TESCO

Interim Results 2021/22

STRONG H1 OUTPERFORMANCE LEADING TO INCREASED FY PROFIT OUTLOOK.
STRATEGIC PRIORITIES SET OUT; SHARE BUYBACK PROGRAMME ANNOUNCED.

Headline measures[1,2]:	H1 21/22	H1 20/21	Change at actual rate	Change at constant rate
Group sales (exc. VAT, exc. fuel)[3]	**£27,331m**	£26,652m	2.6%	3.0%
Adjusted operating profit[4]	**£1,458m**	£1,037m	40.6%	41.0%
- Retail	£1,386m	£1,192m	16.3%	16.6%
- Tesco Bank	£72m	£(155)m	146.5%	146.5%
Retail free cash flow[5]	**£1,543m**	£797m	93.6%	
Net debt[2,5]	**£(10.2)bn**	£(12.5)bn	down 18.5%	
Adjusted diluted EPS[6]	**11.22p**	7.29p	54.0%	
Interim dividend per share	**3.20p**	3.20p	-	
Statutory measures:				
Revenue (exc. VAT, inc. fuel)	**£30.4bn**	£28.7bn	5.9%	
Operating profit	**£1,304m**	£1,007m	29.5%	
Profit before tax	**£1,143m**	£551m	107.4%	
Diluted EPS	**10.70p**	4.06p	163.5%	

A strong first half leading to an upgrade in full year profit expectations:

- Elevated sales continued into first half; Group Retail 1-yr LFL[7] sales growth includes UK market outperformance and sharp recovery of Booker catering; 2-yr LFL reflects strong performance throughout pandemic across all businesses:

	UK	ROI	Booker	**UK&ROI**	C.Europe	**Retail**
1-yr LFL sales	1.2%	(2.6)%	11.0%	**2.4%**	1.4%	**2.3%**
2-yr LFL sales	8.9%	12.2%	9.1%	**9.1%**	0.3%	**8.4%**

- Total adjusted retail operating profit[4] £1,386m, +16.6% at constant rates
  - UK & ROI adjusted operating profit £1,318m, +16.5% due to higher sales and lower COVID-19 costs, part offset by YoY effect of last year's £249m business rates relief (repaid in H2 last year)
  - Central Europe adjusted operating profit £68m, +18.6% due to lower COVID-19 costs & higher YoY mall income
- Bank adjusted operating profit £72m, returning to profit following last year's increase in potential bad debt provision
- Retail free cash flow[5] £1,543m, +93.6% inc. higher profit, lower pension contribution & c.£400m working capital phasing
- Net debt[2,5] reduced by +£1.7bn since February reflecting strong cash flow
- Adjusted diluted EPS[6] 11.22p, +54.0% reflecting higher retail profits and return to profitability for Tesco Bank
- Interim dividend of 3.20p, in line with prior year; aligned to policy at 35% of last year's full year dividend
- Strong first half performance leading to increased full year profit expectations: adjusted retail operating profit now expected to be between £2.5bn and £2.6bn

Strengthening our customer proposition:

- Grown UK market share; Customer satisfaction improving across all areas
- 'Aldi Price Match' expanded to c.650 products, Clubcard Prices now in Express stores and unbeatable Low Everyday Prices relaunched on 1,600 products
- Strengthened digital platform: online LFL sales +2.3% (2-yr LFL: +74.1%) with market share maintained; now over 20m Clubcard households including 6.6m app users; on-demand grocery delivery trials progressing well
- Group net zero own operations climate goal accelerated to 2035; new 2050 scope 3 target announced; soft plastic recycling now in all UK large stores; ambitious health commitments launched across UK, Central Europe & Booker

Creating long-term, sustainable value for all Tesco stakeholders:

- Strategic priorities and multi-year performance framework set out
- Aim to drive top and bottom line growth and generate between £1.4bn and £1.8bn retail free cash flow per year
- Capital allocation framework refreshed
- £500m share buyback announced

Detail on footnotes can be found on page 5.

Serving our customers, communities and planet a little better every day.

Ken Murphy, Chief Executive:

"We've had a strong six months; sales and profit have grown ahead of expectations, and we've outperformed the market. This was a strong team effort and I would particularly like to recognise and thank our colleagues who continue to do an incredible job in difficult times. I'm really pleased with our progress as we increased customer satisfaction and grew market share leading to a strong financial performance. With various different challenges currently affecting the industry, the resilience of our supply chain and the depth of our supplier partnerships has once again been shown to be a key asset.

Against a backdrop of profound change, Tesco has many unique advantages. The scale and reach of our store estate and online operations are unmatched in the UK. Our ability to reward loyalty through Clubcard enhances our relationship with customers. Our world-class food retail expertise combined with our strong supplier partnerships ensures we can offer our customers great value and quality, removing reasons to shop elsewhere. Together, these strengths mean that Tesco can anticipate and respond to changes in the market, meeting customers' needs better than anyone.

Today, we are sharing the strategic priorities that will enable us to build on these advantages to stay competitive, accelerate growth and generate between £1.4bn and £1.8bn retail free cash flow per year. These priorities will ensure we do the basics brilliantly, operate as efficiently as possible and grow our business by building unbeatable digital, convenience and loyalty platforms.

We are committed to creating value for all stakeholders in our business. Our commitments to the communities we serve and society more broadly are reflected in our new purpose: serving customers, communities and the planet a little better every day. For shareholders, our strong performance to date and our confidence in our ability to generate cash in the coming years has enabled us to announce the start of a buyback programme that will balance the maintenance of a strong capital structure with returning surplus cash."

OUTLOOK.

As a result of our strong first half performance, we have increased our adjusted retail operating profit expectations for this financial year to between £2.5bn and £2.6bn. Although we do not yet know how the external environment and consumer behaviour will evolve in the second half, we have assumed that some of the elevated sales fall away and that we will continue to invest in our customer offer.

We now expect Tesco Bank to deliver adjusted operating profit of at least £120m for this financial year. This expectation remains highly dependent on the economic outlook.

CAPITAL ALLOCATION AND LAUNCH OF ONGOING SHARE BUYBACK PROGRAMME.

We have conducted a detailed review of our capital allocation framework, focusing in particular on the appropriateness of our leverage target, on the application of our dividend policy and on our ability to return surplus cash to shareholders. This review has resulted in two changes.

First, we will use a simpler measure of Net debt*/EBITDA when assessing leverage for the purpose of capital allocation targeting a range of 2.8 to 2.3 times, consistent with a solid investment grade credit rating. The inclusion of the IAS 19 pension deficit within the total indebtedness ratio used previously created material volatility which could not be accurately predicted and has no bearing on our near-term cash obligations or our long-term, unwavering commitment to our pension scheme members.

Second, we are confirming that it is our intention to pay a progressive dividend – i.e. we will aim to grow the dividend per share each year, broadly targeting a pay-out of around 50% of earnings.

Capital expenditure will remain between £0.9bn and £1.2bn per year.

Our refreshed capital allocation framework is as follows:

1. **Reinvest in business and customer offer**
2. **Maintain a solid investment grade balance sheet**
3. **Pay a progressive dividend**
4. **Consider inorganic growth opportunities that may arise**
5. **Return surplus cash to shareholders**

Following our strong first half performance, our leverage ratio stands at 2.7 times. We are therefore announcing the start of an ongoing share buyback programme, with the first tranche of £500m in shares to be repurchased by no later than October 2022. We will provide an update on our progress alongside our preliminary results in April 2022.

* For the avoidance of doubt, Net debt is inclusive of IFRS 16 lease obligations. A full definition can be found in the glossary on page 64.

CREATING VALUE IN A DYNAMIC MARKET.

The retail sector is undergoing significant change. Customers are faced with an increasing range of choices as to where, how and when to shop, with the COVID-19 pandemic accelerating a number of profound shifts in consumer behaviour. The competitive environment has changed materially, with a particular emphasis on value and greater importance placed on fuller-service offerings such as grocery home delivery. Consumers and other stakeholders are also placing greater importance on environmental and social considerations which sometimes require significant change at an industry, national or even global level.

We believe we can thrive against this backdrop. Tesco has a uniquely strong position in terms of reach, capability and market share, built up through decades of focusing on meeting our customers' needs. We are hugely proud of the capability and commitment of our team of nearly 360,000 colleagues, serving millions of customers across the Group. We have market-leading positions in every channel and format in our core UK retail and wholesale markets, and through Clubcard, dunnhumby and over 40 million transactions every week, we have the insight to be able to understand and anticipate customers' changing needs. We have the broadest, most compelling product range and strong relationships with our supplier partners, together with efficient, well-invested supply chain, distribution and fulfilment infrastructure.

MULTI-YEAR PERFORMANCE FRAMEWORK.

Combined, these capabilities will allow us to create sustainable, long-term value for every Tesco stakeholder. Today, we are sharing the framework we will use to guide our actions and track our progress over the coming years:

Specifically, we are seeking to:

- Drive top-line growth, underpinned by:
  - Increasing customer satisfaction relative to the market
  - Growing or at least maintaining our core UK market share
- Grow our absolute profits whilst maintaining sector-leading margins through:
  - Leveraging our assets efficiently across all channels
  - Accessing new revenue streams across our digital platform
  - Targeting productivity initiatives to at least offset inflation
- In doing so, generate between £1.4bn and £1.8bn retail free cash flow per year

We are confident that this will enable us to maintain a strong and efficient balance sheet, invest for growth and deliver improved returns for our shareholders.

Our progress against each of the measures is unlikely to be linear. For example, our near-term performance will likely reflect the annualisation of our exceptionally strong top-line performance through the COVID-19 period, which could result in a temporary reduction in sales.

Delivery against the framework will be enabled by four strategic priorities:

STRATEGIC PRIORITIES.

1) Magnetic value for customers

Value is much broader than just price – we see it as the intersection of price, quality and, increasingly, sustainability. We want to make high quality, healthy and sustainably-sourced food available and affordable to everyone, and in doing so, remove reasons for customers to want or need to shop anywhere else.

Clearly, price will remain a critical part of this and we will maintain the competitiveness we have established through Aldi Price Match, Low Everyday Prices and Clubcard Prices.

The quality of our products is already high. We will seek further improvements by continuing to innovate with our supplier partners. We will leverage the strength of Tesco Finest* as part of a renewed focus on premium products and further refine our supply chain to ensure that the quality of everything we sell is protected all the way from farm (or factory) to fork.

We aim be the easiest place to shop for healthy and sustainable foods. We are working hard to reduce the environmental impact of both our own and our supplier partners' operations, including through continuing to remove, reduce, reuse and recycle packaging wherever we can. We are also committed to continuing to make a positive contribution to the communities we operate in.

2) I love my Tesco Clubcard

We have created one of the leading digital retail platforms in the UK. The combination of Clubcard – used by more than 20 million households in the UK alone - with our online grocery business, our nearly seven million regular app users and dunnhumby's analytical expertise creates a powerful digital capability. It gives us the ability to manage vast amounts of data, gain unique insights and respond quickly and effectively. When this is brought together with our unrivalled physical network, it gives us a competitive advantage that is hard to replicate.

For customers, we will use this advantage to provide a much richer experience, personalising their offer to a much greater degree and responding to their changing needs in real time. They will be able to choose how, when and where they shop with us - across our full range of products and services - and how they earn and use the rewards they accumulate. We will use all of the assets we have – and critically, Clubcard - to ensure that the more customers use Tesco, the more useful Tesco becomes to them – a powerful virtuous circle.

Clubcard, and our digital platform more broadly, will also be at the heart of a reinvention of our supplier strategy. It gives us the ability to access incremental income streams by providing suppliers with the opportunity to market their products in more targeted ways such as advertising on our grocery home shopping website or offering a tailored range of additional products direct to specific customers.

3) Easily the most convenient

To be 'convenient' now means serving customers wherever, whenever and however they want to be served. We believe we can do that better than anyone by leveraging our existing reach and strong network. We will continue to adapt our existing estate whilst seeking out capital-light growth in the two key growth channels: online and convenience.

We have already evolved our well-located large store estate to provide the backbone of our online grocery business. Our annual online sales have already exceeded £6bn, boosted by increased demand as a result of the COVID-19 pandemic. We plan to continue this growth whilst constantly innovating to improve efficiency, for example through the roll-out of urban fulfilment centres (UFCs) and continued improvements in our existing manual picking and delivery operations.

We also have a strong presence in the second fastest growing food retail channel – convenience – with the combination of our 1,941 fully-owned Express convenience stores, our 710 owned and 233 franchised One Stop stores and our wholesale relationship with c.90,000 Booker retail customers. This gives us a strong platform from which to accelerate growth through capital-light opportunities to open new space and continuing to add new franchisees and symbol store operators, leaving us well-placed to benefit from the continuing trend towards more frequent top-up shopping.

Our strong presence across all channels positions us well to serve the increasing demand for more immediate grocery delivery services. We are continuing to test and learn from various trials of new, on-demand services, such as our own Tesco Whoosh platform and One Stop's trial partnership with Deliveroo. Our UFC programme also provides the capability for a large basket on-demand offer, potentially enabling customers to collect their full weekly or fortnightly shop within minutes of placing an order.

4) Save to invest

Cost efficiency is a deep-seated principle within Tesco that has been brought back to the fore in recent years, enabling us to regain our competitiveness and rebuild the financial strength of the business.

As we look forward, we see significant further opportunities to simplify, become more productive and reduce costs. As a minimum, we are seeking to offset the impact of cost inflation on our business each year. In addition, we believe we can create additional headroom that will allow us to fund investments in competitiveness and growth, supporting the other three strategic priorities.

Having conducted a detailed review, we have identified c.£1bn of gross savings through simplification across areas such as goods not for resale, improved productivity, optimisation of our delivery network and central overheads.

We expect to deliver these savings over the next three years. Whilst our intention is to do this predominantly through incremental changes to existing operations, we will continually review opportunities to accelerate our plans and highlight any exceptional costs which could be incurred as a result.

We will provide an update on progress against our performance framework and these four strategic priorities at our interim and preliminary results each year.

GROUP REVIEW OF PERFORMANCE.

26 weeks ended 28 August 2021[1,2]	H1 2021/22	H1 2020/21	Total change YoY Actual rate	Total change YoY Constant rate
Group sales (exc. VAT, exc. fuel)[3]	**£27,331m**	**£26,652m**	**2.6%**	**3.0%**
Fuel	£3,085m	£2,066m	49.3%	49.3%
Revenue (exc. VAT, inc. fuel)	**£30,416m**	**£28,718m**	**5.9%**	**6.3%**
Adjusted operating profit[4]	**£1,458m**	**£1,037m**	**40.6%**	**41.0%**
Exceptionals & amortisation of acquired intangibles	£(154)m	£(30)m		
Group statutory operating profit	**£1,304m**	**£1,007m**	**29.5%**	
Net finance costs	£(158)m	£(469)m		
Joint ventures and associates	£(3)m	£13m		
Group statutory profit before tax	**£1,143m**	**£551m**	**107.4%**	
Group tax	£(313)m	£(154)m		
Group statutory profit after tax	**£830m**	**£397m**	**109.1%**	
Adjusted diluted EPS[6]	11.22p	7.29p	54.0%	
Statutory diluted EPS	10.70p	4.06p	163.5%	
Interim dividend per share	**3.20p**	**3.20p**	-	
Net debt[2,5]	**£(10.2)bn**	**£(12.5)bn**		
Retail free cash flow[5]	**£1.5bn**	**£0.8bn**		
Capex[8]	**£0.4bn**	**£0.4bn**		

We have made two changes to the Alternative Performance Measures (APMs) above:

- *We have renamed our operating profit and EPS APMs. Profit has changed from 'Group operating profit before exceptional items and amortisation of acquired intangibles' to 'Adjusted operating profit'. EPS has changed from 'Diluted EPS before exceptional and other items' to 'Adjusted diluted EPS'. The definitions are unchanged and this has no impact on the current or previously reported figures.*
- *We have amended the definition of our Retail free cash flow APM in order to provide a more consistent and predictable view of free cash flow generated by the core retail operation. It now excludes cash flows from business acquisitions and disposals, investments in joint ventures and associates, cash flows from the sale or buyback of property, and other exceptional cash flows.*

More detail on these changes can be found in the Glossary on page 62.

Group sales[3] increased by +3.0% at constant rates with a strong performance across all regions as we continued to benefit from elevated sales as a result of the COVID-19 pandemic. Revenue increased by +6.3% at constant rates including growth of +49.3% in fuel sales reflecting a significant recovery in travel driven by the easing of Government restrictions early in the half. Fuel sales remained below pre-pandemic levels with two-year like-for-like sales down by (11.3)%.

Group adjusted operating profit[4] grew by +41.0% at constant rates, reflecting sustained strong UK sales, a reduction in COVID-19 related costs in our retail businesses and a return to profitability in Tesco Bank. These benefits were partially offset by the year-on-year effect of £(249)m UK Government business rates relief included in the prior year. Statutory operating profit grew by +29.5%, impacted by the settlement of historic shareholder litigation claims, reported within exceptional items.

Finance income and finance costs reduced year-on-year due to fair value remeasurements related to the mark-to-market movement on inflation-linked swaps, which were a £180m credit this year compared to a £(108)m debit last year. The change in our share of joint ventures and associates was principally due to profit from Tesco Underwriting being recognised within Tesco Bank operating profit following its full acquisition in May. The first half tax rate was broadly stable year-on-year with the increase in tax charge primarily reflecting higher levels of operating profit.

Our adjusted diluted EPS[6] rose by +54.0% reflecting the increase in profitability. We have announced an interim dividend in line with last year and aligned to our policy of setting the interim dividend at 35% of the prior year full-year dividend.

Net debt[2,5] reduced since the beginning of the financial year primarily driven by strong free cash flow generation. Retail free cash flow[5] increased by £0.7bn year-on-year due to higher retail operating profits, the elimination of UK pension contributions (following the £2.5bn one-off contribution last year from the Asia disposal proceeds) and a c.£400m working capital phasing benefit. These benefits were partly offset by a small increase in capital expenditure.

Further commentary on all of these metrics can be found below and a full income statement can be found on page 17.

Notes:
1. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary starting on page 62.
2. All measures apart from net debt are shown on a continuing operations basis unless otherwise stated. Further details on discontinued operations can be found in Note 6, starting on page 40.
3. Group sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe.
4. 'Adjusted' operating profit excludes exceptional items and amortisation of acquired intangibles. 'Adjusted' EPS excludes exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.
5. Net debt and retail free cash flow exclude Tesco Bank. In addition, we have amended the definition of our Retail free cash flow APM in order to provide a more consistent and predictable view of free cash flow generated by the core retail operation. For more detail, see page 64 in the Glossary.
6. The share base used in adjusted diluted EPS in the prior year is restated to capture the full impact of the share consolidation which followed the sale of our businesses in Thailand and Malaysia, as if it took place at the start of the 2020/21 financial year. As such, this metric is presented on a basis other than in accordance with IAS33. Please see page 65 for a reconciliation to diluted adjusted EPS.
7. Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (at constant exchange rates, excluding VAT and fuel).
8. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 26 weeks ended 28 August 2021 was £0.5bn (LY £0.5bn).

Segmental review of performance:

Sales performance:
(exc. VAT, exc. fuel)[2]

	Sales	LFL sales change[7]		Total sales change YoY	
	£m	One-year	Two-year	Actual rate	Constant rate
- UK	*£19,883m*	*1.2%*	*8.9%*	*1.8%*	*1.8%*
- ROI	*£1,245m*	*(2.6)%*	*12.2%*	*(5.8)%*	*(2.0)%*
- Booker	*£3,865m*	*11.0%*	*9.1%*	*11.1%*	*11.1%*
UK & ROI	**£24,993m**	**2.4%**	**9.1%**	**2.7%**	**2.9%**
Central Europe	**£1,905m**	**1.4%**	**0.3%**	**(0.8)%**	**2.6%**
Retail	**£26,898m**	**2.3%**	**8.4%**	**2.4%**	**2.9%**
Bank	£433m	-	-	12.2%	12.2%
Group	**£27,331m**	**2.3%**	**8.4%**	**2.6%**	**3.0%**
Memo: Fuel	*£3,085m*	*50.1%*	*(11.3)%*	*49.3%*	*49.3%*

Further information on sales performance is included in Appendices 1 to 3 (starting on page 70).

