2 Segmental reporting

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

On 9 March 2020, the Group announced that it had reached agreement on the terms of a proposed sale of its operations in Thailand and Malaysia (previously reported in the Asia segment), and on 18 June 2020, the Group announced that it had agreed the terms of the proposed sale of its business in Poland (previously reported in the Central Europe segment). Accordingly, these operations have been treated as discontinued as described in more detail in Notes 1 and 6. The segment results do not include these discontinued operations and intercompany recharges previously reported between continuing and discontinued operations have been eliminated in both the current and prior period.

Following the presentation of the Group's operations in Thailand and Malaysia as discontinued operations, the Group no longer presents Asia as a separate reportable segment. The remaining operations previously reported within the Asia segment, which consist of our Trent Hypermarket joint venture, have been reclassified to the UK & ROI segment. The comparatives for UK & ROI have also been reclassified to include the China associate Gain Land, which the Group sold on 28 February 2020 and which was previously included within the Asia segment. The Group has reclassified £6m of operating costs before exceptional items and amortisation of acquired intangibles, and £47m of exceptional impairment charges to the UK & ROI segment income statement for the 26 weeks ended 24 August 2019. The Group has also reclassified £59m of investments in joint ventures and associates as at 29 February 2020 (24 August 2019: £307m), and £22m of current tax assets as at 29 February 2020 (24 August 2019: £nil) to the UK & ROI segment balance sheets.

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

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom, Republic of Ireland, and Indian joint venture Trent Hypermarket; and
  - Central Europe – Czech Republic, Hungary and Slovakia.
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

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

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

Income statement

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

26 weeks ended 29 August 2020 At constant exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Group sales	24,306	1,954	386	26,646	6	26,652
Revenue	26,311	2,017	386	28,714	4	28,718
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,131**	**59**	**(155)**	**1,035**	**2**	**1,037**
Exceptional items and amortisation of acquired intangibles	(28)	(2)	-	(30)	-	(30)
Operating profit/(loss)	**1,103**	**57**	**(155)**	**1,005**	**2**	**1,007**
Operating margin	**4.3%**	**2.9%**	**(40.2)%**	**3.6%**		**3.6%**

26 weeks ended 29 August 2020 At actual exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	24,337	1,929	386	26,652
Revenue	26,341	1,991	386	28,718
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,133**	**59**	**(155)**	**1,037**
Exceptional items and amortisation of acquired intangibles	(28)	(2)	–	(30)
Operating profit/(loss)	**1,105**	**57**	**(155)**	**1,007**
Operating margin	**4.3%**	**3.0%**	**(40.2)%**	**3.6%**
Share of post-tax profits/(losses) of joint ventures and associates				13
Finance income				7
Finance costs				(476)
Profit/(loss) before tax				**551**

Tesco Bank revenue of £386m (26 weeks ended 24 August 2019: £562m) comprises interest and similar revenues of £292m (26 weeks ended 24 August 2019: £379m) and fees and commissions revenue of £94m (26 weeks ended 24 August 2019: £183m).

26 weeks ended 24 August 2019 At actual exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	22,416	1,974	562	24,952
Revenue	25,895	2,055	562	28,512
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,065**	**77**	**87**	**1,229**
Exceptional items and amortisation of acquired intangibles	(118)	-	(57)	(175)
Operating profit/(loss)	**947**	**77**	**30**	**1,054**
Operating margin	**4.1%**	**3.7%**	**15.5%**	**4.3%**
Share of post-tax profits/(losses) of joint ventures and associates				2
Finance income				14
Finance costs				(642)
Profit/(loss) before tax				**428**

Balance sheet

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

At 29 August 2020	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets	4,811	26	905	-	5,742	-	5,742
Property, plant and equipment and investment property	14,689	1,827	63	-	16,579	-	16,579
Right of use assets	5,733	404	13	-	6,150	-	6,150
Investments in joint ventures and associates	82	1	95	-	178	-	178
Non-current financial assets at fair value through other comprehensive income[a]	6	-	4	-	10	-	10
Non-current investment securities at amortised cost[a]	-	-	826	-	826	-	826
Non-current trade and other receivables[b]	92	1	57	-	150	-	150
Non-current loans and advances to customers and banks	-	-	3,655	-	3,655	-	3,655
Deferred tax assets	520	33	74	-	627	-	627
Non-current assets[c]	**25,933**	**2,292**	**5,692**	**-**	**33,917**	**-**	**33,917**
Inventories and current trade and other receivables[d][e]	2,831	372	440	-	3,643	-	3,643
Current loans and advances to customers and banks	-	-	3,630	-	3,630	-	3,630
Current investment securities at amortised cost[a]	-	-	26		26	-	26
Total trade and other payables	(7,519)	(532)	(346)	-	(8,397)	-	(8,397)
Total customer deposits and deposits from banks	-	-	(7,137)	-	(7,137)	-	(7,137)
Total provisions	(229)	(11)	(48)	-	(288)	-	(288)
Deferred tax liabilities	(4)	(39)	-	-	(43)	-	(43)
Net current tax	(242)	26	25	-	(191)	-	(191)
Post-employment benefits	(4,043)	-	-	-	(4,043)	-	(4,043)
Assets of the disposal groups and non-current assets classified as held for sale	67	-	-	-	67	5,132	5,199
Liabilities of the disposal groups classified as held for sale	-	-	-	-	-	(2,098)	(2,098)
Net debt (including Tesco Bank)[f][g]	(8,207)	(518)	254	(3,550)	(12,021)	-	(12,021)
Net assets	**8,587**	**1,590**	**2,536**	**(3,550)**	**9,163**	**3,034**	**12,197**

[a] Refer to Note 1.
[b] Excludes loans to joint ventures of £104m (29 February 2020: £23m, 24 August 2019: £127m) which form part of net debt.
[c] Excludes derivative financial instrument non-current assets of £1,113m (29 February 2020: £1,083m, 24 August 2019: £1,679m).
[d] Excludes net interest and other receivables of £3m (29 February 2020: £1m, 24 August 2019: £1m) which form part of net debt.
[e] Excludes loans to joint ventures of £24m (29 February 2020: £104m, 24 August 2019: £nil) which form part of net debt.
[f] Refer to Note 19.
[g] Net debt (including Tesco Bank) at 29 August 2020 excludes Net debt of the disposal groups classified as held for sale of £(263)m.

Balance sheet continued

At 29 February 2020	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets[a]	4,851	25	914	-	5,790	288	6,078
Property, plant and equipment and investment property	14,635	1,826	61	-	16,522	2,738	19,260
Right of use assets	5,719	392	14	-	6,125	749	6,874
Investments in joint ventures and associates	70	1	87	-	158	149	307
Non-current financial assets at fair value through other comprehensive income	7	–	859	-	866	–	866
Non-current trade and other receivables[b]	65	–	65	-	130	13	143
Non-current loans and advances to customers and banks	–	–	4,171	-	4,171	–	4,171
Deferred tax assets[a]	286	33	69	-	388	61	449
Non-current assets[c]	**25,633**	**2,277**	**6,240**	**-**	**34,150**	**3,998**	**38,148**
Inventories and current trade and other receivables[d][e]	2,678	314	252	-	3,244	480	3,724
Current loans and advances to customers and banks	–	–	4,280	-	4,280	–	4,280
Current financial assets at fair value through other comprehensive income	–	–	202	-	202	–	202
Total trade and other payables	(7,215)	(511)	(249)	-	(7,975)	(1,117)	(9,092)
Total customer deposits and deposits from banks	–	–	(8,207)	-	(8,207)	–	(8,207)
Total provisions	(161)	(11)	(57)	-	(229)	(63)	(292)
Deferred tax liabilities	(4)	(36)	–	-	(40)	–	(40)
Net current tax	(248)	9	(26)	-	(265)	(38)	(303)
Post-employment benefits	(3,056)	–	–	-	(3,056)	(29)	(3,085)
Non-current assets classified as held for sale	75	-	45	-	120	165	285
Net debt (including Tesco Bank)[f]	(8,203)	(497)	47	(3,167)	(11,820)	(431)	(12,251)
Net assets	**9,499**	**1,545**	**2,527**	**(3,167)**	**10,404**	**2,965**	**13,369**

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

Balance sheet continued

At 24 August 2019	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets[(a)]	4,877	25	1,007	-	5,909	303	6,212
Property, plant and equipment and investment property	13,979	1,942	59	-	15,980	3,098	19,078
Right of use assets	6,351	396	14	-	6,761	844	7,605
Investments in joint ventures and associates	319	1	84	-	404	144	548
Non-current financial assets at fair value through other comprehensive income	3	-	1,009	-	1,012	-	1,012
Non-current trade and other receivables[(b)]	78	2	37	-	117	18	135
Non-current loans and advances to customers and banks	-	-	4,186	-	4,186	-	4,186
Deferred tax assets[(a)]	159	36	61	-	256	80	336
Non-current assets[(c)]	**25,766**	**2,402**	**6,457**	**-**	**34,625**	**4,487**	**39,112**
Inventories and current trade and other receivables[(d)(e)]	3,082	367	319	-	3,768	570	4,338
Current loans and advances to customers and banks	-	-	4,962	-	4,962	-	4,962
Current financial assets at fair value through other comprehensive income	-	-	30	-	30	-	30
Total trade and other payables	(7,688)	(624)	(241)	-	(8,553)	(1,259)	(9,812)
Total customer deposits and deposits from banks	-	-	(11,902)	-	(11,902)	-	(11,902)
Total provisions	(174)	(24)	(81)	-	(279)	(88)	(367)
Deferred tax liabilities	(8)	(25)	-	-	(33)	(9)	(42)
Net current tax	(263)	(9)	(23)	-	(295)	(24)	(319)
Post-employment benefits	(2,486)	-	-	-	(2,486)	(28)	(2,514)
Assets of the disposal groups and non-current assets classified as held for sale	40	9	3,690	-	3,739	141	3,880
Liabilities of the disposal groups classified as held for sale	-	-	(4)	-	(4)	-	(4)
Net debt (including Tesco Bank)[(f)]	(8,853)	(530)	(690)	(2,656)	(12,729)	(554)	(13,283)
Net assets	**9,416**	**1,566**	**2,517**	**(2,656)**	**10,843**	**3,236**	**14,079**

[(a)-(f)] Refer to previous table for footnotes.

Other segment information

26 weeks ended 29 August 2020	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[a][b]	406	35	7	448	56	504
Goodwill and other intangible assets[c]	71	4	18	93	1	94
Depreciation and amortisation:						
Property, plant and equipment	(399)	(50)	(4)	(453)	(14)	(467)
Right of use assets	(259)	(18)	(1)	(278)	(5)	(283)
Other intangible assets	(110)	(4)	(24)	(138)	(1)	(139)
Impairment[d]:						
(loss)/reversal on financial assets	(6)	(1)	(257)	(264)	(6)	(270)

26 weeks ended 24 August 2019	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[a]	307	28	1	336	45	381
Goodwill and other intangible assets[c]	55	5	18	78	1	79
Depreciation and amortisation:						
Property, plant and equipment	(372)	(49)	(5)	(426)	(129)	(555)
Right of use assets	(265)	(16)	(1)	(282)	(41)	(323)
Other intangible assets	(105)	(6)	(36)	(147)	(4)	(151)
Impairment[d]:						
(loss)/reversal on financial assets	(4)	-	(113)	(117)	-	(117)

[a] Includes £12m (24 August 2019: £nil) acquired through business combinations.

