TESCO

Preliminary Results 2020/21

# INCREDIBLE TEAM EFFORT IN EXCEPTIONAL YEAR – WELL-PLACED TO BUILD ON MOMENTUM

| On a continuing operations basis[1] | **2020/21** | 2019/20[1] | Change at actual rates | Change at constant rates |
|---|---|---|---|---|
| **Headline measures[2] (on a 52-week comparable basis):** | | | | |
| Group sales (exc. fuel)[3] | **£53.4bn** | £49.9bn | 7.1% | 7.0% |
| - UK & ROI | £48.8bn | £44.9bn | 8.8% | 8.6% |
| - Central Europe | £3.9bn | £4.0bn | (2.1)% | (0.6)% |
| - Tesco Bank | £0.7bn | £1.1bn | (31.2)% | (31.2)% |
| Group operating profit before exceptional items and amortisation of acquired intangibles[4] | **£1,815m** | £2,525m | (28.1)% | (28.3)% |
| - Retail | £1,990m | £2,332m | (14.7)% | (14.8)% |
| - Tesco Bank | £(175)m | £193m | n/m | n/m |
| Retail free cash flow[1] | **£1,187m** | £1,690m | (29.8)% | |
| Net debt[1,5] | **£(12.0)bn** | £(12.3)bn | down 2.8% | |
| Diluted EPS before exceptional and other items (adjusted for share consolidation)[6] | **11.94p** | 18.60p | (35.8)% | |
| Dividend per share | **9.15p** | 9.15p | - | |
| **Statutory measures (on a 53-week prior year basis):** | | | | |
| Revenue (inc. fuel) | **£57.9bn** | £58.1bn | (0.4)% | |
| Operating profit | **£1,736m** | £2,206m | (21.3)% | |
| Profit before tax | **£825m** | £1,028m | (19.7)% | |
| Diluted EPS | **7.54p** | 7.54p | - | |

*In December, we made a decision to repay business rates relief. The full cost of business rates is therefore included as usual in the relevant measures above (i.e. this repayment has not been treated as an exceptional item).*

## Key headlines

- Significant role supporting customers, colleagues, suppliers and communities throughout COVID-19 pandemic
- Sales exceptionally strong; growing UK market share in the year and gaining customers from all key competitors[7]
- Highest value perception in a decade; Aldi Price Match launched in March 2020 and then extended to >500 lines
- Clubcard Prices launched in September and now extended to over 3,000 products; >two million more Clubcard app users
- UK online sales £6.3bn[8], up 77%; capacity > doubled to 1.5m slots/wk; West Bromwich UFC on track, UFC #2 opens in May
- Concluded £8.2bn sale of Asia business[9]; £5.0bn returned to shareholders + £2.5bn one-off pension contribution
- GHG emissions reduced 54% vs 2015 baseline; removed 1bn items of plastic; redistributed 82% of UK surplus food (+5% YoY)
- Well set for the current year; strong improvement in profitability expected whilst trading conditions likely to remain volatile

## Financial highlights

- Group like-for-like sales growth[10] +6.3% including UK +7.7%
- Total retail operating profit before exceptional items and amortisation of acquired intangibles[4] £1,990m, down (14.7)%
  - UK & ROI operating profit £1,866m - after £(892)m UK COVID-19 costs (incl. third UK colleague bonus announced today) and after forgoing £535m business rates relief
    - represents 11.4% growth year-on-year prior to forgoing business rates relief
  - Central Europe operating profit £124m, impacted by COVID-19 trading restrictions and Hungarian retail sales tax
- Bank operating loss £(175)m, in line with guidance; £(295)m goodwill impairment driven mainly by increased discount rate
- Retail free cash flow £1,187m; down year-on-year reflecting lower retail profit and last year's £277m sale of Gain Land
- Net debt down £0.3bn to £(12.0)bn; Total indebtedness down £1.9bn to £(13.0)bn (TIR: 3.6x, impacted by COVID-19)
- Diluted adjusted EPS[6] 11.94p down (35.8)% reflecting lower profits
- Proposed final dividend of 5.95pps to take full year dividend to 9.15pps – in line with last year and an exception to our policy, reflecting the importance the Board places on dividends paid to shareholders and its confidence in future cash flows

## Ken Murphy, Chief Executive:

"Tesco has shown incredible strength and agility throughout the pandemic. By putting our customers and colleagues first we have built a stronger business. I'd like to say a huge thank you to the entire team for rising so selflessly to every challenge they've faced. Their efforts have been truly heroic.

While the pandemic is not yet over, we're well-placed to build on the momentum in our business. We have strengthened our brand, increased customer satisfaction and improved value perception. We have doubled the size of our online business and through Clubcard, we're building a digital customer platform. Sustainability is now an integral part of our business strategy and we're doubling down on our efforts to reach net zero.

Our decision to protect and hold the dividend flat for this financial year demonstrates our commitment to shareholders. We believe we can create significant further value for them and every stakeholder in our business by continuing to focus on value, loyalty and convenience for customers, underpinned by strong capital discipline."

## Headline Group results

### Key segmental results:

| | Sales[2] | YoY 52 week change (actual rates) | YoY 52 week change (constant rates) | Like-for-like sales change[10] | **Operating Profit/(Loss) before exceptional items and amortisation of acquired intangibles** | YoY 52 week change (actual rates) | YoY 52 week change (constant rates) |
|---|---|---|---|---|---|---|---|
| **UK & ROI** | **£48,848m** | 8.8% | 8.6% | 6.8% | **£1,866m** **3.51% margin** | (13.5)% (64)bps | (13.7)% (65)bps |
| *- UK* | *£39,434m* | *8.0%* | *8.0%* | *7.7%* | | | |
| *- ROI* | *£2,678m* | *16.9%* | *13.7%* | *14.0%* | | | |
| *- Booker* | *£6,736m* | *10.5%* | *10.5%* | *(0.8)%* | | | |
| **Central Europe** | **£3,862m** | (2.1)% | (0.6)% | (0.4)% | **£124m** **3.11% margin** | (29.5)% (116)bps | (29.0)% (117)bps |
| **Retail** | **£52,710m** | 7.9% | 7.9% | 6.3% | **£1,990m** **3.48% margin** | (14.7)% (69)bps | (14.8)% (69)bps |
| **Tesco Bank** | **£735m** | (31.2)% | (31.2)% | - | **£(175)m** n/m | (190.7)% n/m | (190.7)% n/m |
| **Group** | **£53,445m** | 7.1% | 7.0% | 6.3% | **£1,815m** **3.14% margin** | (28.1)% (128)bps | (28.3)% (129)bps |

A full Group income statement can be found on page 29. As we reported statutory numbers on a 53-week basis for the 2019/20 financial year (rather than our usual 52-week basis) we have provided comparators on both a 52-week and 53-week basis throughout these results where relevant.

| **52 weeks ended 27 February 2021** **On a continuing operations basis** | **2020/21** | **2019/20[1] 52 week basis** | **2019/20[1] 53 week basis** | **Year-on-year 52 week change** (actual rates) | **Year-on-year 52 week change** (constant rates) | **Year-on-year 53 week change** (actual rates) |
|---|---|---|---|---|---|---|
| **Group sales (exc. VAT, exc. fuel)[3]** | **£53,445m** | **£49,945m** | **£50,788m** | **7.1%** | **7.0%** | **5.2%** |
| Fuel | £4,442m | £7,163m | £7,303m | (38.0)% | **(38.0)%** | (39.2)% |
| **Revenue (exc. VAT, inc. fuel)** | **£57,887m** | **£57,108m** | **£58,091m** | **1.4%** | **1.3%** | **(0.4)%** |
| **Group operating profit before exceptional items and amortisation of acquired intangibles[4]** | **£1,815m** | **£2,525m** | **£2,571m** | **(28.1)%** | **(28.3)%** | **(29.4)%** |
| Include/(deduct) exceptional items and amortisation of acquired intangibles | £(79)m | £(331)m | £(365)m | | | |
| Group statutory operating profit | £1,736m | n/a | £2,206m | n/a | | (21.3)% |
| Adjusted Group profit before tax[11] | £1,161m | £1,832m | £1,869m | (36.6)% | | |
| **Group statutory profit before tax** | **£825m** | n/a | **£1,028m** | **n/a** | | **(19.7)%** |
| Diluted EPS (adjusted for share consolidation)[6] | 11.94p | 18.60p | 18.98p | (35.8)% | | (37.1)% |
| Statutory diluted EPS | 7.54p | n/a | 7.54p | n/a | | - |
| Statutory basic EPS | 7.56p | n/a | 7.60p | n/a | | (0.5)% |
| **Dividend per share** | **9.15p** | n/a | **9.15p** | **n/a** | | - |
| **Capex[12]** | **£1.0bn** | **£0.9bn** | **£0.9bn** | | | |
| **Retail free cash flow[5]** | **£1.2bn** | **£1.7bn** | **£1.5bn** | | | |
| **Total indebtedness[1,5]:** | **£(13.0)bn** | **£(14.7)bn** | **£(14.9)bn** | | | |
| Underlying net debt | £(3.4)bn | £(2.6)bn | £(2.8)bn | | | |
| Lease liabilities | £(8.5)bn | £(9.5)bn | £(9.5)bn | | | |
| Pension deficit IAS 19 basis | £(1.0)bn | £(2.6)bn | £(2.6)bn | | | |

Notes

1. All measures apart from net debt are shown on a continuing operations basis. Prior year comparatives are also shown on a continuing operations basis. Net debt includes discontinued operations until the point of sale. Further details on discontinued operations can be found in Note 7, starting on page 57.
2. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary starting on page 125.
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, total indebtedness and retail free cash flow exclude Tesco Bank. Net debt also includes lease liabilities following the adoption of IFRS 16.
6. Diluted EPS before exceptional and other items (adjusted for share consolidation) is provided to aid comparability, as the sale of our businesses in Thailand and Malaysia and the share consolidation and special dividend which followed distort our financial result in the year. As such, this metric is presented on a basis other than in accordance with IAS 33 and captures the full impact of the share consolidation as if it had taken place at the start of the 2019/20 financial year. Please see Note 9 on page 59 for a reconciliation to diluted adjusted EPS.
7. Source: Kantar. Net switching data for 12 w/e 21 February.
8. Online sales are shown including VAT.
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 from stores that have been open for at least a year and online sales (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 52 weeks ended 27 February 2021 was £1.8bn (LY £2.0bn).

## Creating value for our key stakeholders

### Customers

- Quickly introduced COVID-19 safety measures; market-leading UK customer safety rating of c.90%
- Doubled UK online capacity in five weeks; supporting over 852,000 vulnerable customers with priority slots
- Strengthened our relative price position including extension of 'Aldi Price Match' to over 500 lines in July
- Introduced Clubcard Prices in September; driving more than 2 million more active users of Clubcard app
- Strengthened value proposition, with removal of range duplication and 15% reduction in promotional participation
- Launched new commitment to increase sales of healthy products[1] to 65% by 2025
- Provided >£60m food to communities; 82% of surplus food safe for consumption redistributed
- Expanded food donation programme to offer free fruit and veg to 500,000 Healthy Start families
- Launched plan to roll out soft plastic recycling points to all large stores, the first UK network of its kind

### Colleagues

- Welcomed 49,600 new temporary colleagues; around 20,000 of these roles becoming permanent
- Ensured full pay from day one for all colleagues sick or self-isolating with COVID-19
- Additional bonus announced today for front-line retail colleagues in UK & ROI and Central Europe; follows previous recognition bonuses paid through the year
- 26,000 vulnerable colleagues supported with 12 weeks full pay as part of initial COVID-19 wave
- Created 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 first Business Diversity Internships in September

### Supplier partners

- Collaborated across supply base to maintain availability and adapt to exceptional shift in demand due to COVID-19
- Moved to immediate payment of invoices for all small suppliers; now extended until end February 2022
- Group supplier viewpoint reached highest ever score of 85.0% (+5.4% pts YoY)
- Maintained strong availability during the Brexit transition through working closely with suppliers
- Cut 200,000 tonnes of cumulative food waste from combined operations across the Group
- Booker retail offer adapted to meet changing demand; supported catering customers move to delivery model
- Worked with suppliers to achieve target of removing 1 billion pieces of plastic from UK business

### Shareholders

- £8.2bn sale of Thailand and Malaysia businesses completed in December; proceeds used to return £5.0bn to shareholders via a special dividend and make one-off £2.5bn contribution to the pension scheme
- First retailer to establish a sustainability-linked bond, issuing €750m at an interest rate of 0.375% in January 2021
- First European food retailer to report against SASB; brought forward UK net zero emissions goal by 15 years to 2035
- Polish business sale completed in March 2021; expected total cumulative proceeds inc. residual properties > £0.5bn
- Bought into full ownership a further 19 stores and 2 distribution centres; UK & ROI freehold ownership now 57%
- Proposed final dividend of 5.95pps to take full year dividend to 9.15pps – in line with last year and an exception to our policy, reflecting the importance the Board places on dividends paid to shareholders and its confidence in future cash flows

1. Tesco tracks the healthiness of its products and ranges using the Tesco Health Score, which is a measure based on the UK Government's nutrient profiling model. This model reviews a product's fat, salt and sugar content as well as the fibre, fruit and vegetable content. https://www.gov.uk/government/publications/the-nutrient-profiling-model

## 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 also remain committed to delivering great value to help customers in challenging times.

Whilst we expect some of the additional sales volumes we have gained this year in our core UK market to fall away as COVID-19 restrictions ease, we expect a strong recovery in profitability and retail free cash flow as the majority of the additional costs incurred as a result of the pandemic in the 2020/21 financial year will not be repeated.

Whilst the greater than usual level of uncertainty around sales volumes, mix and channel shift makes it difficult to be precise, our best estimate at this stage is for retail operating profit to recover to a similar level as in the 2019/20 financial year (on a continuing operations basis) – the year prior to COVID-19 having any impact on performance.

We anticipate a return to profitability in Tesco Bank in the 2021/22 financial year. The pace and scale of recovery in profitability is highly dependent on the economic outlook, which remains uncertain.

Imran Nawaz takes over as Chief Financial Officer on 1 May 2021, following Alan Stewart's retirement on 30 April 2021. We remain committed to maintaining capital discipline and returning excess capital to shareholders.

We will report our 1Q Trading Statement on Friday 18 June 2021.

## Financial results

The results of our businesses in Thailand and Malaysia, and of our business in Poland, have been classified as discontinued operations. The sale of these businesses completed on 18 December 2020 and 16 March 2021 respectively.

### Sales:

| On a continuing operations basis | UK & ROI | Central Europe | Retail | Tesco Bank | Group |
|---|---|---|---|---|---|
| **Sales (exc. VAT, exc. fuel)** | **£48,848m** | **£3,862m** | **£52,710m** | **£735m** | **£53,445m** |
| change at constant exchange rates % | 8.6% | (0.6)% | 7.9% | (31.2)% | 7.0% |
| change at actual exchange rates % | 8.8% | (2.1)% | 7.9% | (31.2)% | 7.1% |
| **Like-for-like sales (exc. VAT, exc. fuel)** | **6.8%** | **(0.4)%** | **6.3%** | **n/a** | **6.3%** |
| **Statutory revenue (exc. VAT, inc. fuel)** | **£53,170m** | **£3,982m** | **£57,152m** | **£735m** | **£57,887m** |
| Includes: Fuel | £4,322m | £120m | £4,442m | - | £4,442m |

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 for Central Europe; based on statutory 52 week accounting dates, Group sales grew by 7.0% at both constant and actual exchange rates.

Group sales grew by 7.1% at actual rates, including a 0.1% foreign exchange translation benefit. The COVID-19 crisis had a profound impact on the way our customers shopped in the year, affecting all areas of our business.

In the UK and the Republic of Ireland (ROI), total sales grew by 8.8% as we saw a shift towards 'in-home' consumption. Sales in the first quarter grew by 9.4% due to an initial period of stockpiling at the start of the first national lockdown, before stabilising in the second and third quarters as the 'out of home' market partially re-opened. As the UK entered a second and third national lockdown, sales re-accelerated into the fourth quarter and we saw sustained elevated sales throughout this period. Demand was particularly strong in fresh food, grocery and beers, wines and spirits categories across the year.

In response to the significant demand peak early in the year, we worked with our supplier partners to simplify our offer, prioritising availability in essential products and categories. We reduced promotional participation from 36% to 21% through the year as we focused on every day great value for customers.

We gained market share in the year and gained customers from all key competitors. Our relative performance was particularly strong in the second half, including a market leading performance every week over the Christmas period.

We further strengthened and simplified our value proposition, including launching the 'Aldi Price Match' campaign in March 2020 before extending it to over 500 products, including brands. Our value perception accelerated in the second half, reaching its highest level in a decade, up 480 basis points by the end of the year.

We extended Clubcard Prices from September, initially offering c.2,000 exclusive deals to our Clubcard customers. In March 2021, we increased the number of deals available to customers to more than 3,000, now including general merchandise promotions. Since September, the number of customers using their Clubcard via an app has doubled to over 5 million and Clubcard sales penetration has increased by more than 10 percentage points to around 80%. Although we haven't focused on expanding our Clubcard Plus subscription offer during the COVID-19 pandemic, we continue to see an increase in uptake and basket uplifts are significantly ahead of our expectations.

Sales grew in every format and channel. Like-for-like sales in large stores grew by 1.5%, with bigger baskets but fewer visits as customers sought to do all of their shopping in one trip. Like-for-like sales in our Express and One Stop stores grew by 3.9% with particularly strong growth in our neighbourhood stores as customers favoured shopping closer to home.

In response to the unprecedented increase in customer demand for online groceries, we rapidly expanded our online business, more than doubling capacity to 1.5 million slots per week over a five-week period. Sales grew by 77% in the year – an additional £2.8bn – taking annual sales to £6.3bn (inc VAT). Online sales participation doubled to 15% for the full year, reaching a peak of 18% during the fourth quarter. Home deliveries accounted for 79% of online orders, with click & collect participation increasing from 11% at the start of the year to 25% by the end of the year. Our first UFC (Urban Fulfilment Centre) opened in the year in West Bromwich Extra. Our second UFC in Lakeside Extra is now due to open next month having been delayed several months by the pandemic and a further four sites are due to open within the next twelve months. These UFCs will enable us to provide access to more delivery slots for customers with an increased rate of picking – a scalable, efficient option to fulfil ongoing online demand.

Booker sales grew by 10.5%, due to the inclusion of sales from Best Food Logistics which was acquired at the beginning of the financial year. Sales to retail customers were strong, increasing by 18.5%, as we expanded their grocery ranges in response to demand from customers aiming to shop closer to home. In catering, sales declined by (40.8)% due to the closure of the hospitality and leisure sector for much of the year, with monthly performance strongly correlated to the severity of the UK COVID-19 restrictions. We supported our catering customers throughout this period of change, offering a full range of food and consumables, leading to a significantly increased market share at the end of the year.

In ROI, sales grew by 13.7% at constant rates driven by particularly strong growth in our large stores. Our online business remains the clear market leader and we increased capacity by over 60% since the start of the year in response to customer demand, with online sales participation increasing from 6% to 9%. By the end of the year, our customer NPS score was at its highest level in over five years as we saw significant improvements in both value and quality perception.

In Central Europe customer behaviour was different to that seen in the UK & ROI markets and trading restrictions were highly variable. The smaller 'out of home' market in Central Europe meant we did not see as significant a shift to 'in-home' consumption. Sales declined by (0.6)% at constant rates as customers were encouraged to shop locally and trading restrictions in general merchandise led to a reduction in footfall in our larger, destination stores. Our online business and core food ranges within supermarkets performed strongly throughout the year. Trading regulations are expected to remain challenging into the current year.

Group statutory revenue of £57.9bn was 1.4% higher year-on-year including fuel sales of £4.4bn (LY: £7.2bn) which declined by (38.0)% year-on-year. Customers travelled significantly less due to COVID-19 lockdown restrictions with UK fuel sales declining by up to (70)% in April before partially recovering to a (33)% decline in the second half.

Further information on sales performance is included in the supplementary information starting on page 122 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** | **£1,866m** | **£124m** | **£1,990m** | **£(175)m** | **£1,815m** |
| change at constant exchange rates % | (13.7)% | (29.0)% | (14.8)% | n/m | (28.3)% |
| change at actual exchange rates % | (13.5)% | (29.5)% | (14.7)% | n/m | (28.1)% |
| **Operating profit margin before exceptional items and amortisation of acquired intangibles** | **3.5%** | **3.1%** | **3.5%** | **(23.8)%** | **3.1%** |
| change at constant exchange rates (basis points) | (65)bps | (117)bps | (69)bps | n/m | (129)bps |
| change at actual exchange rates (basis points) | (64)bps | (116)bps | (69)bps | n/m | (128)bps |
| **Statutory operating profit / (loss)** | **£2,079m** | **£127m** | **£2,206m** | **£(470)m** | **£1,736m** |

Group operating profit before exceptional items and amortisation of acquired intangibles was £1,815m, down (28.1)% at actual rates. Statutory operating profit of £1,736m includes the impact of exceptional items and amortisation of acquired intangibles, which are described in more detail below and in Note 4 on page 52 of this statement.

In December, we announced our decision to forgo £535m of UK Government business rates relief relating to the 2020/21 financial year in respect of the COVID-19 pandemic. As a result, business rates are included as usual in operating profit before exceptional items and amortisation of acquired intangibles.

Retail operating profit before exceptional items and amortisation of acquired intangibles was £1,990m, down (14.7)% year-on-year, primarily driven by costs relating to our response to the COVID-19 pandemic, partially offset by higher sales volumes.

UK & ROI profit was £1,866m, down (13.5)% year-on-year. The COVID-19 pandemic had far-reaching impacts on our operations, and we incurred significant costs in safeguarding our customers and colleagues, primarily through higher payroll costs. All colleagues who were off-work due to COVID-19 and those who were required to shield or self-isolate received full-pay from their first day of absence. In recognition of the efforts of our store and distribution colleagues, we awarded three bonuses throughout the year to thank them for their exceptional contribution. We also incurred costs for safety consumables, protective equipment and additional distribution, and the temporary closure of hospitality outlets impacted our retail partners who operate from our stores, leading to a reduction in rental income. In total, UK COVID-19 costs led to a £(892)m reduction in operating profit, which was partially offset by the contribution from higher sales. In the current year, whilst we anticipate that the majority of these costs will fall away, a certain proportion are likely to be required due to any ongoing absence and whilst we operate within national lockdown restrictions. Our current estimate – based on the latest UK Government roadmap for easing restrictions - is for around a quarter of the 2020/21 costs to be repeated. We will continue to forgo any business rates relief available.

Booker profitability was significantly impacted by the decline in catering sales, partially offset by a stronger contribution from our retail business and robust cost control. The recovery of catering performance remains uncertain and is likely to be strongly correlated to the re-opening of the hospitality and leisure sector. As catering demand fell away immediately following the completion of the Best Food Logistics acquisition, colleagues there were redeployed to support Booker's retail customer-focused business and the Tesco grocery online business.

Central European operating profit before exceptional items reduced by (29.5)% year-on-year, to £124m, reflecting a challenging trading environment whilst operating under COVID-19 restrictions, which particularly impacted our most significant large stores channel. We incurred a £(25)m charge in the year relating to a retail sales tax in Hungary which was introduced in May. As in the UK & ROI, our response to the COVID-19 pandemic in the region resulted in higher costs due primarily to colleague absence, whilst mall income was also impacted due to temporary closures. These impacts were partially offset by cost savings from our ongoing simplification efforts in the region.

Tesco Bank made an operating loss before exceptional items of £(175)m, reflecting both a decline in banking activity and an increase in the provision for potential bad debts. Please refer to page 12 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 45 of this statement.

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

| On a continuing operations basis | This Year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| Impairment charge on Tesco Bank goodwill | £(295)m | - | - |
| Net impairment reversal of non-current assets | £156m | £64m | £64m |
| Acquisition of property joint venture | £134m | £(136)m | £(136)m |
| UK - ATM business rates | £105m | - | - |
| Litigation costs | £(93)m | - | - |
| Property transactions | £26m | £22m | £33m |
| Booker integration costs | £(25)m | £(23)m | £(23)m |
| GMP Equalisation | £(7)m | - | - |
| Employee share scheme | £(4)m | - | - |
| Net restructuring and redundancy costs | - | £(64)m | £(108)m |
| Closure of Tesco Bank current accounts to new customers | - | £(56)m | £(56)m |
| Impairment of investment in India joint venture | - | £(47)m | £(47)m |
| Provision for customer redress | - | £(45)m | £(45)m |
| Disposal of Gain Land associate | - | £37m | £37m |
| Tesco Bank mortgage book disposal | - | £(5)m | £(5)m |
| **Total exceptional items in statutory operating profit** | **£(3)m** | **£(253)m** | **£(286)m** |
| Amortisation of acquired intangible assets | £(76)m | £(78)m | £(79)m |
| **Total exceptional items and amortisation of acquired intangibles in statutory operating profit** | **£(79)m** | **£(331)m** | **£(365)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 charge of £(3)m, compared to £(253)m last year.

We recognised an exceptional charge of £(295)m relating to Tesco Bank goodwill due mainly to an increased discount rate as well as an anticipated reduction in future cash flows as a result of the COVID-19 pandemic.

The exceptional credit of £156m relating to net impairment reversal of non-current assets was driven by a reduction in discount rates across our retail businesses.

The acquisition of our partner's 50% stake in The Tesco Property (No. 2) Limited Partnership in September 2020 brought into full ownership twelve stores and two distribution centres. The exceptional credit of £134m represents the net effect of the de-recognition of the previously held lease liabilities and right of use assets, and the re-measurement of the acquired assets. Further detail can be found in Note 33 on page 106 of this statement.

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 collected £90m of these cash refunds in the year, with the balance remaining to be collected in the 2021/22 financial year.

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

We have incurred a further £(25)m exceptional charge related to Booker integration costs, bringing costs to date to £(61)m, which is in line with our estimate of total integration costs over a three year period of between £(50)m to £(75)m. We do not expect to incur any further exceptional integration costs.

Further detail on exceptional items can be found in Note 4, starting on page 52 of this statement.

Amortisation of acquired intangible assets is excluded from our headline performance measures. We incurred a charge of £(76)m in the period, which primarily relates to our merger with Booker in March 2018, which resulted in the recognition of goodwill of £3,093m and £755m intangible assets.

## Joint ventures and associates:

| On a continuing operations basis | This year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| **Share of post-tax profits/(losses) from JVs and associates before exceptional items** | **£26m** | **-** | **-** |
| Exceptional items | - | £(8)m | £(8)m |
| **Share of post-tax profits from JVs and associates** | **£26m** | **£(8)m** | **£(8)m** |

Our share of post-tax profits from joint ventures and associates before exceptional items was £26m. This includes profits from UK property joint ventures, in addition to an increased contribution from Tesco Underwriting Ltd. The year-on-year improvement also reflects the benefit of the removal of our loss-making associate in China, which we disposed of at the end of last year.

## Finance income and finance costs:

| On a continuing operations basis | This year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| **Net interest on medium term notes, loans and bonds** | **£(218)m** | **£(209)m** | **£(212)m** |
| Other interest receivable and similar income | £15m | £20m | £20m |
| Other finance charges and interest payable | £(31)m | £(24)m | £(24)m |
| Finance charges payable on lease liabilities | £(446)m | £(480)m | £(486)m |
| **Net finance cost before exceptional items, net pension finance costs and fair value remeasurements of financial instruments** | **£(680)m** | **£(693)m** | **£(702)m** |
| Fair value remeasurements of financial instruments | £(214)m | £(228)m | £(246)m |
| Net pension finance costs | £(43)m | £(71)m | £(71)m |
| **Net finance costs before exceptional items** | **£(937)m** | **£(992)m** | **£(1,019)m** |
| Exceptional items: | | | |
| - Fair value remeasurement on restructuring derivative financial instruments | - | £(180)m | £(180)m |
| - Gain on Tesco Bank mortgage disposal | - | £29m | £29m |
| **Net finance costs** | **£(937)m** | **£(1,143)m** | **£(1,170)m** |

Net finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments were £(680)m, slightly down on last year.

Finance charges payable on lease liabilities reduced year-on-year, primarily due to ongoing lease utilisation and the buyback of property, comprising a further seven UK stores and The Tesco Property (No. 2) Limited Partnership in the year.

Net interest on medium term notes, loans and bonds was £(218)m, £(9)m higher year-on-year due to the inclusion of interest payments on the debt we acquired with The Tesco Atrato Limited Partnership in September 2019 and The Tesco Property (No. 2) Limited Partnership in September 2020. This more than offset a reduction in interest payable following debt maturities, bond tenders and new issues at a significantly lower rate of interest.

A fair value remeasurement charge of £(214)m primarily related to premiums paid on the buyback of bonds and the mark-to-market movement on inflation-linked swaps, driven by falling future inflation rates. These swaps reduce the impact of future inflation on the Group's cash flow in relation to historical sale and leaseback property transactions.

Net pension finance costs of £(43)m decreased by £28m year-on-year, including a benefit from the reduction in the pension deficit following the £2.5bn one-off pension contribution. Net pension finance costs for the current year are expected to be in the region of £(23)m.

Further detail on finance income and costs can be found in Note 5 on page 53, as well as further detail on the exceptional items in Note 4 on page 52.

### Group tax:

| On a continuing operations basis | This year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| Tax on profit before exceptional items and amortisation of acquired intangibles | £(200)m | £(339)m | £(342)m |
| Tax on exceptional items and amortisation of acquired intangibles[1] | £96m | £45m | £52m |
| **Tax on profit** | **£(104)m** | **£(294)m** | **£(290)m** |

1. Current year includes tax credits of £106m in relation to uncertain tax positions and £20m in relation to rolled over gains and capital losses on property disposals classified as exceptional. Please see Note 4 on page 52.

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(200)m, £139m lower than last year primarily due to lower retail operating profits and a tax credit related to Tesco Bank operating losses.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles was 22.1%, higher than the UK statutory rate, primarily due to depreciation of assets that do not qualify for tax relief. We expect an effective tax rate for the 2021/22 financial year of c.23%. Following the UK Government's budget announcement in March, we now expect the effective tax rate to increase to around 26% in the medium term due to an increase in the UK corporation tax rate. Further detail on Group tax can be found in Note 6 on page 54.

Total Group cash tax paid in the year was £(170)m on a continuing operations basis, which included £(105)m of tax paid in the UK. Tax paid in the year was £118m lower than in the prior year, primarily due to a tax deduction in relation to the £2.5 billion one-off pension contribution and a decline in Tesco Bank operating profit.

### Earnings per share:

| On a continuing operations basis | This year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| Diluted EPS pre-exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments adjusted for share consolidation[1] | 11.94p | 18.60p | 18.98p |
| Statutory diluted earnings per share | 7.54p | n/a | 7.54p |
| Statutory basic earnings per share | 7.56p | n/a | 7.60p |

1. Diluted EPS before exceptional and other items (adjusted for share consolidation) is provided to aid comparability, as the sale of our businesses in Thailand and Malaysia and the share consolidation and special dividend which followed distort our financial result in the year. As such, this metric is presented on a basis other than in accordance with IAS 33 and captures the full impact of the share consolidation as if it had taken place at the start of the 2019/20 financial year. Please see Note 9 on page 59 for a reconciliation to diluted adjusted EPS.

Our adjusted diluted EPS metric reflects the post-consolidation share base as if it had been in place from the start of the 2019/20 financial year. On this basis, adjusted diluted EPS was 11.94p (LY: 18.60p), (35.8)% lower year-on-year, due to Tesco Bank operating losses and lower retail operating profits due to COVID-19 impacts.

Statutory basic earnings per share from continuing operations was 7.56p, (0.5)% lower year-on-year, due to a decline in operating profits which was offset by lower exceptional charges and a lower tax charge.

### Discontinued operations:

The performance of our businesses in Thailand, Malaysia and Poland are classified as discontinued operations and has been excluded from our headline performance measures. Operating profit before exceptional items for discontinued operations was £432m.

In December, we completed the sale of our businesses in Thailand and Malaysia to a combination of CP Group entities for an enterprise value of £8.2 billion and net cash proceeds before tax and other costs of £8.0 billion. In March 2021, we announced the completion of the sale of our business in Poland to Salling Group A/S.

Total exceptional items related to discontinued operations were £(147)m in the period, comprising a provision for a legal claim of £(88)m relating to the sale of our Homeplus business in Korea in 2015 and a £(43)m charge relating to net impairment losses on non-current assets in our business in Poland.

Further information on discontinued operations is included in Note 7, starting on page 57 of this statement.

### Dividend:

In February, we returned £5.0 billion to shareholders by means of a special dividend, following the sale of our businesses in Thailand and Malaysia.

We propose to pay a final dividend of 5.95 pence per ordinary share, taking the full-year dividend to 9.15 pence per ordinary share, including the payment of an interim dividend of 3.20 pence per ordinary share in November 2020. The proposed full-year dividend of 9.15p reflects the importance the Board places on dividends paid to shareholders, the strength, resilience and momentum of the business in a particularly challenging year and our confidence in future cash flows. This is an exception to our policy of a pay-out ratio of 50% of earnings which would have implied a full year dividend of 5.97p.

The proposed final dividend was approved by the Board of Directors on 13 April 2021 and is subject to the approval of shareholders at this year's Annual General Meeting. The final dividend will be paid on 2 July 2021 to shareholders who are on the register of members at close of business on 21 May 2021 (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 11 June 2021.

### Summary of total indebtedness:

| | Feb-21 | Feb-20 (53-week basis) | YoY change | *Of which: relating to Asia disposal* | *Of which: underlying movement* |
|---|---|---|---|---|---|
| Underlying net debt (excl. Tesco Bank) | £(3,449)m | £(2,765)m | £(684)m | *£(240)m* | *£(444)m* |
| Lease liabilities | £(8,506)m | £(9,533)m | £1,027m | *£765m* | *£262m* |
| Pension deficit, IAS 19 basis (post-tax) | £(1,004)m | £(2,573)m | £1,569m | *£2,052m* | *£(483)m* |
| **Total indebtedness** | **£(12,959)m** | **£(14,871)m** | **£1,912m** | ***£2,577m*** | ***£(665)m*** |

Total indebtedness was £(12,959)m, down £1.9bn year-on-year primarily driven by the reduction in our pension deficit following the £2.5bn one-off contribution made following the sale of our businesses in Asia. This reduction was partly offset by an increase in the underlying IAS 19 pension deficit.

Including the one-off pension contribution, the sale of our businesses in Thailand and Malaysia reduced total indebtedness by £2,577m, including a net benefit of £525m from the de-recognition of cash and lease liability balances. In the table above we have shown this impact separately, to provide greater clarity into the other movements in total indebtedness in the year.

Other indebtedness movements totalled £(665)m year-on-year, reflecting an increase in the IAS 19 pension deficit of £(483)m principally due to underlying market movements in gilts and corporate bonds that have negatively impacted scheme assets but caused smaller offsetting reduction in IAS 19 pension liabilities. The IAS 19 pension deficit does not drive contributions made to the pension scheme. The acquisition of our partner's stake in The Tesco Property (No. 2) Limited Partnership also increased indebtedness, with net debt increasing by £(453)m partly offset by lease liabilities reducing by £254m.

Our reported total indebtedness this year includes £134m of lease liabilities and £7m of underlying net debt relating to our business in Poland.

We have retained a strong cash position with a total of £2.1bn of cash liquidity available at the end of the year. In January 2021, we issued a €750m, 8.5 year bond at an interest rate of 0.375%, linked to greenhouse gas emissions. This was the first bond issued by a retailer to be linked to sustainability targets. We re-financed our committed facilities in October 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.

Our total indebtedness ratio was 3.6 times, compared to 3.1 times at the prior year-end, primarily due to a reduction in retail EBITDA driven by COVID-19 related costs. We expect this to improve strongly in the current year as profits recover. The sale of our businesses in Thailand and Malaysia had a net neutral impact on the total indebtedness ratio, as the benefit of the one-off pension contribution and de-recognition of lease liabilities and net debt in those businesses was offset by reduced earnings. Fixed charge cover decreased to 2.9 times compared to 3.1 times last year.

### 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 45.

| On a continuing operations basis | This year | Last year (52 weeks) | Last year (53 weeks) |
|---|---|---|---|
| **Operating profit before exceptional items and amortisation of acquired intangibles** | **£1,815m** | **£2,525m** | **£2,571m** |
| Less: Tesco Bank operating profit / (loss) before exceptional items | £175m | £(193)m | £(193)m |
| **Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles** | **£1,990m** | **£2,332m** | **£2,378m** |
| Add back: Depreciation and amortisation | £1,614m | £1,560m | £1,589m |
| Other reconciling items | £(26)m | £63m | £51m |
| Pension deficit contribution | £(351)m | £(267)m | £(267)m |
| Underlying decrease in working capital | £450m | £264m | £24m |
| **Retail cash generated from operations before exceptional items** | **£3,677m** | **£3,952m** | **£3,775m** |
| Exceptional cash items: | £(41)m | £(195)m | £(195)m |
| *Relating to prior years:* | | | |
| *- Restructuring payments* | *£(36)m* | *£(124)m* | *£(124)m* |
| *Relating to current year:* | | | |
| *- Litigation costs* | *£(93)m* | - | - |
| *- ATM income* | *£90m* | - | - |
| *- Other* | *£(2)m* | *£(71)m* | *£(71)m* |
| **Retail operating cash flow** | **£3,636m** | **£3,757m** | **£3,580m** |
| Cash capex | £(902)m | £(842)m | £(846)m |
| Net interest | £(670)m | £(696)m | £(723)m |
| *- Interest related to net debt (exc. lease liabilities)* | *£(226)m* | *£(213)m* | *£(240)m* |
| *- Interest related to lease liabilities* | *£(444)m* | *£(483)m* | *£(483)m* |
| Tax paid | £(161)m | £(219)m | £(219)m |
| Property proceeds | £181m | £255m | £266m |
| Property purchases – store buybacks | £(291)m | £(172)m | £(172)m |
| Market purchases of shares (net of proceeds) | £(66)m | £(149)m | £(149)m |
| Acquisitions & disposals and dividends received | £21m | £321m | £321m |
| Repayments of obligations under leases | £(561)m | £(565)m | £(565)m |
| **Retail free cash flow** | **£1,187m** | **£1,690m** | **£1,493m** |

Retail free cash flow decreased by £(503)m year-on-year to £1,187m, driven by lower cash profits due to the significant costs incurred in our response to the COVID-19 pandemic. In addition, last year's retail free cash flow included £277m of proceeds from the sale of our 20% stake in the Gain Land associate.

We benefited from a working capital inflow of £450m in the year, which was £186m higher than last year, primarily driven by the effect of higher food volumes. We saw a significant reduction in fuel volume in the year, leading to a c.£(180)m impact in working capital, however this was offset by a planned change to our fuel supplier payment terms.

Interest paid related to net debt (exc. lease liabilities) of £(226)m was up £(13)m year-on-year as the benefit of bond buybacks and refinancing at lower rates of interest was offset by the impact from borrowings acquired as part of The Tesco Property (No. 2) Limited Partnership.

Retail cash tax paid was £(161)m, £58m lower than last year, primarily as a result of lower retail operating profits.

Property proceeds of £181m includes £90m from properties in Poland which were sold separately to the sale of the business to Salling Group A/S, as well as other smaller disposals including the sale of the Booker Makro site in Croydon. We announced the completion of the sale of our business in Poland to Salling Group A/S in March 2021, following the end of the 2020/21 financial year.

We utilised £(291)m of cash to buy back stores in the UK, including £(238)m to buyback seven standalone stores which will result in an annual cash rental saving of £14m. We also acquired our partner's share in The Tesco Property (No. 2) Limited

Partnership at a cost of £(54)m, bringing back into 100% ownership twelve stores and two distribution centres, which had been subject to fixed rental uplifts each year. This acquisition results in initial annual cash rental savings of £28m. 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 £(66)m of shares in the market to offset dilution from the issuance of new shares to satisfy the requirements of share schemes. This was £83m lower than the prior year due to a reduced volume of share scheme maturities in the year.

### 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 | £875m | £774m | £85m | £101m | £55m | £52m | £1,015m | £927m |
| Openings (k sq ft) | 135 | 270 | 30 | - | - | - | 165 | 270 |
| Closures (k sq ft) | (113) | (400) | (22) | (70) | - | - | (135) | (470) |
| Repurposed (k sq ft) | 1 | - | (63) | (782) | - | - | (62) | (782) |
| Net space change (k sq ft) | 23 | (130) | (55) | (852) | | | (32) | (982) |

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. Prior year capital expenditure is shown on a 53-week basis.

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group. Our capital expenditure for the year was £1,015m, £88m higher year-on-year, primarily due to higher maintenance spend in our UK stores and technology, including our investment in online capacity.

In the UK & ROI, we opened 28 convenience stores, one Superstore and one Urban Fulfilment Centre in West Bromwich.

We continue to expect annual Group capital expenditure of between £0.9bn - £1.2bn in future years.

Statutory capital expenditure of £1.8bn includes £0.5bn relating to the buyback of seven UK stores and The Tesco Property (No. 2) Limited Partnership (comprising twelve stores and two distribution centres) referred to above.

Further details of current and forecast space can be found in the supplementary information starting on page 122.

### Property:

| | This year | | | Last year | | |
|---|---|---|---|---|---|---|
| | UK & ROI | Central Europe | Group | UK & ROI | Central Europe | Group |
| Property[1] – fully owned | | | | | | |
| - Estimated market value | £15.9bn | £2.0bn | £17.9bn | £15.0bn | £2.0bn | £17.0bn |
| - NBV[2] | £14.8bn | £1.7bn | £16.5bn | £14.4bn | £1.6bn | £16.0bn |
| % net selling space owned | 54% | 77% | 59% | 53% | 78% | 58% |
| % property owned by value[3] | 57% | 73% | 58% | 55% | 74% | 57% |

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

The estimated market value of our fully owned property as at the year-end increased by £0.9bn to £17.9bn. The market value of £17.9bn represents a surplus of £1.4bn over the net book value (NBV).

Our Group freehold property ownership percentage, by value, has increased by 1% year-on-year to 58%. In September we completed the purchase of our partner's 50% stake in The Tesco Property (No. 2) Limited Partnership, bringing back into full ownership twelve stores and two distribution centres. This acquisition contributed to a 2% increase in the percentage of fully owned properties in the UK & ROI and will deliver an annual cash rental saving of £28m. We also repurchased seven further stores in the UK, with an annual cash rental saving of £14m.

In Central Europe, we released £90m of value through the disposal of properties in Poland in the year.

### Tesco Bank:

| | This year | Last year | YoY |
|---|---|---|---|
| **Revenue** | **£735m** | **£1,068m** | **(31.2)%** |
| **Operating profit/ (loss) before exceptional items** | **£(175)m** | **£193m** | **n/m** |
| Statutory operating profit/ (loss) | £(470)m | £74m | (735.1)% |
| Lending to customers | £6,402m | £8,451m | (24.2)% |
| Customer deposits | £(5,738)m | £(7,707)m | (25.5)% |
| Net interest margin | 5.2% | 4.1% | 1.1%pts |
| Total capital ratio | 28.2% | 23.1% | 5.1%pts |

The COVID-19 pandemic had a significant impact on performance across the Bank as a material decline in customer spending led to lower levels of new business activity in loans and credit cards, lower credit card balances, and a reduction in ATM and travel money transactions.

Higher levels of unemployment and lower GDP forecasts resulted in an increase in the provision for potential bad debts. This, in combination with the reduction in income, resulted in an operating loss of £(175)m for the full year, compared to a profit in the prior year of £193m. We also recognised an impairment charge of £(295)m in relation to goodwill due mainly to an increase in the discount rate as well as a reduction to anticipated future cash flows. The macroeconomic environment remains uncertain and will continue to impact banking activity levels.

Lending to customers declined by (24.2)% and customer deposit balances declined by (25.5)%, driven by lower levels of customer spending and a prudent approach to new credit risk. Lower levels of lending strengthened the Bank's capital position with the total capital ratio increasing to 28.2%, an improvement of 5.1 percentage points year-on-year. The balance sheet remains strong and the Bank continues to have sufficient capital and liquidity to absorb changes in both regulatory and funding requirements.

As previously announced, we expect to complete the acquisition of our partner's stake in the Tesco Underwriting joint venture in May. This will create an end-to-end insurance business that is uniquely positioned to help Tesco customers.

We supported our customers throughout the year by offering loan and credit card payment breaks to the end of March 2021, increasing contactless payment limits to allow more customers to shop safely, removing administration fees to allow insurance customers to change or cancel policies, reducing overdraft fees and 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 the supplementary information on page 124 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 45 of this statement. Tesco Bank's full year results are also published today and are available at www.corporate.tescobank.com.

## Contacts


| | | |
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This document is available at www.tescoplc.com/prelims2021

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/prelims2021. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

## Disclaimer

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.

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

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

## Report on the audit of the financial statements

### Opinion

In our opinion:

- the financial statements of Tesco PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 February 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 36 of the Group financial statements and Notes 1 to 15 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB). The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in Note 3 (Income and expenses) to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

## Summary of our audit approach

### Key audit matters

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

Newly identified:

- Tesco Bank goodwill impairment;

Increased level of risk:

- pension valuation;

Similar level of risk:

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

### Materiality

We have determined materiality based on 0.13% of revenue. Our determined materiality is 8.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 0.6% of net assets.

In the prior year materiality was determined on the basis of 4.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles. Prior year materiality equated to 0.14% of prior year revenue. The change in the benchmark year on year is due to the impact of COVID-19 on the profitability of the group as a whole.

### Scoping

Our audit scoping provides full scope audit coverage of 98% (2019/20: 96%) of revenue from continuing operations, 96% (2019/20: 92%) of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 95% (2019/20: 92%) of net assets.

In addition, we performed full scope audit procedures covering 86% of revenue from discontinued operations and 84% of discontinued profit before tax before exceptional items.

### Significant changes in our approach

Our 2020/21 report includes a new key audit matter relating to the assessment of impairment of goodwill relating to Tesco Personal Finance PLC ('Tesco Bank') due to the impact of the COVID-19 pandemic on the performance of, and outlook for, Tesco Bank. The pension valuation key audit matter reflects increased audit risk over the valuation of UK alternative investment assets in the current year due to market volatility.

We no longer report on the presentation of the operations of the Asia business as a key audit matter because, upon approval of the sale by the Board in 2020/21, these met the criteria of a discontinued operation in accordance with IFRS 5 — Non-current Assets Held for Sale and Discontinued Operations.