Adjusted operating profit[4] performance:

	Profit	Total change YoY		Margin	Margin change YoY	
	£m	Actual rate	Constant rate	%	Actual rate	Constant rate
UK & ROI	£1,318m	16.3%	16.5%	4.71%	+41bp	+40bp
Central Europe	£68m	15.3%	18.6%	3.44%	+48bp	+47bp
Retail	**£1,386m**	**16.3%**	**16.6%**	**4.62%**	**+41bp**	**+41bp**
Bank	£72m	146.5%	146.5%	16.63%	+5,678bp	+5,678bp
Group	**£1,458m**	**40.6%**	**41.0%**	**4.79%**	**+118bp**	**+118bp**

Further information on operating profit performance is included in Note 2 (starting on page 25).

UK & ROI overview:

In the UK & Republic of Ireland (ROI), two-year like-for-like sales increased by 9.1% with all areas – UK, ROI and Booker – making a strong contribution. One-year like-for-like sales grew by +2.4% driven by a sharp recovery in our Booker catering business and growth in the UK business as we outperformed the rest of the market.

UK & ROI adjusted operating profit was £1,318m, up +16.5% at constant rates due to higher sales and lower COVID-19 costs offset by the year-on-year effect of £(249)m UK Government business rates relief included in the prior year. In December 2020 we made the decision to forgo this relief, which was repaid in the second half of the prior year.

In the UK, we continue to incur COVID-19 related costs, which totalled £(122)m in the first half - significantly less than the £(533)m costs incurred in the first half of last year. This year's costs primarily related to colleague absence, maintaining a safe environment in stores for colleagues and customers and additional costs in relation to elevated online sales. Our best estimate remains for around £(220)m COVID-19 related costs to be incurred this year.

Operating margin was up 40 basis points versus last year at constant rates as the benefit from lower COVID-19 related costs, a recovery in Booker catering and a greater participation in higher-margin non-food sales was partially offset by an increase in margin-dilutive fuel sales and the impact of UK Government business rates relief in the prior year.

UK - continued strong performance with growth on top of exceptional sales last year:

In the UK, sales grew ahead of expectations and we outperformed the market as customer satisfaction improved across all key areas. Two-year like-for-like sales grew by +8.9% driven by a strong customer proposition on top of the benefit of customers continuing to eat more meals at home than prior to the pandemic.

One-year like-for-like sales were up +0.5% in the first quarter with a strong contribution from general merchandise and clothing. Like-for-like sales accelerated in the second quarter to +2.0% as comparatives softened due to the easing of

COVID-19 restrictions in the summer of 2020. As industry supply chains came under increasing pressure, we were able to leverage our strong supplier relationships and distribution capability to maintain good levels of availability for customers, contributing to our market outperformance. Events such as the delayed Euro 2020 Football Championship and 'stay-cations' also contributed to our growth in the current year.

We continued to expand our value proposition and customers responded well, with our value perception improving by 170 basis points year-on-year. In April, we re-launched 'Low Everyday Prices,' offering unbeatable value on c.1,600 products and giving customers the confidence that the core lines they buy will always be competitively priced. We rolled out Clubcard Prices to Express stores in May and extended the range of promotions covered by the scheme to include meal deals and other multi-product promotions. As a result, across all stores, Clubcard sales penetration increased by 14 percentage points year-on-year to 70%. In September, we added c.100 own-label products to Aldi Price Match, taking the total to c.650. Overall, promotional participation was held at c.23% across the half as we prioritised those offers which are most meaningful to customers.

Customers continued to shop less frequently and with considerably larger baskets than before the pandemic. As we continued to prioritise the safety of our customers, large stores performed well with two-year like-for-like sales up 4.3%.

In our online business, two-year like-for-like sales were up +74.1% with over 700,000 more customers now shopping with us compared to pre-pandemic levels. Online one-year like-for-like sales grew by 2.3% as we traded over the significant ramp up in capacity last year and as customers gained confidence in returning to physical stores. Sales were supported by the opening of 75 more Click & Collect locations and the re-opening of our Delivery Saver offering from April. We have included the table below to aid understanding of our online performance:

Online performance	**H1 2021/22**	**One-year change**	**Two-year change**
LFL sales		+2.3%	+74.1%
Orders per week	**1.27m**	+12.4%	+69.0%
Basket size £	**£94**	(8.4)%	+2.9%
Online % of UK total sales	**14.6%**	(0.1)%pts	+5.2%pts
Delivery saver subscribers	**668k**	+13%	+34%
C&C locations	**454**	+24%	+38%

We opened our second Urban Fulfilment Centre (UFC) in Lakeside in May, which will have capacity at maturity to process 1,000 orders per day. We are encouraged by the performance of our first two UFCs, where pick rates are up to four times higher than store-based picking. We expect to have five UFC's operational by April next year with our third UFC in Bradford due to open in January.

We are testing and learning from on-demand trials within our UK business including 'Tesco Whoosh' – our 60 minute delivery service, which is already in over 50 Express stores, with more being added every week. This service offers 1,700 of our most popular products, including fresh food, everyday essentials and household products and is available 7am–10pm, every day.

Convenience store two-year like-for-like sales were down (2.0)%, with a stronger performance at the end of the half as footfall in our city centre Express stores continued to recover. One-year like-for-like convenience store sales were down (5.0)%, as we traded over a particularly strong performance in neighbourhood locations last year. In May, we re-branded the majority of our Metro stores as Express stores, reflecting that customers were principally using them to buy food for that day.

Two-year like-for-like food sales increased by +8.7% including a benefit from customers eating more meals at home. On a one-year basis, the effects of customer stockpiling last year resulted in a decline in food sales of (2.1)% in the first quarter although this recovered to growth of +0.7% in the second quarter. Plant-based foods continue to grow strongly including our Plant Chef products which grew by 52% as we made targeted price investments and further expanded our range. We continue to innovate with exciting new products to inspire customers such as our Finest* meal kits – re-creating the restaurant experience at home - and new ranges such as Beautifully Balanced – helping customers eat more of their '5-a-day' fruit and vegetable portions. General merchandise and clothing sales grew sharply due to increased demand versus the prior year when customers were prioritising spend in essential categories. Having reappraised our non-food offer through the pandemic, customers are now shopping it more frequently.

We rolled out soft plastic recycling facilities across all of our large UK stores and launched an innovative Reuse proposition in ten stores as we continue to tackle plastic pollution. Over the Summer, our 'Buy One to Help a Child' campaign - during which we gave a donation for every piece of fruit and vegetables purchased across our stores and online - enabling FareShare to provide 3m meals-worth of food to help charities and community groups.

We are continuing to drive action on climate change in support of our net zero ambition, including new renewable electricity generation projects, the continued roll out of EV charge points and sustainability-linked supply chain financing. We have further strengthened our climate ambitions, accelerating our Group own operations net zero target to 2035 to be in line with the UK and launching a new goal to be net zero across our entire value chain (i.e. including scope 3 emissions) by 2050, aligned to a 1.5-degree pathway. We were delighted to be awarded the Prince of Wales's Terra Carta Seal in recognition of our commitment to and momentum towards a climate and Nature-positive future.

ROI - sales decline reflects exceptionally strong performance LY; two-year LFL sales +12.2%:

Two-year like-for-like sales in ROI grew by +12.2% with a strong performance across all categories and channels. One-year like-for-like sales declined by (6.1)% in the first quarter reflecting the impact of stockpiling in the prior year which was particularly marked due to earlier and stricter lockdown restrictions than in the UK. In the second quarter, one-year like-for-like sales grew by +1.2% including the benefit of a strong clothing performance and seasonal events such as Back to School, gardening and Father's Day.

Our market-leading online business continued to perform exceptionally well with like-for-like sales growth of 74.8% on a two-year basis and +10.8% on a one-year basis. Online sales now represent c.8% of total ROI sales.

We launched Clubcard Prices Events in April, giving our Clubcard customers access to exclusive deals. We also focused on making shopping easier for customers, including rolling out 'Scan As You Shop' to all large stores.

In July, our shortened payment terms for over 200 of our small Irish food and drink suppliers were further extended until February 2022.

BOOKER - sharp recovery in catering sales in the half:

	Sales £m	LFL sales change One-year	Two-year
Retail	**2,392**	**(2.8)%**	**19.4%**
Retail exc. Tobacco	*1,354*	*(6.5)%*	*17.1%*
Tobacco	*1,038*	*2.7%*	*22.5%*
Catering	**1,352**	**54.4%**	**(11.6)%**
Catering exc. BFL	*802*	*37.5%*	*(11.6)%*
Best Food Logistics (BFL)	*550*	*89.3%*	*n/a*
Total Booker*	**3,865**	**11.0%**	**9.1%**

* Total Booker also include small business sales of £121m

Overall, two-year like-for-like sales growth in Booker was +9.1% driven by the expansion of our retail business. One-year like-for-like growth of +11.0% was driven by a sharp recovery in demand from catering customers.

Two-year retail like-for-like sales were up +19.4% as we expanded our ranges and invested in price on key product lines. One-year retail like-for-like sales were down (2.8)% reflecting an increase in the number of customers shopping closer to home last year through the initial stages of the COVID-19 pandemic. The increase in tobacco sales reflects increased domestic purchases due to the impact of travel restrictions on duty-free sales.

Two-year catering like-for-like sales fell by (11.6)% due to government restrictions in place at the beginning of the half. By the end of the half, catering sales were ahead of pre-pandemic levels. One-year catering like-for-like sales increased by +54.4% as we adapted our offer to support our hospitality customers as the sector re-opened for outdoor dining from mid-April and for indoor dining from mid-May. The recovery in our catering sales was supported by great prices on key volume lines and market-leading availability as we worked hard to minimise the impact of supply chain challenges due to the shortage of HGV drivers and high numbers of colleagues required to isolate due to COVID-19 notifications. Excluding Best Food Logistics, whose customers were mostly closed for part of last year, catering like-for-like sales grew by +37.5%.

CENTRAL EUROPE – growth across all markets in Q2 following easing of government restrictions:

Like-for-like sales increased by +0.3% on a two-year basis and by +1.4% on a one-year basis, driven by a strong performance in Slovakia and Hungary. Trading conditions were more challenging in the Czech Republic, due to non-food sales restrictions in the first quarter.

All three markets delivered sales growth in the second quarter as customers returned to our large stores following the lifting of COVID-19 restrictions which had encouraged shopping locally. We have market-leading online positions in Slovakia and Hungary and have doubled the size of our total online business over two years.

Central Europe operating profit was £68m, up +18.6% at constant rates reflecting a strong sales performance, a reduction in COVID-19 related costs and a prior year reduction in income caused by temporary mall closures. We incurred a charge of £(16)m in relation to the retail sales tax in Hungary which was introduced in May 2020 – a year-on-year impact of £(6)m.

TESCO BANK - year-on-year profit increase reflecting prior year COVID-19 impact on potential bad debts:

	This year	Last year	YoY
Revenue	**£433m**	**£386m**	**12.2%**
Adjusted operating profit/ (loss)	**£72m**	**£(155)m**	**146.5%**
Lending to customers	£6.4bn	£7.3bn	(12.1)%
Customer deposits	£5.0bn	£6.6bn	(24.1)%
Net interest margin*	5.1%	4.6%	0.5%pts
Total capital ratio	26.6%	24.3%	2.3%pts

*The prior period net interest margin has been restated from 5.0% to 4.6%.

Revenue grew by +12.2% reflecting the benefit of the full acquisition of Tesco Underwriting which completed in May. Excluding Tesco Underwriting, revenue declined by (12.2)% principally due to a fall in income from unsecured lending. This was driven by lower credit balances, largely due to lower levels of customer spending, particularly in the second half of last year. We started to see a recovery in credit card spending through the period.

The gradual easing of lockdown measures in the first half drove an increase in ATM income, however the ongoing uncertainty and restrictions on foreign travel continue to significantly impact travel money.

Tesco Bank adjusted operating profit was £72m, including a £12m contribution from Tesco Underwriting, which is fully consolidated following its acquisition in May. The significant year-on-year change was due to last year's increase in the provision for potential bad debts driven by the expected macro-economic impact of COVID-19.

The Bank's balance sheet remains strong and we continue to have sufficient capital and liquidity to absorb changes in both regulatory and funding requirements.

We introduced a number of new products and services for customers in the first half. In March, we launched a trial of Clubcard Pay+ which is an account that comes with a debit card, and is designed to help shoppers pay, save and collect Tesco Clubcard points. In March, we also expanded our offer with the re-launch of travel insurance. Since August, all new and renewing Tesco Bank car and home insurance policies are now being underwritten by Tesco Underwriting following the completion of its acquisition in May.

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

	This year	Last year
Litigation costs	£(193)m	£(93)m
Property transactions	£21m	£(2)m
Booker integration costs	-	£(2)m
UK - ATM business rates	-	£105m
Asia licence fee income	£19m	-
Net impairment reversal of non-current assets	£37m	-
Total exceptional items in statutory operating profit	**£(116)m**	**£8m**
Amortisation of acquired intangible assets	£(38)m	£(38)m
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	**£(154)m**	**£(30)m**

Exceptional items are excluded from our adjusted operating profit performance by virtue of their size and nature to best reflect the underlying performance of the business. Total exceptional items in the half resulted in a charge of £(116)m, compared to a credit of £8m in the prior year.

In September 2020, two claimant law firms issued proceedings against us in relation to the overstatement of expected profit announced in 2014. These claims have now been settled and we have recognised an exceptional charge of £(193)m, with £(105)m paid in July and therefore included in the first half cash flow statement. The remaining amount of

£(88)m has been paid in the second half. Given that the legal timeframe for bringing a claim has now elapsed, no further related claims can be brought by shareholders.

Following the sale of Homeplus for £4.2bn in 2015, we received legal claims from the purchasers. Although the majority of the claims were dismissed, some findings of liability were made. On 17 September 2021, a Final Award to the purchasers of £119m in damages, interest and costs was granted. Although not included in the table above as it relates to discontinued operations, this has been recognised as an adjusting post balance sheet event, with an exceptional charge increasing the provision held by £33m. The total cash payment of £119m will be made in the second half.

We received software licence fee income of £19m from services provided to CP Group following the sale of our businesses in Asia.

During the period, the Group recognised a net impairment reversal of £37m. £24m of this related to the anticipated sale of mall sites in Central Europe, recognised immediately prior to their reclassification as held for sale. The remaining net reversal of £13m largely reflects normal fluctuations in store level performance, property fair values and changes in discount rates, as well as any specific store closures.

Further detail on exceptional items can be found in Note 3, starting on page 37 of this statement.

Amortisation of acquired intangible assets is excluded from our headline performance measures. We incurred a charge of £(38)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 of intangible assets.

Joint ventures and associates:

Our share of post-tax losses from joint ventures and associates was £(3)m, which includes losses related to our joint venture in India partly offset by the profit generated from UK property joint ventures.

In the prior year, we recognised £13m of post-tax profit from joint ventures and associates, including a £10m contribution from our Tesco Underwriting Ltd joint venture. The year-on-year change was principally due to profit from Tesco Underwriting being recognised within Tesco Bank operating profit following its full acquisition in May.

Net finance costs:

	This year	Last year
Net interest on medium term notes, loans and bonds	**£(104)m**	**£(102)m**
Other interest receivable and similar income	£5m	£7m
Other finance charges and interest payable	£(21)m	£(9)m
Finance charges payable on lease liabilities	£(207)m	£(229)m
Net finance costs before net pension finance costs and fair value remeasurements of financial instruments	**£(327)m**	**£(333)m**
Fair value remeasurements of financial instruments	£180m	£(108)m
Net pension finance costs	£(11)m	£(28)m
Net finance costs	**£(158)m**	**£(469)m**

Net interest on medium-term notes and bonds was £(104)m, up £(2)m year-on-year. A reduction in finance costs from bond maturities, tenders and new debt issuances at lower rates of interest was more than offset in the first half by interest payable on the £(453)m debt we acquired with the Tesco Property (No. 2) Partnership in September 2020. This transaction brought twelve stores and two distribution centres back into full ownership, resulting in a £254m reduction in lease liabilities. This contributed just under half of the £22m year-on-year reduction in finance charges payable on lease liabilities shown above.

Net finance costs before net pension finance costs and fair value remeasurements of financial instruments were £(327)m, broadly in line with last year.

A fair value remeasurement credit of £180m primarily related to the mark-to-market movement on inflation linked swaps, driven by the impact of increased expected future inflation rates. These swaps eliminate the impact of future inflation on the Group's cash flow in relation to historical sale and leaseback property transactions.

Net pension finance costs of £(11)m decreased by £17m, primarily driven by a reduction in the pension deficit following the £2.5bn one-off contribution made in the prior year from the proceeds from the sale of our businesses in Thailand and Malaysia. We continue to expect net pension finance costs of £(23)m for the full-year.

In the second half, we will buy back our partner's equity in the Tesco Sarum Limited Partnership property joint venture, which will result in us bringing eleven stores back into full ownership. This will result in annual cash rental savings of c.£30m and a c.£(0.3)bn increase in net debt, due to a c.£(0.7)bn impact on underlying net debt and a c.£0.4bn reduction in lease liabilities. Following this transaction, we will have six UK property JV structures still in place, from a peak of 13 structures in 2015. These six remaining structures contain property worth £3.5bn and debt of £2.6bn, with £2.3bn of associated lease liabilities on our balance sheet. The three largest of our remaining property JVs are with the Tesco Pension fund. We continue to evaluate store buyback opportunities and use capital for this purpose where it is economically attractive.

Further detail on finance income and costs can be found in Note 4 on page 39, as well as further detail on the exceptional items in Note 3 on page 37.

Group tax:

	This year	Last year
Tax on adjusted profit	£(294)m	£(129)m
Tax on exceptional items and amortisation of acquired intangibles	£(19)m	£(25)m
Tax on profit	**£(313)m**	**£(154)m**

Tax on adjusted Group profit was £(294)m, £(165)m higher than last year, primarily reflecting higher levels of retail operating profit. Following the decision to increase headline corporation tax rates in the UK from April 2023 from 19% to 25%, we also recognised a one-off charge in the first half related to the revaluation of our deferred tax.

The effective tax rate on adjusted Group profit was 22.7%, higher than the current UK statutory rate of 19%, primarily due to depreciation of assets which do not qualify for tax relief. We continue to expect an effective tax rate of c.23% for the current financial year. Following the increase in the UK corporation tax rate expected in 2023, we forecast our effective tax rate to increase to between 26% - 27% over the medium-term.

Earnings per share:

	This year	Last year
Adjusted diluted EPS	11.22p	7.29p
Statutory diluted earnings per share	10.70p	4.06p
Statutory basic earnings per share	10.80p	4.07p

The share base used in adjusted diluted EPS in the prior year is restated to capture the full impact of the share consolidation which followed the sale of our businesses in Thailand and Malaysia, as if it took place at the start of the 2020/21 financial year. As such, this metric is presented on a basis other than in accordance with IAS33. Please see page 65 for a reconciliation to diluted adjusted EPS.

Adjusted diluted EPS was 11.22p (LY: 7.29p), 54.0% higher year-on-year driven by higher profits, as discussed above.

Statutory diluted earnings per share was 10.70p (LY: 4.06p) +163.5% higher year-on-year as the recovery in operating profit more than offset the associated higher tax charge and higher exceptional items and reflecting the share consolidation which took place in February, following the sale of our businesses in Thailand and Malaysia and associated payment of a £5bn special dividend.

Dividend:

The interim dividend has been set at 3.20 pence per ordinary share, in line with the prior year and aligned to our policy of setting the interim dividend at 35% of the prior year full-year dividend. The interim dividend was approved by the Board of Directors on 5 October 2021. It is our intention to pay a progressive dividend going forward – i.e. we will aim to grow the dividend per share each year, broadly targeting a pay-out of around 50% of earnings.

The interim dividend will be paid on 26 November 2021 to shareholders who are on the register of members at close of business on 15 October 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 5 November 2021.

Summary of total indebtedness:

	Aug-21	Feb-21	Movement
Underlying net debt (excludes Tesco Bank)	£(2,005)m	£(3,449)m	£1,444m
Lease liabilities	£(8,217)m	£(8,506)m	£289m
Net debt	**£(10,222)m**	**£(11,955)m**	**£1,733m**
Pension deficit, IAS 19 basis (post-tax)	£(455)m	£(1,004)m	£549m
Total indebtedness	**£(10,677)m**	**£(12,959)m**	**£2,282m**
Net debt / EBITDA	**2.7x**	**3.3x**	
Total indebtedness ratio	**2.8x**	**3.6x**	

Total indebtedness at the end of the first half was £(10,677)m, down £2.3bn since the year-end primarily driven by a reduction in underlying net debt from strong free cash flow generation, net of dividends paid as well as a reduction in the IAS 19 pension deficit.

