TESCO

Preliminary Results 2015/16

A YEAR OF SIGNIFICANT PROGRESS

Group sales[1,2]	Operating profit before exceptionals[2]	Statutory operating profit	Retail operating cash flow[3]	Net debt[3,4]
£48.4bn up 0.1%	**£944m** up 1.1%	**£1,046m** from £(5,750)m loss	**£2.6bn** up 39%	**£(5.1)bn** down 40%

Headlines

Significant progress on all three transformation priorities

- UK like-for-like sales growth of 0.9% in 4Q; Group like-for-like sales growth of 1.6% in 4Q
- £6.2bn reduction in total indebtedness, including contribution from sale of Homeplus in Korea
- Customer, colleague, supplier measures all improved

Guided by a clear purpose, 'serving shoppers a little better every day'

- UK customer satisfaction up 5% over the course of the year
- UK volumes up 3.3% in 4Q; UK transactions up 2.8% in 4Q
- International volumes up 5.5% in 4Q

Achieved what we set out to do

- £944m operating profit before exceptional items
- Retail operating cash flow of £2.6bn
- Initial £400m cost saving programme delivered
- UK & ROI property now 47% freehold (+6%) following two further transactions in Feb 2016

Improving trends across the Group

- Positive and improving like-for-like sales growth trends in all regions: UK, ROI, Europe and Asia
- Improving sales performance in all formats and categories
- Strong growth in Tesco Bank customer deposits and lending
- Continued growth at Tesco Mobile, the UK's largest MVNO – now 4.6m customers

Clear commitment to the customer

- The customer is and always will be our prime focus
- Continuing to invest to improve the competitiveness of our offer
- Seven exclusive fresh food brands launched in March 2016

Dave Lewis, Chief Executive:

"We have made significant progress against the priorities we set out in October 2014. We have regained competitiveness in the UK with significantly better service, a simpler range, record levels of availability and lower and more stable prices. Our balance sheet is stronger and we are making good progress in rebuilding trust in Tesco and our investment case.

Our process of transformation has generated broad-based positive momentum in the UK and internationally. We set out to start rebuilding profitability whilst reinvesting in the customer offer, and we have done this. More customers are buying more things more often at Tesco.

As a team, we are committed to serving shoppers a little better every day, in what remains a challenging, deflationary and uncertain market. We are confident that the investments we are making are leading to sustainable improvements for customers whilst creating long-term value for our shareholders."

Like-for-like sales performance

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/16
UK & ROI	**(1.5)%**	**(1.0)%**	**(1.5)%**	**0.9%**	**(1.3)%**	**(0.1)%**	**(0.7)%**
UK	(1.3)%	(1.0)%	(1.5)%	0.9%	(1.1)%	(0.1)%	(0.6)%
ROI	(4.4)%	(2.9)%	(1.2)%	1.0%	(3.7)%	0.0%	(1.9)%
International	**(0.2)%**	**2.3%**	**2.9%**	**3.8%**	**1.0%**	**3.4%**	**2.3%**
Europe	2.2%	4.0%	3.3%	4.1%	3.2%	3.7%	3.5%
Asia	(3.4)%	0.1%	2.4%	3.5%	(1.7)%	2.9%	0.6%
Group	**(1.2)%**	**(0.3)%**	**(0.5)%**	**1.6%**	**(0.8)%**	**0.6%**	**0.0%**

Headline Group results

52 weeks ended 27 February 2016 **On a continuing operations basis**	**2015/16**	**2014/15**	**Year-on-year change[5]** (Constant exchange rates)	**Year-on-year change[5]** (Actual exchange rates)	*Change vs 53 week 2014/15 statutory results*
Group sales (exc. VAT, exc. fuel)	**£48,352m**	**£49,853m**	**0.1%**	**(1.6)%**	*(3.0)%*
Fuel	£6,081m	£7,072m	(11.3)%	(10.9)%	*(14.0)%*
Revenue (exc. VAT, inc. fuel)	£54,433m	£56,925m	(1.3)%	(2.8)%	*(4.4)%*
Group operating profit before exceptional items[6]	**£944m**	**£940m**	**1.1%**	**0.0%**	*0.4%*
- UK & ROI[7]	£505m	£498m	1.4%	0.6%	*1.4%*
- International	£277m	£254m	11.4%	9.1%	*9.1%*
- Tesco Bank	£162m	£188m	(13.8)%	(13.8)%	*(13.8)%*
Include exceptional items	£102m	£(6,690)m			
Group statutory operating profit/(loss)	£1,046m	£(5,750)m	n/m	n/m	*n/m*
Group profit before tax before exceptional items and net pension finance costs	£435m	£490m		(11.9)%	*(11.2)%*
Group statutory profit/(loss) before tax	£162m	£(6,334)m		n/m	n/m
Diluted EPS before exceptional items	3.41p	4.14p			*(17.6)%*
Diluted EPS before exceptional items and net pension finance costs	4.97p	5.46p			*(9.1)%*
Diluted EPS	2.76p	(69.56)p			*n/m*
Capex	**£1.0bn**	**£1.8bn**			*down 45.4%*
Net debt[3,4]	**£(5.1)bn**	**£(8.5)bn**			*down 39.7%*
Cash generated from retail operations[3]	**£2.6bn**	**£1.9bn**			*up 38.8%*

Notes
1. Group sales exclude VAT and fuel.
2. For continuing operations. Change is shown at constant rates on a comparable 52 week basis.
3. Includes both continuing and discontinued operations.
4. Net debt excludes the net debt of Tesco Bank.
5. Change is shown on a comparable 52 week basis.
6. Exceptional items are excluded by virtue of their size and nature in order to better reflect management's view of the performance of the Group.
7. The elimination of intercompany transactions between continuing operations and the Korea discontinued operation, as required by IFRS 5 and IFRS 10, has resulted in a reduction to the prior period UK & ROI operating profit of £(9)m.

Update on our priorities

The priorities we set out in October 2014 have guided the actions we have taken over the last 18 months.

1. Regaining competitiveness in core UK business:

- maintained investment in service with nine thousand more customer facing roles
- improved operational performance and simpler processes driving record levels of availability
- reduced prices on thousands of products, underpinned with unique 'Brand Guarantee'
- reviewed every one of our 33 food categories, reducing the number of products by 18%, lowering the price of an average weekly shop by over 3% in the last year, whilst introducing 2,000 new lines
- generated annual positive volume growth for the first time in five years, supporting efforts to build long-term, mutually-beneficial relationships with suppliers
- completed UK management restructure, with a 25% reduction in roles in the office
- closed 60 unprofitable stores
- introduced seven exclusive brands, providing quality fresh foods at outstanding prices

2. Protecting and strengthening the balance sheet:

- reduced indebtedness by a total of £6.2bn, including a significant contribution from the sale of our Homeplus business in Korea in October
- agreed funding plan of £270m per annum with pension trustee to close actuarial deficit
- replaced UK defined benefit pension scheme with a defined contribution scheme from November, providing sustainable benefits for colleagues and greater certainty on future cash requirements
- generated retail operating cash flow of £2.6bn, despite £(0.3)bn working capital outflows relating to exceptional items and our new approach to cash payment terms with suppliers
- regained ownership of 70 stores and two distribution centres, improving our UK & ROI freehold ratio by 6% to 47% and reducing our exposure to inflation-linked and fixed-uplift rent reviews
- increased capital discipline, significantly reduced the level of capital expenditure
- restructured Central European overheads, improving the prospects for medium-term returns
- exited plans to build out 49 stores and, in October 2015 agreed sale of 14 sites for £250m

3. Rebuilding trust and transparency:

- aligned colleagues behind core purpose of 'Serving Britain's shoppers a little better every day'
- introduced lower, more stable prices, redirected promotional and coupon spend into core shelf edge prices; reduced number of multi-buy promotions by a third in the fourth quarter
- simplified our relationships with suppliers, moving from 24 forms of commercial income towards three and standardising payment terms
- Supplier Viewpoint measure improved from 51% to 68% in UK; from 58% to 70% for the Group
- built on success of Tesco Sustainable Dairy Group, guaranteeing an above-market price for milk produced for British own-label Mild, Medium, Mature, Red Leicester & Double Gloucester cheese
- announced aim to ensure all surplus food from stores goes to charity and not to waste by 2017
- started roll out of Community Food Connection with FareShare FoodCloud in over 100 stores
- improved Tesco Bank's offer by removing monthly current account fees for customers in credit, and providing monthly communication of foregone interest
- Tesco Mobile named Which? recommended provider for fifth year in a row

Outlook

We have made good progress over the last year. We are continuing to invest in our customer offer in order to improve our competitiveness in what remains a challenging, deflationary and uncertain market. This will be reflected in the pace of improvement in profitability in the current year, particularly in the first half.

We are increasingly confident that the actions we are taking are leading to sustainable improvements for customers and will result in a continued improvement in profitability and the creation of long-term value for shareholders.

Financial Results

Our reporting segments ('UK & ROI', 'International' and 'Tesco Bank') are aligned to the way we operate the business and report performance internally.

The results of our business in Korea have been classified as discontinued operations following the sale of Homeplus on 22 October 2015.

Sales:

	UK & ROI	International[1]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£37,189m**	**£10,208m**	**£955m**	**£48,352m**
52 week change at constant exchange rates[2] %	(0.5)%	1.8%	0.8%	0.1%
52 week change at actual exchange rates[2] %	(0.9)%	(4.3)%	0.8%	(1.6)%
Like-for-like sales (exc. VAT, exc. fuel)	**(0.7)%**	**2.3%**	**-**	**0.0%**
Revenue (exc. VAT, inc. fuel)	**£43,080m**	**£10,398m**	**£955m**	**£54,433m**
Includes: Fuel	£5,891m	£190m	-	£6,081m

1. International consists of Central Europe (Czech Republic, Hungary, Poland and Slovakia), Malaysia, Thailand and Turkey.
2. Sales change shown on a comparable 52 week basis; statutory Group sales change was (3.0)% at actual exchange rates and (1.4)% at constant exchange rates.

Group sales grew by 0.1% on a 52 week basis at constant exchange rates. At actual exchange rates, sales declined by (1.6)% including a (1.7)% foreign exchange translation effect principally due to weakness across our European currencies. Further information on sales performance is included in Appendices 1 to 3 on page 43 of this statement.

In the UK and the Republic of Ireland, there was a marked improvement in like-for-like sales performance from (1.3)% in the first half to (0.1)% in the second half.

In the UK, customers are responding well to changes we have made in all aspects of our offer and we have seen an improving trend through the year in both customer numbers and volume growth. Full year UK sales declined by (0.4)% on a 52 week basis, reflecting both an improving trajectory in our like-for-like sales performance and a declining contribution from net new store space, due to store closures.

UK like-for-like sales, excluding VAT and excluding fuel, fell by (0.6)% in the year but improved over the course of the year, rising by 0.9% in the fourth quarter driven by a strong performance across all our store formats and product categories. High levels of deflation persisted due to our own price investments in addition to commodity price decreases.

In a highly competitive market, customer numbers at Tesco Mobile grew by 5% to 4.6m. It retained its position as the number one network for customer satisfaction[3] and was named Which? recommended provider for the fifth consecutive year.

In the Republic of Ireland, we made a significant investment to ensure our customers receive the most competitive offer possible. Like-for-like sales performance turned positive in the fourth quarter for the first time since 2012.

International sales grew by 1.8% at constant exchange rates. We achieved positive like-for-like sales growth in both Asia and Europe in the second half driven by improvements across our offer with a particular emphasis on price and fresh foods. We delivered market share gains in five of our seven international markets.

In Central Europe, the restructure of the management team for Czech Republic, Hungary, Poland and Slovakia is complete and moves us from operating as four individual country teams to one single regional team. We are in the process of moving to an operating model which will create substantial buying and operational synergies and help us to fund further improvements in the customer offer.

3. Survey conducted by Satmetrix, a cloud-based technology provider.

Operating profit before exceptional items:

	UK & ROI	International	Tesco Bank	Group
Operating profit before exceptional items	**£505m**	**£277m**	**£162m**	**£944m**
52 week change at constant exchange rates %	1.4%	11.4%	(13.8)%	1.1%
52 week change at actual exchange rates %	0.6%	9.1%	(13.8)%	0.0%
Operating profit margin before exceptional items	**1.17%**	**2.66%**	**16.96%**	**1.73%**
52 week change at constant exchange rates (bp)	4bp	23bp	(140)bp	7bp
52 week change at actual exchange rates (bp)	4bp	34bp	(140)bp	8bp

Group operating profit before exceptional items was £944m, up 1.1% on last year on a 52 week basis at constant exchange rates due to the significant investment in our customer offer across all markets driving positive sales momentum and starting to generate positive operational leverage.

Our full year UK & ROI operating profit before exceptional items was £505m, with margin growth of 81 basis points between the first and the second half. This improvement marks the next stage of our journey to rebuild profitability from the losses we made in the second half of 2014/15. We have made permanent reductions to our cost base, transformed the way we work with suppliers, started to generate leverage through increasing sales volumes and begun to improve productivity throughout our operations.

International profits increased by 11.4% at constant exchange rates to £277m, with margin growth of 138 basis points between the first and the second half. The 'food supervision fee' which had been proposed in Hungary was not introduced and therefore has no impact on these results. We continue to be cautious about potential legislative changes in our European markets. Following investments in the offer in both Asia and Europe, we have seen improving like-for-like sales growth and we are beginning to generate positive operational gearing.