There are no other significant changes in our approach in comparison to the prior period.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included the following audit procedures:

- obtained confirmation for the financing facilities including nature of facilities, repayment terms and covenants to ensure that these facilities remain available at year-end;
- assessed the reasonableness of the assumptions used in the Group's funding plan approved by the Board (which included the impact of macro-economic downturn, COVID-19 and Brexit);
- tested the clerical accuracy and assessed the sophistication of the model used to prepare the forecasts including obtaining an understanding of relevant controls over management's model;
- reviewed the liquidity forecast to assess whether there is sufficient headroom;
- challenged the assumptions used within the Group's going concern model;
- evaluated the historical accuracy of forecasts prepared by management;
- considered the mitigating factors identified by Group management in relation to their going concern analysis;
- assessed the sensitivity of the headroom in management's forecasts; and
- assessed the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Key audit matters

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

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

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Tesco Bank goodwill impairment** | | |
| As described in Note 1 (Accounting policies, judgements and estimates) and Note 10 (Goodwill and other intangible assets) of the financial statements, the Group held £4,271m (2019/20: £4,840m) of goodwill of which £480m relates to Tesco Bank (2019/20: £775m).<br><br>Under IAS 36: Impairment of assets, the Group is required to review goodwill for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.<br><br>Assessing the recoverable value of the Tesco Bank cash generating unit requires significant judgement in forecasting future cash flows, determining future growth rates and estimating the discount rate to be applied.<br><br>As detailed in Note 2 (Segmental reporting) Tesco Bank has made an operating (loss)/profit before exceptional items and amortisation of acquired intangibles of £(175)m (2019/20: £193m), reflecting an increase in the provision for potential bad debts and a reduction in income as a consequence of COVID-19.<br><br>The key audit matter specifically relates to the following:<br>– the post-tax discount rate that management has calculated which reflects an increase of 3.2% from the discount rate used as at 29 February 2020; and<br>– the quantum of the terminal value, specifically whether the forecast return to pre-COVID-19 levels of performance, including assumptions on revenue growth and cost reduction, and the timing thereof, is achievable.<br><br>An increase in the discount rate and a more pessimistic macro-economic outlook has led to a £295m (2019/20: £nil) impairment in the Tesco Bank goodwill, as noted in Note 15 (Impairment of non-current assets).<br><br>Tesco Bank goodwill is sensitive to changes in the key assumptions, with a 1% increase in the discount rate leading to a £203m increase in the impairment, as noted in Note 15.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | Our audit procedures included obtaining an understanding of relevant controls in relation to the review and approval of the discount rate and Tesco Bank's cash flow forecasts used in the model. We have also performed a series of specific audit procedures to address the key audit matter which included the following:<br><br>*Management's discount rate*<br>**Use of experts:** We engaged our valuation experts to assist in testing the discount rate used in calculating the recoverable value. We calculated an independent range and challenged management's inputs to their own calculation.<br><br>**Sensitivity analysis:** We performed a sensitivity analysis on the impairment of goodwill using our independently calculated rate.<br><br>*Other recoverable value assumptions*<br>**Forecasting accuracy:** We assessed management's forecasting accuracy based on the historical forecasts and actuals.<br><br>With support from our internal economic modelling experts, we challenged the achievability of the Bank's return to pre-COVID levels of performance with reference to the anticipated shape of the macro-economic recovery and relevant sectoral trends. We also challenged the achievability of the revenue growth and cost reduction assumptions in the later years of the cash flow forecasts with reference to management's specific initiatives for delivering growth and whether forecast margins are in line with historical margins and the wider market.<br><br>**Use of independent market expectations:** We challenged management's key assumptions within the cash flow forecasts based on historical and market trends. | Based on our audit procedures we concluded that the assumptions in the Tesco Bank goodwill impairment model were within an acceptable range and that the overall level of the impairment was appropriate. We have recommended to management that improvements be made to enhance the precision and granularity of the review controls over the impairment model.<br><br>We also consider the disclosures, including the sensitivity disclosure in Note 15, to be appropriate. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Pension valuation** | | |
| As described in Note 1 (Accounting policies, judgements and estimates) and Note 29 (Post-employment benefits) of the financial statements, the Group has a defined benefit pension plan in the UK retail business. At 27 February 2021, the Group recorded a net retirement obligation before deferred tax of £1,222m (2019/20: £3,085m), comprising plan assets of £20,082m (2019/20: £17,425m) and plan liabilities of £21,304m (2019/20: £20,510m). The net retirement obligation in the UK represents 86% of the Group's total net retirement obligation.<br><br>The valuation of the Group's pension obligations is sensitive to changes in key assumptions and dependent on market conditions. In addition, pension plan assets include alternative investments (such as credit funds, hedge funds, infrastructure funds and private equity funds). As market conditions change, it is necessary to consider whether a stale price adjustment is required to reflect movements in the market value between the latest valuations and the position at year end.<br><br>The key audit matter specifically relates to the following:<br>– key assumptions linked to the valuation of the UK retail pension plan obligations: discount rate, inflation expectations and mortality assumptions; and<br>– the determination as to whether a stale price adjustment is required in relation to the year-end valuation of alternative investments in the UK retail pension plan given volatility in the market as a result of COVID-19.<br><br>The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of management's actuaries and valuation experts.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | Our audit procedures included obtaining an understanding of relevant controls in relation to the pension obligation valuation process and the process to assess whether a stale price adjustment is required in relation to the alternative investment assets. In addition we performed the following:<br><br>*Pension liability assumptions*<br>We engaged our actuarial experts to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. In order to challenge management's discount rate, we independently calculated an appropriate rate and compared this to management's rate.<br><br>Working with our actuarial experts, we benchmarked and challenged other assumptions used by management in determining the value of pension liabilities particularly focusing on inflation and life expectancy. This included comparing the inputs and assumptions used in determining the valuation of the UK retail pension plan to those used in comparable pension plans and our internal benchmarks. Additionally, we have considered the independence, competence, capabilities and objectivity of the independent actuaries engaged by management to perform valuations of the relevant plans.<br><br>*Alternative pension assets*<br>We have worked with our pension asset specialists to assess and challenge whether a stale price adjustment is required in relation to the year-end valuation of alternative investments in the UK retail pension plan given volatility in the market as a result of COVID-19. We performed independent benchmarking and looked for contradictory evidence that the year-end valuation may not be appropriate, and therefore whether a stale price adjustment is required. | We are satisfied that the overall methodology is appropriate and the key assumptions applied in relation to determining the pension valuation are within our reasonable range.<br><br>We are satisfied that the valuation methodology of alternative asset investments at the year-end is appropriate and that no stale price adjustment was required. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Store impairment review** | | |
| As described in Note 1 (Accounting policies, judgements and estimates), Note 11 (Property, plant and equipment) and Note 12 (Leases) of the financial statements, the Group held £17,211m (2019/20: £19,234m) of property, plant and equipment and £5,951m of right of use assets (2019/20: £6,874m) at 27 February 2021.<br><br>Under IAS 36: 'Impairment of assets', the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. Judgement is required in identifying indicators of impairment charges or reversals and estimation is required in determining the recoverable amount of the Group's store portfolio.<br><br>Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' or 'fair value less costs of disposal'.<br><br>Value in use has been calculated using probability weighted cash flows reflecting management's best estimate of the impact of COVID-19, the consequences of Brexit, climate change and other economic factors including changes in customer behaviour on the future trading performance of the Group.<br><br>Management's impairment review is Sensitive to changes in the key assumptions as set out in Note 15.<br><br>The areas which are key to the store impairment review key audit matter are as follows:<br>– forecast cash flows for year 1 to year 3, from the Board-approved Long Term Plan ("LTP"), used to derive the value-in-use of store assets, specifically the ability of management to achieve their forecasts in light of changing consumer behaviour, the volatile retail environment brought about by COVID-19 and the Group's ability to realise forecast cost savings;<br>– the probability applied to each cash flow scenario in calculating the probability weighted cash flows;<br>– the discount rate used to determine value in use from the probability weighted cash flows; and | Our audit procedures included obtaining an understanding of relevant controls around the impairment review processes.<br><br>Our procedures in relation to the Group's value-in-use assessment included:<br>– challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, impacts of COVID-19 and Brexit on future cash flows, anticipated changes in consumer behaviour, competitor actions and our understanding of the Group's strategic initiatives;<br>– reviewing the accuracy of past forecasts of growth rates and future cash flows to assess the level of accuracy of the forecasting process;<br>– performing sensitivity analyses to assess the impact on impairment of a change in the probability percentages applied to the cash flow scenarios;<br>– with the support of our valuation specialists, calculating an independent range and challenging management's inputs to their discount rate, in particular their methodology to calculate an appropriate risk-free rate and equity risk premium;<br>– assessing and challenging the adequacy of management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required to lead to a significant further impairment charge or reversal, in particular forecast cash flows and property fair values;<br>– using analytical techniques to identify unusual trends in data inputs and model outputs, to identify inaccurate data and any modelling errors or bias;<br>– assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 'Impairment of Assets' and checking the integrity of the value-in-use model prepared by the Group;<br>– engaging our specialist modelling team to assist in auditing the integrity of the impairment model; and | Based on our audit procedures we concluded that the assumptions in the impairment models were within an acceptable range and that the overall level of net impairment reversal was reasonable. Through the completion of our work we are satisfied with the integrity of the model used for the current year impairment exercise. As discussed in the annual report in Note 15, we have recommended to management that improvements continue to be made to enhance the precision and granularity of the review controls over the impairment model.<br><br>We consider the disclosures, including the sensitivity disclosure in Note 15, to be appropriate. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Store impairment review continued** | | |
| – the fair value of properties supporting the carrying value of store assets in each of the Group's territories particularly in response to the changing retail and broader property landscape as a result of COVID-19.<br><br>In addition, as the LTP is prepared on a top down basis and not at an individual store level, management perform an exercise to allocate the forecast performance across individual stores within the portfolio. This increases the complexity and level of judgement within the impairment model.<br><br>As a result of the Group's store impairment review completed during the year, a net impairment reversal of property, plant and equipment and right of use assets of £103m (2019/20: net impairment charge of £312m) was recognised.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | - with the involvement of our property valuation specialists challenging the assumptions used by the Group in determining the fair market value including those completed by external valuers and assessing whether appropriate valuation methodologies have been applied. | |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Tesco Bank loan impairment** | | |
| As described in Note 19 (Loans and advances to customers and banks) the Group held an impairment provision in respect of loans and advances to customers of £625m at 27 February 2021 (2019/20: £488m). The expected credit loss ("ECL") on these loans and advances charged to the income statement was £360m in the year to 27 February 2021 (2019/20: £179m). The increase in provision compared to the prior year is primarily due to the deterioration in the macro-economic outlook, which management had previously concluded had a low probability of crystallising at 29 February 2020 based on reasonable and supportable information available at that time.<br><br>Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in the UK as a result of COVID-19 and the United Kingdom's withdrawal from the European Union.<br><br>We consider the most significant areas of judgement within the Group's collective provisioning methodologies, and therefore the key audit matters within loan impairment, to be: | Our audit procedures included obtaining an understanding of relevant controls which relate to the determination of loan impairments.<br><br>We have obtained an understanding of, and assessed, relevant controls over model governance forums, model monitoring and calibrations, including the determination of PMAs, the review and approval of macro-economic scenarios, the flow of data from Tesco Bank's information systems into the model and the flow of the output of the model to the general ledger.<br><br>Our audit work to address the key audit matter included the procedures noted below:<br><br>*Macro-economic scenarios and related model refinements*<br>With support from internal economic modelling experts, we challenged the macro-economic scenario forecasts that were incorporated into the ECL model, including management's selection of the relevant macro-economic variables. | The results of our testing are satisfactory. We concluded that management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9. We consider the sensitivity disclosures provided in Note 25 to the financial statements to be appropriate. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Tesco Bank loan impairment continued** | | |
| – Macro-economic scenarios – loan impairment provisions are required to be calculated on a forward-looking basis under IFRS 9 'Financial instruments'. Management apply significant judgement in determining the forecast macro-economic scenarios and the probability weighting of each scenario that are incorporated into the ECL model. Management also applied a number of methodology refinements in the current period to optimise model performance during this period of economic stress.<br>– Post-model adjustments ("PMAs") - management has included a number of PMAs to capture the potential downside risks and model limitations arising as a result of the continued macro-economic uncertainty. This includes PMAs to address the uncertainty associated with the future behaviour of customers who have been granted payment holidays and the impact of government support schemes on arrears and behavioural scores.<br><br>The sensitivities associated with management's judgements are presented within Note 25 to the financial statements.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | We assessed management's forecasts and their probability against external sources to assess their reasonableness, considering the forecasts in light of any contradictory information.<br><br>We assessed the competence, capabilities and objectivity of management's expert, who supplies the macro-economic forecasts, and considered whether the methodology adopted by the expert was reasonable.<br><br>With regards to the related model refinements, with support from internal credit risk modelling experts, we assessed the changes against the requirements of IFRS 9, tested the completeness and accuracy of the data which support management's conclusions regarding the appropriateness of the changes and tested that the methodology changes had been appropriately reflected in the models through review of the underlying computer code.<br><br>We also evaluated whether there was adequate disclosure regarding the macro-economic scenarios selected by management, their probability weighting, and the related sensitivities.<br><br>*Post-model adjustments ("PMAs")*<br>With support from internal credit risk experts, we challenged the appropriateness of each significant PMA recorded by management as well as the completeness of PMAs with reference to our observations in the broader market and understanding of the risk profile of the portfolio.<br><br>We evaluated the accuracy of the calculation of the PMAs, which included an assessment of the completeness and accuracy of the underlying data used by management in their calculation.<br><br>We also evaluated whether there was adequate disclosure regarding the significant PMAs including how they were determined and the range of possible outcomes. | |

<table>
<tr><th>Key audit matter description</th><th>How the scope of our audit responded to the key audit matter</th><th>Key observations</th></tr>
<tr><td colspan="3">Recognition of commercial income</td></tr>
<tr><td>As described in Note 1 (Accounting policies, judgements and estimates) and Note 22 (Commercial income) of the financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from those suppliers.<br><br>Commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held.<br><br>The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement. As such we have identified this as a key audit matter and considered that there was a potential for fraud through possible manipulation of this income.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69.</td><td>Our audit procedures included obtaining an understanding of relevant controls the Group has established in relation to commercial income recognition.<br><br>In addition, we performed the following:<br>– testing whether amounts recognised were accurate and recorded in the correct period, by agreeing to the contractual performance obligations in a sample of individual supplier agreements;<br>– testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables (as set out in Note 22) via balance sheet reconciliation procedures;<br>– circularising a sample of suppliers to test whether the arrangements recorded were complete; where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements;<br>– holding discussions with a sample of the Group's buying personnel to further understand the buying processes;<br>– reviewing the impact of COVID-19 on arrangements with suppliers across the Group;<br>– using data analytics to identify commercial income deals which exhibited characteristics of audit interest upon which we completed detailed audit testing;<br>– reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP) and additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas where further investigation was required; and<br>– assessing the adequacy of the disclosures made in relation to commercial income in the Group's financial statements.</td><td>The results of our testing are satisfactory. We consider the disclosure given around supplier rebates provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet.</td></tr>
</table>

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Contingent liabilities** | | |
| As described in Note 1 (Accounting policies, judgements and estimates), Note 27 (Provisions) and Note 34 (Commitments and contingencies) of the financial statements, the Group has a number of contingent liabilities and provisions regarding significant legal matters. Judgement is required in assessing the likelihood of outflow, the potential quantum of any outflow and the associated disclosure requirements.<br><br>This key audit matter specifically relates to the following exposures:<br>– **Homeplus claim:** following the sale of Homeplus in 2015 the Group has received claims from the purchaser relating to the sale of the business. In July 2020, the arbitration tribunal dismissed the majority of the claims but made findings of liability in relation to the remaining claims, reserving its position in relation to quantum. Given the decision is binding, the likelihood of a material outflow is now considered to be probable and therefore a provision of £88m was recorded during the year.<br>– **UK shareholder litigation:** in July 2020, the Group settled claims brought by two claimant groups at a cost to the Group of £93m linked to the overstatement of expected profits in 2014. In September 2020 two further claimant groups issued proceedings against the Group in respect of the same matter and which may therefore result in legal exposures.<br>– **Equal pay claim:** Tesco Stores Limited has received claims from current and former store colleagues alleging that their work is of equal value to that of colleagues working in the Group's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | Our audit procedures included obtaining an understanding of relevant controls in relation to the contingent liabilities and provisions and management's disclosures. In assessing the potential exposures to the Group, we have completed a range of procedures including:<br>– working with our forensic accounting experts to understand and challenge the interpretation of any legal and tribunal findings and conclusions;<br>– assessing the reasonableness of management's likelihood and quantification of outflow assessment;<br>– challenging the appropriateness of amounts provided for the Homeplus claim;<br>– reading Board and other meeting minutes to identify other matters relevant to the Group's accounting and disclosure considerations;<br>– meeting with the Group's internal legal advisors to understand ongoing and potential legal matters and reviewing third party correspondence and reports;<br>– meeting with the Group's external legal advisors to challenge the status of the cases and their expectations as to expected outcome and the size of any liability; and<br>– reviewing the proposed accounting and disclosure of potential legal liabilities, considering the third party assessment of open matters. | Based on our audit procedures we are satisfied that the provision recognised in relation to the Homeplus arbitration claim is reasonable. We also conclude that the Group's contingent liabilities disclosure is complete and, specifically, the accounting and disclosures in relation to the ongoing UK shareholder actions and the Group's equal pay matter are appropriate. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Presentation of Group's income statement** | | |
| One of the Group's key performance indicators is 'Group operating profit before exceptional items and amortisation of acquired intangibles' (2020/21: £1,815m, 2019/20: £2,571m).<br><br>Management's reconciliation of this key performance indicator to the Group's statutory profit measure is set out in Note 2 (Segmental reporting) of the financial statements.<br><br>Management judgement is required when applying this policy and when determining the classification of items as exceptional within the Group's income statement.<br><br>We have determined that there is a potential for fraud through possible manipulation of the Group's income statement presentation. This is due to the level of judgement involved and remuneration targets being linked to key performance indicators, particularly in light of COVID-19 and the potential for management to attribute exceptional items to the pandemic that are difficult to quantify and could be misleading.<br><br>The Audit Committee's discussion of this key audit matter is set out on page 69. | Our audit procedures included obtaining an understanding of relevant controls which address the risk of inappropriate presentation of the Group's income statement.<br><br>In order to address this key audit matter we have completed audit procedures including:<br>– challenging the accuracy of exceptional items disclosed by the Group by agreeing to underlying supporting documentation;<br>– assessing the appropriateness of exceptional items disclosed by the Group both individually and in aggregate, considering consistency with the Group's definition of exceptional items, IAS 1 and recent guidance from the FRC, specifically considering their recent guidance in light of the COVID-19 pandemic;<br>– assessing the appropriateness of excluding the amortisation of intangible assets acquired in business combinations from the Group's operating profit alternative performance measure;<br>– evaluating the presentation of COVID-19 costs within the Group's underlying results;<br>– assessing transactions completed outside of the normal course of business;<br>– assessing consistency of application of the policy across multiple financial years; and<br>– assessing whether any bias exists in management's presentation of results to achieve key targets which drive elements of variable executive remuneration, including the annual bonus and Performance Share Plan award. | Based on our testing we have concluded that the accuracy, classification and disclosure of the exceptional and other items is appropriate.<br><br>We concur with management's treatment of COVID-19 costs and the business rates relief repayment as underlying, rather than exceptional, expenses for 2020/21. |

| Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations |
|---|---|---|
| **Retail technology environment, including IT security** | | |
| The Group's retail operations utilise a range of information systems. From 2015/16 to 2019/20 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.<br><br>IT remediation is a complex, multi-year project involving management judgement and processes which are at risk of being inappropriately designed or executed. Areas of management's remediation programme to which the risk has been pinpointed include:<br>– appropriateness of remediated access controls across in-scope applications and their supporting infrastructure; and<br>– whether the remediated controls address previously identified deficiencies. | We have continued to challenge and assess changes to the IT environment through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes.<br><br>During the year we have obtained an understanding of relevant controls over the information systems that are important to financial reporting, including the changes made as part of the Group's IT remediation programme.<br><br>Consistent with 2019/20, in 2020/21 we did not plan to take a control reliant audit approach in the retail business due to the ongoing weaknesses in the IT environment.<br><br>We have obtained an understanding of relevant manual controls which relate to identified deficiencies and consistent with the prior year we extended the scope of our substantive audit procedures in response to the deficiencies which affected the applications and databases within the scope of our audit. | Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment. Progress continues to be made and further remediation work is ongoing. |

## Our application of materiality

### Materiality

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

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

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Materiality** | £75m (2019/20: £85m) | £56m (2019/20: £55m) |
| **Basis for determining materiality** | 0.13% (2019/20: 0.13%) of revenue from continuing operations of £57,887m (2019/20: £58,091m). | Materiality represents less than 1% (2019/20: less than 1%) of net assets. |
| **Rationale for the benchmark applied** | We have determined materiality based on 0.13% of revenue. Our determined materiality is 8.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 0.6% of net assets.<br><br>In the prior year materiality was determined on the basis of 4.3% of contingent profit before tax before exceptional items and amortisation of acquired intangibles. Prior year materiality equated to 0.14% of prior year revenue. The change in the benchmark year on  year is due to the impact of COVID-19 on the profitability of the group as a whole.<br><br>Refer to Note 4 for further details of exceptional items, amortisation of acquired intangibles and management's reconciliation of this alternative performance measure to the Group's statutory measure. | As this is the Parent Company of the Group, it does not generate significant revenues other than investment returns but incurs costs.<br><br>Net assets are of most relevance to users of the financial statements. |
| **Component materiality** | The work performed on components identified in our Group audit scope (excluding the Parent Company) was completed to a component materiality level between £8m and £37m (2019/20: £26m and £39m). | |

### Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Performance materiality** | 65% (2019/20: 66%) of Group materiality | 65% (2019/20: 70%) of Parent Company materiality |
| **Basis and rationale for determining performance materiality** | As we continue to be unable to rely on internal controls in the retail business we have used a lower percentage of materiality to determine our performance materiality for 2020/21. In determining performance materiality, we have also considered the nature, quantum and volume of corrected and uncorrected misstatements in prior periods, including prior period errors, and our expectation that misstatements from prior periods would not likely recur in the current period. | |

### Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £3.75m (2019/20: £4.25m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

## An overview of the scope of our audit

### Identification and scoping of components

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

The Group's accounting process is structured around local finance functions and is further supported by shared service centres in Bengaluru, India and Budapest, Hungary which provide accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on six significant retail locations within continuing operations (UK, Booker, Republic of Ireland, Czech Republic, Hungary and Slovakia), two significant retail locations within discontinued operations (Poland and Thailand) and Tesco Bank. The operations in Czech Republic, Hungary and Slovakia are managed as one combined business. All of these were subject to a full audit and represent 98% (2019/20: 96%) of revenue from continuing operations, 96% (2019/20: 92%) of continuing profit before tax before exceptional items and amortisation of acquired intangibles, and 95% (2019/20: 92%) of net assets. In respect of discontinued operations our full scope audit procedures covered 86% of revenue and 84% of profit before tax before exceptional items.

In addition, we instructed the Malaysia component to perform review procedures and have performed analytical review procedures at a Group level for three other businesses (dunnhumby, Tesco Mobile and OneStop), where the extent of our testing was based on our assessment of the risks of material misstatement and of the size of the Group's operations at these locations.

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or analytical review procedures. The most significant component of the Group is its retail business in the UK. As such, there is extensive interaction between the Group and the UK audit team to allow appropriate level of direction and supervision in this audit work. During the course of our audit, the UK audit team visited 52 (2019/20: 52) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 5 (2019/20: 5) distribution centre inventory counts.

### Our consideration of the control environment

The Group's retail operations utilise a range of information systems. In previous years we reported deficiencies in certain IT controls. As described in the Audit Committee Report on page 69, management has implemented a remediation plan, progress against which is monitored. Accordingly, consistent with the prior year, we extended the scope of our substantive audit procedures in response to the identified deficiencies. Further details are set out in the 'Retail technology environment, including IT security deficiencies' key audit matter in section 5.8 above.

### Working with other auditors

With the restrictions in place as a result of COVID-19, the Group audit team was not physically able to visit the significant locations set out above. However, the Group audit team held communications through virtual meetings with all in scope components for 2020/21. These were timed to allow the Group audit team to be involved in the planning process, to attend audit close meetings or other key meetings with management during the early warning and year-end audit work and perform virtual reviews of the audit files for compliance with auditing standards. We also had a dedicated audit partner focused on overseeing the role of the component audit teams, ensuring that we applied a consistent audit approach to the operations in the Group's international businesses.

The UK, Republic of Ireland, Central Europe and Booker key component audit teams attended a virtual two-day planning meeting led by the Group audit team and held prior to the commencement of our detailed audit work. The purpose of this planning meeting was to provide a common level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks and workshops on our planned audit approach. Group management, component management and the Audit Committee Chair also attended part of the meeting to support these planning activities.

In addition, the Group team led a virtual planning briefing with the Thailand and Malaysia component audit teams prior to the commencement of their detailed audit and review work. The purpose of this meeting was to provide the component teams with information on the Group's business and discuss the planned testing approach to significant risks and other areas. Particular focus was given to the impact on the audit approach as a result of the disposal of the Group's businesses in Asia.

## Other information

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

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

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

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

We have nothing to report in this regard.

## Responsibilities of directors

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

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

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

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### Identifying and assessing potential risks related to irregularities

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

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

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

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's PRA and FCA in relation to Tesco Bank.

### Audit response to risks identified

As a result of performing the above, we identified presentation of the Group's income statement, recognition of commercial income and Tesco Bank's loan impairment provisioning as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC ;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- As part of assessing relevant controls, we sought to gain an understanding of the impact that COVID-19 and remote working had on the nature and operation of those controls, to inform our risk assessment and conclusions on their effectiveness.

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

## Report on other legal and regulatory requirements

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

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

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

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

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

### Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 99;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 38;
- the directors' statement on fair, balanced and understandable set out on page 101;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 31 to 32;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 33 to 37; and
- the section describing the work of the Audit Committee set out on pages 67 to 71.

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

#### Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

#### Directors' remuneration

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

We have nothing to report in respect of these matters.

### Other matters which we are required to address

#### Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the year ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ended 27 February 2016 to 27 February 2021.

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

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

### Use of our report

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

Signature
**John Adam (Senior statutory auditor)**
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
13 April 2021

# Group income statement

| | Notes | 52 weeks ended 27 February 2021 Before exceptional items and amortisation of acquired intangibles £m | Exceptional items and amortisation of acquired intangibles (Note 4) £m | Total £m | 53 weeks ended 29 February 2020[a] Before exceptional items and amortisation of acquired intangibles £m | Exceptional items and amortisation of acquired intangibles (Note 4) £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Revenue** | 2 | **57,887** | **–** | **57,887** | **58,091** | **–** | **58,091** |
| Cost of sales[b] | | (53,921) | 383 | (53,538) | (53,601) | (209) | (53,810) |
| Impairment loss on financial assets[b] | 2 | (384) | - | (384) | (183) | – | (183) |
| **Gross profit/(loss)** | | **3,582** | **383** | **3,965** | **4,307** | **(209)** | **4,098** |
| Administrative expenses | | (1,767) | (462) | (2,229) | (1,736) | (156) | (1,892) |
| **Operating profit/(loss)** | | **1,815** | **(79)** | **1,736** | **2,571** | **(365)** | **2,206** |
| Share of post-tax profits/(losses) of joint ventures and associates | 14 | 26 | - | 26 | – | (8) | (8) |
| Finance income | 5 | 15 | - | 15 | 20 | – | 20 |
| Finance costs | 5 | (952) | - | (952) | (1,039) | (151) | (1,190) |
| **Profit/(loss) before tax** | | **904** | **(79)** | **825** | **1,552** | **(524)** | **1,028** |
| Taxation | 6 | (200) | 96 | (104) | (342) | 52 | (290) |
| **Profit/(loss) for the year from continuing operations** | | **704** | **17** | **721** | **1,210** | **(472)** | **738** |
| **Discontinued operations** | | | | | | | |
| Profit/(loss) for the year from discontinued operations | 7 | 309 | 5,117 | 5,426 | 318 | (83) | 235 |
| **Profit/(loss) for the year** | | **1,013** | **5,134** | **6,147** | **1,528** | **(555)** | **973** |
| **Attributable to:** | | | | | | | |
| Owners of the parent | | 1,009 | 5,134 | 6,143 | 1,526 | (555) | 971 |
| Non-controlling interests | | 4 | - | 4 | 2 | – | 2 |
| | | **1,013** | **5,134** | **6,147** | **1,528** | **(555)** | **973** |
| **Earnings/(losses) per share from continuing and discontinued operations** | | | | | | | |
| Basic | 9 | | | 63.80p | | | 9.99p |
| Diluted | 9 | | | 63.62p | | | 9.93p |
| **Earnings/(losses) per share from continuing operations** | | | | | | | |
| Basic | 9 | | | 7.56p | | | 7.60p |
| Diluted | 9 | | | 7.54p | | | 7.54p |

The notes on pages 35 to 108 form part of these financial statements.

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Impairment loss 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)

| | Notes | 52 weeks 2021 £m | 53 weeks 2020* £m |
|---|---|---|---|
| **Items that will not be reclassified to the Group income statement** | | | |
| Remeasurements of defined benefit pension schemes | 29 | (963) | (466) |
| Net fair value gains/(losses) on inventory cash flow hedges | | (3) | 49 |
| Tax on items that will not be reclassified | 6 | 248 | 71 |
| | | **(718)** | **(346)** |
| **Items that may subsequently be reclassified to the Group income statement** | | | |
| Change in fair value of financial assets at fair value through other comprehensive income | | (1) | 9 |
| Currency translation differences: | | | |
| Retranslation of net assets of overseas subsidiaries, joint ventures and associates | | (68) | (68) |
| Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group Income Statement | | (413) | - |
| Gains/(losses) on cash flow hedges: | | | |
| Net fair value gains/(losses) | | 59 | 57 |
| Reclassified and reported in the Group income statement | | (86) | (7) |
| Tax on items that may be reclassified | 6 | (3) | (9) |
| | | **(512)** | **(18)** |
| **Total other comprehensive income/(loss) for the year** | | **(1,230)** | **(364)** |
| Profit/(loss) for the year | | 6,147 | 973 |
| **Total comprehensive income/(loss) for the year** | | **4,917** | **609** |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent | | 4,913 | 607 |
| Non-controlling interests | | 4 | 2 |
| **Total comprehensive income/(loss) for the year** | | **4,917** | **609** |
| | | | |
| **Total comprehensive income/(loss) attributable to owners of the parent arising from:** | | | |
| Continuing operations | | (65) | 352 |
| Discontinued operations | | 4,978 | 255 |
| | | **4,913** | **607** |

The notes on pages 35 to 108 form part of these financial statements.

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

## Group balance sheet

| | Notes | 27 February 2021 £m | 29 February 2020* £m | 23 February 2019* £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill and other intangible assets | 10 | 5,393 | 6,078 | 6,223 |
| Property, plant and equipment | 11 | 17,211 | 19,234 | 19,186 |
| Right of use assets | 12 | 5,951 | 6,874 | 7,713 |
| Investment property | 13 | 19 | 26 | 36 |
| Investments in joint ventures and associates | 14 | 178 | 307 | 602 |
| Financial assets at fair value through other comprehensive income | 16 | 11 | 866 | 979 |
| Investment securities at amortised cost | 16 | 752 | – | – |
| Trade and other receivables | 18 | 170 | 166 | 243 |
| Loans and advances to customers and banks | 19 | 3,309 | 4,171 | 7,868 |
| Derivative financial instruments | 24 | 1,425 | 1,083 | 1,178 |
| Deferred tax assets | 6 | 552 | 449 | 408 |
| | | **34,971** | **39,254** | **44,436** |
| **Current assets** | | | | |
| Financial assets at fair value through other comprehensive income | 16 | 3 | 202 | 67 |
| Investment securities at amortised cost | 16 | 175 | – | – |
| Inventories | 17 | 2,069 | 2,433 | 2,617 |
| Trade and other receivables | 18 | 1,263 | 1,396 | 1,550 |
| Loans and advances to customers and banks | 19 | 3,093 | 4,280 | 4,882 |
| Derivative financial instruments | 24 | 37 | 63 | 52 |
| Current tax assets | | 41 | 21 | 6 |
| Short-term investments | 20 | 1,011 | 1,076 | 390 |
| Cash and cash equivalents | 20 | 2,510 | 4,137 | 4,227 |
| | | **10,202** | **13,608** | **13,791** |
| Assets of the disposal groups and non-current assets classified as held for sale | 7 | 605 | 285 | 98 |
| | | **10,807** | **13,893** | **13,889** |
| **Current liabilities** | | | | |
| Trade and other payables | 21 | (8,399) | (8,922) | (9,131) |
| Borrowings | 23 | (1,080) | (2,219) | (2,874) |
| Lease liabilities | 12 | (575) | (598) | (646) |
| Derivative financial instruments | 24 | (81) | (61) | (250) |
| Customer deposits and deposits from banks | 26 | (5,321) | (6,377) | (8,832) |
| Current tax liabilities | | (79) | (324) | (325) |
| Provisions | 27 | (186) | (155) | (226) |
| | | **(15,721)** | **(18,656)** | **(22,284)** |
| Liabilities of the disposal groups classified as held for sale | 7 | (276) | – | – |
| **Net current liabilities** | | **(5,190)** | **(4,763)** | **(8,395)** |
| **Non-current liabilities** | | | | |
| Trade and other payables | 21 | (109) | (170) | (365) |
| Borrowings | 23 | (6,188) | (6,005) | (5,580) |
| Lease liabilities | 12 | (7,827) | (8,968) | (9,859) |
| Derivative financial instruments | 24 | (926) | (887) | (389) |
| Customer deposits and deposits from banks | 26 | (1,017) | (1,830) | (3,296) |
| Post-employment benefit obligations | 29 | (1,222) | (3,085) | (2,808) |
| Deferred tax liabilities | 6 | (48) | (40) | (49) |
| Provisions | 27 | (119) | (137) | (147) |
| | | **(17,456)** | **(21,122)** | **(22,493)** |
| **Net assets** | | **12,325** | **13,369** | **13,548** |
| **Equity** | | | | |
| Share capital | 30 | 490 | 490 | 490 |
| Share premium | | 5,165 | 5,165 | 5,165 |
| All other reserves | | 3,183 | 3,658 | 3,770 |
| Retained earnings | | 3,505 | 4,078 | 4,147 |
| **Equity attributable to owners of the parent** | | **12,343** | **13,391** | **13,572** |
| Non-controlling interests | | (18) | (22) | (24) |
| **Total equity** | | **12,325** | **13,369** | **13,548** |

The notes on pages 35 to 108 form part of these financial statements.

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

**Ken Murphy**
**Alan Stewart**
Directors

The financial statements on pages 29 to 108 were approved and authorised for issue by the Directors on 13 April 2021.

# Group statement of changes in equity

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Cost of hedging reserve £m | Hedging reserve £m | Translation reserve £m | Own shares held £m | Merger reserve £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | All other reserves | | | | | | | | | |
| **At 29 February 2020 (restated*)** | **490** | **5,165** | **16** | **(15)** | **154** | **663** | **(250)** | **3,090** | **4,078** | **13,391** | **(22)** | **13,369** |
| **Profit/(loss) for the year** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **6,143** | **6,143** | **4** | **6,147** |
| **Other comprehensive income/(loss)** | | | | | | | | | | | | |
| Retranslation of net assets of overseas subsidiaries, joint ventures and associates | – | – | – | – | – | (68) | – | – | – | (68) | – | (68) |
| Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement (Note 7) | – | – | – | – | – | (413) | – | – | – | (413) | – | (413) |
| Change in fair value of financial instruments at fair value through other comprehensive income | – | – | – | – | – | – | – | – | (1) | (1) | – | (1) |
| Remeasurements of defined benefit pension schemes | – | – | – | – | – | – | – | – | (963) | (963) | – | (963) |
| Gains/(losses) on cash flow hedges | – | – | – | 17 | 39 | – | – | – | – | 56 | – | 56 |
| Cash flow hedges reclassified and reported in the Group income statement | – | – | – | – | (86) | – | – | – | – | (86) | – | (86) |
| Tax relating to components of other comprehensive income | – | – | – | (2) | 11 | (7) | – | – | 243 | 245 | – | 245 |
| **Total other comprehensive income/(loss)** | **–** | **–** | **–** | **15** | **(36)** | **(488)** | **–** | **–** | **(721)** | **(1,230)** | **–** | **(1,230)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **–** | **15** | **(36)** | **(488)** | **–** | **–** | **5,422** | **4,913** | **4** | **4,917** |
| **Inventory cash flow hedge movements** | | | | | | | | | | | | |
| Gains/(losses) transferred to the cost of inventory | – | – | – | – | (28) | – | – | – | – | (28) | – | (28) |
| **Total inventory cash flow hedge movements** | **–** | **–** | **–** | **–** | **(28)** | **–** | **–** | **–** | **–** | **(28)** | **–** | **(28)** |
| **Transactions with owners** | | | | | | | | | | | | |
| Purchase of own shares | – | – | – | – | – | – | (246) | – | – | (246) | – | (246) |
| Share-based payments | – | – | – | – | – | – | 308 | – | (97) | 211 | – | 211 |
| Dividends (Note 8) | – | – | – | – | – | – | – | – | (5,892) | (5,892) | – | (5,892) |
| Tax on items charged to equity | – | – | – | – | – | – | – | – | (6) | (6) | – | (6) |
| **Total transactions with owners** | **–** | **–** | **–** | **–** | **–** | **–** | **62** | **–** | **(5,995)** | **(5,933)** | **–** | **(5,933)** |
| **At 27 February 2021** | **490** | **5,165** | **16** | **–** | **90** | **175** | **(188)** | **3,090** | **3,505** | **12,343** | **(18)** | **12,325** |

The notes on pages 35 to 108 form part of these financial statements.

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

# **Group statement of changes in equity** continued

| | Share capital £m | Share premium £m | All other reserves: Capital redemption reserve £m | Cost of hedging 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** | **16** | **(5)** | **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** | **16** | **(5)** | **118** | **730** | **(179)** | **3,090** | **4,147** | **13,572** | **(24)** | **13,548** |
| **Profit/(loss) for the year** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **971** | **971** | **2** | **973** |
| **Other comprehensive income/(loss)** | | | | | | | | | | | | |
| Retranslation of net assets of overseas subsidiaries, joint ventures and associates | – | – | – | – | – | (68) | – | – | – | (68) | – | (68) |
| Change in fair value of financial assets at fair value through other comprehensive income | – | – | – | – | – | – | – | – | 9 | 9 | – | 9 |
| Remeasurements of defined benefit pension schemes | – | – | – | – | – | – | – | – | (466) | (466) | – | (466) |
| Gains/(losses) on cash flow hedges | – | – | – | (12) | 118 | – | – | – | – | 106 | – | 106 |
| Cash flow hedges reclassified and reported in the Group income statement | - | - | - | - | (7) | - | - | - | - | (7) | - | (7) |
| Tax relating to components of other comprehensive income | – | – | – | 2 | (11) | 1 | – | – | 70 | 62 | – | 62 |
| **Total other comprehensive income/(loss)** | **–** | **–** | **–** | **(10)** | **100** | **(67)** | **–** | **–** | **(387)** | **(364)** | **–** | **(364)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **–** | **(10)** | **100** | **(67)** | **–** | **–** | **584** | **607** | **2** | **609** |
| **Inventory cash flow hedge movements** | | | | | | | | | | | | |
| Gains/(losses) transferred to the cost of inventory | – | – | – | – | (64) | – | – | – | – | (64) | – | (64) |
| **Total inventory cash flow hedge movements** | **–** | **–** | **–** | **–** | **(64)** | **–** | **–** | **–** | **–** | **(64)** | **–** | **(64)** |
| **Transactions with owners** | | | | | | | | | | | | |
| Purchase of own shares | – | – | – | – | – | – | (221) | – | – | (221) | – | (221) |
| Share-based payments | – | – | – | – | – | – | 150 | – | 5 | 155 | – | 155 |
| Dividends (Note 8) | – | – | – | – | – | – | – | – | (656) | (656) | – | (656) |
| Tax on items charged to equity | – | – | – | – | – | – | – | – | (2) | (2) | – | (2) |
| **Total transactions with owners** | **–** | **–** | **–** | **–** | **–** | **–** | **(71)** | **–** | **(653)** | **(724)** | **–** | **(724)** |
| **At 29 February 2020** | **490** | **5,165** | **16** | **(15)** | **154** | **663** | **(250)** | **3,090** | **4,078** | **13,391** | **(22)** | **13,369** |

The notes on pages 35 to 108 form part of these financial statements.

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

# Group cash flow statement

| | Notes | 52 weeks 2021 £m | 53 weeks 2020 (restated(a)(b)) £m |
|---|---|---|---|
| **Cash flows generated from/(used in) operating activities** | | | |
| **Operating profit/(loss) of continuing operations** | | **1,736** | **2,206** |
| **Operating profit/(loss) of discontinued operations** | | **5,482** | **312** |
| Depreciation and amortisation | | 1,767 | 2,157 |
| (Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets classified as held for sale and early termination of leases | | (190) | (170) |
| (Profit)/loss arising on sale of financial assets | | - | (3) |
| (Profit)/loss arising on sale of joint ventures and associates | | (29) | (68) |
| (Profit)/loss arising on sale of subsidiaries | 7 | (5,197) | – |
| Transaction costs associated with sale of subsidiaries | | 6 | 22 |
| Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property | | (85) | 302 |
| Impairment of goodwill | 15 | 295 | - |
| Net remeasurement (gain)/loss of non-current assets held for sale | | (5) | - |
| Impairment of joint ventures | | – | 47 |
| Adjustment for non-cash element of pensions charge | | 14 | 9 |
| Other defined benefit pension scheme payments | 29 | (2,851) | (267) |
| Share-based payments | | 30 | 87 |
| Tesco Bank fair value movements included in operating profit/(loss) | | 367 | 100 |
| Retail (increase)/decrease in inventories | | (52) | 178 |
| Retail (increase)/decrease in development stock | | 2 | 1 |
| Retail (increase)/decrease in trade and other receivables | | 63 | 175 |
| Retail increase/(decrease) in trade and other payables | | 329 | (403) |
| Retail increase/(decrease) in provisions | | 56 | (87) |
| Retail (increase)/decrease in working capital | | 398 | (136) |
| Tesco Bank (increase)/decrease in loans and advances to customers and banks | | 1,686 | 127 |
| Tesco Bank (increase)/decrease in trade and other receivables | | 62 | 310 |
| Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables | | (1,902) | (3,849) |
| Tesco Bank increase/(decrease) in provisions | | 2 | 5 |
| Tesco Bank (increase)/decrease in working capital | | (152) | (3,407) |
| **Cash generated from/(used in) operations** | | **1,586** | **1,191** |
| Interest paid | | (729) | (803) |
| Corporation tax paid | | (255) | (340) |
| **Net cash generated from/(used in) operating activities** | | **602** | **48** |
| **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 | | 237 | 3,965 |
| Purchase of property, plant and equipment and investment property | | (1,171) | (1,003) |
| Purchase of intangible assets | | (206) | (201) |
| Disposal of subsidiaries, net of cash disposed | 7 | 7,093 | (6) |
| Acquisition of subsidiaries, net of cash acquired | | 15 | – |
| Disposal of associate | | - | 277 |
| Net (increase)/decrease in loans to joint ventures and associates | | (2) | 8 |
| Investments in joint ventures and associates | | (11) | (9) |
| Net (investments in)/proceeds from sale of short-term investments | | 62 | (687) |
| Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost | 25c | 116 | (6) |
| Dividends received from joint ventures and associates | | 26 | 42 |
| Interest received | | 12 | 18 |
| **Net cash generated from/(used in) investing activities** | | **6,171** | **2,398** |
| **Cash flows generated from/(used in) financing activities** | | | |
| Own shares purchased | | (66) | (149) |
| Repayment of capital element of obligations under leases | | (621) | (634) |
| Increase in borrowings | | 1,098 | 1,272 |
| Repayment of borrowings | | (1,814) | (1,756) |
| Net cash flows from derivative financial instruments | 25c | (580) | (17) |
| Dividends paid to equity owners | 8 | (5,858) | (656) |
| **Net cash generated from/(used in) financing activities** | | **(7,841)** | **(1,940)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,068)** | **506** |
| Cash and cash equivalents at the beginning of the year | | 3,031 | 2,567 |
| Effect of foreign exchange rate changes | | 8 | (42) |
| **Cash and cash equivalents including cash and overdrafts held in disposal groups at the end of the year** | | **1,971** | **3,031** |
| Cash and overdrafts held in disposal groups | | 7 | – |
| **Cash and cash equivalents at the end of the year** | 20 | **1,978** | **3,031** |

The notes on pages 35 to 108 form part of these financial statements.

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Refer to Note 1 for further details regarding the prior year restatement.

# Notes to the Group financial statements

## Note 1 Accounting policies, judgements and estimates

### General information

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

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

### Basis of preparation

The consolidated Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRS as issued by the International Accounting Standards Board. The consolidated Group financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pension assets that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of Brexit, the COVID-19 pandemic, a macroeconomic downturn and climate risk, 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 review, Summary of total indebtedness section.

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

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 early-adopted 'interest rate benchmark reform' phase 1 amendments in the prior year and has also early-adopted phase 2 amendments in the current year. The Group has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' amendment to IFRS 16, 'Leases', as the Group has not received material COVID-19-related rent concessions as a lessee.

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

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

- IFRS 17 'Insurance contracts'.

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

### Discontinued operations

During the year, the Board approved plans to dispose of the Group's operations in Thailand, Malaysia and Poland. The disposal of the Thailand and Malaysia operations completed on 18 December 2020, and the corporate sale of the Group's business in Poland completed after the balance sheet date on 16 March 2021. The assets and liabilities of the Group's Poland operation are presented separately in the Group balance sheet as a disposal group held for sale. Further properties in Poland not included in the corporate sale also individually meet the criteria to be classified as held for sale. The net results of the Group's operations in Thailand and Malaysia, up until disposal, and of the Group's entire business in Poland, are presented as discontinued operations in the Group income statement (for which the comparatives have been restated). See Note 7 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 year. Prior year comparatives have been reclassified. For further details, see Note 25.

### Change in classification

On 1 March 2020, the Group's portfolio of debt investment securities 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 resulting from the sale of the Group's mortgage business which increased management's expectation that these debt investments would be held for the collection of contractual cash flows only. In the prior year, 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. For further details, see Note 16.

## Note 1 Accounting policies, judgements and estimates continued

### 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 the 29 February 2020 and 23 February 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.

The consolidated financial statements also include a prior year restatement in relation to notional cash pooling arrangements where the intention to net settle cannot be clearly demonstrated. The Group has corrected prior year comparatives by grossing up cash and overdraft balances that had previously been offset on the balance sheet. The impact on the 29 February 2020 and 23 February 2019 balance sheets is an increase in both cash and overdraft balances of £729m and £1,311m respectively. As at 27 February 2021, the Group's notional cash pooling arrangements were physically settled where possible. All overdrafts including those subject to cash pooling arrangements are considered an integral part of the Group's cash management and so the cash flow statement has been restated to include all overdrafts in cash and cash equivalents on the cash flow statement (see Note 20). Previously, only overdrafts that were offset on the balance sheet were also included within cash and cash equivalents on the cash flow statement. The impact on the 29 February 2020 cash flow statement is to decrease cash and cash equivalent balances at the beginning of the year and at the end of the year by £349m and £377m respectively. There is no impact on the comparative period income statement, net debt or Total indebtedness.

### Basis of consolidation

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

The financial year represents the 52 weeks ended 27 February 2021 (prior financial year 53 weeks ended 29 February 2020). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 27 February 2021 (prior financial year 53 weeks ended 29 February 2020). For all other operations, the results are for the calendar year ended 28 February 2021 (prior calendar year ended 29 February 2020).

*Subsidiaries*

Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

*Joint ventures and associates*

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

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

### Revenue

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

*Sale of goods*

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

*Clubcard (customer loyalty programme)*

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

## Note 1 Accounting policies, judgements and estimates continued

*Financial services*

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

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

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

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

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

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

### Commercial income

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

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

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

### Finance income

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

### Finance costs

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

## Note 1 Accounting policies, judgements and estimates continued

### Business combinations and goodwill

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

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

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

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

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

### Cloud software licence agreements

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

### Intangible assets

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

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

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

### Property, plant and equipment

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

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

### Impairment of non-financial assets

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

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

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

### Investment property

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

### Inventories

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

## Note 1 Accounting policies, judgements and estimates continued

### Cash and cash equivalents

Cash and cash equivalents in the Group balance sheet consist of cash at bank and in hand, credit and debit card receivables, demand deposits with banks and short-term highly liquid investments with an original maturity of three months or less, for example short-term deposits, loans and advances to banks and certificates of deposits. Cash and cash equivalents in the Group cash flow statement also include overdrafts repayable on demand as they form an integral part of the Group's cash management.

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

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

The net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated).

### Leases

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

*The Group as a lessee*

A right of use asset and corresponding lease liability are recognised at commencement of the lease.

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

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right of use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate such as inflation, or change in the Group's assessment of whether it is reasonably certain to exercise a purchase, extension or break option.

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

Leases of low value assets (value when new less than £5,000) and short-term leases of 12 months or less are expensed to the Group income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

*The Group as a lessor*

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

*Sale and leaseback*

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

### Post-employment obligations

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

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

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

## Note 1 Accounting policies, judgements and estimates continued

### Share-based payments

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

### Taxation

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

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

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

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

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

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

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

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

### Foreign currencies

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

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

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

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

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

### Financial instruments

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

## Note 1 Accounting policies, judgements and estimates continued

*Trade receivables*

Trade receivables are non interest-bearing and are recognised initially at fair value, or at transaction price if there is not a significant financing component. They are subsequently held at amortised cost using the effective interest rate method, less allowance for ECLs.

*Investments*

Investment securities at amortised cost are measured at amortised cost, using the effective interest rate method less allowance for ECLs.

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

*Loans and advances to customers and banks*

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

*Impairment of financial assets*

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost. The ECLs are updated at each reporting date to reflect changes in credit risk.

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

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

*Interest-bearing borrowings*

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

*Trade payables*

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

*Equity instruments*

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

*Derivative financial instruments and hedge accounting*

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

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

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

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

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

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

*Fair value hedging*

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Group income statement over the remaining period to maturity.