[b] Includes £54m related to the disposal groups subsequent to reclassification to held for sale.

[c] Includes £5m (24 August 2019: £nil) of goodwill and other intangible assets acquired through business combinations.

[d] Refer to Note 12 for impairment of non-current assets.

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, including a split of cash flows between Retail continuing operations and Tesco Bank as well as an analysis of Group continuing and discontinued operations.

	Retail			Tesco Bank			
26 weeks ended 29 August 2020	**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**
Continuing operations							
Operating profit/(loss) of continuing operations	**1,192**	**(30)**	**1,162**	**(155)**	**-**	**(155)**	**1,007**
Depreciation and amortisation	802	38	840	29	-	29	869
ATM net income	(8)	-	(8)	8	-	8	-
(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	(36)	1	(35)	-	-	-	(35)
Transaction and derivative costs associated with sale of subsidiaries	-	-	-	-	-	-	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	10	-	10	-	-	-	10
Other defined benefit pension scheme payments	(161)	-	(161)	-	-	-	(161)
Share-based payments	6	-	6	3	-	3	9
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	259	-	259	259
Cash flows generated from operations excluding working capital	**1,805**	**9**	**1,814**	**144**	**-**	**144**	**1,958**
(Increase)/decrease in working capital	170	(136)	34	(116)	(14)	(130)	(96)
Cash generated from/(used in) operations*	**1,975**	**(127)**	**1,848**	**28**	**(14)**	**14**	**1,862**
Interest paid	(323)	-	(323)	(3)	-	(3)	(326)
Corporation tax paid	(125)	-	(125)	(9)	-	(9)	(134)
Net cash generated from/(used in) operating activities	**1,527**	**(127)**	**1,400**	**16**	**(14)**	**2**	**1,402**

* APM: 'Retail operating cash flow' of £1,848m (26 weeks ended 24 August 2019: £1,817m) is the cash generated from operations of the continuing Retail business.

Note 2 Segmental reporting continued

Cash flow statement continued 26 weeks ended 29 August 2020	Retail Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
Net cash generated from/(used in) operating activities	**1,527**	**(127)**	**1,400**	**16**	**(14)**	**2**	**1,402**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	-	32	32	-	51	51	83
Purchase of property, plant and equipment and investment property – store buy backs	(148)	-	(148)	-	-	-	(148)
Purchase of property, plant and equipment and investment property – other capital expenditure	(299)	-	(299)	(24)	-	(24)	(323)
Purchase of intangible assets	(70)	-	(70)	(18)	-	(18)	(88)
Disposal of subsidiaries, net of cash disposed	(1)	(25)	(26)	-	-	-	(26)
Acquisition of businesses, net of cash acquired	15	-	15	-	-	-	15
Net (increase)/decrease in loans to joint ventures and associates	(1)	-	(1)	-	-	-	(1)
Investments in associates and joint ventures	(11)	-	(11)	-	-	-	(11)
Net (investments in)/proceeds from sale of short-term investments	134	-	134	-	-	-	134
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	-	-	-	202	-	202	202
Dividends received from joint ventures and associates	6	-	6	-	-	-	6
Interest received	4	-	4	-	-	-	4
Net cash generated from/(used in) investing activities	**(371)**	**7**	**(364)**	**160**	**51**	**211**	**(153)**
Own shares purchased	(79)	-	(79)	-	-	-	(79)
Repayment of obligations under leases	(292)	-	(292)	(2)	-	(2)	(294)
Add: Cash outflow from major disposal	-	22	22	-	-	-	22
Less: Net increase/(decrease) in loans to joint ventures and associates	1	-	1	-	-	-	1
Less: Net investments in/(proceeds from sale of) short-term investments	(134)	-	(134)	-	-	-	(134)
Free cash flow*	**652**	**(98)**	**554**	**174**	**37**	**211**	**765**
Increase in borrowings	583	-	583	-	-	-	583
Repayment of borrowings	(287)	-	(287)	-	-	-	(287)
Net cash flows from derivative financial instruments	19	(243)	(224)	-	-	-	(224)
Dividends paid to equity owners	(634)	-	(634)	-	-	-	(634)
Net cash generated from/(used in) financing activities	**(690)**	**(243)**	**(933)**	**(2)**	**-**	**(2)**	**(935)**
Net increase/(decrease) in cash and cash equivalents from continuing operations	**466**	**(363)**	**103**	**174**	**37**	**211**	**314**
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**106**	**(3)**	**103**	**-**	**-**	**-**	**103**
Intra-Group funding and intercompany transactions	**(5)**	**-**	**(5)**	**5**	**-**	**5**	**-**
Net increase/(decrease) in cash and cash equivalents	**567**	**(366)**	**201**	**179**	**37**	**216**	**417**
Cash and cash equivalents at the beginning of the period			2,044			1,364	3,408
Effect of foreign exchange rate changes			(21)			-	(21)
Cash and cash equivalents at the end of the period			**2,224**			**1,580**	**3,804**
Cash held in disposal groups			(598)			-	(598)
Cash and cash equivalents not held in disposal groups			**1,626**			**1,580**	**3,206**

* Retail free cash flow of £554m (26 weeks ended 24 August 2019: £645m) is reported on a continuing operations basis.

26 weeks ended 24 August 2019	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
Continuing operations							
Operating profit/(loss) of continuing operations	**1,142**	**(118)**	**1,024**	**87**	**(57)**	**30**	**1,054**
Depreciation and amortisation	773	40	813	39	3	42	855
ATM net income	(17)	-	(17)	17	-	17	-
(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	(8)	(14)	(22)	-	-	-	(22)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(1)	-	(1)	-	-	-	(1)
Impairment of joint ventures	-	47	47	-	-	-	47
Adjustment for non-cash element of pensions charge	1	-	1	-	-	-	1
Other defined benefit pension scheme payments	(144)	-	(144)	-	-	-	(144)
Share-based payments	14	-	14	1	-	1	15
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	72	-	72	72
Cash flows generated from operations excluding working capital	**1,760**	**(45)**	**1,715**	**216**	**(54)**	**162**	**1,877**
(Increase)/decrease in working capital	164	(62)	102	(427)	34	(393)	(291)
Cash generated from/(used in) operations	**1,924**	**(107)**	**1,817**	**(211)**	**(20)**	**(231)**	**1,586**
Interest paid	(376)	-	(376)	(4)	-	(4)	(380)
Corporation tax paid	(117)	-	(117)	(32)	-	(32)	(149)
Net cash generated from/(used in) operating activities	**1,431**	**(107)**	**1,324**	**(247)**	**(20)**	**(267)**	**1,057**

Cash flow statement continued

26 weeks ended 24 August 2019	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
Net cash generated from/(used in) operating activities	**1,431**	**(107)**	**1,324**	**(247)**	**(20)**	**(267)**	**1,057**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	-	62	62	-	-	-	62
Purchase of property, plant and equipment and investment property – store buy backs	(89)	-	(89)	-	-	-	(89)
Purchase of property, plant and equipment and investment property – other capital expenditure	(267)	-	(267)	(1)	-	(1)	(268)
Purchase of intangible assets	(61)	-	(61)	(18)	-	(18)	(79)
Disposal of subsidiaries, net of cash disposed	-	-	-	-	-	-	-
Acquisition of businesses, net of cash acquired	-	-	-	-	-	-	-
Net (increase)/decrease in loans to joint ventures and associates	-	-	-	8	-	8	8
Net (investments in)/proceeds from sale of short-term investments	28	-	28	-	-	-	28
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	-	-	-	14	-	14	14
Dividends received from joint ventures and associates	5	-	5	16	-	16	21
Interest received	12	-	12	-	-	-	12
Net cash generated from/(used in) investing activities	**(372)**	**62**	**(310)**	**19**	**-**	**19**	**(291)**
Own shares purchased	(52)	-	(52)	-	-	-	(52)
Repayment of obligations under leases	(289)	-	(289)	(1)	-	(1)	(290)
Add: Cash outflow from major acquisition	-	-	-	-	-	-	-
Less: Net increase/(decrease) in loans to joint ventures and associates	-	-	-	(8)	-	(8)	(8)
Less: Net investments in/(proceeds from sale of) short-term investments	(28)	-	(28)	-	-	-	(28)
Free cash flow	**690**	**(45)**	**645**	**(237)**	**(20)**	**(257)**	**388**
Increase in borrowings	632	-	632	250	-	250	882
Repayment of borrowings	(1,057)	-	(1,057)	(350)	-	(350)	(1,407)
Net cash flows from derivative financial instruments	42	-	42	-	-	-	42
Dividends paid to equity owners	(399)	-	(399)	-	-	-	(399)
Net cash generated from/(used in) financing activities	**(1,123)**	**-**	**(1,123)**	**(101)**	**-**	**(101)**	**(1,224)**
Net increase/(decrease) in cash and cash equivalents from continuing operations	**(64)**	**(45)**	**(109)**	**(329)**	**(20)**	**(349)**	**(458)**
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**178**	**(9)**	**169**	**-**	**-**	**-**	**169**
Intra-Group funding and intercompany transactions	**1**	**-**	**1**	**(1)**	**-**	**(1)**	**-**
Net increase/(decrease) in cash and cash equivalents	**115**	**(54)**	**61**	**(330)**	**(20)**	**(350)**	**(289)**
Cash and cash equivalents at the beginning of the period			1,873			1,043	2,916
Effect of foreign exchange rate changes			29			-	29
Cash and cash equivalents at the end of the period			**1,963**			**693**	**2,656**
Cash held in disposal groups			-			-	-
Cash and cash equivalents not held in disposal groups			**1,963**			**693**	**2,656**

Cash flow statement continued

	Continuing operations		Discontinued operations		Total Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Operating profit/(loss)	**1,007**	**1,054**	**95**	**80**	**1,102**	**1,134**
Depreciation and amortisation	869	855	20	174	889	1,029
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	(35)	(22)	3	(10)	(32)	(32)
Transaction and derivative costs associated with sale of subsidiaries	-	-	30	-	30	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	10	(1)	43	72	53	71
Impairment of joint ventures	-	47	-	-	-	47
Adjustment for non-cash element of pensions charge	-	1	-	6	-	7
Other defined benefit pension scheme payments	(161)	(144)	-	-	(161)	(144)
Share-based payments	9	15	6	5	15	20
Tesco Bank fair value movements included in operating profit/(loss)	259	72	-	-	259	72
Cash flows generated from operations excluding working capital	**1,958**	**1,877**	**197**	**327**	**2,155**	**2,204**
(increase)/decrease in working capital	(96)	(291)	39	(23)	(57)	(314)
Cash generated from/(used in) operations	**1,862**	**1,586**	**236**	**304**	**2,098**	**1,890**
Interest paid	(326)	(380)	(25)	(27)	(351)	(407)
Corporation tax paid	(134)	(149)	(13)	(22)	(147)	(171)
Net cash generated from/(used in) operating activities	**1,402**	**1,057**	**198**	**255**	**1,600**	**1,312**