Lease liabilities were £(8,217)m, down by £289m since the year-end, reflecting the de-recognition of leased assets in our Polish business which we disposed of in March. On a continuing operations basis, lease liabilities were broadly in nline with the year-end as rental payments were offset by additions and lease renewals and extensions.

The IAS 19 pension deficit (post-tax) was £(455)m at the end of the first half, reducing from £(1,004)m in February due to a significant increase in pension assets due to a fall in index linked gilt yields and strong equity markets. This increase in assets was only partially offset by an increase in liabilities driven by a fall in corporate bond discount rates as well as a rise in long-term inflation rates. The accounting deficit does not drive contributions to the schemes. The next triennial valuation is on 31 March 2022.

We had a total of £3.3bn of cash liquidity available at the end of the first half. We recently extended our £2.5bn revolving credit facility by one-year, which we put in place in September last year for a three-year period and we have the option to extend this for a further year. The rate of interest payable on this facility is linked to three of our ESG commitments. As we delivered these ESG targets last year, we secured the corresponding margin reduction in the half. We continue to optimise our debt portfolio and earlier this week, we pre-paid £375m of debt which carried a high rate of interest generating an initial annual saving of £19m.

Our net debt to EBITDA ratio was 2.7 times, compared to 3.3 times at the prior year-end, reflecting a reduction in underlying net debt as a result of continued strong free cash flow generation and an increase in retail EBITDA as operating profits recover following the adverse impact from COVID-19 in the prior year. The total indebtedness ratio was 2.8 times, compared to 3.6 times at the prior year end.

Fixed charge cover was 3.1 times at the end of the first half, up from 2.9 times at the prior year-end, driven by a reduction in net finance costs, lease interest payments, principal lease payments and by a recovery in retail EBITDA.

Summary retail cash flow:

To provide a better view of operational cash performance, we have updated our definition of our retail free cash flow APM to exclude cashflows related to acquisitions & disposals, property transactions and exceptional cash items. We will continue to fully disclose these lines but they will not form part of the retail free cash flow headline APM going forward.

The following table reconciles Group adjusted operating profit to retail free cash flow. Further details are included in Note 2, starting on page 25.

	This year	Last year
Adjusted operating profit	**£1,458m**	**£1,037m**
Less: Tesco Bank operating profit / (loss) before exceptional items	£(72)m	£155m
Retail adjusted operating profit	**£1,386m**	**£1,192m**
Add back: Depreciation and amortisation	£787m	£802m
Other reconciling items	£21m	£(28)m
Pension deficit contribution	£(11)m	£(161)m
Decrease in working capital	£556m	£170m
Retail cash generated from operations before exceptional items	**£2,739m**	**£1,975m**
Cash capex	£(495)m	£(369)m
Net interest	£(314)m	£(319)m
- Interest related to net debt (exc. lease liabilities)	*£(107)m*	*£(91)m*
- Interest related to lease liabilities	*£(207)m*	*£(228)m*
Tax paid	£(49)m	£(125)m
Dividends received	£3m	£6m
Repayments of obligations under leases	£(286)m	£(292)m
Market purchases of shares (net of proceeds)	£(55)m	£(79)m
Retail free cash flow	**£1,543m**	**£797m**
Memo:		
Acquisitions & disposals	*£117m*	-
Property proceeds & purchases	*£72m*	*£(116)m*
Exceptional cash items	*£(107)m*	*£(127)m*

Retail free cash flow increased by £746m year-on-year to £1,543m, driven by higher retail operating profits, a reduction in the pension contribution and a working capital phasing benefit partially offset by higher capex spend.

Following a £2.5bn one-off contribution towards the pension deficit in the prior year using the proceeds from the sale of our businesses in Thailand and Malaysia, UK pension contributions were eliminated. The pension outflow of £(11)m in the first half mainly relates to our scheme in Booker. We expect an annual benefit of c.£260m in retail free cash flow as a result of lower pension deficit contributions.

Our total working capital inflow was £556m, driven mainly by a significant recovery in fuel sales and the recovery of Booker's catering business on top of the usual Booker seasonal sales peak. We expect a total working capital unwind of around £400m in the second half, as this seasonal benefit reverses and based on our expectation that some of the elevated sales we have seen in the first half in the UK fall away.

Cash capex increased by £(126)m year-on-year including an impact from delayed store development in the prior year as a result of COVID-19.

Interest paid related to net debt (exc. lease liabilities) of £(107)m was £(16)m higher year-on-year as the benefit of bond buybacks and refinancing at lower rates of interest was more than offset by the impact of borrowings acquired as part of The Tesco Property (No. 2) Limited Partnership from September 2020. Interest paid related to lease liabilities decreased by £21m year-on-year primarily due to a corresponding reduction in the total lease liability.

Cash tax paid in the half was £(49)m, compared to £(125)m last year. The reduction in cash tax paid reflects the utilisation of prior-year tax losses and a benefit from the super-deduction allowance on certain capital investments, which was introduced in the Chancellor's budget in March 2021. We continue to receive tax relief in relation to the £2.5bn one-off pension contribution made in the prior year. This amounted to £60m in the half, in line with last year, and is expected to total £120m for the full-year.

We purchased £(55)m of shares in the market to offset the dilution from the issuance of new shares to satisfy the requirements of share schemes. This was £24m lower than the prior year due to a reduced volume of share scheme maturities this year.

As described above, cashflows related to acquisitions & disposals, property transactions and exceptional cash items are now excluded from our simplified definition of free cash flow.

The inflow from acquisitions in the half totalled £117m as we recognised proceeds from the sale of our business in Poland to Salling Group A/S, which completed in March.

We generated a net £72m from property transactions in the half. This included property proceeds of £109m, up £77m year-on-year, primarily from the sale of properties in Poland which were not sold as part of the corporate transaction. We also bought back one Extra store in Bury for £(37)m.

The outflow from exceptional cash items was £(107)m, of which £(105)m related to the settlement of shareholder litigation claims during the period, as mentioned above.

Capital expenditure and space:

	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	**£404m**	**£310m**	**£25m**	**£39m**	**£19m**	**£25m**	**£448m**	**£374m**
Openings (k sq ft)	72	9	14	13	-	-	86	22
Closures (k sq ft)	(60)	(4)	(15)	(10)	-	-	(75)	(14)
Repurposed (k sq ft)	-	1	5	(51)	-	-	5	(50)
Net space change (k sq ft)	**12**	**6**	**4**	**(48)**	**-**	**-**	**16**	**(42)**

'Retail Selling Space' is defined as net space in store adjusted to exclude checkouts, space behind checkouts, customer service desks and customer toilets. Appendix 5 (p.73) provides a full breakdown of space by segment.

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

Our capital expenditure for the half was £448m, £74m higher year-on-year, primarily due to higher spend on in-store maintenance and the opening of new stores. We expect full year capital expenditure to be in line with our £0.9bn to £1.2bn guidance range.

Statutory capital expenditure of £485m includes £37m relating to the buyback of one UK Extra store in Bury.

Further details of current and forecast space can be found in Appendix 5 starting on page 72.

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This document is available at www.tescoplc.com/interims2021

A webcast including a live Q&A will be held today at 9.00am for investors and analysts and will be available on our website at www.tescoplc.com/interims2021. This will be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

We will report our Q3 and Christmas Trading statement on Thursday 13 January 2022.

Additional Disclosures.

Principal Risks and Uncertainties.

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

The principal risks and uncertainties faced by the Group remain those as set out on pages 31 to 37 of our Annual Report and Financial Statements 2021: Brexit; COVID-19; data security and data privacy; health and safety; climate change; responsible sourcing and supply chain; competition and markets; transformation; political, regulatory and compliance; technology; people; customer; brand, reputation and trust; Tesco Bank; and liquidity. There have been no significant changes to the description of the principal risks, key controls and mitigating factors currently expected for the remaining six months of the year.

Statement of Directors' Responsibilities.

The Directors are responsible for preparing the Interim Results for the 26 week period ended 28 August 2021 in accordance with applicable law, regulations and accounting standards. Each of the Directors confirm that to the best of their knowledge the condensed consolidated interim financial statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a true and fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

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

The Directors of Tesco PLC are listed on pages 42 to 46 of the Tesco PLC Annual Report and Financial Statements 2021. As previously announced, Alan Stewart retired as Chief Financial Officer on 30 April 2021 and was succeeded by Imran Nawaz.

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

By order of the Board

Directors
John Allan - Non-executive Chairman
Ken Murphy – Group Chief Executive Officer
Imran Nawaz - Chief Financial Officer
Melissa Bethell*
Bertrand Bodson*
Thierry Garnier*
Stewart Gilliland*
Steve Golsby*
Byron Grote*
Simon Patterson*
Alison Platt*
Lindsey Pownall*
Karen Whitworth*

*Non-executive Directors

Robert Welch, Company Secretary
5 October 2021

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

Disclaimer.

Certain statements made in this document are forward-looking statements. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", “should”, "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward looking statements are based on current expectations and assumptions and are subject to a number of known and unknown risks, uncertainties and other important factors that could cause actual results or events to differ materially from what is expressed or implied by those statements. Many factors may cause actual results, performance or achievements of Tesco to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of Tesco to differ materially from the expectations of Tesco include, among other things, general business and economic conditions globally, industry trends, competition, changes in government and other regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, political and economic uncertainty, including as a result of global pandemics. As such, undue reliance should not be placed on forward-looking statements. Any forward-looking statement is based on information available to Tesco as of the date of the statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution. Other than in accordance with legal and regulatory obligations, Tesco undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

	Notes	26 weeks ended 28 August 2021 Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 28 August 2021 Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 28 August 2021 Total £m	26 weeks ended 29 August 2020 Before exceptional items and amortisation of acquired intangibles £m	26 weeks ended 29 August 2020 Exceptional items and amortisation of acquired intangibles (Note 3) £m	26 weeks ended 29 August 2020 Total £m
Continuing operations							
Revenue	2	**30,416**	**-**	**30,416**	**28,718**	**-**	**28,718**
Cost of sales		(27,972)	24	(27,948)	(26,550)	103	(26,447)
Impairment loss on financial assets	2	(20)	-	(20)	(264)	-	(264)
Gross profit		**2,424**	**24**	**2,448**	**1,904**	**103**	**2,007**
Administrative expenses		(966)	(178)	(1,144)	(867)	(133)	(1,000)
Operating profit/(loss)		**1,458**	**(154)**	**1,304**	**1,037**	**(30)**	**1,007**
Share of post-tax profits/(losses) of joint ventures and associates		(3)	-	(3)	13	-	13
Finance income	4	5	-	5	7	-	7
Finance costs	4	(163)	-	(163)	(476)	-	(476)
Profit/(loss) before tax		**1,297**	**(154)**	**1,143**	**581**	**(30)**	**551**
Taxation	5	(294)	(19)	(313)	(129)	(25)	(154)
Profit/(loss) for the period from continuing operations		**1,003**	**(173)**	**830**	**452**	**(55)**	**397**
Discontinued operations							
Profit/(loss) for the period from discontinued operations	6	(5)	(44)	(49)	192	(124)	68
Profit/(loss) for the period		**998**	**(217)**	**781**	**644**	**(179)**	**465**
Attributable to:							
Owners of the parent		998	(217)	781	639	(179)	460
Non-controlling interests		-	-	-	5	-	5
		998	**(217)**	**781**	**644**	**(179)**	**465**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	8			10.16p			4.72p
Diluted	8			10.07p			4.71p
Earnings/(losses) per share from continuing operations							
Basic	8			10.80p			4.07p
Diluted	8			10.70p			4.06p

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

Group statement of comprehensive income/(loss)

	Notes	26 weeks 2021 £m	26 weeks 2020 £m
Items that will not be reclassified to the Group income statement			
Remeasurements of defined benefit pension schemes	20	646	(1,112)
Net fair value gains/(losses) on inventory cash flow hedges		80	(18)
Tax on items that will not be reclassified		(64)	288
		662	**(842)**
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		(2)	(2)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates, net of hedging instruments		13	(67)
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement		66	-
Gains/(losses) on other cash flow hedges:			
Net fair value gains/(losses)		42	41
Reclassified and reported in the Group income statement		(16)	(40)
Tax on items that may be reclassified		(34)	(3)
		69	**(71)**
Total other comprehensive income/(loss) for the period		**731**	**(913)**
Profit/(loss) for the period		781	465
Total comprehensive income/(loss) for the period		**1,512**	**(448)**
Attributable to:			
Owners of the parent		1,512	(453)
Non-controlling interests		-	5
Total comprehensive income/(loss) for the period		**1,512**	**(448)**
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		1,495	(439)
Discontinued operations		17	(14)
		1,512	**(453)**

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

	Notes	28 August 2021 £m	27 February 2021 £m	29 August 2020* £m
Non-current assets				
Goodwill and other intangible assets	9	5,389	5,393	5,742
Property, plant and equipment	10	16,794	17,211	16,560
Right of use assets	11	5,809	5,951	6,150
Investment property		91	19	19
Investments in joint ventures and associates		84	178	178
Other investments*	13	1,218	763	836
Trade and other receivables		257	170	254
Loans and advances to customers and banks		3,169	3,309	3,655
Reinsurance assets	16	205	-	-
Derivative financial instruments		1,664	1,425	1,113
Deferred tax assets		270	552	627
		34,950	**34,971**	**35,134**
Current assets				
Other investments*	13	348	178	26
Inventories	14	2,223	2,069	2,254
Trade and other receivables		1,149	1,263	1,416
Loans and advances to customers and banks		3,287	3,093	3,630
Reinsurance assets	16	52	-	-
Derivative financial instruments		44	37	284
Current tax assets		44	41	55
Short-term investments	15	2,331	1,011	942
Cash and cash equivalents	15	2,219	2,510	4,124
		11,697	**10,202**	**12,731**
Assets of the disposal group and non-current assets classified as held for sale	6	447	605	5,199
		12,144	**10,807**	**17,930**
Current liabilities				
Trade and other payables		(8,889)	(8,399)	(8,297)
Borrowings	18	(1,220)	(1,080)	(2,209)
Lease liabilities	11	(557)	(575)	(557)
Derivative financial instruments		(31)	(81)	(166)
Customer deposits and deposits from banks		(4,587)	(5,321)	(5,599)
Insurance contract provisions	16	(190)	-	-
Current tax liabilities		(142)	(79)	(246)
Provisions		(336)	(186)	(198)
		(15,952)	**(15,721)**	**(17,272)**
Liabilities of the disposal group classified as held for sale	6	(22)	(276)	(2,098)
Net current liabilities		**(3,830)**	**(5,190)**	**(1,440)**
Non-current liabilities				
Trade and other payables		(219)	(109)	(100)
Borrowings	18	(6,130)	(6,188)	(6,527)
Lease liabilities	11	(7,670)	(7,827)	(8,199)
Derivative financial instruments		(986)	(926)	(957)
Customer deposits and deposits from banks		(1,573)	(1,017)	(1,538)
Insurance contract provisions	16	(465)	-	-
Post-employment benefit obligations	20	(580)	(1,222)	(4,043)
Deferred tax liabilities		(51)	(48)	(43)
Provisions		(110)	(119)	(90)
		(17,784)	**(17,456)**	**(21,497)**
Net assets		**13,336**	**12,325**	**12,197**
Equity				
Share capital	22	490	490	490
Share premium		5,165	5,165	5,165
All other reserves		3,309	3,183	3,570
Retained earnings		4,390	3,505	2,989
Equity attributable to owners of the parent		**13,354**	**12,343**	**12,214**
Non-controlling interests		(18)	(18)	(17)
Total equity		**13,336**	**12,325**	**12,197**

* Refer to Note 1 for further details regarding the prior year restatement and changes in presentation of the balance sheet.

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

These unaudited condensed consolidated interim financial statements for the 26 weeks ended 28 August 2021 were approved by the Board on 5 October 2021.

Group statement of changes in equity

	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			All other reserves								
At 27 February 2021	**490**	**5,165**	**16**	**90**	**175**	**(188)**	**3,090**	**3,505**	**12,343**	**(18)**	**12,325**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**781**	**781**	**–**	**781**
Other comprehensive income/(loss)											
Retranslation of net assets of overseas subsidiaries, joint ventures and associates, net of hedging instruments	–	–	–	–	13	–	–	–	13	–	13
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement (Note 6)	–	–	–	–	66	–	–	–	66	–	66
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	646	646	–	646
Gains/(losses) on cash flow hedges	–	–	–	122	–	–	–	–	122	–	122
Cash flow hedges reclassified and reported in the Group income statement	–	–	–	(16)	–	–	–	–	(16)	–	(16)
Tax relating to components of other comprehensive income	–	–	–	(34)	–	–	–	(64)	(98)	–	(98)
Total other comprehensive income/(loss)	**–**	**–**	**–**	**72**	**79**	**–**	**–**	**580**	**731**	**–**	**731**
Total comprehensive income/(loss)	**–**	**–**	**–**	**72**	**79**	**–**	**–**	**1,361**	**1,512**	**–**	**1,512**
Inventory cash flow hedge movements											
Gains/(losses) transferred to the cost of inventory	–	–	–	(20)	–	–	–	–	(20)	–	(20)
Tax on gains/(losses) transferred	–	–	–	7	–	–	–	–	7	–	7
Total inventory cash flow hedge movements	**–**	**–**	**–**	**(13)**	**–**	**–**	**–**	**–**	**(13)**	**–**	**(13)**
Transactions with owners											
Purchase of own shares	–	–	–	–	–	(109)	–	–	(109)	–	(109)
Share-based payments	–	–	–	–	–	97	–	(18)	79	–	79
Dividends (Note 7)	–	–	–	–	–	–	–	(458)	(458)	–	(458)
Total transactions with owners	**–**	**–**	**–**	**–**	**–**	**(12)**	**–**	**(476)**	**(488)**	**–**	**(488)**
At 28 August 2021	**490**	**5,165**	**16**	**149**	**254**	**(200)**	**3,090**	**4,390**	**13,354**	**(18)**	**13,336**

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

Group statement of changes in equity continued

			All other reserves									
	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
At 29 February 2020	**490**	**5,165**	**16**	**(15)**	**154**	**663**	**(250)**	**3,090**	**4,078**	**13,391**	**(22)**	**13,369**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**460**	**460**	**5**	**465**
Other comprehensive income/(loss)												
Retranslation of net assets of overseas subsidiaries, joint ventures and associates, net of hedging instruments	-	-	-	-	-	(67)	-	-	-	(67)	-	(67)
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement (Note 6)	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	(1,112)	(1,112)	-	(1,112)
Gains/(losses) on cash flow hedges	-	-	-	(4)	27	-	-	-		23	-	23
Cash flow hedges reclassified and reported in the Group income statement	-	-	-	-	(40)	-	-	-	-	(40)	-	(40)
Tax relating to components of other comprehensive income	-	-	-	1	(1)	-	-	-	285	285	-	285
Total other comprehensive income/(loss)	**-**	**-**	**-**	**(3)**	**(14)**	**(67)**	**-**	**-**	**(829)**	**(913)**	**-**	**(913)**
Total comprehensive income/(loss)	**-**	**-**	**-**	**(3)**	**(14)**	**(67)**	**-**	**-**	**(369)**	**(453)**	**5**	**(448)**
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	-	-	-	-	(28)	-	-	-	-	(28)	-	(28)
Tax on gains/(losses) transferred	-	-	-	-	4	-	-	-	-	4	-	4
Total inventory cash flow hedge movements	**-**	**-**	**-**	**-**	**(24)**	**-**	**-**	**-**	**-**	**(24)**	**-**	**(24)**
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(219)	-		(219)	-	(219)
Share-based payments	-	-	-	-	-	-	239	-	(86)	153	-	153
Dividends (Note 7)	-	-	-	-	-	-	-	-	(634)	(634)	-	(634)
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**-**	**(720)**	**(700)**	**-**	**(700)**
At 29 August 2020	**490**	**5,165**	**16**	**(18)**	**116**	**596**	**(230)**	**3,090**	**2,989**	**12,214**	**(17)**	**12,197**

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

	Notes	26 weeks 2021 £m	26 weeks 2020[a] £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		**1,304**	**1,007**
Operating profit/(loss) of discontinued operations		**(55)**	**95**
Depreciation and amortisation		856	889
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale and early termination of leases		(20)	(32)
(Profit)/loss arising on sale of joint ventures and associates	23	(10)	-
(Profit)/loss arising on sale of subsidiaries	6	26	-
Transaction costs associated with sale of subsidiaries		-	30
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property		(36)	53
Net remeasurement (gain)/loss on non-current assets held for sale		(5)	-
Adjustment for non-cash element of pensions charge		6	-
Other defined benefit pension scheme payments	20	(11)	(161)
Share-based payments		26	15
Tesco Bank fair value movements included in operating profit/(loss)		19	259
Retail (increase)/decrease in inventories		(155)	(172)
Retail (increase)/decrease in development stock		-	1
Retail (increase)/decrease in trade and other receivables		28	(21)
Retail increase/(decrease) in trade and other payables		634	201
Retail increase/(decrease) in provisions		142	64
Retail (increase)/decrease in working capital		649	73
Tesco Bank (increase)/decrease in loans and advances to customers and banks		(46)	(145)
Tesco Bank (increase)/decrease in trade, insurance, and other receivables		(7)	(76)
Tesco Bank increase/(decrease) in customer and bank deposits, trade, insurance, and other payables		(217)	107
Tesco Bank increase/(decrease) in provisions		(11)	(16)
Tesco Bank (increase)/decrease in working capital		(281)	(130)
Cash generated from/(used in) operations		**2,468**	**2,098**
Interest paid		(318)	(351)
Corporation tax paid		(52)	(147)
Net cash generated from/(used in) operating activities		**2,098**	**1,600**

[a] Refer to footnotes on the next page.