*Cash flow hedging*

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

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

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

*Net investment hedging*

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

*Offsetting financial instruments*

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

## Provisions

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

## Supplier financing arrangements

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

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

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

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

# Notes to the Group financial statements

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

## 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.

## Judgements and sources of estimation uncertainty

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

*Critical accounting judgements*

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

**Leases**

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

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

Refer to Note 12 for additional disclosures relating to leases.

**Joint ventures and associates**

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

**APMs – Exceptional items**

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's APMs by virtue of their size and nature in order to better reflect management's view of the underlying trends, performance and position of the Group.

Management exercises judgement in determining the adjustments to apply to IFRS measurements, and this assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

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

Refer to pages 125 to 132 for further details on the Group's APMs.

*Key sources of estimation uncertainty*

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

**Post-employment benefit obligations**

The present value of post-employment benefit obligations is determined on an actuarial basis using various assumptions, including the discount rate, inflation rate and mortality assumptions. Any changes in these assumptions will impact the carrying amount as well as the net pension cost/(income). Key assumptions and sensitivities for post-employment benefit obligations are disclosed in Note 29.

# Notes to the Group financial statements

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

### Impairment of non-financial assets

The Group treats each store as a separate cash-generating unit for impairment testing. The Group allocates goodwill to groups of cash-generating units, where each country represents a group of cash-generating units for the Group's retail operations, and Tesco Bank represents a separate cash-generating unit.

Recoverable amounts for cash-generating units are the higher of fair value less cost of disposal, and value in use.

Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate. Key estimates and sensitivities are disclosed in Note 15.

### Tesco Bank ECL measurement

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

### Contingent liabilities

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

*Other significant estimates*

### Commercial income

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

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

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the Group balance sheet. Management believes there is limited risk of a material change in the amounts recognised in the next financial year. Refer to Note 22 for commercial income disclosures.

# Notes to the Group financial statements

## Note 2 Segmental reporting

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

The Group's operations in Thailand, Malaysia and Poland have been classified as discontinued operations as described in more detail in Notes 1 and 7. 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 year.

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. As a result of this, the Group has reclassified £(7)m of operating costs before exceptional items and amortisation of acquired intangibles, and £(7)m of exceptional items to the UK & ROI segment income statement for the year ended 29 February 2020. The Group has also reclassified £59m of investments in joint ventures and associates and £22m of current tax assets as at 29 February 2020 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 and Republic of Ireland; 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/(loss) before exceptional items and amortisation of acquired intangibles, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' underlying performance for the financial year under evaluation. Operating profit/(loss) before exceptional items and amortisation of acquired intangibles is a consistent measure within the Group as defined within the Glossary. Refer to Note 4 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating segments is not material.

### Income statement

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

| 52 weeks ended 27 February 2021<br>At constant exchange rates | UK & ROI<br>£m | Central Europe<br>£m | Tesco Bank<br>£m | Total at constant exchange<br>£m | Foreign exchange<br>£m | Total at actual exchange<br>£m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| Group sales | 48,780 | 3,919 | 735 | 53,434 | 11 | 53,445 |
| Revenue | 53,102 | 4,038 | 735 | 57,875 | 12 | 57,887 |
| **Operating profit/(loss) before exceptional items and amortisation of acquired intangibles** | **1,861** | **125** | **(175)** | **1,811** | **4** | **1,815** |
| Exceptional items and amortisation of acquired intangibles | 213 | 2 | (295) | (80) | 1 | (79) |
| **Operating profit/(loss)** | **2,074** | **127** | **(470)** | **1,731** | **5** | **1,736** |
| **Operating margin** | **3.5%** | **3.1%** | **(23.8)%** | **3.1%** | | **3.1%** |

| 52 weeks ended 27 February 2021<br>At actual exchange rates | UK & ROI<br>£m | Central Europe<br>£m | Tesco Bank<br>£m | Total at actual exchange<br>£m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Group sales | 48,848 | 3,862 | 735 | 53,445 |
| Revenue | 53,170 | 3,982 | 735 | 57,887 |
| **Operating profit/(loss) before exceptional items and amortisation of acquired intangibles** | **1,866** | **124** | **(175)** | **1,815** |
| Exceptional items and amortisation of acquired intangibles | 213 | 3 | (295) | (79) |
| **Operating profit/(loss)** | **2,079** | **127** | **(470)** | **1,736** |
| **Operating margin** | **3.5%** | **3.1%** | **(23.8)%** | **3.1%** |
| Share of post-tax profits/(losses) of joint ventures and associates | | | | 26 |
| Finance income | | | | 15 |
| Finance costs | | | | (952) |
| **Profit/(loss) before tax** | | | | **825** |

## Note 2 Segmental reporting continued

| 53 weeks ended 29 February 2020<br>At actual exchange rates | UK & ROI<br>£m | Central Europe<br>£m | Tesco Bank<br>£m | Total at actual exchange<br>£m |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| Group sales* | 45,752 | 3,968 | 1,068 | 50,788 |
| Revenue | 52,898 | 4,125 | 1,068 | 58,091 |
| **Operating profit/(loss) before exceptional items and amortisation of acquired intangibles*** | **2,202** | **176** | **193** | **2,571** |
| Exceptional items and amortisation of acquired intangibles | (279) | 33 | (119) | (365) |
| **Operating profit/(loss)** | **1,923** | **209** | **74** | **2,206** |
| **Operating margin*** | **4.2%** | **4.3%** | **18.1%** | **4.4%** |
| Share of post-tax profits/(losses) of joint ventures and associates | | | | (8) |
| Finance income | | | | 20 |
| Finance costs | | | | (1,190) |
| **Profit/(loss) before tax** | | | | **1,028** |

* Refer to page 129 for a reconciliation from Group sales, Operating profit before exceptional items and amortisation of acquired intangibles and Operating margin shown above to the Group's 52-week alternative performance measures for the year ended 29 February 2020.

Tesco Bank revenue of £735m (2020: £1,068m) comprises interest and similar revenues of £542m (2020: £733m) and fees and commissions revenue of £193m (2020: £335m).

### 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 27 February 2021 | UK & ROI<br>£m | Central Europe<br>£m | Tesco Bank<br>£m | Unallocated<br>£m | Total Continuing operations<br>£m | Discontinued operations<br>£m | Total<br>£m |
|---|---|---|---|---|---|---|---|
| Goodwill and other intangible assets | 4,750 | 32 | 611 | – | 5,393 | – | 5,393 |
| Property, plant and equipment and investment property | 15,397 | 1,768 | 65 | – | 17,230 | – | 17,230 |
| Right of use assets | 5,571 | 368 | 12 | – | 5,951 | – | 5,951 |
| Investments in joint ventures and associates | 84 | 1 | 93 | – | 178 | – | 178 |
| Non-current financial assets at fair value through other comprehensive income[a] | 9 | – | 2 | – | 11 | – | 11 |
| Non-current investment securities at amortised cost[a] | – | – | 752 | – | 752 | – | 752 |
| Non-current trade and other receivables[b] | 97 | – | 52 | – | 149 | – | 149 |
| Non-current loans and advances to customers and banks | – | – | 3,309 | – | 3,309 | – | 3,309 |
| Deferred tax assets | 460 | 25 | 67 | – | 552 | – | 552 |
| **Non-current assets[c]** | **26,368** | **2,194** | **4,963** | **–** | **33,525** | **–** | **33,525** |
| Inventories and current trade and other receivables[d][e] | 2,684 | 325 | 222 | – | 3,231 | – | 3,231 |
| Current loans and advances to customers and banks | – | – | 3,093 | – | 3,093 | – | 3,093 |
| Current financial assets at fair value through other comprehensive income[a] | – | – | 3 | – | 3 | – | 3 |
| Current investment securities at amortised cost[a] | – | – | 175 | – | 175 | – | 175 |
| Total trade and other payables | (7,797) | (495) | (216) | – | (8,508) | – | (8,508) |
| Total customer deposits and deposits from banks | – | – | (6,338) | – | (6,338) | – | (6,338) |
| Total provisions | (224) | (22) | (59) | – | (305) | – | (305) |
| Deferred tax liabilities | (9) | (39) | – | – | (48) | – | (48) |
| Net current tax | (79) | 5 | 36 | – | (38) | – | (38) |
| Post-employment benefits | (1,222) | – | – | – | (1,222) | – | (1,222) |
| Assets of the disposal group and non-current assets classified as held for sale | 53 | – | – | – | 53 | 552 | 605 |
| Liabilities of the disposal group classified as held for sale | – | – | – | – | – | (276) | (276) |
| Net debt (including Tesco Bank)[f][g] | (7,879) | (493) | 242 | (3,442) | (11,572) | – | (11,572) |
| **Net assets** | **11,895** | **1,475** | **2,121** | **(3,442)** | **12,049** | **276** | **12,325** |

(a) Refer to Note 1.
(b) Excludes loans to joint ventures of £21m (2020: £23m) which form part of net debt.
(c) Excludes derivative financial instrument non-current assets of £1,425m (2020: £1,083m).
(d) Excludes net interest and other receivables of £nil (2020: £1m) which form part of net debt.
(e) Excludes loans to joint ventures of £101m (2020: £104m) which form part of net debt.
(f) Refer to Note 32.
(g) Net debt (including Tesco Bank) at 27 February 2021 excludes Net debt of the disposal groups classified as held for sale of £(141)m.

# Notes to the Group financial statements

## Note 2 Segmental reporting continued

| At 29 February 2020 (restated) | 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 | 4,851 | 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[(a)] | 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 | 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[(a)] | – | – | 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) |
| Assets of the disposal groups and 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)-(g) Refer to previous table for footnotes.

## Other segment information

| 52 weeks ended 27 February 2021 | 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)] | 1,466 | 79 | 15 | 1,560 | 2 | 1,562 |
| Goodwill and other intangible assets[(c)] | 156 | 10 | 40 | 206 | - | 206 |
| Depreciation and amortisation: | | | | | | |
| Property, plant and equipment | (799) | (99) | (9) | (907) | (14) | (921) |
| Right of use assets | (522) | (37) | (2) | (561) | (5) | (566) |
| Investment property | (1) | - | - | (1) | - | (1) |
| Other intangible assets | (225) | (7) | (46) | (278) | (1) | (279) |
| Impairment[(d)] | | | | | | |
| (Loss)/reversal on financial assets | (23) | (1) | (360) | (384) | (2) | (386) |

| 53 weeks ended 29 February 2020 | £m | £m | £m | £m | £m | £m |
|---|---|---|---|---|---|---|
| Capital expenditure (including acquisitions through business combinations): | | | | | | |
| Property, plant and equipment[(a)(b)] | 1,674 | 90 | 7 | 1,771 | 135 | 1,906 |
| Goodwill and other intangible assets[(c)] | 145 | 12 | 44 | 201 | 6 | 207 |
| Depreciation and amortisation: | | | | | | |
| Property, plant and equipment | (771) | (98) | (9) | (878) | (260) | (1,138) |
| Right of use assets | (537) | (32) | (2) | (571) | (80) | (651) |
| Investment property | (1) | – | – | (1) | – | (1) |
| Other intangible assets | (218) | (11) | (130) | (359) | (8) | (367) |
| Impairment[(d)] | | | | | | |
| (Loss)/reversal on financial assets | (4) | – | (179) | (183) | 3 | (180) |

(a) Includes £476m related to obtaining control of The Tesco Property (No. 2) Limited Partnership (2020: £914m related to obtaining control of The Tesco Atrato Limited Partnership). Refer to Note 33 for further details.
(b) Includes £12m (2020: £nil) of property, plant and equipment acquired through business combinations.
(c) Includes £5m (2020: £nil) of goodwill and other intangible assets acquired through business combinations.
(d) Refer to Note 15 for impairment of non-current assets.

# Notes to the Group financial statements

## Note 2 Segmental reporting continued

### Cash flow statement

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

| | Retail | | | Bank | | | Tesco Group |
|---|---|---|---|---|---|---|---|
| 52 weeks ended 27 February 2021 | 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** | **1,990** | **216** | **2,206** | **(175)** | **(295)** | **(470)** | **1,736** |
| Depreciation and amortisation | 1,614 | 76 | 1,690 | 57 | - | 57 | 1,747 |
| ATM net income | (13) | - | (13) | 13 | - | 13 | - |
| (Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases | (47) | (150) | (197) | 2 | - | 2 | (195) |
| (Profit)/loss arising on sale of financial assets | - | - | - | - | - | - | - |
| (Profit)/loss arising on sale of joint ventures and associates | - | (29) | (29) | - | - | - | (29) |
| Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property | (4) | (124) | (128) | - | - | - | (128) |
| Impairment of goodwill | - | - | - | - | 295 | 295 | 295 |
| Impairment of joint ventures | - | - | - | - | - | - | - |
| Adjustment for non-cash element of pensions charge | 7 | 7 | 14 | - | - | - | 14 |
| Other defined benefit pension scheme payments | (351) | (2,500) | (2,851) | - | - | - | (2,851) |
| Share-based payments | 31 | - | 31 | (3) | - | (3) | 28 |
| Tesco Bank fair value movements included in operating profit/(loss) | - | - | - | 367 | - | 367 | 367 |
| **Cash flows generated from operations excluding working capital** | **3,227** | **(2,504)** | **723** | **261** | **-** | **261** | **984** |
| (Increase)/decrease in working capital | 450 | (11) | 439 | (133) | (19) | (152) | 287 |
| **Cash generated from/(used in) operations[(a)]** | **3,677** | **(2,515)** | **1,162** | **128** | **(19)** | **109** | **1,271** |
| Interest paid | (680) | - | (680) | (6) | - | (6) | (686) |
| Corporation tax paid | (161) | - | (161) | (9) | - | (9) | (170) |
| **Net cash generated from/(used in) operating activities** | **2,836** | **(2,515)** | **321** | **113** | **(19)** | **94** | **415** |
| Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale | 33 | 148 | 181 | - | 51 | 51 | 232 |
| Purchase of property, plant and equipment and investment property – store buybacks | (239) | (52) | (291) | - | - | - | (291) |
| Purchase of property, plant and equipment and investment property – other capital expenditure | (740) | - | (740) | (21) | - | (21) | (761) |
| Purchase of intangible assets | (162) | - | (162) | (40) | - | (40) | (202) |
| Disposal of subsidiaries, net of cash disposed | - | 7,806 | 7,806 | - | - | - | 7,806 |
| Acquisition of businesses, net of cash acquired | 15 | - | 15 | - | - | - | 15 |
| Disposal of associate | - | - | - | - | - | - | - |
| Net (increase)/decrease in loans to joint ventures and associates | (2) | - | (2) | - | - | - | (2) |
| Investments in joint ventures and associates | (11) | - | (11) | - | - | - | (11) |
| Net (investments in)/proceeds from sale of short-term investments | 62 | - | 62 | - | - | - | 62 |
| Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost | (1) | - | (1) | 117 | - | 117 | 116 |
| Dividends received from joint ventures and associates | 10 | - | 10 | 7 | - | 7 | 17 |
| Dividends received from Tesco Bank | 13 | - | 13 | (13) | - | (13) | - |
| Interest received | 10 | - | 10 | - | - | - | 10 |
| **Net cash generated from/(used in) investing activities** | **(1,012)** | **7,902** | **6,890** | **50** | **51** | **101** | **6,991** |
| Own shares purchased | (66) | - | (66) | - | - | - | (66) |
| Repayment of capital element of obligations under leases | (561) | - | (561) | (3) | - | (3) | (564) |
| Add/(less): Cash inflow from major disposal | - | (5,337) | (5,337) | - | - | - | (5,337) |
| Less: Net increase/(decrease) in loans to joint ventures and associates | 2 | - | 2 | - | - | - | 2 |
| Less: Net investments in/(proceeds from sale of) short-term investments | (62) | - | (62) | - | - | - | (62) |
| **Free cash flow[(b)]** | **1,137** | **50** | **1,187** | **160** | **32** | **192** | **1,379** |
| Increase in borrowings | 1,097 | - | 1,097 | 1 | - | 1 | 1,098 |
| Repayment of borrowings | (1,039) | - | (1,039) | (775) | - | (775) | (1,814) |
| Net cash flows from derivative financial instruments | (632) | 52 | (580) | - | - | - | (580) |
| Dividends paid to equity holders | (942) | (4,916) | (5,858) | - | - | - | (5,858) |
| **Net cash generated from/(used in) financing activities** | **(2,143)** | **(4,864)** | **(7,007)** | **(777)** | **-** | **(777)** | **(7,784)** |
| **Net increase/(decrease) in cash and cash equivalents from continuing operations** | **(319)** | **523** | **204** | **(614)** | **32** | **(582)** | **(378)** |
| **Net increase/(decrease) in cash and cash equivalents from discontinued operations** | **38** | **(728)** | **(690)** | **-** | **-** | **-** | **(690)** |
| **Intra–Group funding and intercompany transactions** | **-** | **2** | **2** | **(2)** | **-** | **(2)** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | **(281)** | **(203)** | **(484)** | **(616)** | **32** | **(584)** | **(1,068)** |
| Cash and cash equivalents at the beginning of the year | | | 1,667 | | | 1,364 | 3,031 |
| Effect of foreign exchange rate changes | | | 8 | | | - | 8 |
| **Cash and cash equivalents at the end of the year** | | | **1,191** | | | **780** | **1,971** |
| Cash and overdrafts held in disposal groups | | | 7 | | | - | 7 |
| **Cash and cash equivalents not held in disposal groups** | | | **1,198** | | | **780** | **1,978** |

(a) APM: 'Retail operating cash flow' of £1,162m (2020: £3,580m) is the cash generated from operations of the continuing Retail business.
(b) Free cash flow of £1,187m (2020: £1,493m) is reported on a continuing operations basis.

## Note 2 Segmental reporting continued

### Cash flow statement continued

| 53 weeks ended 29 February 2020 (restated[d]) | Retail: Before exceptional items and amortisation of acquired intangibles £m | Retail: Exceptional items and amortisation of acquired intangibles £m | Retail Total £m | Bank: Before exceptional items and amortisation of acquired intangibles £m | Bank: Exceptional items and amortisation of acquired intangibles £m | Tesco Bank Total £m | Tesco Group Total £m |
|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | |
| **Operating profit/(loss) of continuing operations** | **2,378** | **(246)** | **2,132** | **193** | **(119)** | **74** | **2,206** |
| Depreciation and amortisation | 1,589 | 79 | 1,668 | 77 | 64 | 141 | 1,809 |
| ATM net income | (34) | - | (34) | 34 | - | 34 | - |
| (Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases | 1 | (153) | (152) | - | - | - | (152) |
| (Profit)/loss arising on sale of financial assets | - | - | - | - | (3) | (3) | (3) |
| (Profit)/loss arising on sale of joint ventures and associates | - | (68) | (68) | - | - | - | (68) |
| Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property | (2) | 223 | 221 | - | - | - | 221 |
| Impairment of joint ventures | - | 47 | 47 | - | - | - | 47 |
| Adjustment for non-cash element of pensions charge | 2 | - | 2 | - | - | - | 2 |
| Other defined benefit pension scheme payments | (267) | - | (267) | - | - | - | (267) |
| Share-based payments | 84 | - | 84 | 1 | - | 1 | 85 |
| Tesco Bank fair value movements included in operating profit/(loss) | - | - | - | 100 | - | 100 | 100 |
| **Cash flows generated from operations excluding working capital** | **3,751** | **(118)** | **3,633** | **405** | **(58)** | **347** | **3,980** |
| (Increase)/decrease in working capital | 24 | (77) | (53) | (3,422) | 15 | (3,407) | (3,460) |
| **Cash generated from/(used in) operations[a][c]** | **3,775** | **(195)** | **3,580** | **(3,017)** | **(43)** | **(3,060)** | **520** |
| Interest paid | (739) | - | (739) | (8) | - | (8) | (747) |
| Corporation tax paid | (219) | - | (219) | (69) | - | (69) | (288) |
| **Net cash generated from/(used in) operating activities** | **2,817** | **(195)** | **2,622** | **(3,094)** | **(43)** | **(3,137)** | **(515)** |
| Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale | 3 | 263 | 266 | - | 3,696 | 3,696 | 3,962 |
| Purchase of property, plant and equipment and investment property – store buybacks | (136) | (36) | (172) | - | - | - | (172) |
| Purchase of property, plant and equipment and investment property – other capital expenditure | (690) | - | (690) | (5) | - | (5) | (695) |
| Purchase of intangible assets | (156) | - | (156) | (39) | - | (39) | (195) |
| Disposal of subsidiaries, net of cash disposed | 4 | (10) | (6) | - | - | - | (6) |
| Acquisition of businesses, net of cash acquired | - | - | - | - | - | - | - |
| Disposal of associate | - | 277 | 277 | - | - | - | 277 |
| Net (increase)/decrease in loans to joint ventures and associates | - | - | - | 8 | - | 8 | 8 |
| Investments in joint ventures and associates | (9) | - | (9) | - | - | - | (9) |
| Net (investments in)/proceeds from sale of short-term investments | (687) | - | (687) | - | - | - | (687) |
| Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost | (3) | - | (3) | (3) | - | (3) | (6) |
| Dividends received from joint ventures and associates | 12 | - | 12 | 16 | - | 16 | 28 |
| Dividends received from Tesco Bank | 50 | - | 50 | (50) | - | (50) | - |
| Interest received | 16 | - | 16 | - | - | - | 16 |
| **Net cash generated from/(used in) investing activities** | **(1,596)** | **494** | **(1,102)** | **(73)** | **3,696** | **3,623** | **2,521** |
| Own shares purchased | (149) | - | (149) | - | - | - | (149) |
| Repayment of capital element of obligations under leases | (565) | - | (565) | (2) | - | (2) | (567) |
| Add/(less): Cash inflow from major disposal | - | - | - | - | - | - | - |
| Less: Net increase/(decrease) in loans to joint ventures and associates | - | - | - | (8) | - | (8) | (8) |
| Less: Net investments in/(proceeds from sale of) short-term investments | 687 | - | 687 | - | - | - | 687 |
| **Free cash flow[b][c]** | **1,194** | **299** | **1,493** | **(3,177)** | **3,653** | **476** | **1,969** |
| Increase in borrowings | 1,022 | - | 1,022 | 250 | - | 250 | 1,272 |
| Repayment of borrowings | (1,346) | - | (1,346) | (410) | - | (410) | (1,756) |
| Net cash flows from derivative financial instruments | (17) | - | (17) | - | - | - | (17) |
| Dividends paid to equity holders | (656) | - | (656) | - | - | - | (656) |
| **Net cash generated from/(used in) financing activities** | **(1,711)** | **-** | **(1,711)** | **(162)** | **-** | **(162)** | **(1,873)** |
| **Net increase/(decrease) in cash and cash equivalents from continuing operations** | **(490)** | **299** | **(191)** | **(3,329)** | **3,653** | **324** | **133** |
| **Net increase/(decrease) in cash and cash equivalents from discontinued operations** | **395** | **(22)** | **373** | **-** | **-** | **-** | **373** |
| **Intra–Group funding and intercompany transactions** | **3** | **-** | **3** | **(3)** | **-** | **(3)** | **-** |
| **Net increase/(decrease) in cash and cash equivalents** | **(92)** | **277** | **185** | **(3,332)** | **3,653** | **321** | **506** |
| Cash and cash equivalents at the beginning of the year | | | 1,524 | | | 1,043 | 2,567 |
| Effect of foreign exchange rate changes | | | (42) | | | - | (42) |
| **Cash and cash equivalents at the end of the year** | | | **1,667** | | | **1,364** | **3,031** |
| Cash and overdrafts held in disposal groups | | | - | | | - | - |
| **Cash and cash equivalents not held in disposal groups** | | | **1,667** | | | **1,364** | **3,031** |

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

(c) Refer to page 131 for a reconciliation from Retail operating cash flow, Retail free cash flow and Free cash flow shown above to the Group's 52-week alternative performance measures.

(d) Refer to Note 1 for further details regarding the prior year restatement.

# Notes to the Group financial statements

## Note 2 Segmental reporting continued

### Cash flow statement continued

| | Continuing operations | | Discontinued operations | | Total Group | |
|---|---|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m | 2021 £m | 2020* £m |
| **Operating profit/(loss)** | **1,736** | **2,206** | **5,482** | **312** | **7,218** | **2,518** |
| Depreciation and amortisation | 1,747 | 1,809 | 20 | 348 | 1,767 | 2,157 |
| (Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases | (195) | (152) | 5 | (18) | (190) | (170) |
| (Profit)/loss arising on sale of financial assets | - | (3) | - | – | - | (3) |
| (Profit)/loss arising on sale of joint ventures and associates | (29) | (68) | - | – | (29) | (68) |
| (Profit)/loss arising on sales of subsidiaries | - | – | (5,197) | – | (5,197) | – |
| Transaction and derivative costs associated with sale of subsidiaries | - | – | 6 | 22 | 6 | 22 |
| Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property | (128) | 221 | 43 | 81 | (85) | 302 |
| Impairment of goodwill | 295 | - | - | – | 295 | - |
| Net remeasurement (gain)/loss of non-current assets held for sale | - | - | (5) | – | (5) | - |
| Impairment of joint ventures | - | 47 | - | – | – | 47 |
| Adjustment for non-cash element of pensions charge | 14 | 2 | - | 7 | 14 | 9 |
| Other defined benefit pension scheme payments | (2,851) | (267) | - | – | (2,851) | (267) |
| Share-based payments | 28 | 85 | 2 | 2 | 30 | 87 |
| Tesco Bank fair value movements included in operating profit/(loss) | 367 | 100 | - | – | 367 | 100 |
| **Cash flows generated from operations excluding working capital** | **984** | **3,980** | **356** | **754** | **1,340** | **4,734** |
| (Increase)/decrease in working capital | 287 | (3,460) | (41) | (83) | 246 | (3,543) |
| **Cash generated from/(used in) operations** | **1,271** | **520** | **315** | **671** | **1,586** | **1,191** |
| Interest paid | (686) | (747) | (43) | (56) | (729) | (803) |
| Corporation tax paid | (170) | (288) | (85) | (52) | (255) | (340) |
| **Net cash generated from/(used in) operating activities** | **415** | **(515)** | **187** | **563** | **602** | **48** |
| Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale | 232 | 3,962 | 5 | 3 | 237 | 3,965 |
| Purchase of property, plant and equipment and investment property | (1,052) | (867) | (119) | (136) | (1,171) | (1,003) |
| Purchase of intangible assets | (202) | (195) | (4) | (6) | (206) | (201) |
| Disposal of subsidiaries, net of cash disposed | 7,806 | (6) | (713) | – | 7,093 | (6) |
| Acquisition of businesses, net of cash acquired | 15 | – | - | – | 15 | – |
| Disposal of associate | - | 277 | - | – | - | 277 |
| Net (increase)/decrease in loans to joint ventures and associates | (2) | 8 | - | – | (2) | 8 |
| Investments in joint ventures and associates | (11) | (9) | - | – | (11) | (9) |
| Net (investments in)/proceeds from sale of short-term investments | 62 | (687) | - | – | 62 | (687) |
| Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost | 116 | (6) | - | – | 116 | (6) |
| Dividends received from joint ventures and associates | 17 | 28 | 9 | 14 | 26 | 42 |
| Interest received | 10 | 16 | 2 | 2 | 12 | 18 |
| **Net cash generated from/(used in) investing activities** | **6,991** | **2,521** | **(820)** | **(123)** | **6,171** | **2,398** |
| Own shares purchased | (66) | (149) | - | – | (66) | (149) |
| Repayments of obligations under leases | (564) | (567) | (57) | (67) | (621) | (634) |
| Increase in borrowings | 1,098 | 1,272 | - | - | 1,098 | 1,272 |
| Repayment of borrowings | (1,814) | (1,756) | - | – | (1,814) | (1,756) |
| Net cash flows from derivative financial instruments | (580) | (17) | - | – | (580) | (17) |
| Dividends paid to equity holders | (5,858) | (656) | - | – | (5,858) | (656) |
| **Net cash generated from/(used in) financing activities** | **(7,784)** | **(1,873)** | **(57)** | **(67)** | **(7,841)** | **(1,940)** |
| **Net increase/(decrease) in cash and cash equivalents before intra-group funding and intercompany transactions** | **(378)** | **133** | **(690)** | **373** | **(1,068)** | **506** |
| **Intra-Group funding and intercompany transactions** | **(357)** | **371** | **357** | **(371)** | **-** | **–** |
| **Net increase/(decrease) in cash and cash equivalents** | **(735)** | **504** | **(333)** | **2** | **(1,068)** | **506** |
| Cash and cash equivalents at the beginning of the year | | | | | 3,031 | 2,567 |
| Effect of foreign exchange rate changes | | | | | 8 | (42) |
| **Cash and cash equivalents at the end of the year** | | | | | **1,971** | **3,031** |
| Cash and overdrafts held in disposal groups | | | | | 7 | – |
| **Cash and cash equivalents not held in disposal groups** | | | | | **1,978** | **3,031** |

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

## Note 3 Income and expenses

### Auditor's remuneration

| | 52 weeks 2021 £m | 53 weeks 2020 £m |
|---|---|---|
| Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements | 2.3 | 1.6 |
| The audit of the accounts of the Company's subsidiaries | 8.3 | 5.8 |
| **Total audit services** | **10.6** | **7.4** |
| Audit-related assurance services | 1.1 | 0.5 |
| Other services: | | |
| Transaction services | 0.6 | 0.2 |
| All other non-audit services | 0.8 | 1.6 |
| **Total non-audit services** | **2.5** | **2.3** |
| **Total auditor's remuneration** | **13.1** | **9.7** |

Audit-related assurance services of £1.1m (2020: £0.5m) comprise: review of the Group's interim report £0.5m (2020: £0.5m), audit of the parent company interim accounts drawn up to support the special dividend to shareholders £0.3m (2020: £nil) and other services £0.3m (2020: £nil). Transaction services represents provision of reporting accountant services related to the disposal of the Group's Thailand and Malaysia operations £0.6m (2020: £0.2m). Other non-audit services of £0.8m (2020: £1.6m) represents: provision of data repository services for information needed for disclosure purposes as part of ongoing claims £0.8m (2020: £0.6m), SFO monitor role £nil (2020: £0.6m) and other services £nil (2020: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.3m (2020: £0.1m) for the audit of the main Group pension scheme. Non-audit services are subject to approval by the Chief Audit and Risk Officer and the Audit committee.

### Employment costs, including Directors' remuneration

| Continuing operations | Notes | 52 weeks 2021 £m | 53 weeks 2020 £m |
|---|---|---|---|
| Wages and salaries | | 6,443 | 5,817 |
| Social security costs | | 509 | 464 |
| Post-employment defined benefits [(a)] | 29 | 48 | 37 |
| Post-employment defined contributions | 29 | 347 | 329 |
| Share-based payments expense | 28 | 69 | 122 |
| Termination benefits[(b)] | | 33 | 100 |
| **Total** | | **7,449** | **6,869** |

(a) Includes £7m (2020: £nil) past service cost related to guaranteed minimum pensions (GMPs). This is treated as an exceptional item. Refer to Note 4 and Note 29.
(b) Includes £nil (2020: £95m) of redundancy costs included within exceptional items. Refer to Note 4.

Post-employment defined contribution charges include £132m (2020: £116m) of salaries paid as pension contributions. The table below shows the average number of employees by operating segment during the financial year.

| Continuing operations | Average number of employees 2021 | Average number of employees 2020[(a)] | Average number of full-time equivalents 2021 | Average number of full-time equivalents 2020[(b)] |
|---|---|---|---|---|
| UK & ROI | 336,392 | 319,303 | 214,470 | 210,768 |
| Central Europe | 27,273 | 31,558 | 25,054 | 28,955 |
| Tesco Bank | 3,656 | 3,587 | 3,387 | 3,305 |
| **Total** | **367,321** | **354,448** | **242,911** | **243,028** |

(a) The average number of employees in the year ended 29 February 2020 excludes the average number of employees of 68,644 in discontinued operations.
(b) The average number of full-time equivalents in the year ended 29 February 2020 excludes the average number of full-time equivalents of 50,935 in discontinued operations.

# Notes to the Group financial statements

## Note 4 Exceptional items and amortisation of acquired intangibles

### Group income statement

*52 weeks ended 27 February 2021*

Profit/(loss) for the year 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 venture and associates profits/(losses) £m | Finance costs £m | Taxation £m |
|---|---|---|---|---|---|---|
| **Exceptional items:** | | | | | | |
| Property transactions[a] | 19 | 7 | 26 | – | – | 18 |
| Booker integration costs[b] | (21) | (4) | (25) | – | – | 4 |
| ATM business rates[c] | 105 | – | 105 | – | – | (20) |
| Acquisition of property joint venture[d] | 134 | – | 134 | – | – | (23) |
| Litigation costs[e] | – | (93) | (93) | – | – | – |
| GMP equalisation[f] | (6) | (1) | (7) | – | – | 1 |
| Net impairment reversal of non-current assets[g] | 156 | – | 156 | – | – | 8 |
| Impairment charge on goodwill[h] | – | (295) | (295) | – | – | – |
| Employee Share Scheme[i] | (4) | – | (4) | – | – | – |
| Release of tax provisions[j] | – | – | – | – | – | 106 |
| **Total exceptional items** | **383** | **(386)** | **(3)** | **–** | **–** | **94** |
| **Amortisation of acquired intangibles:** | | | | | | |
| Amortisation of acquired intangible assets (Note 10) | – | (76) | (76) | – | – | 2 |
| **Total exceptional items and amortisation of acquired intangibles** | **383** | **(462)** | **(79)** | **–** | **–** | **96** |

(a) As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties.
(b) Final costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.
(c) Supreme Court ruling in May 2020 that Tesco Group is due a refund of business rates related to external facing ATMs in stores.
(d) The Group obtained control of The Tesco Property (No. 2) Limited Partnership, previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest in the partnership for a net consideration of £29m. The acquisition, which is treated as an asset acquisition, increases the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities. Refer to Note 33 for further details.
(e) Costs arising from the 2016 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profit announced in 2014.
(f) This relates to a non-cash charge in respect of the Group's defined benefit pension obligations in the UK, arising from equalisation of guaranteed minimum pensions (GMPs) following a further High Court ruling. Refer to Note 29 for further details.
(g) Net impairment reversal relating to the Group's non-current assets. A further £32m net impairment loss of non-current assets is included within the £134m gain on acquisition of property joint venture. Refer to Notes 15 and 33 for further details.
(h) An impairment charge was recognised on the goodwill associated with Tesco Bank (2020: £nil). Refer to Note 15 for further details.
(i) These are costs related to the special dividend and share consolidation with respect to Employee Share Schemes.
(j) The agreement of previously uncertain tax positions arising in prior periods has resulted in a release of tax provisions no longer required.

*53 weeks ended 29 February 2020*

Profit/(loss) for the year 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 venture and associates profits/(losses) £m | Finance costs £m | Taxation £m |
|---|---|---|---|---|---|---|
| **Exceptional items** | | | | | | |
| Net restructuring and redundancy costs | (95) | (13) | (108) | – | – | 21 |
| Provision for customer redress | (45) | – | (45) | – | – | – |
| Derivative restructuring | – | – | – | – | (180) | 34 |
| Acquisition of property joint venture | (136) | – | (136) | – | – | (23) |
| Impairment of investment in India joint venture | – | (47) | (47) | – | – | – |
| Disposal of China associate | – | 37 | 37 | – | – | (30) |
| China land penalties | – | – | – | (12) | – | – |
| Tesco Bank mortgage disposal | (8) | 3 | (5) | – | 29 | (14) |
| Closure of Tesco Bank current accounts to new customers | – | (56) | (56) | – | – | 14 |
| Ogden rate change | – | – | – | 4 | – | – |
| Property transactions | 33 | – | 33 | – | – | 15 |
| Booker integration costs | (18) | (5) | (23) | – | – | 4 |
| Net impairment reversal of non-current assets | 60 | 4 | 64 | – | – | 16 |
| **Total exceptional items** | **(209)** | **(77)** | **(286)** | **(8)** | **(151)** | **37** |
| **Amortisation of acquired intangibles:** | | | | | | |
| Amortisation of acquired intangible assets (Note 10) | – | (79) | (79) | – | – | 15 |
| **Total exceptional items and amortisation of acquired intangibles*** | **(209)** | **(156)** | **(365)** | **(8)** | **(151)** | **52** |

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

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

### Group cash flow statement

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

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

| | Cash flows from operating activities | | Cash flows from investing activities | | Cash flows from financing activities | |
|---|---|---|---|---|---|---|
| | 52 weeks 2021 £m | 53 weeks 2020 £m | 52 weeks 2021 £m | 53 weeks 2020 £m | 52 weeks 2021 £m | 53 weeks 2020 £m |
| Prior year restructuring and redundancy costs | (36) | (124) | – | – | – | – |
| Current year restructuring and redundancy costs | - | (53) | – | – | – | – |
| Property transactions | - | – | 148 | 263 | – | – |
| Settlement of claims for customer redress in Tesco Bank | (19) | (38) | – | – | – | – |
| Booker integration cash payments | (2) | (23) | – | – | – | – |
| Proceeds from sale of Tesco Bank's mortgage book | - | – | 51 | 3,696 | – | – |
| Acquisition of property joint venture (Note 33) | - | – | (52) | (36) | – | – |
| Proceeds from disposal of China associate | - | – | - | 277 | – | – |
| Corporate activity costs | - | – | - | (10) | – | – |
| Litigation costs | (93) | – | (2) | – | – | – |
| Disposal of Asia operations[(a)] | 26 | – | 7,811 | – | 52 | – |
| Additional pension contribution[(b)] | (2,500) | - | - | - | - | - |
| Costs and proceeds deposit associated with the sale of Poland | - | – | (3) | – | – | – |
| Special dividend[(c)] | – | - | – | - | (4,916) | - |
| ATM income[(d)] | 90 | – | – | – | – | - |
| **Total continuing operations** | **(2,534)** | **(238)** | **7,953** | **4,190** | **(4,864)** | **–** |
| Exceptional cash flows from discontinued operations | (15) | (25) | - | 3 | – | – |
| Disposal of Asia operations[(a)] | - | | (713) | | - | |
| **Total** | **(2,549)** | **(263)** | **7,240** | **4,193** | **(4,864)** | **–** |

(a) Other operating cash flows on disposal of the Group's Asia operations of £26m comprise of £30m advance payments received on sale of software licences due to be completed in the next financial year, offset by £(4)m of costs incurred related to the special dividend and share consolidation with respect to employee share schemes. Total disposal proceeds, net of associated disposal costs, cash disposed, and repayment of intercompany loans were £7,098m, of which £7,811m is presented within continuing operations and £(713)m is presented within discontinued operations. The cash inflow from financing activities of £52m is with respect to the derivative fair value gain net of option premiums paid to economically hedge the foreign exchange risk on the USD disposal proceeds. Refer to Note 7 for further details.

(b) Subsequent to the disposal of the Group's Asia operations, the Group made a significant pension contribution of £2.5 bn. Refer to Note 29 for further details.

(c) The Group paid a special dividend to shareholders on 26 February 2021. Refer to Notes 8 and 30 for further details.

(d) Amounts received in the year with respect to the Supreme Court ruling related to external facing ATMs in stores.

## Note 5 Finance income and costs

| Continuing operations | Notes | 52 weeks 2021 £m | 53 weeks 2020[(a)] £m |
|---|---|---|---|
| **Finance income** | | | |
| Interest receivable and similar income | | 10 | 16 |
| Finance income receivable on net investment in leases | | 5 | 4 |
| **Total finance income** | | **15** | **20** |
| **Finance costs** | | | |
| GBP MTNs and loans | | (158) | (142) |
| EUR MTNs | | (51) | (59) |
| USD bonds | | (9) | (11) |
| Finance charges payable on lease liabilities | | (446) | (486) |
| Other interest payable | | (31) | (24) |
| Fair value remeasurements of financial instruments[(b)] | | (214) | (246) |
| **Total finance costs before exceptional items and net pension finance costs** | | **(909)** | **(968)** |
| Net pension finance costs | 29 | (43) | (71) |
| **Total finance costs before exceptional items** | | **(952)** | **(1,039)** |
| Fair value remeasurement loss on derivative restructuring | 4 | - | (180) |
| Fair value remeasurement gain on Tesco Bank mortgage book disposal | 4 | - | 29 |
| **Total finance costs** | | **(952)** | **(1,190)** |
| **Net finance costs** | | **(937)** | **(1,170)** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Fair value remeasurements of financial instruments included £(160)m (2020: £(65)m) relating to the premium paid on the repurchase of long-dated bonds.

# Notes to the Group financial statements

## Note 6 Taxation

### Recognised in the Group income statement

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020[a] £m |
|---|---|---|
| **Current tax (credit)/charge** | | |
| UK corporation tax | 228 | 244 |
| Overseas tax | 60 | 75 |
| Adjustments in respect of prior years | (110) | (41) |
| | **178** | **278** |
| **Deferred tax (credit)/charge** | | |
| Origination and reversal of temporary differences | (67) | 29 |
| Adjustments in respect of prior years | (19) | (17) |
| Change in tax rate | 12 | - |
| | (74) | 12 |
| **Total income tax (credit)/charge** | **104** | **290** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details

The Finance Act 2020 included legislation to maintain the main rate of UK corporation at 19%, rather than reducing it to 17% from 1 April 2020. The change to the main rate of corporation tax was substantively enacted by the balance sheet date and therefore included in these financial statements. Temporary differences have been remeasured using these enacted tax rates that are expected to apply when the liability is settled or the asset realised. The UK Budget announcements on 3 March 2021 included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances.

### Reconciliation of effective tax charge

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020[a] £m |
|---|---|---|
| **Profit/(loss) before tax** | **825** | **1,028** |
| Tax credit/(charge) at 19.0% (2020: 19.0%) | (157) | (195) |
| Effect of: | | |
| Non-qualifying depreciation | (33) | (30) |
| Expenses not deductible[b] | (40) | (55) |
| Unrecognised tax losses | - | (4) |
| Property items taxed on a different basis to accounting entries | 4 | (3) |
| Impairment of non-current assets | (22) | (37) |
| Banking surcharge tax | 13 | (11) |
| Differences in overseas taxation rates | 10 | 7 |
| Adjustments in respect of prior years[c] | 129 | 58 |
| Share of losses of joint ventures and associates | 5 | (2) |
| Change in tax rate | (12) | - |
| Irrecoverable withholding tax | (1) | (18) |
| **Total income tax credit/(charge)** | **(104)** | **(290)** |
| **Effective tax rate** | **12.6%** | **28.2%** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Prior year included movements on uncertain tax positions.
(c) Prior year adjustments include tax credits of £(106)m in relation to uncertain tax positions and £(20)m in relation to rolled over gains and capital losses on property disposals classified as exceptional.

## Note 6 Taxation continued

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

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020[a] £m |
|---|---|---|
| **Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles** | **904** | **1,552** |
| Tax credit/(charge) at 19.0% (2020: 19.0%) | (172) | (295) |
| Effect of: | | |
| Non-qualifying depreciation | (33) | (30) |
| Expenses not deductible[b] | (21) | (40) |
| Unrecognised tax losses | - | (2) |
| Impairment of non-current assets | 1 | - |
| Banking surcharge tax | 13 | (17) |
| Differences in overseas taxation rates | 10 | 7 |
| Adjustments in respect of prior years | (1) | 53 |
| Share of profits of joint ventures and associates | 5 | - |
| Change in tax rate | (1) | - |
| Irrecoverable withholding tax | (1) | (18) |
| **Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles** | **(200)** | **(342)** |
| **Effective tax rate before exceptional items and amortisation of acquired intangibles** | **22.1%** | **22.0%** |
| Tax charge on net pension finance costs and fair value remeasurements of financial instruments at 19.0% on £257m (2020: 19.0% on £317m) | (49) | (60) |
| Change in tax rate | - | 2 |
| **Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements[c]** | **(249)** | **(400)** |
| **Effective tax rate before exceptional items, net pension finance costs** | **21.4%** | **21.4%** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Prior year included movements on uncertain tax positions.
(c) Refer to page 129 for a reconciliation from Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measure.

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

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020 £m |
|---|---|---|
| Current tax credit/(charge) on: | | |
| Share-based payments | 5 | 1 |
| Deferred tax credit/(charge) on: | | |
| Share-based payments | (11) | (3) |
| **Total tax on items credited/(charged) to the Group statement of changes in equity** | **(6)** | **(2)** |

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

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020 £m |
|---|---|---|
| Current tax credit/(charge) on: | | |
| Pensions | 176 | - |
| Foreign exchange movements | - | 1 |
| Deferred tax credit/(charge) on: | | |
| Pensions | 67 | 71 |
| Fair value of movement on financial assets at fair value through other comprehensive income | - | (1) |
| Fair value movements on cash flow hedges | 9 | (9) |
| **Total tax on items credited/(charged) to Group statement of comprehensive income/(loss)** | **252** | **62** |

## Note 6 Taxation continued

### Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years measured using the tax rates that are expected to apply when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date:

| | Property-related items[b] £m | Acquired intangibles £m | Post-employment benefits[c] £m | Share-based payments £m | Short-term timing differences £m | Tax losses £m | Financial instruments £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **At 23 February 2019 (restated[a])** | **(207)** | **(114)** | **470** | **51** | **121** | **6** | **32** | **359** |
| Discontinued operations | (1) | – | 2 | – | (2) | – | – | (1) |
| (Charge)/credit to the Group income statement | 38 | 14 | (33) | 2 | (26) | (2) | (5) | (12) |
| (Charge)/credit to the Group statement of changes in equity | – | – | – | (3) | – | – | – | (3) |
| (Charge)/credit to the Group statement of comprehensive income/(loss) | – | – | 71 | – | – | – | (10) | 61 |
| Disposals | 1 | – | – | – | – | – | – | 1 |
| Foreign exchange and other movements[d] | 1 | – | 2 | 1 | – | – | – | 4 |
| **At 29 February 2020 (restated[a])** | **(168)** | **(100)** | **512** | **51** | **93** | **4** | **17** | **409** |
| Discontinued operations | 14 | - | (6) | (6) | (63) | - | - | (61) |
| (Charge)/credit to the Group income statement | 32 | 2 | 9 | (3) | 40 | (1) | (5) | 74 |
| (Charge)/credit to the Group statement of changes in equity | - | - | - | (11) | - | - | - | (11) |
| (Charge)/credit to the Group statement of comprehensive income/(loss) | - | - | 67 | - | - | - | 9 | 76 |
| Acquisitions | (2) | - | - | - | - | - | 19 | 17 |
| Foreign exchange and other movements[d] | (1) | - | - | - | (1) | - | 2 | - |
| **At 27 February 2021[e]** | **(125)** | **(98)** | **582** | **31** | **69** | **3** | **42** | **504** |

(a) Refer to Note 1 for further details regarding the prior year restatement.
(b) Property-related items include a deferred tax liability on rolled-over gains of £305m (2020: £291m), deferred tax assets on capital losses of £187m (2020: £166m) and deferred tax assets on IFRS 16 transitional adjustments of £267m (2020: £252m). The remaining balance relates to accelerated tax depreciation.
(c) The deferred tax asset on retirement benefits includes £364m of deferred tax relief from the additional contribution paid in the year and £218m deferred tax related to the pension deficit see Note 29.
(d) The deferred tax charge for foreign exchange and other movements is a £nil charge (2020: £4m credit) relating to the retranslation of deferred tax balances at the balance sheet date.
(e) Remeasurement of temporary differences for the announced increase to the UK corporation tax rate if enacted is estimated to increase the opening deferred tax asset in the financial year ended 26 February 2022 by £60m.

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

| | 2021 £m | 2020 (restated) £m |
|---|---|---|
| Deferred tax assets | 552 | 449 |
| Deferred tax liabilities | (48) | (40) |
| | **504** | **409** |

No deferred tax liability is recognised on temporary differences of £4.4bn (2020 restated: £4.5bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 27 February 2021 is estimated to be £5m (2020: £7m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

### Unrecognised deferred tax assets

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

| | 2021 £m | 2020 (restated) £m |
|---|---|---|
| Deductible temporary differences | 40 | 43 |
| Tax losses | 183 | 189 |
| | **223** | **232** |

## Note 6 Taxation continued

As at 27 February 2021, the Group has unused trading tax losses from continuing operations of £623m (2020: £656m) available for offset against future profits. A deferred tax asset has been recognised in respect of £19m (2020: £25m) of such losses. No deferred tax asset has been recognised in respect of the remaining overseas tax losses of £604m (2020: £631m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £518m that will expire by 2024 (2020: £284m in 2023) and £37m that will expire between 2025 and 2041 (2020: £298m between 2024 and 2040). Other losses will be carried forward indefinitely.