Exceptional items in operating profit:

	This year	Last year
Net impairment of property, plant and equipment, onerous lease provisions, intangible assets and investments in joint ventures and associates	£(408)m	£(5,389)m
Net restructuring and redundancy	£(126)m	£(406)m
Property transactions	£156m	-
Past service credit and associated costs arising on UK defined benefit pension scheme closure	£480m	-
Stock-related	-	£(500)m
Reversal of commercial income recognised in prior years:		
- Recognised in 13/14	-	£(53)m
- Recognised in years prior to 13/14	-	£(155)m
Other	-	£(187)m
Total exceptional items in operating profit	**£102m**	**£(6,690)m**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature, in order to better reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £102m, with a mix of both charges and credits.

Exceptional items include an information technology impairment and asset write-off of £(275)m, as we move towards a single online platform for customers and a net non-cash property impairment and onerous lease provision of £(133)m, including write-downs of construction-in-progress and non-trading sites of £(109)m.

A UK & ROI net restructuring and redundancy charge of £(126)m relates principally to store colleague structures and working practices changes and business rationalisation, and is partially offset by the release of a prior year provision.

We generated net profits (pre-tax) of £156m from property transactions. In order to increase our freehold ownership and reduce our exposure to indexed rent reviews, we regained sole ownership of 70 stores and two distribution centres in transactions with British Land in March 2015 and Phoenix Life Assurance and the British Airways Pension Fund in February 2016. In October 2015, we agreed the sale of 14 sites in the south of England to Meyer Bergman for mixed-use and residential development, generating cash proceeds of £218m in the year.

Following the closure of our UK defined benefit pension scheme in November, a non-cash actuarial credit of £538m has been recognised, as all accrued deferred pension benefits now increase in line with the consumer price index. This was partly offset by a £(58)m charge related to the scheme closure, including a payment to members, equivalent to one week's pay and capped at £500 per colleague, paid directly into a new defined contribution scheme.

Last year, we recognised exceptional items of £(6.7)bn, of which around £(0.6)bn was linked to a direct future cash outflow.

Further detail can be found in Note 4 on page 25 of this statement.

Joint ventures and associates:

	This year	Last year
Share of post-tax losses from JVs and associates	**£(21)m**	**£(13)m**

Losses from joint ventures and associates increased by £(8)m to £(21)m, due to a higher level of losses from our partnership with CRE in China in addition to a lower level of dunnhumby profitability following the restructure of our relationship with Kroger in April 2015. These impacts were partially offset by increased profits recognised on our UK property joint ventures.

Finance income and finance costs:

	This year	Last year
Interest receivable and similar income	£29m	£80m
Finance income	**£29m**	**£80m**

Interest receivable and other income decreased by £(51)m to £29m, due to reduced income from debt-hedging swaps.

	This year	Last year
Interest payable	£(504)m	£(535)m
Capitalised interest	£6m	£44m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	£(19)m	£(26)m
IAS 19 net pension finance costs	£(155)m	£(134)m
Finance costs	**£(672)m**	**£(651)m**
Exceptional charge: Translation of Korea proceeds	£(220)m	-
Statutory finance costs	£(892)m	£(651)m

Finance costs increased by £21m to £(672)m. Interest payable includes an overall reduction of £49m in interest costs on bonds and medium term notes, which was largely offset by the unwinding of the discount on onerous lease provisions. The prior year also included set up costs relating to new credit facilities. Capitalised interest reduced by £38m, reflecting a lower level of work-in-progress. Net pension finance costs of £(155)m rose in line with the opening pension deficit, offset in part by a lower opening discount rate.

An exceptional non-cash loss of £(220)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea which are held in GBP money market funds in a non-Sterling denominated subsidiary. This does not represent any economic cost to the Group.

Further detail can be found in Note 5 on page 27 of this statement.

Group tax:

	This year	Last year
Tax on profit before exceptional items	£(8)m	£(28)m
Tax on profit/(loss)	**£54m**	**£670m**

Tax on profit before exceptional items was £(8)m with an effective rate of tax for the Group of 3%. This tax rate is lower than the UK statutory rate primarily due to a lower book value than tax value of property assets disposed of in the year, partially offset by unrecognised tax losses.

On a statutory basis, including an exceptional credit of £86m relating to a release of provisions in respect of uncertain tax positions following settlement of a number of historic enquiries relating to years up to 2011, there is a tax credit of £54m.

The effective underlying tax rate for the 2016/17 financial year is expected to be around 30%.

Earnings per share:

On a continuing operations basis	This year	Last year
Diluted earnings per share before exceptional items	3.41p	4.14p
Diluted earnings per share before exceptional items and net pension finance costs	4.97p	5.46p
Diluted earnings/(losses) per share	2.76p	(69.56)p

Diluted earnings per share before exceptional items were 3.41p, down (17.6)% on last year despite a lower tax charge due to higher net finance costs. Diluted earnings per share before exceptional items and net pension finance costs were 4.97p, (9.1)% lower year-on-year. Statutory diluted earnings per share from continuing operations were higher than last year at 2.76p reflecting significant exceptional items in the prior year.

Summary of total indebtedness:

	This year	Last year	Movement
Net debt (excludes Tesco Bank)	£(5,110)m	£(8,481)m	£3,371m
Discounted operating lease commitments	£(7,814)m	£(9,353)m	£1,539m
Pension deficit, IAS 19 basis (post-tax)	£(2,612)m	£(3,885)m	£1,273m
Total indebtedness	**£(15,536)m**	**£(21,719)m**	**£6,183m**

Total indebtedness was £(15.5)bn, a decrease of £6.2bn since last year. The sale of our business in Korea contributed £4.1bn of this reduction, comprising net cash proceeds of £3.3bn and a £0.8bn reduction in capitalised lease and other commitments.

Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift rent inflation. In March 2015 we completed an asset swap with British Land, regaining sole ownership of 21 superstores and in February 2016 we regained sole ownership of 49 large stores and two distribution centres from Phoenix Life Assurance and the British Airways Pension Fund. These transactions resulted in an increase of £1.7bn in freehold assets and contribute to a significant reduction in lease commitments. The net debt movement shown above includes the acquisition of £(1.5)bn of associated debt.

On an accounting basis, the Group's net pension deficit after tax decreased from £(3.9)bn last year to £(2.6)bn at the year end. This was driven by a recalculation of the deficit following the closure of the UK defined benefit scheme and an increase of 30 basis points in real corporate bond yields, leading to a corresponding increase in the discount rate used to measure our long term liabilities. In accordance with the long-term deficit funding agreement with the Trustee of £270m per annum in place since April 2015, a cash contribution of £249m was made to the scheme. Following the significant reduction in future pension risk, by closing the defined benefit scheme, the Trustee is now working with its advisers and the company to reduce risk further, by beginning to implement an asset de-risking strategy.

We have a strong funding and liquidity profile underpinned by £5.0bn committed facilities, comprising a £2.6bn revolving credit facility and £2.4bn bilateral facilities.

Summary retail cash flow[1]:

	This year	Last year
Cash flow from operations excluding working capital	**£2,231m**	**£715m**
(Increase)/decrease in working capital		
- impact from exceptional items	£(91)m	£1,805m
- cash impact of new approach to supplier payments	£(231)m	£(1,073)m
- underlying decrease in working capital	£672m	£413m
Cash generated from operations	**£2,581m**	**£1,860m**
Interest paid	£(422)m	£(609)m
Corporation tax received/(paid)	£125m	£(347)m
Net cash generated from retail operating activities	**£2,284m**	**£904m**
Cash capital expenditure	£(1,004)m	£(2,244)m
Free cash flow	**£1,280m**	**£(1,340)m**
Other investing activities	£543m	£253m
Net cash (used in)/from financing activities and intra-Group funding and intercompany transactions	£(854)m	£239m
Net increase/(decrease) in cash and cash equivalents	**£969m**	**£(848)m**
Include/(exclude) cash movements in debt items	£4,219m	£(1,010)m
Fair value and other non-cash movements	£(1,817)m	£(26)m
Movement in net debt	**£3,371m**	**£(1,884)m**

1. Includes both continuing and discontinued operations.

We generated £2.2bn cash from continuing and discontinued retail operations and improved working capital by £0.4bn. On an underlying and continuing operations basis, working capital improved by £0.4bn driven by a £0.3bn reduction in inventory with improvements evident in all areas of the Group and a £0.1bn inflow from trade balances, including an improvement from an increased focus on up-front unit price. Additionally, there was a £0.3bn inflow generated by our discontinued business in Korea up to the point of disposal. The overall reduction in working capital also includes the net impact of exceptional items of £(0.1)bn and the first half £(0.2)bn outflow relating to the new approach to cash payments to suppliers which we outlined last year.

Interest paid was £187m lower than last year as three medium term notes which matured in the prior year were refinanced at lower rates. In addition, timing differences resulted in a lower number of instalments requiring payment in 2015/16 than the prior year.

Cash tax was a net refund of £125m, which arose primarily as tax losses made in the 2014/15 financial year were carried back to offset against taxable profits from 2013/14.

Cash movements of £4.2bn in debt items primarily reflect the proceeds from the sale of our Homeplus business in Korea, which have been placed in short-term investments.

Fair value and other non-cash movements include £1.5bn of debt acquired when we regained sole ownership of 70 stores and two distribution centres.

Capital expenditure and space:

	Group			UK & ROI		International		Tesco Bank	
	This year	Last year	YOY Change	This year	Last year	This year	Last year	This year	Last year
Capital expenditure (£bn)	**1.0**	**1.8**	**(0.8)**	**0.7**	**1.3**	**0.3**	**0.4**	**0.0**	**0.1**
Gross space added (m sq ft)[1,2]	**0.7**	**1.6**	**(0.9)**	**0.3**	**0.8**	**0.4**	**0.7**	**n/a**	**n/a**
Net space added (m sq ft)[1]	**(1.2)**	**0.1**	**(1.3)**	**(0.8)**	**0.6**	**(0.4)**	**(0.5)**	**n/a**	**n/a**

1. Excluding franchise stores.
2. 'Gross space added' excludes repurposing/extensions.

Capital expenditure was £1.0bn, a decrease of £0.8bn year-on-year, with lower spend in each region. Group capital expenditure in 2016/17 will be around £1.25bn including an increased spend to refresh UK stores and an accelerated store opening programme in Thailand.

This year, we closed more selling space than we opened leading to a net reduction of (1.2)m sq. ft, of which (0.8)m sq. ft was in the UK & ROI. Internationally, we reduced net space by (0.4)m sq. ft. as repurposing of (0.4)m sq. ft. of existing space in Asia and (0.3)m sq. ft. of closures in Europe more than offset our reduced opening programme.

Property

	UK & ROI	International	Group
Property[1] - fully owned			
- Estimated market value	£13.3bn	£6.4bn	£19.7bn
- NBV[2]	£12.6bn	£5.0bn	£17.6bn
% net selling space owned	52%	71%	61%
% total property owned – by value[3]	47%	75%	54%

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

Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift rent inflation. The March 2015 asset swap with British Land and February 2016 transactions with Phoenix Life Assurance and the British Airways Pension Fund, through which we regained sole ownership of 70 large stores and two distribution centres, enabled us to increase the proportion of freehold property in the UK & ROI by 6% to 47%. These transactions result in a combined saving in fixed-uplift and index-linked rent of £115m per annum at current rental levels.

The sale of our property assets within the disposal of our business in Korea drove the year-on-year reduction of £3.2bn in the estimated market value of fully-owned property across the Group to £19.7bn at year-end. This valuation gives an estimated surplus of £2.1bn over the net book value, with our Group freehold ownership percentage now 54% by value and 61% by selling space, an increase of 5% by value and 3% by selling space on last year.

This estimated market value excludes our share of property joint ventures. Including this, the valuation would increase by £0.2bn, net of the debt in the joint ventures.

The Group operating lease charge reduced by 10% in the year to £1.2bn and we continue to evaluate opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation. Based on current rent, around three-quarters of our UK lease charge relates to fixed-uplift or index-linked rental agreements.

Tesco Bank

	This year	Last year	YOY Change
Revenue	**£955m**	**£947m**	**0.8%**
Operating profit before exceptional items	**£162m**	**£188m**	**(13.8)%**
Lending to customers	£8,542m	£7,720m	10.6%
Customer deposits	£7,397m	£6,914m	7.0%
Net interest margin	4.2%	4.2%	0.0%
Risk asset ratio	20.0%	18.8%	1.2%

Tesco Bank continues to offer customers a differentiated banking and insurance offer, with 7.6 million accounts at the year end. Active customer account numbers have grown by 1.0%, supported by a strengthened customer proposition including higher value personal loan products, 95% loan-to-value mortgages and the removal of monthly current account fees. Customer lending increased by 10.6% to £8.5bn, with strong growth in mortgage balances. Operating profit before exceptional items reduced by (13.8)% to £162m. This decline was primarily due to the introduction of European Commission caps on interchange income from December 2015, following the initial reduction driven by MasterCard's agreement with the Competition and Markets Authority last April. The full year effect of this change will be felt in the 2016/17 financial year.

Risk weighted assets have risen in line with lending and the Core Tier 1 ratio has improved to 16.6%. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective.

An income statement for Tesco Bank can be found in Appendix 6 on page 48 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 20 of this statement. Tesco Bank's full year results are also published today and are available at www.corporate.tescobank.com

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This document is available at www.tescoplc.com/prelims2016.

A meeting for investors and analysts will be held today at 9.00am at London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Access will be by invitation only. For those unable to attend, there will be a live webcast available on our website at www.tescoplc.com/prelims2016. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

An interview with Dave Lewis, Chief Executive, and Alan Stewart, Chief Financial Officer, discussing the Preliminary Results is available now to download in video, audio and transcript form at www.tescoplc.com/prelims2016.