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

	Notes	26 weeks 2021 £m	26 weeks 2020[a] £m
Net cash generated from/(used in) operating activities		**2,098**	**1,600**
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		109	83
Purchase of property, plant and equipment and investment property		(453)	(537)
Purchase of intangible assets		(100)	(89)
Disposal of subsidiaries, net of cash disposed	6	169	(26)
Acquisition of subsidiaries, net of cash acquired	23	(81)	15
Increase in loans to joint ventures and associates		–	(1)
Investments in associates and joint ventures		(8)	(11)
Net (investments in)/proceeds from sale of short-term investments		(1,320)	134
Proceeds from sale of other investments[b]		51	202
Purchase of other investments[b]		(44)	–
Dividends received from joint ventures and associates		13	12
Interest received		2	5
Net cash generated from/(used in) investing activities		**(1,662)**	**(213)**
Cash flows generated from/(used in) financing activities			
Own shares purchased		(55)	(79)
Repayments of capital element of obligations under leases		(288)	(321)
Increase in borrowings		–	448
Repayment of borrowings		(47)	(287)
Cash inflows from derivative financial instruments[b]		247	334
Cash outflows from derivative financial instruments[b]		(286)	(558)
Dividends paid to equity owners	7	(484)	(634)
Net cash generated from/(used in) financing activities		**(913)**	**(1,097)**
Net increase/(decrease) in cash and cash equivalents		**(477)**	**290**
Cash and cash equivalents at the beginning of the period		1,971	3,031
Effect of foreign exchange rate changes		60	(21)
Cash and cash equivalents including cash and overdrafts held in disposal groups at the end of the period		**1,554**	**3,300**
Cash and overdrafts held in disposal groups	6	–	(546)
Cash and cash equivalents at the end of the period	**15**	**1,554**	**2,754**

[a] Refer to Note 1 for further details regarding the prior period restatement.
[b] Refer to Note 1 for further details regarding the primary financial statements presentation.

The notes on pages 24 to 61 form part of this condensed consolidated financial information.

Note 1 Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34 'Interim Financial Reporting' under UK-adopted international accounting standards. Unless otherwise stated, the accounting policies applied, and the judgements, estimates and assumptions made in applying these policies, are consistent with those used in preparing the Annual Report and Financial Statements 2021. The financial period represents the 26 weeks ended 28 August 2021 (prior financial period 26 weeks ended 29 August 2020, prior financial year 52 weeks ended 27 February 2021).

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

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and have concluded that there are no material uncertainties relating to going concern. The Directors have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. Further information on the Group's strong liquidity position is given in the Group review of performance, Summary of total indebtedness section.

Prior period restatement

Consistent with the Annual Report and Financial Statements 2021, the condensed consolidated interim financial statements include a prior period restatement for the 26 weeks ended 29 August 2020 in relation to notional cash pooling arrangements where the intention to net settle cannot be clearly demonstrated.

The Group has corrected prior period comparatives by grossing up cash and overdraft balances that had previously been offset on the balance sheet. The impact on the 29 August 2020 balance sheet is an increase in both cash and overdraft balances of £918m. 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. 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 August 2020 cash flow statement is to decrease cash and cash equivalent balances at the beginning of the period and at the end of the period by £377m and £452m respectively. There is no impact on the comparative period income statement, net debt or Total indebtedness.

Primary financial statements presentation

'Financial assets at fair value through other comprehensive income' and 'Investment securities at amortised cost' are now reported in 'Other investments' on the balance sheet, with further detail given in Note 13.

On 4 May 2021, the Group acquired control over Tesco Underwriting Limited, an insurance business which was previously a joint venture. The following new line items are added to the balance sheet: 'Reinsurance assets' and 'Insurance contract provisions'. In the income statement, gross insurance income is reported within 'Revenue' and insurance premium income ceded to reinsurers and net insurance claims are reported within 'Cost of sales'. Further detail is given in Note 16.

Cash inflows and outflows on other investments and derivative financial instruments previously presented on a net basis in the Group cash flow statement have been reassessed and are now reported separately, including for prior periods. Comparative net (investments in)/proceeds from sale of other investments of £202m are presented on a gross basis as proceeds from sale of other investments of £202m and purchase of other investments of £nil. Comparative net cash flows from derivative financial instruments of £(224)m are presented on a gross basis as cash inflows from derivative financial instruments of £334m and cash outflows from derivative financial instruments of £(558)m. There is no impact on net cash generated from operating, investing, or financing activities, and no impact on net debt or Total indebtedness.

Accounting policies

The Group has applied the following accounting policies in relation to the Tesco Underwriting insurance business:

Insurance income

Gross written premiums comprise premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period, and exclude tax and levies. An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

Net insurance claims

Claims and claims handling expenses are recognised as incurred, based on the estimated cost of settling all liabilities arising on events occurring up to the balance sheet date.

Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements, including quota share, excess of loss and adverse development cover contracts, do not relieve the Group from its direct obligations to its policyholders. Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are generally recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial instruments.

Note 1 Basis of preparation continued

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. The earned portion of reinsurance premiums (insurance premium income ceded to reinsurers) is recognised as reinsurance premium expense, and the provision for unearned reinsurance premiums comprises the element of reinsurance premiums relating to services to be received in future years. Amounts recoverable under reinsurance contracts are assessed for impairment at each year end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Provision for outstanding claims

The provision for outstanding claims represents the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding and presented separately as assets.

Unearned premium and unexpired risk provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent accounting periods, calculated separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. Where the value of expected claims and expenses attributable to unexpired periods of policies in force exceeds the unearned premium provision, a further provision is made, calculated by reference to classes of business which are managed together.

Alternative performance measures (APMs)

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

Note 2 Segmental reporting

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

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

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom, 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 adjusted operating profit, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' underlying performance for the financial period under evaluation. Adjusted operating profit is a consistent measure within the Group as defined within the Glossary. Refer to Note 3 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating segments is not material.

Income statement

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

26 weeks ended 28 August 2021 At constant exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Group sales	25,050	1,967	433	27,450	(119)	27,331
Revenue	28,063	2,040	433	30,536	(120)	30,416
Adjusted operating profit/(loss)	**1,320**	**70**	**72**	**1,462**	**(4)**	**1,458**
Exceptional items and amortisation of acquired intangibles	(178)	25	-	(153)	(1)	(154)
Operating profit/(loss)	**1,142**	**95**	**72**	**1,309**	**(5)**	**1,304**
Operating margin	**4.7%**	**3.4%**	**16.6%**	**4.8%**		**4.8%**

26 weeks ended 28 August 2021 At actual exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	24,993	1,905	433	27,331
Revenue	28,006	1,977	433	30,416
Adjusted operating profit/(loss)	**1,318**	**68**	**72**	**1,458**
Exceptional items and amortisation of acquired intangibles	(178)	24	–	(154)
Operating profit/(loss)	**1,140**	**92**	**72**	**1,304**
Operating margin	**4.7%**	**3.4%**	**16.6%**	**4.8%**
Share of post-tax profits/(losses) of joint ventures and associates				(3)
Finance income				5
Finance costs				(163)
Profit/(loss) before tax				**1,143**

Tesco Bank revenue of £433m (26 weeks ended 29 August 2020: £386m) comprises interest and similar revenues of £238m (26 weeks ended 29 August 2020: £292m), fees and commissions revenue of £101m (26 weeks ended 29 August 2020: £94m), and insurance revenue of £94m (26 weeks ended 29 August 2020: £nil). For insurance, refer to Note 16.

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

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 28 August 2021	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	4,719	30	640	-	5,389	-	5,389
Property, plant and equipment and investment property	15,366	1,454	65	-	16,885	-	16,885
Right of use assets	5,426	371	12	-	5,809	-	5,809
Investments in joint ventures and associates	83	1	-	-	84	-	84
Non-current other investments	9	-	1,209	-	1,218	-	1,218
Non-current trade and other receivables[(a)]	99	2	78	-	179	-	179
Non-current reinsurance assets[(b)]	-	-	205	-	205	-	205
Non-current loans and advances to customers and banks	-	-	3,169	-	3,169	-	3,169
Deferred tax assets	175	26	69	-	270	-	270
Non-current assets[(c)]	**25,877**	**1,884**	**5,447**	**-**	**33,208**	**-**	**33,208**
Inventories and current trade and other receivables[(d)(e)]	2,804	318	226	-	3,348	-	3,348
Current reinsurance assets[(b)]	-	-	52	-	52	-	52
Current loans and advances to customers and banks	-	-	3,287	-	3,287	-	3,287
Current other investments	-	-	348	-	348	-	348
Total trade and other payables	(8,270)	(533)	(305)	-	(9,108)	-	(9,108)
Total customer deposits and deposits from banks	-	-	(6,160)	-	(6,160)	-	(6,160)
Total insurance contract provisions[(b)]	-	-	(655)	-	(655)	-	(655)
Total provisions	(376)	(22)	(48)	-	(446)	-	(446)
Deferred tax liabilities	(11)	(40)	-	-	(51)	-	(51)
Net current tax	(125)	2	25	-	(98)	-	(98)
Post-employment benefits	(580)	-	-	-	(580)	-	(580)
Assets of the disposal group and non-current assets classified as held for sale	20	328	-	-	348	99	447
Liabilities of the disposal group classified as held for sale	-	-	-	-	-	(22)	(22)
Net debt (including Tesco Bank)[(f)(g)]	(7,709)	(489)	(31)	(2,005)	(10,234)	-	(10,234)
Net assets	**11,630**	**1,448**	**2,186**	**(2,005)**	**13,259**	**77**	**13,336**

(a) Excludes loans to joint ventures of £78m (27 February 2021: £21m, 29 August 2020: £104m) which form part of net debt.

(b) Balances acquired in the acquisition of Tesco Underwriting Limited, see Note 1 for further details.

(c) Excludes derivative financial instrument non-current assets of £1,664m (27 February 2021: £1,425m, 29 August 2020: £1,113m) which form part of net debt.

(d) Excludes net interest and other receivables of £nil (27 February 2021: £nil, 29 August 2020: £3m) which form part of net debt.

(e) Excludes loans to joint ventures of £24m (27 February 2021: £101m, 29 August 2020: £24m) which form part of net debt.

(f) Refer to Note 21.

(g) Net debt (including Tesco Bank) at 28 August 2021 excludes net debt of the disposal group classified as held for sale of £(19)m.

Note 2 Segmental reporting continued

Balance sheet continued

At 27 February 2021	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	4,750	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 other investments	9	-	754	-	763	-	763
Non-current trade and other receivables[a]	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 other investments	-	-	178	-	178	-	178
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 insurance contract provisions[b]	-	-	-	-	-	-	-
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 groups and other 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]-[g] Refer to previous table for footnotes.

Note 2 Segmental reporting continued

Balance sheet continued

At 29 August 2020	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets	4,811	26	905	-	5,742	-	5,742
Property, plant and equipment and investment property	14,689	1,827	63	-	16,579	-	16,579
Right of use assets	5,733	404	13	-	6,150	-	6,150
Investments in joint ventures and associates	82	1	95	-	178	-	178
Non-current other investments	6	-	830	-	836	-	836
Non-current trade and other receivables[a]	92	1	57	-	150	-	150
Non-current loans and advances to customers and banks	-	-	3,655	-	3,655	-	3,655
Deferred tax assets	520	33	74	-	627	-	627
Non-current assets[c]	**25,933**	**2,292**	**5,692**	**-**	**33,917**	**-**	**33,917**
Inventories and current trade and other receivables[d][e]	2,831	372	440	-	3,643	-	3,643
Current loans and advances to customers and banks	-	-	3,630	-	3,630	-	3,630
Current other investments	-	-	26		26	-	26
Total trade and other payables	(7,519)	(532)	(346)	-	(8,397)	-	(8,397)
Total customer deposits and deposits from banks	-	-	(7,137)	-	(7,137)	-	(7,137)
Total provisions	(229)	(11)	(48)	-	(288)	-	(288)
Total insurance contract provisions[b]	-	-	-	-	-	-	-
Deferred tax liabilities	(4)	(39)	-	-	(43)	-	(43)
Net current tax	(242)	26	25	-	(191)	-	(191)
Post-employment benefits	(4,043)	-	-	-	(4,043)	-	(4,043)
Assets of the disposal groups and non-current assets classified as held for sale	67	-	-	-	67	5,132	5,199
Liabilities of the disposal groups classified as held for sale	-	-	-	-	-	(2,098)	(2,098)
Net debt (including Tesco Bank)[f][g]	(8,207)	(518)	254	(3,550)	(12,021)	-	(12,021)
Net assets	**8,587**	**1,590**	**2,536**	**(3,550)**	**9,163**	**3,034**	**12,197**

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

Other segment information **26 weeks ended 28 August 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]	359	22	5	386	1	387
Goodwill and other intangible assets[c]	81	4	53	138	–	138
Depreciation and amortisation:						
Property, plant and equipment	(396)	(47)	(5)	(448)	–	(448)
Right of use assets	(248)	(18)	(1)	(267)	(1)	(268)
Other intangible assets	(110)	(6)	(24)	(140)	–	(140)
Impairment:						
(Loss)/reversal on financial assets	2	(1)	(21)	(20)	–	(20)

[a] Includes £1m (29 August 2020: £12m) acquired through business combinations.

[b] Includes £nil (29 August 2020: £54m) related to the disposal groups subsequent to reclassification to held for sale.

[c] Includes £38m (29 August 2020: £5m) of goodwill and other intangible assets acquired through business combinations.

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

Cash flow statement

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

	Retail			Tesco Bank			Tesco Group
26 weeks ended 28 August 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	**1,386**	**(154)**	**1,232**	**72**	**-**	**72**	**1,304**
Depreciation and amortisation	787	38	825	30	-	30	855
ATM net income	(8)	-	(8)	8	-	8	-
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale and early termination of leases	(1)	(21)	(22)	-	-	-	(22)
(Profit)/loss arising on sale of joint ventures and associates	-	-	-	(10)	-	(10)	(10)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	-	(36)	(36)	-	-	-	(36)
Net remeasurement (gain)/loss on non-current assets held for sale	-	(1)	(1)	-	-	-	(1)
Adjustment for non-cash element of pensions charge	6	-	6	-	-	-	6
Other defined benefit pension scheme payments	(11)	-	(11)	-	-	-	(11)
Share-based payments	24	-	24	2	-	2	26
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	19	-	19	19
Cash flows generated from operations excluding working capital	**2,183**	**(174)**	**2,009**	**121**	**-**	**121**	**2,130**
(Increase)/decrease in working capital	556	67	623	(277)	(4)	(281)	342
Cash generated from/(used in) operations	**2,739**	**(107)**	**2,632**	**(156)**	**(4)**	**(160)**	**2,472**
Interest paid	(316)	-	(316)	(2)	-	(2)	(318)
Corporation tax paid	(49)	-	(49)	(1)	-	(1)	(50)
Net cash generated from/(used in) operating activities	**2,374**	**(107)**	**2,267**	**(159)**	**(4)**	**(163)**	**2,104**

Cash flow statement continued

	Retail			Tesco Bank			Tesco Group
26 weeks ended 28 August 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							
Net cash generated from/(used in) operating activities[a]	**2,374**	**(107)**	**2,267**	**(159)**	**(4)**	**(163)**	**2,104**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	-	109	109	-	-	-	109
Purchase of property, plant and equipment and investment property – store buy backs	(37)	-	(37)	-	-	-	(37)
Purchase of property, plant and equipment and investment property – other capital expenditure	(410)	-	(410)	(5)	-	(5)	(415)
Purchase of intangible assets	(85)	-	(85)	(15)	-	(15)	(100)
Disposal of subsidiaries, net of cash disposed	-	125	125	-	-	-	125
Acquisition of businesses, net of cash acquired	-	-	-	(81)	-	(81)	(81)
Increase in loans to joint ventures and associates	-	-	-	-	-	-	-
Investments in associates and joint ventures	(8)	-	(8)	-	-	-	(8)
Net (investments in)/proceeds from sale of short-term investments	(1,320)	-	(1,320)	-	-	-	(1,320)
Proceeds from sale of other investments[b]	-	-	-	51	-	51	51
Purchase of other investments[b]	-	-	-	(44)	-	(44)	(44)
Dividends received from joint ventures and associates	3	-	3	10	-	10	13
Interest received	2	-	2	-	-	-	2
Net cash generated from/(used in) investing activities[a]	**(1,855)**	**234**	**(1,621)**	**(84)**	**-**	**(84)**	**(1,705)**
Own shares purchased	(55)	-	(55)	-	-	-	(55)
Repayment of capital element of obligations under leases	(286)	-	(286)	(1)	-	(1)	(287)
Increase in borrowings	-	-	-	-	-	-	-
Repayment of borrowings	(26)	-	(26)	(21)	-	(21)	(47)
Cash inflows from derivative financial instruments[b]	247	-	247	-	-	-	247
Cash outflows from derivative financial instruments[b]	(286)	-	(286)	-	-	-	(286)
Dividends paid to equity owners	(458)	(26)	(484)	-	-	-	(484)
Net cash generated from/(used in) financing activities[a]	**(864)**	**(26)**	**(890)**	**(22)**	**-**	**(22)**	**(912)**
Net increase/(decrease) in cash and cash equivalents from continuing operations	**(345)**	**101**	**(244)**	**(265)**	**(4)**	**(269)**	**(513)**
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**(8)**	**44**	**36**	**-**	**-**	**-**	**36**
Intra-Group funding and intercompany transactions	**(3)**	**-**	**(3)**	**3**	**-**	**3**	**-**
Net increase/(decrease) in cash and cash equivalents	**(356)**	**145**	**(211)**	**(262)**	**(4)**	**(266)**	**(477)**
Cash and cash equivalents at the beginning of the period			1,191			780	1,971
Effect of foreign exchange rate changes			60			-	60
Cash and cash equivalents at the end of the period			**1,040**			**514**	**1,554**
Cash and overdrafts held in disposal groups			-			-	-
Cash and cash equivalents not held in disposal groups			**1,040**			**514**	**1,554**

[a] See page 67 for the reconciliation of the APM: Retail free cash flow.

[b] Refer to Note 1 for further details regarding the primary financial statements presentation.