Cash flow statement continued	Continuing operations		Discontinued operations		Total Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Net cash generated from/(used in) operating activities	**1,402**	**1,057**	**198**	**255**	**1,600**	**1,312**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	83	62	–	3	83	65
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buybacks	(148)	(89)	–	–	(148)	(89)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(323)	(268)	(66)	(61)	(389)	(329)
Purchase of intangible assets	(88)	(79)	(1)	–	(89)	(79)
Disposal of subsidiaries, net of cash disposed	(26)	–	–	–	(26)	–
Acquisition of businesses, net of cash acquired (Note 21)	15	–	–	–	15	–
Net increase/(decrease) in loans to joint ventures and associates	(1)	8	–	–	(1)	8
Investments in joint ventures and associates	(11)	–	–	–	(11)	–
Net (investments in)/proceeds from sale of short-term investments	134	28	–	–	134	28
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	202	14	–	–	202	14
Dividends received from joint ventures and associates	6	21	6	7	12	28
Interest received	4	12	1	1	5	13
Net cash generated from/(used in) investing activities	**(153)**	**(291)**	**(60)**	**(50)**	**(213)**	**(341)**
Own shares purchased	(79)	(52)	–	–	(79)	(52)
Repayments of obligations under leases	(294)	(290)	(27)	(36)	(321)	(326)
Increase in borrowings	583	882	–	–	583	882
Repayment of borrowings	(287)	(1,407)	(8)	–	(295)	(1,407)
Net cash flows from derivative financial instruments	(224)	42	–	–	(224)	42
Dividends paid to equity owners	(634)	(399)	–	–	(634)	(399)
Net cash generated from/(used in) financing activities	**(935)**	**(1,224)**	**(35)**	**(36)**	**(970)**	**(1,260)**
Net increase/(decrease) in cash and cash equivalents before intra-Group funding and intercompany transactions	**314**	**(458)**	**103**	**169**	**417**	**(289)**
Intra-Group funding and intercompany transactions	**(113)**	**225**	**113**	**(225)**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**201**	**(233)**	**216**	**(56)**	**417**	**(289)**
Cash and cash equivalents at the beginning of the period					3,408	2,916
Effects of foreign exchange rate changes					(21)	29
Cash and cash equivalents at the end of the period					**3,804**	**2,656**
Cash held in disposal groups					(598)	–
Cash and cash equivalents not held in disposal groups					**3,206**	**2,656**

Note 3 Exceptional items and amortisation of acquired intangibles

Income statement

26 weeks ended 29 August 2020

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Finance costs £m	Taxation £m
Exceptional items:						
Property transactions[a]	(2)	–	(2)	–	–	–
Booker integration[b]	–	(2)	(2)	–	–	–
ATM Business Rates[c]	105	–	105	–	–	(20)
Litigation costs[d]	–	(93)	(93)	–	–	–
Total exceptional items	**103**	**(95)**	**8**	**–**	**–**	**(20)**
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 9)	–	(38)	(38)	–	–	(5)
Total exceptional items and amortisation of acquired intangibles	**103**	**(133)**	**(30)**	**–**	**–**	**(25)**

[a] As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties.
[b] Costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.
[c] Supreme Court ruling that Tesco Group is due a refund of business rates related to external-facing ATMs in stores.
[d] Costs arising from the 2016 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profits announced in 2014.

Income statement continued

26 weeks ended 24 August 2019

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Finance costs £m	Taxation £m
Exceptional items:						
Net restructuring and redundancy costs	(39)	-	(39)	-	-	7
Property transactions	4	10	14	-	-	1
Booker integration	(3)	(3)	(6)	-	-	1
Impairment of investment in India joint venture	-	(47)	(47)	-	-	-
Provision for customer redress	(45)	-	(45)	-	-	-
Derivative restructuring	-	-	-	-	(180)	34
Ogden rate change	-	-	-	4	-	-
Bank transformation costs	(3)	(9)	(12)	-	-	2
Total exceptional items	**(86)**	**(49)**	**(135)**	**4**	**(180)**	**45**
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 9)	-	(40)	(40)	-	-	7
Total exceptional items and amortisation of acquired intangibles*	**(86)**	**(89)**	**(175)**	**4**	**(180)**	**52**

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

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		Cash flows from financing activities	
	26 weeks 2020 £m	26 weeks 2019 £m	26 weeks 2020 £m	26 weeks 2019 £m	26 weeks 2020 £m	26 weeks 2019 £m
Prior year restructuring and redundancy costs	(32)	(103)	-	-	-	-
Current year restructuring and redundancy costs	-	(1)	-	-	-	-
Property transactions*	-	-	32	62	-	-
Tesco Bank Mortgage Book Proceeds	-	-	51	-	-	-
Settlement of claims for customer redress in Tesco Bank	(14)	(19)	-	-	-	-
Litigation costs	(93)	-	-	-	-	-
Costs and proceeds deposit associated with the sale of Asia and Poland	-	-	(25)	-	-	-
Booker integration cash payments	(2)	(4)	-	-	-	-
Hedging costs associated with the sale of Asia	-	-	-	-	(243)	-
Total continuing operations	**(141)**	**(127)**	**58**	**62**	**(243)**	**-**
Exceptional cash flows from discontinued operations	(3)	(9)	-	-	-	-
Total	**(144)**	**(136)**	**58**	**62**	**(243)**	**-**

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

Note 4 Finance income and costs

Continuing operations	Notes	26 weeks 2020 £m	26 weeks 2019[a] £m
Finance income			
Interest receivable and similar income		5	12
Finance income receivable on net investment in leases		2	2
Total finance income		**7**	**14**
Finance costs			
GBP MTNs and Loans		(70)	(62)
EUR MTNs		(27)	(30)
USD Bonds		(5)	(6)
Finance charges payable on lease liabilities		(229)	(246)
Other interest payable		(9)	(24)
Fair value remeasurements of financial instruments[b]		(108)	(58)
Total finance costs before exceptional items and net pension finance costs		**(448)**	**(426)**
Net pension finance costs	18	(28)	(36)
Total finance costs before exceptional items		**(476)**	**(462)**
Fair value remeasurement loss on derivative restructuring	3	-	(180)
Total finance costs		**(476)**	**(642)**
Net finance cost		**(469)**	**(628)**

[a] Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

[b] Fair value remeasurements includes £nil (26 weeks ended 24 August 2019: £(62)m) relating to the premium paid on the repurchase of long-dated bonds.

Note 5 Taxation

Recognised in the Group income statement

Continuing operations	26 weeks 2020 £m	26 weeks 2019* £m
UK	130	105
Overseas	24	28
Taxation charge	**154**	**133**

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

The tax charge in the Group income statement is based on management's best estimate of the full year effective tax rates by geographical unit applied to half year profits, which is then adjusted for tax on exceptional items and amortisation of acquired intangibles arising in the period to 29 August 2020.

The Finance Act 2020 included legislation to maintain the main rate of UK corporation tax at 19%, rather than reducing it to 17% from 1 April 2020. The change to the main UK corporation tax rate was substantively enacted by the balance sheet date and is therefore included in these condensed consolidated interim financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised with the UK corporation tax rate change increasing the deferred tax asset by £39m.

Deferred tax asset recognition

Deferred tax assets can only be recognised to the extent it is probable there will be future taxable profits. 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.

Note 6 Discontinued operations and assets classified as held for sale

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

	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Assets of the disposal group[(a)]	4,892	-	3,690
Non-current assets classified as held for sale[(b)]	307	285	190
Total assets of the disposal group and non-current assets classified as held for sale	**5,199**	**285**	**3,880**
Total liabilities of the disposal group[(a)]	(2,098)	-	(4)
Total net assets of the disposal group and non-current assets classified as held for sale	**3,101**	**285**	**3,876**

(a) Balances as at 29 August 2020 are with respect to the Group's operations in Thailand, Malaysia and Poland. Balances as at 24 August 2019 represent the mortgage portfolio of Tesco Bank, with assets of the disposal group consisting of loans and advances to customers, with the associated trade and other payables presented as liabilities of the disposal group. Beneficial ownership of the mortgage portfolio transferred to Halifax, which is part of the Lloyds Banking Group, on 27 September 2019.
(b) The non-current assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year.

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

Balance sheet of the disposal group

	29 August 2020		
	Thailand and Malaysia £m	Poland £m	Total £m
Assets of the disposal group			
Goodwill and other intangible assets	279	3	282
Property, plant and equipment	2,345	229	2,574
Right of use assets	657	89	746
Investments in joint ventures and associates	147	-	147
Deferred tax assets	49	-	49
Inventories	309	70	379
Trade and other receivables	95	21	116
Cash and cash equivalents	535	63	598
Current tax assets	1	-	1
Total assets of the disposal group	**4,417**	**475**	**4,892**
Liabilities of the disposal group			
Trade and other payables	(958)	(117)	(1,075)
Lease liabilities	(655)	(154)	(809)
Current tax liabilities	(55)	-	(55)
Deferred tax liabilities	(11)	-	(11)
Post-employment benefit obligations	(29)	-	(29)
Borrowings	-	(52)	(52)
Provisions	(49)	(18)	(67)
Total liabilities of the disposal group	**(1,757)**	**(341)**	**(2,098)**
Total net assets of the disposal group	**2,660**	**134**	**2,794**

Discontinued operations

On 9 March 2020, the Group reached agreement on the terms of a proposed sale of its operations in Thailand and Malaysia, which were presented in the Group's former Asia segment. The transaction received shareholder approval on 14 May 2020, with regulatory approval and completion expected by the end of the calendar year. The assets and liabilities related to the Group's Thailand and Malaysia operations have been classified as a disposal group held for sale within the period, and the results have been presented as discontinued operations.

On 18 June 2020, the Group reached agreement on the terms of a proposed corporate sale of its business in Poland, which was previously presented in the Group's Central Europe segment. The transaction is subject to regulatory approval, with completion expected in Spring 2021. The assets and liabilities related to the Group's Poland operation have been classified as a disposal group held for sale within the period. Further properties in Poland not included in the corporate sale also individually meet the criteria to be classified as held for sale, and therefore the Group's entire business in Poland has been presented as discontinued operations.

Income statement

	26 weeks 2020				26 weeks 2019			
	Thailand and Malaysia £m	Poland £m	Other £m	Total £m	Thailand and Malaysia £m	Poland £m	Other £m	Total £m
Revenue	2,546	522	–	3,068	2,556	841	–	3,397
Operating costs[a]	(2,269)	(534)	–	(2,803)	(2,372)	(848)	–	(3,220)
Operating profit, before exceptional items	**277**	**(12)**	**–**	**265**	**184**	**(7)**	**–**	**177**
Share of post-tax profits/(losses) of joint ventures and associates	6	–	–	6	12	–	–	12
Finance (costs)/income	(18)	(7)	–	(25)	(18)	(8)	–	(26)
Profit/(loss) before tax, before exceptional items	**265**	**(19)**	**–**	**246**	**178**	**(15)**	**–**	**163**
Taxation	(53)	(1)	–	(54)	(33)	(4)	–	(37)
Profit/(loss) after tax, before exceptional items	**212**	**(20)**	**–**	**192**	**145**	**(19)**	**–**	**126**
Exceptional items[b]	–	(54)	(86)	(140)	–	(97)	–	(97)
Fair value remeasurements of financial instruments[c]	(2)	–	–	(2)	–	–	–	–
Transaction costs	(24)	(4)	–	(28)	–	–	–	–
Tax on transaction costs and fair value remeasurements of financial instruments	46	–	–	46	–	–	–	–
Total profit/(loss) after tax of discontinued operations	**232**	**(78)**	**(86)**	**68**	**145**	**(116)**	**–**	**29**

[a] Operating costs include £(20)m depreciation and amortisation charges (26 weeks ended 24 August 2019: £(174)m).

