TESCO

Serving shoppers a little better every day.

Annual Report and Financial Statements 2019.

Our business was built with a simple mission – to be the champion for customers, helping them to enjoy a better quality of life and an easier way of living. Our mission hasn't changed in the one hundred years since. Customers want great products at great value, and it's our job to deliver this in the right way for them.

That's why 'serving shoppers a little better every day' is our core purpose – putting customers at the heart of everything we do and guiding every decision we make.

As we celebrate our centenary year, we're reiterating our commitment to great value, for every one of our key stakeholders and in every part of our business.

2019 highlights

Headline measures.

Group salesΔ
▲11.5% **£56.9bn**
2018: £51.0bn*

Group operating profit before exceptional and other itemsΔ(a)
▲34.0% **£2,206m**
2018: £1,646m*

Diluted EPS before exceptional and other itemsΔ(b)
▲29.4% **15.40p**
2018: 11.90p*

Dividend per share
▲92.3% **5.77p**
2018: 3.00p

Retail operating cash flowΔ(c)
▼(9.8)% **£2,502m**
2018: £2,773m

Net debtΔ(c)
▲(9.1)% **£(2.9)bn**
2018: £(2.6)bn

Statutory measures.

Statutory revenue
▲11.2% **£63.9bn**
2018: £57.5bn*

Operating profit
▲17.1% **£2,153m**
2018: £1,839m*

Statutory profit before tax
▲28.8% **£1,674m**
2018: £1,300m*

Statutory diluted EPS
▲11.9% **13.55p**
2018: 12.11p*

Δ **Alternative performance measures (APM)**
Measures with this symbol Δ are defined in the Glossary section on pages 178 to 181.

All measures reported on a continuing operations basis.
Change shown at actual exchange rates.

(a) Excludes amortisation of acquired intangibles and excludes exceptional items by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group.

(b) Diluted EPS before exceptional and other items refers to diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments.

(c) Net debt and Retail operating cash flow exclude the impact of Tesco Bank.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36.

Contents.

The screen icon indicates where further information is available online. We have also produced a number of short videos, available at **www.tescoplc.com/ar2019**.

Continued progress.

"Our strong performance is a reflection of the hard work of our 450,000 colleagues"

John Allan
Non-executive Chairman

Visit **www.tescoplc.com/ar2019** to hear more from John Allan.

This has been another strong year for Tesco. We have made further progress with our plans to create value for customers, at the same time as delivering significant returns for shareholders – with operating profit for the Group exceeding £2bn for the first time in our four years of turnaround.

The Board's increasing focus on growth in earnings and free cash flow generation has also allowed us to pay a dividend for a second successive year.

More broadly, our strong performance is a reflection of the hard work of our 450,000 colleagues, and their commitment to serving shoppers a little better every day – led by a management team that has a clear focus on customers.

The Board places a significant focus not just on the strategic plans developed by management, but also on the wider culture of our business. Our centenary year offers a timely reminder of what made Tesco the business that it is today, as we celebrate 100 years of great value. It is also an opportunity to further engage the whole Tesco team on the purpose and values that define our organisation.

In support of that, members of the Board have spent time engaging with customers, colleagues and a wide range of stakeholders.

There have been two changes to the composition of the Board in the year:

- Due to illness, Charles Wilson stepped down from the Board in July, but we are very pleased that his recovery has been successful. Charles continues to lead Booker and, as a member of the Executive Committee, the wider Tesco business benefits from his continued involvement in matters of strategy.
- In September, we were delighted to welcome Melissa Bethell to the Board, bringing a broad range of experience and skills from a background in strategy, finance and technology. Melissa is also a member of the Audit Committee.

Throughout the year, the Board's discussions have focused on longer-term strategic planning. With the progress that the business has made against our six strategic drivers – the medium-term ambitions that we outlined in October 2016, and which are detailed on pages 14 and 15 of this report – we have dedicated significant time and energy to developing our plans for sustainable growth into the future.

For every one of our stakeholders – our customers, colleagues, suppliers and shareholders – the direction of our future plans will build on the momentum of our last four years of turnaround, putting customers at the heart of everything we do.

From a shareholder perspective, the lens through which the Executive team manage the business will be four-fold, with a focus on customer satisfaction, cash profitability, free cash flow and earnings growth.

Importantly, the Directors' discussions on sustainable growth do not focus solely on financial metrics. The Board considers it critical that we monitor and respond to broader issues of sustainability, including climate change and responsible sourcing, so that our business is well placed to succeed in the years ahead.

We also believe in developing a sustainable pool of talent within Tesco, and we are committed to supporting people at every level and from every background, to develop their careers with us.

You can read more about our approach to sustainability on pages 24 to 31 of this Report, and in our separate Little Helps Plan report.

This has been a significant year for Tesco – not just because of its historical importance, as we celebrate 100 years of great value – but also because of the strong position we have built in our ongoing turnaround. We enter the next chapter in our history with confidence in our plans, and with strong momentum.

John Allan
Non-executive Chairman

"Over the last 100 years, Tesco has been an innovator, a disruptor, and above all it has listened to customers – meeting their needs better than anybody else. Retail has changed a lot in that time, and so has our business."

Dave Lewis
Group Chief Executive

Visit **www.tescoplc.com/ar2019** to hear more from Dave Lewis.

Creating long-term, sustainable value.

This year has been an important milestone for Tesco.

In 2019, we are celebrating 100 years since Jack Cohen first set up his East London market stall – and reiterating our commitments to great value for customers. It's also an important milestone in the turnaround that we began in 2015, and which we are successfully delivering – and I'm confident we will finish the job in 2019/20.

After four years of turnaround, we have made significant progress. We have transformed the Tesco brand; significantly reduced our cost base; generated £2.5bn of retail operating cash this year, and achieved a Group operating margin for the full year of 3.45% – reaching 3.96% in the second half of the year. We have also released £1.7bn of value from our property portfolio since the start of our turnaround, and built a culture of innovation.

Our balance sheet is stronger too, with total indebtedness of £(22)bn in 2015 reduced to £(12)bn at the end of this year.

Importantly, the progress we are making is broad-based. In the UK, we have rebuilt the competitiveness of our offer; in Central Europe, we have simplified our business and delivered a significant cost reduction programme; and in Asia, we have successfully renegotiated terms with our suppliers, supporting our profit recovery.

This strong financial performance is driven by a strategic decision to manage our business with a long-term focus on four key metrics: customer satisfaction, cash profitability, free cash flow and earnings growth.

It also reflects the plans we have delivered this year to create value for each of our key stakeholders – our customers, colleagues, suppliers and shareholders.

Customers.

We have continued our focus on providing customers with quality products at great prices. Our customers' perceptions of quality and value have continued to improve throughout our turnaround, and more customers are recommending Tesco as a place to shop.

Our customer offer is stronger, with almost 10,000 Own Brand products relaunched in the UK. Importantly, this includes completing the roll-out of our entry-level product tier in the UK, introducing eight new 'Exclusively at Tesco' brands. These products offer exceptional value and customers are responding very positively.

In Asia, we have launched almost 600 new Own Brand products, with positive customer feedback and an increase in Own Brand sales participation in both Thailand and Malaysia.

We continue to help our customers who want to make healthier choices and in September, through our health event in UK stores – our first in partnership with Jamie Oliver – we offered a basket of 'helpful little swaps' which was 12% cheaper than a standard basket.

As part of our centenary celebrations, we have also launched a new store format in the UK, Jack's – which proudly supports Britain's food producing communities, with eight out of ten Jack's branded food and drink products grown, reared or made in Britain – and offers customers a no-fuss approach, with a low-cost business model.

In Central Europe, we have launched 'Star Lines', with more than 600 products benchmarked on quality and price against the market, so that customers can shop with confidence. We have also continued our Food Love Stories campaign, sharing our passion for food and showcasing the quality of our products.

And at Tesco Bank, we have launched new technology to simplify banking for customers, including an improved mobile app, which is now the preferred method of account access for 1.2 million customers.

Colleagues

We want Tesco to be a great place to work for all of our colleagues, and to make it easier for them to do what they do best – serving our shoppers.

In November, we implemented the final stage of a 10.5% pay increase for our hourly-paid UK store colleagues. We have a consistent principle that we aim to pay all colleagues competitively against the relevant pay benchmark.

Last year, we launched our National Charity Partnership, bringing together three of the UK's leading health charities: Cancer Research UK, the British Heart Foundation and Diabetes UK.

Through that partnership, we are helping our colleagues to lead healthier lives, and this year we conducted the UK's largest ever workplace health survey, with more than 8,000 colleagues taking part. More than 20,000 colleagues have also benefited from e-learning to support mental wellbeing.

We are committed to offering good career opportunities, and this year over 1,000 colleagues took part in one of our apprenticeship programmes, supporting existing Tesco colleagues to develop new skills and helping young people start their career.

In Ireland, we were particularly pleased to be independently recognised as a top Irish workplace for a second year, as well as being named one of the best workplaces for women, reflecting our aim to give everyone an equal opportunity to get on.

Tesco continues to be a place where people can develop, and access a huge breadth of opportunity.

However, this has also been a significant year of change for our business, which has had an impact on our colleagues. These changes are necessary as we respond to changes in the way that customers shop with us, and will ensure that we are operating our business sustainably.

Whenever we make any change in our business, our priority is always to support our colleagues, and to stay true to our values.

Our values

No one tries harder for customers	We treat people how they want to be treated	Every little help makes a big difference

Suppliers.

We continue to strengthen the partnerships we have with our suppliers.

For a third successive year, we ranked first in the independent supplier Advantage survey, and our Supplier Viewpoint measure for the Group reached a high of 77.5% in the second half of the year.

Our close, trusted partnerships with suppliers allow us to deliver great quality products to our customers, at great value.

We are committing to long-term strategic relationships with our closest supplier partners, supporting them to invest in improving the value and quality of our products, and increasing the efficiency of our supply chain. This year we have also worked together with our suppliers to make sensible preparations for Brexit, seeking to protect service and availability for our customers.

As we grow our business, that presents an opportunity for our partners to grow with us too.

Through our merger with Booker, suppliers can access the combined growth of a Group which serves not just the retail market, but also wholesale and food eaten 'out of home'.

Our alliance with Carrefour presents a further opportunity for growth, covering the strategic relationship with global suppliers, the joint purchasing of Own Brand products and goods not for resale.

We're also working with suppliers to make products healthier and more sustainable. In Thailand, we became the first retailer to bring all our Own Brand soft drinks below 6g of sugar per 100ml and we have removed trans fats from all Tesco bakery items. In the UK, we have worked with our suppliers to remove more than 2,900 tonnes of hard to recycle materials from our Own Brand products.

358 suppliers
worked with us to develop
1,800 products
for our new Jack's brand

Alternative performance measures referred to in this statement are defined in the Glossary on pages 178 to 181.

Shareholders

We continue to create long-term, sustainable value for shareholders, investing in our competitiveness in all of our markets and being more selective in the mix of products we sell, moving away from loss-making categories.

We have made a number of key decisions to support this, including the closure of Tesco Direct, stepping back from unprofitable general merchandise sales in Central Europe, and an accelerated transformation plan in Asia.

We are delivering the synergies from our merger with Booker, with £79m realised in this first year, and we are well on track to meet our target recurring run-rate of around £200m per year by the end of the third year. Our Joining Forces programme continues at pace, with top Booker products now available in 70 Tesco stores and, for Booker customers, a significant improvement in the quality of the top 20 fastest-selling retail fruit and vegetable lines.

At the same time, we continue to strengthen our balance sheet, reducing total indebtedness and lowering our interest costs.

Reflecting our strong underlying financial performance, we are also proposing a final dividend of 4.10 pence, taking the full-year dividend to 5.77 pence, an increase of 92.3% year-on-year. We now expect to reach a dividend cover level of around two times earnings (on a post-IFRS 16 basis) in the 2019/20 financial year.

Sustainable value

It has been a strong year for Tesco, and the strategic decisions we have made are allowing us to grow our business sustainably.

Thanks to the hard work and dedication of our colleagues in delivering our plans, we have already met the vast majority of our turnaround objectives. This puts us in a good position to further invest in our competitiveness, and to face into challenging conditions in each of our markets, including:

- the unlevel playing field created by the business rates system in the UK, which continues to place a significant burden on the retail industry, with our own bill at around £700m each year;
- changes to Sunday trading regulations in Poland which have impacted sales for Central Europe, contributing to a (2.3)% sales decline; and
- the market in Thailand – which is highly competitive and challenging – and the issuance of government welfare cards, which had an impact of (1.2)% on Asia sales this year, although this had eased by the end of the fourth quarter.

While these and other headwinds will continue, we will succeed by staying true to what we have always done best throughout our 100-year history: being a champion for customers.

That means offering great value, the best quality, and helpful service. Jack Cohen did exactly that when he first set out his market stall, and the same spirit still drives Tesco today.

It also means creating value in a wider sense, for communities and for society.

We are committed to tackling the issues that matter – setting targets and measuring our progress against them.

This year we have:

- achieved 81% of our target that no food that is safe for human consumption should go to waste in our UK business;
- donated the equivalent of 62.7 million meals to local charities and community groups in the UK, Ireland, Central Europe and Asia, and also launched a training programme with a goal to help more than 1,000 community cooks in the UK make the most of the donations they receive;
- increased sales of healthy products by 17% year-on-year in our September 2018 'helpful little swaps' event; and
- begun trials of a 'reverse vending' scheme for plastic bottles in the UK and Thailand.

We are also partnering with external organisations, working together with shared ambitions. This year we have launched a new partnership with WWF, with the aim of reducing the environmental impact of the average UK shopping basket by 50%.

We are making good progress in each of the areas of our Little Helps Plan, and we want to go even further to achieve our goal of providing customers with affordable, healthy, sustainable food.

One hundred years of great value.

Over the last 100 years, Tesco has been an innovator, a disruptor, and above all it has listened to customers – meeting their needs better than anybody else. Retail has changed a lot in that time, and so has our business.

From bringing self-service supermarkets to the UK, fighting against Resale Price Maintenance, delivering the first-ever online food shop or rewarding loyalty through Clubcard, Tesco has always been at its best when we are doing the right thing for customers.

That has been the guiding principle of our four years of turnaround, and it continues to guide every decision we make today.

As we celebrate our centenary, we are in a strong position. It's a moment to reflect on our past – but also to look ahead to the future. And as we do so, our focus is clear: to create long-term, sustainable value for every stakeholder in our business, for many years to come.

Dave

Dave Lewis
Group Chief Executive

More detail on our performance, including statutory results, can be found in our Financial review on pages 18 to 23.

A born entrepreneur: Jack Cohen founded Tesco in 1919. Jack took his £30 demob money at the end of the First World War, bought some surplus army food and got himself a pitch. By the end of that first morning he'd taken £4, of which £1 was his own.

Jack was a grafter. A family man. And he worked hard to give customers what they needed.

1920s

Jack's first store:
In 1929, Jack set up shop in North London under the Tesco name. Tesco comes from the initials 'TES' of T.E. Stockwell, a tea supplier and partner of Jack's, as well as the 'CO' from Jack's surname.

A lot has changed since Jack Cohen set up his market stall in 1919, but not our commitment to great value.

We're proud to be celebrating our centenary, promising great value for customers, colleagues and communities.

Celebrating 100 years of great value.

1930s

Fighting for customers:
When Britain went to war in 1939, this time Jack fought on the home front, for fair food rationing. He worked with Government on a simple points system, where everyone was treated equally, rich or poor.

1960s

Something for nothing:
We introduced Green Shield stamps in 1963, and they soon became a national phenomenon. These stamps could be exchanged for a range of goods in our Green Shield catalogue, giving customers even better value at Tesco.

1970s

Value at the pumps and a legacy to remember:
We changed the rules of fuel retailing, as we opened our first Tesco petrol stations – giving customers another great reason to shop with us. But it was also the end of an era, as Jack Cohen passed away in 1979.

1977

Checkout at Tesco:
We closed our stores and took the competition by surprise with the launch of a major price-cutting initiative called 'Checkout at Tesco'. Our simple, low prices were an overnight success.

1990s

The game changers:
We launched our iconic 'Every Little Helps' strapline, in a decade full of little helps for our customers – from the introduction of Clubcard, to the launch of our first Express and Extra stores, making it even more convenient for customers to shop with us.

We also launched our Tesco Value range, offering our customers a wider choice of products at great prices.

2000s

More ways to shop:
By 2000, technology had moved on a lot since our first home delivery in 1984 – and so had our business. We launched Tesco.com, which today serves millions of customers every month.

In the same decade, we also launched our F&F clothing brand and Tesco Bank.

2018

Jack is back:
We unveiled a new brand and stores, inspired by and named after Jack Cohen.

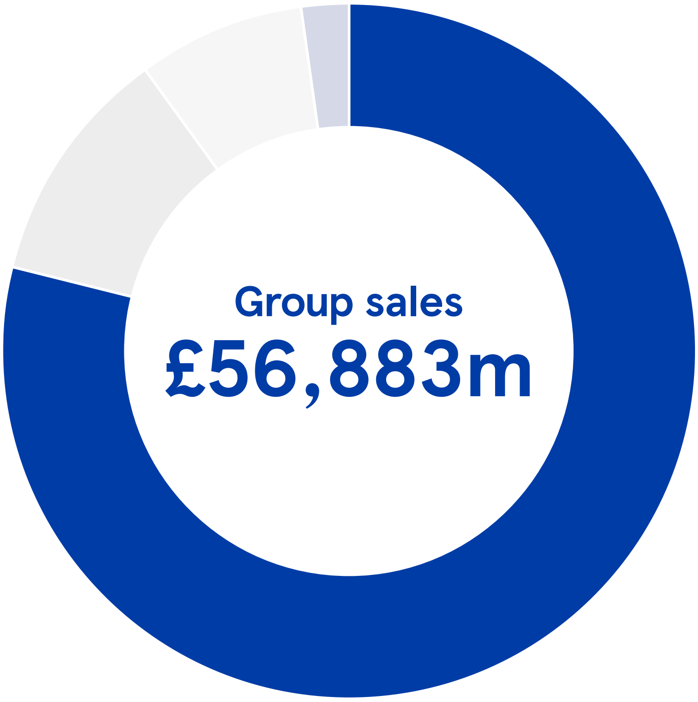
Jack's brings customers great-tasting food at the lowest possible prices.

2019

Our centenary:
We celebrate one hundred years of great value.

Life in Britain has changed a lot since Jack made his first sale but today, serving shoppers better still starts with selling great quality food at affordable prices. In our centenary year, we're doing that in more ways than ever with exceptional deals that take customers back.

We're passionate about serving shoppers a little better every day, in store and online.



UK & ROI	79%
Central Europe	11%
Asia	8%
Tesco Bank	2%

UK & ROI.

Our UK & ROI business is the largest in the Group. With a leading market position, we operate Tesco stores from convenience formats through to larger stores – as well as our wholesale business, Booker.

Our footprint

3,787 stores

Colleagues

around 340,000

Operating profit[a]

£1,537m

[a] Excludes amortisation of acquired intangibles and exceptional items.

Central Europe.

We are present in four Central European countries, with hypermarkets and convenience stores in the Czech Republic, Slovakia, Hungary and Poland.

Our footprint

895 stores

Colleagues

around 50,000

Operating profit[a]

£186m

Asia.

Our Asia business has operations in Thailand, where we operate hypermarkets and convenience stores under the Tesco Lotus brand, and in Malaysia.

Our footprint

2,038 stores

Colleagues

around 60,000

Operating profit[a]

£286m

Tesco Bank.

Tesco Bank is based in the UK, and aims to be the bank for people who shop at Tesco, providing simple and convenient retail banking and insurance products.

Our footprint

6 million customer accounts

Colleagues

around 4,000

Operating profit[a]

£197m

Our business model

A best in class retailer.

Our differentiating capabilities.

Understanding customers.
Customers are at the heart of everything we do, and every decision we make.

From customer tasting panels as we develop new products, through to the insight we get from Clubcard, we use our expertise to understand and meet our customers' needs better than anybody else.

Our colleagues.
We are a business that's about serving people. We are at our best for customers when every one of our 450,000 colleagues is focused on delivering great service – and we share a single purpose: to serve shoppers a little better every day.

Scale and reach.
We have an unparalleled reach, through our store network and our Grocery Home Shopping service – as well as Booker's Business Centres and delivered wholesale network – allowing us to bring great quality products to even more customers.

Own Brand and Product.
We put great care into sourcing the best quality products, with expert technical teams and close partnerships with growers and suppliers – supported by a family of unique brands, from *Finest** to Free From.

Services.
Through Tesco Bank and Tesco Mobile, we can bring new services to customers and earn their loyalty.

Innovation.
From recipe development and reformulation, to new technology and systems, we encourage a culture of innovation so that our business remains at the cutting edge of new trends and demands.

Touch every part of our business.

To create value for our stakeholders.

Value for customers.

Our business model allows us to bring our customers the very best products at the best possible prices, however they choose to shop with us.

As our business continues to strengthen, we can reinvest in our competitiveness and further improve the experience for customers.

Value for colleagues.

The expertise of our colleagues drives every part of our business model – from our store teams serving shoppers, to our Product teams developing new ranges.

We want every colleague in our business to understand the part they play in serving shoppers a little better every day.

Customers liking 'Exclusively at Tesco' products they've tried

93%

Colleagues motivated by our purpose

80%

Value for suppliers.

Our conversations with suppliers focus on delivering great value, great quality products for our customers.

When we get it right, our business grows, and our suppliers grow with us.

Together with Booker, our combined growth is a market-leading opportunity for suppliers.

Value for shareholders.

For shareholders, our business model allows us to deliver sustainable, profitable growth.

Our underlying philosophy to create value for shareholders puts a focus on customer satisfaction, cash profitability, earnings growth and free cash flow.

Annual quantum sales growth: Tesco UK and Booker

over £1bn

Diluted EPS before exceptional and other items[a]

15.4p

[a] Diluted EPS before exceptional and other items refers to diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments, as defined in the APM section of the Glossary on pages 178 to 181.

An update on our six strategic drivers.

1. A differentiated brand

A strong and differentiated brand creates long-term value for every stakeholder in our business. Our purpose, to serve shoppers a little better every day, is at the heart of what our brand stands for.

As we celebrate our centenary year, we are looking back to the ethos of our founder, Jack Cohen, and what made Tesco unique: his unwavering, simple commitment to great value.

That same commitment remains true today, and throughout 2019 we are doing that in more ways than ever before, with exceptional deals that take customers back, through our 'One Hundred Years of Great Value' campaign.

This year we have made further progress in our relaunch of more than 10,000 Own Brand products – the largest launch of its kind in our 100-year history – bringing our customers great quality products at the very best prices.

We have also continued our award-winning Food Love Stories campaign, highlighting the quality of our food and showcasing the care that goes into every one of our products.

Encouragingly, customers and stakeholders continue to recognise our efforts, and this year our YouGov BrandIndex score reached its highest rating since October 2011.

2. Reduce operating costs by £1.5bn

To ensure that our business remains sustainable for the long term, we continue to simplify the way we operate and reduce our costs.

We delivered in-year cost savings of £532m, with £1.4bn of savings to date towards our £1.5bn ambition.

Reducing our costs is particularly important as we face into challenging conditions in each of our markets across the Group, so that we can be even more competitive, and offer customers the value, quality and service that they expect.

We are simplifying our store operations, improving stock flow, and further improving our forecasting to reduce waste. In our Express stores, we have optimised our distribution and replenishment by adjusting case sizes, reducing handling and transport costs.

We have also taken the difficult decision to close around 90 of our fresh food counters in the UK, with the remaining 700 trading with either a full or flexible offer. This reflects changes to the way customers shop in these stores, and will allow us to operate more sustainably for the long term.

In Central Europe, we have reduced costs by simplifying work for colleagues in stores – for example by reducing the number of price changes by almost a third.

3. Generate £9bn cash from operations

We maintain a strategic focus on generating free cash flow, and this year generated £2.5bn of retail operating cash, driven by improved profitability. Strong working capital management is also a key component of our cash generation.

Retail operating cash flow for this year is reported after a c.£(490)m working capital timing impact year-on-year.

This includes a year-on-year timing impact of £(278)m relating to delayed payments following the failure of a key supplier, Palmer & Harvey, at the end of the last financial year.

A further £(210)m impact relates to decisions made in the second half of the year. Most significantly, the delayed implementation of a new general ledger system in the UK & ROI postponed the collection of some receivables into the beginning of the 2019/20 financial year. In addition, a focus on safeguarding availability and service levels for customers at a time of political uncertainty meant we deprioritised certain ongoing working capital initiatives.

Over the last three years we have generated £8.6bn of retail operating cash.

4. Maximise the mix to achieve a 3.5% – 4.0% margin

Across the Group, we are working on mix – making our business more sustainable, and stepping back from unprofitable sales. Group operating margin for the year was 3.45%, up 59 basis points. In the second half of the year, on the same basis as our ambition (excluding Booker), Group operating margin was 3.79%.

We have taken some significant decisions to strengthen our mix, including the closure of our loss-making general merchandise website, Tesco Direct, where we saw no route to profitability.

In Central Europe, we remain focused on building a more sustainable business. In Poland, we closed 62 unprofitable stores in the year, and we are reducing the costs of operating our business as we focus on profitable sales. We have also introduced more than 600 'Star Lines' for customers across our four Central European markets, giving more space on the shelf to the most popular products, at sharper prices.

In Asia, we have repositioned our customer offer in Thailand, with significant changes to our sales mix and promotional strategy, as well as accelerating changes to our operating model, which are helping to underpin our profit recovery.

We will continue to look at opportunities to improve our mix, allowing us to become more competitive for customers, and to deliver strong, sustainable returns for shareholders.

5. Maximise value from property

This year we released a further £285m of value from our property portfolio across the Group.

In the UK, we are continuing to explore a small number of opportunities to work with a third-party to redevelop our store sites in high-value locations.

For example, this year, working with a selected development partner, we have created a plan which will transform our store in Kennington, London. As well as making better use of the space to create hundreds of new homes, the project will also deliver a brand new Tesco store, further commercial space and will open up the site, bringing communities in the local area closer together.

We continue to repurpose space in some of our larger stores, introducing third-party concessions from popular brands, as well as services like barbers.

In Central Europe, we have simplified our property portfolio as we exit our department store format. We have also repurposed space in 14 of our hypermarkets, and introduced 22 new anchor tenants into our malls.

We completed three property buybacks in the year in the UK, and our proportion of freehold property across the Group has remained stable year-on-year at 58%.

6. Innovation

A continuous pipeline of innovation ensures that we can keep serving shoppers better – anticipating and responding to their needs better than anybody else.

Creating a culture of innovation across our business remains a priority and, to support this, we opened a new facility this year at our Welwyn Garden City campus. The 'Heart' building brings together our capabilities in product development, customer insight, colleague learning and retail technology – including a state of the art Express store, and kitchens where our colleagues and supplier partners can develop new products together.