### Changes in tax law or its interpretation

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

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

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

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Assets of the disposal group | 404 | – |
| Non-current assets classified as held for sale | 201 | 285 |
| **Total assets of the disposal group and non-current assets classified as held for sale** | **605** | **285** |
| Liabilities of the disposal group | (276) | – |
| **Total net assets of the disposal group and non-current assets classified as held for sale** | **329** | **285** |

Assets and liabilities of the disposal group are with respect to the Group's operations in Poland.

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

### Balance sheet of the disposal group

| | Poland<br>£m |
|---|---|
| **Assets of the disposal group** | |
| Goodwill and other intangible assets | 3 |
| Property, plant and equipment | 214 |
| Right of use assets | 82 |
| Inventories | 58 |
| Trade and other receivables | 19 |
| Cash and cash equivalents | 28 |
| **Total assets of the disposal group** | **404** |
| **Liabilities of the disposal group** | |
| Trade and other payables | (90) |
| Current tax liabilities | (1) |
| Lease liabilities | (134) |
| Borrowings | (35) |
| Provisions | (16) |
| **Total liabilities of the disposal group** | **(276)** |
| **Total net assets of the disposal group** | **128** |

### 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, and the disposal completed on 18 December 2020. 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 completed after the balance sheet date on 16 March 2021. The assets and liabilities related to the Group's Poland operation have been classified as a disposal group held for sale within the year. 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.

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

### Income statement of discontinued operations

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Thailand and Malaysia £m | Poland £m | Other £m | Total £m | Thailand and Malaysia £m | Poland £m | Other £m | Total £m |
| Revenue | 3,932 | 974 | - | 4,906 | 5,218 | 1,451 | – | 6,669 |
| Operating costs [(a)] | (3,492) | (982) | - | (4,474) | (4,773) | (1,462) | – | (6,235) |
| **Operating profit, before exceptional items** | **440** | **(8)** | **-** | **432** | **445** | **(11)** | **-** | **434** |
| Share of post-tax profits/(losses) of joint ventures and associates | 9 | – | – | 9 | 26 | – | – | 26 |
| Finance (costs)/income | (26) | (19) | - | (45) | (37) | (14) | – | (51) |
| **Profit/(loss) before tax, before exceptional items** | **423** | **(27)** | **-** | **396** | **434** | **(25)** | **-** | **409** |
| Taxation | (84) | (3) | - | (87) | (85) | (6) | – | (91) |
| **Profit/(loss) after tax, before exceptional items** | **339** | **(30)** | **-** | **309** | **349** | **(31)** | **-** | **318** |
| Exceptional items [(b)] | (3) | (56) | (88) | (147) | (11) | (111) | – | (122) |
| Tax on exceptional items [(c)] | – | – | – | - | 1 | – | 38 | 39 |
| Profit after tax on disposal of Thailand and Malaysia | 5,264 | – | – | 5,264 | – | – | – | – |
| **Total profit/(loss) after tax of discontinued operations** | **5,600** | **(86)** | **(88)** | **5,426** | **339** | **(142)** | **38** | **235** |

(a) Operating costs include £(20)m depreciation and amortisation charges (2020: £(348)m).
(b) Exceptional items of £(147)m (2020: £(122)m) includes £(7)m (2020: £(43)m) of net restructuring and redundancy costs, £(43)m (2020: £(79)m) of net impairment loss on non-current assets, £5m fair value remeasurement of non-current assets classified as held for sale (2020: £nil), £(8)m loss (2020: £22m profit) on disposal of surplus properties, £(6)m of other corporate activity costs (2020: £(22)m) and £(88)m (2020: £nil) provision relating to claims from Homeplus (Korea) purchasers.
(c) There was no tax on exceptional items (2020: £39m credit) including £nil with respect to the release of withholding tax liability in relation to the formation of the Group's former Gain Land associate (2020: £38m credit).

The profit after tax on disposal of the Group's Thailand and Malaysia operations comprises the following:

| | £m |
|---|---|
| **Gross proceeds[(a)]** | **7,938** |
| Fair value gain on derivative contracts[(b)] | 295 |
| **Proceeds inclusive of fair value gain on derivative contracts** | **8,233** |
| Costs to sell[(c)] | (122) |
| **Proceeds less costs to sell** | **8,111** |
| Option premiums paid[(b)] | (243) |
| **Proceeds less cost to sell and option premiums paid** | **7,868** |
| **Net book value of assets disposed** | |
| Goodwill and other intangible assets | (288) |
| Property, plant and equipment | (2,452) |
| Right of use assets | (788) |
| Investment in joint ventures and associates | (149) |
| Deferred tax | (29) |
| Inventories | (377) |
| Trade and other receivables | (104) |
| Cash and cash equivalents[(d)] | (1,122) |
| Trade and other payables | 966 |
| Borrowings[(d)] | 409 |
| Lease liabilities | 765 |
| Current tax | 1 |
| Post-employment benefit obligations | 34 |
| Provisions | 50 |
| **Net book value of assets disposed** | **(3,084)** |
| Currency translation reserve recycled to income statement | 413 |
| **Gain before tax on disposal of Thailand and Malaysia** | **5,197** |
| Taxation[(e)] | 67 |
| **Gain after tax on disposal of Thailand and Malaysia** | **5,264** |

(a) Gross proceeds of $10,735m translated at the exchange rate at the date of the transaction of 1.35235 USD to £ Sterling.
(b) The fair value gain on derivative contracts of £295m and option premiums paid of £(243)m relate to derivative contracts entered into by the Group to economically hedge the foreign exchange risk on the USD disposal proceeds.
(c) Total costs associated with the sale of the business, share consolidation and special dividend amounted to £139m, of which £10m were expensed in the prior financial year, £122m have been charged within costs to sell, £3m of costs associated with the special dividend and share consolidation have been charged within equity as a cost of the special dividend and £4m relating to employee share schemes have been charged within exceptional operating profit of continuing operations. The £122m costs associated with the transaction incurred in the current financial year includes £8m of associated stamp duty and £55m paid to the minority shareholder of Tesco Malaysia in relation to certain rights attached to the shares, with the balance relating to advisor and associated transaction costs.
(d) Cash and cash equivalents include £(658)m of intercompany loans payable to Thailand and settled prior to completion. Borrowings of £409m are with respect to borrowings incurred by Malaysia with the funds subsequently used to repay intercompany loans due from Malaysia immediately prior to completion. Net intercompany loans repaid at completion £(249)m.
(e) Taxation includes £60m tax credit related to cost of hedging and a £7m tax credit recycled from equity.

# Notes to the Group financial statements

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

The disposal of the operations in Thailand and Malaysia and use of proceeds has reduced Retail net debt by £525m, consisting of £765m of lease liabilities disposed and total cash flows associated with the disposal of £(240)m. The £(240)m cash flow included gross proceeds of £7,938m, cash and cash equivalents disposed of £(464)m excluding intercompany loans repaid prior to closing, net intercompany loans repaid of £(249)m, additional contribution into the defined benefit pension scheme of £(2,500)m, £(4,916)m special dividends paid to equity holders and other associated cash flows. The £(240)m total cash flows are presented £(2,474)m in operating cash flows, £7,098m in investing cash flows, and £(4,864)m in financing cash flows.

### Cash flow statement

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Thailand and Malaysia £m | Poland £m | Total £m | Thailand and Malaysia £m | Poland £m | Total £m |
| Net cash flows from operating activities | 225 | (38) | 187 | 625 | (62) | 563 |
| Net cash flows from investing activities | (811) | (9) | (820) | (118) | (5) | (123) |
| Net cash flows from financing activities | (42) | (15) | (57) | (50) | (17) | (67) |
| **Net cash flows from discontinued operations** | **(628)** | **(62)** | **(690)** | **457** | **(84)** | **373** |

## Note 8 Dividends

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Pence/share | £m | Pence/share | £m |
| **Amounts recognised as distributions to owners in the financial year:** | | | | |
| Paid prior financial year final dividend[(a)] | 6.50 | 634 | 4.10 | 399 |
| Paid interim dividend[(b)] | 3.20 | 310 | 2.65 | 257 |
| Paid special dividend[(c)] | 50.93 | 4,948 | - | - |
| **Dividends paid to equity owners in the financial year** | **60.63** | **5,892** | **6.75** | **656** |
| | | | | |
| **Proposed final dividend at financial year end** | **5.95** | **460** | **6.50** | **637** |

(a) Excludes £3m prior financial year final dividend waived (2020: £3m).
(b) Excludes £3m interim dividend waived (2020: £3m).
(c) Excludes £43m special dividend waived (2020: £nil).

The proposed final dividend was approved by the Board of Directors on 13 April 2021 and is subject to the approval of shareholders at the AGM. The proposed dividend has not been included as a liability as at 27 February 2021, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 2 July 2021 to shareholders who are on the Register of members at close of business on 21 May 2021.

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 11 June 2021.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. £nil (2020: £nil) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 30 for further details.

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

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

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

For the 52 weeks ended 27 February 2021 there were 27 million (2020: 67 million) potentially dilutive share options. As the Group has recognised a profit for the year from its continuing operations, dilutive effects have been considered in calculating diluted earnings per share.

| | 2021 | | | 2020[(a)] | | |
|---|---|---|---|---|---|---|
| | Basic | Potentially dilutive share options | Diluted | Basic | Potentially dilutive share options | Diluted |
| **Profit/(loss) (£m)** | | | | | | |
| Continuing operations | 728 | - | 728 | 738 | – | 738 |
| Discontinued operations | 5,415 | - | 5,415 | 233 | – | 233 |
| **Total** | **6,143** | **–** | **6,143** | **971** | **–** | **971** |
| **Weighted average number of shares (millions)** | **9,629** | **27** | **9,656** | **9,716** | **67** | **9,783** |
| **Earnings/(losses) per share (pence)** | | | | | | |
| Continuing operations | 7.56 | (0.02) | 7.54 | 7.60 | (0.06) | 7.54 |
| Discontinued operations | 56.24 | (0.16) | 56.08 | 2.39 | – | 2.39 |
| **Total** | **63.80** | **(0.18)** | **63.62** | **9.99** | **(0.06)** | **9.93** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

# Notes to the Group financial statements

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

### 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 | 52 weeks 2021 | 53 weeks 2020[a] |
|---|---|---|---|
| Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m) | | 904 | 1,552 |
| Add: Net pension finance costs (£m) | 5 | 43 | 71 |
| Add: Fair value remeasurements of financial instruments (£m) | 5 | 214 | 246 |
| **Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)** [b] | | **1,161** | **1,869** |
| 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) [c] | | 1,168 | 1,869 |
| 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) [d] | | (249) | (400) |
| **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)** | | **919** | **1,469** |
| | | | |
| Basic weighted average number of shares (millions) | | 9,629 | 9,716 |
| **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)** | | **9.54** | **15.12** |
| | | | |
| Diluted weighted average number of shares (millions) | | 9,656 | 9,783 |
| **Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)**[b][e] | | **9.52** | **15.02** |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Refer to page 129 for a reconciliation of prior year Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments and Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measures.
(c) Excludes loss before tax attributable to non-controlling interests of £(7)m (2020: £nil).
(d) Excludes tax charges on losses attributable to non-controlling interests of £nil (2020: £nil).
(e) Refer to page 130 for a reconciliation of the Group's APM Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation).

## Note 10 Goodwill and other intangible assets

| | Goodwill £m | Software[a] £m | Customer relationships £m | Other intangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 29 February 2020 (restated[b])** | **5,477** | **1,868** | **715** | **458** | **8,518** |
| Foreign currency translation | 3 | - | - | (1) | 2 |
| Additions | - | 200 | - | 1 | 201 |
| Acquired through business combinations[c] | 1 | - | 3 | 1 | 5 |
| Reclassification | - | 49 | - | (49) | - |
| Transfer to disposal group classified as held for sale | (762) | (86) | - | - | (848) |
| Disposals | - | (194) | - | (15) | (209) |
| **At 27 February 2021** | **4,719** | **1,837** | **718** | **395** | **7,669** |
| **Accumulated amortisation and impairment losses** | | | | | |
| **At 29 February 2020** | **637** | **1,324** | **148** | **331** | **2,440** |
| Foreign currency translation | 5 | (3) | - | 2 | 4 |
| Charge for the year[d] | - | 198 | 76 | 5 | 279 |
| Impairment losses[e] | 295 | 24 | - | 10 | 329 |
| Reversal of impairment losses[e] | - | (9) | - | (7) | (16) |
| Reclassification | - | 35 | - | (35) | - |
| Transfer to disposal group classified as held for sale | (489) | (70) | - | - | (559) |
| Disposals | - | (194) | - | (7) | (201) |
| **At 27 February 2021** | **448** | **1,305** | **224** | **299** | **2,276** |
| | | | | | |
| **Net carrying value** | | | | | |
| **At 27 February 2021** | **4,271** | **532** | **494** | **96** | **5,393** |
| At 29 February 2020 (restated[b]) | 4,840 | 544 | 567 | 127 | 6,078 |

(a) Software includes £305m (2020: £341m) of internally generated development costs.
(b) Refer to Note 1 for further details regarding the prior year restatement.
(c) On the 7 March 2020, the group acquired Best Food Logistics, refer to Note 33 for further details.
(d) Of the £81m (2020: £86m) amortisation of customer relationships and other intangible assets, £76m (2020: £79m) has been included within exceptional items and amortisation of intangible assets. £75m (2020: £76m) of this balance arises from amortisation of intangible assets recognised upon the Booker acquisition, and £1m relates to the amortisation of intangible assets recognised upon the acquisition of Best Food Logistics. Refer to Notes 4 and 33 for further details.
(e) Refer to Note 15.

## Note 10 Goodwill and other intangible assets continued

| | Goodwill £m | Software[a] £m | Customer relationships[c] £m | Intangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 23 February 2019 (restated[b])** | **5,509** | **1,840** | **715** | **447** | **8,511** |
| Foreign currency translation | (5) | (2) | – | (1) | (8) |
| Additions | – | 188 | – | 19 | 207 |
| Reclassification | – | 40 | – | (5) | 35 |
| Disposals | (27) | (198) | – | (2) | (227) |
| **At 29 February 2020 (restated[b])** | **5,477** | **1,868** | **715** | **458** | **8,518** |
| **Accumulated amortisation and impairment losses** | | | | | |
| **At 23 February 2019** | **641** | **1,254** | **72** | **321** | **2,288** |
| Foreign currency translation | (4) | (1) | – | – | (5) |
| Charge for the year[e] | – | 281 | 76 | 10 | 367 |
| Impairment losses[f] | – | 15 | – | 12 | 27 |
| Reversal of impairment losses[f] | – | (31) | – | (7) | (38) |
| Reclassification | – | 2 | – | (3) | (1) |
| Disposals | – | (196) | – | (2) | (198) |
| **At 29 February 2020** | **637** | **1,324** | **148** | **331** | **2,440** |

(a)-(e) Refer to previous table for footnotes.

| | Goodwill £m | Software £m | Customer relationships £m | Intangible assets £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **At 24 February 2018 (restated[b])** | **2,417** | **3,166** | **-** | **392** | **5,975** |
| Foreign currency translation | (6) | 1 | - | (1) | (6) |
| Additions | - | 167 | - | 24 | 191 |
| Acquired through business combinations | 3,098 | - | 715 | 48 | 3,861 |
| Reclassification | - | (140) | - | 2 | (138) |
| Disposals | - | (308) | - | (15) | (323) |
| Fully-amortised assets | - | (1,046) | - | (3) | (1,049) |
| **At 23 February 2019 (restated[b])** | **5,509** | **1,840** | **715** | **447** | **8,511** |
| **Accumulated amortisation and impairment losses** | | | | | |
| **At 24 February 2018** | **662** | **2,378** | **-** | **315** | **3,355** |
| Foreign currency translation | (21) | - | - | (2) | (23) |
| Charge for the year | - | 210 | 72 | 13 | 295 |
| Impairment losses | - | 15 | - | 27 | 42 |
| Reversal of impairment losses | - | (2) | - | (24) | (26) |
| Disposals | - | (301) | - | (5) | (306) |
| Fully-amortised assets | - | (1,046) | - | (3) | (1,049) |
| **23 February 2019** | **641** | **1,254** | **72** | **321** | **2,288** |

(b) Refer to Note 1 for further details regarding prior year restatement.

## Notes to the Group financial statements

### Note 11 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 | (38) | (15) | (53) |
| Additions[(b)] | 927 | 623 | 1,550 |
| Acquired through business combinations | 8 | 4 | 12 |
| Transfers (to)/from assets classified as held for sale | 29 | - | 29 |
| Transfer to disposal group classified as held for sale | (3,642) | (1,415) | (5,057) |
| Disposals | (128) | (379) | (507) |
| **At 27 February 2021** | **22,024** | **5,743** | **27,767** |
| **Accumulated depreciation and impairment losses** | | | |
| **At 29 February 2020** | **7,841** | **4,718** | **12,559** |
| Foreign currency translation | (15) | (10) | (25) |
| Charge for the year | 432 | 489 | 921 |
| Impairment losses[(c)] | 353 | 107 | 460 |
| Reversal of impairment losses[(c)] | (515) | (43) | (558) |
| Transfers (to)/from assets classified as held for sale | 15 | - | 15 |
| Transfer to disposal group classified as held for sale | (1,386) | (987) | (2,373) |
| Disposals | (72) | (371) | (443) |
| **At 27 February 2021** | **6,653** | **3,903** | **10,556** |
| **Net carrying value** | | | |
| **At 27 February 2021[(d)]** | **15,371** | **1,840** | **17,211** |
| At 29 February 2020 | 17,027 | 2,207 | 19,234 |
| **Construction in progress included above[(e)]** | | | |
| **At 27 February 2021** | **77** | **210** | **287** |
| At 29 February 2020 | 88 | 114 | 202 |

(a) Other assets consist of fixtures and fittings with a net carrying value of £1,345m (2020: £1,712m), office equipment with a net carrying value of £213m (2020: £245m) and motor vehicles with a net carrying value of £282m (2020: £250m)

(b) Includes £476m of land and buildings related to obtaining control of The Tesco Property (No. 2) Limited Partnership, which was impaired by £(32)m on acquisition (2020: £914m of land and buildings related to obtaining control of The Tesco Atrato Limited Partnership, which was impaired by £(287)m on acquisition). The £476m additions comprised £492m cost of acquisition offset by £16m of historical deferred profit. Refer to the breakdown of assets and liabilities acquired within Note 33.

(c) Refer to Note 15.

(d) Includes £2,099m (2020: £1,406m) of assets pledged as security for secured bonds (refer to Note 23 and £826m (2020: £478m) of property held as security in favour of the Tesco PLC Pension Scheme (refer to Note 29.

(e) Construction in progress does not include land.

| | Land and buildings £m | Other[(a)] £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At 23 February 2019** | **24,484** | **6,993** | **31,477** |
| Foreign currency translation | (69) | (15) | (84) |
| Additions[(b)] | 1,285 | 621 | 1,906 |
| Reclassification | (24) | (28) | (52) |
| Classified as held for sale | (589) | (36) | (625) |
| Disposals | (219) | (610) | (829) |
| **At 29 February 2020** | **24,868** | **6,925** | **31,793** |
| **Accumulated depreciation and impairment losses (restated)** | | | |
| **At 23 February 2019** | **7,523** | **4,768** | **12,291** |
| Foreign currency translation | (23) | (11) | (34) |
| Charge for the year | 525 | 613 | 1,138 |
| Impairment losses[(c)] | 611 | 111 | 722 |
| Reversal of impairment losses[(c)] | (391) | (104) | (495) |
| Reclassification | 41 | (23) | 18 |
| Classified as held for sale | (298) | (34) | (332) |
| Disposals | (147) | (602) | (749) |
| **At 29 February 2020** | **7,841** | **4,718** | **12,559** |
| **Net carrying value[(d)]** | **17,027** | **2,207** | **19,234** |

(a)-(d) Refer to previous table for footnotes

# Notes to the Group financial statements

## Note 12 Leases

### Group as lessee

Lease liabilities represent rentals payable by the Group for certain retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation-linked, fixed rates, resets to market rents and hybrids of these.

In prior years, the Group entered into several joint ventures, and sold and leased back properties to and from these joint ventures over 20 to 30-year terms. On certain transactions, the Group has an option to buy back either the leased asset or the equity of the other party, at market value and at a specified date, typically at year 10. On some of these transactions the Group also has a lease-break option, which is exercisable if the buyback option is exercised and the associated debt in the joint venture is repaid. The lease liability in respect of these leases assumes that the lease-break option is not exercised.

On 18 September 2020, the Group obtained control of The Tesco Property (No. 2) Limited Partnership, previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest, at which point the associated property leases from the joint venture became intercompany leases and are eliminated on consolidation. Refer to Note 33 for further details.

*Right of use assets*

| | Land and buildings £m | Other £m | Total £m |
|---|---|---|---|
| **Net carrying value at 29 February 2020** | **6,734** | **140** | **6,874** |
| Additions (including through business combinations) | 308 | 42 | 350 |
| Depreciation charge for the year | (517) | (49) | (566) |
| Impairment losses[(a)] | (225) | – | (225) |
| Reversal of impairment losses[(a)] | 230 | – | 230 |
| Derecognition on acquisition of property joint venture (Note 33) | (130) | – | (130) |
| Transfer to disposal group classified as held for sale | (724) | (20) | (744) |
| Other movements[(b)] | 190 | (28) | 162 |
| **Net carrying value at 27 February 2021** | **5,866** | **85** | **5,951** |

(a) Refer to Note 15.
(b) Other movements include lease terminations, modifications and reassessments, foreign exchange, reclassifications between asset classes and entering into finance subleases.

| | Land and buildings £m | Other £m | Total £m |
|---|---|---|---|
| **Net carrying value at 23 February 2019** | **7,561** | **152** | **7,713** |
| Additions (including through business combinations) | 146 | 58 | 204 |
| Depreciation charge for the year | (584) | (67) | (651) |
| Impairment losses[(a)] | (267) | – | (267) |
| Reversal of impairment losses[(a)] | 182 | – | 182 |
| Derecognition on acquisition of property joint venture | (335) | – | (335) |
| Other movements[(b)] | 31 | (3) | 28 |
| **Net carrying value at 29 February 2020** | **6,734** | **140** | **6,874** |

(a)-(b) Refer to footnotes in table above.

*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:

| | 2021 £m | 2020 £m |
|---|---|---|
| Current | 575 | 598 |
| Non-current | 7,827 | 8,968 |
| **Total lease liabilities** | **8,402** | **9,566** |

| Maturity analysis – contractual undiscounted lease payments | 2021 £m | 2020 £m |
|---|---|---|
| Within one year | 969 | 1,081 |
| Greater than one year but less than two years | 939 | 1,018 |
| Greater than two years but less than three years | 912 | 996 |
| Greater than three years but less than four years | 867 | 993 |
| Greater than four years but less than five years | 841 | 951 |
| Greater than five years but less than ten years | 3,597 | 4,178 |
| Greater than ten years but less than fifteen years | 2,443 | 2,810 |
| After fifteen years | 1,959 | 2,596 |
| **Total undiscounted lease payments** | **12,527** | **14,623** |

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

## Note 12 Leases continued

*Amounts recognised in the Group income statement*

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020* £m |
|---|---|---|
| Interest on lease liabilities | 446 | 486 |
| Variable payment expenses not included in lease liabilities | 1 | 1 |
| Expenses relating to short-term leases | 17 | 14 |
| Expenses relating to leases of low value assets (excluding amounts already included in short-term leases above) | 1 | - |

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

*Amounts recognised in the Group cash flow statement*

| | 52 weeks 2021 £m | 53 weeks 2020 £m |
|---|---|---|
| Total cash outflow for leases* | 1,109 | 1,175 |

* Includes £5m (2020: £5m) related to Tesco Bank.

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

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £10.8bn (2020: £11.8bn).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 75% (2020: 72%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 15% (2020: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.

The Group is committed to payments totalling £36m (2020: £93m) in relation to leases that have been signed but have not yet commenced.

### Group as lessor

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

*Amounts recognised in the Group income statement*

| Continuing operations | 52 weeks 2021 £m | 53 weeks 2020[a] £m |
|---|---|---|
| Finance lease – interest income[b] | 5 | 4 |
| Operating lease – rental income[c] | 85 | 98 |

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Includes £5m (2020: £4m) of sublease interest income.
(c) Includes £22m (2020: £26m) of sublease rental income.

*Finance lease payments receivable*

The finance lease receivable (net investment in the lease) included in the Group balance sheet is £86m (2020: £48m).

*Operating lease payments receivable maturity analysis*

| | 2021 £m | 2020 £m |
|---|---|---|
| Within one year | 74 | 220 |
| Greater than one year but less than two years | 52 | 128 |
| Greater than two years but less than three years | 41 | 71 |
| Greater than three years but less than four years | 32 | 38 |
| Greater than four years but less than five years | 24 | 27 |
| Greater than five years but less than ten years | 70 | 83 |
| Greater than ten years but less than fifteen years | 38 | 44 |
| After fifteen years | 65 | 82 |
| **Total undiscounted operating lease payments receivable** | **396** | **693** |

# Notes to the Group financial statements

## Note 13 Investment property

| | 2021 £m | 2020 £m |
|---|---|---|
| **Cost** | | |
| **At the beginning of theyear** | 100 | 118 |
| Foreign currency translation | 1 | (1) |
| Reclassification | (4) | (11) |
| Classified as held for sale | 1 | - |
| Disposals | (5) | (6) |
| **At the end of the year** | **93** | **100** |
| **Accumulated depreciation and impairment losses** | | |
| **At the beginning of the year** | **74** | **82** |
| Foreign currency translation | 1 | (1) |
| Charge for the year | 1 | 1 |
| Impairment losses for the year* | 2 | 5 |
| Reversal of impairment losses for the year* | (2) | (4) |
| Reclassification | (2) | (4) |
| Classified as held for sale | 1 | - |
| Disposals | (1) | (5) |
| **At the end of the year** | **74** | **74** |
| **Net carrying value at the end of the year** | **19** | **26** |
| | | |
| Rental income earned from investment properties under operating leases | 7 | 11 |
| Direct operating expenses incurred on rental-earning investment properties | - | (3) |

* Refer to Note 15.

The estimated fair value of the Group's investment property is £0.1bn (2020: £0.2bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

## Note 14 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 117 to 121 for a complete list of Group entities.

### Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 27 February 2021.

### Consolidated structured entities

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

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 27 February 2021 within these financial statements.

### Unconsolidated structured entities

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

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

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

# Notes to the Group financial statements

## **Note 14 Group entities** continued

### **Interests in joint ventures and associates**

*Principal joint ventures and associates*

The Group's principal joint ventures and associates are:

| | Nature of relationship | Business activity | Share of issued share capital, loan capital and debt securities | Country of incorporation | Principal area of operation |
|---|---|---|---|---|---|
| **Included in 'UK property joint ventures':** | | | | | |
| The Tesco Coral Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Blue Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Passaic Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Navona Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Sarum Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Dorney Limited Partnership | Joint venture | Property investment | 50% | England | United Kingdom |
| The Tesco Arena Unit Trust | Joint venture | Property investment | 50% | Jersey | United Kingdom |
| **Included in 'Other joint ventures and associates':** | | | | | |
| Tesco Mobile Limited | Joint venture | Telecommunications | 50% | England | United Kingdom |
| Tesco Underwriting Limited | Joint venture | Insurance | 49.9% | England | United Kingdom |
| Booker India Private Limited | Joint Venture | Retail | 49% | India | India |
| Trent Hypermarket Private Limited | Joint venture | Retail | 50% | India | India |

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2020 to 27 February 2021. The accounting period end dates of joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

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

Prior to the Group's sale of its 20% share in Gain Land Limited (Gain Land) on 28 February 2020, management applied judgement in determining that Gain Land was an associate of the Group. The Group had significant influence by virtue of holding 20% equity interest which presumed significant influence per IAS 28, together with having a contractual right to appoint two out of 10 directors, while taking into account that the remaining 80% interest was held by one other party.

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

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

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

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision-making within the joint venture;
- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures nor do they infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third-party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

## Note 14 Group entities continued

### Summarised financial information for joint ventures and associates

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

| | UK property joint ventures | | Gain Land Limited[d] | |
|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
| **Summarised balance sheet** | | | | |
| Non-current assets[a] | 2,916 | 3,242 | – | – |
| Current assets (excluding cash and cash equivalents) | 50 | 101 | – | – |
| Cash and cash equivalents | 27 | 28 | – | – |
| Current liabilities[b] | (420) | (487) | – | – |
| Non-current liabilities[b] | (3,229) | (3,621) | – | – |
| **Net assets/(liabilities)** | **(656)** | **(737)** | **–** | **–** |
| **Summarised income statement** | | | | |
| Revenue | 250 | 258 | – | 8,551 |
| **Profit/(loss) after tax** | **–** | **–** | **–** | **(95)** |
| **Reconciliation to carrying amounts:** | | | | |
| **Opening balance** | – | – | – | 263 |
| Foreign currency translation | – | – | – | (4) |
| Share of profits/(losses)[c] | 14 | 12 | – | (19) |
| Dividends received from joint ventures and associates | (14) | (12) | – | – |
| Disposals(d) | – | – | – | (240) |
| **Closing balance** | **–** | **–** | **–** | **–** |
| Group's share in ownership | 50% | 50% | – | – |
| Group's share of net assets/(liabilities) | (328) | (369) | – | – |
| Goodwill | – | – | – | – |
| Deferred property profits offset against carrying amounts | (60) | (61) | – | – |
| Cumulative unrecognised losses[c] | 205 | 205 | – | – |
| Cumulative unrecognised hedge reserves[c] | 183 | 225 | – | – |
| **Carrying amount** | **–** | **–** | **–** | **–** |

(a) The non-current asset balances of UK property joint ventures are reflected at historical depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the UK property joint ventures are £3,939m (2020: £4,338m).
(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,235m (2020: £3,616m) and derivative swap balances of £363m (2020: £452m) entered into to hedge the cash flow variability exposures of the joint ventures.
(c) The share of profit for the year for UK property joint ventures related to £14m dividends received from joint ventures with £nil carrying amounts. £2m of profit and £12m of decrease in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.
(d) The Group completed the sale of its 20% investment in Gain Land Limited on 28 February 2020 for a consideration of £277m.

As at 27 February 2021, the Group has £101m (2020: £106m) loans to UK property joint ventures.

### Other joint ventures and associates

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

| | Joint ventures | | Associates | |
|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
| Aggregate carrying amount of individually immaterial joint ventures and associates | 168 | 230 | 10 | 77 |
| Group's share of profits/(losses) for the year* | 1 | 2 | 11 | (3) |

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

## Note 15 Impairment of non-current assets

### Impairment losses and reversals

An impairment of £295m was recognised on the goodwill associated with Tesco Bank (2020: £nil). This impairment arises due to an increase in the cost of equity used to discount cash flows and a reduction in cash flows arising from the economic impact of the pandemic. No other goodwill impairment losses were recognised by the Group (2020: £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 prior to classifying an asset or disposal group as held for sale but excludes all impairments post classification as held for sale. Impairment losses and reversals 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 year (2020: £nil) with respect to other non-current assets and investments in joint ventures and associates in Tesco Bank.

## Note 15 Impairment of non-current assets continued

| 52 weeks ended 27 February 2021 | UK & ROI Impairment loss £m | UK & ROI Impairment reversal £m | Central Europe Impairment loss £m | Central Europe Impairment reversal £m | Total continuing operations Impairment loss £m | Total continuing operations Impairment reversal £m | Discontinued operations Impairment loss £m | Discontinued operations Impairment reversal £m | Total[(a)] Impairment loss £m | Total[(a)] Impairment reversal £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group balance sheet** | | | | | | | | | | |
| Other intangible assets | (32) | 9 | (2) | 7 | (34) | 16 | – | – | (34) | 16 |
| Property, plant and equipment | (371) | 497 | (23) | 38 | (394) | 535 | (66) | 23 | (460) | 558 |
| Right of use assets | (209) | 229 | (16) | 1 | (225) | 230 | – | – | (225) | 230 |
| Investment property | (2) | 2 | – | – | (2) | 2 | – | – | (2) | 2 |
| **Other non-current assets** | **(614)** | **737** | **(41)** | **46** | **(655)** | **783** | **(66)** | **23** | **(721)** | **806** |
| Investments in joint ventures and associates | – | – | – | – | – | – | – | – | – | – |
| **Total impairment (loss)/reversal** | **(614)** | **737** | **(41)** | **46** | **(655)** | **783** | **(66)** | **23** | **(721)** | **806** |
| **Group income statement** | | | | | | | | | | |
| Cost of sales – underlying | (2) | – | – | – | (2) | – | – | – | (2) | – |
| Cost of sales – exceptional | (564) | 683 | (41) | 46 | (605) | 729 | – | – | (605) | 729 |
| Administrative expenses – underlying | (48) | 54 | – | – | (48) | 54 | – | – | (48) | 54 |
| Administrative expenses – exceptional | – | – | – | – | – | – | – | – | – | – |
| **Total impairment (loss)/ reversal from continuing operations** | **(614)** | **737** | **(41)** | **46** | **(655)** | **783** | **–** | **–** | **(655)** | **783** |
| Discontinued operations – underlying | – | – | – | – | – | – | – | – | – | – |
| Discontinued operations – exceptional | – | – | – | – | – | – | (66) | 23 | (66) | 23 |
| **Total impairment (loss)/reversal** | **(614)** | **737** | **(41)** | **46** | **(655)** | **783** | **(66)** | **23** | **(721)** | **806** |

(a) Of the £85m other non-current assets net impairment reversal for the Group (2020: £302m loss), a net reversal of £81m (2020: £302m loss) has been classified within exceptional items, of which a net reversal of £119m (2020: £251m loss) related to the UK & ROI, a net reversal of £5m (2020: £28m reversal) related to Central Europe and a net loss of £43m (2020: £79m loss) related to discontinued operations.

| 53 weeks ended 29 February 2020 | UK & ROI Impairment loss £m | UK & ROI Impairment reversal £m | Central Europe Impairment loss £m | Central Europe Impairment reversal £m | Total continuing operations Impairment loss £m | Total continuing operations Impairment reversal £m | Discontinued operations Impairment loss £m | Discontinued operations Impairment reversal £m | Total[(a)(b)] Impairment loss £m | Total[(a)(b)] Impairment reversal £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Group balance sheet** | | | | | | | | | | |
| Other intangible assets | (27) | 36 | – | – | (27) | 36 | – | 2 | (27) | 38 |
| Property, plant and equipment | (428) | 272 | (54) | 67 | (482) | 339 | (240) | 156 | (722) | 495 |
| Right of use assets | (242) | 142 | (2) | 18 | (244) | 160 | (23) | 22 | (267) | 182 |
| Investment property | (5) | – | – | 2 | (5) | 2 | – | 2 | (5) | 4 |
| **Other non-current assets** | **(702)** | **450** | **(56)** | **87** | **(758)** | **537** | **(263)** | **182** | **(1,021)** | **719** |
| Investments in joint ventures and associates | (47) | – | – | – | (47) | – | – | – | (47) | – |
| **Total impairment (loss)/reversal** | **(749)** | **450** | **(56)** | **87** | **(805)** | **537** | **(263)** | **182** | **(1,068)** | **719** |
| **Group income statement** | | | | | | | | | | |
| Cost of sales – underlying | – | – | (5) | 8 | (5) | 8 | – | – | (5) | 8 |
| Cost of sales – exceptional | (658) | 407 | (51) | 75 | (709) | 482 | – | – | (709) | 482 |
| Administrative expenses – underlying | (44) | 43 | – | – | (44) | 43 | – | – | (44) | 43 |
| Administrative expenses – exceptional | (47) | – | – | 4 | (47) | 4 | – | – | (47) | 4 |
| **Total impairment (loss)/ reversal from continuing operations** | **(749)** | **450** | **(56)** | **87** | **(805)** | **537** | **–** | **–** | **(805)** | **537** |
| Discontinued operations – underlying | – | – | – | – | – | – | (2) | – | (2) | – |
| Discontinued operations – exceptional | – | – | – | – | – | – | (261) | 182 | (261) | 182 |
| **Total impairment (loss)/reversal** | **(749)** | **450** | **(56)** | **87** | **(805)** | **537** | **(263)** | **182** | **(1,068)** | **719** |

(a) Refer to previous table for footnote.
(b) Comparatives have been re-presented to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

## Note 15 Impairment of non-current assets continued

The net impairment reversal in UK & ROI includes an impairment loss of £32m in the UK in respect of the Group obtaining control of The Tesco Property (No. 2) Limited Partnership (2020: £287m impairment loss in the UK & ROI in respect of the Group obtaining control of The Tesco Atrato Limited Partnership). Refer to Note 33 for further details.

Immediately preceding their recognition as held for sale in H1 2020/21, 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 exceeded the carrying value so no impairment was required. The Poland disposal involves both a corporate sale and the separate sale of the remaining property assets. Expected proceeds for the corporate sale exceeded the carrying value so no impairment was required. The recoverable amount of the remaining property assets is based on fair value less costs 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 7 for further details.

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

### Net carrying value of non-current assets

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

| At 27 February 2021 | UK & ROI £m | Central Europe £m | Tesco Bank £m | Total £m |
|---|---|---|---|---|
| **Net carrying value** | | | | |
| Other intangible assets | 959 | 32 | 131 | 1,122 |
| Property, plant and equipment | 15,379 | 1,767 | 65 | 17,211 |
| Right of use assets | 5,571 | 368 | 12 | 5,951 |
| Investment property | 18 | 1 | - | 19 |
| **Other non-current assets** | **21,927** | **2,168** | **208** | **24,303** |
| Goodwill[a] | 3,791 | - | 480 | 4,271 |
| Investments in joint ventures and associates[b] | 84 | 1 | 93 | 178 |
| **Net carrying value of non-current assets** | **25,802** | **2,169** | **781** | **28,752** |
| **Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:** | | | | |
| Value in use | 2,555 | 152 | - | 2,707 |
| Fair value less costs of disposal[c] | 1,400 | 122 | - | 1,522 |
| | **3,955** | **274** | - | **4,229** |

(a) Goodwill of £4,271m (2020: £4,840m) consists of UK £3,789m (2020: £3,793m), ROI £2m (2020: £3m) and Tesco Bank £480m (2020: £775m) included within continuing operations and £nil (2020: Thailand £193m and Malaysia £76m) in discontinued operations.
(b) The carrying value of the Group's investments include: Trent Hypermarket Private Limited £53m (2020: £59m) and Tesco Underwriting Limited £93m (2020: £87m).
(c) Due to the individual nature of each property, fair values are classified as Level 3 within the fair value hierarchy.

| At 29 February 2020 (restated[d]) | UK & ROI £m | Central Europe £m | Tesco Bank £m | Total continuing operations £m | Discontinued operations £m | Total £m |
|---|---|---|---|---|---|---|
| **Net carrying value** | | | | | | |
| Other intangible assets | 1,055 | 25 | 139 | 1,219 | 19 | 1,238 |
| Property, plant and equipment | 14,612 | 1,824 | 61 | 16,497 | 2,737 | 19,234 |
| Right of use assets | 5,719 | 392 | 14 | 6,125 | 749 | 6,874 |
| Investment property | 23 | 2 | – | 25 | 1 | 26 |
| **Other non-current assets** | **21,409** | **2,243** | **214** | **23,866** | **3,506** | **27,372** |
| Goodwill[a] | 3,796 | – | 775 | 4,571 | 269 | 4,840 |
| Investments in joint ventures and associates[b] | 70 | 1 | 87 | 158 | 149 | 307 |
| **Net carrying value of non-current assets** | **25,275** | **2,244** | **1,076** | **28,595** | **3,924** | **32,519** |
| **Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:** | | | | | | |
| Value in use | 3,448 | 178 | - | 3,626 | 239 | 3,865 |
| Fair value less costs of disposal[c] | 2,105 | 126 | – | 2,231 | 352 | 2,583 |
| | **5,553** | **304** | **–** | **5,857** | **591** | **6,448** |

(a)-(c) Refer to previous table for footnotes.
(d) Refer to Note 1 for further details regarding the prior year restatement.

## Note 15 Impairment of non-current assets continued

### Impairment methodology

*Cash-generating units*

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

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

Head office and central assets such as distribution centres and associated costs are allocated to store cash-generating units based on level of use, estimated with reference to sales. Urban fulfilment centres and associated costs that are part of a store are included in the store cash-generating unit. Standalone customer fulfilment centres and associated costs are each treated as a separate cash-generating unit from the current financial year due to the evolution of the online channel that these centres support, rather than being allocated to the stores in their vicinity.

*Value in use*

Retail

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

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

In the current year, the Group applies an expected cash flow approach by probability-weighting different cash flow scenarios. The greatest probability weighting is applied to the cash flows derived from the three-year internal forecasts. Additional scenarios take account of the risks presented by Brexit, COVID-19, a macro-economic downturn and climate change consistent with the viability statement scenarios (see 'Longer-term viability statement' in the Strategic Report) as well as an upside scenario.

Management estimates discount rates using pre-tax rates that reflect the market assessment as at the balance sheet date of the time value of money and the risks specific to the cash-generating units. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region. Risk-free rates are based on government bond rates in each geographical region and equity risk premia are based on forecasts by recognised bodies. In the current year the risks associated with Brexit and COVID-19 are reflected in the probability-weighted cash flow scenarios, and hence the discount rate is no longer adjusted for these risks.

Tesco Bank goodwill

Tesco Bank value in use is calculated by discounting equity cash flows, defined as the excess above the regulatory requirement. Tesco Bank applies an expected cash flow approach, using the internal three-year forecasts, approved by the Board, as well as stressed scenarios in line with those used to measure expected credit losses (refer to Note 25) to form a probability-weighted cash flow. The long-term growth rate is based on inflation and GDP growth forecasts by recognised bodies. The discount rate is the cost of equity of Tesco Bank. Risk-free rates and equity risk premia are derived from recognised bodies.

*Fair value less costs of disposal*

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

*Investments in joint ventures and associates*

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

# Notes to the Group financial statements

## Note 15 Impairment of non-current assets continued

### Key assumptions and sensitivity

*Key assumptions*

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

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

| | UK | | ROI | | Tesco Bank | |
|---|---|---|---|---|---|---|
| | 2021 % | 2020 % | 2021 % | 2020 % | 2021 % | 2020 % |
| Pre-tax discount rates | 5.9 | 8.0 | 5.4 | 8.1 | 12.8 | 9.7 |
| Post-tax discount rates | 4.8 | 6.6 | 4.7 | 7.1 | 10.4 | 7.2 |
| Long-term growth rates | 1.9 | 2.0 | 1.9 | 1.9 | 1.6 | 1.8 |

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

| | UK & ROI | | Central Europe | |
|---|---|---|---|---|
| | 2021 % | 2020 % | 2021 % | 2020 % |
| Pre-tax discount rates | 5.4 – 5.9 | 8.0 - 8.1 | 5.5 – 8.3 | 7.0 - 9.3 |
| Post-tax discount rates | 4.7 – 4.8 | 6.6 - 7.1 | 4.4 – 7.6 | 5.5 - 8.3 |
| Long-term growth rates | 1.9 | 1.9 – 2.0 | 2.0 – 3.0 | 2.0 – 3.0 |

*Sensitivity*

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

(a) With the exception of Tesco Bank, which has been impaired in the current year, neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in year one sales growth nor a one percentage point decrease in long-term growth rates would indicate impairment (or further impairment), in any group of cash-generating units to which goodwill has been allocated.

The table below summarises the reasonably possible changes in key assumptions to which Tesco Bank goodwill is most sensitive and their impact on impairment in the current year:

| Key assumption | Reasonably possible change | Impact on impairment | 2021 £m |
|---|---|---|---|
| Cost of equity | Increase of 1.0%pt | Increase | (203) |
| Annual equity cash flows | Decrease of 5.0% | Increase | (107) |
| Long-term growth rates | Decrease of 0.5%pt | Increase | (27) |

(b) While there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year, the table below summarises the reasonably possible changes in each key assumption and its impact on the impairment of the Group's entire portfolio of store cash-generating units, presented in aggregate due to the large number of individually immaterial store cash-generating units:

| Key assumption | Reasonably possible change | Impact on impairment | 2021 £m | 2020 £m |
|---|---|---|---|---|
| Post-tax discount rates | Increase of 1.0%pt for each geographic region | Increase | (438) | (482) |
| | Decrease of 1.0%pt for each geographic region | Decrease | 397 | 485 |
| Year one sales growth | Increase of 1.0%pt for each geographic region | Decrease | 55 | 61 |
| | Decrease of 1.0%pt for each geographic region | Increase | (56) | (61) |
| Long-term growth rates | Increase of 1.0%pt for each geographic region | Decrease | 304 | 445 |
| | Decrease of 1.0%pt for each geographic region | Increase | (308) | (410) |
| Property fair values | Increase of 5.0% for each geographic region | Decrease | 81 | 105 |
| | Decrease of 5.0% for each geographic region | Increase | (80) | (105) |

The probability applied to each cash flow scenario in the current year differs by country, depending on the expected likelihood of each scenario occurring in each country. The base case represents the cash flows derived from the three-year internal forecasts and is assigned a weighted average probability of 60%. The impairment is not highly sensitive to the upside and climate change scenarios, assigned 5% and 4% weighted average probabilities respectively. The table below sets out the weighted average probability assigned to each of the remaining scenarios, to which the impairment is most sensitive, and shows the impact on impairment of a reasonably possible change in probability for each scenario, where the corresponding opposite change in probability is applied to the base case.

| Scenario | Weighted average probability | Reasonably possible change | Impact on impairment | 2021 £m |
|---|---|---|---|---|
| Brexit | 11% | Increase of 5.0%pt for each geographic region | Increase | (59) |
| | | Decrease of 5.0%pt for each geographic region | Decrease | 60 |
| COVID-19 | 10% | Increase of 5.0%pt for each geographic region | Increase | (28) |
| | | Decrease of 5.0%pt for each geographic region | Decrease | 29 |
| Macro-economic downturn | 10% | Increase of 5.0%pt for each geographic region | Increase | (80) |
| | | Decrease of 5.0%pt for each geographic region | Decrease | 81 |

## Note 16 Investments in debt and equity instruments

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Investments in debt instruments[(a)] | – | 1,058 |
| Investments in equity instruments | 14 | 10 |
| **Total financial assets at fair value through other comprehensive income** | **14** | **1,068** |
| Of which: | | |
| Current | 3 | 202 |
| Non-current | 11 | 866 |
| | **14** | **1,068** |

### Investment securities at amortised cost

| | 2021 £m | 2020 £m |
|---|---|---|
| Investment securities at amortised cost[(a)] | 928 | – |
| Expected credit loss allowance[(b)] | (1) | – |
| | **927** | – |
| Of which: | | |
| Current | 175 | – |
| Non-current | 752 | – |
| | **927** | – |

(a) Refer to Note 1 for more information regarding the change in business model.
(b) Refer to Note 25 for allowance for expected credit losses disclosures.

On 1 March 2020, following a change in business model, the Group's £1,058m portfolio of debt investments measured at fair value through other comprehensive income was reclassified to investment securities at amortised cost (see Note 1) and the £3m cumulative loss relating to these assets, previously recognised in other comprehensive income, was adjusted against the carrying value of the assets. See Note 24 for the fair value of these assets as at 27 February 2021. A fair value gain of £8m would have been recognised in other comprehensive income in the current year had the financial assets not been reclassified.

## Note 17 Inventories

| | 2021 £m | 2020 £m |
|---|---|---|
| Goods held for resale | 2,066 | 2,429 |
| Development properties | 3 | 4 |
| | **2,069** | **2,433** |

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

Cost of inventories from continuing operations recognised as an expense for the 52 weeks ended 27 February 2021 was £42,482m (53 weeks ended 29 February 2020: £42,782m). Inventory losses and provisions recognised as an expense for the 52 weeks ended 27 February 2021 were £1,052m (53 weeks ended 29 February 2020: £1,121m).

## Note 18 Trade and other receivables

| | 2021 £m | 2020 £m |
|---|---|---|
| Trade receivables | 424 | 495 |
| Prepayments | 207 | 192 |
| Accrued income[(a)] | 210 | 262 |
| Other receivables | 430 | 439 |
| Amounts owed by joint ventures and associates (Note 31)[(b)] | 162 | 174 |
| **Total trade and other receivables** | **1,433** | **1,562** |
| Of which: | | |
| Current | 1,263 | 1,396 |
| Non-current | 170 | 166 |
| | **1,433** | **1,562** |

(a) Accrued income includes contract assets of £52m (2020: £60m) primarily related to insurance renewal income. The expected credit loss was immaterial as at 27 February 2021 (2020: immaterial).
(b) Expected credit losses on amounts owed by joint ventures and associates are not material.