Cash flow statement continued

26 weeks ended 29 August 2020	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total[a] £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Tesco Group Total[a] £m
Continuing operations							
Operating profit/(loss) of continuing operations	**1,192**	**(30)**	**1,162**	**(155)**	**-**	**(155)**	**1,007**
Depreciation and amortisation	802	38	840	29	-	29	869
ATM net income	(8)	-	(8)	8	-	8	-
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale and early termination of leases	(36)	1	(35)	-	-	-	(35)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	10	-	10	-	-	-	10
Other defined benefit pension scheme payments	(161)	-	(161)	-	-	-	(161)
Share-based payments	6	-	6	3	-	3	9
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	259	-	259	259
Cash flows generated from operations excluding working capital	**1,805**	**9**	**1,814**	**144**	**-**	**144**	**1,958**
(Increase)/decrease in working capital	170	(136)	34	(116)	(14)	(130)	(96)
Cash generated from/(used in) operations	**1,975**	**(127)**	**1,848**	**28**	**(14)**	**14**	**1,862**
Interest paid	(323)	-	(323)	(3)	-	(3)	(326)
Corporation tax paid	(125)	-	(125)	(9)	-	(9)	(134)
Net cash generated from/(used in) operating activities	**1,527**	**(127)**	**1,400**	**16**	**(14)**	**2**	**1,402**

[a] Refer to footnotes on the next page.

Cash flow statement continued

26 weeks ended 29 August 2020	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total[(a)] £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Tesco Group Total[(a)] £m
Continuing operations							
Net cash generated from/(used in) operating activities[(c)]	**1,527**	**(127)**	**1,400**	**16**	**(14)**	**2**	**1,402**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	-	32	32	-	51	51	83
Purchase of property, plant and equipment and investment property – store buy backs	(148)	-	(148)	-	-	-	(148)
Purchase of property, plant and equipment and investment property – other capital expenditure	(299)	-	(299)	(24)	-	(24)	(323)
Purchase of intangible assets	(70)	-	(70)	(18)	-	(18)	(88)
Disposal of subsidiaries, net of cash disposed	(1)	(25)	(26)	-	-	-	(26)
Acquisition of businesses, net of cash acquired	15	-	15	-	-	-	15
Increase in loans to joint ventures and associates	(1)	-	(1)	-	-	-	(1)
Investments in associates and joint ventures	(11)	-	(11)	-	-	-	(11)
Net (investments in)/proceeds from sale of short-term investments	134	-	134	-	-	-	134
Proceeds from sale of other investments[(b)]	-	-	-	202	-	202	202
Purchase of other investments[(b)]	-	-	-	-	-	-	-
Dividends received from joint ventures and associates	6	-	6	-	-	-	6
Interest received	4	-	4	-	-	-	4
Net cash generated from/(used in) investing activities[(c)]	**(371)**	**7**	**(364)**	**160**	**51**	**211**	**(153)**
Own shares purchased	(79)	-	(79)	-	-	-	(79)
Repayment of capital elements of obligations under leases	(292)	-	(292)	(2)	-	(2)	(294)
Increase in borrowings	448	-	448	-	-	-	448
Repayment of borrowings	(287)	-	(287)	-	-	-	(287)
Cash inflows from derivative financial instruments[(b)]	334	-	334	-	-	-	334
Cash outflows from derivative financial instruments[(b)]	(315)	(243)	(558)	-	-	-	(558)
Dividends paid to equity owners	(634)	-	(634)	-	-	-	(634)
Net cash generated from/(used in) financing activities[(c)]	**(825)**	**(243)**	**(1,068)**	**(2)**	**-**	**(2)**	**(1,070)**
Net increase/(decrease) in cash and cash equivalents from continuing operations	**331**	**(363)**	**(32)**	**174**	**37**	**211**	**179**
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**114**	**(3)**	**111**	**-**	**-**	**-**	**111**
Intra-Group funding and intercompany transactions	**(5)**	**-**	**(5)**	**5**	**-**	**5**	**-**
Net increase/(decrease) in cash and cash equivalents	**440**	**(366)**	**74**	**179**	**37**	**216**	**290**
Cash and cash equivalents at the beginning of the period			1,667			1,364	3,031
Effect of foreign exchange rate changes			(21)			-	(21)
Cash and cash equivalents at the end of the period			**1,720**			**1,580**	**3,300**
Cash and overdrafts held in disposal group			(546)			-	(546)
Cash and cash equivalents not held in disposal group			**1,174**			**1,580**	**2,754**

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

(b) Refer to Note 1 for further details regarding the primary financial statements presentation.

(c) See page 67 for the reconciliation of the APM: Retail free cash flow.

Cash flow statement continued

	Continuing operations		Discontinued operations		Total Group	
	2021 £m	2020[(a)] £m	2021 £m	2020[(a)] £m	2021 £m	2020[(a)] £m
Operating profit/(loss)	**1,304**	**1,007**	**(55)**	**95**	**1,249**	**1,102**
Depreciation and amortisation	855	869	1	20	856	889
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	(22)	(35)	2	3	(20)	(32)
(Profit)/loss arising on sale of joint venture and associates	(10)	-	-	-	(10)	-
(Profit)/loss arising on sale of subsidiaries	-	-	26	-	26	-
Transaction costs associated with sale of subsidiaries	-	-	-	30	-	30
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(36)	10	-	43	(36)	53
Net remeasurement (gain)/loss on non-current assets held for sale	(1)	-	(4)	-	(5)	-
Adjustment for non-cash element of pensions charge	6	-	-	-	6	-
Other defined benefit pension scheme payments	(11)	(161)	-	-	(11)	(161)
Share-based payments	26	9	-	6	26	15
Tesco Bank fair value movements included in operating profit/(loss)	19	259	-	-	19	259
Cash flows generated from operations excluding working capital	**2,130**	**1,958**	**(30)**	**197**	**2,100**	**2,155**
(Increase)/decrease in working capital	342	(96)	26	39	368	(57)
Cash generated from/(used in) operations	**2,472**	**1,862**	**(4)**	**236**	**2,468**	**2,098**
Interest paid	(318)	(326)	-	(25)	(318)	(351)
Corporation tax paid	(50)	(134)	(2)	(13)	(52)	(147)
Net cash generated from/(used in) operating activities	**2,104**	**1,402**	**(6)**	**198**	**2,098**	**1,600**

[(a)] Refer to footnotes on the next page.

Cash flow statement continued	Continuing operations		Discontinued operations		Total Group	
	2021 £m	2020[a] £m	2021 £m	2020[a] £m	2021 £m	2020[a] £m
Net cash generated from/(used in) operating activities[c]	**2,104**	**1,402**	**(6)**	**198**	**2,098**	**1,600**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	109	83	–	–	109	83
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buybacks	(37)	(148)	–	–	(37)	(148)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(415)	(323)	(1)	(66)	(416)	(389)
Purchase of intangible assets	(100)	(88)	–	(1)	(100)	(89)
Disposal of subsidiaries, net of cash disposed	125	(26)	44	–	169	(26)
Acquisition of businesses, net of cash acquired (Note 23)	(81)	15	–	–	(81)	15
Increase in loans to joint ventures and associates	–	(1)	–	–	–	(1)
Investments in joint ventures and associates	(8)	(11)	–	–	(8)	(11)
Net (investments in)/proceeds from sale of short-term investments	(1,320)	134	–	–	(1,320)	134
Proceeds from sale of other investments[b]	51	202	–	–	51	202
Purchase of other investments[b]	(44)	–	–	–	(44)	–
Dividends received from joint ventures and associates	13	6	–	6	13	12
Interest received	2	4	–	1	2	5
Net cash generated from/(used in) investing activities[c]	**(1,705)**	**(153)**	**43**	**(60)**	**(1,662)**	**(213)**
Own shares purchased	(55)	(79)	–	–	(55)	(79)
Repayments of capital element of obligations under leases	(287)	(294)	(1)	(27)	(288)	(321)
Increase in borrowings	–	448	–	–	–	448
Repayment of borrowings	(47)	(287)	–	–	(47)	(287)
Cash inflows from derivative financial instruments[b]	247	334	–	–	247	334
Cash outflows from derivative financial instruments[b]	(286)	(558)	–	–	(286)	(558)
Dividends paid to equity owners	(484)	(634)	–	–	(484)	(634)
Net cash generated from/(used in) financing activities[c]	**(912)**	**(1,070)**	**(1)**	**(27)**	**(913)**	**(1,097)**
Net increase/(decrease) in cash and cash equivalents before intra-Group funding and intercompany transactions	**(513)**	**179**	**36**	**111**	**(477)**	**290**
Intra-Group funding and intercompany transactions	**27**	**(113)**	**(27)**	**113**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**(486)**	**66**	**9**	**224**	**(477)**	**290**
Cash and cash equivalents at the beginning of the period					1,971	3,031
Effects of foreign exchange rate changes					60	(21)
Cash and cash equivalents at the end of the period					**1,554**	**3,300**
Cash and overdrafts held in disposal groups					–	(546)
Cash and cash equivalents not held in disposal groups					**1,554**	**2,754**

[a] Refer to Note 1 for further details regarding the prior period restatement.
[b] Refer to Note 1 for further details regarding the primary financial statements presentation.
[c] See page 67 for the reconciliation of the APM: Retail free cash flow.

Note 3 Exceptional items and amortisation of acquired intangibles

Income statement

26 weeks ended 28 August 2021

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Exceptional items:							
Property transactions[a]	-	21	21	-	-	-	-
Net impairment reversal of non-current assets[b]	24	13	37	-	-	-	-
Asia licence fee[c]	-	19	19	-	-	(4)	-
Litigation costs[d]	-	(193)	(193)	-	-	-	-
Total exceptional items from continuing operations before amortisation of acquired intangibles	**24**	**(140)**	**(116)**	**-**	**-**	**(4)**	**-**
Amortisation of acquired intangible assets (Note 9)	-	(38)	(38)	-	-	(15)	-
Total exceptional items from continuing operations and amortisation of acquired intangibles	**24**	**(178)**	**(154)**	**-**	**-**	**(19)**	**-**
Exceptional items relating to discontinued operations[e]	**-**	**-**	**-**	**-**	**-**	**-**	**(44)**
Total exceptional items and amortisation of acquired intangibles	**24**	**(178)**	**(154)**	**-**	**-**	**(19)**	**(44)**

[a] The Group disposed of surplus properties which generated a profit of £21m.

[b] Comprised of £36m net impairment reversal relating to the Group's non-current assets. Refer to Note 12 for further details. £1m relates to an impairment reversal of non-current assets classified as assets held for sale.

[c] Software licence fee income from services provided to CP Group as part of the Transitional Services Agreement relating to the sale of Asia.

[d] Costs arising from the 2020 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profit announced in 2014.

[e] Refer to Note 6.

26 weeks ended 29 August 2020

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint ventures and associates profits/(losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Exceptional items:							
Property transactions	(2)	-	(2)	-	-	-	-
Booker integration	-	(2)	(2)	-	-	-	-
ATM business rates	105	-	105	-	-	(20)	-
Litigation costs	-	(93)	(93)	-	-	-	-
Total exceptional items from continuing operations before amortisation of acquired intangibles	**103**	**(95)**	**8**	**-**	**-**	**(20)**	**-**
Amortisation of acquired intangible assets (Note 9)	-	(38)	(38)	-	-	(5)	-
Total exceptional items from continuing operations and amortisation of acquired intangibles	**103**	**(133)**	**(30)**	**-**	**-**	**(25)**	**-**
Exceptional items relating to discontinued operations	-	-	-	-	-	-	(124)
Total exceptional items and amortisation of acquired intangibles	**103**	**(133)**	**(30)**	**-**	**-**	**(25)**	**(124)**

Cash flow statement

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

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

	Cash flows from operating activities		Cash flows from investing activities		Cash flows from financing activities	
	26 weeks 2021 £m	26 weeks 2020 £m	26 weeks 2021 £m	26 weeks 2020 £m	26 weeks 2021 £m	26 weeks 2020 £m
Prior year restructuring and redundancy costs	–	(32)	–	–	–	–
Property transactions[a]	–	–	109	32	–	–
Tesco Bank mortgage book disposal proceeds	–	–	–	51	–	–
Settlement of claims for customer redress in Tesco Bank	(4)	(14)	–	–	–	–
Litigation costs[b]	(105)	(93)	–	–	–	–
Costs associated with the sale of Asia	–	–	(5)	(25)	–	–
Poland sale proceeds[c]	–	–	130	–	–	–
Booker integration cash payments	(14)	(2)	–	–	–	–
Hedging costs associated with the sale of Asia	–	–	–	–	–	(243)
ATM business rates[d]	12	–	–	–	–	–
Special dividend[e]	–	–	–	–	(26)	–
Total continuing operations	**(111)**	**(141)**	**234**	**58**	**(26)**	**(243)**
Exceptional cash flow from discontinued operations[f]	–	(3)	44	–	–	–
Total	**(111)**	**(144)**	**278**	**58**	**(26)**	**(243)**

[a] Property transactions include £73m proceeds relating to the sale of stores in Poland not included in the sale of the corporate business.

[b] Costs arising from the 2020 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profit announced in 2014.

[c] Poland sale proceeds include £106m in respect of intercompany debt settled by the purchaser upon completion. Refer to Note 6 for further details.

[d] Amounts received in the year with respect to the Supreme Court ruling related to external facing ATM's in stores.

[e] Amounts paid in the year relating to unsettled elements of the special dividend.

[f] Exceptional cash flows of £44m from discontinued operations comprise of £57m borrowings less £(13)m cash disposed.

Note 4 Finance income and costs

Continuing operations	Notes	26 weeks 2021 £m	26 weeks 2020 £m
Finance income			
Interest receivable and similar income		2	5
Finance income receivable on net investment in leases		3	2
Total finance income		**5**	**7**
Finance costs			
GBP MTNs and loans		(82)	(70)
EUR MTNs		(20)	(27)
USD bonds		(2)	(5)
Finance charges payable on lease liabilities		(207)	(229)
Other interest payable		(21)	(9)
Fair value remeasurements of financial instruments		180	(108)
Total finance costs before net pension finance costs		**(152)**	**(448)**
Net pension finance costs	20	(11)	(28)
Total finance costs		**(163)**	**(476)**
Net finance costs		**(158)**	**(469)**

Note 5 Taxation

Recognised in the Group income statement

Continuing operations	26 weeks 2021 £m	26 weeks 2020 £m
Current tax charge/(credit)		
UK corporation tax	154	109
Overseas tax	28	22
Deferred tax charge/(credit)		
Origination and reversal of temporary differences	88	(7)
Change in tax rate	43	30
Total income tax charge/(credit)	**313**	**154**

The tax charge in the Group income statement is based on management's best estimate of the full year effective tax rates by geographical unit applied to half year profits, which is then adjusted for tax on exceptional items and amortisation of acquired intangibles arising in the period to 28 August 2021. The standard rate of corporation tax has been applied to the exceptional profits and losses on an item by item basis, based on the geographical unit of that item. Refer to Note 3 for further details.

The Finance Act 2021 included legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023. As the change to the main UK corporation tax rate was substantively enacted by the balance sheet date the impact is included in these condensed consolidated interim financial statements with temporary differences remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised. The UK corporation tax rate change increased the deferred tax asset by £44m, comprising of a £43m deferred tax charge recognised within the consolidated income statement for the period and a £87m deferred tax credit (principally in relation to post-employment benefits) recognised in other comprehensive income. Subsequently the deferred tax asset has decreased mainly due to the revaluation gain on the pension scheme. Refer to Note 20 for further details.

Note 6 Discontinued operations and assets classified as held for sale

Income statement of discontinued operations	26 weeks 2021			26 weeks 2020			
	Poland £m	Other £m	Total £m	Malaysia and Thailand £m	Poland £m	Other £m	Total £m
Operating profit/(loss) before exceptional items	(2)	-	(2)	277	(12)	-	265
Share of post-tax profits/(losses) of joint ventures and associates	-	-	-	6	-	-	6
Finance (costs)/income	-	-	-	(18)	(7)	-	(25)
Profit/(loss) before tax, before exceptional items	**(2)**	**-**	**(2)**	**265**	**(19)**	**-**	**246**
Taxation	(3)	-	(3)	(53)	(1)	-	(54)
Profit after tax, before exceptional items	**(5)**	**-**	**(5)**	**212**	**(20)**	**-**	**192**
Loss on disposal of Poland*	(26)	-	(26)	-	-	-	-
Homeplus (Korea) claims provision*	-	(33)	(33)	-	-	(86)	(86)
Other exceptional items*	2	4	6	(26)	(58)	-	(84)
Tax on exceptional items*	-	9	9	46	-	-	46
Total profit/(loss) after tax of discontinued operations	**(29)**	**(20)**	**(49)**	**232**	**(78)**	**(86)**	**68**

* Exceptional items of £(44)m (26 weeks ended 29 August 2020: £(124)m) include £(26)m loss on disposal of Poland (26 weeks ended 29 August 2020: £nil), £(33)m provision relating to claims from Homeplus (Korea) purchasers (26 weeks ended 29 August 2020: £(86)m), £4m reversal of accruals relating to legal costs (26 weeks ended 29 August 2020: £nil), £(2)m costs relating to Poland properties (26 weeks ended 29 August 2020: £nil), £4m of net impairment gain on non-current assets (26 weeks ended 29 August 2020: £(43)m loss), £9m tax on exceptional items (26 weeks ended 29 August 2020: £46m) being the reduction of withholding tax paid at the time of the sale relating to the Homeplus claim, £nil transaction costs (26 weeks ended 26 August 2020: £(28)m), £nil of net restructuring and redundancy costs (26 weeks ended 29 August 2020: £(8)m), £nil on disposal of surplus properties (26 weeks ended 29 August 2020: £(3)m loss) and £nil fair value loss due to the income statement impact of the derivative contracts entered into by the Group to economically hedge the foreign exchange risk on the anticipated USD disposal proceeds from the Asia business (26 weeks ended 29 August 2020: £(2)m loss).

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 assets and liabilities related to the Group's Poland operation, as well as certain other properties that met the criteria to be classified as held for sale during the year ended 27 February 2021, were presented within discontinued operations. The corporate transaction completed on 16 March 2021.

The loss after tax for the Poland corporate sale comprises the following:

	£m
Gross proceeds[a]	**139**
Costs to sell and indemnities[b]	(15)
Net proceeds	**124**
Net book value of assets and liabilities disposed	
Goodwill and other intangible assets	(3)
Property, plant and equipment	(212)
Right of use assets	(69)
Inventories	(59)
Trade and other receivables	(15)
Cash and cash equivalents	(13)
Trade and other payables	105
Borrowings	57
Lease liabilities	110
Provisions	15
Net book value of assets and liabilities disposed	**(84)**
Currency translation reserve reclassified to income statement	(66)
Loss before and after tax on disposal	**(26)**

[a] Proceeds include £106m with respect to intercompany debt settled by the purchaser upon completion.

[b] Total costs associated with the sale of the business amounted to £(21)m, of which £(6)m was expensed in the prior financial year. Costs to sell and indemnities include £(11)m indemnities given and £(4)m legal and professional fees.

The disposal of the operations in Poland has reduced Retail net debt by £284m. This comprises £110m lease liabilities disposed and £174m net cash flows, consisting of £139m proceeds less £(5)m received in the prior year, £57m borrowings less £(13)m cash disposed, and £(4)m cash costs to sell. The total cash flows associated with the disposal are presented in disposal of subsidiaries net of cash disposed, within investing cash flows.

During the period £5m was paid in relation to legal fees for the sale of the Asia business, expensed in the year ended 27 February 2021.

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

	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Assets of the disposal group[(a)]	12	404	4,892
Non-current assets classified as held for sale[(b)]	435	201	307
Total assets of the disposal group and non-current assets classified as held for sale	**447**	**605**	**5,199**
Total liabilities of the disposal group[(a)]	(22)	(276)	(2,098)
Total net assets of the disposal group and non-current assets classified as held for sale	**425**	**329**	**3,101**

[(a)] The disposal group, including £(19)m of net debt, relates to residual properties and leases with respect to the Group's operation in Poland. Balances as at 27 February 2021 were with respect to the Group's operation in Poland, and as at 29 August 2020 were with respect to the Group's operations in Thailand, Malaysia and Poland.

[(b)] The assets classified as held for sale consist of properties in the UK, Poland and Central Europe due to be sold within one year.

Note 7 Dividends

	26 weeks 2021		26 weeks 2020	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the period:				
Prior financial year final dividend*	5.95	458	6.50	634
Interim dividend declared for the current period	**3.20**	**247**	**3.20**	**314**

* Excludes £2m dividends waived (29 August 2020: £3m).

The interim dividend was approved by the Board of Directors on 5 October 2021 and has not been included as a liability as at 28 August 2021. It will be paid on 26 November 2021 to shareholders who are on the Register of members at close of business on 15 October 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 5 November 2021.