Disclaimer

Group income statement

	Notes	52 weeks ended 27 February 2016			53 weeks ended 28 February 2015		
		Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Continuing operations							
Revenue	2	**54,433**	**-**	**54,433**	**56,925**	**-**	**56,925**
Cost of sales		(51,629)	50	(51,579)	(54,247)	(4,881)	(59,128)
Gross profit/ (loss)		**2,804**	**50**	**2,854**	**2,678**	**(4,881)**	**(2,203)**
Administrative expenses		(1,874)	22	(1,852)	(1,690)	(884)	(2,574)
Profits/ (losses) arising on property-related items		14	30	44	(48)	(925)	(973)
Operating profit/ (loss)		**944**	**102**	**1,046**	**940**	**(6,690)**	**(5,750)**
Share of post-tax losses of joint ventures and associates		(21)	-	(21)	(13)	-	(13)
Finance income	5	29	-	29	80	-	80
Finance costs	5	(672)	(220)	(892)	(651)	-	(651)
Profit/ (loss) before tax		**280**	**(118)**	**162**	**356**	**(6,690)**	**(6,334)**
Taxation	6	(8)	62	54	(28)	698	670
Profit/ (loss) for the year from continuing operations		**272**	**(56)**	**216**	**328**	**(5,992)**	**(5,664)**
Discontinued operations							
Profit/ (loss) for the year from discontinued operations	7	81	(168)	(87)	188	(290)	(102)
Profit/ (loss) for the year		**353**	**(224)**	**129**	**516**	**(6,282)**	**(5,766)**
Attributable to:							
Owners of the parent		359	(221)	138	524	(6,265)	(5,741)
Non-controlling interests		(6)	(3)	(9)	(8)	(17)	(25)
		353	**(224)**	**129**	**516**	**(6,282)**	**(5,766)**
Earnings/ (losses) per share from continuing and discontinued operations							
Basic	9	4.42p		1.70p	6.46p		(70.82)p
Diluted	9	4.40p		1.69p	6.46p		(70.82)p
Earnings/ (losses) per share from continuing operations							
Basic	9	3.42p		2.77p	4.14p		(69.56)p
Diluted	9	3.41p		2.76p	4.14p		(69.56)p

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

TESCO PLC
Group statement of comprehensive income (loss)

52 weeks ended 27 February 2016	Notes	52 weeks 2016 £m	53 weeks 2015 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	14	1,164	(1,473)
Tax on items that will not be reclassified		(300)	291
		864	**(1,182)**
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		5	(8)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries		168	5
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group Income Statement		(88)	(17)
Gains/ (losses) on cash flow hedges:			
Net fair value gain/ (losses)		318	(2)
Reclassified and reported in the Group Income Statement		(292)	102
Change in hedge relationship	12	186	-
Tax on items that may be reclassified		(30)	(7)
		267	**73**
Total other comprehensive income/ (loss) for the year		**1,131**	**(1,109)**
Profit/ (loss) for the year		129	(5,766)
Total comprehensive income/ (loss) for the year		**1,260**	**(6,875)**
Attributable to:			
Owners of the parent		1,270	(6,850)
Non-controlling interests		(10)	(25)
Total comprehensive income/ (loss) for the year		**1,260**	**(6,875)**
Total comprehensive income/ (loss) attributable to owners of the parent arises from:			
Continuing operations		1,436	(6,971)
Discontinued operations		(166)	121
		1,270	**(6,850)**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

TESCO PLC
Group balance sheet

	Notes	27 February 2016 £m	28 February 2015 £m
Non-current assets			
Goodwill and other intangible assets	10	2,874	3,771
Property, plant and equipment	11	17,900	20,440
Investment property		78	164
Investments in joint ventures and associates		785	940
Other investments		1,135	975
Loans and advances to customers		4,723	3,906
Derivative financial instruments		1,532	1,546
Deferred tax assets		49	514
		29,076	**32,256**
Current assets			
Inventories		2,430	2,957
Trade and other receivables		1,607	2,121
Loans and advances to customers		3,819	3,814
Derivative financial instruments		176	153
Current tax assets		15	16
Short-term investments		3,463	593
Cash and cash equivalents		3,082	2,165
		14,592	**11,819**
Assets of the disposal groups and non-current assets classified as held for sale	7	236	139
		14,828	**11,958**
Current liabilities			
Trade and other payables		(8,568)	(9,922)
Borrowings	12	(2,826)	(2,008)
Derivative financial instruments and other liabilities		(62)	(89)
Customer deposits and deposits from banks		(7,479)	(7,020)
Current tax liabilities		(419)	(95)
Provisions		(360)	(671)
		(19,714)	**(19,805)**
Liabilities of the disposal groups classified as held for sale	7	-	(5)
Net current liabilities		**(4,886)**	**(7,852)**
Non-current liabilities			
Borrowings	12	(10,711)	(10,651)
Derivative financial instruments and other liabilities		(889)	(946)
Post-employment benefit obligations	14	(3,175)	(4,842)
Deferred tax liabilities		(135)	(199)
Provisions		(664)	(695)
		(15,574)	**(17,333)**
Net assets		**8,616**	**7,071**
Equity			
Share capital		407	406
Share premium		5,095	5,094
All other reserves		(141)	(414)
Retained earnings		3,265	1,985
Equity attributable to owners of the parent		**8,626**	**7,071**
Non-controlling interests		(10)	–
Total equity		**8,616**	**7,071**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

TESCO PLC
Group statement of changes in equity

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**–**	**7,071**
Profit/ (loss) for the year	-	-	-	-	-	-	-	138	138	(9)	129
Other comprehensive income/ (loss)											
Change in fair value of available–for–sale financial assets and investments	-	-	-	-	-	-	-	5	5	-	5
Currency translation differences	-	-	-	-	-	81	-	-	81	(1)	80
Remeasurements on defined benefit pension schemes	-	-	-	-	-	-	-	1,164	1,164	-	1,164
Gains/ (losses) on cash flow hedges	-	-	-	-	212	-	-	-	212	-	212
Tax relating to components of other comprehensive income	-	-	-	-	(36)	6	-	(300)	(330)	-	(330)
Total other comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**176**	**87**	**-**	**869**	**1,132**	**(1)**	**1,131**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**176**	**87**	**-**	**1,007**	**1,270**	**(10)**	**1,260**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(5)	-	(5)	-	(5)
Share–based payments	-	-	-	-	-	-	15	273	288	-	288
Issue of shares	1	1	-	-	-	-	-	-	2	-	2
Dividends	-	-	-	-	-	-	-	-	-	-	-
Changes in non–controlling interests	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**1**	**1**	**-**	**-**	**-**	**-**	**10**	**273**	**285**	**-**	**285**
At 27 February 2016	**407**	**5,095**	**40**	**16**	**211**	**(401)**	**(7)**	**3,265**	**8,626**	**(10)**	**8,616**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

Group statement of changes in equity continued

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 22 February 2014	**405**	**5,080**	**40**	**16**	**(44)**	**(490)**	**(20)**	**9,728**	**14,715**	**7**	**14,722**
Loss for the year	-	-	-	-	-	-	-	(5,741)	(5,741)	(25)	(5,766)
Other comprehensive income/ (loss)											
Change in fair value of available–for–sale financial assets and investments	-	-	-	-	-	-	-	(8)	(8)	-	(8)
Currency translation differences	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Remeasurements on defined benefit pension schemes	-	-	-	-	-	-	-	(1,473)	(1,473)	-	(1,473)
Gains/ (losses) on cash flow hedges	-	-	-	-	100	-	-	-	100	-	100
Tax relating to components of other comprehensive income	-	-	-	-	(21)	14	-	291	284	-	284
Total other comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**79**	**2**	**-**	**(1,190)**	**(1,109)**	**-**	**(1,109)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**79**	**2**	**-**	**(6,931)**	**(6,850)**	**(25)**	**(6,875)**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(15)	-	(15)	-	(15)
Share–based payments	-	-	-	-	-	-	18	102	120	-	120
Issue of shares	1	14	-	-	-	-	-	-	15	-	15
Dividends	-	-	-	-	-	-	-	(914)	(914)	-	(914)
Changes in non–controlling interests	-	-	-	-	-	-	-	-	-	18	18
Total transactions with owners	**1**	**14**	**-**	**-**	**-**	**-**	**3**	**(812)**	**(794)**	**18**	**(776)**
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**-**	**7,071**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

TESCO PLC
Group cash flow statement

52 weeks ended 27 February 2016	Notes	52 weeks 2016 £m	53 weeks 2015 £m
Cash flows from operating activities			
Operating profit/ (loss) of continuing operations		**1,046**	**(5,750)**
Operating profit/ (loss) of discontinued operation		128	(52)
Depreciation and amortisation		1,334	1,552
Loss arising on sale of property, plant and equipment and intangible assets		164	49
Loss arising on sale of subsidiaries and other investments		-	41
Profit arising on sale of joint ventures and associates		(1)	-
Impairment of goodwill		18	116
Net reversal of impairment of other investments		(7)	-
Impairment of loans/ investments in joint ventures and associates		1	712
Net impairment charge of property, plant and equipment and intangible assets		182	4,171
Adjustment for non-cash element of pensions charge		(395)	68
Additional contribution into pension schemes	14	(223)	(13)
Share–based payments		283	105
Tesco Bank non-cash items included in operating profit		72	58
Decrease in inventories		251	577
Decrease in development stock		99	59
Decrease in trade and other receivables		20	32
Increase/ (decrease) in trade and other payables		260	(449)
(Decrease)/ increase in provisions		(280)	926
Tesco Bank increase in loans and advances to customers		(868)	(846)
Tesco Bank increase in trade and other receivables		(78)	(60)
Tesco Bank increase in customer and bank deposits, trade and other payables		463	186
Tesco Bank decrease in provisions		(35)	(15)
(Increase)/ decrease in working capital		(168)	410
Cash generated from operations		**2,434**	**1,467**
Interest paid		(426)	(613)
Corporation tax received/ (paid)		118	(370)
Net cash generated from operating activities		**2,126**	**484**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

52 weeks ended 27 February 2016	Notes	52 weeks 2016 £m	53 weeks 2015 £m
Net cash generated from operating activities		**2,126**	**484**
Cash flows from investing activities			
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(871)	(1,989)
Purchase of intangible assets		(167)	(329)
Disposal of subsidiaries, net of cash disposed		3,237	(157)
Acquisition of subsidiaries, net of cash acquired	16	(325)	(86)
Proceeds from sale of joint ventures and associates		192	-
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		350	244
Net (increase)/ decrease in loans to joint ventures and associates		(1)	21
Investments in joint ventures and associates		(77)	(382)
Net (investments in)/ proceeds from sale of short-term investments		(2,894)	423
Net (investments in)/ proceeds from sale of other investments		(103)	48
Dividends received from joint ventures and associates		41	88
Interest received		3	104
Net cash used in investing activities		**(615)**	**(2,015)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		1	15
Increase in borrowings		586	4,889
Repayment of borrowings		(1,328)	(3,185)
Net cash flows from derivative financial instruments		154	(6)
Repayments of obligations under finance leases		(17)	(3)
Rights issue to non-controlling interests		-	18
Dividends paid to equity owners	8	-	(914)
Net cash (used in)/ from financing activities		**(604)**	**814**
Net increase/ (decrease) in cash and cash equivalents		**907**	**(717)**
Cash and cash equivalents at beginning of the year		2,174	2,813
Effect of foreign exchange rate changes		1	78
Cash and cash equivalents including cash held in disposal groups at the end of the year		**3,082**	**2,174**
Cash held in disposal groups	7	-	(9)
Cash and cash equivalents at the end of the year		**3,082**	**2,165**

The notes on pages 18 to 41 form part of this condensed consolidated financial information.

The preliminary consolidated financial information for the 52 weeks ended 27 February 2016 was approved by the Directors on 12 April 2016.

Note 1 Basis of preparation

This preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, the principles of International Financial Reporting Standards ('IFRS') and the IFRS Interpretation Committee ('IFRIC') interpretations as adopted by the European Union. The accounting policies applied are consistent with those described in the Annual Report and Group Financial Statements 2015. The preliminary consolidated financial information has been prepared on a going concern basis. This preliminary consolidated financial information does not constitute statutory consolidated financial statements for the 52 weeks ended 27 February 2016 as defined in section 434 of the Companies Act 2006.

The Annual Report and Group Financial Statements for the 52 weeks ended 27 February 2016 were approved by the Board of Directors on 12 April 2016. The report of the auditor on those Group Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The Annual Report and Group Financial Statements for 2016 will be filed with the Registrar in due course.

The Annual Report and Group Financial Statements for the 53 weeks ended 28 February 2015 were approved by the Board of Directors on 5 May 2015 and have been filed with the Registrar of Companies. The report of the auditor on those Group Financial Statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The Directors consider that the Group has, at the time of approving the Group Financial Statements, adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the preliminary consolidated financial information.

Discontinued operations
In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of the Korean and Chinese operations are presented within discontinued operations in the Group Income Statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. Refer to Note 7 for further details.

Use of non-GAAP measures

The Directors have adopted new measures of performance, namely revenue excluding fuel, operating profit before exceptional items and profit before tax before exceptional items adjusted for net pension finance costs. These measures replace the previous measures of sales including VAT (excluding IFRIC 13), trading profit and underlying profit.

The Directors believe that these non-GAAP measures provide additional useful information to shareholders on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The non-GAAP measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-GAAP measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The tax impact on non-GAAP measures is included within the Group Income Statement.

Revenue exc. fuel
This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

Operating profit before exceptional items
This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items.