We're also innovating to make our products healthier, and more sustainable. When we reformulate products, wherever possible we make them healthier, without compromising on taste. This year we have added extra fibre to chilled breads and savouries, and reduced the sugar in our core Own Brand baked beans by 20%. We've launched new packaging to reduce our impact on the environment and prevent waste, like our avocado packs, which now stay fresher for two days longer.

As the way people shop continues to change, we are also innovating in the way we serve them. We've launched a new brand in the UK – Jack's – as part of our centenary celebrations. In Thailand, we have also launched a new convenience proposition, to better meet our customers' needs.

Our Big 6 KPIs.

We have six simple key performance measures for the whole business.

Grow sales.

Why it's important.
Sustainable growth in sales is important to our business model. A strong, growing business also creates opportunities for our suppliers to grow with us too.

What we measure.
Group sales is a measure of revenue excluding sales made at petrol filling stations. It demonstrates the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices.

How we performed.
Group sales grew by 11.3% at constant exchange rates to £56.9bn, and this year was our third consecutive year of sales growth.

Booker was consolidated into the Group for 51 weeks from 5 March, contributing 11.4% to Group sales growth.

Group sales[Δ]
£56.9bn up 11.3%[(a)]

Deliver profit.

Why it's important.
Recovering our profitability has been key to our turnaround, building a platform for long-term growth and creating value for all stakeholders.

What we measure.
Group operating profit, before exceptional items and amortisation of acquired intangibles. It is the headline measure of the Group's performance.

How we performed.
Group operating profit before exceptional items and amortisation of acquired intangibles was £2,206m, up 33.5% at constant exchange rates.

We have reduced our operating costs, and continued our focus on delivering profitable growth and improving the quality of our sales.

Group operating profit before exceptional items and amortisation of acquired intangibles[Δ]
£2,206m, up 33.5%[(a)]

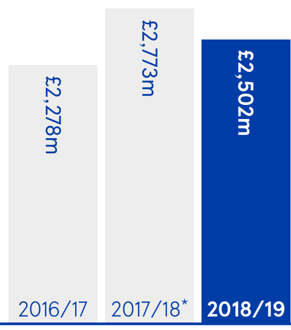
Improve operating cash flow.

Why it's important.
Strong cash generation is an important part of our underlying philosophy as we manage our business.

What we measure.
Retail operating cash flow is the cash generated from operations of continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency by the Retail business, recognising that Tesco Bank is run and regulated independently from the Retail operations.

How we performed.
We generated retail operating cash of £2,502m, down (9.8)%. This is reported after a c.£(490)m working capital timing impact year-on-year, including a timing impact of £(278)m following the failure of a key supplier, Palmer & Harvey, at the end of the last financial year. A further £(210)m impact relates most significantly to the delay of the implementation of a new general ledger system in the UK & ROI, and additionally the deprioritisation of some ongoing working capital initiatives at a time of political uncertainty.

Retail operating cash flow[Δ]
£2,502m, down (9.8)%[(b)]



Customers recommend us and come back time and again.

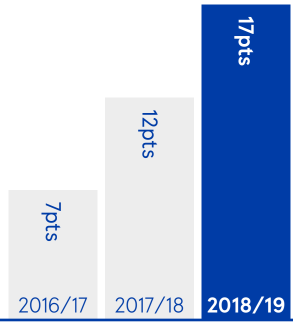
Why it's important.
Customers are at the heart of everything we do, and customer satisfaction is an important driver of loyalty.

What we measure.
Reflects % of Fans minus Critics answering the question "Based on your visit, how likely is it that you would recommend the following to a friend or colleague?".

How we performed.
Our net promoter score for the Group continues to increase.

This year our score increased by 5 points to 17 points, with more customers recommending Tesco as a place to shop.

Group net promoter score 17pts, up 5pts



Colleagues recommend us as a great place to work and shop.[c]

Why it's important.
When we get things right for our 450,000 colleagues, we make it even easier for them to do what they do best – serving shoppers a little better every day.

What we measure.
Our 'Great place to work' measure is the percentage of colleagues who agree or strongly agree with the statement 'I would recommend Tesco as a great place to work'.

'Great place to shop' is a net promoter score, answering the question 'I would recommend Tesco as a place to shop'.

How we performed.
Our 'Great place to work' measure has remained stable year-on-year at 83%, with most colleagues in every one of our markets agreeing that they would recommend Tesco as a great place to work.

Year-on-year, more colleagues are recommending Tesco as a place to shop.

Great place to shop 50pts, up 1pt

Great place to work 83%

Build trusted partnerships.

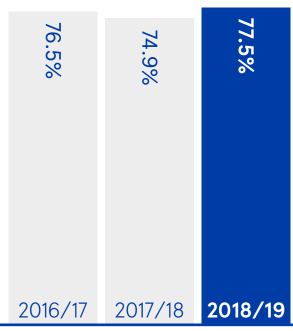
Why it's important.
Close and trusted partnerships with our suppliers allow us to source the best quality products for our customers, at the best prices.

What we measure.
Our supplier satisfaction measure reflects the percentage of suppliers across the Group who responded positively when asked "Overall how satisfied are you with your experience of working with Tesco?", in our Supplier Viewpoint survey.

How we performed.
Overall supplier satisfaction was 77.5%, up 2.6pts, the highest ever score recorded for the Group.

Through the year, the majority of our individual measures on ways of working with suppliers also improved, with particularly strong improvements in supplier ratings of communication and feeling listened to.

Group supplier satisfaction 77.5%, up 2.6pts



Δ **Alternative performance measures (APM)**
Measures with this symbol Δ are defined in the Glossary section on pages 178 to 181.

[a] Reported on a continuing operations basis (excludes Turkey). Growth is at constant exchange rates, on a comparable days basis.

[b] Reported on a continuing operations basis (excludes Turkey). Growth is at actual exchange rates.

[c] Chart shows the movement in 'Great place to work'.

* Restated for the adoption of IFRS 15. For more information see Note 1 and Note 36 on pages 98 and 155.

Sustained strong performance.

"We have met or are about to meet the vast majority of our turnaround goals. The second half margin level puts us well within the aspirational range we set four years ago."

Alan Stewart
Chief Financial Officer

Group results 2018/19.

52 weeks ended 23 February 2019 On a continuing operations basis	2018/19	2017/18 (restated)[a]	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)[b]	**£56,883m**	**£50,993m**	**11.3%**	**11.5%**
Fuel	£7,028m	£6,500m	8.1%	8.1%
Revenue (exc. VAT, inc. fuel)	**£63,911m**	**£57,493m**	**11.0%**	**11.2%**
Group operating profit[c]	**£2,206m**	**£1,646m**	**33.5%**	**34.0%**
UK & ROI	£1,537m	£1,059m	45.0%	45.1%
Central Europe	£186m	£119m	56.3%	56.3%
Asia	£286m	£299m	(6.7)%	(4.3)%
Tesco Bank	£197m	£169m	16.6%	16.6%
Include exceptional items and amortisation of acquired intangibles	£(53)m	£193m		
Group statutory operating profit	£2,153m	£1,839m	16.7%	17.1%
Group profit before tax before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	£1,958m	£1,284m		52.5%
Group statutory profit before tax	**£1,674m**	**£1,300m**		**28.8%**
Diluted EPS before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	15.40p	11.90p		29.4%
Statutory diluted EPS	13.55p	12.11p		
Statutory basic EPS	13.65p	12.15p		
Dividend per share	**5.77p**	**3.00p**		**92.3%**
Capex[d]	**£1.1bn**	**£1.1bn**		
Net debt[e][f]	**£(2.9)bn**	**£(2.6)bn**		
Cash generated from retail operations[e]	**£2.5bn**	**£2.8bn**		

This year, we have made broad-based progress across the Group including a further strong increase in profitability. We grew sales by 11.5%, excluding VAT, excluding fuel, at actual exchange rates and have now delivered three full years of sales growth. Results this year include the consolidation of Booker for 51 weeks since our merger completed on 5 March 2018.

Group operating profit before exceptional items and amortisation of acquired intangibles was up 34.0% to £2,206m, as we continue to simplify the business and reduce costs, and we achieved a second half operating margin of 3.96% (3.79% excluding Booker). Our statutory profit before tax increased to £2,153m including £(53)m of exceptional items and amortisation of acquired intangibles. We delivered a strong performance on net debt (excluding Tesco Bank) which was £(2.9)bn, after £(766)m of Booker cash consideration.

We are continuing to focus on customer satisfaction, cash profitability, free cash flow and earnings growth and are using these measures to inform our decisions as we look to create sustainable value for shareholders.

Reflecting our continued improved performance and confidence in ongoing cash generation, the Board has proposed the payment of a 4.10 pence per share final dividend following on from the interim dividend of 1.67 pence per share. This takes the total dividend for the year to 5.77 pence per share, up 92.3% year on year.

Segmental results.

UK & ROI.

On a continuing operations basis	2018/19	2017/18	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Sales (exc. VAT, exc. fuel)	**£44,883m**	**£38,656m**	16.1%	16.1%
Like-for-like sales (exc. VAT, exc. fuel)	2.9%	2.3%		
Statutory revenue (exc. VAT, inc. fuel)	**£51,643m**	**£44,914m**		
Revenue includes: fuel	£6,760m	£6,258m		
Operating profit before exceptional items[c]	**£1,537m**	**£1,059m**	**45.0%**	**45.1%**
Operating profit margin before exceptional items[c]	2.98%	2.36%	62bps	62bps
Statutory operating profit	**£1,535m**	**£1,205m**		

In the UK and the Republic of Ireland (ROI), like-for-like sales grew by 2.9%, representing the third full year of growth. Tesco UK like-for-like sales grew by 1.7% as we improved both our quality and value perception. We have completed the rollout of our range of eight new 'Exclusively at Tesco' brands, such as 'Ms Molly's' and 'Hearty Food Co.', as part of the overall relaunch of 10,000 Own Brand products. In the third quarter, as expected, we saw an increase in customers trading into the outstanding value offered by these products. The continuing success of 'Exclusively at

[a] Last year figures restated for impact of IFRS 15 'Revenue from contracts with customers'. Impacts include a £2m increase in revenue and operating profit.

[b] Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis.

[c] Excludes amortisation of acquired intangibles and excludes exceptional items by virtue of their size and nature in order to reflect management's view of underlying performance.

[d] Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) was £1.2bn (2017/18: £1.5bn).

[e] Net debt, retail operating cash flow and retail free cash flow exclude the impact of Tesco Bank in order to provide further analysis of the retail cash flow statement.

[f] Net debt includes both continuing and discontinued operations.

The definition and purpose of the Group's alternative performance measures, which includes like-for-like sales, are defined on pages 178 to 181. A detailed analysis of discontinued operations can be found in Note 7.

Tesco' contributed to our overall UK market sales and volume outperformance during the fourth quarter.

In general merchandise, we continue to focus on sustainable categories that complement the grocery shop. We are driving growth in those categories by differentiating our offer. For example, our Fox & Ivy and Go Cook ranges contributed to like-for-like sales growth of 4.2% in our Home category. Our clothing like-for-like sales grew by 3.0% and in February 2019 we launched selected F&F Womenswear items on Next.co.uk. We closed Tesco Direct from 9 July, with our like-for-like sales performance removing the impact of this closure.

All store formats and channels delivered like-for-like sales growth, with particularly strong performance in our convenience business, including One Stop, where we launched a further 100 Own Brand products, offering excellent quality and value to customers. Our online grocery sales grew by 2.8% year-on-year including our biggest ever sales week at Christmas with nearly 51 million items delivered and 776,000 orders. We have seen a strong response to the launch of Jack's – our new brand and store format – with a net promoter score of 53% and very high levels of customer awareness.

Booker's like-for-like sales grew by 11.1% (10.8% excluding tobacco) during the year, including a strong performance from symbol group stores. Sales growth in the fourth quarter eased as we started to annualise contract wins secured in the prior year. We are continuing to unlock the benefits of Joining Forces for Booker's customers, with greater choice, lower prices and better quality.

In ROI, like-for-like sales grew by 1.3%. In a competitive market, we have continued to make good progress during the year, growing volumes across all food categories.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £1,537m, up 45.1%, with operating margin growth of 62 basis points year-on-year. During the year, our cost savings programme progressed well and we further simplified what we do and how we serve customers in our store operations and in head office. Our strategic ambition to maximise the mix led to our focus on more sustainable general merchandise categories, including closing Tesco Direct in July. The operating loss relating to Tesco Direct was £(94)m in the 2017/18 financial year.

UK & ROI operating profit also includes a benefit of £52m relating to a change in Clubcard accounting estimates. The change follows a detailed review of our accounting treatment ahead of the implementation of IFRS 15 and results in a more precise match between the redemption value per point and the historic issuance value.

Booker contributed £196m to operating profit before exceptional items and amortisation of acquired intangibles for the 51 weeks consolidated since completion of our merger on 5 March 2018. We delivered £79m of the synergies identified in the Booker merger process – ahead of our initial expectation of £60m in the first year – and are well on track to deliver our target of c.£200m synergies per annum by the end of the third year. We now anticipate that exceptional integration costs over the three years will total £(50)m-£(75)m, lower than the £(145)m which had been originally planned.

Excluding Booker operating profit and synergies, UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was up 19.2%, with margin expansion of 39bps.

Central Europe

In Central Europe, overall like-for-like sales declined by (2.3)%. A planned reduction of unprofitable general merchandise sales, including a decision not to participate in Black Friday promotions, impacted like-for-like sales performance by (1.2)% for the full year. In addition, changes to Sunday trading regulations in Poland resulted in 25 fewer trading days in the year which, in addition to a public holiday announced at short notice, impacted like-for-like sales in the region by (1.3)%. Sunday trading regulations effective from January 2019 mean that our stores in Poland are now only able to open on the last Sunday of each month, compared with two Sundays per month previously. In the second half, we saw a strong customer response as we launched our 'Star Lines' initiative across the region, reducing the price of more than 600 key products.

On a continuing operations basis	2018/19	2017/18	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Sales (exc. VAT, exc. fuel)	**£6,030m**	**£6,343m**	**(4.5)%**	**(4.9)%**
Like-for-like sales (exc. VAT, exc. fuel)	(2.3)%	0.3%		
Statutory revenue (exc. VAT, inc. fuel)	**£6,298m**	**£6,585m**		
Revenue includes: fuel	£268m	£242m		
Operating profit before exceptional items	**£186m**	**£119m**	**56.3%**	**56.3%**
Operating profit margin before exceptional items	2.95%	1.81%	113bps	115bps
Statutory operating profit	**£232m**	**£212m**		

Central Europe operating profit before exceptional items was £186m, up 56.3% year-on-year at actual exchange rates. We are improving the quality of our business by focusing on more sustainable product categories and reducing less profitable ranges, such as electricals. In addition, operating costs are being reduced across the region as we simplify the store service model, for example, we reduced the number of price changes by 28% in the year. In Poland, we closed 62 loss-making stores which contributed to Poland making a small profit in the second half.

Asia

On a continuing operations basis	2018/19	2017/18	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Sales (exc. VAT, exc. fuel)	**£4,873m**	**£4,947m**	**(4.1)%**	**(1.6)%**
Like-for-like sales (exc. VAT, exc. fuel)	(6.2)%	(10.0)%		
Statutory revenue (exc. VAT, inc. fuel)	**£4,873m**	**£4,947m**		
Revenue includes: fuel	–	–		
Operating profit before exceptional items	**£286m**	**£299m**	**(6.7)%**	**(4.3)%**
Operating profit margin before exceptional items	5.87%	6.04%	(17)bps	(17)bps
Statutory operating profit	**£219m**	**£277m**		

Overall like-for-like sales performance in Asia was (6.2)% for the year, including the impact of significant changes to our sales mix and promotional strategy, particularly in the first half. Like-for-like sales performance improved to (3.0)% in the fourth quarter. For the year, we saw an impact of (1.2)% from the issuance of government welfare cards in Thailand but this had eased by the end of the fourth quarter.

Asia operating profit before exceptional items was £286m. In the first half, profit was impacted by the combined effect of sales deleverage, price investment and repositioning of promotional investment in Thailand. Performance improved significantly during the second half as we successfully concluded renegotiations with our suppliers and accelerated plans to restructure our store and office operations in Thailand. As a result, we have been able to recover our operating margin more fully and quickly than we had anticipated at the half-year stage.

Tesco Bank.

	2018/19	2017/18	Year-on-year change
Revenue	**£1,097m**	**£1,047m**	**4.7%**
Operating profit before exceptional items	**£197m**	**£169m**	**16.6%**
Statutory operating profit	**£167m**	**£145m**	**15.2%**
Lending to customers	£12,426m	£11,522m	7.8%
Customer deposits	£10,465m	£9,245m	13.2%
Net interest margin	3.8%	3.9%	(0.1)%
Risk asset ratio	18.4%	19.4%	(1.0)%

Tesco Bank has continued to focus on delivering a positive experience for our banking and insurance customers. We have made significant improvements to the online credit card journey and relaunched a Banking app, making it easier for customers to self-serve. In a difficult and competitive insurance market, investment has been focused on retention of existing customers. Overall, active customer numbers have reduced by (1.0)% year-on-year with growth in banking offset by a reduction in insurance.

Operating profit before exceptional items increased by 16.6% year-on-year to £197m, including strong retail banking performance with both cards and loans continuing to perform well. The insurance contribution has fallen year-on-year, impacted by competitive market conditions, albeit partly offset by a £13m one-off benefit relating to upfront recognition of insurance renewals following a Contact renewal with our third party insurance provider. Exceptional items of £(30)m relating to Tesco Bank include a payment of £(16)m in relation to a settlement agreed with the Financial Conduct Authority (FCA) following an online fraudulent attack on Tesco Bank in November 2016 and a Payment Protection Insurance (PPI) charge of £(16)m recognised in the year. On an underlying basis, the cost-to-income ratio has improved to 56.2% from 60.0%.

Lending balances rose 7.8% year-on-year to £12.4bn, comprising £3.8bn secured lending (up 25%) and £8.7bn unsecured lending (up 1.8%). The balance sheet remains strong and well positioned to support future lending growth from both a liquidity and capital perspective with a risk asset ratio of 18.4%.

The Group has adopted IFRS 9 'Financial Instruments' for the period ending 24 February 2019. IFRS 9 has been applied retrospectively at 25 February 2018 by adjusting the opening balance sheet at that date. For Tesco Bank, the adoption of IFRS 9 has resulted in a decrease in opening total assets of £223m, with a related deferred tax asset of £57m. The overall impact on opening equity was therefore a reduction of £166m.

Exceptional items in operating profit.

Exceptional items are excluded from our headline performance measures by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group.

Restructuring and redundancy costs of £(220)m relate to the simplification of our business and working practices across the Group. These include charges of £(38)m incurred as a result of the closure of our loss-making online general merchandise business, Tesco Direct.

Provision for customer redress of £(16)m relating to Tesco Bank, reflects additional costs in respect of PPI as a result of higher claim rates than previously estimated. PPI compensation claims must be made before the deadline of 29 August 2019.

	2018/19	2017/18
Net restructuring and redundancy costs	£(220)m	£(102)m
Provision for customer redress	£(16)m	£(24)m
FCA obligations	£37m	£25m
Property transactions	£105m	£79m
Tesco Bank FCA charge	£(16)m	–
Booker integration costs	£(15)m	–
Release of provision relating to HMRC VAT appeal	£176m	–
Guaranteed minimum pensions (GMP) equalisation	£(43)m	–
Net impairment reversal of non-current assets and onerous lease provision	£10m	£53m
Sale of Lazada	£7m	£124m
Disposal of opticians business	–	£38m
Total exceptional items in statutory operating profit	**£25m**	**£193m**
Amortisation of acquired intangible assets	£(78)m	–
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	**£(53)m**	**£193m**

There is an exceptional credit of £37m in relation to the Shareholder Compensation Scheme which comprises a provision release of £17m as we have now processed all outstanding claims and an insurance recovery of £20m.

Exceptional profits on property transactions of £105m have arisen from disposals within the UK and Central Europe.

We have incurred a charge of £(16)m relating to a settlement payment agreed with the FCA following an online fraudulent attack on Tesco Bank in November 2016.

Booker integration costs of £(15)m relate to costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

In 2017/18, we recovered £160m of VAT from HMRC following a favourable court ruling regarding the treatment of VAT on Clubcard rewards. We subsequently recognised a provision of £176m for VAT and interest as HMRC appealed the court decision. Following HMRC's decision not to appeal a further court judgement in our favour in January this year, this provision has now been released.

Following a recent High Court ruling on equalisation of guaranteed minimum pensions (GMP), we have recognised a £(43)m non-cash charge in respect of the Group's defined benefit pension liability.

Net impairment reversal of non-current assets and onerous lease provision totals £10m. This includes a net reversal of £69m in property, plant and equipment, a charge of £(14)m in software and intangible assets and a net charge of £(44)m in onerous property provisions.

Amortisation of acquired intangible assets is excluded from our headline performance measures. Our combination with Booker resulted in the recognition of goodwill of £3,093m and a £755m intangible asset, driving amortisation of acquired intangible assets of £(78)m for the full year.

The net effect of exceptional items and acquired intangibles amortisation on operating profit during the year was £(53)m. This compares to a net £193m last year, which includes £124m profit on the sale of Lazada in June 2017.

Joint ventures and associates, interest and tax.

Joint ventures and associates.

Our share of post-tax profits from joint ventures and associates before exceptional items was £24m, an increase of £30m year-on-year due to a further reduction in losses recognised in Gain Land, our associate in China. An exceptional gain of £11m was also recognised on our share of profits from a mall disposal in Gain Land.

Finance income and costs.

	2018/19	2017/18
Interest payable on medium-term notes, loans and bonds	£(256)m	£(363)m
Interest receivable on associated derivatives	£18m	£31m
Net interest on medium-term notes, loans and bonds	£(238)m	£(332)m
Other interest receivable and similar income	£22m	£44m
Other finance charges and interest payable	£(57)m	£(70)m
Capitalised interest	£1m	£2m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	**£(272)m**	**£(356)m**
Fair value remeasurements of financial instruments	£(153)m	£23m
Net pension finance costs	£(89)m	£(162)m
Exceptional charge – translation of Korea proceeds	–	£(38)m
Net finance costs	**£(514)m**	**£(533)m**

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £84m year-on-year to £(272)m. This improvement was mainly driven by a lower level of gross debt. We saw a £94m reduction in net interest on medium-term notes, loans and bonds from £(332)m to £(238)m as a result of debt maturities and bond tenders. We undertook two bond tenders during the year which reduced interest payable by £34m and we expect an annualised benefit of £52m.

Net finance costs of £(514)m were £19m lower year-on-year. Within net finance costs, fair value remeasurements includes £(121)m relating to the premium paid on the repurchase of long-dated bonds. Net pension finance costs decreased by £73m year-on-year to £(89)m, driven by a lower opening pension deficit, partly offset by a higher discount rate. For 2019/20, net pension finance costs are expected to decrease to c.£(72)m.

Last year, an exceptional loss of £(38)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea. This translation effect did not represent an economic cost to the Group.

Group tax.

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(413)m.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles for the year is 24.1%. This tax rate is higher than the UK statutory rate, primarily due to the impact of the 8% supplementary tax surcharge on bank profits and depreciation of assets that do not qualify for tax relief.

We expect the impact of these items on the effective tax rate to reduce as our overall level of profitability continues to increase. Therefore, along with the additional impact from the UK corporation tax rate reducing by 2% from April 2020, we expect the effective tax rate to reduce to around 20% in the medium-term. The effective tax rate on profit before exceptional items for the 2019/20 financial year is expected to be around 22%.

On a statutory basis, the total tax charge is £(354)m which includes a £59m credit relating to exceptional items. Cash tax paid in the year was £370m (up £194m year-on-year) including £232m of corporate tax paid in the UK (up £157m year-on-year). This increase principally reflects our improved profitability and the benefit last year from utilising remaining UK tax losses.

Earnings per share (on a continuing operations basis).

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 15.40p, 29.4% higher year-on-year principally due to our stronger profit performance. Statutory basic earnings per share from continuing operations were 13.65p, 12.3% higher year-on-year.

Summary of total indebtedness.

	2018/19	2017/18	Movement
Net debt (excludes Tesco Bank)	£(2,863)m	£(2,625)m	£(238)m
Discounted operating lease commitments	£(6,999)m	£(6,931)m	£(68)m
Pension deficit, IAS 19 basis (post-tax)	£(2,338)m	£(2,728)m	£390m
Total indebtedness	**£(12,200)m**	**£(12,284)m**	**£84m**

Overall, total indebtedness has decreased by £84m year-on-year.

Retail net debt increased by £(0.2)bn to £(2.9)bn, after the cash outflow of £(0.8)bn relating to our combination with Booker. Discounted operating lease commitments increased by £(68)m, including the consolidation of £(0.4)bn Booker lease commitments.

On 13 September 2018, we exercised our option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by our property joint venture partner. The acquisition is scheduled to complete in September 2019, and will lead to a reduction in discounted lease commitments of £400m (undiscounted £790m), and consolidation of the debt held by the joint venture.

On an IAS 19 basis, our pension deficit (net of deferred tax) has reduced from £2.7bn last year to £2.3bn at the end of the current year. The movement during the year is primarily attributable to continued deficit contributions in addition to strong asset performance.

Our key credit metrics, which are fixed charge cover and total indebtedness/EBITDAR, have further improved since the end of the last financial year, from 2.7 to 3.2 times and from 3.3 to 2.8 times, respectively.

Summary retail cash flow

Retail operating cash flow of £2,502m reflects a strong underlying improvement in cash profitability offset by a c.£(490)m working capital timing impact year-on-year, driven by two factors.

First, this year's working capital net outflow of £(312)m includes payments of £(139)m which were delayed from the last financial year following the failure of a key supplier (Palmer & Harvey). Together with the corresponding benefit in last year's working capital net inflow, this creates a £(278)m year-on-year timing impact.

Second, a further £(210)m impact within working capital relates to decisions made in the second half of 2018/19. The most significant of these relates to a decision to delay the implementation of a new general ledger system in the UK & ROI by a few months, which resulted in some receipts being postponed into the beginning of the 2019/20 financial year. In addition, we chose to deprioritise some ongoing working capital initiatives in order to safeguard availability and service levels for customers at a time of political uncertainty.