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

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

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

For the 26 weeks ended 28 August 2021 there were 69 million (26 weeks ended 29 August 2020: 27 million) potentially dilutive share options. As the Group has recognised a profit for the period, dilutive effects have been considered in calculating diluted earnings per share.

	26 weeks ended 28 August 2021			26 weeks ended 29 August 2020		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations	830	-	830	397	-	397
Discontinued operations*	(49)	-	(49)	63	-	63
Total	**781**	**-**	**781**	**460**	**-**	**460**
Weighted average number of shares (millions)	**7,685**	**69**	**7,754**	**9,744**	**27**	**9,771**
Earnings/(losses) per share (pence)						
Continuing operations	10.80	(0.10)	10.70	4.07	(0.01)	4.06
Discontinued operations	(0.64)	0.01	(0.63)	0.65	-	0.65
Total	**10.16**	**(0.09)**	**10.07**	**4.72**	**(0.01)**	**4.71**

* Excludes profits from non-controlling interests of £nil (26 weeks ended 29 August 2020: £5m).

Alternative performance measure: Adjusted diluted earnings/(losses) per share

	Notes	26 weeks 2021	26 weeks 2020
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,297	581
Add: Net pension finance costs (£m)	4	11	28
Add: Fair value remeasurements of financial instruments (£m)	4	(180)	108
Adjusted profit before tax (£m)		**1,128**	**717**
Adjusted profit before tax attributable to the owners of the parent (£m)		1,128	717
Taxation on adjusted profit before tax attributable to the owners of the parent (£m)		(258)	(155)
Adjusted profit after tax (£m)		**870**	**562**
Basic weighted average number of shares (millions)		7,685	9,744
Adjusted basic earnings per share (pence)		**11.32**	**5.77**
Diluted weighted average number of shares (millions)		7,754	9,771
Adjusted diluted earnings per share (pence)*		**11.22**	**5.75**

* Refer to page 65 for a reconciliation of the Group's APM Adjusted diluted earnings per share (adjusted for share consolidation).

Note 9 Goodwill and other intangible assets

Goodwill of £4,291m (27 February 2021: £4,271m, 29 August 2020: £4,570m) consists of UK £3,788m (27 February 2021: £3,788m, 29 August 2020: £3,792m), ROI £3m (27 February 2021: £3m, 29 August 2020: £3m) and Tesco Bank £500m (27 February 2021: £480m, 29 August 2020: £775m). £20m of goodwill was recognised in Tesco Bank in the period from the acquisition of Tesco Underwriting Limited. Refer to Note 23 for further details.

Other intangible assets of £1,098m (27 February 2021: £1,122m, 29 August 2020: £1,172m) comprise of software of £547m (27 February 2021: £532m, 29 August 2020: £527m), customer relationships of £456m (27 February 2021: £494m, 29 August 2020: £533m) and other intangible assets of £95m (27 February 2021: £96m, 29 August 2020: £112m).

Of the £140m (26 weeks ending 29 August 2020: £139m) amortisation of other intangible assets, £38m (26 weeks ended 29 August 2020: £38m) arising from the amortisation of intangible assets acquired through business combinations has been included within exceptional items and amortisation of intangible assets. Refer to Note 3 for further details.

Note 10 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 27 February 2021	**22,024**	**5,743**	**27,767**
Foreign currency translation	1	3	4
Additions	164	221	385
Acquired through business combinations[b]	–	1	1
Reclassification[c]	(71)	(1)	(72)
Disposals	(65)	(285)	(350)
Transfers (to)/from assets held for sale	(443)	(16)	(459)
At 28 August 2021	**21,610**	**5,666**	**27,276**
Accumulated depreciation and impairment losses			
At 27 February 2021	**6,653**	**3,903**	**10,556**
Foreign currency translation	1	3	4
Charge for the period	213	235	448
Impairment losses[d]	2	–	2
Reversal of impairment losses[d]	(34)	(4)	(38)
Reclassification	(2)	1	(1)
Disposals	(50)	(275)	(325)
Transfers (to)/from assets held for sale	(157)	(7)	(164)
At 28 August 2021	**6,626**	**3,856**	**10,482**
Net carrying value			
At 28 August 2021	**14,984**	**1,810**	**16,794**
At 29 August 2020	14,807	1,753	16,560
Construction in progress included above[e]			
At 28 August 2021	**88**	**155**	**243**
At 29 August 2020	61	165	226

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,325m (27 February 2021: £1,345m, 29 August 2020: £1,286m), office equipment with a net carrying value of £195m (27 February 2021: £213m, 29 August 2020: £212m) and motor vehicles with a net carrying value of £290m (27 February 2021: £282m, 29 August 2020: £255m).
[b] Assets recognised on acquisition of Tesco Underwriting Limited. Refer to Note 23.
[c] £71m transferred to Investment property.
[d] Refer to Note 12.
[e] Construction in progress does not include land.

Commitments for capital expenditure contracted for, but not incurred, at 28 August 2021 were £229m (27 February 2021: £203m, 29 August 2020: £234m), principally relating to store development.

Note 10 Property, plant and equipment continued

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

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

Note 11 Leases

Right of use assets

	Land and buildings £m	Other £m	Total £m
Net carrying value at 27 February 2021	**5,866**	**85**	**5,951**
Additions (including through business combinations)	79	12	91
Depreciation charge for the period	(247)	(20)	(267)
Impairment losses[a]	–	–	–
Reversal of impairment losses[a]	–	–	–
Other[b]	34	–	34
Net carrying value at 28 August 2021	**5,732**	**77**	**5,809**

	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)	173	30	203
Depreciation charge for the period	(259)	(24)	(283)
Impairment losses[a]	(8)	–	(8)
Reversal of impairment losses[a]	2	–	2
Transfer to disposal group classified as held for sale	(724)	(20)	(744)
Other[b]	106	–	106
Net carrying value at 29 August 2020	**6,024**	**126**	**6,150**

[a] Refer to Note 12.
[b] Other movements include lease terminations, modifications and reassessments, foreign exchange, reclassifications between asset classes and entering into finance subleases.

Lease liabilities

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

Lease liabilities	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Current	557	575	557
Non-current	7,670	7,827	8,199
Total lease liabilities	**8,227**	**8,402**	**8,756**
Total undiscounted lease payments	**12,175**	**12,527**	**13,186**

A reconciliation of the Group's opening to closing lease liabilities balance is presented in Note 21.

Note 12 Impairment of non-current assets

Impairment losses and reversals

No goodwill impairment losses were recognised by the Group in the period to 28 August 2021 (29 August 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 before classifying an asset or disposal group as held for sale. Impairment losses and reversals are presented gross. There were no impairment losses or reversals in the period (26 weeks ended 29 August 2020: £nil) with respect to other non-current assets and investments in joint ventures and associates in Tesco Bank.

	UK & ROI		Central Europe		Total*	
26 weeks ended 28 August 2021	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
Group balance sheet						
Other intangible assets	–	–	–	–	–	–
Property, plant and equipment	(2)	14	–	24	(2)	38
Right of use assets	–	–	–	–	–	–
Investment property	–	–	–	–	–	–
Other non-current assets	**(2)**	**14**	**–**	**24**	**(2)**	**38**
Investments in joint ventures and associates	–	–	–	–	–	–
Total impairment (loss)/reversal	**(2)**	**14**	**–**	**24**	**(2)**	**38**
Group income statement						
Cost of sales – exceptional	–	–	–	24	–	24
Administrative expenses – exceptional	(2)	14	–	–	(2)	14
Total impairment (loss)/reversal	**(2)**	**14**	**–**	**24**	**(2)**	**38**

* Of the £36m other non-current assets net impairment reversal for the Group (29 August 2020: net loss of £53m), a net reversal of £36m (29 August 2020: net loss of £43m) has been classified within exceptional items, of which £nil (29 August 2020: net loss of £43m) was also recognised in discontinued operations.

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

* Refer to previous table for footnote.

During the period to 28 August 2021, 24 mall assets in Central Europe have been reclassified to assets held for sale. Immediately prior to their reclassification, the expected proceeds net of disposal costs exceeded the carrying value such that previous impairments of £24m were reversed.

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

The impact of the pandemic on Tesco Bank includes higher expected credit losses arising from the economic downturn and lower revenues as a result of lower consumer spending and borrowing. The Bank's performance is sensitive to the speed of the economic recovery and as a result a full impairment test of the goodwill allocated to Tesco Bank has been conducted. The carrying amount of goodwill allocated to Tesco Bank pre-impairment review was £500m, impairment testing on a value in use basis resulted in a recoverable amount of £624m and headroom of £124m. Additional sensitivities are given in the Key assumptions and sensitivity section below.

Impairment methodology

The impairment methodology is unchanged from that described in Note 15 of the Annual Report and Financial Statements 2021.

Key assumptions and sensitivity

With the exception of Tesco Bank, no reasonably possible changes in key assumptions would indicate an impairment for any group of cash-generating units to which goodwill has been allocated. Similarly, there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year.

The key assumptions to which the Tesco Bank goodwill recoverable amount is most sensitive are the discount rate, equity cash flows in excess of the regulatory capital requirement and the long-term growth rate. The table below sets out the amount by which these assumption values would have to change for the recoverable amount to equal the carrying amount.

Key assumption	Assumption value	Amount by which assumption value would have to change for the recoverable amount to equal the carrying amount
Post-tax discount rate	10.2%	Increase of 0.5ppt
Annual equity cash flows	Variable	Decrease of £17m p.a.
Long-term growth rate	1.6%	Decrease of 2.5ppt

Note 13 Other Investments

At 28 August 2021	At amortised cost £m	Fair value through profit/loss £m	Fair value through other comprehensive income £m	Total £m
Investments in debt instruments[a]	929	–	603	1,532
Expected credit loss allowance	–	–	–	–
Investments in equity instruments	–	–	9	9
Property fund investments[b]	–	25	–	25
Other investments	**929**	**25**	**612**	**1,566**
Of which:				
Current	196	–	152	**348**
Non-current	733	25	460	**1,218**
	929	**25**	**612**	**1,566**

[a] Debt instruments held at fair value through other comprehensive income were recognised following the acquisition of Tesco Underwriting Limited. Refer to Note 23.

[b] Property fund investments were recognised following the acquisition of Tesco Underwriting Limited. Refer to Note 23.

At 27 February 2021	At amortised cost £m	Fair value through profit/loss £m	Fair value through other comprehensive income £m	Total £m
Investments in debt instruments	928	–	–	928
Expected credit loss allowance	(1)	–	–	(1)
Investments in equity instruments	–	–	14	14
Other investments	**927**	**–**	**14**	**941**
Of which:				
Current	175	–	3	**178**
Non-current	752	–	11	**763**
	927	**–**	**14**	**941**

At 29 August 2020	At amortised cost £m	Fair value through profit/loss £m	Fair value through other comprehensive income £m	Total £m
Investments in debt instruments	852	–	–	852
Expected credit loss allowance	–	–	–	–
Investments in equity instruments	–	–	10	10
Other investments	**852**	**–**	**10**	**862**
Of which:				
Current	26	–	–	**26**
Non-current	826	–	10	**836**
	852	**–**	**10**	**862**

Note 14 Inventories

	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Goods held for resale	2,220	2,066	2,251
Development properties	3	3	3
	2,223	**2,069**	**2,254**

Cost of inventories from continuing operations recognised as an expense for the 26 weeks ended 28 August 2021 was £22,403m (26 weeks ended 29 August 2020: £20,948m). Inventory losses and provisions from continuing operations recognised as an expense for the 26 weeks ended 28 August 2021 were £502m (26 weeks ended 29 August 2020: £524m).

Note 15 Cash and cash equivalents and short-term investments

Cash and cash equivalents	28 August 2021 £m	27 February 2021 £m	29 August 2020* £m
Cash at bank and on hand	2,198	2,495	4,101
Short-term deposits	21	15	23
Cash and cash equivalents in the Group balance sheet	**2,219**	**2,510**	**4,124**
Bank overdrafts	(665)	(532)	(1,370)
Cash and cash equivalents in the Group cash flow statement	**1,554**	**1,978**	**2,754**

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

Short-term investments	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Money market funds	2,331	1,011	942

Cash and cash equivalents includes £84m (27 February 2021: £101m, 29 August 2020: £61m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

Note 16 Insurance

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, Tesco Underwriting Limited ("TU"). TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Refer to Note 23 for further details regarding the acquisition.

Insurance profit/(loss)

Continuing operations	26 weeks 2021 £m
Gross insurance premium income	**94**
Insurance premium income ceded to reinsurers	**(42)**
Current year claims paid	(35)
Change in prior year claims provision	15
Additional liabilities arising during the year	(41)
Total claims and benefits incurred	**(61)**
Reinsurers' share of claims and benefits incurred[a]	34
Net insurance claims	**(27)**
Net insurance profit/(loss)[b]	**25**

[a] Includes £5m related to Reinsurance quota share commission and Profit commission.

[b] The net insurance profit above arose subsequent to acquisition by the Group and is reported in the Tesco Bank operating segment.

Insurance contract provisions and reinsurance assets

The following tables show the breakdown of the Group's insurance contract provisions and reinsurance assets at 28 August 2021. As balances in this note have arisen a result of the acquisition of TU on 4 May 2021, there are no prior period comparative balances for the Group.

	Gross £m	Reinsurance £m	Net £m
Unearned premiums	147	(60)	87
Claims reported by policy holders	539	(284)	255
Claims incurred but not reported	(31)	87	56
Total insurance contract provisions	**655**	**(257)**	**398**
Of which:			
Current	190	(52)	138
Non-current	465	(205)	260
	655	**(257)**	**398**

Insurance contract provisions	Gross £m	Reinsurance £m	Net £m
Balance at 27 February 2021	-	-	-
Acquired through business combination	650	(247)	403
Claims (paid)/recovered from insurers	(61)	20	(41)
Movement in claims incurred but not reported	(15)	11	(4)
Claims reported in the period	75	(40)	35
Change in provision for unearned premiums	6	(1)	5
At 28 August 2021	**655**	**(257)**	**398**

Gross unearned premium	28 August 2021 £m
Balance at 27 February 2021	-
Acquired through business combination	141
Premium written during the period	100
Less: premiums earned during the period	(94)
At 28 August 2021	**147**

Outstanding claims	Gross £m	Recoveries £m	Net £m
Balance at 27 February 2021	**-**	**-**	**-**
Acquired through business combination	509	(16)	493
Current period claims	76	(3)	73
Change in prior period claims	(16)	4	(12)
Current period claims paid	(34)	-	(34)
Prior period claims paid	(27)	-	(27)
At 28 August 2021	**508**	**(15)**	**493**

Funds withheld

Funds withheld of £106m, included within trade and other payables, represent the balance due to reinsurers arising from Quota Share arrangements, by which a fixed proportion of both premiums and losses are ceded to third party reinsurers as part of the overall reinsurance protection strategy.

Claims provision and development

The nature of insurance business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances and historical evidence of the size of similar claims, and provisions are based on the latest information available. However, the ultimate liabilities may vary as a result of subsequent developments.

The cost of outstanding claims and the incurred but not reported (IBNR) provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks. Assumptions used for insurance provisions are based on detailed studies, checked to ensure that they are consistent with observable market prices or other published information, with greater emphasis on current trends where there is sufficient information. To the extent that assumptions use historical claims development information, they also assume that the historical claims development pattern will occur again in the future, after allowing (where possible) for instances where this might not be the case, such as changing economic or legal trends.

Provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of excess of loss and quota share reinsurance programmes. The Group takes account of historical data, specific details for individual large claims and details of the reinsurance programme to assess the expected size of reinsurance recoveries.

Insurance risk management

The Group is exposed to insurance risk through its wholly owned subsidiary, TU. The Group defines insurance risk as the risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group’s control (e.g. flood or severe bodily injury motor accidents).

TU underwrites motor and home insurance policies, typically of one-year duration, in the UK and Channel Islands. TU operates a separate risk framework with dedicated risk and compliance teams and a suite of risk policies to ensure that the insurance portfolio is operating within an agreed risk appetite, with monthly monitoring of the portfolio against specific performance indicator thresholds and limits. Risks such as geographic concentration or high-severity, low frequency events (e.g. natural disasters in a particular area, severe bodily injury motor accidents) are mitigated through a high-quality backed reinsurance portfolio, and TU undertakes a Stress and Scenario Testing programme, considering multiple scenarios such as various adverse weather events, the hardening/softening of the insurance market and severe large bodily injury losses.

Capital

Solvency II (SII) came into force on 1 January 2016. It provides a framework for managing and measuring the risks and the solvency position for all insurance companies in the EU. Following the UK's departure from the EU, the SII framework continues to be applied in the UK and its requirements are applicable to TU. TU assess its SCR using a Partial Internal Model for capital which was approved by the PRA in 2020. TU models a range of stress and scenario tests that are published in its annual Solvency and Financial Condition Report. These show that TU's capital position is resilient to a range of possible scenarios. TU also maintains a capital contingency plan supported by Tesco Bank. TU’s available capital has remained above its SCR requirement during the period since the end of December 2020; and capital coverage of TU's SCR at the end of August 2021 as assessed as materially the same as the position at the end of December 2020.

Note 17 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.

	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Current assets			
Inventories	(14)	(24)	(19)
Trade and other receivables			
Trade/other receivables	69	90	99
Accrued income	101	125	88
Current liabilities			
Trade and other payables			
Trade payables	120	170	128
Accruals	(1)	(2)	(2)

Note 18 Borrowings

Borrowings are classified as current and non-current based on their scheduled redemption date and not their maturity date. Repayments of principal amounts are classified as current if the repayment is scheduled to be made within one year of the reporting date. There have been no redemptions or issuance of borrowings during the 26 week period ended 28 August 2021.

Current

	28 August 2021 £m	27 February 2021 £m	29 August 2020[a] £m
Bank loans and overdrafts	693	559	1,403
Borrowings[b]	527	521	806
	1,220	**1,080**	**2,209**

Non-current

	28 August 2021 £m	27 February 2021 £m	29 August 2020[a] £m
Borrowings[b]	**6,130**	**6,188**	**6,527**

[a] Refer to Note 1 for details of the prior year restatement.
[b] £nil of current and £250m of non-current borrowings (27 February 2021: £1m and £250m, 29 August 2020: £461m and £554m) relate to borrowings issued by Tesco Bank.

Borrowing facilities

The Group has a £2.5bn undrawn committed facility available at 28 August 2021, in respect of which all conditions precedent had been met as at that date, consisting of a syndicated revolving credit facility expiring in more than two years. All facilities incur commitment fees at market rates and would provide funding at floating rates. There were no utilisations of the facility during the financial period.

Note 19 Financial instruments

The following table presents the Group's financial assets and liabilities by level of fair value hierarchy:

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

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

At 28 August 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	603	-	9	612
Cash and cash equivalents at fair value through profit and loss	-	26	-	26
Non-derivative financial assets at fair value through profit and loss	-	23	2	25
Derivative financial instruments:				
- Interest rate swaps	-	38	-	38
- Cross currency swaps	-	284	-	284
- Index-linked swaps	-	1,339	-	1,339
- Forward contracts	-	47	-	47
Total assets				**2,371**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps	-	(368)	-	(368)
- Cross currency swaps	-	(37)	-	(37)
- Index-linked swaps	-	(583)	-	(583)
- Forward contracts	-	(29)	-	(29)
Total liabilities				**(1,017)**
Net assets/(liabilities)				**1,354**

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 and loss	–	14	–	14
Non-derivative financial assets at fair value through profit and loss	–	–	–	–
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				**1,490**
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)**
Net assets/(liabilities)				**483**

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

There were no transfers between Levels 1 and 2 during the period (27 February 2021: £nil, 29 August 2020: £nil) and no transfers into and out of Level 3 fair value measurements (27 February 2021: £nil, 29 August 2020: £nil).

Carrying amounts versus fair values

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:

	28 August 2021 £m		27 February 2021 £m		29 August 2020[a] £m	
	Carrying value £m	Fair value £m	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	6,405	6,559	6,402	6,618	7,285	7,454
Loans and advances to banks – Tesco Bank	51	51	–	–	–	–
Investment securities at amortised cost	929	934	927	932	852	854
Joint ventures and associates loan receivables[b]	102	130	122	153	128	192
Financial liabilities measured at amortised cost						
Borrowings						
Amortised cost	(4,558)	(5,711)	(4,711)	(5,761)	(5,844)	(6,898)
Bonds in fair value hedge relationships	(2,792)	(2,913)	(2,557)	(2,658)	(2,892)	(2,901)
Customer deposits – Tesco Bank	(5,035)	(5,038)	(5,738)	(5,744)	(6,637)	(6,647)
Deposits from banks – Tesco Bank	(1,125)	(1,125)	(600)	(600)	(500)	(500)

[a] Refer to Note 1 for details of the prior year restatement.