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

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

Profit before tax before exceptional items and net pension finance costs
This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields which can fluctuate significantly.

Free cash flow
Free cash flow is net cash generated from/ (used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

Net debt
Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, 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.

Operating margin
Operating margin is based on operating profit before exceptional items and on revenue.

Total indebtedness
Net debt plus the IAS19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

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 Officer, 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.

In line with changes in management reporting and management structure reporting to the CODM, the Group has reassessed its reportable segments and determined:

- that the retailing and associated activities in the Republic of Ireland ('ROI'), previously disclosed as part of the Europe segment, be combined in a UK and Republic of Ireland segment going forward; and
- that the retailing and associated activities in other countries, previously segregated between the Europe and the Asia segments, be combined in an International segment.

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

- Retailing and associated activities ('Retail') in:
    - UK & ROI – the UK and Republic of Ireland; and
    - International – Czech Republic, Hungary, Poland, Slovakia, Malaysia, Thailand and Turkey;
- 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. Segmental information for the 53 weeks ended 28 February 2015 has been restated accordingly.

In addition, the retailing and associated activities in the Republic of Korea ('Korea') have been classified as discontinued operations in the current period; their performance in this period and comparative periods is therefore part of discontinued operations as presented in Note 7 and excluded from segmental performances below.

The CODM uses operating profit before exceptional items, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it better reflects the segments' underlying performance for the financial period under evaluation. Operating profit before exceptional items is a consistent measure within the Group as defined within Note 1. Refer to Note 4 for exceptional items. Inter-segment revenue between the operating segments is not material.

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

52 weeks ended 27 February 2016 At constant exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Revenue exc. fuel	37,359	10,858	955	49,172	(820)	48,352
Revenue	43,256	11,066	955	55,277	(844)	54,433
Operating profit before exceptional items	**509**	**283**	**162**	**954**	**(10)**	**944**
Exceptional items	96	9	(1)	104	(2)	102
Operating profit/ (loss)	605	292	161	1,058	(12)	1,046
Operating margin**	1.2%	2.6%	17.0%	1.7%	-	1.7%

52 weeks ended 27 February 2016 At actual exchange rates***	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	37,189	10,208	955	48,352
Revenue	43,080	10,398	955	54,433
Operating profit before exceptional items	**505**	**277**	**162**	**944**
Exceptional items	94	9	(1)	102
Operating profit	599	286	161	1,046
Operating margin**	1.2%	2.7%	17.0%	1.7%
Share of post-tax losses of joint ventures and associates				(21)
Finance income				29
Finance costs				(892)
Profit/ (loss) before tax				**162**

* Constant exchange rates are the average actual periodic exchange rates for the previous financial period.
** Operating margin is based on operating profit before exceptional items and on revenue.
*** Actual exchange rates are the average actual periodic exchange rates for that financial period.

53 weeks ended 28 February 2015 At actual exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	38,228	10,678	947	49,853
Revenue**	45,062	10,916	947	56,925
Operating profit before exceptional items	**498**	**254**	**188**	**940**
Exceptional items	(5,832)	(823)	(35)	(6,690)
Operating profit/ (loss)	(5,334)	(569)	153	(5,750)
Operating margin***	1.1%	2.3%	19.9%	1.7%
Share of post-tax losses of joint ventures and associates				(13)
Finance income				80
Finance costs				(651)
Profit/ (loss) before tax				**(6,334)**

* Actual exchange rates are the average actual periodic exchange rates for that financial period.
** Includes a reclassification of £77m from Tesco Bank to the UK & ROI segment, relating to revenue recognition on Clubcard vouchers. There is no impact on segmental operating profit before exceptional items or operating profit.
*** Operating margin is based on operating profit before exceptional items and on revenue.

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, finance lease payables, derivative financial instruments and net debt of the disposal groups). Net debt balances have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated, other than intercompany transactions with Tesco Bank in net debt.

At 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,391	309	1,174	-	2,874
Property, plant and equipment and investment property	12,815	5,085	78	-	17,978
Investments in joint ventures and associates	5	704	76	-	785
Other investments	-	-	984	151	1,135
Loans and advances to customers – non-current	-	-	4,723	-	4,723
Deferred tax asset	-	49	-	-	49
Non-current assets(a)	**14,211**	**6,147**	**7,035**	**151**	**27,544**
Inventories and trade and other receivables(b)	2,557	1,016	314	-	3,887
Trade and other payables	(6,580)	(1,736)	(252)	-	(8,568)
Loans and advances to customers – current	-	-	3,819	-	3,819
Customer deposits and deposits from banks	-	-	(7,479)	-	(7,479)
Total provisions	(837)	(129)	(58)	-	(1,024)
Deferred tax liability	(64)	(39)	(32)	-	(135)
Net current tax	(403)	(3)	2	-	(404)
Post-employment benefits	(3,153)	(22)	-	-	(3,175)
Assets held for sale and of the disposal groups(c)	165	71	-	-	236
Liabilities of the disposal groups	-	-	-	-	-
Net debt(d)	-	-	(975)	(5,110)	(6,085)
Net assets	**5,896**	**5,305**	**2,374**	**(4,959)**	**8,616**

(a) Excludes derivative financial instrument non-current assets of £1,532m (2015: 1,546m).
(b) Excludes loans to joint ventures of £149m (2015: £207m) and interest and other receivables of £1m (2015:£1m).
(c) Excludes net debt of the disposal groups of £nil (2015: £9m). Refer to Note 7.
(d) Refer to Note 15.

Note 2 Segmental reporting continued

At 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,648	900	1,223	-	3,771
Property, plant and equipment and investment property	11,604	8,914	86	-	20,604
Investments in joint ventures and associates	89	771	80	-	940
Other investments	-	-	827	148	975
Loans and advances to customers – non-current	-	-	3,906	-	3,906
Deferred tax asset	433	81	-	-	514
Non-current assets[(a)]	**13,774**	**10,666**	**6,122**	**148**	**30,710**
Inventories and trade and other receivables[(b)]	2,814	1,821	235	-	4,870
Trade and other payables	(6,931)	(2,746)	(245)	-	(9,922)
Loans and advances to customers – current	-	-	3,814	-	3,814
Customer deposits and deposits from banks	-	-	(7,020)	-	(7,020)
Total provisions	(1,071)	(205)	(90)	-	(1,366)
Deferred tax liability	-	(158)	(41)	-	(199)
Net current tax	(89)	5	5	-	(79)
Post-employment benefits	(4,773)	(69)	-	-	(4,842)
Assets held for sale and of the disposal groups[(c)]	61	69	-	-	130
Liabilities of the disposal groups[(c)]	-	-	-	(5)	(5)
Net debt[(d)]	-	-	(539)	(8,481)	(9,020)
Net assets	**3,785**	**9,383**	**2,241**	**(8,338)**	**7,071**

Refer to previous table for footnotes

Other segment information

52 weeks ended 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	2,300	236	8	2,544	55	2,599
Investment property	5	-	-	5	-	5
Goodwill, software and other intangible assets	188	18	32	238	3	241
Depreciation:						
Property, plant and equipment	(688)	(293)	(16)	(997)	(80)	(1,077)
Investment property	(2)	-	-	(2)	-	(2)
Amortisation of intangible assets	(145)	(30)	(75)	(250)	(5)	(255)
Impairment of intangible assets	(159)	(10)	-	(169)	-	(169)
Impairment of goodwill	(18)	-	-	(18)	-	(18)
Impairment of property, plant and equipment and investment properties	(164)	(100)	-	(264)	(1)	(265)
Reversal of impairment of property, plant and equipment and investment properties	133	119	-	252	-	252

* Includes £1,742m (2015: £3m) of property, plant and equipment acquired through business combinations.

** Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises those of Korea in the first six months of the year ended 27 February 2016 and in the twelve months of the year ended 28 February 2015.

Note 2 Segmental reporting continued

53 weeks ended 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	1,119	364	14	1,497	145	1,642
Investment property	-	-	-	-	–	–
Goodwill, software and other intangible assets	351	28	45	424	11	435
Depreciation:						
Property, plant and equipment	(741)	(358)	(18)	(1,117)	(176)	(1,293)
Investment property	-	-	-	-	(1)	(1)
Amortisation of intangible assets	(154)	(26)	(68)	(248)	(9)	(257)
Impairment of intangible assets	(46)	(3)	(4)	(53)	–	(53)
Impairment of goodwill	(116)	-	–	(116)	–	(116)
Impairment of property, plant and equipment and investment properties	(3,504)	(607)	–	(4,111)	(202)	(4,313)
Reversal of impairment of property, plant and equipment and investment properties	132	35	–	167	29	196

Refer to previous table for footnotes

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 continuing operations and discontinued operations.

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss) of continuing operations*	**885**	**(5,903)**	**161**	**153**	**1,046**	**(5,750)**
Operating profit/ (loss) of discontinued operations	128	(52)	-	-	128	(52)
Depreciation and amortisation	1,243	1,466	91	86	1,334	1,552
ATM net income	(38)	(28)	38	28	-	-
Loss/ (profit) arising on sale of property, plant and equipment and intangible assets	165	42	(1)	7	164	49
Loss arising on sale of subsidiaries and other investments	-	41	-	-	-	41
Profit arising on sale of joint ventures and associates	(1)	-	-	-	(1)	-
Impairment of goodwill	18	116	-	-	18	116
Net reversal of impairment of other investments	(7)	-	-	-	(7)	-
Impairment of loans/ investments in joint ventures and associates	1	712	-	-	1	712
Net impairment of property, plant and equipment and intangible assets	182	4,167	-	4	182	4,171
Adjustment for non-cash element of pensions charge	(395)	68	-	-	(395)	68
Additional contribution into pension schemes	(223)	(13)	-	-	(223)	(13)
Share-based payments	273	99	10	6	283	105
Tesco Bank non-cash items included in operating profit	-	-	72	58	72	58
Cash flow from operations excluding working capital	**2,231**	**715**	**371**	**342**	**2,602**	**1,057**
Decrease / (increase) in working capital	350	1,145	(518)	(735)	(168)	410
Cash generated from / (used in) operations	**2,581**	**1,860**	**(147)**	**(393)**	**2,434**	**1,467**
Interest paid	(422)	(609)	(4)	(4)	(426)	(613)
Corporation tax received/ (paid)	125	(347)	(7)	(23)	118	(370)
Net cash generated from/ (used in) operating activities	**2,284**	**904**	**(158)**	**(420)**	**2,126**	**484**

* Tesco Bank operating profit as per Bank Income Statement excluding ATM net income segmental adjustment.

Note 2 Segmental reporting continued

Group Cash Flow Statement continued

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Net cash generated from/ (used in) operating activities	**2,284**	**904**	**(158)**	**(420)**	**2,126**	**484**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(858)	(1,977)	(13)	(12)	(871)	(1,989)
Purchase of intangible assets	(146)	(267)	(21)	(62)	(167)	(329)
Non-GAAP measure: Free cash flow	**1,280**	**(1,340)**	**(192)**	**(494)**	**1,088**	**(1,834)**
Disposal of subsidiaries, net of cash disposed	3,237	(157)	-	-	3,237	(157)
Acquisition of subsidiaries, net of cash acquired	(325)	(86)	-	-	(325)	(86)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	350	244	-	-	350	244
Proceeds from sale of joint ventures and associates	192	-	-	-	192	-
Net (increase)/ decrease in loans to joint ventures and associates	(1)	21	-	-	(1)	21
Net investments in joint ventures and associates	(77)	(382)	-	-	(77)	(382)
Net (investments in)/ proceeds from sale of short-term investments	(2,894)	423	-	-	(2,894)	423
Net proceeds from sale of/ (investments in) other investments	17	5	(120)	43	(103)	48
Dividends received from joint ventures and associates	41	81	-	7	41	88
Interest received	3	104	-	-	3	104
Net cash used in investing activities	**(461)**	**(1,991)**	**(154)**	**(24)**	**(615)**	**(2,015)**
Proceeds from issue of ordinary share capital	1	15	-	-	1	15
Increase in borrowings	286	4,391	300	498	586	4,889
Repayment of borrowings	(1,328)	(3,185)	-	-	(1,328)	(3,185)
Net cash flows from derivative financial instruments	154	(6)	-	-	154	(6)
Repayment of obligations under finance leases	(17)	(3)	-	-	(17)	(3)
Rights issue to non-controlling interests	-	18	-	-	-	18
Dividends paid to equity owners	-	(914)	-	-	-	(914)
Net cash (used in)/ generated from financing activities	**(904)**	**316**	**300**	**498**	**(604)**	**814**
Intra-Group funding and intercompany transactions	**50**	**(77)**	**(50)**	**77**	**-**	**-**
Net increase/ (decrease) in cash and cash equivalents	**969**	**(848)**	**(62)**	**131**	**907**	**(717)**
Cash and cash equivalents at the beginning of the year	1,558	2,328	616	485	2,174	2,813
Effect of foreign exchange rate changes	1	78	-	-	1	78
Cash and cash equivalents including cash held in disposal groups at the end of the year	**2,528**	**1,558**	**554**	**616**	**3,082**	**2,174**
Cash held in disposal groups*	-	(9)	-	-	-	(9)
Cash and cash equivalents at the end of the year	**2,528**	**1,549**	**554**	**616**	**3,082**	**2,165**

* This relates to the cash held within discontinued operations reported within assets of the disposal groups.