	2018/19	2017/18
Operating profit before exceptional items and amortisation of acquired intangibles	**£2,206m**	**£1,646m**
Less: Tesco Bank operating profit before exceptional items	£(197)m	£(169)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	**£2,009m**	**£1,477m**
Add back: Depreciation and amortisation	£1,214m	£1,212m
Other reconciling items	£94m	£28m
Pension deficit contribution	£(266)m	£(245)m
Underlying (increase)/decrease in working capital	£(312)m	£493m
Retail cash generated from operations before exceptional items	**£2,739m**	**£2,965m**
Exceptional cash items:	£(237)m	£(192)m
Relating to prior years:		
– Shareholder Compensation Scheme Payments and SFO Fine	£(43)m	£(149)m
– Utilisation of onerous lease provisions	£(81)m	£(92)m
– Restructuring payments	£(60)m	£(53)m
Relating to current year:		
– Restructuring payments	£(68)m	£(67)m
Other	£15m	£169m
Retail operating cash flow	**£2,502m**	**£2,773m**
Cash capex	£(1,126)m	£(1,190)m
Net interest	£(283)m	£(297)m
Tax	£(302)m	£(131)m
Property proceeds	£285m	£253m
Property purchases – store buybacks	£(136)m	£(393)m
Market purchases of shares (net of proceeds)	£(146)m	£11m
Acquisitions & disposals and dividends received	£(635)m	£362m
Add back: Booker acquisition costs (included in Acquisition & disposals above)[a]	£747m	-
Retail free cash flow[b]	**£906m**	**£1,388m**

[a] The cost of major acquisitions and disposals are removed from the Group's definition of free cash flow.

[b] Retail free cash flow includes £146m market purchases of shares (net of proceeds) in relation to share schemes. Last year's retail free cash flow has been restated by £11m to reflect this.

In addition to the working capital timing impacts, the lower level of retail free cash flow year-on-year principally reflects two factors. First, a higher tax charge as our profitability continues to improve and second, a net cash outflow of £(146)m relating to the market purchase of shares. The market purchase follows our commitment to offset any dilution from the issuance of new shares to satisfy the requirements of share schemes. We expect to utilise a similar amount of cash in future years in line with this commitment, with the exact amount dependent on performance.

Other items include an exceptional cash outflow of £(43)m relating to final payments under the Shareholder Compensation Scheme which have now been processed.

Exceptional cash items also include the utilisation of £(81)m of our exceptional onerous lease provision in the year, of which £(23)m related to one-off costs to surrender leases and £(58)m related to ongoing lease agreements.

We reduced cash capital expenditure by 5.3% year-on-year to £(1.1)bn reflecting our disciplined approach to capital investment.

In net cash interest, the benefit of lower interest paid was partially offset by the timing of £55m of interest payable on our largest sterling-denominated bond. The timing of our year-end date has meant that last year's annual coupon payment on this bond was made in this financial year.

Retail cash tax paid in the year was £(302)m, higher than last year reflecting our improved profitability and the benefit last year from utilising remaining UK tax losses.

We generated £285m of proceeds from property sales including £129m relating to Kennington and a number of small disposals in the UK, £92m relating to three retail sites in Central Europe and £58m relating to two Booker properties. We completed the buyback of Stroud superstore in the first half and Cirencester Extra and Shepton Mallet superstore in the second half.

Capital expenditure

	2018/19	2017/18
UK & ROI	£709m	£676m
Central Europe	£130m	£133m
Asia	£235m	£239m
Tesco Bank	£31m	£50m
Group	**£1,105m**	**£1,098m**

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group. Our capital expenditure for the year was £1.1bn, a similar level to last year and lower than we originally anticipated for this year as we continue to exercise discipline in our investment decisions. In the UK & ROI, spend was focused on maintaining and refreshing our stores, alongside convenience store openings in the UK. Capital spend in Central Europe and Asia has remained at a broadly similar level as last year. The focus of spend in Central Europe was on repurposing our existing store estate and in Asia, spend primarily related to our new store opening programme in Thailand. Going forward, we expect our annual capital expenditure to remain within a range of £1.1bn to £1.4bn.

Statutory capital expenditure of £1.2bn includes £136m relating to the three UK property buybacks.

We reduced the total amount of retailing selling space across the Group by just under 1.7 million square feet in the year. Across Central Europe and Asia, our repurposing programme has contributed a net reduction of 1.0 million square feet. In Central Europe, we have repurposed 669,000 square feet across 14 stores, partnering with H&M, Reserved, Decathlon and Rossman. In Asia, we have repurposed 26 stores, mainly in Thailand where we have partnered with Mr.DIY home improvement and additional leisure partners including cinemas and play centres.

In the UK & ROI, we opened 24 new stores in the period, including 13 in our convenience formats in the UK and eight Jack's stores. We closed a further 20 stores in the UK, including two Booker stores. Our net reduction of 66 stores in Central Europe during the year was driven primarily by the closure of 62 stores in Poland. In Asia, we opened 72 stores including 70 in Thailand, principally in our convenience format. We closed a further 56 stores in Thailand as we optimise our convenience store network.

Property.

The estimated market value of our fully owned property has increased by £0.6bn to £21.3bn, with £0.2bn of this increase resulting from our merger with Booker. The market value of £21.3bn represents a surplus of £2.7bn over the net book value (NBV).

Our Group freehold property ownership percentage, by value, has remained stable at 58% year-on-year. In addition to an increase in market value of existing properties, we regained ownership of three stores in the UK. This was offset by the impact of consolidating Booker's 183 leasehold properties. The repurchase of the three UK stores will result in an annualised rental saving of £7m. We continue to seek opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation where the economics are attractive.

Dividend.

Reflecting the continued improvement in the business and our confidence in ongoing cash generation, we propose to pay a final dividend of 4.10 pence per ordinary share. This takes the total dividend for the year to 5.77 pence per ordinary share, up 92.3% year-on-year, following the payment of an interim dividend of 1.67 pence per ordinary share in November 2018.

We now expect to reach a dividend cover level of around two times earnings (on a post-IFRS 16 basis) in the 2019/20 financial year. We would then expect to maintain this level going forward, expressed as an earnings pay-out ratio of around 50%, with an anticipated split of broadly one-third to two-thirds between interim and final dividends in any given year.

The proposed final dividend was approved by the Board of Directors on 9 April 2019 and is subject to the approval of shareholders at the Annual General Meeting to be held on 13 June 2019. The final dividend will be paid on 21 June 2019 to shareholders who are on the register of members at close of business on 17 May 2019 (the Record Date). Shareholders may elect to reinvest their dividend in the Dividend Reinvestment Plan (DRIP). The last date for receipt of DRIP elections and revocations will be 31 May 2019.

Looking ahead.

We are confident that we will meet the remaining goals in our turnaround plan in 2019/20 and deliver a level of profitability (pre-IFRS 16 and excluding Booker) within the 3.5%-4.0% margin range.

Whilst the market remains uncertain, our performance to date is strong, leaving us well positioned to invest in our competitiveness as we continue to celebrate 100 years of great value for customers. We remain comfortable with consensus profit expectations for 2019/20.

IFRS 16.

Tesco is introducing IFRS 16, the new financial reporting standard on accounting for leases, for its 2019/20 financial year.

IFRS 16 has no economic impact on the Group. It has no effect on how the business is run, nor on cash flows for the Group. It does however have a significant impact on the way the assets, liabilities and the income statement for the Group are presented, as well as the classification of cash flows relating to lease contracts.

The Group will adopt the standard fully retrospectively. Detail on the impact of IFRS 16 on our 2018/19 financial statements can be found in Note 36.

The introduction of IFRS 16 has no bearing on the plans or financial ambitions Tesco has shared with the market.

We are continuing to focus on customer satisfaction, cash profitability, free cash flow and earnings growth and are using these measures to inform our decisions as we look to create sustainable value for shareholders.

As a result of the progress we are making strengthening the balance sheet and delivering free cash flow, we now expect to reach a dividend cover level of around two times earnings in the 2019/20 financial year. We will maintain our focus on balance sheet strength, targeting a leverage range of 3 times to 2.5 times total indebtedness to EBITDAR (on a post-IFRS 16 basis).

Alan Stewart
Chief Financial Officer

Every little help makes a big difference.

Our approach.

For the past 100 years we have been a business with a strong community spirit and a desire to do the right thing. We believe we can make a positive contribution to our colleagues, customers and communities through small actions that can add up to make a big difference. One of our values, ‘Every little help makes a big difference’, inspired our Little Helps Plan, which we launched two years ago. It aims to pull together all of our efforts and refocus our activities on the social and environmental challenges that matter most to our customers, colleagues, suppliers and stakeholders.

Every week we serve nearly 80 million customers across eight countries and they tell us they want us to provide affordable, healthy, sustainable products. They also want us to look after our colleagues and the communities where we operate. We have listened to their views, and identified three pillars where we could make the biggest difference: our people, our products and our places.

Underpinning these pillars are areas where we are committed to doing the right thing. These include important issues such as health and safety, cyber security and anti-bribery. We call these our foundations, as they are the bedrock of a responsible business and are fundamental to the way we operate.

For more information on how we identified the pillars, visit: **www.tescoplc.com/materiality**.

People.

To help our colleagues succeed by providing them with the flexibility, skills and reward to get on.

82%

Colleagues agree that they are able to work flexibly around their life

17,156

Colleagues have received manager development training

Products.

To help provide affordable, healthy, sustainable products for all.

Our Products pillar covers our work on health, sourcing, packaging and food waste.

12%

Cost savings of our ‘helpful little swaps’ basket (UK September health event)

77.5%

Supplier satisfaction (Supplier View point)

2,914

Tonnes of hard to recycle materials removed from Own Brand packaging (UK)

81%

Towards reaching our target that no food safe for human consumption will go to waste (UK)

Places.

To help our communities thrive by positively contributing both socially and economically.

29,819

Local projects or causes supported

62.7 million

Meals donated through food surplus redistribution programmes

Foundations.

Cyber security | Product safety | Health and safety | Governance and ethics | Climate change

Embedding the Little Helps Plan.

The Little Helps Plan is integral to our business strategy, helping us to serve our customers a little better every day and contributing directly to our strategic drivers.

By addressing the key issues that we know matter to our customers, colleagues, suppliers and stakeholders, we are able to bring to life the meaning behind our value 'Every little help makes a big difference' and build a differentiated brand. Our ambitious targets are helping to stimulate innovation within the business – for example driving us to expand our range of innovative plant-based products or encouraging us to trial cutting edge technologies to help our customers recycle more. The Plan is also delivering real reductions in operating costs, such as through our work to reduce our carbon footprint. Our investment in energy efficiency between 2015/16 and 2017/18 has delivered £37m in savings to date.

To further embed the Little Helps Plan into our business and to measure our progress, we have introduced KPIs for each action set out in the Plan. We monitor these regularly to help guide our work. We first published progress against these in November 2018 and a further update can be found in our full Little Helps Plan report. This year we have realigned when we report progress against the Little Helps Plan – reporting at the same time as the Annual Report. Going forward we will continue to publish annual updates alongside the Annual Report.

Governance.

We have a robust governance framework in place to support us in delivering the Little Helps Plan and integrating it into our business strategy. This establishes clear responsibility and accountability for our performance, and ensures effective decision-making.

Implementation begins in the UK. We then share learnings with our international markets to enable them to develop country-specific plans.

Each pillar of the Plan is owned by a director within the relevant business function. These owners, in each country or region, are responsible for the day-to-day delivery of the Plan as well as tracking progress against the relevant KPIs. Each country or region has developed a three-year roadmap which is reviewed annually, with key priorities and deliverables set out for the year ahead.

Our Corporate Responsibility Committee (CRC) is responsible for ensuring the Board devotes sufficient attention to corporate responsibility in its widest sense. The Committee has been on a number of visits in 2018/19 to see how our policies and programmes are working on the ground. For more information on the Committee and its activities, see page 55.

To download the latest Little Helps Plan report, including progress against our KPIs, visit **www.tescoplc.com/littlehelpsplan**.

Listen to stakeholders and assess trends	Identify material issues	Establish targets and measurement	Embed in business plans	Monitor progress
Annual research with consumers, influencers, colleagues and suppliers **Review data from our business**	**Little Helps Plan launched October 2017 with three key pillars: People, Products and Places**	**Priority actions identified for each pillar** **35 KPIs established and data published November 2018**	**Three-year roadmaps developed for each market** **Key initiatives incorporated into annual business plans**	**Progress reviewed by Executive committee bi-annually and Corporate Responsibility Committee three times a year**

Our relationships.

We cannot achieve our ambitions alone. Our relationships with our suppliers and expert partners are fundamental to the success of both our business and our implementation of the Little Helps Plan. For example, our Sustainable Farming Groups are essential in helping to secure the future of farming and building long-term relationships with our farmers. This year, we have established a four-year strategic partnership with WWF to help us tackle some of the environmental challenges we cannot address alone. Our overall goal is to halve the environmental impact of the average UK shopping basket. We also continue to work with Cancer Research UK, Diabetes UK and the British Heart Foundation to promote healthier living to customers and colleagues.

In line with UN Global Compact guidance, we have identified which of the UN Sustainable Development Goals (SDGs) are particularly relevant to us.

See **www.tescoplc.com/sdgs** for more information on how our strategy supports the SDGs.

To download the latest Little Helps Plan report visit **www.tescoplc.com/littlehelpsplan**.

People.

A place to get on.

Our people make our business and we ensure Tesco is a place where everyone can get on, whatever their ambitions.

To help our colleagues develop the skills they need to succeed, we offered 1,265 new UK apprenticeships last year, in areas such as Large Goods Vehicle (LGV) driving and food technology. Digital skills are increasingly important across our business, so we are working with the Makers Academy to offer colleagues opportunities to retrain as software development engineers. We are also training over 50 digital champions in our UK distribution centres to coach colleagues on practical digital skills and aim to start rolling this programme out to stores by the end of the year. 17,156 line managers have already attended our new manager training programme which covers how to support their colleagues in getting on.

We are committed to helping the next generation. Last year, over 2,300 young people started their career or gained work experience with us through one of our early careers programmes. In the UK our Movement to Work programme has provided training and work placements for 629 unemployed young people and, through our partnership with the Prince's Trust and IGD, we have already helped over 6,500 school children develop employment skills. Our Business Service Centre in Bengaluru, India, has helped to open a new Career Development Centre for young people, offering nine vocational courses on areas such as digital literacy.

We want our colleagues to be at their best both at work and at home, so we continue to enhance our holistic health and wellbeing offer. We have launched more ways to get active, free health checks, mental health support and a new financial wellbeing programme.

Earlier this year we conducted the UK's largest ever workplace health survey, with our charity partners Cancer Research UK, Diabetes UK and the British Heart Foundation. 8,000 colleagues responded to the survey and it helped us identify new ways to support colleagues to live healthier lives, such as introducing a discounted gym pass.

We want everyone to feel welcome and 84% of colleagues globally tell us there is an inclusive culture at Tesco. Our five established UK colleague networks play a big part in helping colleagues find support and mentoring. Our ambition for 2019/20 is to support our other markets to roll out networks relevant for their colleagues.

We are members of the 30% Club and 31% of our Board is female. In the UK, we introduced a targeted career development community, which supported 80 talented female colleagues to drive their own career, build their network and grow as authentic leaders.

We are committed to offering a fair and competitive total reward package and, in the last two years, have increased hourly rates for UK store colleagues by 10.5%. See page 65 for our gender pay analysis.

Gender diversity split 2018/19 (based on actual year-end headcount)	Male		Female	
Board of Directors	9	69%	4	31%
Senior managers – Directors	394	77%	118	23%
Senior managers – Directors and managers	2,941	63%	1,751	37%
All employees	199,133	44%	255,286	56%

Products.

We believe that healthy, sustainable products should be affordable for everyone, regardless of their budget. This ambition guides our actions on health, sourcing, packaging and food waste.

A healthier place to work and shop.

Seven out of ten families say supermarkets should do more to help people make healthier choices, such as by making healthier alternatives more affordable and enjoyable.

By gradually adjusting our products over a number of years, taking out a little fat, sugar and salt, or adding more vegetables or fibre, our customers can still buy their favourite foods every week while being a little healthier.

In the UK over a third of our frozen and chilled ready meals now contain at least 1 of your 5 a day. In Thailand we are the first retailer to bring all our Own Brand soft drinks below 6g of sugar per 100ml and we have removed trans fats from all Tesco bakery items.

To encourage customers to discover and try healthier alternatives that contain less fat, sugar or salt than standard products, we have now run three 'helpful little swaps' events in the UK.

During our September 2018 health event, a basket of 'helpful little swaps' cost 12% less than a standard basket. Sales of these comparable products increased by 17% year on year. This was our first event fronted by Jamie Oliver since he joined Tesco as a health ambassador. To help colleagues and customers cook from scratch, he also created a series of healthier recipes and tips. As well as being delicious, we made sure they were affordable by reducing the costs of the main ingredients to encourage people to try them.

Sourcing with care.

Food production has a significant impact on our planet's natural resources. It also affects millions of livelihoods around the world. We want customers to feel reassured that our products have been sourced with respect for the environment and the people involved. We work in partnership with thousands of suppliers and producers to make sure that, as well as great quality, we offer the same ethical and environmental standards, across all our product ranges, at affordable prices.

We have joined forces with WWF to make it easier for customers to buy affordable, healthy, sustainable food. Together, we will focus on helping customers eat more sustainably, restoring nature in food production and leading the food industry in eliminating food and packaging waste.

One of the environments where we can make the biggest difference is forests. Global demand for food is putting significant pressure on these vital ecosystems. We have committed to achieving zero-net deforestation in our sourcing of agricultural raw materials by 2020. For Tesco, the most important of these materials is soy; a key ingredient in animal feed.

We have taken a lead in the food industry in developing and implementing a soy sourcing programme that will ensure in the future 100% of the soy our suppliers use comes from zero-net deforestation sources. This follows our work on palm oil where all of the palm oil in our UK Own Brand products is certified by the Roundtable on Sustainable Palm Oil. We are also working towards all paper/wood used in our UK Own Brand products being certified by the Forest Stewardship Council or Programme for the Endorsement of Forest Certification, or coming from a recycled source. We are 87% of the way there.

In December 2018, we revised our human rights strategy to allow us to focus on the four issues that most affect the people in our supply chain. Work has already begun in each of these areas:

Forced labour: Over 200 UK colleagues have received training to help them tackle modern day slavery risks in supply chains and our own operations.

Gender equality: We have signed up to the UN's Women's Empowerment Principles and our partnership with the Ethical Tea Partnership and UNICEF in Assam has helped equip 35,000 adolescent girls with the knowledge and life skills to reduce their vulnerability to abuse and exploitation.

Sustainable livelihoods: 5 pence from every pack of Tesco Extra Strong tea sold is donated to run community projects in two tea estates in Malawi. The first beneficiaries will be 10 Village Savings and Loan Associations which help increase incomes through simple savings and loan facilities.

Worker representation: We are members of the 'ACT' agreement between global brands, retailers and trade unions to achieve living wages for garment workers through collective bargaining at industry level.

Creating a closed loop for packaging.

To make efficient use of valuable resources, and minimise environmental impact, we are committed to ensuring we never use more packaging than is needed, and what we do use is from sustainable sources and can go on to be reused or recycled.

Our ambition is to create a closed loop for packaging across our UK operations, meaning no packaging will go to waste. To achieve this, government, industry and consumers all need to play a role and the UK recycling infrastructure has to be reformed. For our part, we have set three strategic priorities: simplifying materials and design to be fully recyclable, increasing recovery and recycling, and changing customer behaviour.

Alongside our aim to halve packaging weight by 2025, we have committed to end the use of the hardest to recycle materials from our Own Brand packaging by the end of 2019. Thanks to the support of our suppliers, we are now over 60% towards meeting our commitment.

2,914 tonnes

Hardest to recycle materials removed from our Own Brand packaging (UK)

We are extending our approach and learnings to other markets. In Central Europe we have developed a tailored list of hard to recycle materials, taking into consideration local recycling infrastructure, and are working with suppliers there to eliminate these. In Thailand we have switched to recyclable thermoform plastic for our fresh meat and fruit-to-go products, reducing plastic waste by 12%.

We are trialling a reverse vending scheme for plastic bottles in the UK and in Thailand, testing different rewards – such as vouchers and charity donations – to encourage people to get involved. We also have collection points in our large UK stores where customers can recycle plastic bags and polyethylene films that are not always accepted through kerbside collections, and are trialling a collection scheme in 10 stores for all bags, pouches, films and crisp packets to test a new recycling method.

Reducing food waste.

Every year, a third of the world's food goes to waste. As a food retailer, we have a responsibility to take action, which is why we have committed to helping halve food waste, from farm to fork, by 2030.

This is in line with the UN Sustainable Development Goal target 12.3. Our Group Chief Executive, Dave Lewis, chairs a coalition of leaders from government, business, international organisations, research institutions, and civil society, called Champions 12.3, whose purpose is to encourage countries and food businesses globally to set targets, measure and publish their data, and act on the insights to tackle food waste.

We were the first UK retailer to publish our food waste data and update it every year. This was followed by our businesses in Ireland and Central Europe, and now Booker. 27 of our largest Own Brand suppliers have published data on food waste in their own operations and 10 of our largest branded suppliers have committed to do the same, as well as take concrete steps to reduce food waste in the supply chain and in the homes of our customers.

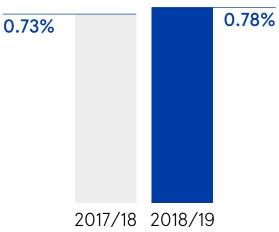
Our target is that no food that is safe for human consumption is wasted in our UK business. Over the last two years, as a result of our efforts, and in partnership with charities, we have reached 81%[◊(a)] of this target. Food that is damaged, or fresh food that cannot be frozen, is excluded from the scope of our target as we are unable to donate it to charities.

In the past year we have donated surplus food equivalent to 62.7 million meals, across the UK, Ireland, Central Europe and Asia to local charities and community groups. All Tesco stores in the UK, Ireland and Malaysia offer surplus food as well as 747 stores in Central Europe and 40 stores in Thailand. We have also introduced 'colleague shops' in all our UK stores to help tackle food waste. Here we offer surplus food, not taken by local charities, to colleagues free of charge. Any remaining suitable bakery and produce is sent to animal feed. These combined initiatives have resulted in a 51% reduction in food safe for human consumption going to waste in the UK compared with last year.

We have a shared responsibility to tackle food waste from farm to fork. The solution lies in working in partnership with our suppliers and helping customers reduce food waste in their homes. One example of this is that we have removed 'best before' dates from over 180 fruit and vegetable lines to help prevent perfectly edible items being thrown away too early.

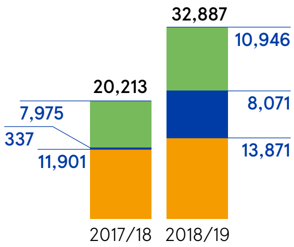
UK

Food surplus (food not sold to customers) as a percentage of total sales



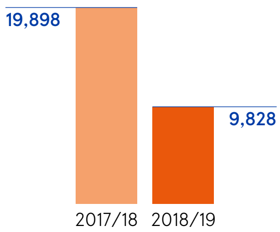
Total food surplus redistributed (tonnes)

▲63%



Food surplus safe for human consumption sent for energy recovery (tonnes)

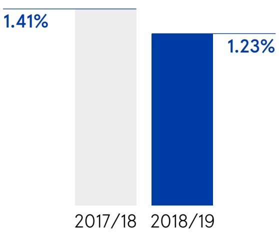
▼51%



- In 2018/19, 9,937,974 tonnes of food sold in the UK generated 77,184 tonnes of surplus (0.78%)
- 32,887 tonnes of surplus was redistributed through donations to charity, colleagues or animal feed, an increase of 63% compared with last year
- 51% decrease in food safe for human consumption sent for energy recovery
- Total food waste in 2018/19 was 44,297◊ tonnes (0.45%◊ of sales). This represents a 17% decrease compared to last year and an 8% decrease compared to our baseline year 2013/14

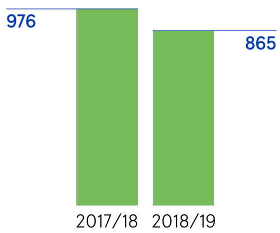
Ireland[b]

Food surplus (food not sold to customers) as a percentage of total sales



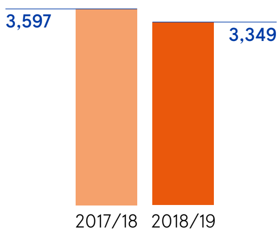
Total food surplus redistributed (tonnes)

▼11%



Food surplus safe for human consumption sent for energy recovery (tonnes)

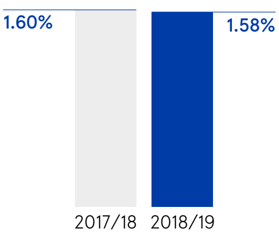
▼7%



- In 2018/19, 581,659 tonnes of food sold in Ireland generated 7,176 tonnes of surplus (1.23%)
- 865 tonnes of surplus was redistributed through donations to charity, a decrease of 11% compared with last year
- 7% decrease in food safe for human consumption sent for energy recovery
- Total food waste in 2018/19 was 6,312◊ tonnes (1.09%◊ of sales). This represents an 8% decrease compared to last year and a 6% increase compared to our baseline year 2016/17

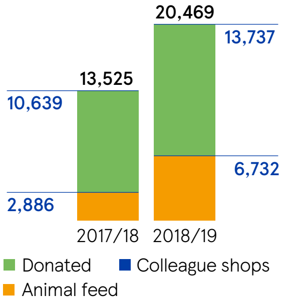
Central Europe

Food surplus (food not sold to customers) as a percentage of total sales



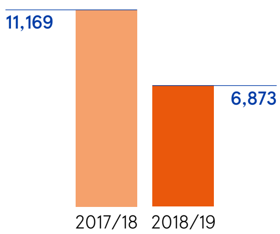
Total food surplus redistributed (tonnes)

▲51%



Food surplus safe for human consumption sent for disposal (tonnes)

▼38%



- In 2018/19, 3,110,167 tonnes of food sold in Central Europe generated 49,132 tonnes of surplus (1.58%)
- 20,469 tonnes of surplus was redistributed through donations to charity or animal feed, an increase of 51% compared with last year
- 38% decrease in food safe for human consumption disposed of
- Total food waste in 2018/19 was 28,663◊ tonnes (0.92%◊ of sales). This represents a 25% decrease compared to last year and a 47% decrease compared to our baseline year 2016/17

Booker

Booker reported on food waste for the first time in 2018. For 2018/19, Booker's reporting period is 51 weeks as we align our financial years and total food waste for this period was 2,867◊ tonnes. This is equivalent to 0.16%◊ of sales and has decreased from 0.17% last year. Donations to charity have increased by 52% from 383 tonnes last year to 584 tonnes in 2018/19.

For more information on food surplus and waste data from our Booker business, visit **www.tescoplc.com/bookerfoodwaste**.

Method statements for each business are available at www.tescoplc.com/foodwastefigures.

◊ KPMG LLP was engaged to provide independent limited assurance over the selected food waste data highlighted in this report with a ◊ using the assurance standard ISAE 3000. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescoplc.com/foodwastefigures.

(a) Based on a four-week period (February 2019).

(b) 2017/18 figures for Ireland have been restated. Please see method statement for further details at www.tescoplc.com/foodwastefigures.

Places.

Supporting our communities.

Every week we serve nearly 80 million customers, in over 6,000 communities around the world. We are proud of the contribution we make through the jobs we provide, the businesses we work with and the local causes we support.