[b] Joint venture and associate loan receivables carrying amounts of £102m (27 February 2021: £122m, 29 August 2020: £128m) are presented in the Group balance sheet net of deferred profits of £38m (27 February 2021: £38m, 29 August 2020: £54m).

Tesco Bank expected credit loss (ECL)

Tesco Bank 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 included a Base scenario, an Upside scenario and two different Downside scenarios. As the economic outlook remained uncertain, the Group's scenarios were based on different projected shapes of the recovery, the speed at which consumer and business confidence would support the recovery of GDP and the labour market, and success of the COVID-19 vaccine roll out against emerging strains of the virus. The Base scenario anticipates a prompt economic recovery to pre-pandemic levels driven by strong consumer spending following easing of restrictions. The Upside scenario involves a sharper economic recovery driven by utilisation of savings built up in lockdown, while Downside 1 scenario assumes a longer delay until the economy recovers driven by recurring restrictions. Downside 2 assumes vaccines will be ineffective against new variants, leading to further national lockdowns. 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 weighted economic measures from the scenarios are as follows:

As at 28 August 2021 (5 year average)	Base 40%	Upside 30%	Downside 1 25%	Downside 2 5%
Bank of England base rate[a]	0.4%	0.6%	0.2%	0.0%
Gross domestic product[b]	3.2%	3.7%	2.8%	2.3%
Unemployment rate[a]	5.0%	4.5%	6.2%	8.2%
Unemployment rate peak in year	5.3%	4.8%	6.8%	9.1%

As at 29 August 2020 (5 year average)	Base 50%	Upside 34%	Downside 1 15%	Downside 2 1%
Bank of England base rate[a]	0.1%	0.1%	0.1%	0.1%
Gross domestic product[b]	1.1%	1.7%	0.4%	0.1%
Unemployment rate[a]	6.3%	4.8%	9.1%	11.8%
Unemployment rate peak in year	7.2%	5.1%	10.1%	13.0%

[a] Simple average
[b] Annual growth rates

Key assumptions and sensitivity

The key assumptions to which the Tesco Bank ECL is most sensitive are the probability of default (PD), loss given default (LGD), PD threshold (staging), and expected lifetime (revolving credit facilities). The table below sets out the changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in Tesco Bank's calculations as at 28 August 2021.

		Impact on the loss allowance		
	Reasonably possible change	28 August 2021 £m	27 February 2021 £m	29 August 2020 £m
Closing ECL allowance		**579**	**625**	**650**
Macroeconomic factors (100% weighted)	Upside scenario	(28)	(66)	(83)
	Base scenario	(8)	(1)	24
	Downside scenario 1	31	57	99
	Downside scenario 2	79	117	181
Probability of default	Increase of 2.5%	7	8	13
	Decrease of 2.5%	(7)	(8)	(13)
Loss given default	Increase of 2.5%	9	10	15
	Decrease of 2.5%	(9)	(10)	(15)
Probability of default threshold (staging)	Increase of 20%	(9)	(7)	(19)
	Decrease of 20%	12	11	21
Expected lifetime (revolving credit facilities)	Increase of 1 year	11	9	4
	Decrease of 1 year	(10)	(9)	(4)

The Covid-19 pandemic has had a significant impact on the global economy and there remains a large degree of uncertainty around the impact on unemployment and the speed and shape of any economic recovery. The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by the Group, has distorted the historically observed relationship between unemployment and default. Projected levels of unemployment have fallen from the expectation held at year end, however the Group has yet to see significant defaults emerge in its lending portfolio. As such, Covid-19 specific adjustments to the Group's 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 £240m which includes three management overlays. A first £174m 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 £57m adjustment aligns the potential recovery to the shape of previous economic downturns, and a third £9m adjustment is to recognise an increase in credit risk in respect of customers who sought an extension to their initial payment holiday.

Note 20 Post-employment benefits

Pensions

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

The principal defined benefit pension plan within the Group is the Tesco PLC Pension Scheme (the Scheme), a UK scheme closed to future accrual. The most recent completed triennial actuarial assessment of the Scheme was performed as at 31 December 2019 using the projected unit credit method. 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 Trustees of the Londis pension scheme entered into a buy-in agreement to secure the Londis Scheme's pension benefits in full with an insurer through the purchase of a bulk annuity policy. A one-off premium of £8m was paid to the insurer on 24 March 2021. The Trustees have subsequently announced that the buy-in will be converted to a buy-out, with individual annuity policies issued to Londis Scheme members, and the Londis Scheme will be wound up. Commencement of the wind up was triggered on 29 June 2021. The estimated charge in respect of this transaction is £1m based on the market conditions on the wind-up date and has been included in the Group income statement.

Summary of movements in Group deficit during the financial period

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

	28 August 2021 £m	27 February 2021* £m	29 August 2020* £m
Deficit in schemes at the beginning of the period	**(1,222)**	**(3,085)**	**(3,085)**
Current service cost	(21)	(41)	(22)
Past service cost	–	(7)	-
Finance income/(cost)	(11)	(43)	(28)
Included in the Group income statement	**(32)**	**(91)**	**(50)**
Remeasurement gain/(loss)			
Financial assumptions gain/(loss)	(3,562)	(1,193)	(1,712)
Demographic assumptions gain/(loss)	23	18	(102)
Experience gain/(loss)	5	354	79
Return on plan assets excluding finance income	4,180	(136)	623
Foreign currency translation	2	(3)	(8)
Included in the Group statement of comprehensive income/(loss)	**648**	**(960)**	**(1,120)**
Employer contributions	15	34	22
Additional employer contributions	9	2,836	147
Benefits paid	2	15	14
Classified as held for sale	–	29	29
Other movements	**26**	**2,914**	**212**
Deficit in schemes at the end of the period	**(580)**	**(1,222)**	**(4,043)**
Deferred tax asset	125	218	751
Deficit in schemes at the end of the period, net of deferred tax	**(455)**	**(1,004)**	**(3,292)**

* Movement in relation to discontinued operations for the year ended 27 February 2021 included £(1)m (29 August 2020: £(1)m) within the income statement, £(6)m (29 August 2020: £1m) in Group statement of comprehensive income/loss and £2m (29 August 2020: £nil) in other movements.

Scheme principal assumptions

The major financial assumptions, used to value the defined benefit obligation of the Scheme are as follows:

	28 August 2021 %	27 February 2021 %	29 August 2020 %
Discount rate	1.6	2.0	1.7
Price inflation	3.2	2.9	2.9
Rate of increase in deferred pensions*	2.8	2.5	2.1
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	3.0	2.8	2.7
Benefits accrued after 1 June 2012	2.7	2.5	2.2

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

If the discount rate assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £586m or £5,106m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £609m or £7,214m respectively.
If the inflation assumption increased by 0.1% or 1.0%, the Scheme defined benefit obligation would increase by approximately £539m or £5,949m respectively. If this assumption decreased by 0.1% or 1.0%, the Scheme defined benefit obligation would decrease by approximately £515m or £4,684m respectively.

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

Note 21 Analysis of changes in net debt

				Non-cash movements						
	At 27 February 2021 £m	Cash flows arising from financing activities £m	Other cash flows £m	Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisitions and disposals [a] £m	Other £m	Discontinued operations £m	At 28 August 2021 £m
Total Group										
Bank and other borrowings, excluding overdrafts	(6,736)	47	107	2	18	(102)	(21)	-	-	**(6,685)**
Lease liabilities	(8,402)	288	207	-	5	(207)	-	(113)	(5)	**(8,227)**
Net derivative financial instruments	455	39	4	216	-	(23)	-	-	-	**691**
Arising from financing activities	**(14,683)**	**374**	**318**	**218**	**23**	**(332)**	**(21)**	**(113)**	**(5)**	**(14,221)**
Cash and cash equivalents in the Group balance sheet	2,510	-	(379)	-	60	-	-	-	28	**2,219**
Overdrafts[b]	(532)	-	(98)	-	-	.-	-	-	(35)	**(665)**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,978	-	(477)	-	60	-	-	-	(7)	**1,554**
Short-term investments	1,011	-	1,320	-	-	-	-	-	-	**2,331**
Joint venture loans	122	-	-	-	1	-	(21)	-	-	**102**
Interest and other receivables	-	-	(2)	-	-	2	-	-	-	**-**
Net debt of the disposal group	(141)	-	-	-	-	-	110	-	12	**(19)**
Total Group	**(11,713)**	**374**	**1,159**	**218**	**84**	**(330)**	**68**	**(113)**	**-**	**(10,253)**
Tesco Bank										
Bank and other borrowings, excluding overdrafts	(487)	21	2	-	-	(2)	(21)	-	-	**(487)**
Lease liabilities	(30)	1	-	-	-	-	-	-	-	**(29)**
Net derivative financial instruments	(42)	-	-	13	-	-	-	-	-	**(29)**
Arising from financing activities	**(559)**	**22**	**2**	**13**	**-**	**(2)**	**(21)**	**-**	**-**	**(545)**
Cash and cash equivalents in the Group balance sheet	780	-	(266)	-	-	-	-	-	-	**514**
Overdrafts[b]	-	-	-	-	-	-	-	-	-	**-**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	780	-	(266)	-	-	-	-	-	-	**514**
Joint ventures loans	21	-	-	-	-	-	(21)	-	-	**-**
Tesco Bank	**242**	**22**	**(264)**	**13**	**-**	**(2)**	**(42)**	**-**	**-**	**(31)**
Retail										
Bank and other borrowings, excluding overdrafts	(6,249)	26	105	2	18	(100)	-	-	-	**(6,198)**
Lease liabilities	(8,372)	287	207	-	5	(207)	-	(113)	(5)	**(8,198)**
Net derivative financial instruments	497	39	4	203	-	(23)	-	-	-	**720**
Arising from financing activities	**(14,124)**	**352**	**316**	**205**	**23**	**(330)**	**-**	**(113)**	**(5)**	**(13,676)**
Cash and cash equivalents in the Group balance sheet	1,730	-	(113)	-	60	-	-	-	28	**1,705**
Overdrafts[b]	(532)	-	(98)	-	-	-	-	-	(35)	**(665)**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,198	-	(211)	-	60	-	-	-	(7)	**1,040**
Short-term investments	1,011	-	1,320	-	-	-	-	-	-	**2,331**
Joint ventures loans	101	-	-	-	1	-	-	-	-	**102**
Interest and other receivables	-	-	(2)	-	-	2	-	-	-	**-**
Net debt of the disposal group	(141)	-	-	-	-	-	110	-	12	**(19)**
Net debt	**(11,955)**	**352**	**1,423**	**205**	**84**	**(328)**	**110**	**(113)**	**-**	**(10,222)**

[a] Movements in Group net debt arising from disposal of the Group's Poland operations and acquisition of Tesco Underwriting Limited. Refer to Notes 6 and 23.

[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 15.

[c] Refer to Note 1 for details of the prior year restatement.

Note 21 Analysis of changes in net debt continued

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.

				Non-cash movements						
	At 29 February 2020 £m	Cash flows arising from financing activities £m	Other cash flows £m	Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisitions and disposals [a] £m	Other £m	Discontinued operations £m	At 29 August 2020 £m
Total Group										
Bank and other borrowings, excluding overdrafts	(7,118)	(161)	113	1	(92)	(109)	-	-	-	**(7,366)**
Lease liabilities	(9,566)	321	252	-	(8)	(252)	-	(312)	809	**(8,756)**
Net derivative financial instruments	198	224	(14)	(133)	1	(2)	-	-	-	**274**
Arising from financing activities	**(16,486)**	**384**	**351**	**(132)**	**(99)**	**(363)**	**-**	**(312)**	**809**	**(15,848)**
Cash and cash equivalents in the Group balance sheet	4,137	-	606	-	(21)	-	-	-	(598)	**4,124**
Overdrafts[b][c]	(1,106)	-	(316)	-	-	-	-	-	52	**(1,370)**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	3,031	-	290	-	(21)	-	-	-	(546)	**2,754**
Short-term investments	1,076	-	(134)	-	-	-	-	-	-	**942**
Joint venture loans	127	-	1	-	-	-	-	-	-	**128**
Interest and other receivables	1	-	(5)	-	-	7	-	-	-	**3**
Net debt of the disposal group	-	-	-	-	-	-	-	-	(263)	**(263)**
Total Group	**(12,251)**	**384**	**503**	**(132)**	**(120)**	**(356)**	**-**	**(312)**	**-**	**(12,284)**
Tesco Bank										
Bank and other borrowings, excluding overdrafts	(1,260)	-	2	10	-	(2)	-	-	-	**(1,250)**
Lease liabilities	(33)	2	1	-	-	(1)	-	-	-	**(31)**
Net derivative financial instruments	(45)	-	-	(21)	-	-	-	-	-	**(66)**
Arising from financing activities	**(1,338)**	**2**	**3**	**(11)**	**-**	**(3)**	**-**	**-**	**-**	**(1,347)**
Cash and cash equivalents in the Group balance sheet	1,364	-	216	-	-	-	-	-	-	**1,580**
Overdrafts[b][c]	-	-	-	-	-	-	-	-	-	**-**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,364	-	216	-	-	-	-	-	-	**1,580**
Joint ventures loans	21	-	-	-	-	-	-	-	-	**21**
Tesco Bank	**47**	**2**	**219**	**(11)**	**-**	**(3)**	**-**	**-**	**-**	**254**
Retail										
Bank and other borrowings, excluding overdrafts	(5,858)	(161)	111	(9)	(92)	(107)	-	-	-	**(6,116)**
Lease liabilities	(9,533)	319	251	-	(8)	(251)	-	(312)	809	**(8,725)**
Net derivative financial instruments	243	224	(14)	(112)	1	(2)	-	-	-	**340**
Arising from financing activities	**(15,148)**	**382**	**348**	**(121)**	**(99)**	**(360)**	**-**	**(312)**	**809**	**(14,501)**
Cash and cash equivalents in the Group balance sheet	2,773	-	390	-	(21)	-	-	-	(598)	**2,544**
Overdrafts[b][c]	(1,106)	-	(316)	-	-	-	-	-	52	**(1,370)**
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,667	-	74	-	(21)	-	-	-	(546)	**1,174**
Short-term investments	1,076	-	(134)	-	-	-	-	-	-	**942**
Joint ventures loans	106	-	1	-	-	-	-	-	-	**107**
Interest and other receivables	1	-	(5)	-	-	7	-	-	-	**3**
Net debt of the disposal group	-	-	-	-	-	-	-	-	(263)	**(263)**
Net debt	**(12,298)**	**382**	**284**	**(121)**	**(120)**	**(353)**	**-**	**(312)**	**-**	**(12,538)**

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

Note 21 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in Net debt	28 August 2021 £m	29 August 2020 £m
Net increase/(decrease) in cash and cash equivalents including overdrafts	**(477)**	**290**
Elimination of Tesco Bank movement in cash and cash equivalents including overdrafts	266	(216)
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	1,320	(134)
Net increase/(decrease) in joint venture loans	-	1
Net (increase)/decrease in borrowings and lease liabilities	313	158
Net cash flows from derivative financial instruments	39	224
Net interest paid on components of Net debt	314	343
Change in Net debt resulting from cash flow	**1,775**	**666**
Retail net interest charge on components of Net debt	(328)	(353)
Retail fair value and foreign exchange movements	289	(241)
Retail other non-cash movements	(113)	(312)
Disposal of Poland operations (Note 6)	110	-
(Increase)/decrease in Net debt	**1,733**	**(240)**
Opening Net debt	(11,955)	(12,298)
Closing Net debt	**(10,222)**	**(12,538)**

Note 22 Called up share capital

	26 weeks ended 28 August 2021		52 weeks ended 27 February 2021	
	Number of Ordinary shares	£m	Number of Ordinary shares	£m
Allotted, called up and fully paid:				
At the beginning of the year	**7,731,707,820**	**490**	**9,793,496,561**	**490**
Share consolidation (including shares issued)*	-	-	(2,061,788,741)	-
At the beginning and end of the financial period	**7,731,707,820**	**490**	**7,731,707,820**	**490**

* To effect the share consolidation, 11 additional Ordinary shares were issued so that the total Ordinary shares is exactly divisible by 19.

In order to maintain the comparability of the Company's share price before and after a special dividend of £4.9bn was declared in the prior financial year, a share consolidation was approved at the General Meeting held on 11 February 2021. Shareholders received 15 new Ordinary shares of 6 ⅓ pence each for every existing 19 Ordinary shares of 5 pence each.

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

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

Own shares purchased

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

The own shares held represents the cost of shares in Tesco PLC purchased in the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans. The number of Ordinary shares held by the Tesco International Employee Benefit Trust at 28 August 2021 was 51.3 million (27 February 2021: 58.4 million). This represents 0.66% of called-up share capital at the end of the financial period (27 February 2021: 0.76%).

No own shares held of Tesco PLC were cancelled during the financial periods presented.

Note 23 Business combinations

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, Tesco Underwriting Limited ("TU"), from its joint venture partner, Ageas (UK) Limited. TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products.

The transaction has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. The acquisition is in line with the Group's strategy of focusing on propositions which better meet the needs of Tesco shoppers. The investment will significantly enhance the Group's insurance capability. Total cash consideration of £90m has been paid to date, with an additional deferred payment of £5m due to be paid on expiry of the exit period, subject to the fulfilment of the joint venture partner's obligations in relation to the migration and transition of the TU business to the Group. Expiry of the exit period is expected to be one year from the acquisition date.

In line with the requirements of IFRS 3, the existing equity interest in TU held by the Group immediately before the acquisition date was remeasured to a fair value of £89m. This resulted in a remeasurement gain for the Group of £5m, included in the Group income statement. The Group also recognised a gain of £5m in relation to its share of TU's available-for-sale (AFS) reserve immediately prior to acquisition, included in the Group income statement.

The table below shows the total purchase consideration of the acquisition in the period:

	Consideration £m
Cash consideration paid	90
Contingent consideration	5
Non-cash settlement of pre-existing relationships	12
Fair value of the Group's initial 49.9% investment	89
Total purchase consideration	**196**

The table below sets out the fair values of the identifiable assets and liabilities acquired:

	Fair value £m
Assets	
Cash and balances with central banks	9
Loans and advances to banks	33
Investment securities	635
Reinsurance assets	247
Prepayments and accrued income	2
Other assets	24
Intangible assets	18
Property, plant and equipment	1
Total assets	**969**
Liabilities	
Accruals and deferred income	(15)
Other liabilities	(5)
Deferred income tax liability	(2)
Insurance funds withheld	(100)
Insurance contract provisions	(650)
Subordinated liabilities	(21)
Total liabilities	**(793)**
Total fair value acquired	**176**
Total purchase consideration	196
Less: Fair value acquired	176
Goodwill recognised	**20**

The goodwill arising on the acquisition is primarily attributable to synergies which are expected to be realised from the acquisition and having full control over the insurance business and has been allocated to the Tesco Bank segment. None of the goodwill is expected to be deductible for tax purposes. Acquired intangible assets comprise internally generated computer software of £18m, which is amortised over a period of 5 years. The fair value of acquired insurance and other receivables was £26m.

The contribution of the business since acquisition to operating profit and profit before tax was £24m and £12m respectively. If the acquisition had occurred on 28 February 2021, the Group's total income net of insurance claims for the year would have increased by £12m to £36m and the profit before tax would have increased by £4m to £16m.

Transaction costs of £1m, included in administrative expenses, were incurred by the Group in relation to the acquisition during the period to 28 August 2021 (29 August 2020: £2m).

Note 24 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 September 2020 two claimant law firms issued proceedings against Tesco PLC for matters arising out of or in connection with the overstatement of profit announced in 2014.These claims have now been settled and the Group has taken an exceptional charge in the amount of £193m as a result of settlement and associated legal costs. Given that the legal timeframe for bringing a claim has now elapsed, no further related claims can be brought by shareholders.