Note 2 Segmental reporting continued

	Continuing operations		Discontinued operations		Retail	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss)	**885**	**(5,903)**	**128**	**(52)**	**1,013**	**(5,955)**
Depreciation and amortisation	1,158	1,280	85	186	1,243	1,466
ATM net income	(38)	(28)	-	-	(38)	(28)
Loss arising on sale of property, plant and equipment and intangible assets	165	28	-	14	165	42
Loss arising on sale of subsidiaries & other investments	-	41	-	-	-	41
Profit arising on sale of joint ventures and associates	(1)	-	-	-	(1)	-
Impairment of goodwill	18	116	-	-	18	116
Net reversal of impairment of other investments	(7)	-	-	-	(7)	-
Impairment of loans/ investments in joint ventures and associates	1	712	-	-	1	712
Net impairment of property, plant and equipment and intangible assets	181	3,993	1	174	182	4,167
Adjustment for non-cash element of pensions charge	(400)	68	5	-	(395)	68
Additional contribution into pension schemes	(223)	(2)	-	(11)	(223)	(13)
Share-based payments	271	102	2	(3)	273	99
Cash flow from operations excluding working capital	**2,010**	**407**	**221**	**308**	**2,231**	**715**
Decrease/ (increase) in working capital	70	1,270	280	(125)	350	1,145
Cash generated from operations	**2,080**	**1,677**	**501**	**183**	**2,581**	**1,860**
Interest paid	(394)	(560)	(28)	(49)	(422)	(609)
Corporation tax received/ (paid)	167	(267)	(42)	(80)	125	(347)
Net cash generated from operating activities	**1,853**	**850**	**431**	**54**	**2,284**	**904**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(776)	(1,774)	(82)	(203)	(858)	(1,977)
Purchase of intangible assets	(146)	(266)	-	(1)	(146)	(267)
Non-GAAP measure: Free cash flow	**931**	**(1,190)**	**349**	**(150)**	**1,280**	**(1,340)**

Note 3 Income and expenses

Continuing operations	2016 £m	2015 £m
Profit/ (loss) before tax is stated after charging/ (crediting) the following:		
Property rental income, of which £39m (2015: £40m) relates to investment properties	(331)	(344)
Other rental income	(53)	(53)
Direct operating expenses arising on rental earning investment properties	20	19
Costs of inventories recognised as an expense	39,955	42,515
Inventory losses and provisions*	1,263	1,623
Depreciation and amortisation charged	1,249	1,366
Operating lease expenses, of which £102m (2015: £106m) relates to hire of plant and machinery	1,160	1,289
Net impairment losses on property, plant and equipment and investment property	13	3,944
Impairment of goodwill, software and other intangibles	187	169
Impairment of investment in and loans to joint ventures and associates	1	712

* Includes £nil (2015: £359m) exceptional inventory provision.

Note 4 Exceptional items

Income Statement

52 weeks ended 27 February 2016

Profit/ (loss) for the period includes the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Loss on disposal of Korean operations £m
Net impairment of PPE, intangible assets and onerous lease provisions[(a)]	(299)	-	(109)	(408)	-	73	-
Net restructuring and redundancy costs[(b)]	(75)	(34)	(17)	(126)	-	9	-
Property transactions[(c)]	-	-	156	156	-	(20)	-
Past service credit and other associated costs[(d)]	424	56	-	480	-	(86)	-
Foreign exchange losses on GBP balances held in overseas entities[(e)]	-	-	-	-	(220)	-	-
Release of overprovision of tax liabilities in prior years[(f)]	-	-	-	-	-	86	-
Loss on disposal of Korean operations[(g)]	-	-	-	-	-	-	(168)
Total	**50**	**22**	**30**	**102**	**(220)**	**62**	**(168)**

In assessing whether income and expense items met the Group's criteria as exceptional, items totalling £4m reflected in operating profit as non-exceptional cost in the first half of the year have subsequently been reclassified to exceptional. This is as a result of restructuring activities extended beyond the original scope, as well as two further property transactions where the Group regained sole ownership of stores and distribution centres.

(a) Following an evaluation of the cash-generating unit for technology and associated fixed assets principally relating to online general merchandise, impairment charges and write-offs of £275m have been recorded as the Group moves toward a single online platform for customers. In addition, a net property, plant and equipment ('PPE') impairment and onerous lease charge of £133m has arisen, including write downs on construction in progress and non-trading sites of £109m. Refer to Notes 10 and 11 for further details on impairment.

(b) A net charge of £126m has been recognised as restructuring and redundancy costs in the UK & ROI. This includes £89m relating to store colleague structures and working practices and £34m relating to head office restructuring costs, partly offset by a provision release of £74m related to the prior year changes to store colleague working arrangements. In addition, there have been costs of £77m related to business rationalisation including the closure of UK Homeplus stores. These costs include impairment of PPE, goodwill and onerous lease provisions - refer to Notes 10 and 11 for further details on impairment.

(c) In line with the Group's strategy to strengthen its balance sheet, the Group has taken sole control of 70 stores and two distribution centres previously held in three joint ventures, whilst selling its interests in two property joint ventures, as discussed in Note 16. The Group has also disposed of twelve development sites in London.

(d) As a result of the closure of the UK defined benefit pension scheme (the 'Scheme'), all active members of the Scheme became deferred members. The rate at which previously accrued benefits grow until retirement differs for active and deferred members. The rate of increase for deferred members aligns with the consumer price index and resulted in an actuarial credit of £538m. This credit was offset by one-off payments of £58m relating to auto-enrolment and top-up payments to the new defined contribution scheme for some colleagues previously in the defined benefit scheme.

(e) The Group holds £2.5bn of proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. The £220m loss represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.

(f) In agreeing tax liabilities for past years up to 2011, the Group has identified provisions of £86m held for uncertain tax positions which are no longer required.

(g) On 22 October 2015, the Group completed its sale of its Korea operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. Refer to Note 7 for further details.

Note 4 Exceptional items continued

Income Statement

53 weeks ended 28 February 2015

Loss for the period includes the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Impairment of PPE and onerous lease provisions	(3,586)	-	(925)	(4,511)	-	460	-
Impairment of goodwill and intangible assets	(166)	-	-	(166)	-	17	-
Inventory valuations and provisions	(500)	-	-	(500)	-	87	-
Reversal of commercial income recognised in previous years	(208)	-	-	(208)	-	38	-
Restructuring costs including trading store redundancies	(261)	(145)	-	(406)	-	75	-
Other restructuring and one-off items	(160)	-	-	(160)	-	15	-
Impairment of investments in and loans to joint ventures and associates	-	(712)	-	(712)	-	-	-
Provision for customer redress	-	(27)	-	(27)	-	6	-
Exceptional items related to discontinued operations	-	-	-	-	-	-	(307)
Tax on exceptional items related to discontinued operations	-	-	-	-	-	-	17
Total	**(4,881)**	**(884)**	**(925)**	**(6,690)**	**-**	**698**	**(290)**

Cash Flow Statement

The table below shows the impact of exceptional items on the Cash Flow Statement:

Exceptional items included in:	Cash flows from operating activities 2016 £m	Cash flows from operating activities 2015 £m	Cash flows from investing activities 2016 £m	Cash flows from investing activities 2015 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies[(a)]	(251)	(174)	-	-
Current year restructuring costs including trading store redundancy costs[(b)]	(63)	-	-	-
Utilisation of onerous lease provisions	(90)	-	-	-
Property transactions – sale of development sites[(c)]	218	-	-	-
Defined benefit pension scheme closure cost[(d)]	(58)	-	-	-
Provision for customer redress[(e)]	(34)	(42)	-	-
Property transactions – buy back of property joint ventures, net of £15m cash acquired[(f)]	-	-	(139)	-
Total	**(278)**	**(216)**	**(139)**	**-**

(a) Cash outflows on settlement of exceptional redundancy provisions booked in the 53 weeks ended 28 February 2015.
(b) Cash outflows on settlement of restructuring and redundancy costs. Refer to item (b) on page 25.
(c) Cash proceeds received on sale of twelve development sites. Refer to item (c) on page 25.
(d) One-off payment on closure of defined benefit pension scheme. Refer to item (d) on page 25.
(e) Settlement of claims for customer redress in Tesco Bank from prior years.
(f) During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interest in each of the partnerships. Net cash outflow is due to: acquisition of subsidiaries of £(317)m; proceeds on sale of joint ventures of £172m; and repayment of loans by joint ventures of £6m. Refer to Note 16 for further details.

In addition, the Group received a tax refund of £263m. This relates to a claim raised with HMRC to carry back the loss made in the 53 weeks ended 28 February 2015 to offset against the taxable profits from the 52 weeks ended 22 February 2014.

Note 5 Finance income and costs

Continuing operations	2016 £m	2015 £m
Finance income		
Interest receivable and similar income	29	80
Total finance income	**29**	**80**
Finance costs		
GBP MTNs	(176)	(191)
EUR MTNs	(122)	(155)
USD Bonds	(86)	(85)
Other MTNs	-	(2)
Finance charges payable under finance leases and hire purchase contracts	(9)	(9)
Other interest payable	(111)	(93)
Capitalised interest*	6	44
Financial instruments – fair value remeasurements	(19)	(26)
Total finance costs before exceptional items and net pension finance costs	**(517)**	**(517)**
Net pension finance costs (Note 14)	(155)	(134)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(220)	-
Total finance costs	**(892)**	**(651)**
Net finance cost	**(863)**	**(571)**

* A deferred tax liability is recognised in respect of capitalised interest at the applicable rate in the country in which the interest is capitalised.

GBP MTNs

Interest payable on the 4% RPI GBP MTN 2016 includes £3m (2015: £8m) of Retail Price Index ('RPI') related accretion.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £3m (2015: £7m) of RPI-related accretion.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £3m (2015: £7m) of RPI-related accretion.

Note 6 Taxation

Recognised in the Group Income Statement

Continuing operations	2016 £m	2015 £m
UK	(176)	(690)
Overseas	122	20
Taxation (credit)/ charge	**(54)**	**(670)**

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted by the Balance Sheet date and therefore included in this consolidated financial information.

In addition to the changes in the rates of corporation tax disclosed above it was announced in the March 2016 Budget Statement that the main rate of corporation tax will be further reduced by 1% to 17% from 1 April 2020. This further rate reduction had not been substantively enacted at the Balance Sheet date and has therefore not been reflected in this consolidated financial information.

Note 7 Discontinued operations and non-current assets classified as held for sale

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

	2016 £m	2015 £m
Assets of the disposal groups	-	9
Non-current assets classified as held for sale	236	130
Total assets of the disposal groups and non-current assets classified as held for sale	**236**	**139**
Total liabilities of the disposal groups	-	(5)
Total net assets of the disposal groups and non-current assets classified as held for sale	**236**	**134**

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

Discontinued operations

On 22 October 2015, the Group completed its sale of the Korean operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. In accordance with IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', the Korean operations for the period up to 22 October 2015 have been classified as a disposal group.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement

	2016			2015
	Total* £m	Korea £m	China and US*** £m	Total £m
Revenue	3,526	5,359	281	5,640
Expenses**	(3,404)	(5,139)	(299)	(5,438)
Profit/ (loss) before tax before exceptional items	**122**	**220**	**(18)**	**202**
Taxation	(41)	(13)	(1)	(14)
Profit/ (loss) after tax before exceptional items	**81**	**207**	**(19)**	**188**
Loss after tax on disposal of Chinese operations (net of £53m tax charge)	-	-	(28)	(28)
Exceptional items pre-tax	-	(332)	-	(332)
Tax on exceptional items	-	70	-	70
Loss after tax on disposal of Korean operations	(168)	-	-	-
Total loss after tax of discontinued operations	**(87)**	**(55)**	**(47)**	**(102)**

* The results of Korea are for the period ended 22 October 2015, at which point the operations were sold.
** Intercompany recharges and intercompany loan interest totalling £48m (2015: £90m) between continuing operations and the Korea discontinued operation have been eliminated. This elimination impacts the performance of continuing and discontinued operations, reducing the profit/ (loss) before tax of continuing operations by £48m (2015: £90m), whilst increasing the profit/ (loss) before tax of Korea discontinued operations by the same amounts.
*** The results of China are for the 13 weeks ended 28 May 2014, at which point the operations were contributed into a new venture with China Resource Enterprise Limited.

Note 7 Discontinued operations and non-current assets classified as held for sale continued

The loss after tax on disposal of the Group's Korean operations is made up as follows:

	£m
Gross proceeds	3,944
Withholding tax and stamp duty	(341)
Net proceeds	3,603
Net book value of assets disposed:	
Goodwill and other intangible assets	(548)
Property, plant and equipment	(3,616)
Investment property	(31)
Deferred tax assets	(134)
Inventories	(204)
Trade and other receivables	(510)
Cash and cash equivalents	(362)
Trade and other payables	1,390
Borrowings	97
Current tax	(6)
Provisions	74
Post-employment benefit obligation	52
Deferred tax liabilities	265
Costs to sell and other provisions	(55)
Currency translation reserve recycled to income statement	88
Taxation	(271)
Loss after tax of disposal of Korean operations	**(168)**

There is the potential for the Korean National Tax Service to interpret International Tax Conventions in a manner which gives rise to a tax liability in Korea on the sale of the Korean business. MBK Partners, the purchasers, considering this potential interpretation, withheld and paid capital gains tax of £325m from the sale proceeds to entirely eliminate any possible challenge against the purchasers by the Korean tax authorities. In addition, a further provision of £271m has been made for potential additional capital gains tax on the disposal.

The Group intends to vigorously contest this interpretation through the Korean legal process. To this end, the Group has filed a claim for a refund of the capital gains tax withheld by the purchasers. The Korean National Tax Service have commenced an investigation into this claim. It is anticipated the full Korean legal process could take four to five years.