In 2018 we published an independent report – Value in Your Town – to learn more about the socio-economic contribution we make to our communities in the UK and understand how we could better support them. In 2016/17 alone, we contributed an estimated £37.3bn (gross value added) to the UK economy.

We support causes and help address issues that colleagues and customers care about locally, such as food poverty. Wherever we operate, we work closely with food banks and local charities to help feed people in need in local communities.

To increase the impact of our food redistribution scheme in the UK, we have launched the Tesco Community Cookery School programme to help community groups make the most of the surplus food that they receive from Tesco. Over 1,000 cooks will be given training and nutritious recipes, specially designed by Jamie Oliver and Tesco's food experts. We hope to expand the scheme to a train-the-trainer model, benefiting a further 5,000 community cooks.

Another way we support communities is through our community grant programmes in the UK, Ireland and Central Europe.

In the UK our Bags of Help scheme redistributes money raised from the sale of carrier bags to fund thousands of projects in local communities. To date £70m has been invested in local communities, supporting over 23,000 projects chosen by customers – from improved outdoor spaces to training coaches or volunteers.

Similarly, our Community Fund initiative in Ireland has donated €3.7m to support over 13,000 selected local projects. For example, the Ballincollig Gymnastics Club in Cork has been able to buy a new fully sprung floor for the gym thanks to a donation from Tesco.

Since the You Choose, We Help programme began in Central Europe, over 3,000 community groups have benefited. To offer further help to our causes in Central Europe, we trialled a volunteering scheme with colleagues at 40 stores. The programme is now being rolled out across the region with colleagues being encouraged to volunteer, during work hours, at the local organisations supported through You Choose, We Help.

Foundations.

Our Foundations are the things we take care of behind the scenes, on an ongoing basis, to make sure we remain a responsible, ethical business. They help us manage important evolving risks facing our business, from product safety to data security to health and safety. For information on how we are managing cyber security, product safety, and health and safety risks, see page 32.

Business ethics.

Our Code of Business Conduct sets down our minimum expectations for all colleagues, wherever they work and whatever their role. This includes important legal obligations and the policies that guide our conduct. It also lets colleagues know about Protector Line, a completely independent support service where they can raise concerns anonymously and confidentially. In October 2018, we updated our Code of Business Conduct to reflect changes to the law, our business and wider society that have taken place since the Code was written in 2015. We also set out clearer expectations about the conduct expected from all colleagues and from managers and senior leaders. Everyone in the business must comply with the Code and colleagues in office roles, along with store and distribution managers, are required to make an annual declaration of compliance. In 2019, more than 26,000 colleagues did so.

Climate change.

We have a longstanding commitment to tackling climate change. We were the first FTSE 100 company to set ambitious science-based targets to become a zero-carbon business by 2050, in line with the 1.5-degree trajectory of the Paris Climate Agreement. We have also committed to source 100% of our electricity from renewable sources by 2030. In 2018/19 58% of our electricity, across the Group, was sourced this way.

Our carbon footprint is calculated according to the Greenhouse Gas Protocol and our net carbon footprint in 2018/19 was 3.3 million tonnes of CO_2e. For our own operations' absolute carbon emissions, we achieved a 9% reduction compared to last year and 31% compared to 2015/16.

We are also supporting the move to a low-carbon economy. In November 2018 we announced the development of the largest UK retail electric vehicle charging network. In conjunction with Volkswagen, we will roll out over 2,400 EV charging bays across 600 Tesco stores within the next three years.

As supporters of the Task Force on Climate-Related Financial Disclosures (TCFD) we are working to consider the impacts that climate change may have on our business. For more information, see page 177.

Greenhouse gas emissions.

	Global tonnes of CO_2e[a]		
	2018/19	2017/18	Base year 2015/16
Scope 1	1,328,543*	1,411,758	1,388,168
Scope 2[b]			
Market-based method	1,045,760*	1,202,618	2,053,703
Location-based method	1,831,835*	2,137,206	2,609,983
Scope 1 and 2 carbon intensity (kg CO_2e/sq ft of stores and DCs)	20.83*	22.72	29.57
Scope 3	913,802*	1,008,992	1,129,342
Total gross emissions	3,288,104*	3,623,369	4,572,832
CO_2e from renewable energy exported to the grid	593*	1,134	1,513
Total net emissions	3,287,512*	3,622,235	4,571,319
Overall net carbon intensity (total net emissions kg CO_2e/sq ft of stores and DCs)	28.84*	31.48	39.27

* KPMG LLP was engaged to provide independent limited assurance over the selected greenhouse gas emissions data highlighted in this report with a * using the assurance standards ISAE 3000 and 3410. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescoplc.com/carbonfigures.

(a) This year we re-baselined our carbon emissions to include Booker and Booker carbon emissions are included in all figures reported.

(b) Our method statement is available at www.tescoplc.com/carbonmethod. Tesco uses the market-based method for calculating scope 2 emissions for our total emissions to account for our efforts in generating and purchasing low-carbon energy. The location-based method is provided for disclosure only and all intensity, net and gross emissions shown are calculated using scope 2 market-based method.

For more information about our Foundations visit **www.tescoplc.com/foundations**.

Non-financial reporting statement.

This Little Helps Plan section of the Annual Report contains a wide range of non-financial information about employees, environmental and social matters – from human rights to food waste. Our full Little Helps Plan report is available on our website www.tescoplc.com/littlehelpsplan and expands on this information. As required under the new non-financial reporting requirements, the table below sets out where more information on non-financial matters can be found within the rest of the Annual Report and also on our website. The due diligence carried out for each policy is contained within each respective policy's documentation.

		Page
Business model	Six strategic drivers	14-15
	Business model and KPIs	12-17
	Principal risks and uncertainties	32-37
Environmental matters	Principal risks and uncertainties: Responsible sourcing and supply chain	35
	Principal risks and uncertainties: Political, regulatory and compliance	34
	Details of our approach to protecting the environment in supply chains can be found on our website	
Employees	Principal risks and uncertainties: health and safety; people	35
	Chairman's letter: culture, diversity and inclusion	38
	Directors' report: employment policies	80
	Stakeholder engagement: our purpose, culture and values	52
Social matters	Principal risks and uncertainties: Brexit	36
	Information about how we do business including our approach to tax can be found on our website	
	Directors' report: Groceries Supply Code of Practice	81
Respect for human rights	Principal risks and uncertainties: Responsible sourcing and supply chain	35
	Details of our policy, as well as our approach to protecting human rights, can be found on our website	
Anti-corruption and anti-bribery matters, health and safety	Directors' report: Modern Slavery Act, anti-corruption and anti-bribery matters	82
	Our Code of Business Conduct and other related policies can be found on our website	

A robust review.

The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our six strategic drivers.

We have an established risk management process to identify, assess and monitor the principal risks that we face as a business. We have performed a robust review of the risks that we believe could seriously affect the Group's performance, future prospects, reputation or its ability to deliver against its priorities. This review included an assessment of risks we believe would threaten the Group's business model, future performance, solvency or liquidity.

We have reviewed our principal risks in line with our strategic drivers. The risks to the business, at a high level, remain unchanged from the previous year. We have reframed our customer risk definition to better reflect current circumstances, set out on page 33.

The two shorter-term risks relating to Brexit as well as Booker synergy realisation and integration remain relevant. The risks associated with Brexit are increasing due to the possibility of a 'no deal' scenario and the potential for an abrupt departure from the EU. The Booker integration and synergy realisation risk is decreasing as good progress was made on the expected synergies.

The risk management process relies on our assessment of the risk likelihood and impact and on the development and monitoring of appropriate internal controls. Our process for identifying and managing risk is set out in more detail on page 59.

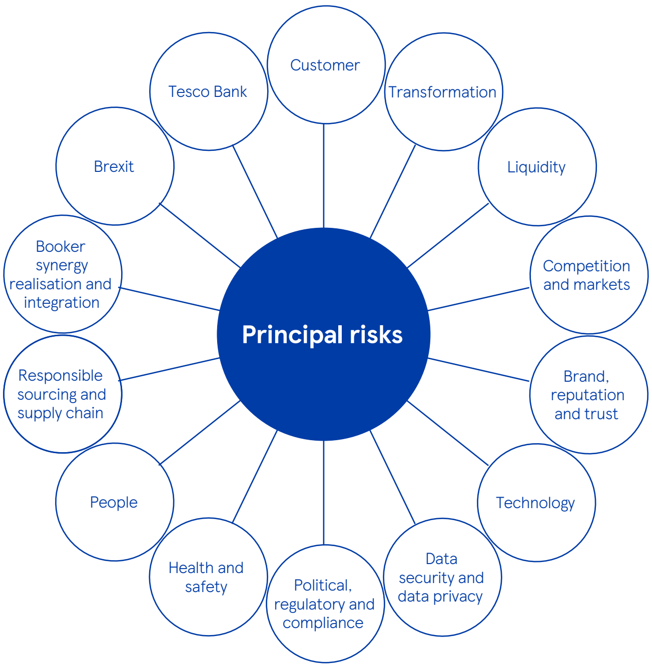
We maintain risk registers that discuss the principal risks faced by the Group and this is an important component of our governance framework and how we manage our business. As part of our risk management process, risks are reviewed as a top down and bottom up activity at the Group and the business unit level. The content of the risk registers are considered and discussed through regular meetings with senior management and reviewed by the Executive Committee. Each principal risk is discussed at least annually by the Board to provide oversight and ensure that they remain relevant.

The table opposite sets out our principal risks, their link to our strategic drivers, their movement during the year, and a summary, of key controls and mitigating factors. The Board considers these to be the most significant Group risks that may impact the achievement of our six strategic drivers as set out on pages 14 and 15. They do not comprise all of the risks associated with the business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Strategic drivers.

1. A differentiated brand
2. Reduce operating costs by £1.5bn
3. Generate £9bn cash from operations
4. Maximise the mix to achieve a 3.5% – 4.0% margin
5. Maximise value from property
6. Innovation

Risks.



Oversight.

Board.

Overall responsibility for risk management, engages directly with risk assessment, mitigations and risk appetite.

Audit Committee.

Oversight of the risk framework and controls on behalf of the Board.

Group Chief Executive and Executive Committee.

The Group Chief Executive has overall accountability for control and the management of risk.

Individual members, reporting to the Group Chief Executive, are accountable for specific risks.

Group Risk and Compliance Committee.

Oversight of key regulatory and compliance risks on behalf of the Executive Committee, reporting biannually to the Audit Committee.

Key risk movement.

Risk increasing — No risk movement — Risk decreasing — Link to strategic drivers on pages 14 and 15

Principal risk	Risk movement	Key controls and mitigating factors
Customer.† Uncertainties (including Brexit and macro economic conditions) squeeze our customers' budgets and force them to reappraise the concepts of value and loyalty in a way in which we are unable to respond. 1 2 3 4 6	Ongoing fragmentation of our customer engagement channels exposes us to a risk of diluting customer experience and ability to differentiate our brand.	We now have a more consistent approach to building impactful customer propositions, offering high-quality and competitive value while improving the customer experience. Propositions are now developed across channels and geographies to ensure consistency in the engagement with customers. Group-wide customer insight management is undertaken to understand and leverage customer behaviour, expectations and experience across the different parts of the business. We monitor the effectiveness of our processes by regularly tracking our business and competitors against measures that customers tell us are important to their shopping experience. We have well-established product development and quality management processes, which keep the needs of our customers central to our decision-making.
Transformation.† Failure to achieve our transformation objectives due to poor prioritisation, ineffective change management and a failure to understand and deliver the technology required, resulting in an inability to progress sufficiently quickly to maintain or increase operating margin and generate sufficient cash to meet business objectives. 2 3 4 6	Achieving our transformation goals continues to demand effort and investment, especially with regard to technology changes.	We have multiple transformation programmes underway to simplify our business with clear market strategies and business plans in place which evolve as priorities or situations change. We have appropriate executive-level oversight for all the transformation activities to ensure programmes are adequately resourced and milestones achieved.
Liquidity.† Failure of our business performance to deliver cash as expected; access to funding markets or facilities being restricted; failures in operational liquidity and currency risk management; Tesco Bank cash call; or adverse changes to the pension deficit funding requirement; create calls on cash higher than anticipated, leading to impacts on financial performance, cash liquidity or the ability to continue to fund operations. 2 3 4 5	We have a disciplined and policy-based approach to treasury management. We have reduced our debt levels and have improving debt metrics.	We maintain an infrastructure of systems, policies and reports to ensure discipline and oversight on liquidity matters, including specific treasury and debt-related issues. Our treasury policies are communicated across the Group and are regularly reviewed by the Board, Executive Committee and management. The Group's funding strategy is approved annually by the Board and includes maintaining appropriate levels of working capital, undrawn committed facilities and access to the capital markets. The Audit Committee reviews and annually approves the viability and going concern statements and reports into the Board. There is a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees. Liquidity levels and sources of cash are regularly reviewed and the Group maintains access to committed credit facilities and debt capital markets. While recognising that Tesco Bank is financially separate from Tesco PLC, there is ongoing monitoring of the activities of Tesco Bank that could give rise to risks to Tesco PLC.
Competition and markets.† Failure to deliver an effective, coherent and consistent strategy to respond to our competitors and changes in market conditions in the operating environment, resulting in a loss of market share and failure to improve profitability. 1 2 3 4 6	We continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.	Our Board develops and regularly challenges the strategic direction of our business to enhance our ability to remain competitive on price, range and service. This activity includes development of our online channels and multiple formats to allow us to compete in different markets. Our Executive Committee and operational management regularly review markets, trading opportunities, competitor strategy and activity. We engage in market scanning and competitor analysis to refine our customer proposition.

† Indicates that the principal risk has been included as part of the longer term viability scenarios as detailed on page 37.

Principal risk	Risk movement	Key controls and mitigating factors
Brand, reputation and trust.[†] Failure to create brand reappraisal opportunities to improve quality, value and service perceptions thus failing to rebuild trust in our brand. 1	We are leveraging the Tesco Centenary to celebrate 100 years of great value and reaffirm our position as the customer champion. We continue to implement a number of initiatives and activities, thereby helping reappraise the brand, increase trust and reputation, while improving our quality and value perception.	Maintaining a differentiated brand is one of our strategic priorities. Our Group processes, policies and our Code of Business Conduct sets out how we can make the right decisions for our customers, colleagues, suppliers, communities and investors. We continue to develop communication and engagement programmes to listen to our customers and stakeholders and reflect their needs in our plans. This includes the Supplier Viewpoint and the integration of local community and local marketing programmes. We continue to maximise the value and impact of our brand with the advice of specialist external agencies and in-house marketing expertise. Our Corporate Responsibility Committee is in place to oversee all corporate responsibility activities and initiatives, ensuring alignment with customer priorities and our brand.
Technology. Failure of our IT infrastructure or key IT systems result in loss of information, inability to operate effectively, financial or regulatory penalties, and negatively impacts our reputation. Further, failure to build resilience at the time of investing in and implementing new technology may result in potential loss of operating capability. 1 2 3 4 6	Our dependency on technology continues to grow. Ongoing improvements and investment in disaster recovery and business continuity measures help to limit exposure to external threats.	A multi-year programme is underway to enhance our technology infrastructure and resilience capabilities. This involves significant investment in our hosting strategy, partnering with cloud providers and re-engineering some of our legacy retail systems, while building redundancy for key business systems. Our technology security programme continues to build security capabilities to strengthen our infrastructure and Information Technology General Controls.
Data security and data privacy.[†] Failure to comply with legal or regulatory requirements relating to data security or data privacy in the course of our business activities, results in reputational damage, fines or other adverse consequences. This includes criminal penalties and consequential litigation which result in an adverse impact on our financial performance or unfavourable effects on our ability to do business. 1 3	As a retail organisation we hold a large amount of customer and colleague personal data, and the threat landscape has been ever growing. The introduction of GDPR in May 2018 has meant an increase in individuals' awareness levels, as well as an increase in the financial penalties which can be levied by the data protection authorities.	We put our customers and colleagues at the heart of all decisions we make in relation to the processing of personal data. Our multi-year technology security programme has been driving the enhancement of our security capabilities to improve data security. We have an established team to detect, report and respond to security incidents in a timely fashion. We have a third-party supplier assurance programme focusing on data security and privacy risks. We have made significant investment across the Group to ensure we comply with the requirements of GDPR in Europe, and any other relevant legislation globally. Our privacy compliance programme, which includes assessment and monitoring of risk, continues to drive compliance throughout our global business. There is regular reporting on progress of the security and privacy programmes to governance and oversight committees.
Political, regulatory and compliance.[†] Failure to comply with legal and other requirements as the regulatory environment becomes more restrictive, due to changes in the global political landscape, results in fines, criminal penalties for Tesco or colleagues, consequential litigation and an adverse impact on our reputation, financial results, and/or our ability to do business. 1	We continue to monitor and improve our controls to ensure we comply with legal and regulatory requirements across the Group. Long-term changes in the global political environment mean that in some markets there is a push towards greater regulation of foreign investors and a favouring of local companies.	Wherever we operate, we aim to ensure that the impact of political and regulatory changes is incorporated in our strategic planning and policies. We manage regulatory risks through the use of our risk management framework and we have implemented compliance programmes and committees to manage our most important risks (e.g. anti-bribery and competition law). Our compliance programmes ensure that sustainable controls are implemented to mitigate the risk and we conduct assurance activities for each risk area. Our Code of Business Conduct is supported by new starter and annual compliance training and other tools such as our whistleblowing hotline. The engagement of leadership and senior management is critical in the successful management of this risk area and leaders provide clear tone from the top for colleagues.

† Indicates that the principal risk has been included as part of the longer term viability scenarios as detailed on page 37.

Principal risk	Risk movement	Key controls and mitigating factors
Health and safety Failure to meet safety standards in relation to our workplace, resulting in death or injury to our customers, colleagues or third parties. 1	We continue to focus our efforts on controls which ensure colleague and customer safety. ↔	We have a business-wide, risk-based safety framework which defines how we implement and report on safety controls to ensure that colleagues, contractors and customers have a safe place to work and shop. Each business is required to maintain a Safety Improvement Plan to document and track enhancements. Overall governance is provided by the Group Risk and Compliance Committee, with each business unit operating their own Health and Safety Committee. Our annual colleague survey results, alongside other inputs such as safety audits, informs the delivery of safety initiatives and targeted communications.
People Failure to attract and retain the required capability and continue to evolve our culture could impact delivery of our purpose and strategic drivers. 1 2 3 4 5 6	Market competitiveness continues to affect our ability to attract and retain key specialist talent. There is continued impact arising from fast-changing and complex legislation. ↔	Talent planning and people development processes are well established across the Group. Talent and succession planning is discussed annually by the Board and three times a year at the Executive Committee and Nominations and Governance Committee. A Group Inclusion strategy is in place. An independent assessment of all promotions and external hires is conducted at leadership level to ensure capability, potential, leadership and values. The Remuneration Committee agrees objectives and remuneration arrangements for senior management. People risk mitigation plans are in place throughout the Group, supported by the Executive Committee.
Responsible sourcing and supply chain Failure to meet product safety standards resulting in death, injury or illness to customers. Failure to ensure that products are sourced responsibly and sustainably across supply chains (including fair pay for workers, adhering to human rights, clean and safe working environments, and that all social and environmental standards are met), leading to breaches of regulations, illness, injury or death to workers and communities, and affecting our reputation. 1 6	We continue to monitor and improve our controls to further reduce this risk. ↔	We have product standards, policies and guidance covering both food and non-food, as well as goods and services not for resale, ensuring that products are safe, legal and of the required quality. Measures include policies and guidance to help to ensure that the human rights of workers are respected and environmental impacts are managed responsibly. Refer to pages 24 to 31 for specific actions highlighted under our Little Helps Plan. Supplier audit programmes are in place to monitor product safety, traceability and integrity, human rights and environmental standards, including unannounced specification inspections of suppliers and facilities. We run colleague training programmes on food and product safety, responsible sourcing, hygiene controls, and also provide support for stores. We also provide targeted training for colleagues and suppliers dealing with specific challenges such as modern slavery.
Booker synergy realisation and integration Failure to successfully integrate Booker is dependent on a number of factors, leading to a risk to our planned synergy commitments and value creation. 1 2 3 4 5 6	There has been good progress on the expected synergies. ↓	A detailed synergy realisation and integration plan was successfully executed during the financial year. Period-end reporting and tracking of targeted benefits and key performance indicators is embedded.

† Indicates that the principal risk has been included as part of the longer term viability scenarios as detailed on page 37.

Principal risk	Risk movement	Key controls and mitigating factors
Brexit.† Failure to prepare for the UK's departure from the EU will cause disruption to and create uncertainty around our business, not least our ability to recruit and supply to our customers. Any disruption or uncertainty could have an adverse effect on our business, financial results and operations. 1 2 3 4	Uncertainty around our departure from the EU has continued to grow as a result of the political deadlock.	With the UK's future trading relationship with the EU still to be determined, we continue to contribute to important public policy discussion and engage with government, regulatory bodies and industry. During this process, we will continue to assess and monitor the potential risks and impacts on Tesco customers, colleagues and shareholders, while taking appropriate mitigation measures to address challenges including logistics, staff and supply. This year we put in place a detailed Brexit contingency plan against political and macro-economic changes that could have a material impact on our market and customer proposition.
Tesco Bank. Tesco Bank is exposed to a number of risks, the most significant of which are operational risk, regulatory risk, credit risk, funding and liquidity risk, market risk and business risk. 1 2 3	The Bank continues to actively manage the risks to which it is exposed.	The Bank has a defined risk appetite, which is approved and reviewed regularly by both the Bank's Board and the Tesco PLC Board. The risk appetite defines the type and amount of risk that the Group is prepared to accept to achieve its objectives, and forms a key link between the day-to-day risk management of the business and its strategic priorities, long-term plan, capital planning and liquidity management. Adherence to risk appetite is monitored through a series of ratios and limits. The Bank operates a risk management framework that is underpinned by governance, policies, processes and controls, reporting, assurance and stress testing. There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee by the Bank's Chief Financial Officer, Chief Risk Officer and Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank's Board.

† Indicates that the principal risk has been included as part of the longer term viability scenarios as detailed on page 37.

Task Force on Climate-related Financial Disclosures.

Climate change and sustainability.

The complex global challenges and uncertainties related to climate change and resource scarcity affect our business and our ambition of providing affordable, healthy and sustainable food. Our approach to these uncertainties is to work collaboratively to tackle both the risks and opportunities. Our Little Helps Plan integrates a number of initiatives across our business to manage some of these risks. Further details are included in the Little Helps Plan section on pages 24 to 31.

Tesco has publicly committed to implementing the recommendations (June 2017) of the Task Force on Climate-related Financial Disclosures (TCFD). As part of our ongoing TCFD assessment, we are using scenario analysis and looking at both short-term and long-term climate risks and opportunities for our UK business. Refer to page 177 for more detailed disclosures on TCFD.

Longer term viability statement.

Assessing the Group's longer term prospects and viability.

The Directors have based their assessment of viability on the Group's current strategic plan, which is updated and approved annually by the Board and delivers the Group's purpose of 'serving shoppers a little better every day' underpinned by the six strategic drivers (detailed on pages 14 and 15).

The Group conducts an annual strategic planning process, comprising a comprehensive reassessment of progress against the Group's strategic objectives alongside a careful evaluation of the longer term opportunities and risks in each market in which the Group operates. The process for assessing the principal and emerging risks in each market is an important input to this process.

The Group's Strategic Planning and Viability Statement are both considered over a three-year period, as this horizon most appropriately reflects the dynamic and changing retail environment in which the Group operates.

Strategic planning process.

The strategic planning process builds from the Group's current position and considers the evolution of the strategic objectives over the next three years. As part of this process, a longer-term assessment of the prospects of the Group is also considered.

Current position.

Significant progress has been made by the Group against the strategic objectives announced in October 2016, including:

- Broad-based progress made in key customer, supplier and colleague metrics;
- Strong profit growth and free cash generation reflect the Group's focus on delivering cost savings and profitable sales growth;
- A clear strategy focusing on customer satisfaction, cash profitability, free cash flow and earnings growth;
- Synergies realised from the Booker merger completed in March 2018 are tracking ahead of plan; and
- The Group has operations across a diversified set of geographies and business areas (Retail, Banking and Customer Data Science).

Refer to the Group Chief Executive's review on page 3 and the financial review on page 18 for further detail regarding the Group's strategic and financial progress.

Longer term prospects.

The following factors are considered both in the formulation of the Group's Strategic Plan, and in the longer term assessment of the Group's prospects:

- The principal risks and uncertainties faced by the Group, as well as emerging risks as they are identified, and how these can be addressed;
- The prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours;
- The potential short and longer term economic impact of Brexit;
- The structural challenges facing retail and how the Group can best position itself to address these;
- The value opportunities presented by further cost reduction through operational simplification and untapped growth potential across the Group; and
- The resilience afforded by the Group's operational scale.

Assessing the Group's viability.

The viability of the Company has been assessed, taking into account the Company's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks, which have the greatest potential impact on viability in that period.

Four scenarios have been modelled, considered severe but plausible, that encompass these identified risks. None of these scenarios individually threaten the viability of the Company, therefore the compound impact of these scenarios has been evaluated as the most severe stress scenario.

Scenario	Associated principal risks	Description
Competitive pressure	– Brand, reputation and trust – Competition and markets – Customer	Failure to respond to fierce competition and changes in the retail market drives sustained significant like-for-like volume decline in core food categories with no offsetting price inflation, putting pressure on margins.
Data security or regulatory breach	– Brand, reputation and trust – Data security and data privacy – Political, regulatory and compliance	A serious data security or regulatory breach results in a significant monetary penalty and a loss of reputation among customers. The modelling of this scenario is approached through a 'reverse-stress test' given the inherent uncertainty of value.
Brexit impact	– Competition and markets – Political, regulatory and compliance – Brexit	Assumes a no-deal Brexit scenario which results in an increase to cost of goods and overhead costs. A broad assessment of the potential impact has been modelled including: higher import tariffs, higher sourcing costs from a weaker sterling, higher labour costs and the potential cost of customs friction from border controls. Appropriate mitigation options open to the Group have also been considered within this scenario.
Reduction in cost savings and cash generation	– Transformation – Liquidity	Failure to achieve the Group's transformation objectives, resulting in an inability to progress sufficiently quickly to maintain or increase operating margin and generate sufficient cash to meet business objectives.

These scenarios assumed that external debt is repaid as it becomes due and committed facilities renewed as they become due. The scenarios above are hypothetical and purposefully severe with the aim of creating outcomes that have the ability to threaten the viability of the Group. In the case of these scenarios arising, various options are available to the Group in order to maintain liquidity so as to continue in operation such as: (i) accessing new external funding early; (ii) more radical short-term cost reduction actions; and (iii) reducing capital expenditure. None of these actions are assumed in our current scenario modelling.

Viability statement.

Based on these severe but plausible scenarios, the Directors have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the three-year period considered.