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

# Notes to the Group financial statements

## Note 18 Trade and other receivables continued

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

| At 27 February 2021 | Not past due £m | Up to six months past due £m | Six to 12 months past due £m | Greater than 12 months past due £m | Total £m |
|---|---|---|---|---|---|
| Trade receivables | 403 | 54 | 3 | 11 | 471 |
| Other receivables | 413 | 15 | 5 | 19 | 452 |
| **Trade and other receivables** | **816** | **69** | **8** | **30** | **923** |
| | | | | | |
| **Allowance for expected credit losses:** | | | | | |
| **At the beginning of the year** | **(7)** | **(9)** | **(8)** | **(30)** | **(54)** |
| Transfer to disposal group held for sale | - | 1 | 1 | 4 | 6 |
| Foreign currency translation | (1) | - | - | - | (1) |
| Increase in allowance, net of recoveries, charged to the Group income statement | (14) | (4) | - | (6) | (24) |
| Amounts written off | - | 1 | 1 | 2 | 4 |
| **At the end of the year** | **(22)** | **(11)** | **(6)** | **(30)** | **(69)** |

| At 29 February 2020 | Not past due £m | Up to six months past due £m | Six to 12 months past due £m | Greater than 12 months past due £m | Total £m |
|---|---|---|---|---|---|
| Trade receivables | 438 | 70 | 6 | 15 | 529 |
| Other receivables | 431 | 7 | 4 | 17 | 459 |
| **Trade and other receivables** | **869** | **77** | **10** | **32** | **988** |
| | | | | | |
| **Allowance for expected credit losses:** | | | | | |
| **At the beginning of the year** | **(5)** | **(11)** | **(14)** | **(29)** | **(59)** |
| Foreign currency translation | – | 1 | – | – | 1 |
| Increase in allowance, net of recoveries, charged to the Group income statement | (2) | – | 4 | (3) | (1) |
| Amounts written off | – | 1 | 2 | 2 | 5 |
| **At the end of the year** | **(7)** | **(9)** | **(8)** | **(30)** | **(54)** |

## Note 19 Loans and advances to customers and banks

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

| | 2021 £m | 2020 £m |
|---|---|---|
| Loans and advances to customers | 6,402 | 8,451 |
| Loans and advances to banks | – | – |
| | **6,402** | **8,451** |
| Of which: | | |
| Current | 3,093 | 4,280 |
| Non-current | 3,309 | 4,171 |
| | **6,402** | **8,451** |

The maturity of these loans and advances is as follows:

| | 2021 £m | 2020 £m |
|---|---|---|
| Repayable on demand or at short notice | 3 | 4 |
| Within three months | 3,354 | 4,543 |
| Greater than three months but less than one year | 94 | 86 |
| Greater than one year but less than five years | 2,922 | 3,322 |
| After five years | 654 | 984 |
| | **7,027** | **8,939** |
| Expected credit loss allowance for loans and advances to customers and banks | (625) | (488) |
| | **6,402** | **8,451** |

At 27 February 2021, £3.0bn (2020: £3.5bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £nil (2020: £0.8bn).

At 27 February 2021, Delamare Cards MTN Issuer PLC had £1.8bn (2020: £2.0bn) notes in issue in relation to securitisation transactions, of which £nil (2020: £0.6bn) was externally issued. The Group owned £1.5bn (2020: £1.4bn) class A credit card-backed notes and £0.3bn (2020: £0.2bn) class D credit card-backed notes.

All of the £1.5bn (2020: £1.2bn) class A retained Credit Card backed notes are held within a single collateral pool.

### Fair value hedge adjustments

Fair value hedge adjustments amounting to £6.7m (2020: £9.7m) are in respect of fixed rate loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

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

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

### Cash and cash equivalents

| | 2021 £m | 2020* £m |
|---|---|---|
| Cash at bank and in hand | 2,495 | 3,980 |
| Short-term deposits | 15 | 157 |
| **Cash and cash equivalents in the Group balance sheet** | **2,510** | **4,137** |
| Bank overdrafts | (532) | (1,106) |
| **Cash and cash equivalents in the Group cash flow statement** | **1,978** | **3,031** |

* Refer to Note 1 for further details regarding the prior year restatement in relation to notional cash pooling arrangements.

### Short-term investments

| | 2021 £m | 2020 £m |
|---|---|---|
| Money market funds | 1,011 | 1,076 |

Cash and cash equivalents includes £101m (2020: £35m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

## Note 21 Trade and other payables

| | 2021 £m | 2020 £m |
|---|---|---|
| Trade payables | 5,131 | 5,579 |
| Other taxation and social security | 369 | 477 |
| Other payables | 1,653 | 1,793 |
| Amounts payable to joint ventures and associates (Note 31) | 23 | 26 |
| Accruals | 956 | 841 |
| Contract liabilities | 376 | 376 |
| **Total trade and other payables** | **8,508** | **9,092** |
| Of which: | | |
| Current | 8,399 | 8,922 |
| Non-current | 109 | 170 |
| | **8,508** | **9,092** |

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

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

Trade payables include £572m (2020: £393m) that suppliers have chosen to early-fund under supplier financing arrangements. Refer to Note 1. Amounts in trade payables that are overdue for payment to the provider are immaterial.

## Note 22 Commercial income

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

| | 2021 £m | 2020 £m |
|---|---|---|
| **Current assets** | | |
| Inventories | (24) | (55) |
| Trade and other receivables | | |
| Trade/other receivables | 90 | 138 |
| Accrued income | 125 | 157 |
| **Current liabilities** | | |
| Trade and other payables | | |
| Trade payables | 170 | 292 |
| Accruals | (2) | (3) |

## Note 23 Borrowings

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

| | Par value | Maturity | 2021 £m | 2020[k] £m |
|---|---|---|---|---|
| Bank loans and overdrafts[a] | – | – | 559 | 1,142 |
| 2.125% MTN | €296m | Nov 2020 | - | 255 |
| 1m USD LIBOR + 0.70% Tesco Bank Bond | $350m | Nov 2020 | - | 273 |
| 5% Tesco Bank Retail Bond | £200m | Nov 2020 | - | 202 |
| 6.125% MTN | £417m | Feb 2022 | 417 | 416 |
| LIBOR + 0.53% Tesco Bank Bond | £300m | Oct 2022 | - | 299 |
| 5% MTN[b] | £71m | Mar 2023 | 79 | 103 |
| 1.375% MTN | €750m | Oct 2023 | 662 | 660 |
| 2.5% MTN[b] | €473m | Jul 2024 | 415 | 653 |
| 2.5% MTN | £400m | May 2025 | 417 | 418 |
| 3.5% Tesco Bank Senior MREL Notes[h] | £250m | Jul 2025 | 251 | 250 |
| 3.322% LPI MTN[i] | £354m | Nov 2025 | 364 | 358 |
| 0.875% MTN | €750m | May 2026 | 649 | 640 |
| 5.5457% Secured Bond[c][d] | £289m | Feb 2029 | 275 | 303 |
| 6.067% Secured Bond[c] | £200m | Feb 2029 | 193 | 192 |
| LIBOR + 1.2% Secured Bond[c] | £50m | Feb 2029 | 48 | 36 |
| 0.375% MTN | €750m | Jul 2029 | 625 | - |
| 6% MTN[b] | £38m | Dec 2029 | 45 | 58 |
| 2.75% MTN | £450m | Apr 2030 | 441 | - |
| LIBOR + 1.17% Secured Bond [f][l] | £187m | Jan 2032 | 184 | - |
| LIBOR + 1.17% Secured Bond [f] | £108m | Jan 2032 | 100 | - |
| 5.5% MTN[b] | £67m | Jan 2033 | 80 | 133 |
| 1.982% RPI MTN[j] | £294m | Mar 2036 | 302 | 297 |
| 6.15% USD Bond[b] | $355m | Nov 2037 | 333 | 555 |
| 6.0517% Secured Bond[e][g] | £458m | Oct 2039 | 592 | 616 |
| 4.875% MTN[b] | £14m | Mar 2042 | 14 | 20 |
| 5.125% MTN[b] | €235m | Apr 2047 | 209 | 316 |
| 5.2% MTN[b] | £14m | Mar 2057 | 14 | 29 |
| | | | **7,268** | **8,224** |
| | | | | |
| Of which: | | | | |
| Current | | | 1,080 | 2,219 |
| Non-current | | | 6,188 | 6,005 |
| | | | **7,268** | **8,224** |

(a) Bank loans and overdrafts includes £532m (2020: £1,106m) of bank overdrafts. £525m (2020: £979m) is held under a notional pooling arrangement which does not meet the criteria to be presented net of cash on the balance sheet. Refer to Note 20.

(b) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 5% MTN Mar 2023 £22m, 2.5% MTN Jul 2024 €277m, 6% MTN Dec 2029 £10m, 5.5% MTN Jan 2033 £42m, 6.15% USD Bond Nov 2037 $170m, 4.875% MTN Mar 2042 £6m, 5.125% MTN Apr 2047 €121m and 5.2% MTN Mar 2057 £16m.

(c) The bonds are secured by a charge over the property, plant and equipment held within The Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £817m (29 February 2020: £794m).

(d) This is an amortising bond which matures in Feb 2029. £26m (29 February 2020: £22m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Feb 2029.

(e) These bonds 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 amounts of assets pledged as security for secured bonds is £837m (29 February 2020 £612m).

(f) These bonds are secured by a charge over the property, plant and equipment held within The Tesco Property No. 2 Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £445m.

(g) This is an amortising bond which matures in October 2039. £14m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Oct 2039.

(h) These notes are Tesco Bank MREL compliant senior debt and were issued on 25 July 2019. The scheduled redemption date is July 2024.

(i) 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%.

(j) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

(k) Refer to Note 1 for further details regarding the prior year restatement.

(l) This is an amortising bond which matures in January 2032 £9m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Jan 2032.

## Note 24 Financial instruments

The Group recognises the following financial instruments on its balance sheet. The Group's exposure to the risks associated with its financial assets and liabilities is discussed in Note 25.

| At 27 February 2021 | Notes | At amortised cost £m | At fair value through profit or loss £m | At fair value through other comprehensive income £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 20 | 2,496 | 14 | – | 2,510 |
| Short-term investments | 20 | 1,011 | – | – | 1,011 |
| Trade receivables | 18 | 424 | – | – | 424 |
| Other receivables | 18 | 430 | – | – | 430 |
| Joint ventures and associates loan receivables | 31 | 122 | – | – | 122 |
| Loans and advances to customers – Tesco Bank | 19 | 6,402 | – | – | 6,402 |
| Investment securities at amortised cost | 16 | 927 | – | – | 927 |
| Financial assets at fair value through other comprehensive income | 16 | – | – | 14 | 14 |
| Derivative financial instruments: | | | | | |
| Interest rate swaps | | - | 42 | - | 42 |
| Cross-currency swaps | | - | 298 | - | 298 |
| Index-linked swaps | | - | 1,080 | - | 1,080 |
| Forward contracts | | - | 42 | - | 42 |
| | | **11,812** | **1,476** | **14** | **13,302** |
| **Financial liabilities** | | | | | |
| Trade payables | 21 | (5,131) | – | – | (5,131) |
| Other payables | 21 | (1,653) | – | – | (1,653) |
| Borrowings | 23 | (7,268) | – | – | (7,268) |
| Customer deposits – Tesco Bank | 26 | (5,738) | – | – | (5,738) |
| Deposits from banks – Tesco Bank | 26 | (600) | – | – | (600) |
| Lease liabilities | 12 | (8,402) | – | – | (8,402) |
| Derivative financial instruments: | | | | | |
| Interest rate swaps | | – | (162) | – | (162) |
| Cross-currency swaps | | – | (38) | – | (38) |
| Index-linked swaps | | – | (729) | – | (729) |
| Forward contracts | | – | (78) | – | (78) |
| | | **(28,792)** | **(1,007)** | **–** | **(29,799)** |

| At 29 February 2020 (restated)* | Notes | At amortised costs £m | At fair value through profit or loss £m | At fair value through other comprehensive income £m | Total £m |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 20 | 4,111 | 26 | – | 4,137 |
| Short-term investments | 20 | 1,076 | - | – | 1,076 |
| Trade receivables | 18 | 495 | - | – | 495 |
| Other receivables | 18 | 439 | - | – | 439 |
| Joint ventures and associates loan receivables | 31 | 127 | - | – | 127 |
| Loans and advances to customers – Tesco Bank | 19 | 8,451 | - | – | 8,451 |
| Investment securities at amortised cost | 16 | - | - | - | - |
| Financial assets at fair value through other comprehensive income | 16 | - | - | 1,068 | 1,068 |
| Derivative financial instruments: | | | | | |
| Interest rate swaps | | - | 47 | - | 47 |
| Cross-currency swaps | | - | 497 | - | 497 |
| Index-linked swaps | | - | 541 | - | 541 |
| Forward contracts | | - | 61 | - | 61 |
| | | **14,699** | **1,172** | **1,068** | **16,939** |
| **Financial liabilities** | | | | | |
| Trade payables | 21 | (5,579) | - | – | (5,579) |
| Other payables | 21 | (1,793) | - | – | (1,793) |
| Borrowings | 23 | (8,224) | - | – | (8,224) |
| Customer deposits – Tesco Bank | 26 | (7,707) | - | – | (7,707) |
| Deposits from banks – Tesco Bank | 26 | (500) | - | – | (500) |
| Lease liabilities | 12 | (9,566) | - | – | (9,566) |
| Derivative financial instruments: | | | | | |
| Interest rate swaps | | - | (70) | – | (70) |
| Cross-currency swaps | | - | - | – | - |
| Index-linked swaps | | - | (816) | – | (816) |
| Forward contracts | | – | (62) | – | (62) |
| | | **(33,369)** | **(948)** | **–** | **(34,317)** |

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

## Note 24 Financial instruments continued

The fair values are 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 is calculated by discounting expected future cash flows at prevailing interest rates. The fair value of assets measured at amortised cost is shown below.

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

### Fair value of financial assets and liabilities measured at amortised cost

The fair value of financial assets and liabilities measured at amortised cost is shown below. The table excludes cash and cash equivalents, short-term investments, trade receivables/payables, and other receivables/payables where the carrying values approximate fair value.

| | 2021 | | 2020 (restated[a]) | |
|---|---|---|---|---|
| | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m |
| **Financial assets measured at amortised cost** | | | | |
| Loans and advances to customers – Tesco Bank (Level 3) | 6,402 | 6,618 | 8,451 | 8,672 |
| Investment securities at amortised cost (Level 1 and 2) | 927 | 932 | - | - |
| Joint ventures and associates loan receivables[b] (Level 2) | 122 | 153 | 127 | 193 |
| **Financial liabilities measured at amortised cost** | | | | |
| Borrowings | | | | |
| Amortised cost (Level 1 and 2) | (4,711) | (5,761) | (5,793) | (6,371) |
| Bonds in fair value hedge relationships (Level 1) | (2,557) | (2,658) | (2,431) | (2,432) |
| Customer deposits – Tesco Bank (Level 3) | (5,738) | (5,744) | (7,707) | (7,711) |
| Deposits from banks – Tesco Bank (Level 2) | (600) | (600) | (500) | (500) |

(a) Refer to Note 1 for further details regarding the prior year restatement.
(b) Joint ventures and associates loan receivables carrying amounts of £122m (2020: £127m) are presented in the Group balance sheet net of deferred profits of £38m (2020: £54m) historically arising from the sale of property assets to joint ventures.

### Fair value measurement by level of fair value hierarchy

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

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

| At 27 February 2021 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through other comprehensive income | – | 3 | 11 | 14 |
| Cash and cash equivalents at fair value through profit or loss | – | 14 | – | 14 |
| Derivative financial instruments: | | | | |
| Interest rate swaps | – | 42 | – | 42 |
| Cross-currency swaps | – | 298 | – | 298 |
| Index-linked swaps | – | 1,080 | – | 1,080 |
| Forward contracts | – | 42 | – | 42 |
| **Total assets** | **–** | **1,479** | **11** | **1,490** |
| **Liabilities** | | | | |
| Derivative financial instruments: | | | | |
| Interest rate swaps | – | (162) | – | (162) |
| Cross-currency swaps | – | (38) | – | (38) |
| Index-linked swaps | – | (729) | – | (729) |
| Forward contracts | – | (78) | – | (78) |
| **Total liabilities** | **–** | **(1,007)** | **–** | **(1,007)** |
| **Net assets/(liabilities)** | **–** | **472** | **11** | **483** |

## Note 24 Financial instruments continued

| 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 |
| Cash and cash equivalents at fair value through profit or loss | – | 26 | – | 26 |
| Derivative financial instruments: | | | | |
| Interest rate swaps | – | 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 | – | (70) | – | (70) |
| Index-linked swaps | – | (816) | – | (816) |
| Forward contracts | – | (62) | – | (62) |
| **Total liabilities** | **–** | **(948)** | **–** | **(948)** |
| **Net assets/(liabilities)** | **1,058** | **224** | **10** | **1,292** |

The following table presents the changes in Level 3 instruments:

| | 2021 £m | 2020 £m |
|---|---|---|
| **At the beginning of the year** | **10** | **(1)** |
| Gains/(losses) recognised in the Group statement of comprehensive income/(loss) | 3 | 1 |
| Disposal of financial instrument at fair value through profit or loss | (4) | 6 |
| Addition of financial asset at fair value through other comprehensive income | 2 | 4 |
| **At the end of the year** | **11** | **10** |

During the financial year, there were no transfers (2020: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2020: no transfers).

### Offsetting of financial assets and liabilities

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

| | | | | Related amounts not offset in the Group balance sheet | | |
|---|---|---|---|---|---|---|
| At 27 February 2021 | Gross amounts of recognised financial assets/ (liabilities) £m | Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m | Net amounts presented in the Group balance sheet £m | Financial instruments £m | Collateral £m | Net amount £m |
| **Financial assets** | | | | | | |
| Derivative financial instruments | 1,462 | – | 1,462 | (234) | - | 1,228 |
| Trade receivables | 520 | (96) | 424 | - | - | 424 |
| **Total assets** | **1,982** | **(96)** | **1,886** | **(234)** | **-** | **1,652** |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | (1,007) | – | (1,007) | 234 | 42 | (731) |
| Trade payables | (5,227) | 96 | (5,131) | - | - | (5,131) |
| **Total liabilities** | **(6,234)** | **96** | **(6,138)** | **234** | **42** | **(5,862)** |

## Note 24 Financial instruments continued

| At 29 February 2020 (restated[a]) | Gross amounts of recognised financial assets/ (liabilities) £m | Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m | Net amounts presented in the Group balance sheet £m | Related amounts not offset in the Group balance sheet: Financial instruments £m | Related amounts not offset in the Group balance sheet: Collateral £m | Net amount £m |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial instruments | 1,146 | - | 1,146 | (168) | - | 978 |
| Trade receivables | 735 | (240) | 495 | - | - | 495 |
| **Total assets** | **1,881** | **(240)** | **1,641** | **(168)** | **-** | **1,473** |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | (948) | - | (948) | 168 | 45 | (735) |
| Trade payables | (5,819) | 240 | (5,579) | - | - | (5,579) |
| **Total liabilities** | **(6,767)** | **240** | **(6,527)** | **168** | **45** | **(6,314)** |

(a) Refer to Note 1 for further details regarding the prior year restatement.

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

## Note 25 Financial risk management

The Group's financial risk management is carried out under policies approved and authority delegated by the Board of Directors, including parameters for risk management across the Group. The financial risk management in relation to Retail is carried out by a central treasury department. Tesco Bank has a separate formal structure for reporting, monitoring and managing its financial risks appropriate to the nature of its business as a regulated financial institution.

The main financial risks faced by the Group, including Retail and Tesco Bank, and the management of these risks are set out below and include market risk (foreign exchange, interest rate, inflation and commodity prices), credit risk, liquidity risk, capital risk and insurance risk. Additional information on the management of the financial risks relating to Tesco Bank is also set out below.

### (a) Market risk

The Group is exposed to various elements of market risk, which include foreign exchange risk, interest rate risk, commodity price risk and inflation risk.

### Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods, where those purchases are denominated in a currency other than the functional currency of the purchasing company;
- net investment exposure that arises from changes in the value of net investments denominated in currencies other than Pounds Sterling;
- loans to and from subsidiaries in currencies other than in the entity's functional currency; and
- debt issued in a currency other than Pound Sterling.

The foreign exchange risk for each of the above is managed via:

*Transactional exposure*

- forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges. The Group's policy is to hedge currency exposure that could significantly impact the Group income statement with a minimum (20%) and maximum (80%) hedge level of forecast uncommitted exposure within at least the next 12 months.

*Net Investment exposure*

- foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. The Group's policy is to hedge a part of its investments in international subsidiaries.

*Intercompany loan hedging*

- the use of foreign currency derivatives and borrowings in matching currencies. The Group's policy is that 100% of the foreign exchange risk is hedged. These are not formally designated as accounting hedges as gains and losses will naturally offset in the income statement.

*Foreign currency debt*

- cross-currency swaps which swap the non-sterling debt back into a net sterling exposure. The Group's policy is to swap foreign currency debt back to Pound Sterling, unless there are appropriate matching foreign currency assets.

## Note 25 Financial risk management continued

### Interest rate risk

The Group is exposed to interest rate risk principally via:

- debt issued at variable interest rates, as well as cash deposits and short-term investments, giving rise to cash flow risk; and debt issued at fixed interest rates, giving rise to fair value risk.

The interest rate risk for each of the above is managed via:

- The issuance of debt at variable and floating interest rates as well as forward rate agreements, interest rate swaps, and caps and floors, which may be used to achieve the desired mix of fixed and floating rate debt. Hedging relationships are formally designated as either fair value or cash flow hedges. The Group's policy is to target fixing a minimum of 50% of interest costs for senior unsecured debt excluding Tesco Bank. At 27 February 2021, the percentage of interest-bearing debt at fixed rates was 67% (2020: 68%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 3.07% (2020: 3.30%).
  The Group has RPI-linked debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has LPI-linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed-rate debt. RPI-linked debt and LPI-linked debt are hedged for the effects of inflation until maturity.

During 2021 and 2020, Group net debt was managed using derivative instruments to hedge interest rate risk.

| | 2021 | | | 2020 (restated*) | | |
|---|---|---|---|---|---|---|
| | Fixed £m | Floating £m | Total £m | Fixed £m | Floating £m | Total £m |
| Cash and cash equivalents | – | 2,510 | 2,510 | – | 4,137 | 4,137 |
| Loans and advances to customers – Tesco Bank | 6,402 | – | 6,402 | 4,370 | 4,081 | 8,451 |
| Investment securities at amortised cost | 502 | 425 | 927 | - | - | - |
| Short-term investments | – | 1,011 | 1,011 | – | 1,076 | 1,076 |
| Financial assets at fair value through other comprehensive income | 14 | - | 14 | 659 | 409 | 1,068 |
| Joint ventures and associates loan receivables | 101 | 21 | 122 | 106 | 21 | 127 |
| Lease liabilities | (8,402) | – | (8,402) | (9,566) | – | (9,566) |
| Bank and other borrowings | (6,102) | (1,166) | (7,268) | (6,260) | (1,964) | (8,224) |
| Customer deposits – Tesco Bank | (5,738) | – | (5,738) | (3,164) | (4,543) | (7,707) |
| Deposits from banks – Tesco Bank | – | (600) | (600) | (500) | – | (500) |
| Derivative effect: | | | | | | |
| Interest rate swaps | (1,206) | 1,206 | – | (1,092) | 1,092 | – |
| Cross-currency swaps | (905) | 905 | – | 410 | (410) | – |
| Index-linked swaps | (299) | 299 | – | (294) | 294 | – |
| **Total** | **(15,633)** | **4,611** | **(11,022)** | **(15,331)** | **4,193** | **(11,138)** |

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

### Commodity price risk

The Group is exposed to commodity price risk via:

- changes in commodity prices largely relating to diesel for own use.

The commodity price risk is managed via:

- forward derivative contracts which are designated as cash flow hedges. These are used to hedge future purchases of diesel for own use which are forecast to occur within a 12-month period. The Group Policy is to hedge a minimum of 50% of the forecast uncommitted exposure within the next 12 months.

### Inflation risk

The Group is exposed to inflation risk in relation to its financial assets and liabilities via:

- Indexed linked debt, were the principal is indexed to increase / decrease in line with the RPI or LPI.
- Lease liabilities where rent payments are indexed to increases / decreases in inflation indexes such as RPI.

The inflation risk is managed via:

- Indexed-linked debt
- Indexed-linked swaps, which are used to hedge RPI-linked and LPI-linked debt for the effect of inflation until maturity.
- Indexed linked lease liabilities
- Indexed linked swaps, which are used to hedge inflation linked rent payments for the effect of inflation until maturity of the lease.

### Hedge accounting of market risks

Derivatives are used to hedge exposure to market risks, some of which are economic hedges and others are formally designated hedging instruments with hedge accounting applied. The main sources of hedge ineffectiveness are the effect of the counterparties' and the Group's own credit risk on the fair value of derivatives.

## Note 25 Financial risk management continued

*Fair value hedges*

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

Derivative contracts hedging fixed rate debt issued by the Group receive a fixed-rate of interest and pay a variable interest rate.

Derivative contracts held by the Group receive a floating rate of interest and pay a fixed interest rate to hedge investment securities where the Group receives a fixed rate of interest.

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

*Cash flow hedges*

The Group is exposed to foreign currency risk arising from purchases of goods for resale in currencies other than the functional currency of the purchasing entity. Foreign currency forwards are utilised to hedge this risk and are formally designated as cash flow hedges.

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

The Group also uses forward contracts to hedge the price of certain commodities, these mainly relate to forward contracts to hedge future purchases of diesel for own use, which are forecast to occur within a 12-month period. These are denominated in the same currency and volume as the forecast purchases and the hedging relationship is determined to be 1:1.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt and interest rate swaps to hedge interest cash flows on debt.

*Net investment hedging*

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

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in foreign operations due to movements in the spot rate. The Group has established a hedge ratio of 1:1, as the underlying risk of the hedging instrument is identical to the hedged risk component.

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

| Gains/(losses) on net investment hedges | Nominal amount of the hedged item £m | Nominal amount of the hedging instrument £m | Movement on continuing hedges £m | Movement on discontinued hedges £m |
|---|---|---|---|---|
| **At 23 February 2019** | **1,281** | **1,281** | **(42)** | **(976)** |
| Change in value for calculating ineffectiveness | 9 | 9 | 48 | (89) |
| **At 29 February 2020** | **1,290** | **1,290** | **6** | **(1,065)** |
| Change in value for calculating ineffectiveness | 10 | 10 | (10) | – |
| Recycled to Group income statement | – | – | – | 57 |
| **At 27 February 2021** | **1,300** | **1,300** | **(4)** | **(1,008)** |

Net investment hedge ineffectiveness was £nil (2020: £nil) during the year.

During the current financial year, the Group disposed of its Asian business resulting in a recycle to the income statement from the translation reserve of £57m (2020: £nil) relating to net investment hedging.

During the current financial year, currency movements decreased the net value, after the effects of hedging, of the Group's overseas assets by £68m (2020: decrease by £68m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets.

*Financial instruments not qualifying for hedge accounting*

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

## Note 25 Financial risk management continued

*IBOR reform*

In the prior year, the Group early adopted the 'Interest Rate Benchmark Reform Phase 1' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. This allowed the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty from interest rate benchmark reforms.

In the current year, the Group has early adopted the 'Interest Rate Benchmark Reform Phase 2' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and has applied this to hedging relationships where no uncertainty remains as IBOR based benchmarks have been replaced by risk-free benchmarks for a number of hedging relationships.

Both Phase 1 and Phase 2 are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures and modifications in response to the reform have been made to some but not all of the Group's derivative and non-derivative financial instruments.

Where new hedging arrangements have been entered into during the year these have been set up utilising risk-free rates.

During the year the Group transitioned some of its exposures from IBOR based to risk free rate indices. These included interest rate swaps and floating Inter-Company lending which were transitioned to Sterling Overnight Index Average (SONIA) based indices.

None of the Group's current IBOR linked contracts include adequate and robust fall-back provisions for cessation of the referenced benchmark interest rate.

The Group continues to monitor the market and the output from various industry groups managing the transition to new benchmark interest rates, and will look to implement fall-back language for different instruments and IBORs when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association (ISDA) fall-back clauses were made available at the end of 2019 and the Group has entered discussions with its banks and other counterparties with the aim to implement this language into its ISDAs and other relevant agreements.

The Group's transition to alternative benchmark rates is managed by cross functional teams, led by the Treasury teams in the Retail business and Tesco Bank, with the aim to complete this transition during the financial year ending 26 February 2022. There are a number of potential risks arising from the transition, however the Group does not envisage that these will materialise, as significant progress on the transition has been made with its banks and other counterparties.

The following table sets out the hedging relationships as at 27 February 2021, which include IBOR benchmarks and are yet to be transitioned to Risk-free rate benchmarks.

| | Carrying value | | | | | |
|---|---|---|---|---|---|---|
| Hedging instrument | Notional £m | Asset £m | Liability £m | Interest rate benchmark | Hedged item | Hedge relationship |
| Interest rate swaps | 650 | 14 | - | EURIBOR | MTN | Fair value hedge |
| Interest rate swaps | 465 | 22 | - | LIBOR | MTN | Fair value hedge |
| Interest rate swaps | 346 | - | (108) | LIBOR | Borrowing | Cash flow hedge |
| Cross-currency interest rate swaps | 256 | 137 | (3) | LIBOR | MTN | Not in formal hedge relationship |
| Investment in subordinated loans | 21 | 21 | - | LIBOR | - | Not in formal hedge relationship |

## Derivatives and hedging exposures

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

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset | | Liability | | Asset | | Liability | |
| | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m |
| **Fair value hedges** | | | | | | | | |
| Interest rate swaps | 42 | 2,018 | (54) | 2,774 | 47 | 1,710 | (51) | 2,404 |
| Cross-currency swaps | – | – | (35) | 650 | 232 | 409 | – | – |
| **Cash flow hedges** | | | | | | | | |
| Interest rate swaps | – | – | (108) | 346 | – | – | (19) | 50 |
| Cross-currency swaps | – | – | – | – | 265 | 1,477 | – | – |
| Index-linked swaps | 203 | 660 | – | – | 186 | 649 | – | – |
| Forward contracts | 37 | 1,118 | (59) | 1,468 | 38 | 1,133 | (29) | 954 |
| **Derivatives not in a formal hedge relationship** | | | | | | | | |
| Interest rate swaps | – | 13 | – | 101 | – | 35 | – | 13 |
| Cross-currency swaps | 298 | 782 | (3) | 86 | – | – | – | – |
| Index-linked swaps | 877 | 3,209 | (729) | 4,982 | 355 | 3,025 | (816) | 5,130 |
| Forward contracts | 5 | 479 | (19) | 1,043 | 23 | 1,139 | (33) | 1,416 |
| **Total** | **1,462** | **8,279** | **(1,007)** | **11,450** | **1,146** | **9,577** | **(948)** | **9,967** |

## Note 25 Financial risk management continued

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

| Maturity profile | 2021 Up to one year | 2021 One to five years | 2021 More than five years | 2020 Up to one year | 2020 One to five years | 2020 More than five years |
|---|---|---|---|---|---|---|
| **Fair value hedges** | | | | | | |
| ***Interest rate risk*** | | | | | | |
| Interest rate swaps – GBP | | | | | | |
| – Notional amount (£m) | 1,384 | 2,156 | 602 | 953 | 1,910 | 607 |
| – Average net interest rate (pay)/receive | 0.32% | 1.29% | 0.59% | 1.08% | 0.84% | 1.39% |
| Interest rate swaps – EUR | | | | | | |
| – Notional amount (£m) | – | 650 | – | – | 645 | – |
| – Average net interest rate (pay)/receive | – | 0.66% | – | – | 0.63% | – |
| ***Interest rate/Foreign currency risk*** | | | | | | |
| Cross-currency swaps (GBP:EUR) | | | | | | |
| – Notional amount (£m) | – | – | 650 | – | – | – |
| – Average exchange rate | – | – | 1.13 | – | – | – |
| – Average net interest rate (pay)/receive | – | – | (0.77%) | – | – | – |
| Cross-currency swaps (GBP:USD) | | | | | | |
| – Notional amount (£m) | – | – | – | – | – | 409 |
| – Average exchange rate | – | – | – | – | – | 1.50 |
| – Average net interest rate (pay)/receive | – | – | – | – | – | 3.15% |
| **Cash flow hedges** | | | | | | |
| ***Interest rate risk*** | | | | | | |
| Index-linked swaps | | | | | | |
| – Notional amount (£m) | – | 360 | 300 | – | – | 649 |
| Average net interest rate (pay)/receive | – | (4.23%) | (4.21%) | – | – | (4.22%) |
| Interest rate swaps | | | | | | |
| – Notional amount (£m) | – | – | 346 | – | – | 50 |
| – Average net interest rate (pay)/receive | – | – | (4.97%) | – | – | (4.23%) |
| ***Interest rate/Foreign currency risk*** | | | | | | |
| Cross-currency swaps (GBP:USD) floating | | | | | | |
| – Notional amount (£m) | – | – | – | 272 | – | – |
| – Average exchange rate | – | – | – | 1.29 | – | – |
| – Average net interest rate (pay)/receive | – | – | – | 0.84% | – | – |
| Cross-currency swaps (GBP:EUR) fixed | | | | | | |
| – Notional amount (£m) | – | – | – | 254 | 645 | 306 |
| – Average exchange rate | – | – | – | 1.19 | 1.25 | 1.47 |
| – Average net interest rate (pay)/receive | – | – | – | (0.87%) | (1.46%) | (0.32%) |

At 27 February 2021, forward foreign currency contracts, designated as cash flow hedges, equivalent to £2.5bn were outstanding (2020: £2.1bn). These forward contracts are largely in relation to purchases of Euros (notional €1.0bn) (2020: notional £0.8bn) and US Dollars (notional $1.3bn) (2020: notional $0.9bn) with varying maturities up to August 2022.

For the above currencies the rates ranged from Euro/GBP 1.08 to 1.156 and US$/GBP from 1.222 to 1.416.

Forward commodity contracts hedging diesel purchases for own use as at 27 February 2021 had a GBP notional of £54m (2020: £69m) at a rate of £277 to £457 per tonne.

The notional and fair values of these contracts is shown on page 82.

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

| At 27 February 2021 | Carrying amount Assets £m | Carrying amount Liabilities £m | Accumulated amounts of fair value adjustments on hedged item Assets £m | Accumulated amounts of fair value adjustments on hedged item Liabilities £m | Changes in fair value for calculating hedge ineffectiveness £m | Residual hedge adjustments[a] £m |
|---|---|---|---|---|---|---|
| **Fair value hedges** | | | | | | |
| ***Interest rate risk*** | | | | | | |
| Fixed-rate loans[b] | 3,653 | – | 7 | – | (3) | (3) |
| Fixed-rate savings[c] | – | (1,866) | – | – | – | – |
| Fixed-rate investment securities[b] | 500 | – | 10 | – | 8 | – |
| Fixed-rate bonds[d] | – | (2,926) | – | (95) | (59) | (97) |

(a) Accumulated amount of fair value hedge adjustments remaining in the Group balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses.
(b) Classified as Loans and advances to customers and banks.
(c) Classified as Customer deposits and Deposits from Banks.
(d) Classified as Borrowings.

## Note 25 Financial risk management continued

| At 29 February 2020 | Carrying amount Assets £m | Carrying amount Liabilities £m | Accumulated amounts of fair value adjustments on hedged item Assets £m | Accumulated amounts of fair value adjustments on hedged item Liabilities £m | Changes in fair value for calculating hedge ineffectiveness £m | Residual hedge adjustments[a] £m |
|---|---|---|---|---|---|---|
| **Fair value hedges** | | | | | | |
| ***Interest rate risk*** | | | | | | |
| Fixed-rate loans and mortgages[b] | 4,416 | – | 10 | – | 12 | 6 |
| Fixed-rate savings[c] | – | (3,003) | – | (1) | (1) | (1) |
| Fixed-rate investment securities[b] | 650 | – | 2 | – | 7 | – |
| Fixed-rate bonds[d] | – | (2,348) | – | (216) | 140 | (34) |

(a)-(d) Refer to previous table for footnotes.

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

| At 27 February 2021 | Hedging instrument | Change in value of hedging instrument for calculating hedge ineffectiveness £m | Change in value of hedged item for calculating hedge ineffectiveness £m | Cumulative impact on hedging reserve and cost of hedging reserve* Continuing hedges £m | Cumulative impact on hedging reserve and cost of hedging reserve* Discontinued hedges £m |
|---|---|---|---|---|---|
| **Interest rate risk** | | | | | |
| Index-linked bonds | Index-linked bonds | 1 | (1) | 71 | - |
| Borrowings | Interest rate swaps | 30 | (30) | 18 | - |
| **Foreign currency risk** | | | | | |
| Trade payables | Forward contracts | (44) | 44 | (24) | - |
| **Interest rate/Foreign currency risk** | | | | | |
| MTNs | Cross-currency swaps | 6 | (6) | - | 43 |

* Excludes deferred tax.

| At 29 February 2020 | Hedging instrument | Change in value of hedging instrument for calculating hedge ineffectiveness £m | Change in value of hedged item for calculating hedge ineffectiveness £m | Cumulative impact on hedging reserve and cost of hedging reserve* Continuing hedges £m | Cumulative impact on hedging reserve and cost of hedging reserve* Discontinued hedges £m |
|---|---|---|---|---|---|
| **Interest rate risk** | | | | | |
| Index-linked bonds | Index-linked bonds | 22 | (22) | 69 | - |
| Borrowings | Interest rate swaps | (2) | 2 | (4) | - |
| **Foreign currency risk** | | | | | |
| Trade payables | Forward contracts | 55 | (55) | 8 | - |
| **Interest rate/Foreign currency risk** | | | | | |
| MTNs | Cross-currency swaps | 28 | (28) | 137 | (44) |

* Excludes deferred tax.

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

| | Line item in Group income statement that includes hedge ineffectiveness | 2021 Hedge ineffectiveness recognised in profit or loss £m | 2020 Hedge ineffectiveness recognised in profit or loss £m |
|---|---|---|---|
| **Cash flow hedges** | Finance income/costs | - | - |
| **Net investment hedges** | Finance income/costs | - | - |
| **Fair value hedges – interest rate risk** | | | |
| – Borrowings | Finance income/costs | (18) | (6) |
| – Derivatives | Finance income/costs | - | - |

## Note 25 Financial risk management continued

The following table presents a reconciliation by risk category of the Cash flow hedge and Cost of hedging reserves and an analysis of other comprehensive income in relation to hedge accounting:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Hedging reserve £m | Cost of hedging reserve £m | Line item | Hedging reserve £m | Cost of hedging reserve £m | Line item |
| **Opening balance** | **154** | **(15)** | | **118** | **(5)** | |
| **Interest rate risk** | | | | | | |
| *Index-linked swaps* | | | | | | |
| – Net fair value gains/(losses) | 16 | – | | 1 | – | |
| – Amount reclassified to Group income statement | (15) | – | Finance income/costs | (2) | – | Finance income/costs |
| *Interest rate swaps* | | | | | | |
| – Net fair value gains/(losses) | 30 | – | | (2) | – | |
| – Amount reclassified to Group income statement | (6) | – | Finance income/costs | (1) | – | Finance income/costs |
| **Interest rate/Foreign currency risk** | | | | | | |
| *Cross-currency swaps* | | | | | | |
| – Net fair value gains/(losses) | (4) | 17 | | 70 | (12) | |
| – Amount reclassified to Group income statement | (65) | – | Finance income/costs | (4) | – | Finance income/costs |
| **Foreign currency risk** | | | | | | |
| *Forward contracts* | | | | | | |
| – Net fair value gains/(losses) | (3) | – | | 49 | – | |
| – Amount reclassified to Inventories | (28) | – | Inventories | (64) | – | Inventories |
| Tax | 11 | (2) | | (11) | 2 | |
| **Closing balance** | **90** | **–** | | **154** | **(15)** | |

### Sensitivity analysis

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

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment benefit obligations and on the retranslation of overseas net assets. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 27 February 2021. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

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

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

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Income gain/(loss) £m | Equity gain/(loss) £m | Income gain/(loss) £m | Equity gain/(loss) £m |
| 1% increase in interest rates (2020: 1%) | (31) | 31 | 39 | (42) |
| 10% appreciation of the Euro (2020: 10%) | (5) | (96) | 1 | (117) |
| 10% appreciation of the US Dollar (2020: 10%) | 3 | 97 | 5 | 78 |
| 25 basis points parallel upward shift in the forward inflation curve (2020: 25 basis points) | 116 | – | 86 | – |

## Note 25 Financial risk management continued

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

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

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

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

### (b) Credit risk

Credit risk represents the risk that a counterparty will not meet its obligations leading to a financial loss for the Group. Credit risk arises from Cash and cash equivalents, Short-term investments, Trade receivables, Other receivables, Joint ventures and associates loan receivables, Loans and advances to customers – Tesco Bank, Loans and advances to banks – Tesco Bank, Investment securities at amortised cost, Financial assets at fair value through other comprehensive income, and Derivative financial instruments.

For financial assets other than Trade receivables, Other receivables, Joint ventures and associates loan receivables, and Loans and advances to customers – Tesco Bank, the Group holds positions with an approved list of investment-grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. Counterparty credit limits are reviewed on an annual basis and may be updated throughout the financial year. The limits are set to minimise the concentration of risk and are set taking into account the type and value of the specific financial asset.

For Trade receivables, Other receivables, Joint ventures and associates loan receivables, and Loans and advances to customers - Tesco Bank, the Group's credit risk is managed with various mitigating controls including credit checks, credit insurance and master netting agreements. Due to the nature of the Retail and Tesco Bank businesses, there is little concentration of risk due to the large number of customers which are spread across wide geographical areas.

### Maximum exposure to credit risk

The maximum exposure to credit risk at the end of the reporting period reflects the carrying amount of each class of financial assets, including loan commitments which are not recognised on the balance sheet. Joint ventures and associates loan receivables in the table below are gross of deferred profits historically arising from the sale of property assets to joint ventures (see Note 31). The Group's maximum exposure to credit risk is £26.0bn (2020: £28.9bn).

The net counterparty exposure under derivative contracts is £1.2bn (2020: £1.0bn).

The Group's maximum gross exposure to credit risk is analysed below by class of financial instrument, including for financial instruments that are not subject to ECL i.e. derivative financial instruments and cash balances with central banks:

| | 2021 £m | 2020[(a)] £m |
|---|---|---|
| Cash and cash equivalents[(b)] | 2,510 | 4,137 |
| Short-term investments | 1,011 | 1,076 |
| Trade receivables | 424 | 495 |
| Other receivables | 430 | 439 |
| Joint venture and associate loan receivables | 160 | 181 |
| Loans and advances to customers – Tesco Bank | 6,402 | 8,451 |
| Investment securities at amortised cost | 927 | – |
| Financial assets at fair value through other comprehensive income | 14 | 1,068 |
| Derivative financial instruments: | | |
| Interest rate swaps | 42 | 47 |
| Cross-currency swaps | 298 | 497 |
| Index-linked swaps | 1,080 | 541 |
| Forward contracts | 42 | 61 |
| **Off balance sheet:** | | |
| Loan commitments | 12,668 | 11,872 |
| **Maximum exposure to credit risk** | **26,008** | **28,865** |

(a) Refer to Note 1 for further details regarding the prior year restatement.
(b) Cash balances with central banks of £1.6bn (2020: £2.6bn) are included within Cash and cash equivalents.

## Note 25 Financial risk management continued

*Counterparty credit rating*

The table below provides detail of financial assets by long term credit rating of investment-grade rated counterparties:

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rating | AAA | AA | A | BBB | Total | AAA | AA | A | BBB | Total |
| Money market funds | 955 | – | 56 | - | 1,011 | 1,076 | – | – | – | 1,076 |
| Investment securities at amortised cost | 560 | 65 | 302 | - | 927 | – | – | – | - | - |
| Investment securities at fair value through other comprehensive income | – | 5 | – | – | 5 | 525 | 248 | 274 | 14 | 1,061 |
| Derivatives financial assets | | | | | | | | | | |
| Interest rate swaps | – | 9 | 27 | 6 | 42 | – | 8 | 39 | – | 47 |
| Cross currency swaps | – | – | 211 | 87 | 298 | – | – | 287 | 210 | 497 |
| Index Linked swaps | – | – | 613 | 467 | 1,080 | – | – | 95 | 446 | 541 |
| Forward contracts | – | 1 | 27 | 14 | 42 | – | 9 | 35 | 17 | 61 |

The low credit risk exemption has been applied to cash and cash equivalents, short-term investments, financial assets at fair value through OCI, financial assets at amortised cost and investment securities as these are held with counterparties with investment-grade ratings (BBB or above) or are short term in nature. The expected credit loss is immaterial.

*Expected credit losses*

For trade receivables, contract assets and lease receivables the Group applies the simplified approach with lifetime ECLs recognised from initial recognition of the receivables. For loans and advances to customers, short-term investments, investment securities at amortised cost, debt instruments at fair value through other comprehensive income and loan receivables from joint venture and associates, the three-stage model for impairment has been applied. The expected lifetime of a financial asset is generally the contractual term.

The Group's financial assets are written off when the balance is known not to be recoverable or the Group is time barred from recovering a balance under local legislation.

The expected credit losses for Retail are immaterial. For details on the expected credit losses relating to Tesco Bank see below. Gross loans to related parties of £160m (2020: £181m) are presented net of loss allowances of £nil (2020: £2m) and deferred profits of £38m (2020: £54m) on the Group balance sheet. The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) for the relevant time period and for each specific loan and by discounting back to the balance sheet date.

### (c) Liquidity risk

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

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

The Group retains access to capital markets so that maturing debt may be refinanced as it falls due and the Group is investment grade rating with all three major credit rating agencies.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Short term rating | Long term rating | Outlook | Short term rating | Long term rating | Outlook |
| **Rating agency** | | | | | | |
| Fitch | F3 | BBB- | Stable | F3 | BBB- | Stable |
| Moody's | P-3 | Baa3 | Stable | P-3 | Baa3 | Stable |
| Standard & Poor's | A-3 | BBB- | Stable | A-3 | BBB- | Stable |

The Group has a £15.0bn Euro Medium Term Note programme, of which £4bn was in issue at 27 February 2021 (2020: £4.0bn), plus £0.3bn equivalent of USD-denominated notes issued under 144A documentation (2020: £0.4bn).

Liquidity risk is continuously monitored by short-term and long-term cash flow forecasts.

During the year, the Group accessed the capital markets twice issuing £450m (maturing in 2030) and €750m (maturing in 2029). The €750m issuance was the Group's first sustainability linked bond. The bond includes a coupon step up of 25 bps for the final three coupon payments, if science-based carbon reduction targets of 60% are not achieved compared to a 2015/16 baseline.

*Borrowing facilities*

The Group has the following undrawn committed facilities available at 27 February 2021, in respect of which all conditions precedent had been met as at that date:

| | 2021 £m | 2020 £m |
|---|---|---|
| Expiring in less than one year | 38 | 38 |
| Expiring between one and two years | – | 3,000 |
| Expiring in more than two years | 2,500 | – |
| | 2,538 | **3,038** |

During the year, a new three-year multicurrency £2.5bn revolving facility was established, replacing the existing £3bn committed facilities. The new facility is linked to three ESG targets and includes the use of risk-free rates rather than LIBOR.

The undrawn committed facilities include £nil (2020: £0.4bn) of bilateral facilities and a £2.5bn (2020: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates. There were no withdraws from the facilities during the year.

## Note 25 Financial risk management continued

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 89.