Loss per share impact from discontinued operations	2016 Pence/share	2015 Pence/share
Basic	(1.07)	(1.26)
Diluted	(1.07)	(1.26)

Cash flow statement	Total Korea 2016 £m	Total Korea, China & US 2015 £m
Net cash flows from operating activities	431	54
Net cash flows from investing activities	(34)	(104)
Net cash flows from financing activities	(4)	165
Net cash flows from discontinued operations	**393**	**115**
Intra-Group funding and intercompany transactions	(103)	(339)
Net cash flows from discontinued operations, net of intercompany	**290**	**(224)**
Net cash flows from disposal of subsidiary	(366)	(148)
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**(76)**	**(372)**

Note 8 Dividends

	2016		2015	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	-	-	10.13	819
Current financial year interim dividend	-	-	1.16	95
Dividends paid to equity owners in the financial year	-	-	11.29	914

No dividend has been paid or is proposed in respect of the financial year ended 27 February 2016.

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

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

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

Given the loss for the 53 weeks ended 28 February 2015, the Group recognised a basic loss per share rather than a basic earnings per share. The dilutive effect of the 12m potentially dilutive share options in that year was not considered in calculating the diluted loss per share as it would have reduced the loss per share. For the 52 weeks ended 27 February 2016 there were 26m potentially dilutive share options. As the Group has recognised a profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent the dilutive effects have been considered in calculating diluted earnings per share from continuing operations before exceptional items and net pension finance costs.

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	225	-	225	(5,639)	-	(5,639)
Discontinued operations	(87)	-	(87)	(102)	-	(102)
Total	**138**	**-**	**138**	**(5,741)**	**-**	**(5,741)**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**-**	**8,107**
Earnings/ (losses) per share (pence)						
Continuing operations	2.77	(0.01)	2.76	(69.56)	-	(69.56)
Discontinued operations	(1.07)	-	(1.07)	(1.26)	-	(1.26)
Total	**1.70**	**(0.01)**	**1.69**	**(70.82)**	**-**	**(70.82)**

* Profit/ (loss) from continuing operations of £225m (2015: £5,639m) excludes losses from non-controlling interests of £9m (2015: £25m).

Non-GAAP measure: Earnings and diluted earnings per share from continuing operations before exceptional items

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	278	-	278	336	-	336
Discontinued operations	81	-	81	188	-	188
Total	**359**	**-**	**359**	**524**	**-**	**524**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**12**	**8,119**
Earnings/ (losses) per share (pence)						
Continuing operations	3.42	(0.01)	3.41	4.14	-	4.14
Discontinued operations	1.00	(0.01)	0.99	2.32	-	2.32
Total	**4.42**	**(0.02)**	**4.40**	**6.46**	**-**	**6.46**

* Profit/ (loss) from continuing operations of £278m (2015: £336m) excludes losses from non-controlling interest of £6m (2015: £8m).

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

Non-GAAP measure: Diluted earnings per share from continuing operations before exceptional items and net pension finance costs

	2016	2015
Profit before tax from continuing operations before exceptional items (£m)	280	356
Add: Net pension finance costs (£m) (Note 14)	155	134
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	435	490
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	442	494
Taxation on profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(37)	(51)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	**405**	**443**
Diluted weighted average number of shares (millions)	**8,152**	**8,119**
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs (pence)	**4.97**	**5.46**

There have been no transactions involving ordinary shares between the reporting date and the date of approval of the condensed consolidated financial information which would significantly change the earnings per share calculations shown above.

Note 10 Goodwill and other intangible assets

Goodwill and other intangible assets comprise £1,827m (2015: £2,288m) goodwill, £975m (2015: £1,374m) software and £72m (2015: £109m) other intangible assets.

Goodwill

The components of goodwill are as follows:

	Balances		Pre-tax discount rates		Post-tax discount rates		Long term growth rates	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m						
Malaysia	70	74	12.3%	12.5%	9.4%	9.4%	2.1%	3.2%
Korea	-	502	-	10.8%	-	8.2%	-	2.8%
Tesco Bank	802	802	11.0%	10.5%	8.2%	8.4%	4.0%	4.0%
Thailand	159	159	10.1%	12.3%	8.1%	9.9%	2.6%	3.3%
UK	767	722	9.1%	8.8%	7.2%	7.0%	2.0%	2.1%
Other	29	29	-	-	-	-	-	-
	1,827	**2,288**						

The Group disposed of its Korean operation during the current year, including goodwill. Refer to Note 7.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections for generally five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

The pre-tax discount rates used to calculate value in use range are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. The forecasts are extrapolated beyond five years based on estimated long-term average growth rates as shown above.

A resulting charge of £18m has been recognised for businesses included in the UK & ROI segment. This charge has been classified as an exceptional item within 'Net restructuring and redundancy costs' within cost of sales.

The Group has carried out a sensitivity analysis on the impairment tests of each group of cash-generating units to which goodwill has been allocated. An increase in the discount rate or reduction in the long term growth rate by less than one percentage point would cause the carrying value of goodwill in the Malaysia (£70m) and Sociomantic (£43m, included in UK above) groups of cash-generating units to equal their recoverable values.

Note 10 Goodwill and other intangible assets continued

Impairment of software

An impairment of £154m of software has been recognised in the year, principally as a result of an evaluation of the cash-generating unit for technology relating to online general merchandising as the Group moves toward a single online platform for customers. In addition, assets with a total net carrying value of £98m were written off within disposals. These amounts have been reflected as 'Net impairment of PPE, intangible assets and onerous lease provisions' within exceptional items in cost of sales. The other amounts have not been classified as exceptional items.

Note 11 Property, plant and equipment

	Land and buildings £m	Other* £m	Total £m
Cost			
At 28 February 2015	25,298	11,493	36,791
Foreign currency translation	76	34	110
Additions**	364	493	857
Acquired through business combinations	1,725	17	1,742
Reclassification	(93)	2	(91)
Classified as held for sale	(715)	(23)	(738)
Disposals	(515)	(346)	(861)
Transfer to disposal group classified as held for sale	(3,583)	(1,202)	(4,785)
At 27 February 2016	**22,557**	**10,468**	**33,025**
Accumulated depreciation and impairment losses			
At 28 February 2015	8,021	8,330	16,351
Foreign currency translation	93	49	142
Charge for the year	318	759	1,077
Impairment losses	263	-	263
Reversal of impairment losses	(220)	(25)	(245)
Reclassification	(28)	(77)	(105)
Classified as held for sale	(475)	(20)	(495)
Disposals	(295)	(281)	(576)
Transfer to disposal group classified as held for sale	(479)	(808)	(1,287)
At 27 February 2016	**7,198**	**7,927**	**15,125**
Net carrying value			
At 27 February 2016	**15,359**	**2,541**	**17,900**
At 28 February 2015	17,277	3,163	20,440
Construction in progress included above*			
At 27 February 2016	**121**	**63**	**184**
At 28 February 2015	271	71	342

* Other assets consist of fixtures and fittings with a net carrying value of £2,145m (2015: £2,722m), office equipment with a net carrying value of £144m (2015: £233m) and motor vehicles with a net carrying value of £252m (2015: £208m).

** Includes £7m (2015: £44m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.6% (2015: 4.4%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

*** Construction in progress does not include land.

Note 11 Property, plant and equipment continued

Following a re-evaluation of the allocation of the prior year impairment between the components of cash generating units, the prior year movement table has been re-presented. There is no impact on the net carrying value, income statement, depreciation or impairment loss.

	Land and buildings £m	Other* £m	Total £m
Cost			
At 22 February 2014	25,734	10,851	36,585
Foreign currency translation	(314)	(106)	(420)
Additions**	799	840	1,639
Acquired through business combinations	-	3	3
Reclassification	(591)	152	(439)
Classified as held for sale	30	(18)	12
Disposals	(360)	(229)	(589)
At 28 February 2015	**25,298**	**11,493**	**36,791**
Accumulated depreciation and impairment losses			
At 22 February 2014	4,985	7,110	12,095
Foreign currency translation	(186)	(96)	(282)
Charge for the year	446	847	1,293
Impairment losses	3,621	671	4,292
Reversal of impairment losses	(169)	(7)	(176)
Reclassification	(358)	-	(358)
Classified as held for sale	(86)	(16)	(102)
Disposals	(232)	(179)	(411)
At 28 February 2015	**8,021**	**8,330**	**16,351**

Refer to previous table for footnotes

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the Balance Sheet date. Recoverable amounts for cash-generating units are based on the higher of value in use or fair value less costs of disposal. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £17,900m (2015: £20,440m) above comprises £13,731m (2015: £13,642m) of unimpaired assets and £4,169m (2015: £6,798m) of impaired assets. Of the impaired assets, £1,805m (2015: £3,841m) carrying value was supported by value in use and £2,364m (2015: £2,957m) was supported by fair value. Due to the individual nature of each property, these fair values are classified as Level 3 within the fair value hierarchy.

Fair values are determined in regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. The key inputs to the valuation are the potential market rents and yields, both of which are largely based on rentals and yields for similar properties in that location.

Value in use is generally calculated from cash flow projections for five years using data from the Group's latest internal forecast, the results of which are reviewed by the Board. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of 2% to 6% (2015: 2% to 5%).

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rates used to calculate value in use predominately range from 9% to 12% (2015: 9% to 12%) depending on the specific conditions in which each cash-generating unit operates. On a post-tax basis, the discount rates predominately range from 7% to 9% (2015: 7% to 10%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region.

A net impairment loss of £18m (£263m loss offset by £245m reversal) has been recognised in the year, largely reflecting normal fluctuations expected from store level performance within the continuing challenging economic environment. These losses and reversals have been largely presented net at an operating segment level to reflect the underlying trends in the businesses. The impairment loss of £263m (2015: £4,118m) relates to properties in the UK & ROI of £164m (2015: £3,484m) and International of £99m (2015: £634m), whilst the impairment reversal of £245m (2015: £176m) relates to properties in the UK & ROI of £126m (2015: £133m) and International of £119m (2015: £43m).

Note 11 Property, plant and equipment continued

Of the £18m net loss, a £93m release within exceptional items related to trading stores and online general merchandising hardware has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within cost of sales. In addition, an £89m loss within exceptional items related to construction in progress and closed stores has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within profits/ (losses) arising on property-related items. An additional £34m loss within exceptional items relating to business rationalisation in the UK & ROI has been classified as 'Net restructuring and redundancy costs' included within cost of sales. The remaining £12m reversal has not been included within exceptional items.

The prior year net impairment loss of £4,116m included £174m related to Korean operations which were disposed of in the current financial year. Of the remaining £3,942m impairment loss related to continuing operations, £3,094m was classified as an exceptional item within 'Impairment of PPE and onerous lease provisions' within cost of sales. An additional £777m impairment loss related to construction in progress and closed stores was classified as 'Impairment of PPE and onerous lease provisions' included within profits/ (losses) arising on property-related items. The remaining £71m impairment loss was not included within exceptional items.

Note 12 Borrowings

Current	Par value	Maturity	2016 £m	2015 £m
Commercial paper, bank loans and overdrafts	–	–	845	1,982
Loans from joint ventures	–	–	6	16
4% RPI MTN[(a)]	£310m	Sep 2016	316	–
5.875% MTN	€1,039m	Sep 2016	877	–
2.7% USD Bond	$500m	Jan 2017	361	–
5.4478% Term Loan	£382m	Jan 2017	396	–
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	14	–
Finance leases			11	10
			2,826	**2,008**

Refer to the next table for footnotes.

Note 12 Borrowings continued

Non-current

	Par value	Maturity	2016 £m	2015 £m
4% RPI MTN[(a)]	£310m	Sep 2016	–	313
5.875% MTN	€1,039m	Sep 2016	–	872
2.7% USD Bond	$500m	Jan 2017	–	325
LIBOR +0.5% Term Loan	£488m	Oct 2017	478	–
1.250% MTN	€500m	Nov 2017	394	362
5.5% USD Bond	$850m	Nov 2017	666	625
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	132	135
3.375% MTN	€750m	Nov 2018	595	548
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	149
1.375% MTN	€1,250m	Jul 2019	990	911
5.5% MTN	£350m	Dec 2019	353	353
1% RPI Tesco Bank Retail Bond	£66m	Dec 2019	66	60
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	–
2.125% MTN	€500m	Nov 2020	394	362
5% Tesco Bank Retail Bond	£200m	Nov 2020	211	205
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349
6.125% MTN	£900m	Feb 2022	896	895
5% MTN	£389m	Mar 2023	411	407
2.5% MTN	€750m	Jul 2024	595	547
3.322% LPI MTN[(b)]	£317m	Nov 2025	320	318
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	353	–
6.067% Secured Bond[(d)]	£200m	Feb 2029	189	–
LIBOR + 1.2% Secured Bond[(d)]	£50m	Feb 2029	30	–
6% MTN	£200m	Dec 2029	257	261
5.5% MTN	£200m	Jan 2033	259	262
1.982% RPI MTN[(c)]	£263m	Mar 2036	265	263
6.15% USD Bond	$1,150m	Nov 2037	1,035	917
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN[(f)]	€600m	Apr 2047	486	631
5.2% MTN	£279m	Mar 2057	275	275
Finance leases	–	–	88	131
			10,711	10,651

(a) The 4% RPI MTN is redeemable at par, including indexation for increases in the Retail Price Index (RPI) over the life of the MTN.

(b) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

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

(d) The bonds are secured by a charge over the Property, Plant and Equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £838m.

(e) This is an amortising bond which matures in Feb 2029. £14m is the principal repayment due within the next 12 months.

(f) The decrease in carrying value of the bond includes £186m of reduction due to a change of the hedge relationship from a fair value to a cash flow hedge which has been recognised in the Statement of Comprehensive Income in the current year.