Prior to the disposal of its Korean operations (Homeplus), Tesco PLC provided guarantees in respect of 13 Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus' default. Entities controlled by MBK Partners and Canada Pension Plan Investment Board as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. At 29 August 2021, three guarantees remained outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2028. The maximum potential liability under these outstanding guarantees is between KRW 64bn (£40m) and KRW 92bn (£57m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 34bn (£21m), with funds of KRW 21bn (£13m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 13bn (£8m). 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 Stores Limited and Tesco Holdings B.V received claims from the purchasers relating to the sale of the business. In July 2020, an Arbitral Tribunal dismissed the majority of the claims. It made findings of liability in relation to the remaining claims and on 17 September 2021 made a Final Award of a payment from the Group to the purchasers of £119m in damages, interest and costs. Arbitration judgments are final and may not be appealed by either party. This was recognised as an adjusting post balance sheet event, with an exceptional discontinued charge increasing the provision held by £33m. The Final Award was cash settled on 30 September.

As previously reported, Tesco Stores Limited has received claims from current and former Tesco store colleagues alleging that their work is of equal value to that of colleagues working in Tesco's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential between the pay terms looking back, and equivalence of pay terms moving forward. At present, the likely number of claims that may be received and the merit, likely outcome and potential impact on the Group of any such litigation is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure. There are substantial factual and legal defences to these claims and the Group intends to vigorously defend them.

Note 25 Events after reporting period

On 17 September 2021, an arbitral tribunal made a Final Award in relation to claims from the purchasers relating to the sale of Homeplus (Korea) in 2015. Refer to Note 24 for further details.

On 4 October 2021, the Group repaid gross debt totalling £375m, consisting of £293m of debt and £82m of swap break costs. This had no impact on net debt.

Introduction

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

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

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

Purpose

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

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

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

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

Changes to APMs

The Directors and management have redefined Retail free cash flow to exclude cash flows from business acquisitions and disposals, investments in joint ventures and associates, cash flows from the sale of property and other fixed assets, buyback of property and other exceptional cash flows. This provides a more consistent and predictable view of free cash flow generated by the core retail operation by adjusting for non-recurring, volatile or uncontrollable factors which may be driven by external events or non-operational business decisions such as acquisitions and disposals of properties as opportunities arise. The Retail operating cash flow and Free cash flow APMs are no longer used following the redefinition of the Retail free cash flow APM.

The Directors and management have simplified the naming of the Group's profit and EPS APMs. References to: before exceptional items, amortisation of acquired intangibles, net pension finance costs and/or fair value remeasurements of financial instruments, as applicable, have been replaced with "adjusted" in the names of the measures. Their definitions remain unchanged and there has been no impact on current or on previously reported figures.

The Directors and management have added Net debt / EBITDA ratio as a new indebtedness APM, which is defined as Net debt divided by Retail EBITDA. This metric is used to demonstrate the Group's ability to meet its payment obligations and removes any distortion associated with the volatility of IAS 19 pension movements included in the existing Total indebtedness ratio APM. Since the new APM is intended to provide additional useful information on underlying indebtedness trends, Directors and management will continue to present the existing indebtedness APMs.

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 26 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	– Consistent with accounting policy	– Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
Retail sales	Revenue	– Exclude Tesco Bank sales – Exclude sales made at petrol filling stations	– Group sales excluding Tesco Bank sales to demonstrate the Group's underlying performance in the core Retail businesses.
Profit measures			
Adjusted operating profit	Operating profit*	– Exceptional items – Amortisation of acquired intangibles	– Adjusted operating profit is the headline measure of the Group's performance, and is based on operating profit from continuing operations before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain cost or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group. This is a key management incentive metric.
Retail adjusted operating profit	Operating profit*	– Tesco Bank operating profit – Retail exceptional items – Retail amortisation of acquired intangibles	– Retail adjusted 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 adjusted operating profit excluding Tesco Bank.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Profit measures continued			
Operating margin	No direct equivalent	– Consistent with accounting policy	– Operating margin is calculated as adjusted operating profit divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Retail earnings before exceptional items, interest, tax, depreciation and amortisation (Retail EBITDA)	Operating profit*	– Exceptional items – Depreciation and amortisation – Tesco Bank earnings before exceptional items, interest, tax, depreciation and amortisation – Discontinued operations	– This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation and amortisation and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.
Adjusted profit before tax	Profit before tax	– Exceptional items – Amortisation of acquired intangibles – Net pension finance costs – 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.
Adjusted total finance costs	Finance costs	– Exceptional items – Net pension finance costs – Fair value remeasurements of financial instruments	– This measure 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.
Adjusted diluted earnings per share	Diluted earnings per share	– Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements of financial instruments	– This relates to adjusted profit after tax attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options. – It excludes net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Adjusted diluted earnings per share (adjusted for share consolidation)	Diluted earnings per share	– Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements of financial instruments – Weighted average number of diluted shares	– This relates to adjusted profit after tax attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options. – It is 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 the Group's 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 reflect the full impact of the share consolidation and special dividend. To aid comparability, this 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. – 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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and Purpose
Tax measures			
Effective tax rate on adjusted operating profit	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact	- Effective tax rate on adjusted Group operating profit 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 adjusted operating profit. This provides an indication of the ongoing tax rate across the Group.
Effective tax rate on adjusted profit before tax	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact – Net pension finance costs and their tax impact – Fair value remeasurements of financial instruments and their tax impact	- Effective tax rate on adjusted Group profit before tax is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles items, net pension finance costs and fair value remeasurements divided from continuing operations by the adjusted profit before tax.
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.
Net debt/ EBITDA ratio	No direct equivalent	– Consistent with accounting policy	– Net debt/ EBITDA ratio is calculated as Net debt 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.
Total indebtedness	Borrowings less cash and related hedges	– Consistent with accounting policy	– Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	– Consistent with accounting policy	– Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month Retail EBITDA. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Fixed charge cover	No direct equivalent	– Consistent with accounting policy	– Fixed charge cover is calculated as the rolling 12-month Retail EBITDA divided by the sum of net finance cost (excluding net pension finance costs, finance charges payable on lease liabilities, exceptional items, capitalised interest and fair value remeasurements) and all lease liability payments from continuing operations. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Cash flow measures			
Retail free cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Retail cash generated from/(used in) investing activities, – Market purchase of shares issued in relation to share schemes – Repayment of obligations under leases – Investing cash flows that increase/decrease items within Net debt – Cash flows from/(used in) business acquisitions and disposals – Cash flows from the buyback of stores – Cash flows from the sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale – Cash flows from investments in joint ventures and associates – Other exceptional cash flows	– 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 repayment of obligations under leases, excluding the effects of Tesco Bank's cash flows. The following items are excluded: investing cash flows that increase/decrease items within Net debt, proceeds from the sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale, cash utilised to buy back stores, proceeds from the sale of subsidiaries, cash utilised in business acquisitions, cash used for investment in joint ventures and associates, and exceptional cash items. This measure reflects the cash available to shareholders. This is a key management metric.

Adjusted diluted earnings per share (adjusted for share consolidation)	28 August 2021	29 August 2020
Weighted average number of diluted shares		
Diluted weighted average number of shares (millions)	7,754	9,771
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions)	-	(2,057)
Adjusted diluted weighted average number of shares (adjusted for share consolidation) (millions)	**7,754**	**7,714**
Adjusted diluted earnings per share (pence)	**11.22**	**5.75**
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)	-	1.54
Adjusted diluted earnings per share (adjusted for share consolidation) (pence)	**11.22**	**7.29**

Reconciliation of debt metrics

As the incomes and expenses included in debt APMs are calculated using a rolling 12-month period, the amounts for the 12 months to 28 August 2021 are not disclosed in the notes to the condensed consolidated interim financial statements for the current financial period.

Retail EBITDA	28 August 2021 £m	27 February 2021 £m
Adjusted operating profit/(loss)	**2,236**	**1,815**
Add/(less): Tesco Bank operating loss/(profit) before exceptional items	(52)	175
Retail adjusted operating profit	**2,184**	**1,990**
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	1,657	1,671
Less: Tesco Bank depreciation and amortisation	(58)	(57)
Retail EBITDA	**3,783**	**3,604**

Total indebtedness ratio	28 August 2021 £m	27 February 2021 £m
Net debt (£m)	10,222	11,955
Retail EBITDA (£m)	**3,783**	**3,604**
Net debt / EBITDA ratio	**2.7**	**3.3**
Add: Defined benefit pension deficit, net of deferred tax (£m)	455	1,004
Total indebtedness (£m)	**10,677**	**12,959**
Retail EBITDA (£m)	**3,783**	**3,604**
Total indebtedness ratio	**2.8**	**3.6**

Reconciliation of debt metrics continued

Fixed charge cover	**28 August 2021**	**27 February 2021**
Net finance costs (£m)	626	937
Less: Net pension finance costs (£m)	(26)	(43)
Add: Fair value remeasurements of financial instruments (£m)	74	(214)
Adjusted total finance costs (£m)	**674**	**680**
Add: Capitalised interest (£m)	–	-
Less: Finance charges payable on lease liabilities (£m)	(424)	(446)
Adjusted total finance cost, excluding capitalised interest and finance charges payable on lease liabilities (£m)	**250**	**234**
Add: Retail total lease liability payments (£m)	977	1,104
Less: Retail discontinued operations lease liability payments £(m)	–	(99)
	1,227	1,239
Retail EBITDA (£m)	**3,783**	**3,604**
Fixed charge cover	**3.1**	**2.9**

Retail free cash flow

Continuing operations	Note	26 weeks 2021 £m	26 weeks 2020 £m
Retail cash generated from/ (used in) operating activities	**2**	**2,267**	**1,400**
Retail cash generated from/ (used in) investing activities	**2**	**(1,621)**	**(364)**
Own shares purchased in relation to share schemes	2	(55)	(79)
Retail repayment of capital element of obligations under leases	2	(286)	(292)
Exclude/add back:			
Retail proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	2	(109)	(32)
Retail purchase of property, plant and equipment and investment property – store buy backs	2	37	148
Retail disposal of subsidiaries, net of cash disposed	2	(125)	26
Retail acquisition of businesses, net of cash acquired	2	–	(15)
Retail investment in associates and joint ventures	2	8	11
Retail exceptional net cash (generated from)/used in operating activities	2	107	127
Retail increase/ (decrease) in loans to joint ventures and associates	2	–	1
Retail net investments in/(proceeds from sale of) short-term investments	2	1,320	(134)
Retail free cash flow		**1,543**	**797**

As a memo at transition, the following table reconciles the Retail free cash flow APM to that previously presented:

	Note	26 weeks 2021 £m	26 weeks 2020 £m
Retail free cash flow	2	**1,543**	**797**
Retail proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	2	109	32
Retail purchase of property, plant and equipment and investment property – store buy backs	2	(37)	(148)
Retail disposal of subsidiaries, net of cash disposed	2	125	(26)
Add*:* Cash outflow from major disposal*		–	22
Retail acquisition of businesses, net of cash acquired	2	–	15
Retail investment in associates and joint ventures	2	(8)	(11)
Retail exceptional net cash generated from/(used in) operating activities	2	(107)	(127)
Memo: Retail free cash flow including cash flows from non-major corporate acquisitions and disposals, cash flows from the sale or buyback of properties, and retail exceptional cash flows from operating activities		**1,625**	**554**

* Cash outflows relating to the disposal of Asia in the 26 week period ended 29 August 2020.

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

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

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

ESG
Environmental, social and governance.

Expected credit loss (ECL)
Credit loss represents the portion of the debt that a company is unlikely to recover. The expected credit loss is the projected future losses based on probability-weighted calculations.

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

MTN
Medium term note.

MREL
Minimum requirements for own funds and eligible liabilities (European Banking Authority).

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

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

RPI
Retail Price Index.

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

Independent review report to Tesco PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 August 2021 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and related notes 1 to 25. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

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

As disclosed in Note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 28 August 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

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

Deloitte LLP
Statutory Auditor
London, United Kingdom
5 October 2021

Appendix 1

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

	Like-for-like sales					
	H1 2020/21	H2 2020/21	FY 2020/21	Q1 2021/22	Q2 2021/22	H1 2021/22
UK&ROI	**7.2%**	**6.5%**	**6.8%**	**1.3%**	**3.6%**	**2.4%**
UK	7.6%	7.8%	7.7%	0.5%	2.0%	1.2%
ROI	15.5%	12.6%	14.0%	(6.1)%	1.2%	(2.6)%
Booker	2.2%	(4.0)%	(0.8)%	9.2%	12.5%	11.0%
Central Europe	**(0.9)%**	**0.1%**	**(0.4)%**	**(1.6)%**	**4.3%**	**1.4%**
Total Retail	**6.5%**	**6.0%**	**6.3%**	**1.0%**	**3.6%**	**2.3%**
Tesco Bank	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total Group	**6.5%**	**6.0%**	**6.3%**	**1.0%**	**3.6%**	**2.3%**

Appendix 2

Total sales performance (exc. VAT, exc. fuel)

	Actual rates				Constant rates			
	H1 2020/21	H2* 2020/21	FY 2020/21	H1 2021/22	H1 2020/21	H2* 2020/21	FY 2020/21	H1 2021/22
UK&ROI	**8.6%**	**9.1%**	**8.8%**	**2.7%**	**8.5%**	**8.8%**	**8.6%**	**2.9%**
UK	7.7%	8.3%	8.0%	1.8%	7.7%	8.3%	8.0%	1.8%
ROI	16.3%	17.5%	16.9%	(5.8)%	14.5%	12.9%	13.7%	(2.0)%
Booker	11.0%	10.6%	10.5%	11.1%	11.0%	10.6%	10.5%	11.1%
Central Europe	**(4.3)%**	**0.1%**	**(2.1)%**	**(0.8)%**	**(1.5)%**	**0.1%**	**(0.6)%**	**2.6%**
Total Retail	**7.5%**	**8.3%**	**7.9%**	**2.4%**	**7.7%**	**8.1%**	**7.9%**	**2.9%**
Tesco Bank	**(31.4)%**	**(31.0)%**	**(31.2)%**	**12.2%**	**(31.4)%**	**(31.0)%**	**(31.2)%**	**12.2%**
Total Group	**6.6%**	**7.5%**	**7.1%**	**2.6%**	**6.8%**	**7.3%**	**7.0%**	**3.0%**

* In order to ensure the best comparability year-on-year, sales growth in H2 FY 2020/21 is reported as sales for 26 weeks ending 27 February 2021 against sales for 26 weeks ending 29 February 2020

Appendix 3

Country detail - Retail

	Revenue (exc. VAT, inc. fuel)			
	Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	22,896	22,896	1.0	1.0
ROI	1,450	1,245	1.2	1.2
Booker	3,865	3,865	1.0	1.0
Czech Republic	20,342	680	29.9	29.8
Hungary	282,621	680	415.6	407.5
Slovakia	697	599	1.2	1.2

UK sales area by size of store

Store size (sq. ft.)	28 August 2021			27 February 2021		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0 – 3,000	2,544	5.5	14.2%	2,534	5.5	14.2%
3,001 – 20,000	280	3.0	7.8%	282	3.0	7.8%
20,001 – 40,000	286	8.2	21.2%	285	8.2	21.2%
40,001 – 60,000	182	8.8	22.8%	182	8.8	22.8%
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*	**3,465**	**38.6**	**100.0%**	**3,456**	**38.6**	**100%**

* Excludes Booker and franchise stores.

Actual Group space – store numbers [a]

	2020/21 year-end	Openings	Closures/ disposals	Net gain/ (reduction)[b]	As at 28 August 2021	Repurposing/ extensions
Large	795	1	(1)	-	795	-
Convenience	1,938	8	(5)	3	1,941	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,739**	**9**	**(6)**	**3**	**2,742**	**-**
One Stop[c]	705	5	-	5	710	-
Booker	194	-	(1)	(1)	193	-
Jack's	12	1	-	1	13	-
UK[c]	**3,650**	**15**	**(7)**	**8**	**3,658**	**-**
ROI	151	-	-	-	151	-
UK & ROI[c]	**3,801**	**15**	**(7)**	**8**	**3,809**	**-**
Czech Republic[c]	183	-	-	-	183	-
Hungary	201	-	(2)	(2)	199	-
Slovakia	153	1	-	1	154	-
Central Europe[c]	**537**	**1**	**(2)**	**(1)**	**536**	**-**
Group[c]	**4,338**	**16**	**(9)**	**7**	**4,345**	**-**
UK (One Stop)	207	30	(4)	26	233	-
Czech Republic	123	5	(1)	4	127	-
Slovakia	5	3	-	3	8	-
Franchise stores	**335**	**38**	**(5)**	**33**	**368**	**-**

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

Actual Group space – '000 sq. ft.[a]

	2020/21 year-end	Openings	Closures/ disposals	Repurposing/ extensions[b]	Net gain/ (reduction)	As at 28 August 2021
Large	31,339	33	(9)	-	24	31,363
Convenience	5,244	19	(14)	-	5	5,249
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,299**	**52**	**(23)**	**-**		**37,328**
One Stop[c]	1,150	10	-	-	10	1,160
Booker	8,284	-	(37)	-	(37)	8,247
Jack's	119	10	-	-	10	129
UK[c]	**46,852**	**72**	**(60)**	**-**	**12**	**46,864**
ROI	3,335	-	-	-	-	**3,335**
UK & ROI[c]	**50,187**	**72**	**(60)**	**-**	**12**	**50,199**
Czech Republic[c]	4,266	-	-	-	-	4,266
Hungary	5,997	-	(15)	-	(15)	5,982
Slovakia	3,151	14	-	5	19	3,170
Central Europe[c]	**13,414**	**14**	**(15)**	**5**	**4**	**13,418**
Group[c]	**63,601**	**86**	**(75)**	**5**	**16**	**63,617**
UK (One Stop)	256	41	(5)	42	78	334
Czech Republic	118	3	(6)	-	(3)	115
Slovakia	5	3	-	-	3	8
Franchise stores	**379**	**47**	**(11)**	**42**	**78**	**457**

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

Group space forecast to 26 February 2022 – '000 sq. ft.[a]

	As at 28 August 2021	Openings	Closures/ disposals	Repurposing /extensions[b]	Net gain/ (reduction)	2021/22 year-end
Large	31,363	24	-	-	24	31,387
Convenience	5,249	74	(7)	-	67	5,316
Dotcom only	716	-	-	-	-	716
Total Tesco	**37,328**	**98**	**(7)**	**-**	**91**	**37,419**
One Stop[c]	1,160	6	-	-	6	1,166
Booker	8,247	-	(37)	-	(37)	8,210
Jack's	129	-	-	-	-	129
UK[c]	**46,864**	**104**	**(44)**	**-**	**60**	**46,924**
ROI	3,335	23	-	-	23	3,358
UK & ROI[c]	**50,199**	**127**	**(44)**	**-**	**83**	**50,282**
Czech Republic[c]	4,266	43	-	-	43	4,309
Hungary	5,982	-	-	-	-	5,982
Slovakia	3,170	-	-	-	-	3,170
Central Europe[c]	**13,418**	**43**	**-**	**-**	**43**	**13,461**
Group[c]	**63,617**	**170**	**(44)**	**-**	**126**	**63,743**
UK (One Stop)	334	27	-	-	27	361
Czech Republic	115	3	(2)	-	1	116
Slovakia	8	15	-	-	15	23
Franchise stores	**457**	**45**	**(2)**	**-**	**43**	**500**

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

Tesco Bank income statement

	H1 2021/22* £m	H1 2020/21* £m
Revenue		
Interest receivable and similar income	238	292
Fees and commissions receivable	101	94
Gross insurance premium income	94	-
	433	**386**
Direct costs		
Interest payable	(20)	(51)
Fees and commissions payable	(10)	(6)
Insurance premium income ceded to reinsurers	(42)	-
Insurance claims	(61)	-
Reinsurers' share of claims and benefits incurred	34	-
	(99)	**(57)**
Other income	11	-
Gross profit	**345**	**329**
Other expenses		
Staff costs	(104)	(91)
Premises and equipment	(33)	(36)
Other administrative expenses	(85)	(70)
Depreciation and amortisation	(30)	(30)
Impairment loss on financial assets	(21)	(257)
Operating profit/(loss) before exceptional items	**72**	**(155)**
Exceptional items	-	-
Operating profit/(loss)	**72**	**(155)**
Net finance costs: movements on derivatives and hedge accounting	(1)	(1)
Net finance costs: interest	(3)	(3)
Share of profit/(loss) of joint venture	3	9
Profit/(loss) before tax	**71**	**(150)**

* These results are for the six months ended 31 August 2021 and the previous comparison is made with the six months ended 31 August 2020.