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

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

| At 27 February 2021 | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due between 3 and 4 years £m | Due between 4 and 5 years £m | Due beyond 5 years £m |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Bank and other borrowings | (1,002) | (53) | (779) | (724) | (888) | (3,844) |
| Interest payments on borrowings | (199) | (172) | (170) | (151) | (134) | (905) |
| Customer deposits – Tesco Bank | (4,924) | (488) | (253) | (114) | (24) | – |
| Deposits from banks – Tesco Bank | (500) | – | (100) | – | – | – |
| Lease liabilities | (969) | (939) | (912) | (867) | (841) | (7,999) |
| Trade payables | (5,131) | – | – | – | – | – |
| Other payables | (1,543) | (23) | (3) | (1) | – | (83) |
| **Derivative financial liabilities** | | | | | | |
| Net settled derivative contracts – receipts | 69 | 51 | 32 | 26 | 4 | 19 |
| Net settled derivative contracts – payments | (88) | (533) | (217) | (186) | (23) | (78) |
| Gross settled derivative contracts – receipts | 2 | 2 | 2 | 1 | 1 | 2 |
| Gross settled derivative contracts – payments | (7) | (8) | (10) | (11) | (12) | (61) |
| **Total on balance sheet** | (14,292) | (2,163) | (2,410) | (2,027) | (1,917) | (12,949) |
| | | | | | | |
| **Off balance sheet** | | | | | | |
| Contractual lending commitments | (12,668) | – | – | – | – | – |
| **Total** | (26,960) | (2,163) | (2,410) | (2,027) | (1,917) | (12,949) |

| At 29 February 2020 (restated)* | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due between 3 and 4 years £m | Due between 4 and 5 years £m | Due beyond 5 years £m |
|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | |
| Bank and other borrowings | (2,120) | (467) | (53) | (795) | (956) | (3,776) |
| Interest payments on borrowings | (227) | (208) | (181) | (179) | (159) | (1,237) |
| Customer deposits – Tesco Bank | (6,426) | (797) | (233) | (187) | (115) | – |
| Deposits from banks – Tesco Bank | (3) | (1) | (501) | – | – | – |
| Lease liabilities | (1,081) | (1,018) | (996) | (993) | (951) | (9,584) |
| Trade payables | (5,409) | - | - | - | - | - |
| Other payables | (1,623) | (22) | (18) | (2) | (1) | (127) |
| **Derivative financial liabilities** | | | | | | |
| Net settled derivative contracts – receipts | 10 | 11 | 467 | 116 | – | 25 |
| Net settled derivative contracts – payments | (717) | (42) | (470) | (148) | (160) | (18) |
| Gross settled derivative contracts – receipts | 2,534 | – | – | – | – | – |
| Gross settled derivative contracts – payments | (2,585) | – | – | – | – | – |
| **Total on balance sheet** | **(17,647)** | **(2,544)** | **(1,985)** | **(2,188)** | **(2,342)** | **(14,717)** |
| | | | | | | |
| **Off balance sheet** | | | | | | |
| Contractual lending commitments | (11,872) | – | – | – | – | – |
| **Total** | **(29,519)** | **(2,544)** | **(1,985)** | **(2,188)** | **(2,342)** | **(14,717)** |

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

The Group is not subject to covenants in relation to its facilities and borrowings. There is an element of seasonality in the Group's operations, however the overall impact on liquidity is not considered significant.

The Group cash flow statement includes net (investment in) / proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost of £116m inflow (2020: £6m outflow) within cash flows generated from/(used in) investing activities. The gross cash flows are £201m inflow (2020: £774m inflow) and £85m outflow (2020: £780m outflow).

The Group cash flow statement includes net cash flows from derivative financial instruments of £580m outflow (2020: £17m outflow) within cash flows generated from/(used in) financing activities. The gross cash flows are £2,276m outflow (2020: £346m outflow) and £1,696m inflow (2020: £329m inflow).

## Note 25 Financial risk management continued

### (d) Capital risk

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

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

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

In line with the Group's objectives, during the current financial year, the Group issued a £450m bond maturing in 2030 and undertook a liability management exercise by combining an issuance of €750m bond maturing in 2029 with a debt buyback, the latter resulting in notionals of £0.6bn bought back across eight bonds.

Refer to Note 32 for the value of the Group's net debt (£12.0bn; 2020: £12.3bn), and the Group statement of changes in equity for the value of the Group's equity (£12.3bn; 2020: £13.4bn).

### (e) Insurance risk

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

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

### Tesco Bank

Information on the management of the financial risks relating to Tesco Bank, which is additional to the information provided for the Group overall, is set out below.

*Interest rate risk*

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

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

*Liquidity risk*

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

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

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

*Credit risk*

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

## Note 25 Financial risk management continued

### Maximum exposure to credit risk

The table below presents Tesco Bank's maximum exposure to credit risk i.e. total gross exposure, by stages and by class of financial instruments. For financial assets, the balances are based on gross carrying amounts. For loan commitments, the amounts represent the amounts for which Tesco Bank is contractually committed:

| 27 February 2021 | Stage 1 £m | Stage 2 Not past due £m | Stage 2 <30 days past due £m | Stage 2 >30 days past due £m | Stage 2 Total £m | Stage 3 £m | Total £m |
|---|---|---|---|---|---|---|---|
| Loans and advances to customers | 5,749 | 981 | 25 | 25 | 1,031 | 242 | 7,022 |
| Investment securities at FVOCI[(a)] | 5 | – | – | – | – | – | 5 |
| Investment securities at amortised cost | 928 | – | – | – | – | – | 928 |
| Loan commitments – Loans and advances to customers[(b)] | 12,379 | 283 | 2 | – | 285 | 4 | 12,668 |
| **Total gross exposure** | **19,061** | **1,264** | **27** | **25** | **1,316** | **246** | **20,623** |
| **Loss allowance** | | | | | | | |
| Loans and advances to customers[(b)] | 131 | 314 | 11 | 16 | 341 | 153 | 625 |
| Investment securities at FVOCI | – | – | – | – | – | – | – |
| Investment securities at amortised cost | 1 | – | – | – | – | – | 1 |
| **Total loss allowance** | **132** | **314** | **11** | **16** | **341** | **153** | **626** |
| **Net Exposure** | | | | | | | |
| Loans and advances to customers | 5,618 | 667 | 14 | 9 | 690 | 89 | 6,397 |
| Investment securities at FVOCI | 5 | – | – | – | – | – | 5 |
| Investment securities at amortised cost | 927 | – | – | – | – | – | 927 |
| **Total net exposure** | **6,550** | **667** | **14** | **9** | **690** | **89** | **7,329** |
| **Coverage** | | | | | | | |
| Loans and advances to customers | 2% | 32% | 44% | 64% | 33% | 63% | 9% |

(a) On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.
(b) The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advance to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within the provisions.

| 29 February 2020 | Stage 1 £m | Stage 2 Not past due £m | Stage 2 <30 days past due £m | Stage 2 >30 days past due £m | Stage 2 Total £m | Stage 3 £m | Total £m |
|---|---|---|---|---|---|---|---|
| Loans and advances to customers | 7,688 | 869 | 52 | 32 | 953 | 289 | 8,930 |
| Investment securities at FVOCI[(a)] | 1,061 | – | – | – | – | – | 1,061 |
| Investment securities at amortised cost | – | – | – | – | – | – | – |
| Loan commitments – Loans and advances to customers[(b)] | 11,755 | 116 | – | – | 116 | 1 | 11,872 |
| **Total gross exposure** | **20,504** | **985** | **52** | **32** | **1,069** | **290** | **21,863** |
| **Loss allowance** | | | | | | | |
| Loans and advances to customers[(b)] | 83 | 178 | 21 | 20 | 219 | 186 | 488 |
| Investment securities at FVOCI | – | – | – | – | – | – | – |
| Investment securities at amortised cost | – | – | – | – | – | – | – |
| **Total loss allowance** | **83** | **178** | **21** | **20** | **219** | **186** | **488** |
| **Net Exposure** | | | | | | | |
| Loans and advances to customers | 7,605 | 691 | 31 | 12 | 734 | 103 | 8,442 |
| Investment securities at FVOCI | 1,061 | – | – | – | – | – | 1,061 |
| Investment securities at amortised cost | – | – | – | – | – | – | – |
| **Total net exposure** | **8,666** | **691** | **31** | **12** | **734** | **103** | **9,503** |
| **Coverage** | | | | | | | |
| Loans and advances to customers | 1% | 20% | 40% | 63% | 23% | 64% | 5% |

(a)–(b) Refer to previous table for footnotes.

*Expected credit losses (ECL)*

The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and loss given default (LGD) for the relevant time period and for each asset category and by discounting back to the balance sheet date. The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios, with key variables being the Bank of England base rate, unemployment rate, house price index and gross domestic product. The key economic variables are based on historical patterns observed over a range of economic cycles.

## Note 25 Financial risk management continued

The tables below present the reconciliations of ECL allowances on loans and advances to customers.

| 27 February 2021 | 2021 Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|
| Gross exposure | 5,749 | 1,031 | 242 | 7,022 |
| Loan commitments | 12,379 | 285 | 4 | 12,668 |
| **Total exposure** | **18,128** | **1,316** | 246 | **19,690** |
| **Allowance for expected credit losses** | | | | |
| **At 29 February 2020** | **(83)** | **(219)** | **(186)** | **(488)** |
| **Transfers:** | | | | |
| Transfers from stage 1 to stage 2 | 20 | (20) | – | – |
| Transfers from stage 2 to stage 1 | (9) | 9 | – | – |
| Transfers to stage 3 | 2 | 42 | (44) | – |
| Transfers from stage 3 | (2) | (2) | 4 | – |
| **Movements recognised in the Group income statement:** | | | | |
| Net remeasurement following transfer of stage | 6 | (36) | (72) | (102) |
| New financial assets originated | (25) | (5) | (2) | (32) |
| Financial assets derecognised during the current financial year | 8 | 9 | 3 | 20 |
| Changes in risk parameters and other movements | (56) | (134) | (83) | (273) |
| **Other movements:** | | | | |
| Write-offs and asset disposals | – | 3 | 227 | 230 |
| Transfers to provisions for liabilities and charges | 8 | 12 | – | 20 |
| Reclassification of mortgage book balances to fair value through profit or loss | – | – | – | – |
| **At 27 February 2021** | **(131)** | **(341)** | **(153)** | **(625)** |
| **Reconciliation to Group balance sheet** | | | | |
| Gross exposure | 5,749 | 1,031 | 242 | 7,022 |
| Allowance for expected credit losses | (131) | (341) | (153) | (625) |
| | **5,618** | **690** | **89** | **6,397** |
| Fair value adjustment | | | | 5 |
| **Carrying value at 27 February 2021** | | | | **6,402** |

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

The Bank defines four classifications of credit quality for all credit exposures: high, satisfactory, low and below standard. Credit exposures are segmented according to the probability of default (PD), with credit impaired reflecting a PD of 100%.

| At 27 February 2021 | 12-month PD % | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|---|
| **Loans and advances to customers:** | | | | | |
| High quality | ≤3.02 | 5,314 | 445 | – | 5,759 |
| Satisfactory quality | >3.03 – 11.10 | 392 | 389 | – | 781 |
| Low quality and below standard | ≥11.11 | 43 | 197 | – | 240 |
| Credit impaired | 100 | – | – | 242 | 242 |
| | | 5,749 | 1,031 | 242 | 7,022 |

| At 29 February 2020 | 12-month PD % | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m |
|---|---|---|---|---|---|
| **Loans and advances to customers:** | | | | | |
| High quality | ≤3.02 | 6,609 | 37 | – | 6,646 |
| Satisfactory quality | >3.03 – 11.10 | 1,037 | 485 | – | 1,522 |
| Low quality and below standard | ≥11.11 | 42 | 431 | – | 473 |
| Credit impaired | 100 | – | – | 289 | 289 |
| | | 7,688 | 953 | 289 | 8,930 |

## Default

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

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

A loan deemed uncollectable is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined. Tesco Bank may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off were £154m (2020: £140m).

## Significant increase in credit risk

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

Tesco Bank has commissioned four scenarios from its third-party provider, all of which were based on an economic outlook that sought to take account of the potential ramifications of the current COVID-19 pandemic. These scenarios include a Base scenario, an Upside scenario and two different Downside scenarios. As the economic outlook remains uncertain, the scenarios are based on the success of the COVID-19 vaccine roll out against emerging strains of the virus and, as the restrictions are lifted, the speed at which consumer and business confidence will support the recovery in GDP and the labour market. The Base scenario anticipates a delayed economic recovery, with consumer confidence remaining weak in the near term and unemployment peaking in Q3 2021. The Upside scenario involves a sharper economic recovery while Downside 1 scenario assumes a longer delay until the economy recovers. Downside 2 is a prolonged and sustained recession with a slow economic recovery thereafter. These scenarios are also reviewed to ensure an unbiased estimate of ECL by ensuring the credit loss distribution under a larger number of scenarios is adequately captured using these four scenarios and their respective weightings. The Base, Upside, Downside 1 and Downside 2 scenarios have been assigned weighting of 40%, 30%, 25% and 5% respectively.

The economic scenarios used include the following ranges of key indicators:

| As at 27 February 2021 (5 year average) | Base 40% | Upside 30% | Downside 1 25% | Downside 2 5% | COVID-19 n/a |
|---|---|---|---|---|---|
| Bank of England base rate[(a)] | 0.1% | 0.2% | 0.1% | 0.1% | n/a |
| Gross domestic product[(b)] | 2.6% | 3.5% | 2.2% | 1.8% | n/a |
| Unemployment rate | 5.5% | 4.7% | 6.7% | 8.6% | n/a |
| Unemployment rate peak in year | 5.8% | 4.9% | 7.4% | 9.3% | n/a |

| As at 29 February 2020 (5 year average) | Base 40% | Upside 20% | Downside 1 30% | Downside 2 5% | Covid-19 5% |
|---|---|---|---|---|---|
| Bank of England base rate[(a)] | 0.6% | 0.2% | 1.4% | 2.3% | 2.3% |
| Gross domestic product[(b)] | 1.6% | 2.0% | 1.0% | 0.7% | 0.7% |
| Unemployment rate | 3.9% | 3.9% | 5.3% | 6.1% | 6.1% |
| Unemployment rate peak in year | 3.9% | 3.9% | 5.5% | 6.3% | 6.3% |

(a) Simple average
(b) Annual growth rates

## Note 25 Financial risk management continued

### Key assumptions and sensitivity

The key assumptions to which the Tesco Bank ECL is most sensitive are macroeconomic factors, 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 27 February 2021.

| Key assumption | Reasonably possible change | Impact on the loss allowance 2021 £m | 2020 £m |
|---|---|---|---|
| **Closing ECL allowance** | | 625 | 488 |
| Macroeconomic factors (100% weighted) | Upside scenario | (66) | (41) |
| | Base scenario | (1) | (28) |
| | Downside scenario 1 | 57 | 40 |
| | Downside scenario 2 | 117 | 103 |
| Probability of default | Increase of 2.5% | 8 | 11 |
| | Decrease of 2.5% | (8) | (11) |
| Loss given default | Increase of 2.5% | 10 | 12 |
| | Decrease of 2.5% | (10) | (12) |
| Probability of threshold (staging) | Increase of 20% | (7) | (17) |
| | Decrease of 20% | 11 | 21 |
| Expected lifetime (revolving credit facility) | Increase of 1 year | 9 | 2 |
| | Decrease of 1 year | (9) | (2) |

COVID-19 has had a significant impact on the global economy and there remains a large degree of uncertainty around the scale and stress of the peak of the economic downturn and the speed and shape of any subsequent recovery. The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by Tesco Bank, have broken traditional modelled relationships between unemployment and default. Although projected levels of unemployment remain high, Tesco Bank is yet to see significant defaults emerge in its lending portfolio and, as such, COVID-19 specific adjustments to the modelled ECL provision to capture the estimated impact of the stress within the ECL provision have been recognised for an overall post-model adjustment of £214m which includes three management overlays. A first £129m adjustment is in respect of the beneficial modelling impact of lower consumer spending through the pandemic. An increase or decrease of 10% on the adjustment for lower drawn balances would not result in a material increase or decrease of this management overlay. A second £64m adjustment is to recognise the expected emergence of defaults once support measures such as furlough and the various temporary customer support measures Tesco Bank has put in place are removed and a third £21m adjustment is to recognise an increase in credit risk in respect of customers who sought an extension to their initial payment holiday.

### Forbearance

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

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

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

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

| | Gross loans and advances subject to forbearance programmes | | Forbearance programmes as a proportion of total loans and advances by category | | Proportion of forbearance programmes covered by allowance for expected credit losses | |
|---|---|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 % | 2020 % | 2021 % | 2020 % |
| Credit cards – UK | 119 | 108 | 4 | 3 | 50 | 50 |
| Credit cards – Commercial | – | – | 5 | 5 | 96 | 94 |
| Loans | 48 | 49 | 1 | 1 | 56 | 41 |

*Insurance risk*

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

## Note 26 Customer deposits and deposits from banks

| | 2021 £m | 2020 £m |
|---|---|---|
| Customer deposits | 5,738 | 7,707 |
| Deposits from banks | 600 | 500 |
| | **6,338** | **8,207** |
| Of which: | | |
| Current | 5,321 | 6,377 |
| Non-current | 1,017 | 1,830 |
| | **6,338** | **8,207** |

Deposits from banks include balances of £500m (2020: £500m) drawn under the Bank of England's Term Funding Scheme (TFS) and £100m (2020: £nil) drawn under the Bank of England's term Funding Scheme with additional incentives for Small and Medium Sized Entities (TFSME).

## Note 27 Provisions

| | Property provisions £m | Restructuring provisions £m | Other provisions £m | Total £m |
|---|---|---|---|---|
| **At 29 February 2020** | **156** | **64** | **72** | **292** |
| Foreign currency translation | – | 3 | (6) | (3) |
| Acquired through business combinations | 5 | – | – | 5 |
| Reclassifications | – | (3) | 38 | 35 |
| Amount released in the year | (24) | (29) | – | (53) |
| Amount provided in the year | 49 | 31 | 105 | 185 |
| Amount utilised in the year | (4) | (60) | (25) | (89) |
| Transfer to disposal group classified as held for sale | (51) | (6) | (11) | (68) |
| Unwinding of discount | 1 | – | – | 1 |
| **At 27 February 2021** | **132** | **-** | **173** | **305** |

The balances are analysed as follows:

| | 2021 £m | 2020 £m |
|---|---|---|
| Current | 186 | 155 |
| Non-current | 119 | 137 |
| | **305** | **292** |

### Property provisions

Property provisions comprise onerous property provisions, including non-lease contracts related to unprofitable stores and vacant properties, remediation works, dilapidations provisions and asset retirement obligation provisions. Property provisions related to leased properties are expected to be utilised prior to the end of the leases. Refer to Note 12 for a maturity analysis of the Group's contractual undiscounted lease payments.

### Restructuring provisions

Of the £2m net charge (£31m charge, £(29)m release) recognised in the year, £2m (2020: £43m) has been classified as an exceptional item within discontinued operations, and £nil (2020: £108m charge) has been classified within exceptional items as 'Net restructuring and redundancy costs' within continuing operations, of which £nil (2020: £95m) related to UK & ROI and £nil (2020: £13m) related to Tesco Bank. Refer to Notes 4 and 7 for further details. The restructuring provisions were fully utilised in the financial year to 27 February 2021.

### Other provisions

Other provisions include a £88m (2020: £nil) provision relating to claims from Homeplus (Korea) purchasers. Refer to Note 7 for further details. Additional provisions included in other provisions are individually immaterial. The majority of provisions are expected to be utilised in the next financial year.

# Notes to the Group financial statements

## Note 28 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £69m (2020: £129m), which is made up of share option schemes and share bonus payments. Of this amount, £60m (2020: £113m) will be settled in equity and £9m (2020: £16m) in cash representing National Insurance contributions.

### Share option schemes

The Company had nine share option schemes in operation during the financial year, all of which are equity-settled schemes:

i. The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

ii. The Irish Savings-related Share Option Scheme (2000) permits the grant to ROI colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

iii. The Executive Incentive Plan (2004) permitted the grant of options in respect of Ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

iv. The Executive Incentive Plan (2014) permits the grant of options in respect of Ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' remuneration report.

v. The Performance Share Plan (2011) permits the grant of options in respect of Ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

vi. The Group Bonus Plan permits the grant of options in respect of Ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

vii. The Long Term Incentive Plan (2015) permits the grant of options in respect of Ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

viii. The Booker Group PLC Savings Related Share Option Plan (2008) (Booker SAYE) permitted the grant to Booker colleagues of options in respect of ordinary shares in Booker Group PLC (Booker Shares) linked to a building society/bank save-as-you-earn contract for a term of three years with contributions from Booker colleagues of an amount between £5 and £500 per four-weekly period. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker colleagues elected to roll over their existing options over Booker Shares under the Booker SAYE into equivalent options over ordinary shares in Tesco PLC (Tesco Shares). The options over Tesco Shares are capable of being exercised at the end of the three-year period at a subscription price equivalent to not less than 80% of the average of the middle-market quotations of a Booker Share over the three dealing days immediately preceding the offer date.

ix. The Booker Group PLC Performance Share Plan (2008) (Booker PSP) permitted the grant of options in respect of Booker Shares to selected Booker senior colleagues (Booker PSP Options). Under the Booker PSP, tax approved Company Share Option Plan options (Booker CSOP Options) were also granted to selected Booker senior colleagues. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker senior colleagues elected to roll over their existing Booker PSP and Booker CSOP Options over Booker Shares into equivalent options over Tesco Shares. Booker PSP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant for nil consideration. The vesting of options is normally conditional upon the achievement of specified performance targets over a three year period and continuous employment. Conditional on the vesting of the relevant Booker PSP Options, Booker CSOP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant at a subscription price equivalent to the market value of the Booker Shares at the time of grant.

## Notes to the Group financial statements

### Note 28 Share-based payments

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

#### For the 52 weeks ended 27 February 2021

| | Savings-related Share Option Scheme | | Irish Savings-related Share Option Scheme | | Nil cost Share Option Scheme[a] | | Booker Group PLC Savings Related Share Option Plan | | Booker Group PLC Performance Share Plan Scheme | | Other Schemes | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP |
| **Outstanding at 29 February 2020** | **215,812,094** | **175.06** | **6,855,613** | **185.35** | **18,455,841** | **–** | **5,100,149** | **151.21** | **4,976,236** | **–** | **–** | **–** |
| Granted | 60,005,859 | 198.00 | 2,800,186 | 198.00 | 516,622 | – | – | – | – | – | – | – |
| Forfeited | (18,268,028) | 197.73 | (808,107) | 194.80 | (3,675,500) | – | (271,569) | 149.39 | (2,257,156) | – | – | – |
| Exercised | (91,142,849) | 151.29 | (1,261,423) | 153.20 | (8,079,580) | – | (4,141,825) | 151.10 | (1,858,323) | – | – | – |
| **Outstanding at 27 February 2021** | **166,407,076** | **193.86** | **7,586,269** | **194.35** | **7,217,383** | **–** | **686,755** | **152.58** | **860,757** | **–** | **–** | **–** |
| Exercise price range (pence) | | 150.00 to 219.00 | | 150.00 to 219.00 | | – | | 137.45 to 152.78 | | – | | – |
| Weighted average remaining contractual life (years)[b] | | 2.86 | | 2.78 | | 5.18 | | 0.42 | | – | | – |
| **Exercisable at 27 February 2021** | **4,780,919** | **151.11** | **108,223** | **151.00** | **7,217,383** | | **686,755** | **152.58** | **860,757** | **–** | **–** | **–** |
| Exercise price range (pence) | | 150.00 to 219.00 | | 150.00 to 219.00 | | | | 137.45 to 152.78 | | – | | – |
| Weighted average remaining contractual life (years)[b] | | 0.42 | | 0.42 | | 5.18 | | 0.42 | | – | | – |

(a) The special dividend and associated share consolidation had a neutral impact to the number of options.
(b) Contractual life represents the period from award to the scheme end date. Certain schemes may be exercised later than vesting date at the discretion of the individual.

Share options were exercised on a regular basis throughout the financial year. The average share price during the 52 weeks ended 27 February 2021 was 227.07p (2020: 237.69p).

#### For the 53 weeks ended 29 February 2020

| | Savings-related Share Option Scheme | | Irish Savings-related Share Option Scheme | | Nil cost Share Option Scheme | | Booker Group PLC Savings Related Share Option Plan | | Booker Group PLC Performance Share Plan Scheme | | Other Schemes* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP | Options | WAEP |
| **Outstanding at 23 February 2019** | **215,591,248** | **168.04** | **6,470,978** | **175.06** | **25,377,129** | **–** | **9,827,705** | **145.36** | **11,222,347** | **–** | **12,379,637** | **–** |
| Granted | 44,387,158 | 219.00 | 1,977,339 | 219.00 | 537,271 | – | – | – | | – | – | – |
| Forfeited | (23,512,462) | 200.62 | (1,062,090) | 187.69 | (5,502,793) | – | (766,057) | 147.40 | (2,870,980) | – | (12,379,637) | – |
| Exercised | (20,653,850) | 167.18 | (530,614) | 180.60 | (1,955,766) | – | (3,961,499) | 137.46 | (3,375,131) | – | – | – |
| **Outstanding at 29 February 2020** | **215,812,094** | **175.06** | **6,855,613** | **185.35** | **18,455,841** | **–** | **5,100,149** | **151.21** | **4,976,236** | **–** | **–** | **–** |
| Exercise price range (pence) | | 150.00 to 322.00 | | 150.00 to 219.00 | | - | | 137.13 to 152.78 | | - | | - |
| Weighted average remaining contractual life (years) | | 2.09 | | 2.55 | | 6.39 | | 1.32 | | 0.51 | | - |
| **Exercisable at 29 February 2020** | **2,948,571** | **189.92** | **243,886** | **190.00** | **9,359,089** | **–** | **523,817** | **137.45** | **977,437** | **–** | **–** | **–** |
| Exercise price range (pence) | | 150.00 to 322.00 | | 190.00 | | - | | 137.45 | | - | | - |
| Weighted average remaining contractual life (years) | | 0.41 | | 0.42 | | 5.60 | | 0.42 | | – | | - |

* Other Schemes includes Approved Share Option Scheme (Approved), Unapproved Share Option Scheme (Unapproved), and International Executive Share Option Scheme (International). The WAEP for all other schemes at 29 February 2020 was 338.40p and all options were forfeited during the year.

## Note 28 Share-based payments continued

The fair value of savings related share options schemes are estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

| | 2021 SAYE | 2020 SAYE |
|---|---|---|
| Expected dividend yield (%) | 4.90–5.05% | 3.70–4.28% |
| Expected volatility (%) | 23.00–25.60% | 22.60–28.09% |
| Risk-free interest rate (%) | 0.15–0.26% | 0.81–0.84% |
| Expected life of option (years) | 3 or 5 | 3 or 5 |
| Weighted average fair value of options granted (pence) | 27.13 | 38.56 |
| Probability of forfeiture (%) | 6–10% | 7–10% |
| Share price (pence) | 219.60 | 243.00 |
| Weighted average exercise price (pence) | 198.00 | 219.00 |

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

### Share bonus and incentive schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long Term Incentive Plan (2015). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The Executive Directors participate in short-term bonus and long-term incentive schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' remuneration report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

The number and weighted average fair value (WAFV) of share bonuses and share incentives awarded were:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of shares | WAFV pence | Number of shares | WAFV pence |
| Group Bonus Plan | 15,502,105 | 246.70 | 11,496,310 | 237.80 |
| Performance Share Plan | 25,024,909 | 221.72 | 39,136,637 | 233.77 |

## Note 29 Post-employment benefits

### Pensions

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

### Defined contribution

Defined contribution schemes are open to all Tesco employees in the UK.

Under the Group's defined contribution pension schemes, employees of the Group pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the employee's contributions. The Group has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes in continuing operations of £347m (2020: £329m) have been recognised in the Group income statement. This includes £132m (2020: £116m) of salaries paid as pension contributions.

### Defined benefit schemes

The Group has a defined benefit pension deficit of £1,222m (2020: £3,085m), comprising a number of schemes. The most significant of these are for the Group's employees in the UK, which are closed to future accrual, and ROI. The defined benefit pension deficit in the UK represents 86% of the Group deficit (2020: 92%).

### Guaranteed minimum pension

During the year, a further high court judgement was handed down regarding the Lloyd's Banking Group's defined benefit pension schemes, which affects many schemes in the UK, including the Group's UK schemes. This ruling requires pension schemes to also consider the impact of guaranteed minimum pensions (GMPs) equalisation on individual transfer payments made since May 1990. In consultation with independent actuaries, the Group recognised the financial effect of this as a one-off £7m exceptional past service cost in the current year. This is presented as an exceptional item in the income statement (Note 4).

# Notes to the Group financial statements

## Note 29 Post-employment benefits continued

### United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee (the Trustee) that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with all relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

1. representatives of the Group; and
2. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

### Scheme funding

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial assessment, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities based on corporate bond yields.

The most recent completed triennial actuarial assessment of the Scheme was performed as at 31 December 2019 using the projected unit credit method. After the £2.5bn contribution in relation to the Group's sale of its operations in Thailand and Malaysia, the funding position was a surplus of £570m. The market value of the Scheme's assets was £18,492m and these assets represented 103% of the benefits that had accrued to members, after allowing for expected increases in pensions in payment.

Subsequent to this triennial actuarial assessment it was agreed that no further pension deficit contributions would be required, with contributions being assessed at the next triennial review. The £2.5bn contribution has significantly reduced the prospect of having to make further pension deficit contributions in the future. The Group will continue to pay £25m per annum to meet expenses of the Scheme, including the Pension Protection Fund levy. Additionally, as part of the triennial review it was agreed that the market value of assets held as security in favour of the Scheme would increase to at least £775m (2020: £575m).

The most recent Booker Pension Scheme triennial valuation showed a funding deficit of £103m at 31 March 2019, with agreed contributions of £15m per annum until the end of 2028. No contributions were required for the Budgens or Londis schemes.

### IFRIC 14

The Group is not required to recognise any additional liabilities in relation to funding plans, or limit the recognition of any surpluses, as any future economic benefits will be available to the Group by way of future refunds or reductions to future contributions.

### Maturity profile of obligations

The estimated duration of the Scheme obligations is an indicator of the weighted average term of benefit payments after discounting. For the Scheme this is 23 years.

Around 40% of the undiscounted benefits are due to be paid beyond 30 years' time, with the last payments expected to be over 80 years from now.

The liabilities held by the Scheme are broken down as follows:

| | % |
|---|---|
| Deferred members | 78 |
| Current pensioners | 22 |

## Note 29 Post-employment benefits continued

### Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

| Risk | Description of risk | Mitigation |
|---|---|---|
| Investment | The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase.<br><br>If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Group. | The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.<br><br>The Trustee and Group take a balanced approach to investment risk and have a long-term plan to significantly reduce the investment risk within the Scheme. |
| Inflation | The Scheme's benefit obligations are linked to inflation. A higher rate of expected long-term inflation will therefore lead to higher liabilities, both for the IAS 19 and funding liability.<br><br>If the Scheme's funding liability increases, this may require additional contributions to be made by the Group. | As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio.<br><br>The portfolio invests in assets which increase in value as inflation expectations increase. This mitigates the impact of any adverse movement in long-term inflation expectations.<br><br>The Scheme's holdings are designed to hedge against inflation risk up to the value of the funded liabilities.<br><br>Additionally, changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI). |
| Interest rate | A decrease in corporate bond yields will increase the accounting deficit under IAS 19. Similarly, a decrease in gilt yields will have an adverse impact on the funding position of the Scheme. This may lead to additional contributions to be made by the Group. | As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a LDI portfolio.<br><br>The portfolio invests in assets which increase in value as interest rates decrease. The Scheme's holdings are designed to hedge against interest rate risk up to the value of the funded liabilities.<br><br>Because the aim of the portfolio is to mitigate risk for the funding position, ineffectiveness in hedging for the accounting deficit under IAS 19 can arise where corporate bond and gilt yields diverge. This is partially offset by Scheme holdings in corporate bonds. |
| Life expectancy | The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities. | To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years.<br><br>The Trustee and Group regularly monitor the impact of changes in longevity on scheme obligations. |

The operations and audit pensions committee was established to further strengthen the Group's Trustee governance and provide greater oversight and stronger internal control over the Group's risks. The Group pensions committee was also set up to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance and impacts of any regulatory changes.

## Note 29 Post-employment benefits continued

### Scheme principal assumptions

*Financial assumptions*

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

| | 2021 % | 2020 % |
|---|---|---|
| Discount rate | 2.0 | 1.9 |
| Price inflation | 2.9 | 2.8 |
| Rate of increase in deferred pensions* | 2.5 | 2.0 |
| Rate of increase in pensions in payment* | | |
| Benefits accrued before 1 June 2012 | 2.8 | 2.7 |
| Benefits accrued after 1 June 2012 | 2.5 | 2.1 |

* In excess of any guaranteed minimum pension (GMP) element.

*Discount Rate*

The discount rate for the Scheme is determined by reference to market yields of high-quality corporate bonds of suitable currency and term to the Scheme cash flows and extrapolated based on the trend observable in corporate bond yields to produce a single equivalent discount rate.

*Inflation*

The inflation assumption is used to determine increases in pensions linked to RPI and CPI inflation within sections of the Scheme, subject to relevant maximum and minimum increases.

RPI inflation is derived by reference to the difference between fixed-interest and index-linked long-term government bonds. To account for the premium that investors are willing to pay to mitigate the risk that inflation is higher than expected, the inflation assumption incorporates an inflation risk premium. CPI inflation is set by reference to RPI.

The government announced RPI reforms in 2019 and subsequently responded to a consultation in November 2020, with changes to align RPI with CPIH expected from 2030 onwards. The Group uses a bifurcated approach to pre- and post-2030 assumptions, reflecting the impact of the RPI reforms from 2030 onwards. In consultation with external actuaries, the inflation risk premium has been set at 0.42% (2020: 0.25%), representing the weighted average of 0.3% p.a. pre-2030 and 0.5% p.a. post-2030. The CPI differential has been set as 0.43% lower than RPI (2020: 0.80%), representing the weighted average of 1.0% p.a. pre-2030 and 0.1% p.a. post-2030.

### Mortality assumptions

The Group, in consultation with an independent actuary, conducted a mortality analysis of the Scheme as part of the triennial actuarial valuation process. Subsequent to this analysis, the Group adopted the best estimate assumptions for the calculation of the IAS 19 pension liability for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2018 improvements. In addition, the allowance for future mortality improvements from 2017 have been updated to be in line with CMI 2019, with a long-term improvement rate of 1.25% per annum.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

| | | Pensioner | Non-Pensioner |
|---|---|---|---|
| Male | Staff | 90% of SAPS S3 Normal Heavy | 97% of SAPS S3 Normal Heavy |
| | Senior Manager | 95% of SAPS S3 Normal Light | 104% of SAPS S3 Normal Light |
| Female | Staff | 110% of SAPS S3 Normal Heavy | 114% of SAPS S3 Normal Heavy |
| | Senior Manager | 95% of SAPS S3 All Middle | 100% of SAPS S3 All Middle |

The following table illustrates the expectation of life of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 at the balance sheet date +25 years. A comparison between the two retiree dates illustrates the expected improvements in mortality over the next 25 years.

| | | 2021 Years | 2020 Years |
|---|---|---|---|
| Retiring at the balance sheet date at age 65: | Male | 20.7 | 22.0 |
| | Female | 22.2 | 23.8 |
| Retiring at the balance sheet date +25 years at age 65: | Male | 22.0 | 23.4 |
| | Female | 23.9 | 25.8 |

### Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligation are detailed below:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| Financial assumptions - Increase/(decrease) in UK Defined Benefit Obligation | Discount rate £m | Inflation rate £m | Discount rate £m | Inflation rate £m |
| Impact of 0.1% increase of the assumption | (460) | 400 | (460) | 383 |
| Impact of 0.1% decrease of the assumption | 480 | (380) | 479 | (383) |
| Impact of 1.0% increase of the assumption | (4,038) | 4,318 | (4,002) | 4,289 |
| Impact of 1.0% decrease of the assumption | 5,577 | (3,418) | 5,572 | (3,313) |

| Mortality assumptions - Increase/(decrease) in UK Defined Benefit Obligation | 2021 £m | 2020 £m |
|---|---|---|
| Impact of 1 year increase in longevity | 900 | 881 |
| Impact of 1 year decrease in longevity | (920) | (881) |

## Note 29 Post-employment benefits continued

Sensitivities are calculated by changing the relevant assumption while holding all other assumptions constant. The sensitivities reflect the range of recent assumption movements and illustrate that the financial assumption sensitivities do not move in a linear fashion. Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

*Overseas*

The Group operates defined benefit schemes in ROI. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the ROI schemes as at 27 February 2021. At the financial year end, the IAS 19 deficit relating to ROI was £169m (2020: £206m).

*Post-employment benefits other than pensions*

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 27 February 2021 of £7m (2020: £8m) was determined in accordance with the advice of independent actuaries. During the current financial year, £nil (2020: £nil) has been charged to the Group income statement and £nil (2020: £nil) of benefits were paid.

### Plan assets

The Group's pension schemes hold assets that both provide returns and mitigate risk, including the volatility of future pension payments.

The table below shows a breakdown of the combined investments held by the Group's schemes:

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted £m | Unquoted £m | Total £m | % | Quoted £m | Unquoted £m | Total £m | % |
| **Equities** | | | | | | | | |
| UK | 89 | – | 89 | 1 | 255 | – | 255 | 2 |
| Europe | 889 | – | 889 | 4 | 746 | – | 746 | 4 |
| Rest of the world | 4,502 | – | 4,502 | 22 | 4,347 | – | 4,347 | 25 |
| | **5,480** | **–** | **5,480** | **27** | **5,348** | **–** | **5,348** | **31** |
| **Bonds** | | | | | | | | |
| Government | 1,377 | – | 1,377 | 6 | 750 | – | 750 | 4 |
| Corporates – investment grade | 3,334 | – | 3,334 | 17 | 1,362 | – | 1,362 | 8 |
| Corporates – non-investment grade | 197 | - | 197 | 1 | 2 | – | 2 | - |
| | **4,908** | **–** | **4,908** | **24** | **2,114** | **–** | **2,114** | **12** |
| **Property** | | | | | | | | |
| UK | 78 | 1,041 | 1,119 | 6 | 44 | 1,036 | 1,080 | 6 |
| Rest of the world | 6 | 440 | 446 | 2 | 7 | 475 | 482 | 3 |
| | **84** | **1,481** | **1,565** | **8** | **51** | **1,511** | **1,562** | **9** |
| **Alternative assets** | | | | | | | | |
| Hedge funds | 1 | 312 | 313 | 2 | 2 | 304 | 306 | 2 |
| Private equity | – | 1,020 | 1,020 | 5 | – | 881 | 881 | 5 |
| Other | 210 | 1,288 | 1,498 | 7 | 225 | 1,043 | 1,268 | 7 |
| | **211** | **2,620** | **2,831** | **14** | **227** | **2,228** | **2,455** | **14** |
| **LDI portfolio** | **3,241** | **(493)** | **2,748** | **14** | **4,580** | **444** | **5,024** | **29** |
| **Cash** | **2,550** | **–** | **2,550** | **13** | **922** | **–** | **922** | **5** |
| **Total fair value of plan assets** | **16,474** | **3,608** | **20,082** | **100** | **13,242** | **4,183** | **17,425** | **100** |

Quoted assets are those with a quoted price in an active market. Unquoted assets are valued in accordance with IFRS13, using the most appropriate level within the fair value hierarchy based on the specifics of the asset class, and in line with industry standard guidelines, including the RICS methodology for property and the IPEV guidelines for Private Equity.

The LDI portfolio consists of assets, including gilts and index-linked gilts, of the value of £8,425m (2020: £8,115m) and associated repurchase agreements and swaps of £(5,677)m (2020: £(3,091)m). Other alternative assets include infrastructure and private credit investments. Other derivatives are included in the asset category to which they relate, reflecting the underlying nature and exposure of the derivative.

The plan assets include £222m (2020: £209m) relating to property used by the Group. Group property with net carrying value of £826m (2020:£478m) (Note 11) and a value to the Scheme of at least £775m (2020: £575m) is held as security in favour of the Scheme.

## Note 29 Post-employment benefits continued

### Movement in the Group pension deficit during the financial year

Including all movements of discontinued operations up to classification as held for sale[a]

| | Fair value of plan assets | | Defined benefit obligation | | Net defined benefit surplus/(deficit) | |
|---|---|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m | 2021 £m | 2020[b] £m |
| **Opening balance** | **17,425** | **15,054** | **(20,510)** | **(17,862)** | **(3,085)** | **(2,808)** |
| Current service cost | – | – | (41) | (40) | (41) | (40) |
| Past service cost | – | – | (7) | (5) | (7) | (5) |
| Finance income/(cost) | 341 | 409 | (384) | (480) | (43) | (71) |
| **Included in the Group income statement** | **341** | **409** | **(432)** | **(525)** | **(91)** | **(116)** |
| Remeasurement gain/(loss): | | | | | | |
| Financial assumptions gain/(loss) | – | – | (1,193) | (2,867) | (1,193) | (2,867) |
| Demographic assumptions gain/(loss) | – | – | 18 | 182 | 18 | 182 |
| Experience gain/(loss) | – | – | 354 | 61 | 354 | 61 |
| Return on plan assets excluding finance income | (136) | 2,158 | – | – | (136) | 2,158 |
| Foreign currency translation | 1 | (3) | (4) | 5 | (3) | 2 |
| **Included in the Group statement of comprehensive income/(loss)** | **(135)** | **2,155** | **(825)** | **(2,619)** | **(960)** | **(464)** |
| Member contributions | 2 | 2 | (2) | (2) | – | – |
| Employer contributions | 34 | 36 | – | – | 34 | 36 |
| Additional employer contributions | 2,836 | 262 | – | – | 2,836 | 262 |
| Benefits paid | (421) | (493) | 436 | 498 | 15 | 5 |
| Classified as held for sale | – | – | 29 | – | 29 | - |
| **Other movements** | **2,451** | **(193)** | **463** | **496** | **2,914** | **303** |
| **Closing balance** | **20,082** | **17,425** | **(21,304)** | **(20,510)** | **(1,222)** | **(3,085)** |
| Deferred tax asset | | | | | 218 | 512 |
| **Deficit in schemes at the end of the year, net of deferred tax** | | | | | **(1,004)** | **(2,573)** |

(a) Movements in the year include £nil relating to discontinued operations up to classification as held for sale. After classification as held for sale post-employment benefit obligations movements within discontinued operations included £(1)m within the Group income statement, £(6)m remeasurement loss in the Group statement of comprehensive income/(loss) and £2m in other movements.

(b) Movements in the prior year in relation to discontinued operations included £(8)m within the Group income statement, £(3)m in the Group statement of comprehensive income/(loss) and £1m in other movements

## Note 30 Called-up share capital

| | 2021 Number of Ordinary shares | 2021 £m | 2020 Number of Ordinary shares | 2020 £m |
|---|---|---|---|---|
| **Allotted, called-up and fully paid:** | | | | |
| **At the beginning of the year** | **9,793,496,561** | **490** | **9,793,496,561** | **490** |
| Share consolidation (including shares issued[a]) | (2,061,788,741) | – | | - |
| **At the end of the year** | **7,731,707,820** | **490** | **9,793,496,561** | **490** |

(a) To affect the share consolidation, 11 additional Ordinary shares were issued so that the total Ordinary shares is exactly divisible by 19.

On 26 February 2021, the Group paid a special dividend of £4.9bn to shareholders in relation to the sale of its businesses in Thailand and Malaysia. In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation was approved at the General Meeting held on 11 February 2021. Shareholders received 15 new Ordinary shares of 6 1/3 pence each for every existing 19 Ordinary shares of 5 pence each.

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

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme the shares and dividends associated with shares of untraced members are forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. For more information on how these proceeds have been spent, please see our Little Helps Plan Report (available at www.tescoplc.com/littlehelpsplan). During the current financial year, the Group received £nil (2020: £nil) proceeds from sale of untraced shares and £nil (2020: £nil) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 27 February 2021, the Directors were authorised to purchase up to a maximum in aggregate of 773.2 million (2020: 979.3 million) Ordinary shares before the AGM 2021 on 25 June 2021.

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

*Own shares purchased*

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

The own shares held represents the cost of shares in Tesco PLC purchased from the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans (refer to Note 28). The number of Ordinary shares held by the Tesco International Employee Benefit Trust at 27 February 2021 was 58.4 million (2020: 87.6 million). This represents 0.76% of called-up share capital at the end of the year (2020: 0.89%).

No own shares held of Tesco PLC were cancelled during the financial years presented.

# Notes to the Group financial statements

## Note 31 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

### Transactions

| | Joint venture | | Associate | |
|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
| Sales to related parties | 479 | 491 | – | – |
| Purchases from related parties | 87 | 100 | 10 | 12 |
| Dividends received | 18 | 29 | 8 | 13 |
| Injection of equity funding | 14 | – | – | 12 |

Sales to related parties consist of service/management fees and loan interest.

Transactions between the Group and the Group's pension plans are disclosed in Note 29.

### Balances

| | Joint ventures | | Associates | |
|---|---|---|---|---|
| | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
| Amounts owed to related parties | 23 | 26 | – | – |
| Amounts owed by related parties | 40 | 47 | – | – |
| Lease liabilities payable to related parties | 2,718 | 3,206 | 144 | 146 |
| Loans to related parties (net of deferred profits)* | 122 | 127 | – | – |

* Loans to related parties of £122m (2020: £127m) are presented net of deferred profits of £38m (2020: £54m), historically arising from the sale of property assets to joint ventures. Refer to Note 14 for further details. For loans to related parties, a 12-month expected credit loss (ECL) allowance is recorded on initial recognition. In the current and prior financial years, the ECL allowance was immaterial.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 (Regulations) apply. The financial statements for those partnerships have been consolidated into these financial statements pursuant to Regulation 7 of the Regulations.

### Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.
Cost of key management personnel compensation for the financial year was as follows:

| | 2021 £m | 2020 £m |
|---|---|---|
| Salaries and short-term benefits | 20 | 20 |
| Pensions and cash in lieu of pensions | 2 | 2 |
| Share-based payments | 20 | 16 |
| Joining costs and loss of office costs | – | 1 |
| | **42** | **39** |
| Attributable to: | | |
| The Board of Directors (including Non-executive Directors) | 14 | 10 |
| Executive Committee (members not on the Board of Directors) | 28 | 29 |
| | **42** | **39** |

During the year 6,403,309 (2020: 8,470,986) Performance Shares and 2,615,921 (2020: 1,539,924) bonus shares were granted to key management personnel under the Performance Share Plan and Deferred Bonus Plan 2019 respectively. Vesting will be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment. The cost of these awards will be spread over the vesting period.