Note 12 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed facilities available at 27 February 2016, in respect of which all conditions precedent had been met as at that date:

	2016 £m	2015 £m
Expiring in less than one year	100	132
Expiring between one and two years	2,200	200
Expiring in more than two years	2,700	4,800
	5,000	5,132

The current year undrawn committed facilities include £2.4bn of bilateral facilities and a £2.6bn revolving credit facility.

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 13 Commercial Income

Commercial income relates to volume-related allowances, promotional and marketing allowances and various other fees and discounts received in connection with the purchase of goods for resale from suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Accounting for the amount and timing of recognition of commercial income may require the exercise of judgement, as detailed in Note 1 of the latest Annual Report and Group Financial Statements.

Commercial income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within Cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in Cost of sales upon sale of those inventories. Amounts due relating to commercial income are recognised within other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued commercial income is recognised within accrued income when commercial income earned has not been invoiced at the balance sheet date.

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 and deferred income.

	2016 £m	2015 £m
Current assets		
Inventories	(75)	(93)
Trade and other receivables		
- Other receivables	201	97
- Accrued income	100	158
Current liabilities		
Trade and other payables		
- Trade payables	305	347
- Accruals and deferred income	(131)	(53)

Whilst the commercial income balances disclosed above are based on our contracts with suppliers, they only represent part of the overall economic relationship with the suppliers. Accordingly, these balances should be viewed together with other balances related to the purchase of goods in order to understand the overall economic impact to the Group.

Note 14 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK (now closed to future accrual) and the Republic of Ireland, and the funded defined contribution pension scheme for employees in the UK. Of these schemes, the UK defined benefit deficit represents 94% of the Group deficit (2015: 95%).

The principal plan within the Group is the Tesco PLC Pension Scheme (the 'Scheme'), which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee.

The Career Average section of the Scheme ('Pension Builder') was closed to new members and future accrual on 21 November 2015. The Final Salary section of the Scheme, which was closed to new entrants in 2001, was also closed to future accrual on 21 November 2015. As a result of this closure a one off past service credit and other associated costs have been recognised as exceptional items as set out in Note 4. In addition a new defined contribution scheme, Tesco Retirement Savings Plan, was opened on 22 November 2015 and is open to all Tesco colleagues in the UK.

At 31 March 2014, the deficit valuation arising from the triennial actuarial assessment was £2.8bn. A plan to pay £270m a year has been agreed with the Trustee, to fund the UK deficit and to meet the expenses of the scheme.

UK Principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 27 February 2016 were as follows:

	2016 %	2015 %
Discount rate	3.8	3.7
Price inflation	2.9	3.1
Rate of increase in deferred pensions*	1.9	2.1
Rate of increase in salaries	N/A	3.2
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.7	2.9
Benefits accrued after 1 June 2012	1.9	2.1
Rate of increase in career average benefits		
Benefits accrued before 1 June 2012	N/A	3.1
Benefits accrued after 1 June 2012	N/A	2.1

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

The rate of increase in salaries and career average benefits are no longer applicable, as the Scheme has closed to future accrual.

The main financial assumption is the real discount rate (i.e., the excess of the discount rate over the rate of price inflation). If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/ increase by approximately £312m.

Summary of movements in Group deficit during the financial year

Changes in the Group deficit, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Deficit in schemes at beginning of the year	(4,842)	(3,193)
Current service cost	(570)	(631)
Past service credit	535	-
Net pension finance cost*	(155)	(136)
Contributions by employer	433	563
Additional contribution by employer	223	13
Foreign currency translation	(8)	15
Remeasurements	1,164	(1,473)
Transfer to disposal group classified as held for sale	45	-
Deficit in schemes at the end of the year	**(3,175)**	**(4,842)**
Deferred tax asset **	563	957
Deficit in schemes at the end of the year, net of deferred tax	**(2,612)**	**(3,885)**

* Includes £nil (2015: £2m) in Korea.
** The deferred tax asset in relation to the retirement benefit obligation has been partly offset with group deferred tax liabilities in the balance sheet.

Note 15 Analysis of changes in net debt

	At 28 February 2015 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Debt acquired on business combinations £m	Debt disposed - Korean operations £m	Reclassifications of movements in net debt disposal groups £m	At 27 February 2016 £m
Total Group									
Cash and cash equivalents	2,165	907	1	-	-	-	-	9	3,082
Short-term investments	593	2,894	(24)	-	-	-	-	-	3,463
Joint ventures loans	207	1	-	-	(30)	(29)	-	-	149
Interest and other receivables	1	(26)	-	26	-	-	-	-	1
Bank and other borrowings	(12,358)	742	(253)	(23)	-	(1,455)	94	-	(13,253)
Interest payables	(160)	426	-	(444)	-	(10)	3	-	(185)
Finance lease payables	(141)	17	1	-	(5)	29	-	-	(99)
Net derivative financial instruments	610	(154)	314	8	-	(80)	-	-	698
Net derivative interest	54	23	-	(18)	-	-	-	-	59
Net debt of the disposal groups	9	-	-	-	-	-	-	(9)	-
Total Group	**(9,020)**	**4,830**	**39**	**(451)**	**(35)**	**(1,545)**	**97**	**-**	**(6,085)**
Tesco Bank									
Cash and cash equivalents	616	(62)	-	-	-	-	-	-	554
Joint ventures loans	34	-	-	-	-	-	-	-	34
Bank and other borrowings	(1,133)	(300)	(8)	-	-	-	-	-	(1,441)
Interest payables	(1)	4	-	(4)	-	-	-	-	(1)
Net derivative financial instruments	(55)	-	(66)	-	-	-	-	-	(121)
Tesco Bank	**(539)**	**(358)**	**(74)**	**(4)**	**-**	**-**	**-**	**-**	**(975)**
Retail									
Cash and cash equivalents	1,549	969	1	-	-	-	-	9	2,528
Short-term investments	593	2,894	(24)	-	-	-	-	-	3,463
Joint ventures loans	173	1	-	-	(30)	(29)	-	-	115
Interest and other receivables	1	(26)	-	26	-	-	-	-	1
Bank and other borrowings	(11,225)	1,042	(245)	(23)	-	(1,455)	94	-	(11,812)
Interest payables	(159)	422	-	(440)	-	(10)	3	-	(184)
Finance lease payables	(141)	17	1	-	(5)	29	-	-	(99)
Net derivative financial instruments	665	(154)	380	8	-	(80)	-	-	819
Net derivative interest	54	23	-	(18)	-	-	-	-	59
Net debt of the disposal groups	9	-	-	-	-	-	-	(9)	-
Net debt	**(8,481)**	**5,188**	**113**	**(447)**	**(35)**	**(1,545)**	**97**	**-**	**(5,110)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group Balance Sheet and the Group Cash Flow Statement.

Note 15 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net increase/ (decrease) in cash and cash equivalents	907	(717)
Elimination of Tesco Bank movement in cash and cash equivalents	62	(131)
Retail cash movement in other net debt items		
Net increase/ (decrease) in short-term investments	2,894	(423)
Net increase/ (decrease) in joint venture loans	1	(40)
Net decrease/ (increase) in borrowings and lease financing	1,059	(1,058)
Net cash flows from derivative financial instruments	(154)	6
Net interest paid on components of net debt	419	505
Change in net debt resulting from cash flow	**5,188**	**(1,858)**
Retail net interest charge on components of net debt	(447)	(443)
Retail fair value and foreign exchange movements	113	241
Debt disposed on disposal of Chinese operations	-	255
Debt disposed on disposal of Korean operations	97	-
Debt acquired on business combinations	(1,545)	-
Retail other non-cash movements	(35)	(79)
Decrease/ (increase) in net debt for the year	**3,371**	**(1,884)**
Opening net debt	**(8,481)**	**(6,597)**
Closing net debt	**(5,110)**	**(8,481)**

Note 16 Business combinations and other acquisitions

During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interests in each of the partnerships. The acquisitions increased the Group's owned property portfolio by £1,714m, comprising 70 stores and 2 distribution centres, reduced the Group's undiscounted lease commitments by £852m (discounted £563m) and increased borrowings and derivative liabilities by £1,545m.

On 20 March 2015 the Group received British Land Co PLC's ('British Land') share of the Tesco Aqua Limited partnership ('Aqua') and cash of £96m in exchange for British Land taking sole ownership of three shopping centres, three retail parks and three standalone stores which were previously held in two joint ventures between the two companies. Further information received after the interim results August 2015 and within the measurement period resulted in the recognition of a deferred tax liability of £18m and associated goodwill of £22m, together with re-allocation of cash flows within investment activities to better reflect the facts and circumstances that existed at the acquisition date. The net profit of £28m on these transactions comprises a loss on acquisition of Aqua of £175m offset by a profit of £203m. The profit arises largely on the sale of the Group's shares in the two joint ventures together with releases of related deferred income balances.

On 25 February 2016, the Group obtained sole control of the Tesco Red Limited Partnership ('Red') and Tesco Property Limited Partnership ('TPLP') from British Airways Pension Fund and Phoenix Life Assurance Limited respectively, realising a net loss of £53m on acquisition. The Group additionally released previously recognised impairments, onerous leases and deferred income balances relating to these entities totalling £84m, resulting in a net profit of £31m from the two transactions.

The overall profit of £59m from these transactions has been classified as an exceptional item in 'Property transactions' included within 'Profits/ (losses) arising on property-related items'. The profit includes a £14m gain on remeasuring the Group's 50% interest in the three joint ventures immediately prior to the acquisition to a fair value asset of £24m. Across the three transactions, goodwill balances totalling £41m have been recognised on recognition of deferred tax liability balances on land, due to the Group controlling the reversal of a portion of these tax liabilities, and not expecting them to be realised. This goodwill is not deductible for tax purposes.

Note 16 Business combinations and other acquisitions continued

Provisional fair values on acquisition

The table below sets out the provisional fair values to the Group in respect of these acquisitions.

	Aqua £m	Red £m	TPLP £m	Total
Plant, Property and Equipment	466	410	838	**1,714**
Cash	4	9	2	**15**
Other receivables	-	-	97	**97**
Borrowings	(474)	(400)	(591)	**(1,465)**
Derivative financial instruments	(57)	-	(23)	**(80)**
Deferred tax	(18)	(25)	(80)	**(123)**
Other liabilities	(70)	(77)	(4)	**(151)**
	(149)	**(83)**	**239**	**7**
Goodwill	22	19	-	**41**
Carrying value of investments in joint ventures immediately prior to acquisition	-	-	10	**10**
Purchase consideration*	48	69	149	**266**
Profit on related disposals and other items	203	50	34	**287**

*Additional cash payments of £67m were made to novate loans previously held by the other joint venture partners.

The acquisitions above have increased profit for the period by £12m; there has been no impact on revenues in the period.

In addition, the Group obtained sole control of Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland) for total consideration of £7m.

The overall cash outflow of £325m on acquisition of subsidiaries comprises the £273m purchase consideration for Aqua, Red, TPLP, Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland), together with the £67m novated loans, net of £15m cash acquired.

Note 17 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.

On 22 September 2014, the Group announced that it had identified an overstatement of its expected profit for the first half of the year, as contained in guidance it had issued in August 2014, relating to the recognition of commercial income and the deferral of costs. The Serious Fraud Office ('SFO') commenced an investigation into accounting practices at the Group on 29 October 2014. It is not possible to predict the timescale or outcome of the SFO investigation, but the SFO could decide to prosecute individuals and the Group, and there is the possibility of fines and/or other consequences. The Group is cooperating with the SFO.

In November 2015 the Group reached agreement in principle to settle a class action by US investors who dealt through the American Depository Receipts ('ADRs') programme which represented approximately 2.3% of issued share capital. This consisted of a settlement of US$12 million with no admission of liability. The Group is also facing a claim in Ohio by the remaining holders of ADRs, which is equivalent to 0.16% of the total issued ordinary shares of the Group. The Group is defending this claim. In addition, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement, and purport to have secured third party funding for such litigation. No such litigation has yet been formally threatened or commenced and the Group is consequently unable to make any assessment of the likely outcome or quantum.

Prior to the disposal of its Korean operations ('Homeplus'), Tesco PLC provided guarantees in respect of thirteen Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus's default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. The maximum potential liability as at 27 February 2016 under these guarantees is approximately KRW627bn (£357m). This liability decreases over time with all relevant leases expiring in the period between 2026 and 2033. Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made under such guarantees.

Note 18 Lease commitments

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within one year	1,296	1,324
Greater than one year but less than five years	3,918	4,686
After five years	7,831	9,697
Total minimum lease payments	**13,045**	**15,707**

Future minimum rentals payable under non-cancellable operating leases after five years are analysed further as follows:

	2016 £m	2015 £m
Greater than five years but less than ten years	3,272	4,243
Greater than ten years but less than fifteen years	2,303	2,853
After fifteen years	2,256	2,601
Total minimum lease payments – after five years	**7,831**	**9,697**

Total operating lease commitments in Korea of £1,242m were included in 2015.

The Group has used operating lease commitments discounted at 7% (2015: 7%) of £7,814m (2015: £9,353m) in its calculation of total indebtedness.

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

The Group has lease-break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date. The current market value of these properties is £3.2bn (2015: £4.7bn) and the total lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (2015: £3.9bn) using current rent values. The lease break options are exercisable between 2016 and 2023.