[b] Exceptional items before tax of £(140)m (26 weeks ended 24 August 2019: £(97)m) includes £(8)m (26 weeks ended 24 August 2019: £(36)m) of net restructuring and redundancy costs, £(43)m (26 weeks ended 24 August 2019: £(71)m) of net impairment loss on non-current assets, £(3)m loss (26 weeks ended 24 August 2019: £10m profit) on disposal of surplus properties, and £(86)m (26 weeks ended 24 August 2019: £nil) provision relating to claims from Homeplus (Korea) purchasers. There was no tax on exceptional items (26 weeks ended 24 August 2019: £nil).

[c] The income statement impact of the derivative contracts entered into by the Group to economically hedge the foreign exchange risk on the anticipated USD disposal proceeds from the Asia business is a fair value loss of £(2)m, being the difference between the premiums paid to enter into the contracts £(243)m and their fair value at the balance sheet date £241m.

Note 6 Discontinued operations and non-current assets classified as held for sale continued

Cash flow statement

	26 weeks 2020			26 weeks 2019		
	Thailand and Malaysia £m	Poland £m	Total £m	Thailand and Malaysia £m	Poland £m	Total £m
Net cash flows from operating activities	244	(46)	198	233	22	255
Net cash flows from investing activities	(54)	(6)	(60)	(47)	(3)	(50)
Net cash flows from financing activities	(21)	(14)	(35)	(26)	(10)	(36)
Net cash flows from discontinued operations	**169**	**(66)**	**103**	**160**	**9**	**169**

Note 7 Dividends

	26 weeks ended 29 August 2020		26 weeks ended 24 August 2019	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the period:				
Prior financial year final dividend*	6.50	634	4.10	399
Interim dividend declared for the current period	**3.20**	**314**	**2.65**	**260**

* Excludes £3m dividends waived (24 August 2019: £3m).

The interim dividend was approved by the Board of Directors on 6 October 2020 and has not been included as a liability as at 29 August 2020. It will be paid on 27 November 2020 to shareholders who are on the Register of members at close of business on 16 October 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 6 November 2020.

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

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

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

For the 26 weeks ended 29 August 2020 there were 27 million (26 weeks ended 24 August 2019: 59 million) potentially dilutive share options. As the Group has recognised a profit for the period, dilutive effects have been considered in calculating diluted earnings per share.

	26 weeks ended 29 August 2020			26 weeks ended 24 August 2019[a]		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations	397	-	397	295	-	295
Discontinued operations[b]	63	-	63	29	-	29
Total	**460**	**-**	**460**	**324**	**-**	**324**
Weighted average number of shares (millions)	**9,744**	**27**	**9,771**	**9,715**	**59**	**9,774**
Earnings/(losses) per share (pence)						
Continuing operations	4.07	(0.01)	4.06	3.04	(0.02)	3.02
Discontinued operations	0.65	-	0.65	0.30	(0.01)	0.29
Total	**4.72**	**(0.01)**	**4.71**	**3.34**	**(0.03)**	**3.31**

[a] Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

[b] Excludes profits from non-controlling interests of £5m (26 weeks ended 24 August 2019: £nil)

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

	Notes	26 weeks 2020	26 weeks 2019*
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		581	779
Add: Net pension finance costs (£m)	4	28	36
Add: Fair value remeasurements of financial instruments (£m)	4	108	58
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)		**717**	**873**
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)		717	873
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)		(155)	(203)
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)		**562**	**670**
Basic weighted average number of shares (millions)		9,744	9,715
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)		**5.77**	**6.90**
Diluted weighted average number of shares (millions)		9,771	9,774
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)		**5.75**	**6.85**

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

Note 9 Goodwill and other intangible assets

Goodwill of £4,570m (29 February 2020: £4,840m, 24 August 2019: £4,893m) consists of UK £3,792m (29 February 2020: £3,793m, 24 August 2019: £3,797m), ROI £3m (29 February 2020: £3m, 24 August 2019: £4m), Thailand £nil (29 February 2020: £193m, 24 August 2019: £210m), Malaysia £nil (29 February 2020: £76m, 24 August 2019: £80m) and Tesco Bank £775m (29 February 2020: £775m, 24 August 2019: £802m). Refer to Note 1 for further details regarding the prior year restatement.

Other intangible assets comprise software of £527m (29 February 2020: £544m, 24 August 2019: £589m), customer relationships of £533m (29 February 2020: £567m, 24 August 2019: £606m) and other intangible assets of £112m (29 February 2020: £127m, 24 August 2019: £124m).

Of the £139m (26 weeks ending 24 August 2019: £151m) amortisation of other intangible assets, £38m (26 weeks ended 24 August 2019: £40m) arising from the amortisation of intangible assets acquired through business combinations has been included within exceptional items and amortisation of intangible assets. Refer to Note 3 for further details.

Note 10 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 29 February 2020	**24,868**	**6,925**	**31,793**
Foreign currency translation	102	21	123
Additions	228	210	438
Acquired through business combinations	8	4	12
Reclassification	(5)	264	259
Disposals	(25)	(160)	(185)
Classified (to)/from assets held for sale	28	–	28
Transfer to disposal group classified as held for sale	(3,642)	(1,415)	(5,057)
At 29 August 2020	**21,562**	**5,849**	**27,411**
Accumulated depreciation and impairment losses			
At 29 February 2020	**7,841**	**4,718**	**12,559**
Foreign currency translation	34	15	49
Charge for the period	219	248	467
Impairment losses[b]	68	11	79
Reversal of impairment losses[b]	(31)	(3)	(34)
Reclassification	8	250	258
Disposals	(22)	(156)	(178)
Classified (to)/from assets held for sale	24	–	24
Transfer to disposal group classified as held for sale	(1,386)	(987)	(2,373)
At 29 August 2020	**6,755**	**4,096**	**10,851**
Net carrying value			
At 29 August 2020	**14,807**	**1,753**	**16,560**
At 24 August 2019	16,936	2,106	19,042
Construction in progress included above[c]			
At 29 August 2020	**61**	**165**	**226**
At 24 August 2019	61	88	149

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,286m (29 February 2020: £1,712m, 24 August 2019: £1,593m), office equipment with a net carrying value of £212m (29 February 2020: £245m, 24 August 2019: £312m) and motor vehicles with a net carrying value of £255m (29 February 2020: £250m, 24 August 2019: £201m).

[b] Refer to Note 12.

[c] Construction in progress does not include land.

Note 10 Property, plant and equipment continued

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 23 February 2019	**24,484**	**6,993**	**31,477**
Foreign currency translation	436	141	577
Additions	171	210	381
Reclassification	(41)	(43)	(84)
Disposals	(45)	(246)	(291)
Classified as held for sale	(216)	(36)	(252)
At 24 August 2019	**24,789**	**7,019**	**31,808**
Accumulated depreciation and impairment losses			
At 23 February 2019	**7,523**	**4,768**	**12,291**
Foreign currency translation	149	99	248
Charge for the period	256	299	555
Impairment losses[b]	82	20	102
Reversal of impairment losses[b]	(25)	-	(25)
Reclassification	(2)	(5)	(7)
Disposals	(32)	(243)	(275)
Classified as held for sale	(98)	(25)	(123)
At 24 August 2019	**7,853**	**4,913**	**12,766**
Net carrying value	**16,936**	**2,106**	**19,042**

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

Commitments for capital expenditure contracted for, but not incurred, at 29 August 2020 were £234m (29 February 2020: £140m, 24 August 2019: £216m), principally relating to store development.

Note 11 Leases

Right of use assets

	Land and buildings £m	Other £m	Total £m
Net carrying value at 29 February 2020	**6,734**	**140**	**6,874**
Additions (including acquisitions through business combinations)	173	30	203
Depreciation charge for the period	(259)	(24)	(283)
Impairment losses[a]	(8)	-	(8)
Reversal of impairment losses[a]	2	-	2
Transfer to disposal group classified as held for sale	(724)	(20)	(744)
Other[b]	106	-	106
Net carrying value at 29 August 2020	**6,024**	**126**	**6,150**

	Land and buildings £m	Other £m	Total £m
Net carrying value at 23 February 2019	**7,561**	**152**	**7,713**
Additions (including acquisitions through business combinations)	69	29	98
Depreciation charge for the period	(290)	(33)	(323)
Impairment losses[a]	(10)	-	(10)
Reversal of impairment losses[a]	15	-	15
Other[b]	110	2	112
Net carrying value at 24 August 2019	**7,455**	**150**	**7,605**

[a] Refer to Note 12.
[b] Other movements include lease terminations, modifications and reassessments, foreign exchange 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:

Lease liabilities	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Current	557	598	638
Non-current	8,199	8,968	9,700
Total lease liabilities	**8,756**	**9,566**	**10,338**

Maturity analysis – contractual undiscounted lease payments	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Within one year	989	1,081	1,191
Greater than one year but less than five years	3,685	3,958	4,185
Greater than five years but less than ten years	3,834	4,178	4,471
Greater than ten years but less than fifteen years	2,536	2,810	3,166
After fifteen years	2,142	2,596	3,017
Total undiscounted lease payments	**13,186**	**14,623**	**16,030**

A reconciliation of the Group's opening to closing lease liabilities balance is presented in Note 19.

Note 12 Impairment of non-current assets

Impairment losses and reversals

No goodwill impairment losses were recognised by the Group in the period to 29 August 2020 (24 August 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 includes any losses recognised immediately before classifying an asset or disposal group as held for sale. Impairment losses and reversals are presented gross and prior financial period comparatives have been re-presented in order to show the Group's Poland, Thailand and Malaysia businesses as discontinued operations. There were no impairment losses or reversals in the period (26 weeks ended 24 August 2019: £nil) with respect to other non-current assets and investments in joint ventures and associates in Tesco Bank.

	UK & ROI		Central Europe		Total continuing operations		Discontinued operations		Total*	
26 weeks ended 29 August 2020	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
Group balance sheet										
Other intangible assets	–	–	–	–	–	–	–	–	–	–
Property, plant and equipment	(13)	11	–	–	(13)	11	(66)	23	(79)	34
Right of use assets	(8)	2	–	–	(8)	2	–	–	(8)	2
Investment property	(2)	–	–	–	(2)	–	–	–	(2)	–
Other non-current assets	**(23)**	**13**	**–**	**–**	**(23)**	**13**	**(66)**	**23**	**(89)**	**36**
Investments in joint ventures and associates	–	–	–	–	–	–	–	–	–	–
Total impairment (loss)/ reversal	**(23)**	**13**	**–**	**–**	**(23)**	**13**	**(66)**	**23**	**(89)**	**36**
Group income statement										
Cost of sales – underlying	–	–	–	–	–	–	–	–	–	–
Cost of sales – exceptional	–	–	–	–	–	–	–	–	–	–
Administrative expenses – underlying	(23)	13	–	–	(23)	13	–	–	(23)	13
Administrative expenses – exceptional	–	–	–	–	–	–	–	–	–	–
Total impairment (loss)/ reversal from continuing operations	**(23)**	**13**	**–**	**–**	**(23)**	**13**	**–**	**–**	**(23)**	**13**
Discontinued operations – underlying	–	–	–	–	–	–	–	–	–	–
Discontinued operations – exceptional	–	–	–	–	–	–	(66)	23	(66)	23
Total impairment (loss)/reversal	**(23)**	**13**	**–**	**–**	**(23)**	**13**	**(66)**	**23**	**(89)**	**36**

* Of the £53m other non-current assets net impairment loss (loss of £(89)m and reversal of £36m) for the Group (24 August 2019: £71m), a net loss of £43m (24 August 2019: £71m) has been classified within exceptional items and in discontinued operations.