This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

Robert Welch

Group Company Secretary
9 April 2019

Chairman's letter.

"The role of the Board is to set the tone from the top on the Group's governance, culture and values."

John Allan
Non-executive Chairman

Board role and effectiveness.

During the year, we have sought to ensure that our governance structures at Board, Committee and subsidiary company levels continue to be appropriate for the businesses and the markets in which we operate around the world, while supporting our overall strategy and culture. It is important that our approach to governance matches our values. The Board monitors, through its oversight, that the Group's values are adhered to. We care about our customers and endeavour to ensure we are the champion for customers by putting customers first and taking actions that make a difference. Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than the last – from the quality of the offer to the thoughtfulness of the service.

The Board has spent time in the business both collectively and as individuals, exploring specific business areas through presentations, meetings and dialogue with colleagues and our stakeholders. Throughout the year, the Board, supported by its Committees, has covered a broad range of topics to ensure that we continually review and challenge matters of importance to our stakeholders. My role as Chairman is to ensure that sufficient time is spent on these areas, to maintain high standards of corporate governance and ensure that the Board has sufficient information to carry out its duties. Details of the Board's activity and focus during 2018/19 are set out on page 48.

As Chairman it is my role to provide leadership of the Board to ensure that it is possible to make high-quality decisions and ensure it operates effectively. During 2018/19, the Board and each Committee conducted an evaluation of its performance. This was externally facilitated by Dr Tracy Long of Boardroom Review and the findings provide a clear agenda for us to continue to improve as a Board. The review confirmed that there is an effective leadership in place with all Directors adding value through the diversity of perspective. The Board are collectively engaged with the strategic process, the transformation agenda and have good visibility and understanding of the challenges facing the Company. Having assessed the findings, the Directors were satisfied that the Board and each of its Committees and Directors continue to operate effectively.

Full details of the review together with progress against the 2017/18 review actions are set out on page 51.

Stakeholder engagement.

A key focus of the 2018 UK Corporate Governance Code is on stakeholder engagement. This is an area where we have already made good progress and have strong foundations on which to build.

Our business was built with a simple mission – to be the champion for customers, helping them to enjoy a better quality of life and an easier way of living. This hasn't changed. Customers want great products at great value which they can buy easily and it's our job to deliver this in the right way for them. That is why 'Serving shoppers a little better every day' is our core purpose.

Since I joined the Board as Chairman in 2015, we have spent a lot of time listening to and understanding our key stakeholders: customers, colleagues, supplier partners and shareholders. Much of what we have done over the past four years has been driven by these insights. When discussing matters at Board meetings, stakeholder issues are an integral part of our decision-making. However, it is not practicable to please all stakeholders all of the time and a key part of the Board process is to balance the sometimes conflicting needs of our stakeholders to ensure all are treated consistently and fairly.

I am pleased to announce that during 2019/20 we will be establishing Colleague Contribution Panels across the Group, with the aim of further enhancing the voice of colleagues within the Boardroom so that better, more informed decisions are made in the long-term interests of the Company and its stakeholders. The panels will normally meet twice a year, with a Non-executive Director attending one of the meetings to engage with and listen to colleagues as well as share the views of the Board across a variety of matters. These Colleague Contribution Panels will expand on our existing colleague forums in the UK and Central Europe as well as establishing a new forum in Asia to ensure colleagues throughout the Group are represented. We will also engage with other areas of the workforce through the completion of questionnaires and interviews to ensure we capture the views of all those who work for Tesco.

More information on how we engage with our stakeholders can be found on pages 52 and 53 in this Corporate governance report.

Diversity and inclusion.

The Board believes that it is important to have an appropriate balance of skills, knowledge, experience and diversity on the Board and at senior management level. The Board's skills matrix supports this approach by enabling us to map the broad diversity of the Board in regard to gender, ethnicity, geographical expertise, and current skills and experiences, and to link these to our strategy.

We recognise that the Board sets the tone for inclusion and diversity across the Group and believe we should have a diverse leadership team to support good decision-making. This is vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee meetings. The combination of these factors means that the Board benefits from a diverse range of competencies and thoughts, which promotes a dynamic environment for decision-making.

The Board is a supporter of the Hampton-Alexander Review, and has set a target of having at least one-third female Directors by the end of 2020, and the Parker Review on ethnic diversity. Following the appointment of Melissa Bethell during the year, the Board met the Parker recommendation and the level of female representation increased to 31%, with the Board remaining mindful of its target of 33%.

The Board recognises the need to create the conditions that foster talent and encourage all colleagues to achieve their full career potential in the Group. To this end, we are committed to providing an inclusive working environment where difference is embraced and valued, as evidenced by our commitment to the Race at Work Charter. We want all colleagues to be at their best and we are committed to ensuring that all colleagues have the opportunity to get on – developing the skills they need for now and the future, whoever they are, wherever they work and whatever they do.

We not only celebrate diversity, but embrace the value it brings to enable us to serve our shoppers a little better every day. Our goal is that everyone is treated fairly and given every opportunity to progress.

In order to support our colleagues and to encourage them to share their knowledge and explore career sponsorship, mentoring and networking opportunities, we run a number of Colleague Networks each supported by a member of the Executive Committee. We have five Colleague Networks: Out at Tesco (lesbian, gay, bisexual, transgender and intersex), Black Asian Minority Ethnic Network, Women at Tesco Network, the Armed Forces Network and the Disability Network. We also work with the young, retired and those who have been in long-term unemployment through various external organisations to provide them with the tools and confidence needed to get back into the workplace and reach their full potential.

The Nominations and Governance Committee has responsibility in ensuring diversity and inclusion is considered at all levels and more details of the Committee's work is set out on page 54.

John Allan
Chairman

Compliance with the UK Corporate Governance Code.

The Company applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code 2016 (2016 Code) throughout the period under review. Details demonstrating how the main principles and relevant provisions of the 2016 Code have been applied can be found throughout the Corporate governance report, the Directors' report, each of the Board Committee reports and the Strategic report.

The primary responsibility of the Board in complying with the 2016 Code is to provide effective, entrepreneurial leadership to ensure that it promotes the long-term success of the Company for the benefit of its members as a whole. Monitoring compliance with the 2016 Code is the responsibility of the Nominations and Governance Committee who receive regular updates and report their findings to the Board.

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code and this can be found on the FRC website www.frc.org.uk.

The Board is familiar with the changes following the publication of the UK Corporate Governance Code 2018 (2018 Code) and intends to be compliant with all new relevant provisions in the timeframes dictated in the 2018 Code. The Board has carried out an assessment of the changes in reporting requirements and has decided to adopt as much as practically possible early as set out in this Annual Report.

Board of Directors.

John Allan CBE
Non-executive Chairman

Appointed March 2015
Tenure 4 years

Skills and experience.

John has significant board, retail and financial experience gained from both the commercial and financial sectors. He was CEO of Exel PLC and, when it was acquired by Deutsche Post in 2005, he joined the board of Deutsche Post, becoming CFO in 2007 until his retirement in 2009. John was chairman of Dixons Retail plc during its turnaround period, and following its merger with Carphone Warehouse was deputy chairman and senior independent director of Dixons Carphone until 2015. He was also previously a non-executive director of Worldpay Group PLC, National Grid plc, the UK Home Office Supervisory Board, 3i plc, PHS Group plc, Connell plc, Royal Mail plc, Wolseley plc and Hamleys plc and chairman of London First.

External appointments.

- Chairman of Barratt Developments PLC; and
- President of the Confederation of British Industry.

Dave Lewis
Group Chief Executive

Appointed September 2014
Tenure 4.5 years

Skills and experience.

Dave has significant experience in brand marketing, customer management and general management. Prior to joining Tesco, he worked for Unilever for nearly 30 years in a variety of different roles across Europe, Asia and the Americas. He has experience across many sectors in the UK and overseas, and has been responsible for a number of business turnarounds. He was previously a non-executive director of Sky PLC.

External appointments.

- Member of the Governance Committee of the Consumer Goods Forum; and
- Chair of Champions 12.3, a UN programme seeking to add momentum to the achievement of the UN Sustainable Development Target 12.3 by 2030.

Alan Stewart
Chief Financial Officer

Appointed September 2014
Tenure 4.5 years

Skills and experience.

Alan brings to the Board significant corporate finance and accounting experience from a variety of highly competitive industries, including retail, banking and travel, as well as executive leadership experience within a listed company environment. Alan is a non-executive director of Tesco Bank. Prior to joining Tesco, he was UK CEO and CFO of Thomas Cook Holdings, group finance director of WHSmith plc and CFO for AWAS and Marks & Spencer plc. He was previously a non-executive director of Games Workshop Group plc.

External appointments.

- Non-executive director of Diageo plc;
- Member of the Advisory Board, Chartered Institute of Management Accountants; and
- Member of the main committee and chairman of the pension committee of the 100 Group of Finance Directors.

Mark Armour
Independent Non-executive Director

Appointed September 2013
Tenure 5.5 years

Skills and experience.

Mark has significant strategic planning and financial expertise, as well as experience of executive leadership. He was CFO of Reed Elsevier Group plc and its two parent companies, Reed Elsevier PLC and Reed Elsevier NV (now RELX PLC), from 1996 to 2012. This role has provided him with considerable experience of digital business transition and operating in a multi-channel environment. Prior to joining Reed Elsevier, he was a partner at Price Waterhouse in London. He was previously a non-executive director and chair of the audit committee of SABMiller PLC.

External appointments.

- Non-executive director of the Financial Reporting Council; and
- Member of the Takeover Panel.

Melissa Bethell
Independent Non-executive Director

Appointed September 2018
Tenure < 1 year

Skills and experience.

Melissa brings to the Board a wealth of international business strategy and investment management experience. Melissa is currently a partner of Atairos, an equity investment fund backed by Comcast NBCUniversal. She is managing partner of the London office and responsible for Atairos' investment activities in Europe. Melissa was previously a managing director of Bain Capital, where she worked for over 18 years and was a member of the senior leadership team responsible for strategy setting, fundraising and portfolio management. Prior to joining Bain Capital, Melissa worked in the capital markets group at Goldman, Sachs & Co., with a particular focus on media and technology. She was also previously a director of Ship Midco Limited and served as a non-executive director of Samsonite Corporation (Samsonite International S.A.), Worldpay Group PLC and Atento S.A.

External appointments.

- Partner at Atairos, an independent, private investment firm and managing director of Atairos Europe; and
- Non-executive director and chairman of the audit committee of Exor N.V.

Stewart Gilliland
Independent Non-executive Director

Appointed March 2018
Tenure 1 year

Skills and experience.

Stewart has significant business and management experience in international markets, specifically those in Europe, having previously held roles with leading consumer-facing companies, including Whitbread, Mitchells & Butler and Interbrew. He held the position of chief executive of Müller Dairies UK and Ireland until 2010. Prior to joining Tesco, he was chairman of Booker Group plc.

External appointments.

- Chairman of C&C Group plc; and
- Non-executive director of Nature's Way Foods Ltd.

Steve Golsby
Independent Non-executive Director

Appointed October 2016
Tenure 2.5 years

Skills and experience.

Steve has a wealth of knowledge of operating internationally, specifically significant leadership experience in Asia, a key market for Tesco. He has a strong background in consumer marketing and held senior executive positions with Bristol-Myers Squibb and Unilever, before being appointed president of Mead Johnson Nutrition, a leading global infant nutrition company, in 2004. He was president and CEO from 2008 to 2013 and a non-executive director from 2013 to 2017. He was also previously a non-executive director of Beam Inc. His extensive international and board experience give him invaluable insights and understanding as Chair of the Remuneration Committee.

External appointments.

- Non-executive director of RMA Group;
- Advisor to Thai Union Group PLC, a global leader in the seafood industry; and
- Honorary investment advisor to the Thailand Board of Investment.

Byron Grote
Independent Non-executive Director

Appointed May 2015
Tenure 4 years

Skills and experience.

Byron brings broad financial and international experience to the Board, having worked across BP PLC in a variety of commercial, operational and executive roles covering numerous geographies.

Byron's strategic focus and financial experience complements the balance of skills on the Board and makes him ideal for the role of Chair of the Audit Committee. He served on the BP PLC board from 2000 until 2013 and was BP's CFO during much of that period. He was previously a non-executive director of Unilever PLC.

External appointments.

- Vice chairman of the Supervisory Board of Akzo Nobel N.V.;
- Senior independent director of Anglo American PLC; and
- Non-executive director of Standard Chartered PLC.

Mikael Olsson
Independent Non-executive Director

Appointed November 2014
Tenure 4.5 years

Skills and experience.

Mikael joined the Board after an extensive career at IKEA Group, holding a variety of senior roles including being a member of the executive committee from 1995 until 2013 and holding the position of CEO and president from 2009 until 2013. He brings a wealth of retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment. He was previously a non-executive director and vice chairman of Volvo Cars AB.

External appointments.

- Non-executive director of Ikano S.A.;
- Non-executive director of Lindengruppen AB;
- Non-executive director and chair of the people committee (combined nomination and remuneration committee) of The Royal Schiphol Group; and
- Member of the nomination committee of Volvo Cars AB.

Deanna Oppenheimer
Senior Independent Director

Appointed March 2012
Tenure 7 years

Skills and experience.

Deanna has significant marketing, brand management and consumer knowledge and experience, bringing a broad perspective to the Board. She held several senior roles at Barclays plc, including chief executive of UK Retail and Business Banking and vice chair of Global Retail Banking. Deanna was appointed as chair of Hargreaves Lansdown plc in February 2018. She is also currently a non-executive director of the US fresh-prepared food company, Joshua Green Corporation and is the founder of advisory firm, CameoWorks LLC, which provides bespoke support to early stage companies. Deanna was previously a non-executive director of NCR Corporation and Worldpay, Inc. Her extensive board, investor and commercial experience makes her a strong Senior Independent Director.

External appointments.

- Chair of Hargreaves Lansdown plc;
- Non-executive director of Whitbread PLC;
- Non-executive director of Joshua Green Corporation;
- Founder of consumer-focused boutique advisory firm, CameoWorks LLC; and
- Senior advisor to Bain & Company.

Simon Patterson
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Simon has extensive knowledge of and years of experience in finance, technology and global operations gained in various management and leadership roles. He was a member of the founding management team of the logistics software company Global Freight Exchange and has worked at the Financial Times and McKinsey & Company. He has previously served on the boards of Skype, MultiPlan, Cegid Group, Intelsat, Gerson Lehrman Group and N Brown Group.

External appointments.

- Managing director of Silver Lake Partners, a leading global technology investment firm;
- Board member of Dell Technologies Inc., ZPG Limited and FlixBus;
- Trustee of the Natural History Museum; and
- Trustee of The Royal Foundation of The Duke and Duchess of Cambridge and The Duke and Duchess of Sussex.

Alison Platt CMG
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Alison has extensive experience of leadership in customer-driven organisations across the healthcare, insurance and property sectors. As CEO of Countrywide, a position she held until January 2018, she gained significant business-to-business experience adding this to the international experience she gained whilst leading a number of Bupa's businesses across Asia, Southern and Eastern Europe and the Middle East. Alison's experience as a CEO enables her to provide challenge and advice to the Board across a range of issues. Alison was previously chair of Opportunity Now and a non-executive director of the Foreign and Commonwealth Office and Cable and Wireless Communications PLC.

External appointments.

- Member of the steering group of the Hampton-Alexander Review.

Lindsey Pownall OBE
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Lindsey has substantial experience in food, grocery and retail brand development, having enjoyed a career of more than 20 years at Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined the Samworth board in 2001 and served as chief executive between 2011 and 2015. Lindsey is a passionate advocate of supplier relationships, customers, colleagues and sustainability which directly support Tesco's strategy and her role as Chair of the Corporate Responsibility Committee.

External appointments.

- Non-executive director of Story Contracting Limited and Story Homes Limited;
- Operating director of Paine Schwartz Partners, LLC; and
- Non-executive director of P and P Food Safety Holdings (Delaware) Inc.

Robert Welch
Group Company Secretary

Appointed August 2016

Skills and experience.

Robert has worked as a company secretary for more than 25 years during which time he has held the positions of group company secretary at FirstGroup plc and company secretary at Kazakhmys PLC. Robert has also held senior positions at BPB plc and Kwik Save Group PLC.

He is a member of the ICSA's Company Secretaries' Forum and the Association of General Counsel and Company Secretaries of FTSE 100 companies.

Committee membership (at 9 April 2019).

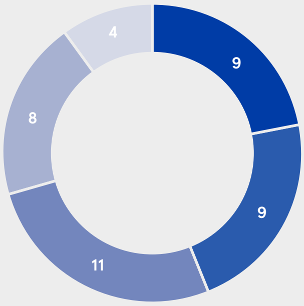
- (N) Nominations and Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- (C) Corporate Responsibility Committee
- ● Chair of Committee
- (i) Independent Board member

Directors who have served during the year to February 2019.

Charles Wilson resigned as a Director of the Board on 16 July 2018 due to ill health, but remains a member of the Executive Committee. Biographical details for the Executive Committee members can be found on pages 44 and 45.

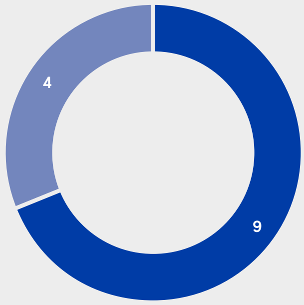
Board profile at a glance.

Board expertise.



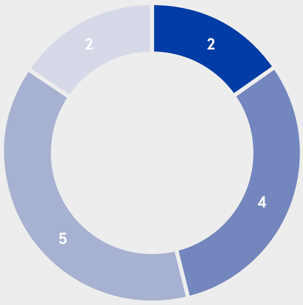
Financial	9
Retail	9
Strategy	11
Marketing	8
Technology	4

Board gender split.



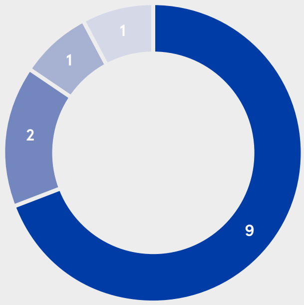
Male	69%
Female	31%

Board tenure.



0 – 1 year	2
1 – 3 years	4
3 – 5 years	5
5 – 7 years	2

Board nationality.



UK	9
Asia	2
Europe	1
North America	1

Executive committee.

Dave Lewis
Group Chief Executive

Dave joined the Board and the Executive Committee on 1 September 2014.

His full biography appears on page 40.

Alan Stewart
Chief Financial Officer

Alan joined the Board and the Executive Committee on 23 September 2014.

His full biography appears on page 40.

Natasha Adams
Chief People Officer

Natasha is responsible for setting the people strategy and plans at Tesco, including reward, colleague experience and capability.

Natasha joined Tesco in 1998 as a Personnel Manager and has served in a range of store-focused roles over the last 20 years, including as Customer Services Director UK, Business Support Director UK and Group Personnel Manager for Scotland. In 2016 Natasha was promoted to People Director for Tesco's UK and Ireland stores and joined the UK Leadership Team before being appointed to her current role of Chief People Officer.

Natasha is a Tesco Pension Trustee.

Natasha joined the Executive Committee on 1 June 2018.

Alessandra Bellini
Chief Customer Officer

Alessandra is responsible for building the Tesco brand globally and putting the customer at the heart of everything that we do.

Prior to Tesco, Alessandra worked at Unilever for more than 21 years, latterly as vice president for the food category in North America and food general manager for the USA. Previously, she had a 12-year career in advertising, working both in Italy and the UK. As an international executive, Alessandra has held roles in North America, the UK, Italy and Central and Eastern Europe.

Alessandra joined the Executive Committee on 1 March 2017.

Christine Heffernan
Group Communications Director

Christine is responsible for rebuilding trust in the Tesco brand and its businesses.

Christine joined Tesco in 2014. Since October 2018 she has supported the Group Chief Executive in delivery of the corporate reputation plan for the centenary year and prior to that was the Corporate Affairs Director for Tesco Ireland. Prior to Tesco, Christine worked in communications in both the energy and telecoms sectors.

Christine joined the Executive Committee on 1 March 2019.

Tony Hoggett
Chief Operations Officer

Tony is responsible for developing the operational capability and strategy across the Group as well as leading the operations of the UK business. Tony also has responsibility for Tesco's joint ventures in both China and India.

Tony joined Tesco in 1990 and has served in a range of leadership roles in the UK and Asia over the last three decades. Between 2007 and 2011 he held the roles of VP South China, as well as President North China, before moving to Turkey as Chief Operating Officer for Tesco Kipa.

In 2011, Tony returned to the UK and held Managing Director roles across all of our large store formats. He also joined the board of Tesco Mobile in 2012. In 2014, he joined the UK Leadership Team as Retail Director and then was appointed Chief Operating Officer UK in 2016 and CEO, Asia in 2017. Tony was appointed to his current role on 1 June 2018.

Tony joined the Executive Committee on 1 April 2017.

Alison Horner
CEO, Asia

Alison is responsible for Tesco's businesses in Thailand and Malaysia. Alison also leads our developing business partnerships across the region.

Alison joined Tesco in 1999 and worked in a variety of operational leadership roles running stores and leading change programmes, prior to being appointed Chief People Officer in 2011. She was appointed to her current role on 1 June 2018. Alison is a member of the Manchester Business School Advisory Board.

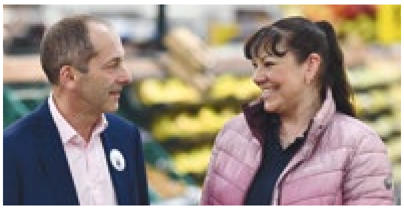
Alison joined the Executive Committee on 1 March 2011.

Gerry Mallon
Chief Executive, Tesco Bank

Gerry is responsible for leading Tesco Bank.

Gerry has held a number of leadership roles in financial services. Most recently Gerry served as chief executive officer of Ulster Bank Ireland where he led significant change in the business, including broad investment in technology to modernise the bank. In this role, Gerry was a member of the RBS personal and business banking executive committee. Before joining Ulster Bank, Gerry served as chief executive officer of Danske Bank UK (formerly Northern Bank) for eight years, successfully leading the organisation in the aftermath of the financial crisis. Earlier in his career, Gerry held roles at Bank of Ireland, McKinsey & Company, and the UK Civil Service. Outside of financial services, Gerry served as pro-chancellor and chair of council at the University of Ulster, president of the Institute of Banking in Ireland, and he is currently chairman of the Irish Football Association.

Gerry joined the Executive Committee on 13 August 2018.



Adrian Morris
Group General Counsel

Adrian is responsible for the legal, company secretarial, government relations, regulatory and compliance functions across Tesco.

Adrian joined Tesco in September 2012 as Group General Counsel. Prior to Tesco, Adrian worked at BP PLC as associate general counsel for refining and marketing and prior to that at Centrica PLC, initially as european group general counsel and then as general counsel for British Gas. Adrian is a Tesco Pension Trustee.

Adrian joined the Executive Committee on 6 September 2012.

Matt Simister
CEO, Central Europe

Matt is responsible for all of Tesco's businesses in the Czech Republic, Hungary, Poland and Slovakia.

Matt joined Tesco in 1996 as a marketer. He built on his UK experience with three years as Commercial Director for our Czech and Slovak businesses. Following this, he returned to the UK to set up our Group Food capability, managing our regional fresh food and Tesco Brand sourcing, buying and inbound supply chains for the UK, ROI, Central Europe and Asia. In April 2017, Matt was appointed to his current role of CEO, Central Europe.

Matt joined the Executive Committee on 1 April 2017.

Jason Tarry
CEO, UK & ROI

Jason is responsible for all of Tesco's businesses in the UK and ROI.

Jason joined Tesco in October 1990 on the graduate recruitment programme. He has held a number of positions in the UK and internationally across both food and non-food divisions. Jason became CEO for clothing across the Group in 2012, before being appointed as Chief Product Officer in January 2015. In July 2018, Jason was appointed to his current role of CEO, UK & ROI.

Jason joined the Executive Committee on 1 January 2015.

Charles Wilson
CEO, Booker

As a member of the Executive Committee Charles contributes to the broad Tesco strategy agenda. He is specifically responsible for delivering UK & ROI cost synergies and driving the growth agenda set out in the Booker merger agreement. As a member of Jason's UK & ROI leadership team he is responsible for leading the Booker business.

Charles joined Tesco in March 2018 following the merger of Tesco PLC and Booker Group plc. Charles became an executive director of Booker Group plc in 1998, which merged with Iceland plc in 2000. In 2001 he became an executive director of Arcadia Group plc and in 2004 he became an executive director of Marks & Spencer plc. In 2005 he was appointed as chief executive of Booker Group plc. Charles started his career in 1986 with Procter & Gamble following which he was a consultant with OC&C Strategy Consultants and a director of Abberton Associates.

Charles joined the Executive Committee on 5 March 2018.

Andrew Yaxley
Chief Product Officer

Andrew is responsible for setting the strategy and policy for the planning, ranging, sourcing and supply of the products we sell across the Group. In addition, he has direct responsibility for managing this for the UK.

Andrew joined Tesco in 2001 from Mars Inc. He has worked across a number of product divisions including four years as Commercial Director for our Czech and Slovak businesses. On returning to the UK in 2007 he first led the Packaged Division and then in 2010 the Fresh Division. He became Managing Director of the London business in 2013, before moving to Ireland as CEO in April 2015. In July 2018, he was promoted to Chief Product Officer.

Andrew joined the Executive Committee on 16 July 2018.

Corporate governance framework.

Board and committees structure.

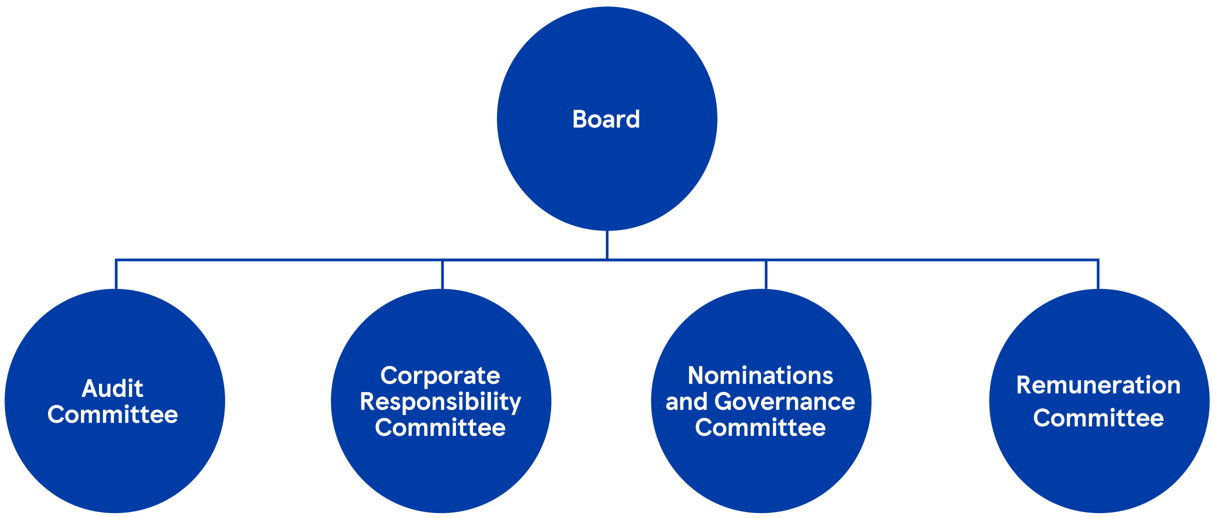
The core objective of the Board is to create and deliver the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. It sets the Group's purpose, strategy and values and is accountable to shareholders for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced. The Board is aware of its obligations to shareholders and other stakeholders and responds to their needs through transparent reporting and active engagement.