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the financial year end:

| | Credit card, mortgage and personal loan balances | | Current and saving deposit accounts | |
|---|---|---|---|---|
| | Number of key management personnel | £m | Number of key management personnel | £m |
| **At 27 February 2021** | **4** | **-** | **7** | **-** |
| At 29 February 2020 | 6 | - | 13 | 1 |

## Note 32 Analysis of changes in net debt

| | At 29 February 2020 £m | Cash flows arising from financing activities £m | Other 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: Acquisitions and disposals [(a)] £m | Non-cash movements: Other £m | Non-cash movements: Discontinued operations £m | At 27 February 2021 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Group** | | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (7,118) | 716 | 223 | (41) | (2) | (226) | (288) | – | – | (6,736) |
| Lease liabilities | (9,566) | 621 | 488 | – | – | (488) | 977 | (568) | 134 | (8,402) |
| Net derivative financial instruments | 198 | 580 | 18 | (203) | – | (20) | (118) | – | – | 455 |
| **Arising from financing activities** | **(16,486)** | **1,917** | **729** | **(244)** | **(2)** | **(734)** | **571** | **(568)** | **134** | **(14,683)** |
| Cash and cash equivalents in the Group balance sheet | 4,137 | – | (1,607) | – | 8 | – | – | – | (28) | 2,510 |
| Overdrafts[(b)] | (1,106) | – | 539 | – | – | – | – | – | 35 | (532) |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 3,031 | – | (1,068) | – | 8 | – | – | – | 7 | 1,978 |
| Short-term investments | 1,076 | – | (62) | – | (3) | – | – | – | – | 1,011 |
| Joint venture loans | 127 | – | 2 | – | – | 2 | (9) | – | – | 122 |
| Interest and other receivables | 1 | – | (12) | – | – | 11 | – | – | – | – |
| Net debt of the disposal group | – | – | – | – | – | – | – | – | (141) | (141) |
| **Total Group** | **(12,251)** | **1,917** | **(411)** | **(244)** | **3** | **(721)** | **562** | **(568)** | – | **(11,713)** |
| **Tesco Bank** | | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (1,260) | 774 | 4 | (1) | – | (4) | – | – | – | (487) |
| Lease liabilities | (33) | 3 | 2 | – | – | (2) | – | – | – | (30) |
| Net derivative financial instruments | (45) | – | – | 3 | – | – | – | – | – | (42) |
| **Arising from financing activities** | **(1,338)** | **777** | **6** | **2** | **–** | **(6)** | **–** | **–** | **–** | **(559)** |
| Cash and cash equivalents in the Group balance sheet | 1,364 | – | (584) | – | – | – | – | – | – | 780 |
| Overdrafts[(b)] | – | – | – | – | – | – | – | – | – | – |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 1,364 | – | (584) | – | – | – | – | – | – | 780 |
| Joint ventures loans | 21 | – | – | – | – | – | – | – | – | 21 |
| **Tesco Bank** | **47** | **777** | **(578)** | **2** | **–** | **(6)** | **–** | **–** | **–** | **242** |
| **Retail** | | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (5,858) | (58) | 219 | (40) | (2) | (222) | (288) | – | – | (6,249) |
| Lease liabilities | (9,533) | 618 | 486 | – | – | (486) | 977 | (568) | 134 | (8,372) |
| Net derivative financial instruments | 243 | 580 | 18 | (206) | – | (20) | (118) | – | – | 497 |
| **Arising from financing activities** | **(15,148)** | **1,140** | **723** | **(246)** | **(2)** | **(728)** | **571** | **(568)** | **134** | **(14,124)** |
| Cash and cash equivalents in the Group balance sheet | 2,773 | – | (1,023) | – | 8 | – | – | – | (28) | 1,730 |
| Overdrafts[(b)] | (1,106) | – | 539 | – | – | – | – | – | 35 | (532) |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 1,667 | – | (484) | – | 8 | – | – | – | 7 | 1,198 |
| Short-term investments | 1,076 | – | (62) | – | (3) | – | – | – | – | 1,011 |
| Joint ventures loans | 106 | – | 2 | – | – | 2 | (9) | – | – | 101 |
| Interest and other receivables | 1 | – | (12) | – | – | 11 | – | – | – | – |
| Net debt of the disposal group | – | – | – | – | – | – | – | – | (141) | (141) |
| **Net debt** | **(12,298)** | **1,140** | **167** | **(246)** | **3** | **(715)** | **562** | **(568)** | **–** | **(11,955)** |

(a) Movements in Group net debt arising from the disposal of the Group's Thailand and Malaysia operations, the acquisition of The Tesco Property (No. 2) Limited Partnership and the acquisition of the trade and assets of Best Food Logistics. Refer to Notes 7 and 33 for further details.
(b) Overdraft balances are included within Bank and other borrowings in the Group balance sheet, and within Cash and cash equivalents in the Group cash flow statement. Refer to Note 20.

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

## Note 32 Analysis of changes in net debt continued

| | At 23 February 2019 £m | Cash flows arising from financing activities £m | Other cash flows £m | Non-cash movements: Fair value gains/ (losses) £m | Non-cash movements: Foreign exchange £m | Non-cash movements: Interest income/ (charge) £m | Non-cash movements: Acquisition of joint venture[a] £m | Non-cash movements: Other £m | At 29 February 2020 £m |
|---|---|---|---|---|---|---|---|---|---|
| **Total Group** | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (6,794) | 484 | 255 | (192) | 2 | (251) | (622) | – | (7,118) |
| Lease liabilities | (10,505) | 634 | 541 | – | 1 | (541) | 455 | (151) | (9,566) |
| Net derivative financial instruments | 591 | 17 | 7 | (208) | – | 14 | (223) | – | 198 |
| **Arising from financing activities** | **(16,708)** | **1,135** | **803** | **(400)** | **3** | **(778)** | **(390)** | **(151)** | **(16,486)** |
| Cash and cash equivalents in the Group balance sheet | 4,227 | – | (48) | – | (42) | – | – | – | 4,137 |
| Overdrafts[b] | (1,660) | – | 554 | – | – | – | – | – | (1,106) |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 2,567 | – | 506 | – | (42) | – | – | – | 3,031 |
| Short-term investments | 390 | – | 687 | – | (1) | – | – | – | 1,076 |
| Joint venture loans | 133 | – | (8) | – | – | 2 | – | – | 127 |
| Interest and other receivables | 1 | – | (18) | – | (1) | 19 | – | – | 1 |
| **Total Group** | **(13,617)** | **1,135** | **1,970** | **(400)** | **(41)** | **(757)** | **(390)** | **(151)** | **(12,251)** |
| **Tesco Bank** | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (1,421) | 160 | 5 | 1 | – | (5) | – | – | (1,260) |
| Lease liabilities | (35) | 2 | 3 | – | – | (3) | – | – | (33) |
| Net derivative financial instruments | (29) | – | – | (16) | – | – | – | – | (45) |
| **Arising from financing activities** | **(1,485)** | **162** | **8** | **(15)** | **–** | **(8)** | **–** | **–** | **(1,338)** |
| Cash and cash equivalents in the Group balance sheet | 1,043 | – | 321 | – | – | – | – | – | 1,364 |
| Overdrafts[b] | – | – | – | – | – | – | – | – | - |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 1,043 | – | 321 | – | – | – | – | – | 1,364 |
| Joint ventures loans | 29 | – | (8) | – | – | – | – | – | 21 |
| **Tesco Bank** | **(413)** | **162** | **321** | **(15)** | **–** | **(8)** | **–** | **–** | **47** |
| **Retail** | | | | | | | | | |
| Bank and other borrowings, excluding overdrafts | (5,373) | 324 | 250 | (193) | 2 | (246) | (622) | - | (5,858) |
| Lease liabilities | (10,470) | 632 | 538 | – | 1 | (538) | 455 | (151) | (9,533) |
| Net derivative financial instruments | 620 | 17 | 7 | (192) | – | 14 | (223) | – | 243 |
| **Arising from financing activities** | **(15,223)** | **973** | **795** | **(385)** | **3** | **(770)** | **(390)** | **(151)** | **(15,148)** |
| Cash and cash equivalents in the Group balance sheet | 3,184 | – | (369) | – | (42) | – | – | – | 2,773 |
| Overdrafts[b] | (1,660) | – | 554 | – | – | – | – | – | (1,106) |
| Cash and cash equivalents (including overdrafts) in the Group cash flow statement | 1,524 | – | 185 | – | (42) | – | – | – | 1,667 |
| Short-term investments | 390 | – | 687 | – | (1) | – | – | – | 1,076 |
| Joint ventures loans | 104 | – | – | – | – | 2 | – | – | 106 |
| Interest and other receivables | 1 | – | (18) | – | (1) | 19 | – | – | 1 |
| **Net debt** | **(13,204)** | **973** | **1,649** | **(385)** | **(41)** | **(749)** | **(390)** | **(151)** | **(12,298)** |

(a) Movements in Group net debt arising from the acquisition of The Tesco Atrato Limited Partnership.
(b) Overdraft balances are included within Bank and other borrowings in the Group balance sheet, and within Cash and cash equivalents in the Group cash flow statement. Refer to Note 20.

# Notes to the Group financial statements

## Note 32 Analysis of changes in net debt continued

### Reconciliation of net cash flow to movement in Net debt

| | 2021 £m | 2020 £m |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents including overdrafts | (1,068) | 506 |
| Elimination of Tesco Bank movement in cash and cash equivalents including overdrafts | 584 | (321) |
| Retail cash movement in other Net debt items: | | |
| Net increase/(decrease) in short-term investments | (62) | 687 |
| Net increase/(decrease) in joint venture loans | 2 | – |
| Net (increase)/decrease in borrowings and lease liabilities | 560 | 956 |
| Net cash flows from derivative financial instruments | 580 | 17 |
| Net interest paid on components of Net debt | 711 | 777 |
| Change in Net debt resulting from cash flow | 1,307 | 2,622 |
| Retail net interest charge on components of Net debt | (715) | (749) |
| Retail fair value and foreign exchange movements | (243) | (426) |
| Retail other non-cash movements | (568) | (151) |
| Acquisition of property joint venture (Note 33) | (161) | (390) |
| Acquisition of Best Food Logistics (Note 33) | (42) | - |
| Disposal of the Asia business (Note 7) | 765 | - |
| Increase)/ decrease in Net debt | 343 | 906 |
| Opening Net debt | (12,298) | (13,204) |
| Closing Net debt* | (11,955) | (12,298) |

* Refer to page 130 for a reconciliation from Net debt (Retail net debt) shown above to the Group's 52-week alternative performance measure.

## Note 33 Acquisitions

### Acquisition of Best Food Logistics

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:

| | £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 assets and liabilities acquired** | **(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 £715m and net loss after tax of £14m to the Group from 7 March 2020 to 27 February 2021. The £14m 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 52 weeks ended 27 February 2021 would not be materially different. Transaction costs of £nil have been included in Administrative expenses for the 52 weeks ended 27 February 2021 (53 weeks ended 29 February 2020: £2m).

### Acquisition of property joint venture – The Tesco Property (No. 2) Limited Partnership

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 had bond and derivative liabilities, and owns 12 stores and two distribution centres, which the partnership previously leased to the Group. The acquisition, which has been treated as an asset acquisition, increased the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities, which are eliminated on consolidation.

The table below sets out the values to the Group in respect of obtaining control of the partnership:

| | Notes | £m |
|---|---|---|
| Property, plant and equipment | 11 | 492 |
| Cash and cash equivalents | | 2 |
| Borrowings | 32 | (288) |
| Derivative liabilities | 32 | (118) |
| Joint venture partnership loans payable to the parent | | (49) |
| Deferred tax asset | | 19 |
| **Total assets and liabilities acquired** | | **58** |
| Consideration paid in cash and cash equivalents | | 54 |
| Joint venture loan receivable from the other former joint venture partner | | (25) |
| **Net consideration paid** | | **29** |
| Revaluation of the Group's original 50% investment | | 29 |
| **Total cost** | | **58** |

The Group recognised the following gains and losses as an exceptional item within cost of sales on the Group income statement. The related tax charge of £23m has also been classified as an exceptional item. Refer to Note 4 for further details.

| | Notes | £m |
|---|---|---|
| Revaluation of the Group's original 50% investment | | 29 |
| Impairment of property, plant and equipment acquired | 15 | (32) |
| Derecognition of the Group's lease liabilities with the partnership | 32 | 254 |
| Derecognition of the Group's right of use assets with the partnership | 12 | (130) |
| Derecognition of dilapidation provisions and other consolidation adjustments on acquisition | | 13 |
| **Total exceptional gain within cost of sales** | | **134** |
| Taxation - exceptional | 4 | (23) |
| **Total exceptional gain after taxation** | | **111** |

## Note 34 Commitments and contingencies

### Capital commitments

At 27 February 2021, there were commitments for capital expenditure contracted for, but not incurred, of £203m (2020: £140m), principally relating to store development.

### Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

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 profit 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 Group will vigorously defend any further proceedings. 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 27 February 2021. 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 27 February 2021, four guarantees remained outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2031. The maximum potential liability under these outstanding guarantees is between KRW 110bn (£70m) and KRW 189bn (£121m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 73bn (£46m), with funds of KRW 32bn (£20m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 41bn (£26m). 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 has received claims from the purchasers relating to the sale of the business. In July 2015, an arbitral tribunal 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 £88m 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. At present, the likely number of claims that may be received and the merit, likely outcome and potential impact on the Group of any such litigation is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure. There are substantial factual and legal defences to these claims and the Group intends to vigorously defend them.

### Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

| Name | Company number | Name | Company Number | Name | Company Number |
|---|---|---|---|---|---|
| Buttoncable Limited | 5294246 | T & S Stores Limited | 1228935 | Tesco PENL Limited | 6479938 |
| Buttoncase Limited | 5298861 | Tapesilver Limited | 5205362 | Tesco Red (3LP) Limited | 10127765 |
| Day and Nite Stores Limited | 1746058 | Tesco Aqua (GP) Limited | 5721654 | Tesco Red (GP) Limited | 5721630 |
| Dillons Newsagents Limited | 140624 | Tesco Brislington Limited | 10701640 | Tesco TLB Properties Limited | 3159425 |
| Dunnhumby Holding Limited | 8071909 | Tesco Family Dining Limited | 8514605 | The Tesco Aqua Limited Partnership | LP011520 |
| Launchgrain Limited | 5260856 | Tesco Food Sourcing Limited | 7502096 | The Tesco Red Limited Partnership | LP011522 |
| Oakwood Distribution Limited | 5721635 | Tesco Freetime Limited | 4345023 | | |
| Spen Hill Development Limited | 4827219 | Tesco Gateshead Property Limited | 8312532 | | |
| Spen Hill Management Limited | 2460426 | Tesco Mobile Communications | 4780729 | | |
| Spen Hill Properties (Holdings) PLC | 2412674 | Tesco Mobile Services Limited | 04780734 | | |
| Spen Hill Regeneration Limited | 6418300 | Tesco PEG Limited | 6480309 | | |

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 27 February 2021 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Tesco PLC will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

Subject to and with effect from an amendment to the Companies Act of Ireland 2014 coming into force which permits Irish incorporated subsidiaries of an English incorporated company to avail of section 537, Tesco PLC has irrevocably guaranteed the liabilities and commitments of the following Irish subsidiary undertakings: Chirac Limited; Cirrus Finance (2009) Limited; Clondalkin Properties Limited; Commercial Investments Limited; Edson Investments Limited; Edson Properties Limited; Monread Developments Limited; Nabola Development Limited; Orpingford; Pharaway Properties Limited; R.J.D. Holdings; Tesco Ireland Holdings Limited; Tesco Ireland Limited; Tesco Ireland Pension Trustees Limited; Tesco Mobile Ireland Limited; Tesco Trustee Company of Ireland Limited; Thundridge; Wanze Properties (Dundalk) Limited; WSC Properties Limited.

*Tesco Bank*

At 27 February 2021, Tesco Bank had contractual lending commitments totalling £12.7bn (2020: £11.9bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

## Note 35 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date:

| | 2021 £m | 2020 £m |
|---|---|---|
| **Common equity tier 1 capital:** | | |
| Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments | 1,443 | 1,567 |
| **Tier 2 capital:** | | |
| Qualifying subordinated debt | 235 | 235 |
| Other interests | – | – |
| Total tier 2 regulatory adjustments | (21) | (21) |
| **Total regulatory capital** | **1,657** | **1,781** |

On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules are currently being phased in.

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

## Note 36 Events after the reporting period

During the year, the Board approved plans to dispose of the Group's operations in Poland. The disposal of the Group's corporate business in Poland completed after the balance sheet date on 16 March 2021. Refer to Notes 1 and 7 for details of the Group's operations in Poland classified as held for sale at the balance sheet date.

# Tesco PLC – Parent Company balance sheet

| | Notes | 27 February 2021 £m | 29 February 2020 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 6 | 16,963 | 17,829 |
| Receivables | 7 | 259 | 1,043 |
| Derivative financial instruments | 10 | 1,536 | 1,167 |
| | | **18,758** | **20,039** |
| **Current assets** | | | |
| Receivables | 7 | 1,514 | 547 |
| Cash in hand | | 96 | 249 |
| | | **1,610** | **796** |
| **Current liabilities** | | | |
| Borrowings | 9 | (463) | (43) |
| Payables | 8 | (810) | (238) |
| | | **(1,273)** | **(281)** |
| **Net current assets/(liabilities)** | | **337** | **515** |
| | | | |
| **Non-current liabilities** | | | |
| Borrowings | 9 | (1,415) | (2,285) |
| Payables | 8 | (1,293) | (82) |
| Derivative financial instruments | 10 | (630) | (735) |
| | | **(3,338)** | **(3,102)** |
| **Net assets** | | **15,757** | **17,452** |
| **Equity** | | | |
| Share capital | 13 | 490 | 490 |
| Share premium | | 5,165 | 5,165 |
| All other reserves | | 2,972 | 2,950 |
| Retained earnings (including profit/(loss) for the financial year of £4,250m (2020: £(21)m) | | 7,130 | 8,847 |
| **Total equity** | | **15,757** | **17,452** |

The notes on pages 111 to 116 form part of these financial statements.

**Ken Murphy**
**Alan Stewart**
Directors

The Parent Company financial statements on pages 109 to 116 were approved and authorised for issue by the Directors on 13 April 2021.

Tesco PLC

Registered number 00445790

# Tesco PLC – Parent Company statement of changes in equity

| | Share capital £m | Share premium £m | All other reserves: Capital Redemption reserve £m | All other reserves: Cost of hedging reserve £m | All other reserves: Hedging reserve £m | All other reserves: Own shares held £m | All other reserves: Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **At 29 February 2020** | **490** | **5,165** | **16** | **(19)** | **153** | **(250)** | **3,050** | **8,847** | **17,452** |
| Profit/(loss) for the year | – | – | – | – | – | – | – | 4,250 | 4,250 |
| **Other comprehensive income/(loss)** | | | | | | | | | |
| Gains/(losses) on cash flow hedges | – | – | – | 20 | (18) | – | – | – | 2 |
| Reclassified and reported in the Company income statement | – | – | – | – | (47) | – | – | – | (47) |
| Tax relating to components of other comprehensive income | – | – | – | (1) | 6 | – | – | – | 5 |
| **Total other comprehensive income/(loss)** | **–** | **–** | **–** | **19** | **(59)** | **–** | **–** | **–** | **(40)** |
| **Total comprehensive income/(loss)** | **–** | **–** | **–** | **19** | **(59)** | **–** | **–** | **4,250** | **4,210** |
| **Transactions with owners** | | | | | | | | | |
| Purchase of own shares | – | – | – | – | – | (246) | – | – | (246) |
| Share-based payments | – | – | – | – | – | 308 | – | (75) | 233 |
| Dividends | – | – | – | – | – | – | – | (5,892) | (5,892) |
| **Total transactions with owners** | **–** | **–** | **–** | **–** | **–** | **62** | **–** | **(5,967)** | **(5,905)** |
| **At 27 February 2021** | **490** | **5,165** | **16** | **–** | **94** | **(188)** | **3,050** | **7,130** | **15,757** |

| | Share capital £m | Share premium £m | All other reserves: Capital Redemption reserve £m | All other reserves: Cost of hedging reserve £m | All other reserves: Hedging reserve £m | All other reserves: Own shares held £m | All other reserves: Merger reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| **At 23 February 2019** | **490** | **5,165** | **16** | **(13)** | **95** | **(179)** | **3,050** | **9,468** | **18,092** |
| Profit/(loss) for the year | – | – | – | – | – | – | – | (21) | (21) |
| **Other comprehensive income/(loss)** | | | | | | | | | |
| Gains/(losses) on cash flow hedges | – | – | – | (7) | 92 | – | – | – | 85 |
| Reclassified and reported in the Company income statement | – | – | – | – | (23) | – | – | – | (23) |
| Tax relating to components of other comprehensive income | – | – | – | 1 | (11) | – | – | – | (10) |
| **Total other comprehensive income/(loss)** | **–** | **–** | **–** | **(6)** | **58** | **–** | **–** | **–** | **52** |
| **Total comprehensive income/(loss)** | **–** | **–** | **–** | **(6)** | **58** | **–** | **–** | **(21)** | **31** |
| **Transactions with owners** | | | | | | | | | |
| Purchase of own shares | – | – | – | – | – | (221) | – | – | (221) |
| Share-based payments | – | – | – | – | – | 150 | – | 56 | 206 |
| Dividends | – | – | – | – | – | – | – | (656) | (656) |
| **Total transactions with owners** | **–** | **–** | **–** | **–** | **–** | **(71)** | **–** | **(600)** | **(671)** |
| **At 29 February 2020** | **490** | **5,165** | **16** | **(19)** | **153** | **(250)** | **3,050** | **8,847** | **17,452** |

The Company has considered the profits available for distribution to shareholders. At 27 February 2021, the Company had retained earnings of £7.1bn, of which the unrealised profit elements are £1.6bn of share-based payment reserves and £0.7bn of dividends received from subsidiary undertakings not yet settled by qualifying consideration. After deducting the cost of its own shares held in trust of £0.2bn, the Company had profits available for distribution of £4.6bn.

The notes on pages 111 to 116 form part of these financial statements.

# Notes to the Parent Company financial statements

## Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the 52 weeks ended 27 February 2021 were approved by the Board of Directors on 13 April 2021 and the Company balance sheet was signed on the Board's behalf by Ken Murphy and Alan Stewart.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

## Note 2 Accounting policies

### Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act).

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of adopted IFRS.

The financial year represents the 52 weeks to 27 February 2021 (prior financial year 53 weeks to 29 February 2020).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, impairment of assets, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

### Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment. The Company tests the investment balances for impairment annually or when there are indicators of impairment.

### Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

### Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Company income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

### Own shares held

Own shares represent the shares of Tesco PLC that are held in Treasury or by the Employee Benefit Trust. The Company adopts a 'look-through' approach which, in substance, accounts for the trust as an extension of the Company. Own shares are recorded at cost and are deducted from equity.

### Financial instruments

Financial assets and financial liabilities are recognised in the Company balance sheet when the Company becomes party to the contractual provisions of the instrument.

### Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less any expected credit losses.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

### Interest-bearing borrowings

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

### Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

## Note 2 Accounting policies continued

### Derivative financial instruments and hedge accounting

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

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

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

### Fair value hedging

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Company income statement over the remaining period to maturity.

### Cash flow hedging

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

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company income statement in the same period or periods during which the hedged transaction affects the Company income statement. The classification of the effective portion when recognised in the Company income statement is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company income statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

### Pensions

The Company participates in defined benefit pension schemes. The Company cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee benefits', the Company has accounted for the schemes as defined contribution schemes, with the schemes recognised in another Group company, Tesco Stores Limited, as per Group policy.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

### Taxation

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

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

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

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

## Note 2 Accounting policies continued

### Judgements and sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates applied prospectively.

The preparation of the Company financial statements for the financial year did not require the exercise of any critical accounting judgements apart from those involving estimates discussed below.

### Key sources of estimation uncertainty

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

*Impairment of investment in Tesco Bank*

The key source of estimation uncertainty is in relation to the Company's investment in Tesco Personal Finance Group PLC (Tesco Bank). The Company considers impairment of its investments in subsidiaries based on the value in use of the subsidiary. Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. See Note 6.

### New standards and amendments effective for the current financial year

- 'Definition of a business' amendment to IFRS 3, 'Business combinations' guidance has been applied when evaluating whether acquisitions in the period are asset acquisitions or business combinations.
- 'Interest rate benchmark reform' phase 2 amendments, which have been adopted early. Refer to Note 25 to the Group financial statements for the impact of IBOR Reform amendments on the Company.
- FRS 101 amendments 'UK exit from the European Union' have been early adopted.

*Other standards and amendments*

Refer to Note 1 to the Group financial statements.

## Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 to the Group financial statements.

## Note 4 Dividends

For details of dividends see Note 8 to the Group financial statements.

## Note 5 Employment costs, including Directors' remuneration

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Wages and salaries | | 17 | 16 |
| Social security costs | | 2 | 2 |
| Pension costs | 12 | 1 | 2 |
| Share-based payment expense | 11 | 4 | 7 |
| **Total** | | **24** | **27** |

The amounts above include recharges from other Group companies for Tesco PLC-related activities.

The average number of employees (all Directors of the Company) during the financial year was 13 (2020: 13).

## Note 6 Investments

| | 2021 £m |
|---|---|
| **Cost** | |
| **At 29 February 2020** | **20,686** |
| Capital contributions | 61 |
| Return of capital contributions | (684) |
| **At 27 February 2021** | **20,063** |
| **Accumulated impairment losses** | |
| **At 29 February 2020** | **(2,857)** |
| Impairment | (243) |
| **At 27 February 2021** | **(3,100)** |
| | |
| **Net carrying value** | |
| **At 27 February 2021** | **16,963** |
| At 29 February 2020 | 17,829 |

The impairment losses of £243m includes the £234m impairment of its subsidiary holding company Cheshunt Holdings Guernsey Limited to a recoverable amount of £7m based on remaining net assets subsequent to a dividend payment, and £9m relating to immaterial impairments in various small holding companies.

## Note 6 Investments continued

The key source of estimation uncertainty is in relation to the Company's investment in Tesco Personal Finance PLC (Tesco Bank), for which no impairment was required. The impairment review for the Company's investments was performed using the same projections used in the impairment review performed in relation to the Group's goodwill. Details, including sensitivity analyses showing the impact of the reasonably possible changes in key assumptions upon the value in use of Tesco Bank, are disclosed in Note 15 in the Group financial statements.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 117 to 121.

## Note 7 Receivables

| | 2021 £m | 2020 £m |
|---|---|---|
| Amounts owed by Group undertakings* | 1,737 | 1,530 |
| Amounts owed by joint ventures and associates | – | 24 |
| Other receivables | 36 | 36 |
| **Total receivables** | **1,773** | **1,590** |
| Of which: | | |
| Current | 1,514 | 547 |
| Non-current | 259 | 1,043 |
| | **1,773** | **1,590** |

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship, with interest rates ranging from 0.7% to 8.3%, with maturities up to and including January 2032.

The expected credit loss on receivables is immaterial (2020: immaterial).

## Note 8 Payables

| | 2021 £m | 2020 £m |
|---|---|---|
| Amounts owed to Group undertakings* | 2,017 | 278 |
| Other payables | 60 | 11 |
| Taxation and social security | 4 | 4 |
| Deferred tax liability | 22 | 27 |
| **Total payables** | **2,103** | **320** |
| Of which: | | |
| Current | 810 | 238 |
| Non-current | 1,293 | 82 |
| | **2,103** | **320** |

* Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship, with interest rates ranging from 0.6% to 1.1%, with maturities up to and including February 2051.

The deferred tax liability recognised by the Company, and the movements thereon, during the current financial year are as follows:

| | Financial instruments £m | Other timing differences £m | Total £m |
|---|---|---|---|
| **At 29 February 2020** | **(27)** | **–** | **(27)** |
| Movement in other comprehensive income for the year | 5 | – | 5 |
| **At 27 February 2021** | **(22)** | **–** | **(22)** |

## Note 9 Borrowings

| | Par value | Maturity | 2021 £m | 2020 £m |
|---|---|---|---|---|
| Bank loans and overdrafts | | | 21 | 43 |
| 6.125% MTN | £417m | Feb 2022 | 417 | 416 |
| 5% MTN[(a)] | £93m | Mar 2023 | 79 | 103 |
| 3.322% LPI MTN[(b)] | £354m | Nov 2025 | 364 | 358 |
| 6% MTN[(a)] | £48m | Dec 2029 | 45 | 58 |
| 5.5% MTN[(a)] | £109m | Jan 2033 | 80 | 133 |
| 1.982% RPI MTN[(c)] | £294m | Mar 2036 | 302 | 297 |
| 6.15% USD Bond[(a)] | $525m | Nov 2037 | 333 | 555 |
| 4.875% MTN[(a)] | £20m | Mar 2042 | 14 | 20 |
| 5.125% MTN[(a)] | €356m | Apr 2047 | 209 | 316 |
| 5.2% MTN[(a)] | £30m | Mar 2057 | 14 | 29 |
| | | | **1,878** | **2,328** |
| Of which: | | | | |
| Current | | | 463 | 43 |
| Non-Current | | | 1,415 | 2,285 |
| | | | **1,878** | **2,328** |

(a) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 5% MTN Mar 2023 £22m, 6% MTN Dec 2029 £10m, 5.5% MTN Jan 2033 £42m, 6.15% USD Bond Nov 2037 $170m, 4.875% MTN Mar 2042 £6m, 5.125% MTN Apr 2047 €121m and 5.2% MTN Mar 2057 £16m.
(b) The 3.322% 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%.
(c) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

## Notes to the Parent Company financial statements continued

### Note 10 Derivative financial instruments

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset | | Liability | | Asset | | Liability | |
| | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m | Fair value £m | Notional £m |
| **Fair value hedges** | | | | | | | | |
| Interest rate swaps and similar instruments | 9 | 65 | – | – | 10 | 65 | – | – |
| Cross-currency swaps | – | – | – | – | 228 | 409 | – | – |
| **Cash flow hedges** | | | | | | | | |
| Cross-currency swaps | – | – | – | – | 208 | 306 | – | – |
| Index-linked swaps | 199 | 660 | – | – | 185 | 649 | – | – |
| **Derivatives not in a formal hedge relationship** | | | | | | | | |
| Cross-Currency Swaps | 266 | 372 | (3) | 86 | – | – | – | – |
| Index-linked swaps | 1,062 | 4,006 | (627) | 3,964 | 536 | 3,339 | (735) | 4,461 |
| **Total** | **1,536** | **5,103** | **(630)** | **4,050** | **1,167** | **4,768** | **(735)** | **4,461** |

### Note 11 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors.

For further information on these schemes, including the valuation models and assumptions used, refer to Note 28 to the Group financial statements.

#### Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

*For the 52 weeks ended 27 February 2021*

| | Savings-related Share Option Scheme | | Nil cost share options | |
|---|---|---|---|---|
| | Options | WAEP | Options | WAEP |
| **Outstanding at 29 February 2020** | **19,148** | **188.00** | **10,633,867** | **–** |
| Granted[a] | – | – | 318,623 | – |
| Forfeited | (9,574) | – | (1,587,596) | – |
| Exercised | – | – | (6,224,090) | – |
| **Outstanding at 27 February 2021** | **9,574** | **188.00** | **3,140,804** | **–** |
| Exercise price range (pence) | – | 188.00 | – | – |
| Weighted average remaining contractual life (years) | – | 1.01 | – | 5.05 |
| **Exercisable at 27 February 2021** | **–** | **–** | **3,140,804** | **–** |
| Exercise price range (pence) | – | – | – | – |
| Weighted average remaining contractual life (years) | – | – | – | 5.05 |

(a) The special dividend and associated share consolidation had a neutral impact to the number of options.

*For the 53 weeks ended 29 February 2020*

| | Savings-related Share Option Scheme | | Nil cost share options | |
|---|---|---|---|---|
| | Options | WAEP | Options | WAEP |
| **Outstanding at 23 February 2019** | **19,148** | **188.00** | **12,743,733** | **–** |
| Granted | – | – | 295,554 | – |
| Forfeited | – | – | (2,405,420) | – |
| Exercised | – | – | – | – |
| **Outstanding at 29 February 2020** | **19,148** | **188.00** | **10,633,867** | **–** |
| Exercise price range (pence) | – | 188.00 | – | – |
| Weighted average remaining contractual life (years) | – | 2.01 | – | 6.15 |
| **Exercisable at 29 February 2020** | **–** | **–** | **6,454,736** | **–** |
| Exercise price range (pence) | | – | | – |
| Weighted average remaining contractual life (years) | | – | | 5.46 |

#### Share bonus and incentive schemes

Executive Directors participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to Executive Directors who have completed a required service period and depend on the achievement of the corporate and individual performance targets. For further information on these schemes, including the valuation models and assumptions used, refer to Note 28 to the Group financial statements.

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year were:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Number of shares | WAFV pence | Number of shares | WAFV pence |
| Group Bonus Plan | 777,044 | 246.7 | 506,768 | 244.1 |
| Performance Share Plan | 990,404 | 221.6 | 2,388,395 | 230.3 |

## Note 12 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £1m (2020: £2m). Further disclosure relating to all schemes can be found in Note 29 to the Group financial statements.

## Note 13 Called up share capital

Refer to Note 30 to the Group financial statements.

## Note 14 Contingent liabilities

In addition to the contingent liabilities shown in Note 34 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £3,200m (2020: £2,589m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £790m (2020: £168m) at the reporting date. These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed-use retail developments.

The likelihood of the above items being called upon is considered remote.

## Note 15 Events after the reporting period

During the year, the Board approved plans to dispose of the Group's operations in Poland. The disposal of the Group's corporate business in Poland completed after the balance sheet date on 16 March 2021. Refer to note 36 of the Group financial statements for further details.

# Related undertakings of the Tesco Group

In accordance with section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office address and the percentage of share class owned as at 27 February 2021 are disclosed below. Changes to the list of related undertakings since the year-end date are detailed in the footnotes below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated.

## Subsidiary undertakings incorporated in the United Kingdom

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Acklam Management Company Limited | 1 | Limited by Guarantee | – |
| Alfred Preedy & Sons Limited | 2 | £1.00 Deferred | 100 |
| | | £1.00 Ordinary | 100 |
| Armitage Finance Unlimited | 1 | £0.90 Ordinary | 100 |
| Bath Upper Bristol Road Management Company Limited | 1 | Limited by Guarantee | – |
| Berry Lane Management Company Limited | 1 | Limited by Guarantee | – |
| BF Limited | 8 | £1.00 Ordinary | 100 |
| Bishop's Group Limited | 8 | £0.01 Ordinary | 100 |
| Booker Cash & Carry Limited | 8 | £1.00 Ordinary | 100 |
| Booker Direct Limited | 8 | £0.01 Ordinary | 100 |
| Booker Group Limited | 8 | £0.00000000055625 Ordinary | 100 |
| Booker Limited | 8 | £1.00 Ordinary | 100 |
| Booker Retail Partners (GB) Limited | 8 | £1.00 Ordinary | 100 |
| Booker Retail Limited | 8 | £0.10 Ordinary | 100 |
| Booker Pension Trustees Limited | 8 | Limited by Guarantee | 100 |
| Booker Wholesale Holdings Limited | 8 | £0.01 Ordinary A1 | 100 |
| Booker Unapproved Scheme Trustees Ltd | 8 | Limited by Guarantee | – |
| Bourne End Residential Management Company Limited | 1 | Limited by Guarantee | – |
| Broughton Retail Park Nominee 1 Limited | 1 | £1.00 Ordinary | 100 |
| Broughton Retail Park Nominee 2 Limited | 1 | £1.00 Ordinary | 100 |
| Broughton Retail Park Nominee 3 Limited | 1 | £1.00 Ordinary | 100 |
| Broughton Retail Park Nominee 4 Limited | 1 | £1.00 Ordinary | 100 |
| Budgen Holdings Limited | 8 | £1.00 Ordinary | 100 |
| Budgens Pension Trustees No.2 Limited | 8 | £1.00 Ordinary | 100 |
| Budgens Property Investments Limited | 8 | £1.00 Ordinary | 100 |
| Budgens Stores Limited | 8 | £1.00 Ordinary | 100 |
| Buttoncable Limited | 1 | £1.00 Ordinary | 100 |
| Buttoncase Limited[†] | 1 | £1.00 Cumulative Redeemable Preference | 100 |
| | | £1.00 Ordinary | 100 |
| Canterbury Road Management Limited | 1 | Limited by Guarantee | – |
| Cardiff Cathays Terrace Management Company Limited | 1 | Limited by Guarantee | – |
| Comar Limited[†] | 1 | £1.00 Ordinary | 100 |
| Day And Nite Stores Limited | 2 | £1.00 Cumulative Convertible Participating Preferred Ordinary | 100 |
| | | £1.00 Cumulative Redeemable Preference | 100 |
| | | £1.00 Ordinary | 100 |
| Dillons Newsagents Limited* | 2 | £0.25 Non–Voting Ordinary | 100 |
| dunnhumby International Limited | 4 | £1.00 Ordinary | 100 |
| dunnhumby Limited | 4 | £3.59 Ordinary | 100 |
| dunnhumby Overseas Limited | 4 | £1.00 Ordinary | 100 |
| dunnhumby Trustees Limited | 4 | £1.00 Ordinary | 100 |
| Giant Bidco Limited | 8 | £1.00 Ordinary | 100 |
| Giant Booker Limited | 8 | £0.25 Ordinary | 100 |
| Giant Midco Limited | 8 | £1.00 Ordinary | 100 |
| Highams Green Management Company Limited | 1 | Limited by Guarantee | – |
| IRTH (15) Limited | 8 | £1.00 Ordinary | 100 |
| IRTH (19) Limited | 8 | US$0.000000052383172 Ordinary | 100 |
| Launchgrain Limited[†] | 1 | £1.00 Ordinary | 100 |

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Linnco Limited | 8 | £1.00 Ordinary | 100 |
| Londis (Holdings) Limited | 8 | £50.00 Ordinary | 100 |
| Londis Pension Trustees Limited | 8 | £1.00 Ordinary | 100 |
| Makro Holding Limited | 8 | £1.00 Ordinary | 100 |
| Makro Properties Limited | 8 | £1.00 Ordinary | 100 |
| Makro Self Service Wholesalers Limited | 8 | £1.00 Ordinary A | 100 |
| | | £1.00 Ordinary B | 100 |
| Maldon Finance Limited | 1 | £1.00 Ordinary | 100 |
| | | US$1.00 A Preference | 100 |
| | | US$0.50 B Preference | 100 |
| | | US$0.25 C Preference | 100 |
| Munster Road Management Company Limited | 1 | Limited by Guarantee | – |
| Murdoch Norton Limited | 8 | £0.05 Ordinary | 100 |
| Oakwood Distribution Limited | 1 | £1.00 Ordinary | 100 |
| One Stop Community Stores Limited | 2 | £0.00001200004 Ordinary | 100 |
| One Stop Convenience Stores Limited | 2 | £1.00 Ordinary | 100 |
| One Stop Stores Limited[†(a)] | 2 | £1.00 Ordinary | 100 |
| One Stop Stores Trustee Services Limited | 2 | £1.00 Ordinary | 100 |
| Orpington (Station Road) Limited | 1 | £1.00 Ordinary | 100 |
| Oxford Fox and Hounds Management Company Limited | 1 | Limited by Guarantee | – |
| Paper Chain (East Anglia) Limited | 2 | £1.00 Deferred | 100 |
| | | US$0.001 Ordinary | 100 |
| PTLL Limited | 1 | £1.00 Ordinary | 100 |
| Ritter-Courivaud Limited | 8 | £0.10 Ordinary | 100 |
| Seacroft Green Nominee 1 Limited | 1 | £1.00 Ordinary | 100 |
| Seacroft Green Nominee 2 Limited | 1 | £1.00 Ordinary | 100 |
| Spen Hill Developments Limited | 1 | £1.00 Ordinary | 100 |
| Spen Hill Management Limited[†(b)] | 1 | £1.00 Ordinary | 100 |
| Spen Hill Properties (Holdings) plc[†] | 1 | £1.00 Ordinary | 100 |
| Spen Hill Regeneration Limited | 1 | £1.00 Ordinary | 100 |
| Spen Hill Residential No 1 Limited | 1 | £1.00 Ordinary | 100 |
| Spen Hill Residential No 2 Limited | 1 | £1.00 Ordinary | 100 |
| Station House Welling Management Limited | 1 | Limited by Guarantee | – |
| Statusfloat Limited | 1 | £1.00 Ordinary | 100 |
| T & S Stores Limited[†] | 2 | £0.05 Ordinary | 100 |
| Tapesilver Limited[†] | 1 | £1.00 Ordinary | 100 |
| Teesport (GP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco (Overseas) Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Aqua (3LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Aqua (FinCo2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Aqua (GP) Limited | 1 | £1.00 A Ordinary | 100 |
| | | £1.00 B Ordinary | 100 |
| Tesco Aqua (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Aqua (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Aqua (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Atrato (1LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Atrato (GP) Limited | 1 | £1.00 A Ordinary<br>£1.00 B Ordinary | 100 |
| Tesco Atrato (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Atrato (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Atrato (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |

# **Related undertakings of the Tesco Group** continued

## **Subsidiary undertakings incorporated in the United Kingdom** continued

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Tesco Atrato Depot Propco Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Blue (3LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Blue (GP) Limited | 1 | £1.00 A Ordinary | 100 |
| | | £1.00 B Ordinary | 100 |
| Tesco Blue (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Blue (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Blue (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Brislington Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Corporate Treasury Services PLC[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Depot Propco Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Distribution Holdings Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Distribution Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Dorney (1LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Employees' Share Scheme Trustees Limited[†(c)] | 1 | £1.00 Ordinary | 100 |
| Tesco Family Dining Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Food Sourcing Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Freetime Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Fuchsia (3LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Gateshead Property Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Holdings Limited[†] | 1 | £0.10 Ordinary | 100 |
| | | £1.00 Preference | 100 |
| Tesco International Services Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Lagoon GP Limited | 5 | £1.00 Ordinary | 100 |
| Tesco Maintenance Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Mobile Communications Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Mobile Services Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Navona (1LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Navona (GP) Limited | 1 | £1.00 Ordinary A | 100 |
| | | £1.00 Ordinary B | 100 |
| Tesco Navona (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Navona (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Navona (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Navona PL Propco Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Overseas Investments Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Passaic (1LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Passaic (GP) Limited | 1 | £1.00 Ordinary A | 100 |
| | | £1.00 Ordinary B | 100 |
| Tesco Passaic (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Passaic (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Passaic (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Passaic PL Propco Limited | 1 | £1.00 Ordinary | 100 |
| Tesco PEG Limited | 1 | £0.01 Ordinary | 100 |
| Tesco PENL Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Pension Investment Limited[(d)] | 1 | £1.00 Ordinary | 100 |
| Tesco Pension Trustees Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Personal Finance Group PLC[†] | 6 | £0.10 A Ordinary | 100 |
| | | £0.10 B Ordinary | 100 |
| | | £0.10 C Ordinary | 100 |
| Tesco Personal Finance PLC | 6 | £0.10 Ordinary | 100 |
| Tesco Property (Nominees) (No.1) Limited | 11 | £1.00 Ordinary | 100 |
| Tesco Property (Nominees) (No.2) Limited | 11 | £1.00 Ordinary | 100 |
| Tesco Property (Nominees) Limited | 11 | £1.00 Ordinary | 100 |
| Tesco Property Finance 1 Holdco Limited | 1 | £1.00 Ordinary | 100 |

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Tesco Property Finance 1 PLC | 1 | £1.00 Ordinary | 100 |
| | | £0.25 Ordinary | 100 |
| Tesco Property Holdings (No.2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property Holdings Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property Nominees (No.5) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property Nominees (No.6) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property Partner (GP) Limited[†] | 1 | £1.00 A Ordinary | 100 |
| | 1 | £1.00 B Ordinary | 100 |
| Tesco Property Partner (GP No.2) Limited | | £1.00 A Ordinary | 100 |
| | | £1.00 B Ordinary | 100 |
| Tesco Property Partner (No.1) Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Property Partner (No.2) Limited[†] | 1 | £1.00 Ordinary | 100 |
| Tesco Red (3LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Red (GP) Limited | 1 | £1.00 Ordinary A | 100 |
| | | £1.00 Ordinary B | 100 |
| Tesco Red (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Red (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Red (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Sarum (1LP) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Seacroft Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Secretaries Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Services Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Stores Limited | 1 | £1.00 A Preference | 100 |
| | | £1.00 B Preference | 100 |
| | | £1.00 Ordinary | 100 |
| Tesco TLB Finance Limited | 1 | £1.00 Ordinary | 100 |
| Tesco TLB Properties Limited | 1 | £1.00 A Ordinary | 100 |
| | | £1.00 B Ordinary | 100 |
| The Big Food Group Limited | 8 | £0.10 Ordinary | 100 |
| The Teesport Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Aqua Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Atrato Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Blue Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Navona Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Passaic Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Property Limited Partnership | 1 | Limited Partnership | 100 |
| The Tesco Property (No.2) Limited Partnership | 17 | Limited Partnership | 100 |
| The Tesco Red Limited Partnership | 1 | Limited Partnership | 100 |
| TPI Fund Managers Limited | 1 | £1.00 Ordinary | 100 |
| TPT Holdco No.1 Limited | 1 | £1.00 Ordinary | 100 |
| Weymouth Avenue (Dorchester) Limited | 1 | £1.00 Ordinary | 100 |

## Related undertakings of the Tesco Group continued

### International subsidiary undertakings

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Agate Jewel sp. z.o.o.[e] | 75 | PLN 50 Ordinary | 100 |
| Arena (Jersey) Management Limited† | 33 | £1.00 Ordinary | 100 |
| Amethyst Jewel sp. z o.o. | 75 | PLN 50 Ordinary | 100 |
| Cheshunt Holdings Guernsey Limited† | 27 | £1.00 Ordinary | 100 |
| Chirac Limited | 24 | €1.25 Ordinary | 100 |
| Cirrus Finance (2009) Limited | 24 | £1,000 A Ordinary | 100 |
| | | €1.00 Ordinary | 100 |
| Clondalkin Properties Limited | 24 | €1.25 Ordinary | 100 |
| Commercial Investments Limited | 24 | €1.25 Ordinary | 100 |
| Coral Jewel sp. z.o.o.[e] | 75 | PLN 50 Ordinary | 100 |
| Crest Ostrava a.s | 16 | CZK 100,000 Ordinary | 100 |
| Diamond Jewel sp. z o.o. | 75 | PLN 50 Ordinary | 100 |
| dunnhumby (Korea) Limited | 66 | KRW 5,000 Ordinary | 100 |
| dunnhumby (Malaysia) Sdn Bhd | 84 | RM 1.00 Ordinary | 100 |
| dunnhumby (Thailand) Limited | 73 | THB 1,000,000 Ordinary | 100 |
| dunnhumby Advertising (Shanghai) Co., Ltd | 23 | €130,000 Registered Capital | 100 |
| dunnhumby Australia PTY Limited | 65 | AUD 100 Ordinary | 100 |
| dunnhumby Brasil Consultora Ltda | 77 | BRL$1.00 Ordinary | 100 |
| dunnhumby Canada Limited | 59 | CA$1.00 Ordinary | 100 |
| dunnhumby Chile SpA | 48 | CLP 500,000 Ordinary | 100 |
| dunnhumby Colombia S.A.S. | 74 | COP 2,000 Type A | 100 |
| | | COP 41.00 Type B | 100 |
| | | COP 1.00 Type C | 100 |
| dunnhumby Computer Information Technology and Consultancy Services LLC | 18 | TL 25.00 Ordinary | 100 |
| dunnhumby Consulting Services India Private Limited | 60 | INR 10.00 Ordinary | 100 |
| dunnhumby Czech s.r.o. | 16 | CZK 200,000 Ordinary | 100 |
| dunnhumby Denmark IvS | 57 | DKK 1.00 Ordinary | 100 |
| dunnhumby Finland Oy | 30 | 100 Kovellinum Oy | 100 |
| dunnhumby France SAS | 61 | €2.00 Ordinary | 100 |
| dunnhumby Germany GmbH | 14 | €1.00 Ordinary | 100 |
| dunnhumby Hungary Kft | 32 | Registered capital HUF 3,000,000 | 100 |
| dunnhumby Inc. | 35 | No par value | – |
| dunnhumby Information Technology Consulting (Shanghai) Company Limited | 62 | Registered capital US$140,000 | 100 |
| dunnhumby Ireland Limited | 67 | €1.00 Ordinary | 100 |
| dunnhumby IT Services India Private Limited | 36 | INR 10.00 Ordinary | 100 |
| dunnhumby Italia Srl. | 37 | €1.00 Ordinary | 100 |
| dunnhumby Japan K.K | 38 | JPY 10,000 Ordinary | 100 |
| dunnhumby Mexico S. de R.L. de C.V. | 69 | MXN 2,970 Ordinary A | 100 |
| . | | MXN 30.00 Ordinary B | 100 |
| dunnhumby Netherlands B.V. | 70 | €1.00 Ordinary | 100 |
| dunnhumby New Zealand | 64 | NZD 100.00 Ordinary | 100 |
| dunnhumby Poland Sp. z o.o. | 42 | PLN 50,000 Ordinary | 100 |
| dunnhumby Russia LLC | 79 | RUB 1.00 Ordinary | 100 |
| dunnhumby Singapore Pte Ltd | 19 | SGD 1.00 Ordinary | 100 |
| dunnhumby SARL | 61 | €100.00 Ordinary | 100 |
| dunnhumby Serviços de Promoção Digital Ltda | 77 | R$1.00 Ordinary | 100 |
| dunnhumby Slovakia s.r.o. | 58 | No shares in issue | – |
| dunnhumby Sp. z o.o. | 47 | PLN 50.00 Ordinary | 100 |
| dunnhumby Spain S.L | 50 | €1.00 Ordinary | 100 |
| dunnhumby South Africa (Pty) Ltd | 43 | No par value Ordinary | 100 |
| dunnhumby Ventures LLC | 44 | – | – |
| Edson Investments Limited | 24 | €2.00 Ordinary | 100 |
| Edson Properties Limited | 24 | €1.00 Ordinary | 100 |
| ELH Insurance Limited | 71 | £1.00 Ordinary | 100 |
| Emerald Jewel sp. z o.o. | 75 | PLN 50 Ordinary | 100 |
| Epicier Limited | 46 | £1.00 Ordinary | 100 |
| Genesis sp. z o.o.[g] | 42 | PLN 500.00 Ordinary | 100 |
| Jasper Sp. z o.o.[g] | 42 | PLN 100.00 Ordinary | 100 |