26 weeks ended 24 August 2019	UK & ROI		Central Europe		Total continuing operations		Discontinued operations		Total[(a)(b)]	
	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
Group balance sheet										
Other intangible assets	–	–	–	–	–	–	–	–	–	–
Property, plant and equipment	(2)	4	–	–	(2)	4	(100)	21	(102)	25
Right of use assets	(6)	5	–	–	(6)	5	(4)	10	(10)	15
Investment property	–	–	–	–	–	–	–	1	–	1
Other non-current assets	**(8)**	**9**	**–**	**–**	**(8)**	**9**	**(104)**	**32**	**(112)**	**41**
Investments in joint ventures and associates	(47)	–	–	–	(47)	–	–	–	(47)	–
Total impairment (loss)/ reversal	**(55)**	**9**	**–**	**–**	**(55)**	**9**	**(104)**	**32**	**(159)**	**41**
Group income statement										
Cost of sales – underlying	–	–	–	–	–	–	–	–	–	–
Cost of sales – exceptional	–	–	–	–	–	–	–	–	–	–
Administrative expenses – underlying	(8)	9	–	–	(8)	9	–	–	(8)	9
Administrative expenses – exceptional	(47)	–	–	–	(47)	–	–	–	(47)	–
Total impairment (loss)/ reversal from continuing operations	**(55)**	**9**	**–**	**–**	**(55)**	**9**	**–**	**–**	**(55)**	**9**
Discontinued operations – underlying	–	–	–	–	–	–	(1)	–	(1)	–
Discontinued operations – exceptional	–	–	–	–	–	–	(103)	32	(103)	32
Total impairment (loss)/reversal	**(55)**	**9**	**–**	**–**	**(55)**	**9**	**(104)**	**32**	**(159)**	**41**

[(a)] Refer to previous table for footnote.

[(b)] Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 6 for further details.

Immediately preceding their recognition as held for sale, an impairment review was carried out on the Group's Poland, Malaysia and Thailand operations. There were no significant changes in relation to the Malaysia and Thailand operations between the 2020 year end and reclassification as held for sale, and expected proceeds exceed the carrying value so no impairment was required. The Poland disposal involves both a corporate sale and the separate sale of the remaining assets. Expected proceeds for the corporate sale exceed the carrying value so no impairment was required. The recoverable amount of the remaining assets is based on fair value less cost of disposal on an asset by asset basis, such that some assets are impaired while others have an impairment reversal. This results in a net impairment charge of £43m, recognised in discontinued operations – exceptional. See Note 6 for further details.

All other impairment charges and reversals are in relation to specific store closures or non-trading assets.

The Group considered whether the COVID-19 pandemic and the accompanying economic uncertainty had the potential to represent a significant impairment indicator as at 29 August 2020. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, grocery retail has proved resilient and the performance of the Group's portfolio of store cash-generating units has remained strong. Reductions in discount rates since 29 February 2020 offset the impact of increased costs and the reduction in long term growth rates across all markets. Therefore, management concluded that the impact of COVID-19 on the longer term outlook for these cash-generating units did not constitute an indicator of significant impairment and hence a full impairment test was not required.

The impact of the COVID-19 pandemic on Tesco Bank, including both increased expected credit losses and an increased discount rate, is considered an indicator of goodwill impairment, so a full impairment test has been conducted. The carrying amount of goodwill allocated to Tesco Bank pre-impairment review was £775m, impairment testing on a value in use basis resulted in a recoverable amount of £870m and headroom of £95m. Additional sensitivities are given in the Key assumptions and sensitivity section below.

Impairment methodology

The impairment methodology is unchanged from that described in Note 15 of the Annual Report and Financial Statements 2020, however the following assumptions have been updated across the Group in light of COVID-19:

- The weighted average cost of capital (WACC) has seen high volatility levels in the period to 29 August 2020, such that the use of the spot risk-free rate and equity risk premium would not give a discount rate that a market participant would expect at the balance sheet date in determining the present value of cash flows into perpetuity. In order to reflect a more appropriate discount rate, an average of the risk-free rate and equity risk premiums over the past 18 months has been used, reflecting the period since the adoption of IFRS 16, 'Leases'.
- Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. Given the current forecasts were approved before COVID-19, management has reviewed those forecasts and updated its best estimate of cash flows in year 1 and retained a COVID-19 risk adjustment to the discount rate in subsequent years to reflect the impact of inherent uncertainty in forecast cash flows.

Note 12 impairment of non-current assets continued

Key assumptions and sensitivity

With the exception of Tesco Bank, no reasonably possible changes in key assumptions would indicate an impairment for any group of cash-generating units to which goodwill has been allocated. Similarly, 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 key assumptions to which the Tesco Bank goodwill recoverable amount is most sensitive are the discount rate, equity cash flows in excess of the regulatory capital requirement and the long-term growth rate. The table below sets out the amount by which these assumption values would have to change for the recoverable amount to equal the carrying amount.

Key assumption	Assumption value	Amount by which assumption value would have to change for the recoverable amount to equal the carrying amount
Post-tax discount rate	8.9%	Increase of 0.3ppt
Annual equity cash flows	Variable	Decrease by 4.6% p.a.
Long-term growth rate	1.6%	Decrease of 0.3ppt

Note 13 Inventories

	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Goods held for resale	2,251	2,429	2,714
Development properties	3	4	5
	2,254	**2,433**	**2,719**

Cost of inventories from continuing operations recognised as an expense for the 26 weeks ended 29 August 2020 were £20,948m (26 weeks ended 24 August 2019: £20,992m). Inventory losses and provisions from continuing operations recognised as an expense for the 26 weeks ended 29 August 2020 were £524m (26 weeks ended 24 August 2019: £541m).

Note 14 Cash and cash equivalents and short-term investments

Cash and cash equivalents	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Cash at bank and in hand	3,183	3,251	2,462
Short-term deposits	23	157	194
	3,206	**3,408**	**2,656**

Short-term investments	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Money market funds	942	1,076	362

Cash and cash equivalents includes £61m (29 February 2020: £35m, 24 August 2019: £38m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

Note 15 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.

	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Current assets			
Inventories	(19)	(55)	(50)
Trade and other receivables			
Trade/other receivables	99	138	135
Accrued income	88	157	156
Current liabilities			
Trade and other payables			
Trade payables	128	292	190
Accruals and deferred income	(2)	(3)	(3)

Note 16 Borrowings

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

Current

	Par value	Maturity	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Bank loans and overdrafts	–	–	485	413	619
5.5% MTN	£97m	Dec 2019	-	-	101
1% RPI Tesco Bank Retail Bond	£73m	Dec 2019	-	-	73
2.125% MTN	€296m	Nov 2020	-	255	-
1m USD LIBOR + 0.70% Tesco Bank Bond	$350m	Nov 2020	260	273	-
5% Tesco Bank Retail Bond	£200m	Nov 2020	201	202	-
LIBOR + 0.53% Tesco Bank Bond	£300m	Oct 2022	300	299	–
5.5457% Secured Bond[(a)(b)]	£312m	Feb 2029	26	22	21
6.067% Secured Bond[(a)]	£200m	Feb 2029	2	-	-
6.0517% Secured Bond[(c)(d)]	£471m	Oct 2039	17	26	-
			1,291	**1,490**	**814**

* Refer to next page for footnotes.

Non-current

	Par value	Maturity	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
2.125% MTN	€500m	Nov 2020	-	-	461
1m USD LIBOR + 0.70% Tesco Bank Bond	$350m	Nov 2020	-	-	286
5% Tesco Bank Retail Bond	£200m	Nov 2020	-	-	203
6.125% MTN	£417m	Feb 2022	428	416	429
LIBOR + 0.53% Tesco Bank Bond	£300m	Oct 2022	-	-	299
5% MTN	£93m	Mar 2023	101	103	102
1.375% MTN	€750m	Oct 2023	687	660	705
2.5% MTN	€750m	Jul 2024	669	653	680
2.5% MTN	£400m	May 2025	419	418	411
3.5% Tesco Bank Senior MREL Notes[e]	£250m	Jul 2025	254	250	250
3.322% LPI MTN[f]	£354m	Nov 2025	361	358	352
0.875% MTN	€750m	May 2026	664	640	–
5.5457% Secured Bond[a][b]	£312m	Feb 2029	259	281	292
6.067% Secured Bond[a]	£200m	Feb 2029	191	192	192
LIBOR + 1.2% Secured Bond[a]	£50m	Feb 2029	48	36	35
6% MTN	£48m	Dec 2029	59	58	59
2.5% MTN	£450m	Apr 2030	452	-	-
5.5% MTN	£109m	Jan 2033	135	133	137
1.982% RPI MTN[g]	£294m	Mar 2036	298	297	290
6.15% USD Bond	$525m	Nov 2037	546	555	546
6.0517% Secured Bond[c][d]	£471m	Oct 2039	587	590	–
4.875% MTN	£20m	Mar 2042	20	20	20
5.125% MTN	€356m	Apr 2047	320	316	326
5.2% MTN	£30m	Mar 2057	29	29	29
			6,527	**6,005**	**6,104**

[a] 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 £791m (29 February 2020: £794m, 24 August 2019: £798m).
[b] This is an amortising bond which matures in February 2029 and is payable in quarterly instalments until maturity.
[c] 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 £663m (29 February 2020: £612m).
[d] This is an amortising bond which matures in October 2039 and is payable in quarterly instalments until maturity.
[e] These Notes are Tesco Bank MREL compliant senior debt and were issued on 25 July 2019. The scheduled redemption date is July 2024.
[f] 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%.
[g] The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Borrowing facilities

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

	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Expiring in less than one year	438	38	38
Expiring between one and two years	2,600	3,000	-
Expiring in more than two years	-	-	3,000
	3,038	**3,038**	**3,038**

The undrawn committed facilities include £0.4bn (29 February 2020: £0.4bn, 24 August 2019: £0.4bn) of bilateral facilities and a £2.6bn (29 February 2020: £2.6bn, 24 August 2019: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates. Since the half year, £0.4bn of bilateral facilities have been cancelled and the £2.6bn syndicated revolving credit facility has been refinanced at £2.5bn.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 29 August 2020, by level of fair value hierarchy:

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

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

At 29 August 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	–	–	10	10
Financial assets at fair value through profit or loss*	–	24	–	24
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	59	–	59
- Cross currency swaps	–	487	–	487
- Index-linked swaps	–	567	–	567
- Forward contracts	–	284	–	284
Total assets	**–**	**1,421**	**10**	**1,431**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(80)	–	(80)
- Cross currency swaps	–	(11)	–	(11)
- Index-linked swaps	–	(918)	–	(918)
- Forward contracts	–	(106)	(8)	(114)
Total liabilities	**–**	**(1,115)**	**(8)**	**(1,123)**
Total	**–**	**306**	**2**	**308**

* Cash balances relating to the Group's Travel Money offering are carried at fair value under IFRS 9 and classified within cash and cash equivalents.