The additional lease rentals if incurred following the option exercise date would be as follows:

	2016 £m	2015 £m
Within one year	45	10
Greater than one year but less than five years	72	372
Greater than five years but less than ten years	686	1,095
Greater than ten years but less than fifteen years	718	1,084
After fifteen years	1,115	1,349
Total contingent additional lease rentals	**2,636**	**3,910**

Operating lease commitments with joint ventures and associates

Since 1988, the Group has entered into several joint ventures and associates, and sold and leased back properties to and from these joint ventures and associates. The terms of these sale and leasebacks vary. However, common factors include: the sale of the properties to the joint venture or associate at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Note 19 Events after the reporting period

On 12 April 2016 the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. ('Lazada') to Alibaba Group Holding Limited ('Alibaba') for gross cash consideration of US$129m (£90m). The Group's investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following twelve to eighteen months.

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.

Diluted earnings per share from continuing operations before exceptional items
Profit after tax before exceptional items attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

Diluted earnings per share from continuing operations before exceptional items and net pension finance costs
Profit after tax before exceptional items and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

Enterprise Value
This is calculated as Market capitalisation plus Net debt.

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

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

FTE
FTE refers to full time equivalents.

Free cash flow
Free cash flow is net cash generated from/ (used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

Growth in sales
The YoY% (year on year) movement in revenue exc. fuel for continuing operations excluding fuel for 52 weeks at constant foreign exchange rate.

Like-for-like
Like-for-like is the growth in sales from stores that have been open for at least a year at a constant foreign exchange rate and includes online sales.

LPI
LPI refers to Limited Price Inflation.

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

MTN
MTN refers to Medium Term Note.

Net debt
Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, 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.

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

Operating margin
Operating margin is based on operating profit before exceptional items and on revenue.

Operating profit before exceptional items
This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items.

Pension deficit, IAS 19 basis (post tax)
This is post-employment benefit obligations net of the related deferred tax.

Profit before tax before exceptional items and net pension finance costs
This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields, which can fluctuate significantly.

Retail cash flow
Cash generated from/ (used in) operations for retail activities.

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

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

Revenue exc. fuel
This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

RPI
RPI refers to Retail Price Index.

Total indebtedness
Net debt plus IAS19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

Total shareholder return ('TSR')
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. For example, five-year total shareholder return for 2015/16 is the annualised growth in the share price from 2010/11 and dividends paid and reinvested in Tesco shares, as a percentage of the 2010/11 share price.

Appendix 1

Total Sales Performance at Actual Rates (Exc. VAT, Exc. Fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/16
UK & ROI	**(1.0)%**	**(1.4)%**	**(1.9)%**	**0.4%**	**(1.2)%**	**(0.6)%**	**(0.9)%**
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	(0.6)%	(0.3)%	(0.4)%
ROI	(14.7)%	(12.2)%	(9.3)%	(1.1)%	(13.5)%	(5.1)%	(9.3)%
International	**(3.9)%**	**(5.2)%**	**(6.6)%**	**(1.5)%**	**(4.6)%**	**(4.0)%**	**(4.3)%**
Europe	(9.4)%	(8.3)%	(8.2)%	(2.1)%	(8.8)%	(5.1)%	(7.0)%
Asia	3.5%	(0.7)%	(4.5)%	(0.6)%	1.5%	(2.5)%	(0.5)%
Tesco Bank	**0.9%**	**(2.5)%**	**(1.7)%**	**6.9%**	**(0.8)%**	**2.4%**	**0.8%**
Group	**(1.7)%**	**(2.3)%**	**(2.9)%**	**0.1%**	**(1.9)%**	**(1.3)%**	**(1.6)%**

Appendix 2

Total Sales Performance at Constant Rates (Exc. VAT, Exc. Fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/16
UK & ROI	**(0.4)%**	**(0.9)%**	**(1.5)%**	**0.5%**	**(0.6)%**	**(0.3)%**	**(0.5)%**
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	(0.6)%	(0.3)%	(0.4)%
ROI	(2.7)%	(1.7)%	(0.9)%	1.1%	(2.2)%	0.3%	(1.0)%
International	**(0.5)%**	**2.1%**	**2.4%**	**3.4%**	**0.8%**	**2.9%**	**1.8%**
Europe	1.8%	3.3%	1.5%	2.2%	2.5%	1.9%	2.2%
Asia	(3.5)%	0.3%	3.7%	5.0%	(1.7)%	4.3%	1.3%
Tesco Bank	**0.9%**	**(2.5)%**	**(1.7)%**	**6.9%**	**(0.8)%**	**2.4%**	**0.8%**
Group	**(0.4)%**	**(0.3)%**	**(0.7)%**	**1.3%**	**(0.3)%**	**0.4%**	**0.1%**

Notes

These results have been reported on a continuing operations basis and exclude the results from our operations in Korea. Growth rates are all based on comparable days. For example, for the UK and ROI, these results are for the 52 weeks ending 28 February 2015 and 27 February 2016 respectively.

Appendix 3

Country Detail

	Revenue (Exc. VAT, Inc. Fuel)			
	Local Currency (m)	£m	Average exchange rate	Closing exchange rate
UK	41,259	41,259	1.000	1.000
ROI	2,503	1,821	1.375	1.269
Czech Republic	42,483	1,137	37.36	34.34
Hungary	576,799	1,353	426.3	395.3
Poland	11,188	1,933	5.787	5.534
Slovakia	1,370	996	1.375	1.269
Turkey	2,135	501	4.264	4.099
Malaysia	4,511	742	6.075	5.855
Thailand	195,081	3,705	52.66	49.61

Appendix 4

UK Sales Area by Size of Store

	February 2016			February 2015		
	No. of stores	Million sq ft	% of total sq ft	No. of stores	Million sq ft	% of total sq ft
0 – 3,000	2,498	5.2	12.5%	2,481	5.2	12.3%
3,001 – 20,000	289	3.5	8.4%	321	4.0	9.6%
20,001 – 40,000	283	8.3	20.0%	306	9.1	21.6%
40,001 – 60,000	204	10.4	25.0%	195	10.4	24.5%
60,001 – 80,000	132	8.9	21.5%	123	7.9	18.7%
80,001 – 100,000	45	4.2	10.2%	45	4.1	9.6%
Over 100,000	9	1.0	2.4%	14	1.6	3.7%
Total[1]	**3,460**	**41.5**	**100.0%**	**3,485**	**42.3**	**100.0%**

Note
1. Excludes franchise stores.

Appendix 5

Actual Group Space – store numbers[1]

	2014/15 year end	2015/16 year end	Net gain/ reduction[2]	Openings	Closures/ disposals	Repurposing/ extensions
Extra	250	252	2	2	-	*5*
Homeplus	11	-	(11)	-	(11)	-
Superstore	487	478	(9)	1	(10)	-
Metro	191	177	(14)	1	(15)	-
Express	1,735	1,732	(3)	29	(32)	-
Dotcom only	6	6	-	-	-	-
Total Tesco	**2,680**	**2,645**	**(35)**	**33**	**(68)**	***5***
One Stop[3]	770	779	9	24	(15)	-
Dobbies	35	36	1	1	-	-
UK[3]	**3,485**	**3,460**	**(25)**	**58**	**(83)**	***5***
ROI	**149**	**149**	**-**	**-**	**-**	**-**
UK & ROI[3]	**3,634**	**3,609**	**(25)**	**58**	**(83)**	***5***
Czech Republic[3]	209	201	(8)	-	(8)	-
Hungary	209	208	(1)	-	(1)	*5*
Poland	449	440	(9)	-	(9)	-
Slovakia	155	161	6	6	-	-
Turkey	173	169	(4)	1	(5)	-
Europe[3]	**1,195**	**1,179**	**(16)**	**7**	**(23)**	***5***
Malaysia	54	62	8	8	-	*4*
Thailand	1,759	1,815	56	65	(9)	*20*
Asia	**1,813**	**1,877**	**64**	**73**	**(9)**	***24***
International[3]	**3,008**	**3,056**	**48**	**80**	**(32)**	***29***
Group[3]	**6,642**	**6,665**	**23**	**138**	**(115)**	***34***
UK (One Stop)	*76*	*134*	*58*	*61*	*(3)*	-
Czech Republic	*131*	*103*	*(28)*	-	*(28)*	-
Franchise stores	*207*	*237*	*30*	*61*	*(31)*	-

Notes
1. Continuing operations.
2. The net gain/reduction reflects the number of store openings less the number of store closures/disposals.
3. Excludes franchise stores.

Actual Group Space – '000 sq ft[1]

	2014/15 year end	2015/16 year end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,763	17,846	83	127	-	(44)
Homeplus	488	-	(488)	-	(488)	-
Superstore	14,254	14,002	(252)	16	(268)	-
Metro	2,150	2,005	(145)	15	(160)	-
Express	4,030	4,031	1	70	(69)	-
Dotcom only	716	716	-	-	-	-
Total Tesco	**39,401**	**38,600**	**(801)**	**228**	**(985)**	**(44)**
One Stop[2]	1,235	1,256	21	44	(23)	-
Dobbies	1,648	1,652	4	4	-	-
UK[2]	**42,284**	**41,508**	**(776)**	**276**	**(1,008)**	**(44)**
ROI	**3,560**	**3,560**	**-**	**-**	**-**	**-**
UK & ROI[2]	**45,844**	**45,068**	**(776)**	**276**	**(1,008)**	**(44)**
Czech Republic[2]	5,653	5,558	(95)	-	(95)	-
Hungary	7,026	6,931	(95)	-	(2)	(93)
Poland	9,736	9,688	(48)	-	(48)	-
Slovakia	3,928	3,969	41	41	-	-
Turkey	3,663	3,492	(171)	4	(175)	-
Europe[2]	**30,006**	**29,638**	**(368)**	**45**	**(320)**	**(93)**
Malaysia	4,025	4,164	139	136	-	3
Thailand	15,712	15,536	(176)	255	(13)	(418)
Asia	**19,737**	**19,700**	**(37)**	**391**	**(13)**	**(415)**
International[2]	**49,743**	**49,338**	**(405)**	**436**	**(333)**	**(508)**
Group[2]	**95,587**	**94,406**	**(1,181)**	**712**	**(1,341)**	**(552)**
UK (One Stop)	*102*	*185*	*83*	*86*	*(3)*	-
Czech Republic	*122*	*96*	*(26)*	-	*(26)*	-
Franchise stores	*224*	*281*	*57*	*86*	*(29)*	-

Notes
1. Continuing operations.
2. Excludes franchise stores.

Group Space Forecast to 25 February 2017 – '000 sq ft[1]

	2015/16 year end	2016/17 year end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,846	17,905	59	59	-	-
Superstore	14,002	14,017	15	38	(23)	-
Metro	2,005	1,994	(11)	-	(11)	-
Express	4,031	4,074	43	47	(4)	-
Dotcom only	716	716	-	-	-	-
Total Tesco	**38,600**	**38,706**	**106**	**144**	**(38)**	**-**
One Stop[2]	1,256	1,260	4	49	(45)	-
Dobbies	1,652	1,652	-	-	-	-
UK[2]	**41,508**	**41,618**	**110**	**193**	**(83)**	**-**
ROI	**3,560**	**3,543**	**(17)**	**-**	**(17)**	**-**
UK & ROI[2]	**45,068**	**45,161**	**93**	**193**	**(100)**	**-**
Czech Republic[2]	5,558	5,530	(28)	-	(28)	-
Hungary	6,931	6,931	-	-	-	-
Poland	9,688	9,604	(84)	-	(84)	-
Slovakia	3,969	3,886	(83)	-	(83)	-
Turkey	3,492	3,449	(43)	-	(3)	(40)
Europe[2]	**29,638**	**29,400**	**(238)**	**-**	**(198)**	**(40)**
Malaysia	4,164	4,059	(105)	101	-	(206)
Thailand	15,536	15,345	(191)	220	-	(411)
Asia	**19,700**	**19,404**	**(296)**	**321**	**-**	**(617)**
International[2]	**49,338**	**48,804**	**(534)**	**321**	**(198)**	**(657)**
Group[2]	**94,406**	**93,965**	**(441)**	**514**	**(298)**	**(657)**
UK (One Stop)	*185*	*333*	*148*	*148*	*-*	*-*
Czech Republic	*96*	*92*	*(4)*	*-*	*(4)*	*-*
Franchise stores	*281*	*425*	*144*	*148*	*(4)*	*-*

Notes
1. Continuing operations.
2. Excludes franchise stores.

Appendix 6

Tesco Bank Income Statement

	2015/16[1] £m	2014/15[1,2] £m
Revenue		
Interest receivable and similar income	576	537
Fees and commissions receivable	379	410
	955	**947**
Direct Costs		
Interest payable	(166)	(153)
Fees and commissions payable	(3)	(19)
	(169)	**(172)**
Gross profit	**786**	**775**
Other expenses:		
Staff costs	(172)	(152)
Premises and equipment	(81)	(90)
Other administrative expenses	(212)	(211)
Depreciation and amortisation	(91)	(81)
Provisions for bad and doubtful debts	(68)	(53)
Operating profit before exceptional items	**162**	**188**
Restructuring and other exceptional items[3]	(1)	(35)
Operating profit	**161**	**153**
Net finance costs: movements on derivatives and hedge accounting	(8)	(19)
Net finance costs: interest	(4)	(4)
Share of (loss)/profit of joint ventures and associates	(3)	5
Deduct: management charges	(1)	(1)
Profit before tax	**145**	**134**

Notes

1. These results are for the 12 months ended 29 February 2016 and the previous period comparison is made with the 12 months ended 28 February 2015.
2. Issuance of Clubcard vouchers previously presented as an expense has been reclassified to revenue. There is no impact on operating profit before exceptional items or operating profit.
3. Restructuring and other exceptional items in 2015/16 consists of £1m restructuring costs; 2014/15 consists of an increase in PPI provision of £27m and restructuring costs of £8m.