In this way, the leadership of the Company is supported by Tesco's Articles of Association, the schedule of matters reserved for the Board, our corporate governance framework and the statutory duties of a Director.

The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills which they possess. These ensure that leadership and decision-making is focused and balanced, and is approached with independent thought and judgement. With the relationship between the Directors being one of trust and mutual respect, open and frank conversations ensure that even the most challenging decisions are taken for the benefit of the Company with due consideration for the stakeholders that it may also affect.

The Board has delegated specific responsibilities to the Board Committees: Audit, Corporate Responsibility, Nominations and Governance and Remuneration Committees. The Committees provide detailed focus to different areas of the Board's work. Committee papers and minutes are shared with all Directors and each Committee Chair provides a written and verbal report on Committee activities to the Board after each Committee meeting.

Matters considered by each of the Committees is set out in the Committee's Terms of Reference which can be found at **www.tesco.com**. Information regarding each of the Committee's activities during 2018/19 are detailed in the Committee reports on pages 54 to 79.



Audit Committee

Role: Provides independent assessment and oversight of financial reporting processes including related internal controls, risk management and compliance, as well as overseeing the work of the external auditor.

Members:

Byron Grote (Chair)
Mark Armour
Melissa Bethell
Stewart Gilliland
Simon Patterson

Corporate Responsibility Committee

Role: Ensures that the Board maintains an adequate focus on corporate responsibility and sustainability matters, especially those that support Tesco's strategy.

Members:

Lindsey Pownall (Chair)
John Allan
Steve Golsby
Mikael Olsson
Deanna Oppenheimer

Nominations and Governance Committee

Role: Reviews size and composition of the Board, succession planning, diversity, inclusion and governance matters.

Members:

John Allan (Chair)
Byron Grote
Deanna Oppenheimer

Remuneration Committee

Role: Determines remuneration policy and packages for Executive Directors and senior managers, having regard to pay across the Group.

Members:

Steve Golsby (Chair)
John Allan
Byron Grote
Mikael Olsson
Deanna Oppenheimer
Alison Platt

Profiles of each of the Directors fulfilling the Committee roles are detailed on pages 40 to 42.

The Board held six scheduled meetings during the year and an additional strategy day, which included consideration of the Long Term Plan. In addition to scheduled meetings, the Board met four times to consider matters of a time-sensitive nature. Directors are expected to attend all Board and relevant Committee meetings. The table below shows the attendance at the scheduled Board and Committee meetings:

	Board[a]	Audit Committee	Nominations and Governance Committee	Corporate Responsibility Committee	Remuneration Committee[d]
John Allan	● 6/6	–	● 4/4	3/3	4/4
Mark Armour	6/6	5/5	–	–	–
Melissa Bethell[b]	3/3	3/3	–	–	–
Stewart Gilliland[c][e]	5/6	2/2	–	–	–
Steve Golsby[d]	6/6	–	–	3/3	● 4/4
Byron Grote	6/6	● 5/5	4/4	–	4/4
Dave Lewis	6/6	–	–	–	–
Mikael Olsson	6/6	–	–	3/3	4/4
Deanna Oppenheimer	6/6	–	4/4	3/3	4/4
Simon Patterson	6/6	5/5	–	–	–
Alison Platt[e]	5/6	–	–	–	3/4
Lindsey Pownall	6/6	–	–	● 3/3	–
Alan Stewart	6/6	–	–	–	–

● Chair of Board or Committee

Notes:

[a] Charles Wilson joined the Board as a Director on 5 March 2018 and stood down on 16 July 2018 due to ill health, but remains on the Executive Committee as CEO, Booker. While on the Board he attended two of two meetings.

[b] Melissa Bethell was appointed as a Non-executive Director and member of the Audit Committee on 24 September 2018.

[c] Stewart Gilliland joined the Board as a Non-executive Director on 5 March 2018 and the Audit Committee on 27 November 2018.

[d] Steve Golsby replaced Deanna Oppenheimer as Chair of the Remuneration Committee on 1 February 2019. Deanna remains a member of the Committee.

[e] Absences at scheduled Board or Committee meetings during the year were due to commitments pre-dating appointment to the Board (Stewart Gilliland) and ill health (Alison Platt).

The Board delegates responsibility for the day-to-day operational management of the Company to the Group Chief Executive, who is supported by the Executive Committee, Group Risk and Compliance Committee and other committees. When the need arises, a standing Disclosure Committee is convened to consider timely and accurate disclosure of sensitive information and the Board has agreed a Delegation of Authority.

Executive Committee.

The Group Chief Executive is supported by the Executive Committee, which is responsible for developing and implementing strategy, operational plans, policies, procedures and budgets; monitoring operational and financial performance; assessing and controlling risk; and prioritising and allocating resources. The Committee meets 11 times a year.

Group Risk and Compliance Committee.

The Committee meets six times a year to evaluate and propose policies, monitor processes to control business, operational and compliance risks faced by the Group, and to assess emerging risks. Regular reporting of these risks is presented to the Audit Committee and Board.

Disclosure Committee.

The Committee supports the Board in overseeing the implementation of the governance and procedures associated with the assessment, control and disclosure of inside information in accordance with the Market Abuse Regulation.

Group Delegation of Authority.

The Delegation of Authority provides a clear direction on decision-making, ensuring that decisions are taken at the right level of the business by the colleagues best placed to take them.

Our systems of internal control and risk management are integral to our corporate governance framework.

More information on internal control and risk management can be found on page 59.

Board activities.

The Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. To retain control of these key decisions, certain matters have been identified that only the Board may approve and there is a formal schedule of matters reserved for the Board, as shown below.

The Board has an agenda programme that ensures operational and financial performance, risk, governance, strategy, culture and stakeholders are discussed at the appropriate time.

A summary of the Board's key activities during the year are detailed below, together with a breakdown of the proportion of time spent by the Board on these matters.

Focus	What the Board has considered		Link to strategic drivers
Operational performance **20%** For a detailed update on our operational performance see our Strategic report on pages 1 to 17.	– CEO reports – Market updates – Business reviews: Tesco Bank, Tesco Mobile, Clubcard, F&F, dunnhumby and Booker – Integration of Booker	– Reviews of UK & ROI, Central Europe and Asia – Technology and data updates – Health & safety updates – Property updates	1 2 3 5 6
Financial performance and risk **20%** More information on financial performance and risk can be found on pages 18 to 23, 32 to 37 and 56 to 61.	– Periodic results, including financial performance and budget – Dividend approvals – Annual budget and Long Term Plan – Going concern and viability statements – Review of cost reduction programme – Integration of Booker	– Risk reports, including areas of emerging risk – Internal control – Funding and liquidity plans – Brexit impact – Finance transformation	2 3 4
Governance **17%** For further details of the evaluation of the Board's performance see the Board effectiveness section on page 51.	– Annual Report and other financial statements – AGM documentation – Talent management and succession planning – Approval of major contracts – Reports from Committee Chairs	– Board and Committee appointments – Property valuations, acquisitions and disposals – External effectiveness review of the Board and its Committees and Directors	1 2 3 4 5 6
Strategy **23%** For an update on Strategy see our Strategic report on pages 1 to 37.	– Strategy day – Online and technology strategies – Monitoring of delivery of strategy – Property opportunities	– Launch of Jack's – Strategic partnership with Carrefour – Financial strategy, leverage and use of cash	1 2 3 4 5 6
Culture and stakeholders **20%** More information on Stakeholder engagement can be found on pages 52 and 53.	– Results of Group-wide colleague engagement surveys – Investor relations updates – Corporate Renewal Plan – Integration of Booker – Code of business conduct – Competitor and customer insights – Consumer trends and implications	– Approach to sourcing – Diversity and inclusion – Results of Socio-Economic Contribution study – Corporate Responsibility Committee reports – Supplier surveys and reports	1 2 3 4 5 6

Key to six strategic drivers:

1 Differentiated brand 2 Reduce operating costs by £1.5bn 3 Generate £9bn cash from operations

4 Maximise the mix to achieve a 3.5%-4.0% margin 5 Maximise value from property 6 Innovation

Summary of matters reserved for the Board.

- Group strategy, operating plans, long term plans and budget
- Changes to corporate and capital structure
- Major acquisitions, mergers, joint ventures and disposals
- Significant capital expenditure and borrowing
- Material contracts
- Risk management and internal control
- Changes to pension scheme
- Financial reporting and disclosures
- Review of remuneration policies and share schemes
- Dividend policy and payment

Leadership.

Board balance and independence.

Effective management and good stewardship are led by the Board. The Board is currently composed of the Chairman, who was independent upon appointment, two Executive Directors and 10 Non-executive Directors. The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group. The responsibilities of the Chairman, Group Chief Executive, Senior Independent Director and other Directors are clearly defined in role statements to ensure that no one individual has unrestricted powers of decision and no small group of Directors can dominate the Board's decision-making. As set out in their biographies on pages 40 to 42, each member of the Board offers a range of core skills and experience that is relevant to the successful operation of the Group.

The Non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling the vital role of corporate accountability. The Board believes that the oversight they provide is balanced with individuals contributing a broad range of skills, diverse experience and knowledge, demonstrating independence and constructive challenge. During the year, the Chairman met frequently with Non-executive Directors without Executive Directors being present.

The Nominations and Governance Committee, which has carefully considered the matter, is of the opinion that each of the current Non-executive Directors continues to be independent in character and judgement in line with the definition set out in the 2016 Code. In reaching its determination of independence, it concluded that each provides objective challenge to management, is willing to stand up and defend his or her own beliefs and viewpoints in order to support the ultimate good of the Company and that there are no relationships or circumstances which are likely to affect the judgement of each of the Non-executive Directors.

Board information.

At Board meetings, Directors receive and consider papers and presentations from the Executive Directors and senior managers. This enables the Non-executive Directors to engage with colleagues from across the Group. Effective review and decision-making is supported by providing the Board with high-quality, clear and timely information, including input from advisors where necessary. In the rare event of a Director being unable to attend a meeting, the Chair of the respective meeting discusses the matters proposed with the Director concerned wherever possible, seeking their support and feedback accordingly. The Chair subsequently represents those views at the meeting. If Directors have concerns about the Company or a proposed action which cannot be resolved, it is recorded in the Board minutes. Also on resignation, Non-executive Directors are encouraged to provide a written statement of any concerns to the Chairman, for circulation to the Board. No such concerns were raised in 2018/19 and up to the date of this report.

Time commitment.

Each Non-executive Director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

The Nominations and Governance Committee assesses the time commitments of Directors on a regular basis to ensure that they each have sufficient time to devote to their role. This assessment takes into account the number of external commitments each Director has and that each Director has demonstrated they have sufficient time to devote to their present role within Tesco, including under potential periods of corporate stress. The Board is currently satisfied that the number of appointments held by each Director in addition to their position with Tesco is appropriate to allow them to fulfil their obligations to Tesco.

Details of the Directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' remuneration report on pages 62 to 79.

Role statements.

Chairman.

The Chairman leads the Board and is responsible for promoting a culture of openness and effective communications between Executive and Non-executive Directors and for creating an environment at Board meetings in which all Directors contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chairman ensures that all new Directors have an appropriately tailored induction process.

Group Chief Executive.

The Group Chief Executive has day-to-day responsibility for the effective management of the Group's business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The Group Chief Executive is tasked with providing regular reports to the Board on all matters of significance relating to the Group's business, or reputation, to ensure that the Board has accurate, timely and clear information on all matters.

Senior Independent Director.

The Senior Independent Director provides a sounding board for the Chairman and acts as an intermediary for the Non-executive Directors, where necessary. She is available to shareholders should they have any concerns where communication through normal channels has not been successful or where such channels are inappropriate. The Senior Independent Director is responsible for leading the Non-executive Directors in appraising the performance of the Chairman.

Non-executive Directors.

The Non-executive Directors bring insight and experience to the Board. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the Board Committees, bringing an independent view to the discussion. They meet with the Chairman without the Executive Directors being present and meet with the Senior Independent Director to review the Chairman's performance and other matters.

Group Company Secretary.

The Group Company Secretary is secretary to the Board. He ensures Board procedures are complied with and the Board has the information, time and resources it needs in order to function effectively and efficiently. He advises the Board on all governance matters and facilitates induction programmes for new Directors and provides briefings on governance, legal and regulatory matters.

Independent advice

All Directors have access to the advice of the Group Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. No such requests were made in 2018/19. In addition, a Directors' and Officers' Liability Insurance policy is maintained for all Directors and each Director has the benefit of a Deed of Indemnity.

The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole.

Election and re-election of Directors

Non-executive Directors are initially appointed for a three-year term with an expectation that they will continue for at least a further three years. In accordance with their letter of appointment, after three years' service the performance of a Non-executive Director is rigorously assessed by the Nominations and Governance Committee, with any development needs discussed by the Chairman with the Non-executive Director. In accordance with best practice and the 2016 Code, Directors are nominated by the Nominations and Governance Committee and are subsequently approved by the Board for election or re-election annually by shareholders at the Company's AGM. All Directors will submit themselves for election or re-election at the forthcoming AGM in June 2019.

Induction

All new Directors receive a comprehensive induction programme over a number of months which is designed to facilitate their understanding of the business and is tailored to their individual needs. The Chairman and the Group Company Secretary are responsible for delivering the programme covering the Company's core purpose and values, strategy, key areas of the business and corporate governance. The induction is delivered through introductory meetings with senior management across the business, attendance at Committee meetings, site visits, working in a store and access to a library of reference materials.

Development

The Board believes strongly in the development of the Directors and the Group's employees. The Chairman regularly discusses training requirements with the Board and arranges meetings or asks for information to be provided, as appropriate. As part of the ongoing development of Directors, key site visits are arranged and Directors are provided with the opportunity to, and are encouraged to, attend training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes. Directors also receive the benefit of teach-ins and technical updates provided at Board and Committee meetings, which aim to ensure that Directors remain up to date with key developments on the business environment in which Tesco operates.

Conflicts of interest

In accordance with the Companies Act 2006 and the Company's Articles of Association, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from consideration of the relevant matter. The Company maintains a register of authorised conflicts of interest which is reviewed annually by the Nominations and Governance Committee.

Induction case study

Melissa Bethell joined the Board in September 2018 and has undertaken a tailored and comprehensive induction programme over a six-month period.

Upon appointment, Melissa received an induction pack, which included a broad range of information including Board and Committee papers, as well as Board minutes and details of operational and financial performance, risk management and internal control, to provide an overview of the business.

Over the six-month induction period, she met with a number of senior managers from around the Group as well as the Chairs of each of the Committees and a number of advisors, providing her with an in-depth overview of the key themes and areas of focus of the Group. In addition to site visits to Extra, Super, Express and Metro stores and distribution and dot com centres, Melissa worked in our Marlborough store providing an opportunity to meet colleagues and see at first hand the operations of a store.

Board effectiveness.

Performance evaluation.

In accordance with the requirements of the 2016 Code, the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year and the evaluation is facilitated externally every third year.

The 2018/19 Board effectiveness review was facilitated by Dr Tracy Long of Boardroom Review, an external board evaluation specialist, between January and April 2019. Neither Tracy Long nor Boardroom Review has any other connection with the business.

Boardroom Review was appointed following an extensive tender process overseen by the Nominations and Governance Committee. The tender process involved drawing up a long list of eight providers, each having extensive experience for facilitating effectiveness reviews. Each firm completed a request for proposal, after which a formal assessment process was undertaken by the Chairman and the Group Company Secretary resulting in Boardroom Review being selected.

The aim of the review was to assess the effectiveness of the Board, both as a collective unitary Board and at individual Board member level, in order to implement any actions required to become a more effective Board. The review was designed to encourage Directors to optimise their contribution to the success of Tesco and add value beyond their statutory requirements, by building on existing strengths, agreeing on the challenges ahead and preparing for the future. To this end, each Director was given individual feedback and development advice from Tracy Long at the end of the review.

The review concluded that the performance of the Board, its Committees, the Chairman and each of the Directors continues to be effective. All Directors demonstrated commitment to their roles and the boardroom culture was deemed effective and conducive to creating a positive environment for participation and challenge by the Non-executive Directors. The review identified some opportunities for the Board and the resulting areas of focus are summarised as follows:

- Further shaping the narrative and agreeing the priorities of the Group for the longer term;
- Continuing to develop and articulate the appetite for risk and ensuring it is aligned with the emerging longer-term strategy; and
- Developing a refreshment and succession plan for Non-executive Directors, designed to optimise strategic relevance, diversity of perspective and governance expertise to meet the future needs of the Group.

The Board is considering all of the recommendations of the Board evaluation report.

External evaluation process.

Conducted tender process resulting in Boardroom Review being appointed to facilitate the evalutaion.

Boardroom Review was briefed by the Chairman and the Group Company Secretary and provided with access to Board and Committee papers as a part of their preparatory work for the evaluation.

During January, February and March 2019, Tracy Long conducted detailed one-to-one interviews with each member of the Board as well as the Group Company Secretary and the Group General Counsel. These were based on a clear agenda which was sent to each participant in advance.

Tracy Long attended the Board and Committee meetings held in February to observe the Directors and the dynamics of the meeting.

A report prepared by Tracy Long setting out her findings and recommendations on further performance improvements was discussed with the Chairman, prior to being presented by Tracy Long to the Board in April. Feedback on individual Directors was shared with the Chairman and a report on the Chairman was shared with the Senior Independent Director.

The Board conducted internal effectiveness reviews in 2016/17 and 2017/18, which were led by the Chairman and Senior Independent Director, respectively. The reviews included an evaluation of the effectiveness of the Board, its Committees and individual Directors. The performance evaluation of the Chairman is carried out by the Non-executive Directors, led by the Senior Independent Director, taking into account the views of the Executive Directors. Progress against the conclusions of the 2017/18 Board evaluation is set out below.

2017/18 areas of focus	Achievements and progress
Further improve the oversight of risk	Regular reports were made to the Audit Committee on the identification, assessment and monitoring of risks. The Board received training on the dynamic threat posed by cyber risks and discussed emerging Group risks and Red Team Testing
Ensure the effective monitoring of the integration of Booker Group	During the year, regular reports were provided to the Board on progress with the integration of Booker, including negotiations with suppliers, consolidation of business services across the UK core business and Booker and utilisation of spare capacity at Tesco distribution centres to support growth
Identify ways to further engage on technology issues	Reporting to the Board has been enhanced in this area, including presentations on digital trends, innovations, technology and data security

Stakeholder engagement.

Our purpose, culture and values.

Serving shoppers a little better every day is at the heart of everything we do at Tesco. We recognise that culture, underpinned by our values, plays a fundamental role in the way we do business and the delivery of our strategic objectives and KPIs. Our values are recognised across the Group and have become a vital part of our culture. They ensure that every colleague at Tesco understands what is important – about how we work together as a team and how customers are at the centre of what we do.

Our Little Helps Plan identifies the most pressing social and environmental challenges facing the business, our customers, our colleagues and our communities to help tackle these. This provides a philosophy for how our business should be run in a way that makes a positive contribution to our colleagues, customers and communities. Through the three pillars of the Little Helps Plan – People, Product and Places – we are committed to doing the right thing. Foundation activities of climate change, cyber security, governance and ethics, health and safety and product safety underpin the three pillars. The Foundations are key requirements of a responsible business and are fundamental to the way we operate.

The Little Helps Plan builds on the progress we have made so far. It is helping to drive our progress in making Tesco a place where colleagues can get on, whatever their background; to help our customers make healthier choices and enjoy good quality, sustainable products at affordable prices; and to help tackle food waste. It spans three areas core to our operating model and the long-term success of our business.

Our Code of Business Conduct, which defines the standards and behaviours expected of colleagues, supports our core values. The Code of Business Conduct is supported by Group policies and mandatory training which includes anti-bribery and corruption, competition law, data protection and supplier legislation. Colleagues are required to complete mandatory training to reinforce the importance of these standards. For new colleagues, there is a requirement to complete this training within five days of joining Tesco. Refresher training is required on an annual basis. In addition, 'Protector Line', an independent and confidential whistleblowing service, allows colleagues and suppliers to raise concerns regarding misconduct and any breaches of the Code of Business Conduct.

The Board and senior management are responsible for ensuring that their activities reflect the culture we wish to instil in our colleagues and other stakeholders and drive the right behaviours. We have a responsibility to ensure that our colleagues do the right things in the right way by setting the tone from the top and leading by example. This means that in every decision we take, and every plan we develop, we ask ourselves one simple question: how will it help serve our shoppers a little better every day?

Visit **www.tescoplc.com/about-us/how-we-do-business** to view Tesco's Code of Business Conduct.

Core purpose.

Serving shoppers a little better every day.

Our values.

No one tries harder for our customers	We treat people how they want to be treated	Every little help makes a big difference

Little Helps Plan pillars.

People.

Products.

Places.

Visit **www.tescoplc.com/littlehelpsplan** to view Tesco's Little Helps Plan.

Customers.

- Customers are at the heart of everything Tesco does.
- Through surveys and engagement with customers, Tesco listens and acts on what customers want. The results of customer feedback are reported to the Board, Executive Committee and functional management. This forms the measurement for one of our six KPIs.
- Operating in a competitive market, we recognise that the more improvements are made for customers, the better sales will be enabling Tesco to reinvest for further improvements and stakeholder initiatives.
- Through the Little Helps Plan we provide customers with the assurances they need and provide affordable, healthy, sustainable products which are accessible to all. One of our targets is to help our customers make healthier food choices every time they shop with us.
- Through community programmes such as Bags of Help, our customers choose the local good causes we support.
- Clubcard is a way of understanding our customers and thanking them for their loyalty. We treat our customers with integrity when dealing with the privacy of customer data. This is supported by mandatory training for colleagues on information security and data protection awareness.

We serve nearly

80 million

shoppers every week

Colleagues

- Inclusivity and creating a culture where everyone feels welcome, that fosters talent and allows colleagues to achieve their full career potential are integral to our business.
- Our commitment to helping our colleagues get on is one of the key pillars of the Little Helps Plan.
- A wide range of learning and development opportunities are available to colleagues, including subject-specific courses, motivational talks and mentoring programmes.
- We have worked with partners, such as Nuffield Health to develop a wellbeing programme based on improved nutrition, healthy body and healthy mind. Mental wellbeing is also important. Mindapples e-learning was accessed by colleagues 18,000 times since it launched and more than 800 UK colleagues have taken part in mental health awareness workshops.
- The 'What Matters To You' employee engagement survey allows colleagues to provide feedback on a variety of issues. The results are reviewed by the Board, Executive Committee and functional management. 83% of colleagues who participated in the most recent survey, regard Tesco as a 'Great Place to Work'.
- We host colleague conferences globally, where leadership teams talk about our business priorities. Our existing colleague forums will be expanded to establish Colleague Contribution Panels across the Group, with representation by a Non-executive Director so that informed decisions are made in the interest of the Company and stakeholders.

We have more than

450,000

colleagues globally

Suppliers

- We are committed to building trusted partnerships with our suppliers which are crucial to delivering many of our commitments, such as working with suppliers to remove hard to recycle materials from our Own Brand packaging line.
- The Code of Business Conduct sets out key behaviours to ensure we treat our suppliers fairly and with respect.
- These trusted relationships with our suppliers help us serve our customers a little better every day and also help us deliver the Little Helps Plan.
- The Board recognises that providing a better service to our customers, requires our suppliers to meet the highest safety and legal standards.
- Supplier training provides suppliers with the skills, knowledge and guidance to ensure compliance and foster ongoing relationships.
- Supplier conferences are held on an annual basis.
- Global supplier surveys (Supplier Viewpoint) are undertaken twice a year to seek suppliers' views in relation to their interaction and experiences with Tesco. The results are reviewed by the Board, Executive Committee and functional management and actions undertaken in areas where lower scores are attained.
- For a third successive year, we ranked first in the independently run Advantage survey which compares Tesco against our peer group.
- Members of the Corporate Responsibility Committee visited India on a deep dive into garment sourcing.

We achieved a score of

77.5%

in the Supplier Viewpoint Survey

Shareholders

- The Investor Relations team provides the Board with regular feedback on investors' views and key market issues. The Board engages with shareholders, including meetings and correspondence between the Chairman, Senior Independent Director and Chairman of the Remuneration Committee and institutional shareholders to discuss key issues.
- Senior management and the Investor Relations team held regular meetings with existing and potential institutional investors and analysts during 2018/19. Additionally, the Chairman hosts store tours for private shareholders to provide an insight into Tesco's operations and allow them to share their views on the business.
- The Group Company Secretary's team engages with private shareholders, who, with our registrars, Equiniti, provide a number of services to private shareholders.
- The 2018 AGM was attended by nearly 400 shareholders and guests. All resolutions were passed, with votes in favour ranging from 100% to 91.3%. Approximately 74% of total voting rights were voted. In the event of significant opposition, actions would be taken to address the issue. A live webcast of the 2018 AGM was broadcast for the first time allowing shareholders globally to view the event. All Directors attend the AGM and are available to answer questions from shareholders.
- Senior management maintain regular dialogue and communication with our relationship banks.
- The corporate website (www.tescoplc.com) provides a wealth of information on the Group and its activities.

We have more than

246,000

registered shareholders

Community

- The Board's approach to environmental, social and governance matters is of high importance. Through the Little Helps Plan Tesco is dedicated to improving sustainability.
- The Corporate Responsibility Committee has responsibility and oversight of the Little Helps Plan which supports causes and helps address issues that colleagues and customers care about locally.
- The Board approved a Health Charity Partnership with Diabetes UK, Cancer Research UK and The British Heart Foundation. Corporate Responsibility Committee members visited the Partnership to understand more about the work they do and how Tesco through its Partnership can help.
- We have launched a four-year strategic partnership with WWF to help us accelerate delivery of our environmental commitments.
- This year we launched our Community Cookery Schools Programme to help community groups make the most of the food they receive through our food surplus donation programme.
- Our community grant programmes in the UK, Ireland and Central Europe allow our customers to choose the local causes we support. Through these programmes we have supported over 39,000 community projects to date.
- Our 320 Community Champions in stores across the UK help us build relationships with communities and support local events.
- Colleagues and customers join our regular food collections which last year collected 3.5 million meals in the UK to help feed people in need.