At 29 February 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
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
Total assets	**1,058**	**1,172**	**10**	**2,240**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(70)	–	(70)
- Cross currency swaps	–	–	–	-
- Index-linked swaps	–	(816)	–	(816)
- Forward contracts	–	(62)	–	(62)
Total liabilities	**–**	**(948)**	**–**	**(948)**
Total	**1,058**	**224**	**10**	**1,292**

* Refer to previous table for footnote.

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

There were no transfers between Levels 1 and 2 during the period (29 February 2020: £nil, 24 August 2019: £nil) and no transfers into or out of Level 3 fair value measurements (29 February 2020: £nil, 24 August 2019: £nil).

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

Carrying amounts versus fair values

The table below excludes cash and cash equivalents, short-term investments, trade and other receivables/payables, derivative financial instruments, deposits from banks relating to Tesco Bank and financial assets at fair value through other comprehensive income where the carrying values are either fair value or approximate fair value.

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

	29 August 2020 £m		29 February 2020 £m		24 August 2019 £m	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets						
Investment securities at amortised cost	852	854	-	-	-	-
Loans and advances to customers and banks – Tesco Bank	7,285	7,454	8,451	8,672	9,148	9,315
Loans and advances to customers held for sale – Tesco Bank	-	-	45	45	3,690	3,712
Joint venture and associate loan receivables*	128	192	127	193	127	132
Liabilities						
Short-term borrowings:						
-Amortised cost	(829)	(829)	(1,015)	(928)	(741)	(744)
-Bonds in fair value hedge relationships	(462)	(464)	(475)	(478)	(73)	(73)
Long-term borrowings:						
-Amortised cost	(4,097)	(5,151)	(4,049)	(4,714)	(3,628)	(4,259)
-Bonds in fair value hedge relationships	(2,430)	(2,437)	(1,956)	(1,954)	(2,476)	(2,461)
Customer deposits – Tesco Bank	(6,637)	(6,647)	(7,707)	(7,711)	(9,903)	(9,907)

* Joint venture and associate loan receivables carrying amounts of £128m (29 February 2020: £127m, 24 August 2019: £127m) are presented in the Group balance sheet net of deferred profits of £54m (29 February 2020: £54m, 24 August 2019: £54m) historically arising from the sale of property assets to joint ventures.

Tesco Bank expected credit loss (ECL)

The Group has commissioned four new scenarios from its third-party provider, all of which were based on an economic outlook that sought to take account of the ramifications of the COVID-19 outbreak. These scenarios include a Base scenario, an Upside scenario, and two different Downside scenarios. The Base scenario anticipates a delayed economic recovery, with consumer confidence remaining weak in the near term and unemployment peaking in Q4 2020. The Upside scenario involves a sharper economic recovery while Downside 1 assumes a longer delay until the economy recovers. Downside 2 is a prolonged and sustained recession with a slow economic recovery thereafter. In selecting the Downside scenarios, the Group explored the extremities of potential economic impacts, and as a result these Downside scenarios have been given a lesser weighting due to the context of the base and upside scenarios also taking into account the deep negative impact of the pandemic on the UK economy. The Base, Upside, Downside 1 and Downside 2 scenarios have been assigned weighting of 50%, 34%, 15% and 1% respectively.

The weighted economic measures from the scenarios are as follows:

Economic measure	2020 %	2021 %	2022 %	2023 %	2024 %
Bank of England base rate[(a)]	0.3	0.1	0.1	0.1	0.1
Gross domestic product[(b)]	(6.5)	6.7	2.2	1.7	1.7
Unemployment rate[(a)]	6.5	7.8	6.4	5.5	5.0
Unemployment rate peak in year	8.6	8.3	6.8	5.8	5.2

(a) Simple average
(b) Annual growth rates

Key assumptions and sensitivity

The key assumptions to which the Tesco Bank ECL is most sensitive are the probability of default (PD), loss given default (LGD), PD threshold (staging), and expected lifetime (revolving credit facilities). The table below sets out the changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in Tesco Bank's calculations as at 29 August 2020.

		Impact on the loss allowance		
	Reasonably possible change	29 August 2020 £m	29 February 2020 £m	24 August 2020 £m
Closing ECL allowance		**650**	**488**	**511**
Probability of default	Increase of 2.5%	13	11	10
	Decrease of 2.5%	(13)	(11)	(9)
Loss given default	Increase of 2.5%	15	12	12
	Decrease of 2.5%	(15)	(12)	(13)
Probability of default threshold (staging)	Increase of 20%	(19)	(17)	(13)
	Decrease of 20%	21	21	20
Expected lifetime (revolving credit facilities)	Increase of 1 year	4	2	3
	Decrease of 1 year	(4)	(2)	(3)

Note 18 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.

The principal defined benefit pension plan within the Group is the Tesco PLC Pension Scheme (the Scheme), a UK scheme closed to future accrual. We have agreed the actuarial pension valuation as at 31 December 2019 with the Tesco PLC Trustee at a deficit of £(2.2)bn. This is subject to the completion of the sale of our businesses in Thailand and Malaysia and is before the payment of the £2.5bn one-off contribution to the Scheme. This payment will eliminate the actuarial deficit as at the date and significantly reduce the prospect of having to make further pension deficit contributions in the future.

Summary of movements in Group deficit during the financial period

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

	29 August 2020 £m	29 February 2020 £m	24 August 2019 £m
Deficit in schemes at the beginning of the period	**(3,085)**	**(2,808)**	**(2,808)**
Current service cost	(22)	(40)	(21)
Past service cost	–	(5)	(5)
Finance income/(cost)	(28)	(71)	(36)
Included in the Group income statement*	**(50)**	**(116)**	**(62)**
Remeasurement gain/(loss):			
Financial assumptions gain/(loss)	(1,712)	(2,867)	(2,824)
Demographic assumptions gain/(loss)	(102)	182	220
Experience gain/(loss)	79	61	15
Return on plan assets excluding finance income	623	2,158	2,791
Foreign currency translation	(8)	2	(9)
Included in the Group statement of comprehensive income/(loss)*	**(1,120)**	**(464)**	**193**
Employer contributions	22	36	19
Additional employer contributions	147	262	141
Benefits paid	14	5	3
Classified as held for sale	29	–	–
Other movements*	**212**	**303**	**163**
Deficit in schemes at the end of the period	**(4,043)**	**(3,085)**	**(2,514)**
Deferred tax asset	751	512	416
Deficit in schemes at the end of the period, net of deferred tax	**(3,292)**	**(2,573)**	**(2,098)**

* Movement in relation to discontinued operations for the year ended 29 February 2020 included £(8)m (24 August 2019: £(6)m) within the income statement, £(3)m (24 August 2019: £nil) in Group statement of comprehensive income/loss and £1m (24 August 2019: £nil) in other movements.

Scheme principal assumptions

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

	29 August 2020 %	29 February 2020 %	24 August 2019 %
Discount rate	1.7	1.9	2.1
Price inflation	2.9	2.8	3.1
Rate of increase in deferred pensions*	2.1	2.0	2.1
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	2.7	2.7	2.9
Benefits accrued after 1 June 2012	2.2	2.1	2.2

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

If the discount rate assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £500m or £4,373m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £521m or £6,123m respectively.

If the inflation assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £437m or £4,831m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £417m or £3,749m respectively.

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

Note 19 Analysis of changes in net debt

	At 29 February 2020 £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Non-cash movements: Fair value gains/ (losses) £m	Non-cash movements: Foreign exchange £m	Non-cash movements: Interest income/ (charge) £m	Non-cash movements: Other £m	Discontinued operations £m	At 29 August 2020 £m
Total Group									
Bank and other borrowings	(7,495)	(288)	113	1	(92)	(109)	-	52	**(7,818)**
Lease liabilities	(9,566)	321	252	-	(8)	(252)	(312)	809	**(8,756)**
Net derivative financial instruments	198	224	(14)	(133)	1	(2)	-	-	**274**
Arising from financing activities	**(16,863)**	**257**	**351**	**(132)**	**(99)**	**(363)**	**(312)**	**861**	**(16,300)**
Cash and cash equivalents	3,408	-	417	-	(21)	-	-	(598)	**3,206**
Short-term investments	1,076	-	(134)	-	-	-	-	-	**942**
Joint venture loans	127	-	1	-	-	-	-	-	**128**
Interest and other receivables	1	-	(5)	-	-	7	-	-	**3**
Net debt of the disposal group held for sale	-	-	-	-	-	-	-	(263)	**(263)**
Total Group	**(12,251)**	**257**	**630**	**(132)**	**(120)**	**(356)**	**(312)**	**-**	**(12,284)**
Tesco Bank									
Bank and other borrowings	(1,260)	-	2	10	-	(2)	-	-	**(1,250)**
Lease liabilities	(33)	2	1	-	-	(1)	-	-	**(31)**
Net derivative financial instruments	(45)	-	-	(21)	-	-	-	-	**(66)**
Arising from financing activities	**(1,338)**	**2**	**3**	**(11)**	**-**	**(3)**	**-**	**-**	**(1,347)**
Cash and cash equivalents	1,364	-	216	-	-	-	-	-	**1,580**
Joint ventures loans	21	-	-	-	-	-	-	-	**21**
Tesco Bank	**47**	**2**	**219**	**(11)**	**-**	**(3)**	**-**	**-**	**254**
Retail									
Bank and other borrowings	(6,235)	(288)	111	(9)	(92)	(107)	-	52	**(6,568)**
Lease liabilities	(9,533)	319	251	-	(8)	(251)	(312)	809	**(8,725)**
Net derivative financial instruments	243	224	(14)	(112)	1	(2)	-	-	**340**
Arising from financing activities	**(15,525)**	**255**	**348**	**(121)**	**(99)**	**(360)**	**(312)**	**861**	**(14,953)**
Cash and cash equivalents	2,044	-	201	-	(21)	-	-	(598)	**1,626**
Short-term investments	1,076	-	(134)	-	-	-	-	-	**942**
Joint ventures loans	106	-	1	-	-	-	-	-	**107**
Interest and other receivables	1	-	(5)	-	-	7	-	-	**3**
Net debt of the disposal group held for sale	-	-	-	-	-	-	-	(263)	**(263)**
Net debt	**(12,298)**	**255**	**411**	**(121)**	**(120)**	**(353)**	**(312)**	**-**	**(12,538)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group balance sheet and the Group cash flow statement.

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

Note 19 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in Net debt	29 August 2020 £m	24 August 2019 £m
Net increase/(decrease) in cash and cash equivalents	417	(289)
Elimination of Tesco Bank movement in cash and cash equivalents	(216)	350
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(134)	(28)
Net increase/(decrease) in joint venture loans	1	-
Net (increase)/decrease in borrowings and lease liabilities	31	750
Net cash flows from derivative financial instruments	224	(42)
Net interest paid on components of Net debt	343	390
Change in Net debt resulting from cash flow	**666**	**1,131**
Retail net interest charge on components of Net debt	(353)	(376)
Retail fair value and foreign exchange movements	(241)	(78)
Retail other non-cash movements	(312)	(66)
(Increase)/decrease in Net debt	**(240)**	**611**
Opening Net debt	(12,298)	(13,204)
Closing Net debt	**(12,538)**	**(12,593)**

Note 20 Called up share capital

	26 weeks ended 29 August 2020		53 weeks ended 29 February 2020	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At the beginning and end of the financial period	**9,793,496,561**	**490**	**9,793,496,561**	**490**

No shares were issued during the current financial year in relation to share options or bonus awards.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of Tesco PLC (the Company). In addition, the Board intends to return c.£5.0bn to shareholders via a special dividend with associated share consolidation.