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Letňany Development land 2 s.r.o. | 16 | CZK 100,000 Ordinary | 100 |
| Monread Developments Limited | 24 | €0.001 Ordinary | 100 |
| Nabola Development Limited | 24 | €1.25 A Ordinary | 100 |
| | | £1.25 B Ordinary | 100 |
| Onyx Jewel sp. Z.o.o.[e] | 75 | PLN 50 Ordinary | 100 |
| Opal Jewel sp. Z.o.o. | 75 | PLN 50 Ordinary | 100 |
| Orpingford Unlimited Company | 24 | €1.00 Ordinary | 100 |
| Parijude Limited | 45 | £1.00 Ordinary | 100 |
| Pharaway Properties Limited | 24 | €1.00 Ordinary | 100 |
| Pearl Jewel sp. z o.o. | 75 | PLN 50 Ordinary | 100 |
| R.J.D. Holdings Unlimited Company | 24 | €1.269738 Ordinary | 100 |
| Ruby Jewel sp. z.o.o.[e] | 24 | PLN 50 Ordinary | 100 |
| Sapphire Jewel sp. z.o.o.[e] | 75 | PLN 50 Ordinary | 100 |
| Shopping Mall Chrudim s.r.o.[i] | 7 | CZK 100,000 Ordinary | 100 |
| Shopping Mall Eden s.r.o.[i] | 7 | CZK 100,000 Ordinary | 100 |
| Shopping Mall Karlovy Vary s.r.o[i] | 7 | CZK 100,000 Ordinary | 100 |
| Shopping Mall Opava s.r.o.[i] | 7 | CZK 100,000 Ordinary | 100 |
| Shopping Mall Ostrava s.r.o. [i] | 7 | CZK 100,000 Ordinary | 100 |
| Sociomantic Labs Internet Hizmetleri Limited Şireketi | 51 | TRY 25.00 Ordinary | 100 |
| Tesco (Polska) Sp. z o.o.[g] | 42 | PLN 500.00 Ordinary | 100 |
| Tesco Akadémia Képzési és Fejlesztési Korátolt Felelősségű Társaság | 32 | HUF 1.00 Business Share | 100 |
| Tesco Bengaluru Private Limited | 41 | INR 10.00 Ordinary | 100 |
| Tesco Capital No. 1 Limited† | 28 | £0.50 A Ordinary | 100 |
| | | £0.50 B Ordinary | 100 |
| | | £0.01 Preference | - |
| | | Guaranteed Cumulative Fixed Rate Preference | 100 |
| | | £0.01 Preferred Ordinary | 100 |
| | | £1.00 Ordinary | 100 |
| Tesco Chile Sourcing Limitada | 22 | CLP 1.00 Ordinary | 100 |
| | | US$1.00 Ordinary | 100 |
| Tesco Digital Ventures Pte Ltd | 49 | SGD 1.00 Ordinary | 100 |
| Tesco Dystrybucja Sp. z o.o.[g] | 42 | PLN 50.00 Ordinary | 100 |
| Tesco Franchise Stores ČR s.r.o. | 16 | CZK 2,000,000 Ordinary | 100 |
| Tesco Franchise Stores SR s.r.o. | 68 | €1.00 Ordinary | 100 |
| Tesco-Global Stores Privately Held Company Limited | 32 | HUF 10.00 Common | 100 |
| Tesco Holdings B.V. | 40 | €1.00 Ordinary | 100 |
| Tesco International Clothing Brand s.r.o. | 58 | €1.00 Ordinary | 100 |
| Tesco International Franchising s.r.o. | 58 | €1.00 Ordinary | 100 |
| Tesco International Sourcing Limited | 20 | HKD 10.00 Ordinary | 100 |
| Tesco Ireland Holdings Limited | 24 | €1.25 Ordinary | 100 |
| Tesco Ireland Limited | 24 | €1.25 Ordinary | 100 |
| Tesco Ireland Pension Trustees Limited | 24 | €1.25 Ordinary | 100 |
| Tesco Joint Buying Service (Shanghai) Co., Limited | 76 | US$1.00 Ordinary | 100 |
| Tesco Mobile Ireland Limited | 24 | €1.00 Ordinary | 100 |
| Tesco Property (No. 1) Limited | 28 | £1.00 Ordinary | 100 |
| Tesco Sourcing India Private Limited | 80 | INR 10.00 Ordinary | 100 |
| Tesco Stores ČR a.s. | 16 | CZK 250 Ordinary | 100 |
| Tesco Stores SR, a.s. | 58 | €33,193.92 Ordinary | 100 |
| Tesco Technology and Services Europe SP . Z.O.O. | 75 | PLN 50 Ordinary | 100 |
| Tesco Trustee Company of Ireland Limited† | 24 | €1.25 Ordinary | 100 |
| TESCO Üzleti és Technológiai Szolgáltatások Zârtkörüen Múködó Részvénytársaság | 25 | HUF 1,000.00 | 100 |
| Thundridge Unlimited | 24 | €1.00 Ordinary | 100 |
| Topaz Jewel sp. z o.o. | 75 | PLN 50 Ordinary | 100 |
| Victoria BB Sp. z o.o. | 42 | PLN 800.00 Ordinary | 100 |
| Wanze Properties (Dundalk) Limited | 24 | €1.00 Ordinary | 100 |
| WSC Properties Limited | 24 | €0.0000005 Ordinary | 100 |

# **Related undertakings of the Tesco Group** continued

## Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Adminstore Limited | 9 | £0.01 A Ordinary | 100 |
| | | £0.01 B Ordinary | 100 |
| | | £0.01 C Ordinary | 100 |
| Cheshunt Finance Unlimited | 9 | £0.000000001 Ordinary | 100 |
| Cheshunt Overseas LLP | 3 | Limited Liability Partnership | 100 |
| dunnhumby Advertising Limited | 9 | £0.001 Ordinary | 100 |
| dunnhumby Holding Limited | 4 | £1.00 Ordinary | 100 |
| Europa Foods Limited | 9 | £0.000000176 Ordinary | 100 |
| Fresh Food Trader Limited | 9 | £1.00 Ordinary | 50 |
| | | £1.00 Preference | 100 |
| J.Smylie & Sons (IOM) Limited | 72 | £1.00 Ordinary | 100 |
| KSS Retail Limited | 9 | £0.000000851 | 100 |
| M & W Limited | 9 | £0.0000000582261 | 100 |
| Motorcause Limited | 9 | £1.00 Ordinary | 100 |
| Reefknot Technology Limited | 9 | £1.00 Ordinary | 100 |
| Stewarts Supermarkets Limited† | 9 | £1.00 Ordinary | 100 |
| Tesco Aqua (FinCo1) Limited | 9 | £1.00 Ordinary | 100 |
| Tesco Blue (FinCo2) Limited | 9 | £1.00 Ordinary | 100 |
| Tesco FFC Limited | 9 | £0.01 Ordinary | 100 |
| Tesco International Internet Retailing Limited | 9 | £0.0000013543 | 100 |
| Tesco Overseas ULC | 9 | £0.00000025 A Ordinary | 100 |
| | | £0.00000025 B Ordinary | 100 |
| | | £0.00000025 C Ordinary | 100 |
| | | £0.00000025 D Ordinary | 100 |
| | | £0.00000025 E Ordinary | 100 |
| | | £0.00000025 F Ordinary | 100 |
| | | £0.00000025 G Ordinary | 100 |
| | | £0.00000025 H Ordinary | 100 |
| | | £0.00000025 J Ordinary | 100 |
| | | £0.00000025 K Ordinary | 100 |
| | | £0.00000025 L Ordinary | 100 |
| | | £0.00000025 M Ordinary | 100 |
| | | £0.00000025 N Ordinary | 100 |
| | | £0.00000025 O Ordinary | 100 |
| | | £0.00000025 P Ordinary | 100 |

The following subsidiary undertakings were incorporated outside of the United Kingdom

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Avantil Services Company Limited | 39 | £1.00 Ordinary | 100 |
| Booker Cyprus Limited | 21 | €1.00 Ordinary | 100 |
| China Property Holdings (HK) Limited | 20 | HKD 1.00 Ordinary | 100 |
| Saneyia Limited | 21 | €1.00 Ordinary | 100 |
| Sociomantic Labs Private Limited | 78 | INR 10.00 Ordinary | 100 |
| Tesco Global Employment Company Limited | 34 | THB 100.00 Ordinary | 100 |
| Tesco Capital No.2 Limited | 9 | £0.01 Floating Rate Redeemable Preference | 100 |
| | | £1.00 Ordinary | 100 |
| Tesco Vin Plus S.A. | 52 | €1.60 Ordinary | 100 |

## Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Broadfields Management Limited | 12 | £0.10 Ordinary | 35.3 |
| Clarepharm Limited[f] | 13 | £0.10 Ordinary | 26.5 |
| Shire Park Limited | 15 | £1.00 Ordinary | 48.57 |
| Tesco Coral (GP) Limited* | 1 | £1.00 A Ordinary | 100 |
| Tesco Coral (Nominee) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Dorney (GP) Limited* | 1 | £1.00 A Ordinary | 100 |
| Tesco Dorney (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Dorney (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Dorney (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Jade (GP) Limited | 29 | £1.00 A Ordinary | 30 |
| | | £1.00 B Ordinary | 30 |
| Tesco Mobile Limited* | 1 | £0.10 A Ordinary | 100 |
| | | £0.90 B Ordinary | 100 |
| Tesco Property (Sparta Nominees) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property (Nominees) (No.3) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property (Nominees) (No.4) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Property Partner (GP No.2) Limited | 1 | £1.00 A Ordinary | 100 |
| Tesco Sarum (GP) Limited* | 1 | £1.00 A Ordinary | 10 |
| Tesco Sarum (Nominee 1) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Sarum (Nominee 2) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Sarum (Nominee Holdco) Limited | 1 | £1.00 Ordinary | 100 |
| Tesco Underwriting Limited | 31 | £1.00 Ordinary | 49.9 |
| The Tesco Coral Limited Partnership | 1 | Limited Partnership | 50 |
| The Tesco Dorney Limited Partnership | 1 | Limited Partnership | 50 |
| The Tesco Property (No.2) Limited Partnership | 17 | Limited Partnership | 50 |
| The Tesco Sarum Limited Partnership | 1 | Limited Partnership | 50 |

The following associated undertakings were incorporated outside of the United Kingdom

| Name of undertaking | Registered address | Class of share held | % held by Group |
|---|---|---|---|
| Arena Unit Trust | 33 | – | 50 |
| Booker India Limited | 54 | INR 1.00 Ordinary | 49 |
| Booker Satnam Wholesale Limited | 54 | INR 1.00 Ordinary | 49 |
| China Wisdom dunnhumby Limited | 53 | RMB 264,000 Ordinary | 50 |
| China Wisdom dunnhumby (Shanghai) Limited | 63 | RMB 264,000,000 Registered Capital | 50 |
| dunnhumby Mitsui Bussan Customer Science Co., Ltd | 55 | JPY 1,000 Ordinary | 50 |
| dunnhumby Norge A.S. | 56 | NOK 1,000 Ordinary | 50 |
| Merrion Shopping Centre Limited | 24 | €0.012697 Ordinary | 51.9 |
| Tesco Mobile ČR s.r.o. | 16 | CZK 100,000 Ordinary | 50 |
| Tesco Mobile Slovakia s.r.o. | 81 | €1.00 Ordinary | 50 |
| Trent Hypermarket Private Limited | 26 | INR 10.00 Equity | 50 |

## Consolidated structured entities

| Name of undertaking | Registered address | Nature of business |
|---|---|---|
| Delamare Cards Holdco Limited | 47 | Securitisation entity |
| Delamare Cards MTN Issuer plc | 47 | Securitisation entity |
| Delamare Cards Receivables Trustee Limited | 47 | Securitisation entity |
| Delamare Cards Funding 1 Limited | 47 | Securitisation entity |
| Delamare Cards Funding 2 Limited | 47 | Securitisation entity |
| Delamare Finance PLC | 11 | Securitisation entity |
| Delamare Group Holdings Limited | 11 | Securitisation entity |

* Undertaking where other share classes are held by a third party
† Interest held directly by Tesco PLC
(a) 95% held by Tesco PLC
(b) 66.6% held by Tesco PLC
(c) 50% held by Tesco PLC
(d) Shares held by Tesco Pension Trustees Limited (TPTL), the corporate trustee of the Tesco PLC Pension Scheme (the Scheme). On behalf of the Scheme, TPTL holds a 50% shareholding in three property joint ventures with Tesco, and is the sole shareholder of Tesco Pension (Jade) Limited and Tesco Pension Investment Limited
(e) Placed into liquidation on 01/03/2021
(f) Interest sold on 02/03/2021
(g) Sold on 16/03/2021
(h) Dissolved on 21/03/2021
(i) Incorporated on 06/04/2021

# Registered office addresses

1. Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom
2. Apex Road, Brownhills, Walsall, West Midlands, WS8 7HU, United Kingdom
3. KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom
4. 184 Shepherds Bush Road, London, W6 7NL, United Kingdom
5. C/O Morton Fraser LLP, 5th Floor, Quartermile Two, 2 Lister Square, Edinburgh, Scotland, EH3 9GL, United Kingdom
6. 2 South Gyle Crescent, Edinburgh, EH12 9FQ, United Kingdom
7. Vršovická 1527/68b, Vršovice, 100 00 Prague 10, Czech Republic
8. Equity House, Irthlingborough Road, Wellingborough, Northamptonshire, NN8 1LT, United Kingdom
9. Ernst & Young LLP, 1 More London Place, London, SE1 2AF, United Kingdom
10. Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
11. 1 Bartholomew Lane, London, England, EC2N 2AX
12. 2 Paris Parklands, Railton Road, Guildford, Surrey, GU2 9JX
13. Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD
14. Ritterstraße 6, 10969 Berlin, Germany
15. Riverside House, 3 Place Farm, Wheathampstead, St. Albans, England, AL4 8SB
16. 1527/68b, Vrsovicka, Praha 10, City of Prague, 100 00, Czech Republic
17. PO Box 87 22 Grenville Street, St Helier, Jersey
18. Yeni Havaalani Caddesi, No. 40 Cigli, Izmir, 35610 Turkey
19. 50 Raffles Place, #19-00 Singapore Land Tower, Singapore 048623
20. 31st Floor AIA Kowloon Tower Landmark East, 100 How Ming Street, Kowloon, Hong Kong
21. 5 Esperidon Street, 4th floor, 2001 Strovolos, Nicosia, Cyprus
22. Avenida Santa María 5888, Piso 2 Zona A, Oficina 4, Vitacura, Santiago, 7660268, Chile
23. Eco City Centro, 901-12 office, 9 / F 1788 West Nanjing Road, Jingan District, Shanghai, China
24. Gresham House, Marine Road, Dun Laoghaire, Co. Dublin, Ireland
25. II38, Budapest, Váci út, 187, Hungary
26. Taj Building, 2nd Floor, 210, Dr D.N. Road, Fort, Mumbai, 400001, India
27. PO Box 25, Regency Court, Glategny Esplanade, St. Peter Port, Guernsey, GY1 3AP
28. Level 1, IFC1 Esplanade, St Helier, Jersey, JE2 3BX
29. 20 Churchill Place, Canary Wharf, London, E14 5HJ
30. c/o RSM Finland Oy, Ratamestarinkatu 7 B, 00520, Helsinki, Finland
31. Ageas House Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA
32. H-2040 Budaörs, Kinizsi, ÚT 1-3, Hungary
33. 47 Esplanade, St Helier, Jersey, JE1 0BD
34. 629/1 Nawamintr Road, Nuanchan, Buengkoom, Bangkok, 10230, Thailand
35. c/o The Corporation Trust Company, 1209 Orange Street, Corporation Trust Center, Wilmington, DE 19801, USA
36. S-22 Greater Kailash, Part 1, Lower Ground Floor, New Delhi 110048, India
37. Carrera 48 no. 32B sur - 139, Envigado, Italy
38. 9th Floor, Shiroyama Trust Tower, 3-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan
39. 38/39 Fitzwilliam Square, Dublin 2, Ireland
40. Willemsparkweg 150 hs, 1071 HS, Amsterdam, The Netherlands, Netherlands
41. 81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India
42. 56 Kapelenka St, 30-347, Krakow, Poland
43. 3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa
44. c/o FBT Ohio, Inc.,3300 Great American Tower, 301 East Fourth Street, Cincinnati, OH 45202, USA
45. Windward 1, Regatta Office Park, PO Box 897, Grand Cayman KY1 – 1103, Cayman Islands
46. Beauport House, L'Avenue de la Commune, Jersey, JE3 7BY
47. 6th Floor, 125 London Wall, London, England EC2Y 5A
48. Av. El Golf 40, 7th floor, Las Condes, Santiago de Chile, Chile
49. 163 Tras Street, #03-01, Lian Huat Building, Singapore, 079024, Singapore
50. Paseo de General Martinez Campos, Campos nº 9 1º izquierda, 28010 Madrid, Spain
51. Istiklal Caddesi Beyoglu Is Merkezi No: 187/5 Galatasaray, Istanbul, Turkey
52. Centre de Commerces et de, Loisirs, Cite Europe, 62231 Coquelles, France
53. Suite 1106-8, 11/F., Tai Yau Building, No 181 Johnston Road, Wanchai, Hong Kong
54. Unit 607, 6th floor, Trade Centre, Bandra Kurla Complex, Bandra East, Mumbai, 400051, Maharashtra, India
55. 1-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan
56. Rosenkrantzgate 16, Oslo, O160, Norway
57. c/o TMF Denmark A/S, Købmagergade 60, 1. tv., 1150 København K, Denmark
58. Cesta na Senec 2, Bratislava, 821 04, Slovakia
59. 1400-340 Albert St, Ottawa ON K1R 0A5, Canada
60. 4th Fl, Tower B, Paras Twin Towers, DLF Golf Course Road, Sector 54, Gurgaon, Haryana-HR, 122002, India
61. 48 rue Cambon, 75001, Paris, France
62. Room 1001, Enterprise Development Tower, No. 398, Jiangsu Road Changning District, Shanghai 200050, People's Republic of China
63. Room 501-4, No.398 Jiangsu Road, Shanghai, People's Republic of China
64. RSM New Zealand, Level 2, 60 Highbrook Drive, Auckland, 2013, New Zealand
65. Level 21, 55 Collins Street, Melbourne, VIC 3000, Australia
66. 10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea (07326)
67. Floor 3, 2 Harbour Square, Crofton Road, Dun Laoghaire, Dublin, Ireland
68. Veterná 7310/40, 917 01 Trnava, The Slovak Republic, Slovakia
69. Av President Masarik No. 111, Piso 1, Colina Polance V Seccion Delegacion Miguel Hidalgo, C.P. 11560, Mexico
70. Regus Amsterdam Sloterdijk Teleport Towers, Kingsfordweg 151, 1043 GR Amsterdam
71. Dorey Court, Admiral Park, St. Peter Port, GY1 4AT, Guernsey
72. PO Box 237, Peregrine House, Peel Road, Douglas, Isle of Man, IM99 1SU
73. No. 319 Chamchuri Square Building, 16th Fl, Unit 01, Phayathi Road Pathumwan sub District, Bangkok 10330, Thailand
74. Calle 32 b sur #48-100, Envigado, Antioquia, Colombia
75. ul. Połczyńska 121/125, 01-377 Warsaw, Poland
76. Unit 01, 02, 06, 07, 08, 09, Floor 17, No. 610 Xujiahui Road, Huangpu District, Shanghai, People's Republic of China
77. Av.Brigadeiro Luis Antônio, 3530, 5° Andar, 01402-001 São Paulo, Brazil
78. c/o Vaish Associates, 106, Peninsula Centre, Dr. S. S. Rao Road, Parel Mumbai - 400012, Maharashtra, India
79. 125047, Moscow, 1st Tverskaya-Yamskaya Street, 23, building 1, floor 5, premise V, room 5
80. 5th Floor, Unit 401, Tower B, The Millenia, No. 1&2 Murphy Road Ulsoor, Bangalore, 560 008, India
81. Einsteinova 24, Bratislava 851 01, Slovakia

## Supplementary information (unaudited)

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

| | 1Q | 2Q | 3Q | 4Q | 1H | 2H | FY |
|---|---|---|---|---|---|---|---|
| | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 |
| **UK & ROI** | **9.4%** | **7.8%** | **8.7%** | **9.4%** | **8.6%** | **9.1%** | **8.8%** |
| UK | 9.1% | 6.3% | 7.2% | 9.3% | 7.7% | 8.3% | 8.0% |
| ROI | 23.0% | 9.6% | 15.3% | 19.8% | 16.3% | 17.5% | 16.9% |
| Booker | 6.1% | 15.7% | 15.1% | 5.9% | 11.0% | 10.6% | 10.5% |
| **Central Europe** | **0.8%** | **(8.9)%** | **(0.7)%** | **0.8%** | **(4.3)%** | **0.1%** | **(2.1)%** |
| **Tesco Bank** | **(26.5)%** | **(35.9)%** | **(28.5)%** | **(33.6)%** | **(31.4)%** | **(31.0)%** | **(31.2)%** |
| **Group** | **7.9%** | **5.4%** | **7.2%** | **7.9%** | **6.6%** | **7.5%** | **7.1%** |

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

| | 1Q | 2Q | 3Q | 4Q | 1H | 2H | FY |
|---|---|---|---|---|---|---|---|
| | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 |
| **UK & ROI** | **9.2%** | **7.8%** | **8.5%** | **9.1%** | **8.5%** | **8.8%** | **8.6%** |
| UK | 9.1% | 6.3% | 7.2% | 9.3% | 7.7% | 8.3% | 8.0% |
| ROI | 19.7% | 9.4% | 11.7% | 14.0% | 14.5% | 12.9% | 13.7% |
| Booker | 6.1% | 15.7% | 15.1% | 5.9% | 11.0% | 10.6% | 10.5% |
| **Central Europe** | **3.3%** | **(5.7)%** | **0.7%** | **(0.5)%** | **(1.5)%** | **0.1%** | **(0.6)%** |
| **Tesco Bank** | **(26.5)%** | **(35.9)%** | **(28.5)%** | **(33.6)%** | **(31.4)%** | **(31.0)%** | **(31.2)%** |
| **Group** | **8.0%** | **5.6%** | **7.1%** | **7.5%** | **6.8%** | **7.3%** | **7.0%** |

(a) In order to ensure the best comparability year-on-year, sales growth in 2H is reported as sales for 26 weeks ending 27 February 2021 against sales for 26 weeks ending 29 February 2020.

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

| | 1Q | 2Q | 3Q | 4Q | 1H | 2H | FY |
|---|---|---|---|---|---|---|---|
| | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 | 2020/21 |
| **UK & ROI** | **8.2%** | **6.2%** | **6.1%** | **6.9%** | **7.2%** | **6.5%** | **6.8%** |
| UK | 8.7% | 6.4% | 6.7% | 8.8% | 7.6% | 7.8% | 7.7% |
| ROI | 20.5% | 10.6% | 11.8% | 13.3% | 15.5% | 12.6% | 14.0% |
| Booker | 0.6% | 3.7% | 0.1% | (8.3)% | 2.2% | (4.0)% | (0.8)% |
| **Central Europe** | **3.9%** | **(5.3)%** | **0.9%** | **(0.6)%** | **(0.9)%** | **0.1%** | **(0.4)%** |
| **Tesco Bank** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| **Group** | **7.9%** | **5.2%** | **5.7%** | **6.3%** | **6.5%** | **6.0%** | **6.3%** |

### Country detail – Retail

| | Revenue (exc. VAT, inc. fuel) | | | |
|---|---|---|---|---|
| | Local currency (m) | £m | Average exchange rate | Closing exchange rate |
| UK | 43,750 | 43,750 | 1.0 | 1.0 |
| ROI | 2,998 | 2,684 | 1.1 | 1.2 |
| Booker | 6,736 | 6,736 | 1.0 | 1.0 |
| Czech Republic | 41,339 | 1,391 | 29.7 | 30.2 |
| Hungary | 545,409 | 1,376 | 396.4 | 417.9 |
| Slovakia | 1,357 | 1,215 | 1.1 | 1.2 |

### UK sales area by size of store

| | 27 February 2021 | | | 29 February 2020 | | |
|---|---|---|---|---|---|---|
| Store size (sq. ft.) | No. of stores | Million sq. ft. | % of total sq. ft. | No. of stores | Million sq. ft. | % of total sq. ft. |
| 0-3,000 | 2,534 | 5.5 | 14.2% | 2,508 | 5.4 | 14.0% |
| 3,001-20,000 | 282 | 3.0 | 7.8% | 284 | 3.0 | 7.8% |
| 20,001-40,000 | 285 | 8.2 | 21.2% | 284 | 8.2 | 21.3% |
| 40,001-60,000 | 182 | 8.8 | 22.8% | 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*** | 3,456 | 38.6 | 100.0% | **3,431** | **38.5** | **100.0%** |

* Excludes Booker and franchise stores.

## Supplementary information (unaudited) continued

### Group space summary

### Actual Group space – store numbers[a]

| | 2019/20 year end | Openings | Closures/ disposals | Net gain/ (reduction)[b] | 2020/21 year end | Repurposing/ extensions[c] |
|---|---|---|---|---|---|---|
| Large | 796 | 1 | (2) | (1) | 795 | – |
| Convenience | 1,920 | 20 | (2) | 18 | 1,938 | – |
| Dotcom only | 6 | – | – | – | 6 | – |
| **Total Tesco** | **2,722** | **21** | **(4)** | **17** | **2,739** | **–** |
| One Stop[d] | 697 | 8 | – | 8 | 705 | – |
| Booker | 196 | – | (2) | (2) | 194 | – |
| Jack's | 12 | – | – | – | 12 | – |
| UK[d] | 3,627 | 29 | (6) | 23 | 3,650 | – |
| ROI | 150 | 1 | – | 1 | 151 | 1 |
| **UK & ROI[d]** | **3,777** | **30** | **(6)** | **24** | **3,801** | **1** |
| Czech Republic[d] | 186 | 1 | (4) | (3) | 183 | (1) |
| Hungary | 202 | – | (1) | (1) | 201 | – |
| Slovakia[d] | 150 | 3 | – | 3 | 153 | (3) |
| **Central Europe[d]** | **538** | **4** | **(5)** | **(1)** | **537** | **(4)** |
| **Group[d]** | **4,315** | **34** | **(11)** | **23** | **4,338** | **(3)** |
| UK (One Stop) | 191 | 35 | (19) | 16 | 207 | – |
| Czech Republic | 107 | 20 | (4) | 16 | 123 | – |
| Slovakia | – | 5 | – | 5 | 5 | – |
| **Franchise stores** | **298** | **60** | **(23)** | **37** | **335** | **–** |

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

| | 2019/20 year end | Openings | Closures/ disposals | Repurposing/ extensions[c] | Net gain/ (reduction)[b] | 2020/21 year end |
|---|---|---|---|---|---|---|
| Large | 31,336 | 20 | (17) | – | 3 | 31,339 |
| Convenience | 5,204 | 44 | (4) | – | 40 | 5,244 |
| Dotcom only | 716 | – | – | – | – | 716 |
| **Total Tesco** | **37,256** | **64** | **(21)** | **–** | **43** | **37,299** |
| One Stop[d][e] | 1,139 | 15 | – | (4) | 11 | 1,150 |
| Booker | 8,376 | – | (92) | – | (92) | 8,284 |
| Jack's | 119 | – | – | – | – | 119 |
| UK[d] | 46,890 | 79 | (113) | (4) | (38) | 46,852 |
| ROI | 3,274 | 56 | – | 5 | 61 | 3,335 |
| **UK & ROI[d]** | **50,164** | **135** | **(113)** | **1** | **23** | **50,187** |
| Czech Republic[d] | 4,289 | 14 | (19) | (18) | (23) | 4,266 |
| Hungary | 6,000 | – | (3) | – | (3) | 5,997 |
| Slovakia[d] | 3,180 | 16 | – | (45) | (29) | 3,151 |
| **Central Europe[d]** | **13,469** | **30** | **(22)** | **(63)** | **(55)** | **13,414** |
| **Group[d]** | **63,633** | **165** | **(135)** | **(62)** | **(32)** | **63,601** |
| UK (One Stop) | 237 | 44 | (25) | – | 19 | 256 |
| Czech Republic | 101 | 19 | (2) | – | 17 | 118 |
| Slovakia | – | 5 | – | – | 5 | 5 |
| **Franchise stores** | **338** | **68** | **(27)** | **–** | **41** | **379** |

(a) Continuing operations.
(b) The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.
(c) Repurposing of retail sellingspace.
(d) Excludes franchise stores.
(e) Prior year restatement included within repurposing/extensions

## Supplementary information (unaudited) continued

### Group space forecast to 26 February 2022 – ’000 sq. ft.[a]

| | 2020/21 year end | Openings | Closures/ disposals | Repurposing/ extensions | Net gain/ (reduction) | 2021/22 year end |
|---|---|---|---|---|---|---|
| Large | 31,339 | 56 | – | – | 56 | 31,395 |
| Convenience | 5,244 | 92 | (7) | – | 85 | 5,329 |
| Dotcom only | 716 | – | – | – | – | 716 |
| **Total Tesco** | **37,299** | **148** | **(7)** | **-** | **141** | **37,440** |
| One Stop[b] | 1,150 | – | – | – | – | 1,150 |
| Booker | 8,284 | – | – | – | – | 8,284 |
| Jack’s | 119 | 12 | – | – | 12 | 131 |
| UK[b] | 46,852 | 160 | (7) | – | 153 | 47,005 |
| ROI | 3,335 | – | – | 29 | 29 | 3,364 |
| **UK & ROI[b]** | **50,187** | **160** | **(7)** | **29** | **182** | **50,369** |
| Czech Republic[b] | 4,266 | 86 | – | (41) | 45 | 4,311 |
| Hungary | 5,997 | – | (15) | (151) | (166) | 5,831 |
| Slovakia | 3,151 | 57 | – | (6) | 51 | 3,202 |
| **Central Europe[b]** | **13,414** | **143** | **(15)** | **(198)** | **(70)** | **13,344** |
| **Group[b]** | **63,601** | **303** | **(22)** | **(169)** | **112** | **63,713** |
| UK (One Stop) | 256 | – | – | – | – | 256 |
| Czech Republic | 118 | 29 | – | – | 29 | 147 |
| Slovakia | 5 | 16 | – | – | 16 | 21 |
| **Franchise stores** | **379** | **45** | – | – | **45** | **424** |

(a) Continuing operations.
(b) Excludes franchise stores.

### Tesco Bank income statement

| | 2021[a] £m | 2020[a] £m |
|---|---|---|
| **Revenue** | | |
| Interest receivable and similar income | 542 | 733 |
| Fees and commissions receivable | 193 | 335 |
| | **735** | **1,068** |
| **Direct costs** | | |
| Interest payable | (83) | (166) |
| Fees and commissions payable | (17) | (25) |
| | **(100)** | **(191)** |
| **Gross profit** | **635** | **877** |
| **Other expenses** | | |
| Staff costs | (176) | (164) |
| Premises and equipment | (75) | (72) |
| Other administrative expenses | (142) | (191) |
| Depreciation and amortisation | (57) | (78) |
| Impairment loss on financial assets | (360) | (179) |
| **Operating profit before exceptional items** | **(175)** | **193** |
| Exceptional items[b] | (295) | (119) |
| **Operating profit** | **(470)** | **74** |
| Net finance costs: movements on derivatives and hedge accounting | (2) | (11) |
| Net finance costs: interest | (7) | 23 |
| Share of profit/(loss) of joint venture | 16 | 10 |
| **Profit for the year** | **(463)** | **96** |

(a) These results are for the 12 months ended 27 February 2021 and the previous period represents the 12 months ended 29 February 2020.
(b) Exceptional items in 2021 comprise of a goodwill impairment charge of £(295)m (2020: PPI provision charge £(45)m, restructuring costs £(13)m, accelerated amortisation and costs related to the sale of the mortgage book and PCA £(61)m).

# Glossary – Alternative performance measures

## 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.

The Directors and management have added 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 (adjusted for share consolidation) as a new APM. This is defined as 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 and to reflect the full impact of the share consolidation as if it had taken place at the start of the previous financial year. This metric is used to demonstrate the underlying earnings per share of the Group's continuing operations, and removes any distortion from the sale of our businesses in Thailand and Malaysia as the earnings from discontinued operations are excluded, but the weighted average share base used in the statutory IAS 33 denominator does not yet reflect the full impact of the share consolidation and special dividend. To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33 includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year.

| APM | Closest equivalent IFRS measure | Adjustments to reconcile to IFRS measure | Definition and purpose |
|---|---|---|---|
| **Income Statement** | | | |
| **Revenue measures** | | | |
| Group sales | Revenue | – Exclude sales made at petrol filling stations | – Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric. |
| Growth in sales | No direct equivalent | – Consistent with accounting policy | – Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing. |
| Like-for-like | No direct equivalent | – Consistent with accounting policy | – Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures. |
| Retail sales | Revenue | – Exclude Tesco Bank sales<br>– Exclude sales made at petrol filling stations | – 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<br>– Amortisation of acquired intangibles | – Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance, and is based on operating profit from continuing operations before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain cost or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group. This is a key management incentive metric. |

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

# Glossary – Alternative performance measures continued

| APM | Closest equivalent IFRS measure | Adjustments to reconcile to IFRS measure | Definition and purpose |
|---|---|---|---|
| **Profit measures continued** | | | |
| Retail operating profit | Operating profit* | – Tesco Bank operating profit<br>– Retail exceptional items<br>– Retail amortisation of acquired intangibles | – Retail operating profit is a measure of the Group's operating profit from continuing operations from the Retail business excluding Tesco Bank. It is based on Retail operating profit before exceptional items and amortisation of acquired intangibles. |
| Operating margin | No direct equivalent | – Consistent with accounting policy | – Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency. |
| Retail earnings before exceptional items, interest, tax, depreciation and amortisation (Retail EBITDA) | Operating profit* | – Exceptional items<br>– Depreciation and amortisation<br>– Tesco Bank earnings before exceptional items, interest, tax, depreciation and amortisation<br>– Discontinued operations | – This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation and amortisation and is used to derive the Total indebtedness ratio and Fixed charge cover APMs. |
| 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<br>– Amortisation of acquired intangibles<br>– Net pension finance costs<br>– Fair value remeasurements of financial instruments | – 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<br>– Net pension finance costs<br>– Fair value remeasurements of financial instruments | – Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments is the net finance costs adjusted for non-recurring 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<br>– Amortisation of acquired intangibles<br>– Discontinued operations<br>– Net pension finance costs<br>– Fair value remeasurements of financial instruments | – This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements 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.<br>– 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. |
| 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 (adjusted for share consolidation) | Diluted earnings per share | – Exceptional items<br>– Amortisation of acquired intangibles<br>– Discontinued operations<br>– Net pension finance costs<br>– Fair value remeasurements of financial instruments<br>– Weighted average number of diluted shares | – 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 and to reflect the full impact of the share consolidation as if it had taken place at the start of the previous financial year. This metric is used to demonstrate the underlying earnings per share of the Group's continuing operations, and removes any distortion from the sale of our businesses in Thailand and Malaysia as the earnings from discontinued operations are excluded, but the weighted average share base used in the statutory IAS 33 denominator does not yet reflect the full impact of the share consolidation and special dividend. To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33, includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year.<br>– 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. This is a key management incentive metric. |

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

# Glossary – Alternative performance measures continued

| APM | Closest equivalent IFRS measure | Adjustments to reconcile to IFRS measure | Definition and purpose |
|---|---|---|---|
| **Tax measures** | | | |
| Effective tax rate before exceptional items and amortisation of acquired intangibles | Effective tax rate | – Exceptional items and their tax impact<br>– Amortisation of acquired intangibles and their tax impact | – 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<br>– Amortisation of acquired intangibles and their tax impact<br>– Net pension finance costs and their tax impact<br>– Fair value remeasurements of financial instruments and their tax impact | – 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. |
| **Balance sheet measures** | | | |
| Net debt | Borrowings less cash and related hedges | – Net debt from Tesco Bank | – Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies. |
| Total indebtedness | Borrowings less cash and related hedges | – Consistent with accounting policy | – Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies. |
| Total indebtedness Ratio | No direct equivalent | – Consistent with accounting policy | – Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month Retail EBITDA. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies. |
| Fixed charge cover | No direct equivalent | – Consistent with accounting policy | – Fixed charge cover is calculated as the rolling 12-month Retail EBITDA divided by the sum of net finance costs (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. |

## **Glossary – Alternative performance measures** continued

| APM | Closest equivalent IFRS measure | Adjustments to reconcile to IFRS measure | Definition and purpose |
|---|---|---|---|
| **Cash flow measures** | | | |
| Retail operating cash flow | Cash generated from operating activities | – Tesco Bank operating cash flow<br>– Discontinued operations | – Retail operating cash flow is the cash generated from continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency of the Retail business, recognising that Tesco Bank is run and regulated independently from the Retail operations. This is a key management incentive metric. |
| Free cash flow | Cash generated from operating activities | – Net cash generated from/ (used in) investing activities, and the market purchase of shares issued in relation to share schemes<br>– Repayment of obligations under leases<br>– Investing cash flows that increase/decrease items within Group net debt<br>– Cash flows from major corporate acquisitions and disposals | – 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<br>– Retail cash generated from/ (used in) investing activities, and the market purchase of shares issued in relation to share schemes<br>– Repayment of obligations under leases<br>– Investing cash flows that increase/decrease items within Net debt<br>– Cash flows from major corporate acquisitions and disposals | – Retail free cash flow includes all cash flows from continuing operations from operating and investing activities for the Retail business, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and the repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders. This is a key management incentive metric. |

As detailed in the basis of consolidation, refer to Note 1, for the UK & ROI, the prior year results are for the 53 weeks ended 29 February 2020. For all other operations, the prior year results are for the calendar year ended 29 February 2020.

In order to provide comparability with the current year results for the 52 weeks ended 27 February 2021, the tables below present the Group's prior year statutory results on a 53-week basis to 29 February 2020, adjusted to remove the results of week 53 for the UK & ROI to also separately present the APMs on a 52-week basis to 22 February 2020. In determining the week 53 adjustment for the UK & ROI, revenue, sales and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53 based on the reported results for the 53 weeks to 29 February 2020. No week 53 adjustments are required with respect to the Group's operations in Central Europe, Asia or Tesco Bank, which report on a calendar year basis.

The prior year results on a 53-week basis to 29 February 2020 and APMs on a 52-week basis to 22 February 2020 have been restated to present Thailand, Malaysia and Poland as discontinued operations. See Note 7 for further details.

# Glossary – Alternative performance measures continued

## APMs: Reconciliation of income statement measures

| UK &ROI | Notes | APM 2021 £m | 2020 As reported on a 53-week basis £m | Exclude week 53 £m | APM 2020 52-week basis £m |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Group sales** | 2 | **48,848** | **45,752** | **(843)** | **44,909** |
| Revenue | 2 | 53,170 | 52,898 | (983) | 51,915 |
| **Operating profit before exceptional items and amortisation of acquired intangibles** | 2 | **1,866** | **2,202** | **(46)** | **2,156** |
| **Operating margin** | 2 | **3.5%** | **4.2%** | **-** | **4.2%** |
| **Growth in sales at actual rates** | | **8.8%** | **2.0%** | **(1.9)%** | **0.1%** |
| **Growth in sales at constant rates** | | **8.6%** | **2.1%** | **(1.9)%** | **0.2%** |

| Total Group | Notes | APM 2021 £m | 2020 As reported on a 53-week basis £m | Exclude week 53 £m | APM 2020 52-week basis £m |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Group sales** | 2 | **53,445** | **50,788** | **(843)** | **49,945** |
| Revenue | 2 | 57,887 | 58,091 | (983) | 57,108 |
| **Operating profit before exceptional items and amortisation of acquired intangibles** | 2 | **1,815** | **2,571** | **(46)** | **2,525** |
| **Operating margin** | 2 | **3.1%** | **4.4%** | **-** | **4.4%** |
| **Growth in sales at actual rates** | | **7.1%** | **1.4%** | **(1.8)%** | **(0.4)%** |
| **Growth in sales at constant rates** | | **7.0%** | **1.7%** | **(1.8)%** | **(0.1)%** |

| | Notes | APM 2021 | 2020 As reported on a 53-week basis | Exclude week 53 | APM 2020 52-week basis |
|---|---|---|---|---|---|
| **Operating profit before exceptional items and amortisation of acquired intangibles (£m)** | 2 | **1,815** | **2,571** | **(46)** | **2,525** |
| Share of post-tax profits/(losses) of joint ventures and associates before exceptional items and amortisation of acquired intangibles (£m) | | 26 | - | - | - |
| Net finance costs before exceptional items and amortisation of acquired intangibles (£m) | 5 | (937) | (1,019) | 27 | (992) |
| Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m) | | 904 | 1,552 | (19) | 1,553 |
| Add: Net pension finance costs (£m) | 5 | 43 | 71 | - | 71 |
| Add: Fair value remeasurements of financial instruments (£m) | 5 | 214 | 246 | (18) | 228 |
| **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)** | | **1,161** | **1,869** | **(37)** | **1,832** |
| Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m) | 9 | (249) | (400) | 7 | (393) |
| **Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (%)** | | **21.4%** | **21.4%** | **0.1%** | **21.5%** |
| Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) | 9 | 1,168 | 1,869 | (37) | 1,832 |
| Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) | 9 | (249) | (400) | 7 | (393) |
| 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) | | 919 | 1,469 | (30) | 1,439 |
| Basic weighted average number of shares (millions) | 9 | 9,629 | 9,716 | - | 9,716 |
| 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) | | 9.54 | 15.12 | (0.31) | 14.81 |
| Diluted weighted average number of shares (millions) | 9 | 9,656 | 9,783 | - | 9,783 |
| **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)** | | **9.52** | **15.02** | **(0.31)** | **14.71** |

## Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation)

| | Notes | APM 2021 | 2020 As reported on a 53-week basis | Exclude week 53 | APM 2020 52-week basis |
|---|---|---|---|---|---|
| **Weighted average number of diluted shares** | | | | | |
| Diluted weighted average number of shares (millions) | | 9,656 | 9,783 | – | 9,783 |
| Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions) | | (1,956) | (2,045) | – | (2,045) |
| Adjusted diluted weighted average number of shares (adjusted for share consolidation) (millions) | | 7,700 | 7,738 | – | 7,738 |
| **Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)** | | **9.52** | **15.02** | **(0.31)** | **14.71** |
| Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence) | | 2.42 | 3.96 | (0.07) | 3.89 |
| **Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation) (pence)** | | **11.94** | **18.98** | **(0.38)** | **18.60** |

## Retail EBITDA

| | Notes | APM 2021 £m | 2020 As reported on a 53-week basis £m | Exclude week 53 £m | APM 2020 52-week basis £m |
|---|---|---|---|---|---|
| **Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles** | 2 | **1,815** | **2,571** | **(46)** | **2,525** |
| Add/(less): Tesco Bank operating loss/(profit) before exceptional items | 2 | 175 | (193) | – | (193) |
| **Retail operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles** | 2 | **1,990** | **2,378** | **(46)** | **2,332** |
| Add: Depreciation and amortisation (excluding amortisation of acquired intangibles) | 2 | 1,671 | 1,730 | (29) | 1,701 |
| Less: Tesco Bank depreciation and amortisation | 2 | (57) | (141) | – | (141) |
| **Retail EBITDA** | | **3,604** | **3,967** | **(75)** | **3,892** |

## APMs: Reconciliation of balance sheet measures

### Total indebtedness ratio

| | Notes | APM 2021 | 2020 As reported on a 53-week basis | Exclude week 53 | APM 2020 52-week basis |
|---|---|---|---|---|---|
| **Net debt (£m)** [(a)(b)] | 32 | **11,955** | **12,298** | **(197)** | **12,101** |
| Add: Defined benefit pension deficit, net of deferred tax (£m)[(a)] | 29 | 1,004 | 2,573 | – | 2,573 |
| **Total indebtedness (£m)**[(a)] | | **12,959** | **14,871** | **(197)** | **14,674** |
| **Retail EBITDA (£m)** | | **3,604** | **3,967** | **(75)** | **3,892** |
| **Total indebtedness ratio** | | **3.6** | **3.7** | **0.1** | **3.8** |

(a) Net debt, Total indebtedness and the defined benefit pension deficit, net of deferred tax on a 52-week basis are as at 22 February 2020.
(b) Free cash outflow in week 53 of £197m has been deducted from Net debt as at 29 February 2020 to determine the Group's 52-week Total indebtedness ratio.

# Glossary – Alternative performance measures continued

## Fixed charge cover

| | Notes | APM 2021 | 2020 As reported on a 53-week basis | Exclude week 53 | APM 2020 52-week basis |
|---|---|---|---|---|---|
| Net finance cost (£m) | 5 | 937 | 1,170 | (27) | 1,143 |
| Less: Net pension finance cost (£m) | 5 | (43) | (71) | | (71) |
| Less: Exceptional fair value remeasurement on restructuring derivative financial instruments (£m) | 5 | - | (180) | - | (180) |
| Add: Exceptional gain on Tesco Bank mortgage book disposal (£m) | 5 | - | 29 | - | 29 |
| Add: Fair value remeasurements on financial instruments (£m) | 5 | (214) | (246) | 18 | (228) |
| **Total finance costs before exceptional items, net pension finance costs and fair value remeasurements on financial instruments (£m)** | | **680** | **702** | **(9)** | **693** |
| Add: Capitalised interest (£m) | 5 | - | - | - | - |
| Less: Finance charges payable on lease liabilities (£m) | 5 | (446) | (486) | 6 | (480) |
| Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities (£m) | | 234 | 216 | (3) | 213 |
| Add: Retail total lease liability payments (£m) | 12 | 1,104 | 1,170 | - | 1,170 |
| Less: Retail discontinued operations total lease liability payments (£m) | | (99) | (122) | - | (122) |
| | | 1,239 | 1,264 | (3) | 1,261 |
| **Retail EBITDA (£m)** | | **3,604** | **3,967** | **(75)** | **3,892** |
| **Fixed charge cover** | | **2.9** | **3.1** | **-** | **3.1** |

## APMs: Reconciliation of cash flow measures

| | Notes | APM 2021 £m | 2020 As reported on a 53-week basis £m | Exclude week 53 £m | APM 2020 52-week basis £m |
|---|---|---|---|---|---|
| Retail cash flows generated from operations excluding working capital | 2 | 723 | 3,633 | (63) | 3,570 |
| Retail (increase)/decrease in working capital | 2 | 439 | (53) | 240 | 187 |
| **Retail operating cash flow** | 2 | **1,162** | **3,580** | **177** | **3,757** |
| Retail interest and corporation tax paid[a] | 2 | (841) | (958) | 27 | (931) |
| Retail cash generated from/(used in) operating activities | 2 | 321 | 2,622 | 204 | 2,826 |
| Retail cash generated from/(used in) investing activities | 2 | 6,890 | (1,102) | (7) | (1,109) |
| Retail own shares purchased | 2 | (66) | (149) | - | (149) |
| Retail repayments of obligations under leases | 2 | (561) | (565) | - | (565) |
| Less: Retail cash inflow from major disposal[b] | 2 | (5,337) | - | - | - |
| Less: Retail increase/(decrease) in loans to joint ventures and associates | 2 | 2 | - | - | - |
| Less: Retail net investments in/(proceeds from sale of) short-term investments | 2 | (62) | 687 | - | 687 |
| **Retail free cash flow** | 2 | **1,187** | **1,493** | **197** | **1,690** |
| Tesco Bank free cash flow | 2 | 192 | 476 | - | 476 |
| **Free cash flow** | | **1,379** | **1,969** | **197** | **2,166** |

(a) Retail interest paid in week 53 amounted to £27m.
(b) Retail cash flow from major disposal of £5,337m principally comprises the £7.8bn proceeds on disposal of the Group's Asia operations, excluding cash disposed and intercompany loan repayments, less the £2.5bn additional pension contribution. Refer to Notes 4 and 7 for further details.

## Other

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

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

### CPI
CPI refers to consumer price index.

### 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.

### LIBOR
London Inter-Bank Offered Rate.

### LPI
LPI refers to limited price inflation.

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

### MTN
MTN refers to medium term note.

### MREL
Minimum requirements for own funds and eligible liabilities (European Banking Authority).

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

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

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

### RPI
RPI refers to the retail price index.

### SONIA
Sterling Overnight Index Average.

### 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.