We have supported more than

29,000

local projects and causes in 2018/19

Nominations and Governance Committee.

"We aim to attract and retain Board members with a diverse range of backgrounds who will contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates."

John Allan
Chairman

Dear Shareholder.

The Committee held four scheduled meetings during the year, which were attended by all members, primarily focusing on succession planning, talent management, corporate governance, inclusion and diversity.

Board composition and succession planning.

The Committee keeps under review the size and composition of the Board and the need to refresh membership so that there is an appropriate balance of skills, knowledge, experience and diversity in its widest sense. The Committee recognises the need to attract Board members with a diverse range of backgrounds who can contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates.

There have been a number of changes to the Board during the year. As reported in last year's Annual Report, following completion of the Booker merger Stewart Gilliland and Charles Wilson joined the Board as a Non-executive Director and CEO of UK & ROI, respectively. Regrettably, in July 2018, Charles Wilson took the difficult decision to step down as a Director and CEO of UK & ROI due to ill health. However, he remains on the Executive Committee as CEO of Booker. In September 2018, we welcomed Melissa Bethell onto the Board. Melissa brings to the Board a wealth of international business strategy and investment management experience. An external search agency was not used for her appointment as she was introduced by a member of the Board. The Committee unanimously agreed it was not necessary to look further for a suitable Non-executive Director as she fully met the role and capabilities profile developed by the Committee. Our succession planning has been reflected at Board Committee level with Steve Golsby succeeding Deanna Oppenheimer as Chair of the Remuneration Committee.

Succession planning continues to be a priority for the Committee and throughout the year the Committee monitored the future leader pipeline and the available pool of talent in the Group. This is essential to ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity and inclusion. During the year, the Committee developed a more systematic approach to succession planning for Non-executive Directors.

Diversity and inclusion.

The Committee strongly believes that diversity and providing an inclusive culture is a key driver of business success and the Committee is committed to having a diverse and inclusive leadership team which provides a range of perspectives, insights and the challenge needed to support good decision-making.

The Committee is supportive of the recommendations set out in the Hampton-Alexander Review and is committed to raising the representation of women on the Board to 33%. As at the date of this report, 31% of the Board are female, which is an increase from 27% in 2017/18. In terms of our senior management, 31% of our Executive committee are female. We actively support women advancing into senior roles, as evidenced by our participation in initiatives such as Women in Finance Charter (Tesco Bank) and the 30% Club. However, the Committee remains of the opinion that appointments to the Board and at senior management level should be objective and made on merit relative to a number of criteria, while taking account of social and ethnic backgrounds, as well as gender.

Board effectiveness review.

Following two internal effectiveness reviews and in line with the UK Corporate Governance Code 2016, the Committee commissioned an external evaluation of Board effectiveness for 2018/19. The Committee agreed that the Group Company Secretary and I would conduct a tender exercise and recommend an external facilitator to the Committee. Following an extensive tender process, the Committee chose Boardroom Review to conduct the evaluation. More details on the effectiveness review are set out on page 51 of the Corporate governance report.

Governance.

During the year, the Committee received regular updates on developments in corporate governance. The Committee was provided with detailed reports on the 2018 UK Corporate Governance Code and supports the drive for greater stakeholder engagement generally, as well as the reporting requirements for large subsidiary companies, and agreed a number of amendments to the Group's corporate governance framework.

John Allan
Nominations and Governance Committee Chair

Committee responsibilities.

- review the size and composition of the Board and its Committees;
- nomination of candidates for appointment to the Board;
- review of succession planning, talent management and diversity and inclusion;
- review and approve changes to the Group's corporate governance framework; and
- ensure a Board effectiveness review is conducted annually.

Key activities.

Succession planning: Reviewed succession plans for the Board, Executive committee and senior management

Non-executive Directors: Reviewed time commitments, conflicts of interest and independence

Diversity and inclusion: Assessed the Group's approach to diversity and inclusion

Corporate governance: Considered developments in corporate governance and appointed the external facilitator for the external effectiveness review

Board appointments: Recommended Melissa Bethell as a Non-executive Director and a member of the Audit Committee; Steve Golsby as Chair of the Remuneration Committee; and Stewart Gilliland as a member of the Audit Committee

Committee membership together with attendance at meetings is detailed in the table on page 47. The Committee's terms of reference are available at **www.tescoplc.com**.

Corporate Responsibility Committee.

"The Little Helps Plan sets out our core value that small actions add up – 'Every Little Help makes a big difference.'"

Lindsey Pownall
Non-executive Director

Dear Shareholder.

The Corporate Responsibility Committee is responsible for oversight of the Group's corporate and social obligations as a responsible citizen and overseeing its conduct in response to those obligations. The Committee held three scheduled meetings during the year, which were attended by all members, primarily focusing on monitoring the corporate and social responsibility strategy globally and oversight of progress against the Little Helps Plan.

At each Committee meeting, progress against the Little Helps Plan is discussed with a detailed review of Tesco's key focus areas of food waste, health, sourcing and packaging, a review of the KPI scorecard setting out Tesco's commitments, and an overview of the Group's impact on the environment and local communities.

A key tenet of Tesco's approach to corporate responsibility is to work with suppliers to make sustainable products accessible and affordable, providing customers with peace of mind that the products they buy from Tesco, no matter the range, are sourced with respect for the environment and people. In support of this, the Committee received a report from F&F, Tesco's clothing brand, providing an update on three key areas: developing ethical supplier relationships to build trusted partnerships and ensure international human rights standards are respected; respect for the environment; and support for community projects and good causes in the countries and communities in which we source products. In September, I visited India with other members of the Committee to undertake a deep dive to understand how Tesco plans and manages its garment sourcing to: ensure safe and decent working conditions and avoid excessive work hours; support vulnerable communities; and to understand our suppliers' experiences of working with Tesco. The visit also provided an opportunity to look at a number of sustainable sourcing programmes.

Product safety is one of the foundations of the Little Helps Plan. The Committee received an update from the Group Quality Director on how Tesco works with its suppliers to ensure its products meet the highest safety and quality standards.

Since the launch of the Little Helps Plan in October 2017, a clear marketing and communications plan has been developed to accelerate awareness and demonstrate Tesco's priorities in food waste, health, sourcing and packaging, as well as further raising trust amongst consumers and influencers. During the year, the Committee discussed future planning, focusing on each of the three pillars of the Little Helps Plan to achieve a broad and targeted range of activities throughout the year on the issues of importance to Tesco's stakeholders.

The Little Helps Plan is a Group-wide framework and throughout the year the Committee received detailed updates on the UK & ROI, Central Europe and Asia on how they are implementing and delivering on the targets and actions of the Little Helps Plan. While all regions are making good progress, we still have more to do and the Committee sees this as an opportunity to take further small actions to make a big difference.

Tesco has established strategic health charity partnerships with the British Heart Foundation, Cancer Research UK and Diabetes UK to help customers and colleagues make healthier choices. During the year, I visited each of the charities and also attended the launch of the partnership with WWF to make it easier for customers to buy affordable, healthy and sustainable food, as well as reducing the environmental impact of the average shopping basket by 50%.

During the year, the Committee approved funds for a new training programme, the Tesco Community Cookery School with Jamie Oliver, which will teach more than 1,000 community cooks on how best to use surplus food donations they receive through the Community Food Connection.

Lindsey Pownall
Corporate Responsibility Committee Chair

Committee responsibilities.

- approve and monitor the corporate and social responsibility strategy to build trust and command respect and confidence;
- oversight of the Group's conduct in respect of its corporate and societal obligations as a responsible corporate citizen;
- oversight of the creation of appropriate corporate responsibility policies and supporting measures;
- identify and monitor external developments likely to have a significant influence on the Group's reputation and its ability to conduct its business appropriately as a good corporate citizen;
- review how best to protect Tesco's reputation; and
- oversight of the Group's engagement with external stakeholders and other interested parties.

Key activities.

Little Helps Plan deep dives:
- Little Helps Plan progress including regional progress updates
- product safety
- people
- responsible sourcing
- marketing and communications strategy

Activities on charitable partnerships and Group-wide projects

Review of the Committee's performance and terms of reference

Committee membership together with attendance at meetings is detailed in the table on page 47. The Committee's terms of reference are available at **www.tescoplc.com**. More information on the Little Helps Plan is set out on pages 24 to 31 and online at **www.tescoplc.com/littlehelpsplan**.

Audit Committee.

'The Committee has supported the Board on a number of significant governance matters relating to financial reporting, internal control and risk management.'

Byron Grote
Non-executive Director

Dear Shareholder.

Following the Group's successful merger with the Booker Group, the Audit Committee has continued to support the business in achieving the key business and strategic drivers set out on pages 14 and 15 of this Annual Report.

The Audit Committee has supported the Board on a number of significant governance matters relating to financial reporting, internal control and risk management, including the Group's transition to IFRS 16 'Leases' financial reporting, the management of Group debt through bond buy-back and new issuance strategy and the continuing transformation programmes. The Committee regularly monitored the Group's risk exposures in relation to changes in the external regulatory and political environment, including the possible impact of Brexit on the Group's risk management activities. Further information can be found on pages 32 to 36 of this Annual Report.

As well as the key activities undertaken or overseen by the Committee during the year through a periodic and structured rolling forward-looking planner, this report shares insights into our discussions. Looking ahead, these areas will remain a key focus in 2019/20.

Byron Grote
Audit Committee Chair

Committee responsibilities.

The Committee's terms of reference were updated in February 2019, and its responsibilities include:

- monitoring the Group's financial reporting processes;
- review, and challenge where necessary, the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board;
- review the integrity of the interim and annual financial statements and announcements relating to the financial performance of the Group;
- consideration of the appointment and reappointment of the external auditor, their reports to the Committee and performance, the external auditor's effectiveness and independence, including an assessment of their appropriateness to conduct any permitted non-audit work in accordance with the Group's non-audit services policy, review of this policy and appropriateness;
- review and agreement with the external auditor as to the nature and scope of the external audit and approving the audit fee;
- review of the Group's distributable reserve position in advance of any declaration of interim or final dividends;
- review and monitoring of the internal controls and risk management processes of the Group, including key financial, operational and compliance controls, identification and assessment of emerging and principal risks, including the effectiveness of risk mitigation, and making necessary recommendations to the Board;
- review of the internal audit programme and ensuring that the Internal Audit function (GAA) is adequately resourced, has appropriate standing within the Group and access to information to enable it to perform its function effectively and in accordance with relevant professional standards and is able to exercise independent judgement;
- consideration of management's response to any major external or internal audit recommendations;
- review the Group's activities with respect to treasury and tax planning policies and such other policies as may be requested by the Board;
- review and report to the Board on the effectiveness of the Group's whistleblowing arrangements by which employees and contractors may, in confidence, raise concerns about possible improprieties in financial reporting or other matters; and
- review of business continuity plans and processes for the prevention of fraud, bribery and corruption. More details can be found on pages 31 and 82 of this Annual Report.

Key activities.

Statutory Reporting: financial results; key accounting judgements; implementation of new accounting standards; going concern; longer-term prospects and viability; dividends; subsidiary audit exemptions; management's representations to the external auditor; Booker integration; property valuation; pensions; solvency and liquidity update; liability management; and corporate simplification update

Risk & Control: risk management and controls assurance framework; internal control effectiveness; UK Corporate Governance Code assurance; principal and emerging risks; updates from the UK & ROI, Central Europe, Asia and Tesco Business Services Finance directors; key financial controls updates; insurable risk review; risk appetite; review of internal control effectiveness; Finance, People and Technology Transformation programmes; IT general controls and security programme update; pensions review; treasury & tax updates and Tesco Bank (including an update on the Bank's risks)

Compliance: anti-bribery; whistleblowing; GSCOP; annual and Group compliance statements; GDPR; anti-fraud; gifts and entertainment; and privacy compliance

External Audit: audit scope and fees; non-audit fees; update reports; management letter observations; and effectiveness review

Internal Audit: update reports; 2018/19 audit plan; internal audit charter; review of executive expenses and effectiveness review

Other governance matters: Committee effectiveness; and terms of reference review

Committee membership together with attendance at meetings is detailed in the table on page 47. The Committee's terms of reference are available at **www.tescoplc.com**.

Audit Committee membership

All of the Committee members are independent Non-executive Directors and the Board is satisfied that Byron Grote, Mark Armour and Melissa Bethell have significant, recent and relevant financial experience. Additionally, Byron Grote and Mark Armour are also competent in accounting and/or auditing. The Board considers that the Committee members as a whole have competence relevant to the Company's sector, in addition to general management and commercial experience. The expertise and experience of the members of the Committee is set out in each of their biographies on pages 40 to 42.

Robert Welch is appointed as Secretary to the Committee. Other regular attendees at Committee meetings include the Group Chairman, Group Chief Executive, Chief Financial Officer, Group General Counsel, Chief Audit and Risk Officer, Deputy Chief Financial Officer and representatives of the external auditor.

Audit Committee meetings

The Committee held five scheduled meetings in the year and two additional meetings were convened to consider, in the context of Finance Transformation, the launch of a new general ledger system in the UK, ROI and India and the Group's transition to IFRS 16 'Leases' financial reporting. Each meeting has a distinct agenda to reflect the annual financial reporting cycle of the Group and particular matters for the Committee's consideration.

The Committee has a structured rolling forward-looking planner, which is designed to ensure that its responsibilities are discharged in full during the year. This planner is developed with the Group Company Secretary and its content regularly reviewed with management and Deloitte. It is developed to meet the changing needs of the Group as the year progresses.

The Chair of the Committee provides a written and verbal update to the Board following each meeting and Committee meetings are generally scheduled close to Board meetings in order to facilitate an effective and timely reporting process.

Committee members met in private following each Committee meeting and also held separate private sessions with the Chief Audit and Risk Officer and the external auditor, in order to provide additional opportunity for open dialogue and feedback without management present. The Committee Chair also meets with the Chief Financial Officer, Chief Audit and Risk Officer and external auditor on an ad hoc basis and prior to each Committee meeting.

The Audit Committee is monitoring the outcome of audit market reform initiatives and accordingly will modify its approach as required.

Key discussions in the year

The Committee carried out a number of in-depth reviews of specific principal risk areas this year, considered emerging risks and reported its findings and recommendations to the Board. The Committee received updates from management in relation to the Group's transformation programmes, technology, information security, data privacy, treasury, tax, pensions, insurance and key compliance risks and the controls and mitigating actions employed in each of these areas, which support the Group's overall strategy and culture. The Committee has assessed the effectiveness of the Group's whistleblowing arrangements and reviewed compliance with the Groceries Supply Code of Practice (GSCOP).

The Committee received update reports during the year from the Tesco Bank Audit Committee, the Disclosure Committee and the Group Risk and Compliance Committee.

The Committee monitors the activity, role and effectiveness of internal audit (GAA), detailed on page 59, and at each meeting we receive an update covering a range of management issues, including periodic reviews of the employment of former auditor employees and non-audit services policies, the internal audit charter, 2019/20 audit plan and executive expenses.

GAA provided regular updates on its work, including findings from its internal audit programme and the status of management actions to address such findings. The Committee continues to focus on Group transformation and internal controls and receives regular updates from GAA on the work that is being undertaken to review and strengthen the Group's processes in these areas.

Additionally, at each meeting we consider reports from our external auditor, Deloitte, in relation to their interim and year-end reports, audit plan, audit fees and non-audit services, early warning report, management letter observations and updates on their ongoing audit work.

Statutory reporting:

The Committee has considered the Group's 2017/18 preliminary results and 2018 Annual Report, the 2018/19 interim financial statements, a comprehensive report from the Group's Disclosure Committee on fair, balanced and understandable reviews, the Group's compliance with relevant regulatory frameworks and validation of management's representations to Deloitte.

The Committee is responsible for assisting the Board's oversight of the quality and integrity of the Company's financial reporting and the Company's accounting policies and practices. During the year, the Committee has continued to receive updates regarding the Group's ongoing Finance Transformation programme and any actions taken to address observations raised by Deloitte in its letter to management following completion of the 2017/18 audit. A number of recommendations have been implemented to further enhance the Group's financial reporting systems and controls environment. The Committee has also received regular updates, including from GAA and Group Finance directors, on the development and effectiveness of the Group's key internal financial controls.

In relation to the financial statements, the Committee reviewed and recommended approval of the half-year results, the Group's approach to IFRS 16 disclosure and these annual financial statements, considered impairment reviews, the viability and going concern statements and their underlying assumptions and the longer-term prospects, reviewed the Group's distributable reserves position in advance of the declaration of dividends, reviewed corporate governance disclosures and monitored the statutory audit. As part of its review of the financial statements, the Committee considered, and challenged as appropriate, the accounting policies and significant judgements and estimates underpinning the financial statements. Details regarding the significant financial reporting matters and how they were addressed by the Committee are set out later in this report.

Liability Management:

During the year, the Group has undertaken two successful tender exercises in relation to its outstanding bonds resulting in £52m of annualised interest savings. In October 2018, the Committee oversaw the Group's well-positioned issue of new five-year bonds, the first issuance since June 2014.

IFRS 16 'Leases':
At each meeting, the Committee received an update in relation to the Group's proposed approach to the IFRS 16 reporting standard. The Committee regularly reviewed the controls in place to ensure the robustness of lease data required to support IFRS 16 calculations across the Group's UK and international estate and establishment of systems and processes required for accounting and reporting under IFRS 16. The Committee reviewed the Group's impairment model and discussed the broader reporting impacts of IFRS 16 on reported assets, liabilities and the Group income statement, as well as the classification of cash flows relating to lease contracts. As announced on 15 February 2019, the Group has adopted IFRS 16 retrospectively, with comparatives restated from a transition date of 25 February 2018. Further information can be found in Note 36 to this Annual Report.

IT General Controls:
The Committee has continued to monitor the Group's progress against its IT remediation, data collection processes and transformation plans. The Committee receives regular risk updates from Technology, the internal and external auditors which were discussed in the context of the Group's risk appetite. See our Technology risk on page 34 of this Annual Report.

Significant financial statement reporting issues

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and viability statement	The Committee reviewed and challenged management's assessment of going concern, longer-term prospects and viability statement with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions and considering any impacts of the uncertainties arising from Brexit. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement. For further information see page 37 of this Annual Report.
Fixed asset impairment and onerous lease provisions	The Committee reviewed and challenged management's impairment testing of property and technology assets and estimate of onerous lease provisions. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging projected cash flows, growth rates, discount rates and the use of independent third party valuations and considering any impacts of the uncertainties arising from Brexit. For further information see page 37 of this Annual Report. The Group has recognised a £73m net reversal of impaired PPE assets, together with an onerous property lease provision net charge of £47m and a £16m net impairment loss for software and other intangible assets. See Note 10 to the financial statements for software and other intangible assets impairment, Note 11 for PPE assets impairment and Note 25 for property provisions.
Valuation of China associate and India joint venture	The Committee reviewed management's assessment of the valuation of the Group's China associate, Gain Land Limited, and India joint venture, Trent Hypermarket Private Limited, covering the methodology and assumptions used by management, including latest market information, in determining the fair value of the investment. This included review of Gain Land's and Trent's projected cash flows, growth rates and discount rates used and the external market indicators to include in the valuation. The carrying value was supported by the valuation. See Note 13 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, principally the discount rate, including the impact of guaranteed minimum pension equalisation in the year. See Note 27 to the financial statements.
Business acquisition	The Committee considered the key judgements made by management in accounting for the Booker acquisition, including the valuation of assets acquired and liabilities assumed resulting in the recognition of goodwill and acquired intangible assets. The Committee also considered the allocation of goodwill to, and impairment testing of goodwill at, the UK group of cash-generating units and the presentation of Booker within the UK & ROI segment. See Notes 1, 7 and 31 to the financial statements.
Contingent liabilities	The Committee further considered management's assessment of the status of ongoing regulatory investigations and litigation relating to prior periods. The Committee concurred with management's assessment that due to the stage of the remaining matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at the year end was appropriate. See Note 32 to the financial statements.
Recognition and disclosure of commercial income	The Committee reviewed management's assessment of the controls that exist over the recognition of commercial income and considered the appropriateness of accounting judgements therein adopted. See Notes 1 and 20 to the financial statements.

Issue	How the issue was addressed by the Committee
Exceptional items and amortisation of acquired intangibles	The Committee considered the presentation of the Group's financial statements and, in particular, the appropriateness of the presentation of exceptional items and amortisation of acquired intangibles. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed and consistently applied across years and appropriately presented. Consideration was also given to the quality of earnings within underlying results. See Note 4 to the financial statements.
New accounting standards	The Committee considered the transition approach and impact of implementing IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' in the period, covering judgements made including the determination of expected credit losses for Tesco Bank financial assets. The Committee also considered the impact of IFRS 16 'Leases', on the Group's financial reporting. The Committee considered the key judgements made in determining the impact of IFRS 16 and reviewed and challenged management's communication and presentation of the impacts. See Note 35 to the financial statements.

Internal audit – Group Audit and Advisory (GAA).

GAA is an independent assurance function within Tesco providing services to the Board and all levels of management. Its remit is to provide independent and objective assurance and advice to provide insight, deliver value, protect and help the organisation achieve its priorities. GAA helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

GAA's responsibilities include supporting management in the assessment and mitigation of risks to protect the business, delivering the Annual Audit Plan as well as reporting on the effectiveness of the systems of internal control. Management are responsible for: establishing and maintaining an appropriate system of risk identification and internal control; and for the prevention and detection of irregularities and fraud. GAA facilitates the Group's risk management processes with the Audit Committee and the Board.

In February 2019, the Committee conducted an assessment of the effectiveness of the GAA function in protecting the business. This assessment was facilitated by Lintstock Ltd, an independent company, who distributed a questionnaire-based assessment to key stakeholders, collated the anonymous responses and provided the assessment reports. This assessment included consideration of the structure and scope of GAA's work, its capabilities, independence, the adequacy of the audit plan, quality of audit reports and its engagement with stakeholders.

The Committee discussed the approach and findings in which the overall assessment concluded that GAA was highly effective, with improved ratings across all measures. Improvements noted included clarity of audit findings, enhancements in sharing learnings and improved stakeholder relationships. The Committee also concluded that GAA is adequately resourced. Aspects highlighted to focus on included continuing to enhance capability in the area of technology to keep pace with advances and ensuring that dedicated resource is available to work on major change programmes.

The Committee reviewed and agreed to the planned next steps which would be reflected in the GAA Charter, last reviewed and approved in November 2018 when the Internal Audit Plan for 2019/20 was also presented and agreed by the Committee. The Internal Audit Plan will be kept under review to ensure, where necessary, it adapts appropriately to the changing needs of the business.

Key elements of the risk management process.

The risk management process enables the identification, assessment and prioritisation of risks through workshops and discussions with business leaders. Risks are reviewed at business unit risk and compliance committees and other delegated senior leadership committees to ensure that they continue to remain relevant. During the year, the significant risks have been reviewed as a top-down and bottom-up process at both the business unit and the Group level to ensure awareness, agreement and appropriate prioritisation. A risk that can seriously affect the performance, future prospects or reputation of the Group is termed a principal risk and these risks are aligned to the Group's strategic drivers set out on pages 14 and 15.

Risks are assessed to determine the potential impact and likelihood of occurrence, after taking into account controls and mitigating factors. Where appropriate, additional mitigating actions are identified and agreed with relevant business owners.

The Group Chief Executive has overall accountability for the control and management of the risks Tesco faces, with the Board having overall responsibility for risk management. Risks are managed at the business unit level on an ongoing basis with follow up throughout the year by GAA and assigned risk champions and functional risk managers. All risks are assigned to an appropriate risk owner and the Group level principal risks are assigned to an executive owner. The Board receives a risk report, including principal risks and areas of emerging risks which are reviewed at least annually. The Group's principal risks are detailed on pages 32 to 36, showing a summary of key controls and mitigating factors, the risk movement and links to the Group's strategic drivers.

Internal control.

The Board monitors the key elements of the Group's internal control framework throughout the year and has conducted a review of the effectiveness of the Group's risk management and internal control systems. To support the Board's annual assessment, GAA prepared a report on the Group's principal risks and internal controls, which described the risk management systems and key internal controls, as well as work conducted in the year to improve the risk and control environment including the level of assurance undertaken.

The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

External audit

Deloitte continued as our external auditor with Panos Kakoullis as the lead partner after their initial appointment in the 2015/16 financial year. It is our intention to put the external audit out to tender every 10 years and to rotate the lead partner at least every five years. Panos has informed the Committee that he will be retiring as a partner from Deloitte during 2019 and a new lead partner will therefore transition into this role in the first quarter of the 2019/20 financial year.

The Committee regularly reviews the role of the external auditor and the scope of their audit. The Committee considers the effectiveness of the external auditor on an ongoing basis during the year, considering, amongst other things, its independence, objectivity, appropriate mindset and professional scepticism, through its own observations and interactions with the external auditor, and having regard to the:

- experience and expertise of the external auditor in their direct communication with, and support to, the Committee;
- content, quality of insights and value of their reports;
- fulfilment of the agreed external audit plan;
- robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;
- the interaction between management and the external auditor, including ensuring that management dedicates sufficient time to the audit process;
- provision of non-audit services, as set out below;
- review and consideration of the results of the evaluation of the effectiveness of the external auditor; and
- other relevant UK professional and regulatory requirements.

The Committee conducted an audit effectiveness review of Deloitte in February 2019, which was facilitated by an independent company, Lintstock Ltd, who distributed a questionnaire-based assessment to key stakeholders, collated the anonymous responses and provided assessment reports containing territory or business specific feedback to facilitate the evolution of services provided to the Group. The review concluded that the external auditor was highly effective and the Committee recommended to the Board the reappointment of Deloitte at the 2019 AGM.

Deloitte contributed a further independent perspective on certain aspects of the Group's financial control systems arising from their work, and reported both to the Board and the Committee.

The process for approving all non-audit work provided by the external auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor, and compliance with regulatory and ethical guidance. Where Deloitte has been chosen, this is as a result of their demonstrating the relevant skills and experience to make it an appropriate supplier to undertake the work in a cost-effective manner.

Our policy for non-audit services reflects the EU regulations that prohibit the provision of certain non-audit services, such as payroll services, by the external auditor and introduces a cap on non-audit fees. In line with the regulations, the Group is required to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years. The 70% cap will first apply to the Group for the period ending February 2021. The non-audit fees policy is compliant with new Ethical Standards for Auditors.

In 2018/19, Deloitte received total fees of £12.0m (2017/18: £13.5m) consisting of £8.0m of audit fees (2017/18: £6.8m), and £4.0m for non-audit and audit-related services (2017/18: £6.7m), which is a decrease of £2.7m in total fees versus the previous period. The total of Deloitte's non-audit and audit-related fees in the year equated to 50% of the audit fees. Fees paid to Deloitte are set out in Note 3 to the financial statements and details of the significant non-audit work undertaken this year are set out in the table on page 61.