Own shares purchased

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

The own shares held represents the cost of shares in Tesco PLC purchased in the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans. The number of ordinary shares held by the Tesco International Employee Benefit Trust at 29 August 2020 was 70.8 million (29 February 2020: 87.6 million). This represents 0.72% of called-up share capital at the end of the financial period (29 February 2020: 0.89%).

On 7 March 2020, the Group acquired the trade and assets of Best Food Logistics (trading name of BFS Group Ltd), which has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. Best Food Logistics provides a food supply chain and logistics services to national fast food and casual dining clients. The acquisition builds on the Group's expertise in wholesale operations in the UK market and will further enhance its foodservice offer to customers within procurement, warehousing and distribution solutions. The purchase consideration received by the Group of £15m was fully satisfied by cash. There is no deferred or contingent consideration.

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

	Fair value £m
Acquired intangible assets	4
Property, plant and equipment	12
Right of use assets	41
Inventories	27
Trade and other receivables	77
Trade and other payables	(128)
Lease liabilities	(42)
Deferred tax liabilities	(2)
Provisions	(5)
Total	**(16)**
Goodwill	1
Purchase consideration received	**(15)**

The goodwill is primarily attributable to synergies. None of the goodwill is expected to be deductible for tax purposes.

Acquired intangible assets comprise software of £1m and customer relationships of £3m, which are amortised over 3 years. The amortisation charge on the acquired intangibles is excluded from the Group's operating profit before exceptional items and amortisation of acquired intangibles.

The fair value of acquired trade and other receivables is £77m. The gross contractual amount for trade receivables due was £78m, of which £1m is expected to be uncollectable.

Best Food Logistics contributed revenues of £282m and net loss after tax of £(8)m to the Group from 7 March 2020 to 29 August 2020. The £(8)m loss includes £1m of amortisation expense on acquired intangible assets. If the acquisition had occurred on 1 March 2020, Group revenue and net loss after tax for the 26 weeks ended 29 August 2020 would not be materially different. Transaction costs of £nil have been included in Administrative expenses for the 26 weeks ended 29 August 2020 (53 weeks ended 29 February 2020: £2m).

Note 22 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.

In July and August 2020, the Group settled claims brought by two claimant groups against Tesco PLC for matters arising out of or in connection with the overstatement of expected profits announced in 2014. As a result of the settlement and associated legal costs, Tesco has taken a one-off charge in the amount of £93 million. Two claimant law firms issued proceedings against the Group in September 2020 in respect of the same matters. The merit, likely outcome and potential impact on the Group of any further litigation that 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 29 August 2020. There are substantial legal and factual defences to these claims and the Group will vigorously defend any further proceedings.

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, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. At 29 August 2020, four guarantees remained outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2030. The maximum potential liability under these outstanding guarantees is between KRW 107bn (£67m) and KRW 184bn (£117m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 79bn (£50m). However, the net potential outflow to Tesco is estimated at KRW 42bn (£26m), with funds of KRW 37bn (£24m) placed in escrow to provide the payment mechanism for these guarantees. Additionally, Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made over and above the amounts in escrow.

Following the sale of Homeplus for £4.2bn in 2015, Tesco PLC received claims from the purchasers relating to the sale of the business. In July 2020, an arbitral tribunal dismissed the majority of the claims. It made findings of liability in relation to the remaining claims but reserved its position in relation to quantum. The parties are in the process of making submissions on the damages that should be awarded in relation to the remaining claims. A provision in the amount of £86m has been recognised in the accounts.

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. There are three separate stages of these claims, and to be successful, the claimants have to win at each stage. These claims are in their initial phases and none of these stages has been determined, and each may be subject to appeal. A final determination of these claims is not expected for several years. At present, the likely number of claims that may be received and the merit, likely outcome and potential impact on the Group of any such litigation is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure. There are substantial factual and legal defences to these claims and the Group intends to vigorously defend them.

Note 23 Events after reporting period

On 18 September 2020, the Group obtained control of the Tesco Property No 2 Limited Partnership (the partnership), previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest for £54m. The partnership has long-term bond and derivative liabilities, and owns 12 stores and two distribution centres, which it leases to the Group. The acquisition, which is treated as an asset acquisition, increases the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities, which are eliminated on consolidation. Given the proximity of the transaction to the announcement of the Group's interim results, the valuation of the assets and liabilities acquired has not yet been completed and therefore a reasonable estimate of the impact cannot be made.

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 last financial year. As part of the restructure, on 30 September 2020 the Group made cash payments of £686m to external counterparties in relation to derivative financial instruments. The impact of this transaction was to increase the derivative financial instrument asset value on the balance sheet with a corresponding decrease in cash. This transaction had no effect on either the Group income statement or Net debt.

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.

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

Changes to APMs

The Directors and management have redefined Free cash flow and Retail free cash flow to be from continuing operations. Redefining Free cash flow and Retail free cash flow to exclude the cash flows of the Group's discontinued operations ensures consistency with the Group's Retail operating cash flow APM, and is a more appropriate measure of the ongoing cash generation of the Group.

The Directors and management have added Retail sales as a new APM, which is defined as Group sales excluding Tesco Bank sales and sales made at petrol filling stations. This metric is used to demonstrate the underlying performance in the Group's core Retail businesses and removes the volatilities associated with the movement in fuel prices.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income statement				
Revenue measures				
Group sales	Revenue	– Exclude sales made at petrol filling stations	Note 2	– Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	– Consistent with accounting policy	Not applicable	– Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 26 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	– Consistent with accounting policy	Not applicable	– Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
Retail sales	Revenue	– Exclude Tesco Bank sales – Exclude sales made at petrol filling stations	Not applicable	– Group sales excluding Tesco Bank sales to demonstrate the Group's underlying performance in the core Retail businesses.
Profit measures				
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	– Exceptional items – Amortisation of acquired intangibles	Note 2	– Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance, 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	Page 61	– 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 profit is presented on the Group income statement. It is not defined per IFRS, however, is a generally accepted profit measure.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Profit measures continued				
Operating margin	No direct equivalent	– Consistent with accounting policy	Not applicable	– Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
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	Page 61	– 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.
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	– Exceptional items – Amortisation of acquired intangibles – Net pension finance costs – Fair value remeasurements of financial instruments	Note 8	– 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 of financial instruments	Finance costs	– Exceptional items – Net pension finance costs – Fair value remeasurements of financial instruments	Page 61	– 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 of financial instruments	Diluted earnings per share	– Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements of financial instruments	Note 8	– This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options. – It excludes 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.
Tax measures				
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact	Not applicable	– Effective tax rate before exceptional items and amortisation of acquired intangibles is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles from continuing operations divided by profit before tax before exceptional items and amortisation of acquired intangibles from continuing operations. 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 of financial instruments	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact – Net pension finance costs and their tax impact – Fair value remeasurements of financial instruments and their tax impact	Not applicable	– Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements 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 from continuing operations divided by the profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements from continuing operations.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	– Net debt from Tesco Bank	Note 19	– Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.
Total indebtedness	Borrowings less cash and related hedges	– Consistent with accounting policy	Page 61	– Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	– Consistent with accounting policy	Page 61	– 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	Page 61	– 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 from continuing operations. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Cash flow measures				
Retail operating cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Discontinued operations	Note 2	– Retail operating cash flow is the cash generated from 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	Note 2	– Free cash flow includes all cash flows from continuing operations from operating and investing activities, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and repayment of obligations under leases. The following items are excluded: investing cash flows that increase/ decrease items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.
Retail free cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Retail net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes – Repayment of obligations under leases – Investing cash flows that increase/ decrease items within Net debt – Cash flows from major corporate acquisitions and disposals	Note 2	– Retail free cash flow: Retail free cash flow includes all cash flows from continuing operations from operating and investing activities, the market purchase of shares net of proceeds from shares issued in relation to share schemes and repayments of obligations under leases, excluding the effects of Tesco Bank's cash flows. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals.

APMs: Reconciliation of debt metrics

Retail EBITDA [(a)]	12 months to 29 August 2020 £m	29 February 2020 as reported on a 53-week basis £m	Exclude week 53 £m	APM 22 February 2020 52-week basis £m
Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles[(a)]	2,333	2,571	(46)	2,525
Less: Tesco Bank operating profit/(loss) before exceptional items[(a)]	49	(193)	-	(193)
Retail operating profit	**2,382**	**2,378**	**(46)**	**2,332**
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)[(a)]	1,717	1,730	(29)	1,701
Less: Tesco Bank depreciation and amortisation[(a)]	(128)	(141)	-	(141)
Retail EBITDA [(a)]	**3,971**	**3,967**	**(75)**	**3,892**

Total indebtedness ratio	29 August 2020	29 February 2020 as reported on a 53-week basis	Exclude week 53	APM 22 February 2020 52-week basis
Net debt (£m)	**12,538**	**12,298**	**(197)**	**12,101**
Add: Defined benefit pension deficit, net of deferred tax (£m)	3,292	2,573	-	2,573
Add: Defined benefit pension deficit, net of deferred tax of discontinued operations classified as held for sale (£m)	23	-	-	-
Total indebtedness (£m)	**15,853**	**14,871**	**(197)**	**14,674**
Retail EBITDA (£m)[(a)]	**3,971**	**3,967**	**(75)**	**3,892**
Total indebtedness ratio	**4.0**	**3.7**	**0.1**	**3.8**

Fixed charge cover[(a)]	12 months to 29 August 2020	29 February 2020 as reported on a 53-week basis	Exclude week 53	APM 22 February 2020 52-week basis
Net finance cost (£m)[(b)]	984	1,170	(27)	1,143
Less: Net pension finance costs (£m)[(b)]	(63)	(71)	-	(71)
Less: Exceptional fair value remeasurement on restructuring derivative financial instruments	-	(180)	-	(180)
Add: Exceptional fair value remeasurement gain on Tesco Bank mortgage book disposal (£m)	29	29	-	29
Add: Fair value remeasurements of financial instruments (£m)[(b)]	(278)	(246)	18	(228)
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements of financial instruments (£m)	**672**	**702**	**(9)**	**693**
Add: Capitalised interest (£m)[(b)]	-	-	-	-
Less: Finance charges payable on lease liabilities (£m)[(b)]	(463)	(486)	6	(480)
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)	**209**	**216**	**(3)**	**213**
Add: Retail total lease liability payments (£m)[(b)]	1,145	1,170	-	1,170
Less: Retail discontinued operations total lease liability payments £(m)[(b)]	(111)	(122)	-	(122)
	1,243	**1,264**	**(3)**	**1,261**
Retail EBITDA (£m)[(a)]	**3,971**	**3,967**	**(75)**	**3,892**
Fixed charge cover[(a)]	**3.2**	**3.1**	**-**	**3.1**

(a) Retail EBITDA and Fixed charge cover APM's on a 52-week basis for 2020 have been restated to exclude Thailand, Malaysia and Poland, which have been presented as discontinued operations. See Note 6 for further details.
(b) As the incomes and expenses included in debt APMs are calculated using a rolling 12-month period, the amounts for the 12 months to 29 August 2020 are not disclosed in the notes to the condensed consolidated interim financial statements for the current financial period.

Capital expenditure (Capex)
The additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

Capital employed
Net assets plus net debt plus dividend creditor less net assets of the disposal groups and non-current assets classified as held for sale.

Enterprise Value
This is calculated as market capitalisation plus net debt.

EURIBOR
Euro Interbank Offered Rate.

ESG
Environmental, social and governance.

FTE
FTE refers to full-time equivalents.

LPI
LPI refers to limited price inflation.

Market capitalisation
The total value of all Tesco shares calculated as total number of shares multiplied by closing share price at year-end.

MTN
MTN refers to medium term note.

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

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

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

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

RPI
RPI refers to retail price index.

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

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 29 August 2020 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and related Notes 1 to 23. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 29 August 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP
Statutory Auditor
London, United Kingdom
6 October 2020

Appendix 1

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

	1H 2019/20	2H 2019/20	FY 2019/20	1Q 2020/21	2Q 2020/21	1H 2020/21
UK & ROI	**0.2%**	**0.0%**	**0.1%**	**9.4%**	**7.8%**	**8.6%**
UK & ROI (comparable growth[b])	**(0.4)%**	**0.0%**	**(0.2)%**	**9.4%**	**7.8%**	**8.6%**
UK	(0.9)%	(0.4)%	(0.6)%	9.1%	6.3%	7.7%
ROI	0.5%	(1.9)%	(0.7)%	23.0%	9.6%	16.3%
Booker[b]	2.3%	3.5%	2.9%	6.1%	15.7%	11.0%
Central Europe	**(2.7)%**	**(7.7)%**	**(5.2)%**	**0.8%**	**(8.9)%**	**(4.3)%**
Tesco Bank	**2.8%**	**(8.1)%**	**(2.6)%**	**(26.5)%**	**(35.9)%**	**(31.4)%**
Group	**0.0%**	**(0.8)%**	**(0.4)%**	**7.9%**	**5.4%**	**6.6%**
Group (comparable growth[b])	**(0.5)%**	**(0.8)%**	**(0.6)%**	**7.9%**	**5.4%**	**6.6%**

[a] Sales growth shown on a comparable days basis.
[b] Booker sales this year are on a comparable basis. Comparable sales growth for the prior year is shown for reference. On a comparable basis, Booker's growth was 3.1% for 1Q 2019/20 and 2.3% for 1H 2019/20.

Appendix 2

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

	1H 2019/20	2H 2019/20	FY 2019/20	1Q 2020/21	2Q 2020/21	1H 2020/21
UK & ROI	**0.2%**	**0.2%**	**0.2%**	**9.2%**	**7.8%**	**8.5%**
UK & ROI (comparable growth[b])	**(0.4)%**	**0.2%**	**(0.1)%**	**9.2%**	**7.8%**	**8.5%**
UK	(0.9)%	(0.4)%	(0.6)%	9.1%	6.3%	7.7%
ROI	0.6%	1.0%	0.8%	19.7%	9.4%	14.5%
Booker[b]	2.3%	3.5%	2.9%	6.1%	15.7%	11.0%
Central Europe	**(1.9)%**	**(3.9)%**	**(2.9)%**	**3.3%**	**(5.7)%**	**(1.5)%**
Tesco Bank	**2.8%**	**(8.1)%**	**(2.6)%**	**(26.5)%**	**(35.9)%**	**(31.4)%**
Group	**0.0%**	**(0.3)%**	**(0.1)%**	**8.0%**	**5.6%**	**6.8%**
Group (comparable growth[b])	**(0.4)%**	**(0.3)%**	**(0.4)%**	**8.0%**	**5.6%**	**6.8%**

[a] Sales growth shown on a comparable days basis.
[b] Booker sales this year are on a comparable basis. Comparable sales growth for the prior year is shown for reference. On a comparable basis, Booker's growth was 3.1% for 1Q 2019/20 and 2.3% for 1H 2019/20.

Appendix 3

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

	1H 2019/20	2H 2019/20	FY 2019/20	1Q 2020/21	2Q 2020/21	1H 2020/21
UK & ROI	**0.1%**	**0.4%**	**0.2%**	**8.2%**	**6.2%**	**7.2%**
UK	(0.3)%	(0.3)%	(0.3)%	8.7%	6.4%	7.6%
ROI	0.1%	2.2%	1.2%	20.5%	10.6%	15.5%
Booker	2.4%	4.2%	3.3%	0.6%	3.7%	2.2%
Central Europe	**(0.7)%**	**(2.3)%**	**(1.5)%**	**3.9%**	**(5.3)%**	**(0.9)%**
Bank	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Group	**0.0%**	**0.2%**	**0.1%**	**7.9%**	**5.2%**	**6.5%**

Appendix 4

Country detail - Retail

	Revenue (exc. VAT, inc. fuel) Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	21,536	21,536	1.0	1.0
ROI	1,485	1,327	1.1	1.1
Booker	3,478	3,478	1.0	1.0
Czech Republic	20,513	685	29.9	29.3
Hungary	275,041	702	391.8	397.7
Slovakia	675	604	1.1	1.1

Appendix 5

UK sales area by size of store

Store size (sq. ft.)	29 August 2020			29 February 2020		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0 – 3,000	2,510	5.4	14.0%	2,508	5.4	14.0%
3,001 – 20,000	284	3.0	7.8%	284	3.0	7.8%
20,001 – 40,000	284	8.2	21.3%	284	8.2	21.3%
40,001 – 60,000	182	8.8	22.9%	182	8.8	22.9%
60,001 – 80,000	120	8.4	21.8%	120	8.4	21.8%
80,001 – 100,000	45	3.7	9.6%	45	3.7	9.6%
Over 100,000	8	1.0	2.6%	8	1.0	2.6%
Total*	**3,433**	**38.5**	**100.0%**	**3,431**	**38.5**	**100.0%**

* Excludes Booker and franchise stores.

Actual Group space – store numbers[a]

	2019/20 year-end	Openings	Closures/ disposals	Net gain/ (reduction)[b]	As at 29 August 2020	Repurposing/ extensions
Large	796	-	-	-	796	-
Convenience	1,920	3	(2)	1	1,921	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,722**	**3**	**(2)**	**1**	**2,723**	**-**
One Stop[c]	697	1	-	1	698	-
Booker	196	-	-	-	196	-
Jack's	12	-	-	-	12	-
UK[c]	**3,627**	**4**	**(2)**	**2**	**3,629**	**-**
ROI	**150**	**-**	**-**	**-**	**150**	**-**
UK & ROI[c]	**3,777**	**4**	**(2)**	**2**	**3,779**	**-**
Czech Republic[c]	186	-	(2)	(2)	184	1
Hungary	202	-	(1)	(1)	201	-
Slovakia	150	2	-	2	152	2
Central Europe[c]	**538**	**2**	**(3)**	**(1)**	**537**	**3**
Group[c]	**4,315**	**6**	**(5)**	**1**	**4,316**	**3**
UK (One Stop)	191	9	(6)	3	194	-
Czech Republic	107	8	-	8	115	-
Franchise stores	**298**	**17**	**(6)**	**11**	**309**	**-**

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

Actual Group space – '000 sq. ft.[(a)]

	2019/20 year-end	Openings	Closures/ disposals	Repurposing/ extensions[(b)]	Net gain/ (reduction)	As at 29 August 2020
Large	31,336	–	–	–	–	31,336
Convenience	5,204	7	(4)	–	3	5,207
Dotcom only	716	–	–	–	–	716
Total Tesco	**37,256**	**7**	**(4)**	**–**	**3**	**37,259**
One Stop[(c)]	1,139	2	–	(4)	(2)	1,137
Booker	8,376	–	–	–	–	8,376
Jack's	119	–	–	–	–	119
UK[(c)]	**46,890**	**9**	**(4)**	**(4)**	**1**	**46,891**
ROI	**3,274**	**–**	**–**	**5**	**5**	**3,279**
UK & ROI[(c)]	**50,164**	**9**	**(4)**	**1**	**6**	**50,170**
Czech Republic[(c)]	4,289	–	(7)	(18)	(25)	4,264
Hungary	6,000	–	(3)	–	(3)	5,997
Slovakia	3,180	13	–	(33)	(20)	3,160
Central Europe[(c)]	**13,469**	**13**	**(10)**	**(51)**	**(48)**	**13,421**
Group[(c)]	**63,633**	**22**	**(14)**	**(50)**	**(42)**	**63,591**
UK (One Stop)	237	11	(9)	–	2	239
Czech Republic	101	7	–	–	7	108
Franchise stores	**338**	**18**	**(9)**	**–**	**9**	**347**

(a) Continuing operations.
(b) Repurposing of retail selling space.
(c) Excludes franchise stores.

Group space forecast to 27 February 2021 – '000 sq. ft.[a]

	As at 29 August 2020	Openings	Closures/ disposals	Repurposing /extensions[b]	Net gain/ (reduction)	2020/21 year-end
Large	31,336	21	-	-	21	31,357
Convenience	5,207	39	(13)	-	26	5,233
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,259**	**60**	**(13)**	**-**	**47**	**37,306**
One Stop[c]	1,137	8	-	-	8	1,145
Booker	8,376	-	-	-	-	8,376
Jack's	119	-	-	-	-	119
UK[c]	**46,891**	**68**	**(13)**	**-**	**55**	**46,946**
ROI	**3,279**	**56**	**-**	**-**	**56**	**3,335**
UK & ROI[c]	**50,170**	**124**	**(13)**	**-**	**111**	**50,281**
Czech Republic[c]	4,264	14	(4)	-	10	4,274
Hungary	5,997	-	-	-	-	5,997
Slovakia	3,160	3	-	(13)	(10)	3,150
Central Europe[c]	**13,421**	**17**	**(4)**	**(13)**	**-**	**13,421**
Group[c]	**63,591**	**141**	**(17)**	**(13)**	**111**	**63,702**
UK (One Stop)	239	7	-	-	7	246
Czech Republic	108	18	-	-	18	126
Slovakia	-	12	-	-	12	12
Franchise stores	**347**	**37**	**-**	**-**	**37**	**384**

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

Tesco Bank income statement

	1H 2020/21[a] £m	1H 2019/20[a] £m
Revenue		
Interest receivable and similar income	292	379
Fees and commissions receivable	94	183
	386	**562**
Direct costs		
Interest payable	(51)	(94)
Fees and commissions payable	(6)	(13)
	(57)	**(107)**
Gross profit	**329**	**455**
Other expenses		
Staff costs	(91)	(86)
Premises and equipment	(36)	(37)
Other administrative expenses	(70)	(93)
Depreciation and amortisation	(30)	(39)
Impairment loss on financial assets	(257)	(113)
Operating profit before exceptional items	**(155)**	**87**
Exceptional items[b]	-	(57)
Operating profit	**(155)**	**30**
Net finance costs: movements on derivatives and hedge accounting	(1)	(10)
Net finance costs: interest	(3)	(3)
Share of profit/(loss) of joint venture	9	7
Profit before tax	**(150)**	**24**

[a] These results are for the six months ended 31 August 2020 and the previous comparison is made with the six months ended 31 August 2019.
[b] Comprised of a PPI provision charge of £nil (1H 2019/2020: £45m), a restructuring charge of £nil (1H 2019/20: charge of £8m), accelerated amortisation and costs related to the sale of the mortgage book of £nil (1H 2019/20: £4m).