In the period, Deloitte continued to report under the court approved Deferred Prosecution Agreement with Tesco Stores Limited. Safeguards were put in place to mitigate any threats to Deloitte's independence by ensuring that work was conducted by individuals not directly involved in the external audit.

We continue to take steps to reduce the level of non-audit fees going forward to ensure compliance with the 70% non-audit fee cap rules.

Nature of service	Safeguards to preserve independence	Level of fees in 2018/19 (£m)	Level of fees in 2017/18 (£m)
Provision of transactional services: including quantified financial benefits synergy, working capital and profit forecast reporting, relating to the Group's merger with the Booker Group	Engagement team separate to the audit team with independent reviews and working with informed management.	–	1.9
Retail consultancy: provision of administrative support relating to the Group's markdown price optimisation process*	Engagement team separate to the audit team. The service is limited to the provision of administrative support. Decision-making accountability remained with management.†	1.3	1.5
Forensic services: provision of data repository services for information needed by the Group and the SFO*	Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established.	1.7	1.8
SFO Monitor role: Deloitte has been appointed as Monitor by the SFO under the Deferred Prosecution Agreement agreed with Tesco Stores Limited	Under the Deferred Prosecution Agreement Deloitte were appointed to conduct independent reviews by individuals not directly involved in the commercial income audits.	0.1	0.8
Other non-audit services: tax compliance and advisory projects relating to businesses outside of the EU and other miscellaneous risk and compliance services	Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established where required. From March 2017, no tax services have been provided to entities within the EU as required by the applicable Ethical Standards.	0.4	0.2
Interim review performed under International Standards of Review Engagements (UK and Ireland) 2410	The interim review is considered a non-audit service under the applicable Ethical Standards, although the objectives of the review are aligned with those of the audit.	0.5	0.5
Total		4.0	6.7

* engagement pre-dates Deloitte's appointment as external auditor.

† Deloitte's work concluded in January 2019.

Appointment of auditor statement

Following a formal tender process, Deloitte were appointed as external auditor with effect from the 2015 AGM. The Company is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services. The Committee reviews and makes a recommendation to the Board with regard to the reappointment of the external auditor each year. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the Committee's judgement regarding the external auditor. The Company intends to conduct a tender process in line with the regulations and by no later than 2025.

Fair, balanced and understandable statement

The Committee considered this Annual Report and Financial Statements 2019, taken as a whole, and concluded that the disclosures, as well as the processes and controls underlying its production, were appropriate and recommended to the Board that the Annual Report and Financial Statements 2019 are fair, balanced and understandable while providing the necessary information to assess the Company's position and performance, business model and strategy.

Committee effectiveness review

The effectiveness of the Committee was evaluated this year as part of the Board evaluation process. Further details can be found on page 51. The review found that the Committee was operating effectively and that its broad role and remit remained appropriate for the current needs of the business. In order to identify opportunities for further improvement, members discussed how the Committee is functioning in the private sessions that follow each meeting.

Annual statement.

"Our remuneration policy ensures colleagues are fairly rewarded and we remain sensitive to the broad range of remuneration themes important to our stakeholders."

Steve Golsby
Remuneration Committee Chair

Dear Shareholder.

I am pleased to present my first Directors' remuneration report as Chair of the Committee, having taken over the role from Deanna Oppenheimer on 1 February 2019. Deanna had chaired the Committee since 2015 and I would like to take this opportunity to thank her on behalf of the Board for her excellent work as Chair and her support to me personally. I am delighted Deanna will be remaining on the Committee, so that we can continue to benefit from her experience and advice.

This Report provides an update on our progress in implementing the remuneration policy approved at the June 2018 AGM. The Committee appreciated the high level of shareholder support the remuneration policy received of over 93% in favour and the continuing constructive dialogue it has had with a number of shareholders, their representative bodies and the wider stakeholder group. No changes are proposed to the remuneration policy for 2019/20.

The Committee has followed closely the continuing debate on executive remuneration, fairness and corporate culture. Since the AGM, the Committee has reviewed the remuneration policy and its implementation, taking account of the UK Corporate Governance Code 2018 (2018 Code) and associated Guidance on Board Effectiveness, and the Companies (Miscellaneous Reporting) Regulations 2018. It takes seriously its role in ensuring the interests of colleagues, shareholders and other key stakeholders are considered fairly, and in the context of wider societal expectations. Although the Committee will not be required to report on the provisions of the 2018 Code and Miscellaneous Reporting Regulations until 2020, the Committee welcomes these developments and has decided to adopt as much as practically possible early, including providing details of the CEO pay ratio. Overall, the Committee believes the remuneration policy is operating well and as expected.

Remuneration alignment to strategy.

The Committee considers in detail the performance metrics and targets for the annual bonus and Performance Share Plan (PSP) to ensure they are appropriate and support the Group's strategy, and create value for stakeholders. In last year's remuneration policy review, the Committee decided to make some changes to improve strategic alignment and aid simplicity. For the annual bonus, the financial metrics of sales growth and Group operating profit before exceptional items and amortisation of acquired intangibles were retained, but balanced equally, while strategic objectives were set as a further annual performance metric, including key stakeholder measures relating to customers, suppliers and colleagues. For the PSP, performance metrics were simplified from three to two. From 2018, PSP performance metrics are free cash flow and diluted EPS pre-exceptional items and amortisation of acquired intangibles, IAS 19 finance costs and IAS 39 fair value remeasurements (subsequently referred to as EPS* in this Report).

The way in which the remuneration policy aligns with and supports Tesco's strategy and the delivery of the Big 6 KPIs is set out opposite and further information is available on pages 16 and 17.

KPIs	2018/19	2017/18[c]	Year-on-year change	Annual bonus performance measure	PSP performance measure
Group sales[a]Δ	£56.9bn	£51.0bn	11.5%	✓	
Group operating profit before exceptional items and amortisation of acquired intangibles[b]Δ	£2,206m	£1,646m	34.0%	✓	
Retail operating cash flow[b]Δ	£2.5bn	£2.8bn	(9.8)%		✓
Customers recommend us and come back time and again	17pts	12pts	5pts	✓	
Colleagues recommend us as a:					
Great place to work	83%	83%	Nil	✓	
Great place to shop	50pts	49pts	1pt	✓	
Supplier satisfaction	77.5%	74.9%	2.6pts	✓	

Δ These measures and other measures in this section are defined in the alternative performance measures section of the Annual Report on pages 178 to 181.
(a) Reported on a continuing operations basis at actual exchange rates, excluding fuel.
(b) Reported on a continuing operations basis at actual exchange rates.
(c) Last year figures restated for impact of IFRS 15 'Revenue from Contracts with Customers'.

2018/19 incentive outcomes.

During the year, Tesco delivered a strong performance against a backdrop of a challenging market and increased customer uncertainty. The Group remains firmly on track to deliver on its six strategic drivers:

- brand health continues to strengthen, with the YouGov Brand perception measures of quality and value increasing by 1.9 points and 1.3 points, respectively;
- cost savings of £532m were achieved in the year generating a total of £1.4bn towards the £1.5bn target;
- £2.5bn of retail operating cash flow[a] was generated, with £8.6bn of retail operating cash[b] generated over three years;
- operating margin improved to 3.45% for the full year and 3.96% in H2 2018/19 (3.79% excluding Booker);
- a further £285m was released from property; and
- innovation continued, including introducing eight new 'Exclusively at Tesco' brands, the relaunch of 10,000 Own Brand products and Jack's launched as part of our 100 years of great value celebrations.

Tesco's annual bonus and PSP plans together reward the achievement of Group, stakeholder and personal targets, provided performance is delivered within the Company's risk appetite. The Committee scrutinises performance targets, which are based on the Board-approved annual budget and Long Term Plan, to ensure they are sufficiently challenging. Stretching performance ranges are then agreed by the Committee at the start of the performance period. During the performance period, the Committee reviewed a number of unplanned and unexpected items and agreed changes to the cash generation and EPS* targets as set out on page 72.

Annual bonus outcomes for 2018/19 have been determined based on Tesco's performance over the year in sales growth (40% weighting), Group operating profit before exceptional items and amortisation of acquired intangibles (40% weighting) and strategic objectives (20% weighting). For consistency, sales and operating profit are translated at constant exchange rates and have been adjusted as set out later in this Annual Statement and on page 72, resulting in sales of £56.7bn and operating profit of £2,222m.

The financial outcomes are slightly above target performance for operating profit before exceptional items and amortisation of acquired intangibles and between threshold and target for sales growth, which reflect the very demanding nature of the targets set. This was a good performance given the challenging external environment and a background of intense competition. The Committee also reviewed the performance of the Executive Directors against their individual objectives. As a result, the Committee determined that 52.5% and 49.4% of the maximum bonus opportunity should be awarded for Dave Lewis and Alan Stewart, respectively. A summary breakdown of the targets and performance assessments is provided in At a glance on pages 66 and 67.

The 2016 PSP performance period ran to the end of the 2018/19 financial year. Performance was measured against three metrics, with 50% subject to Tesco's relative Total Shareholder Return (TSR) performance, 30% subject to cumulative cash generated from retail operations and the remaining 20% subject to key stakeholder measures relating to customers, suppliers and colleagues. Performance was as follows:

- Tesco's TSR ranked below the weighted average of the blended benchmark index. This element vested at nil;
- cumulative cash generated from retail operations over three years of £8,379m was in line with target performance of £8,398m. This element vested at 14.6% of maximum opportunity; and
- performance against the three stakeholder measures of customer, supplier and colleague metrics vested at 14.2% of maximum opportunity.

As reported previously, buyout awards were made to Alan Stewart to compensate him for awards forfeited on leaving his previous employer. The final tranche of those buyout awards vested to him in July 2018.

As previously announced, Charles Wilson, who joined the Board as CEO, UK & ROI on 5 March 2018, stepped down from the Board on 16 July 2018 due to illness. I am pleased that Charles' recovery is going well and he remains on the Executive Committee. As Charles was an Executive Director for part of the year we are required to disclose some details on his pay arrangements. Given he was on the Board for a short portion of the year, we have disclosed this separately from Dave Lewis and Alan Stewart and full details can be found on page 72.

Rationale for Committee decisions in the year

The Committee is responsible for all executive employment matters: recruiting, promoting and retaining high-calibre leaders, setting the incentives under which these leaders operate, and monitoring the results they produce and the manner in which they produce them. The overall remuneration framework has a number of specific goals. It is designed to motivate the leadership team to achieve the Company's strategic objectives, to lead and incentivise colleagues, and to drive value for shareholders and other stakeholders. It is also designed to be competitive in the markets in which we operate and compete for talent.

The Committee's discussions took place against a backdrop of the wider economy and retail market in which the Company operates and specific Company performance. The Committee considered adjustments to the annual bonus outcome to take account of events which were not foreseen or allowed for at the start of the year when targets were set. The Committee decided to take the sales and profit numbers of Tesco Direct out from both targets and actuals following its closure, and to adjust for Board approved strategic decisions and legal changes in Central Europe during the year. These adjustments resulted in a revision of the sales target by less than 1% and an increase in the profit target. The resultant formulaic assessment of the financial metrics of the annual bonus was 35.9% out of a maximum of 80% for both Executive Directors (the remaining 20% is assessed against strategic objectives which are set out on page 67). The Committee considered this to be appropriate and made no changes to this outcome. The Committee also considered the PSP formulaic outturn of 28.8%. Whilst acknowledging that this level of vesting under the PSP did not fully reflect the Group's strong performance over the three-year performance period, the Committee determined that no adjustments would be made to the formulaic outcomes for the Executive Directors.

Implementation of the remuneration policy in 2019/20 and fairness

The Committee remains sensitive to the issues affecting executive remuneration and the views expressed by investors, the UK government and the wider public, particularly regarding restraint when setting quantum. The Committee believes such restraint is the right approach, while ensuring remuneration remains reflective of the wider business environment and contains appropriate incentives for senior executives to achieve the Group's business objectives. In keeping with this theme, for 2019/20, no base salary increases will be awarded to either Executive Director. The maximum annual bonus opportunities for Dave Lewis and Alan Stewart will remain unchanged at 250% and 225% of base salary, respectively. The approved remuneration policy states that the maximum PSP opportunity is 350% of base salary. The Committee has decided to increase the standard grant value of Alan Stewart's PSP from 250% to 275% of base salary. This brings his PSP opportunity in line with Dave Lewis and is designed to ensure that Alan Stewart's remuneration package remains market competitive, while recognising the value of the role and his skills and experience. This also ensures that the link between long-term business performance and reward outcomes is maintained.

The performance measures for the 2019 PSP are unchanged from 2018, with a 50% weighting each for EPS* and free cash flow. The Committee reviewed the selection and weighting of the financial metrics for the annual bonus. The Committee concluded that while the two financial metrics, Group operating profit before exceptional items and amortisation of acquired intangibles and sales growth, remain the right ones, they should now be weighted 50% and 30% respectively (previously both 40%). This change was made to recognise the emphasis on profitability, following the initial revenue growth focus of the turnaround plan.

The Committee will keep emerging market practice and investor expectations under review as the next remuneration policy approval in 2021 approaches. However, the Committee is taking some immediate steps to enhance the application of the existing remuneration policy from 2019 as described below:

- introducing post-employment shareholding requirements for all current and future Executive Directors; and
- amending how the holding period on the PSP operates for leavers. Shares awarded under a PSP grant from 2019 onwards now cannot be sold until five years from grant, even for a good leaver.

The Committee has considered the new requirement that pension contributions for Executive Directors should be aligned with those offered to the wider workforce. As part of the Committee's 2018 review of the remuneration policy the level of contribution to pension or cash in lieu of pension for new Executive Directors and Executive Committee members was reduced to 15% of base salary and a number of new appointments have been made on this basis. This level of contribution is aligned with the contributions to pension for all UK colleagues at middle management and above (some 1,800 colleagues). The Committee believes this provides the right measure of alignment with the wider workforce.

2019 Annual General Meeting

I look forward to welcoming you to the 2019 AGM and hope you will support the resolution relating to remuneration.

Steve Golsby
Remuneration Committee Chair

(a) Net debt, retail operating cash flow and retail free cash flow exclude the impact of Tesco Bank.

(b) Cumulative retail cash generated from operations excluding pension deficit repayments, cash outflows relating to SFO fine and shareholder compensation scheme payments and cash payments in lieu of colleague bonus shares.

Reward principles.

The principles of a fair workplace.

Tesco's purpose is to serve shoppers a little better every day. To live up to that purpose our colleagues need to reflect and represent the communities we serve. Tesco aims to be a place where colleagues can get on, as they wish, no matter what their background. We are proud of our long history of helping colleagues develop their careers in Tesco.

To continue building an inclusive culture where everyone feels welcome, it is important that colleagues feel fairly rewarded. We have clear principles for a fair workplace against which we measure ourselves. When we are successful colleagues can expect:

- a total reward package that provides flexibility and choice, and is competitive in the markets in which Tesco operates and from which it recruits for talent;
- to share in Tesco's success and be recognised for their contributions through pay that is transparent;
- rewards that can help support a decent standard of living and provide the opportunity to plan and save for the future;
- to make wellbeing and lifestyle choices, having access to a range of benefits and flexibility over working hours and place of work;
- to have access to career opportunities and accredited training to develop their potential whatever their age or background; and
- through Tesco's consultative forums, trade union partnerships and colleague surveys to have their voice heard and represented at all levels, and access to information about what is happening in the business.

Rewarding our colleagues fairly.

Tesco provides colleagues across the Group with a competitive reward package. In Tesco's UK business in 2018/19 colleagues received a reward and benefits package in line with the elements set out in the table below. The purpose of each element is the same for all colleagues, which creates a consistent cascade throughout the organisation.

Element of pay	Purpose	Executive Committee and WL4-5	WL 1-3
Base salary	Base salary supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their role. Base salary provides fixed remuneration and reflects the size, scope and complexity of individual role responsibilities.	✓	✓
Benefits	A market-competitive level of benefits for colleagues, which enhance the reward package and provide other reasons to work at Tesco, such as discount in store.	✓	✓
Pension	The opportunity to save for retirement, with the employing company providing a match to employee contributions.	✓	✓
Annual bonus	The opportunity for colleagues to receive an annual bonus for the delivery of business and personal goals. Annual bonus opportunity provides colleagues with a balance between fixed and variable pay related to market practice based on role. At senior levels a proportion of any bonus is deferred into Tesco PLC shares to provide additional alignment with shareholders' experience.	✓	✓
Performance Share Plan	Colleagues with responsibility for long-term Group performance are incentivised to achieve Tesco's strategy and create sustainable shareholder value.	✓	

The balance between the different elements of remuneration depends largely on the role and seniority of colleagues. Junior colleagues' remuneration is principally fixed pay, reflecting our principle of helping to support a decent standard of living, where regular pay levels help with personal budgeting and planning. For more senior colleagues, remuneration is weighted more towards variable pay, which can increase or decrease based on the performance achieved against our goals. This approach to pay design also reflects each individual's ability to influence Tesco's performance. We also take account of the requirements of the UK Corporate Governance Code and the views of our investors and other external bodies, as evidenced by the letter from the Committee Chair to major investors informing them of the intention to increase the standard grant value of Alan Stewart's PSP award.

So while the balance of the elements of remuneration may differ, we have a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark.

Colleagues across the Group are regularly asked about how they feel about pay and benefits at Tesco. Our 2018 survey showed almost two-thirds agreed that the pay for the job they do is fair and three-quarters were happy with the benefits they receive. Both outcomes were well ahead of relevant external benchmarks, but we continue to invest in ensuring we remain an employer of choice.

How our principles are brought to life.

We are committed to providing colleagues with equal access to opportunities, skills, flexibility and fair reward. We are putting more of our learning online, creating more choices on flexible working and providing support and guidance for colleagues to own their own careers.

Over the last year, Tesco has continued to focus on building a fair workplace, providing colleagues with the flexibility, skills and reward to get on as part of our overall employee value proposition. This has included:

- Effective Leadership – We have introduced our Managing a Team at Tesco programme to help build leadership skills. It has supported over 1,300 managers in stores, distribution and convenience businesses to be at the heart of the colleague experience, helping their teams to be more effective and serve our shoppers a little better every day.
- Helping Colleagues be at their Best – We have worked with partners, such as Nuffield Health, to develop a wellbeing programme based on improved nutrition, a healthy body and healthy mind. Colleagues have accessed Mindapples e-learning

more than 20,000 times since it launched and over 800 UK colleagues have taken part in mental health awareness workshops aimed at tackling the stigma around mental health.

- Building skills for the future – We are investing in our colleagues' futures. In September 2018, we doubled our UK school leaver apprenticeship programme, and introduced a Finance apprenticeship and our first Apprentice Degree in Food Science and Technology. In Central Europe, we have 1,150 people on our apprenticeship scheme, spending half their week at college and half learning on the job at Tesco.
- In Thailand, our Student Part-Time Programme scholarships allowed 800 colleagues to pursue higher education and our Tesco Junior Programme is helping a further 200 colleagues to earn a vocational degree while working.
- Developing Employability – In July 2018, we committed to help 10,000 young people to improve their employability and life skills through Prince's Trust Achieve Clubs. We will focus over three years on funding the running of 40 Achieve Clubs in areas of greatest need, developing content and lesson plans in customer service and leadership and bringing the content to life through volunteering opportunities for our colleagues.

CEO pay compared to pay of UK employees

Tesco is a retail business with one of the largest workforces in the UK, employing over 300,000 colleagues, mostly in customer-facing roles in store or working in our distribution network. We apply the same reward principles for all – that overall remuneration should be competitive when compared to similar roles in other organisations from which we draw our talent. For customer-facing colleagues, we benchmark with other large retailers. For our CEO, we benchmark against a small and highly sought-after pool of CEOs of major companies with international reach and accountabilities.

Given this workforce profile, all three of the CEO pay ratio reference points compare our CEO's remuneration with that of colleagues in mainly customer-facing roles and there is relatively limited difference in the outcomes as shown below. Also, we know that year-to-year movements in the pay ratio will be driven largely by our CEO's variable pay outcomes. These movements will significantly outweigh any other changes in pay within the organisation. Whatever the CEO pay ratio, Tesco will continue to invest in competitive pay for all colleagues.

The total pay and benefits of UK colleagues at the 25th, 50th and 75th percentile and the ratios between the CEO and these colleagues, using the CEO's single total remuneration figure for 2018/19 of £4,600,000, are as follows:

	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
Total pay and benefits (FTE)	£18,646	£20,364	£21,982
CEO pay ratio	247:1	226:1	209:1

[a] Tesco has chosen to use Option C to calculate its CEO pay ratio. This option was chosen given the size and complexity of the exercise required to produce these ratios in an environment of significant part-time employment and variable working hours. Tesco has already completed comprehensive data collation and analysis for the purposes of gender pay gap reporting. We were able to use additional pay data to minimise differences in pay definitions between the CEO single total remuneration figure and gender pay reporting.

Gender pay

Tesco's first full gender pay gap report for the year to April 2017 was published in February last year and we have recently published our second report for the year to April 2018.

The 2018 report shows that the median gender pay gap of 8.9% has changed little since last year's figure of 8.7%. It remains well below the UK national average of 17.9%. A key reason for the gap remains the different work pattern choices colleagues are making. Male colleagues are choosing to work premium hours (Sundays, bank holidays and night work), which attract higher rates of pay, more often than female colleagues. If these premium hour payments were to be removed from the calculation, then Tesco's median gender pay gap would reduce to 3.1%.

Tesco offers colleagues opportunity, choice and flexibility and will continue to support them in choosing work patterns that best suit their personal situation and preferences. At the same time, we will work to identify and remove any gender-related barriers to making those choices.

As a sign of our commitment to increasing female representation at senior levels, Tesco signed up as a member of the 30% Club in 2018. By February 2019 the initial 30% ambition had been met, with 31% of both the Board and Executive Committee being women. Women also make up 37% of our director and manager population. However, to maintain and increase this representation we know we need to do more for women earlier in their careers. That is why we launched last year a targeted development programme with a group of talented female colleagues who will be helped positively to drive their careers. In parallel, we are making as much of this development material as possible available to all our Tesco colleagues online, so everyone has the opportunity to benefit.

In addition, our Women's Network has developed a gender diversity partnership with a number of other companies to encourage women to own their career choices through mentoring, learning and helping to build a smarter working culture more attuned to the needs of a diverse workforce. We will continue to challenge ourselves to help more women to progress their careers at Tesco.

Further information is set out in the Tesco Gender Pay Gap Report at **www.tescoplc.com/genderpay**.

Remuneration at a glance.

What our Executive Directors earned in 2018/19.

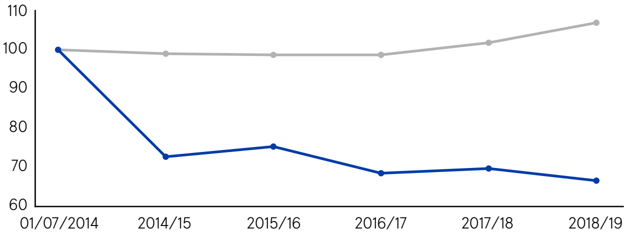
Guided by our remuneration policy, which received over 93% of votes in favour at our 2018 AGM, we aim to reward responsibly and fairly so that all colleagues are rewarded competitively against the relevant pay benchmark for their role. This is a consistent principle, across every level of our business.

Tesco focuses on executive pay in the context of the overall spend on remuneration across the Group:

- Between 2015/16 and 2018/19, we have invested significantly in pay for our customer-facing colleagues, and the hourly rate for UK store colleagues has increased by 14%. Over the same period, the base salaries of Dave Lewis and Alan Stewart have remained unchanged as set out in the chart on page 75.
- Since July 2014, Executive Committee base salary costs as a proportion of the total Group spend on remuneration have fallen by a third and now represent 0.1% of total Group wage costs. At the same time, the average total reward package for colleagues across the Group, inclusive of variable pay outcomes, has risen by about 6.9%, as set out in the chart opposite.
- Bonus awards to our Executive Directors are linked to performance, and the Committee remains sensitive to the views of investors and stakeholders, particularly regarding restraint when determining the potential size of awards.

After four years, we have met or are about to meet the vast majority of our turnaround goals, and our business is on a more sustainable footing. Even with this strong performance, the annual bonus for Dave Lewis in 2018/19 vested at 52.5% of maximum opportunity, and at 49.4% for Alan Stewart.

Executive remuneration and all colleague costs



Average cost of total reward – all colleagues – as a % of 1 July 2014

Executive Committee base salaries as a % of total Group wage costs – as a % of 1 July 2014 ratio

Single total figure of remuneration – Executive Directors (audited).

The following table provides a summary single total figure of remuneration for 2018/19 and 2017/18 for the Executive Directors. Further details are set out in the Annual report on remuneration commencing on page 70.

	Year	Base salary (£'000)	Benefits (£'000)	Pension (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Total (£'000)
Dave Lewis	2018/19	1,250	61	313	1,641	1,335[b]	4,600
	2017/18	1,250	65	313	2,275	1,210[c]	5,113
Alan Stewart	2018/19	750	59	188	834	728[b]	2,559
	2017/18	750	53	188	1,248	660[c]	2,899

[a] Details of the remuneration of Charles Wilson, who stood down from the Board on 16 July 2018, are set out on page 72.

[b] The three-month average share price to 23 February 2019 of 210p has been used to indicate the value of the 2016 PSP, which will vest in May 2019. The value includes the reinvestment of dividends paid on vested shares, between grant and vest, in Tesco PLC shares.

[c] The value of the 2015 PSP has been updated to reflect the share price on the date of vesting of 256p. The value includes the reinvestment of dividends paid on vested shares, between grant and vest, in Tesco PLC shares.

2016 PSP vesting (audited).

The PSP award granted in 2016 will vest in May 2019 based on performance up to and including the 2018/19 financial year. The performance outcome was as follows:

Metrics (% maximum)	Performance targets			Vesting level			Actual performance	Payout (vesting level)	Payout (% of maximum)
	Threshold	Target	Stretch	Threshold	Target	Stretch			
Relative TSR[a] (50%)	Performance equal to the index	–	8% p.a. outperformance of the index	25%	–	100%	**Below index**	**0%**	**0%**
Cash generation[b] (30%)	£7,998m	£8,398m	£8,798m	25%	50%	100%	**£8,379m**	**48.7%**	**14.6%**
Stakeholder:									
Customer (6.66%)	2pts	–	24pts	0%	–	100%	**17pts**	**68%**	**4.5%**
Supplier (6.66%)	70%	–	82%	0%	–	100%	**77.5%**	**63%**	**4.2%**
Colleague:									
Great place to work (3.33%)	81%	–	84%	0%	–	100%	**83%**	**66%**	**2.2%**
Great place to shop (3.33%)	41pts	–	47pts	0%	–	100%	**50pts**	**100%**	**3.3%**

[a] TSR was assessed against a benchmark index made up of FTSE 350 Food and Drug Retailers (excluding Tesco) and FTSE 350 General Retailers weighted 85% and 15%, respectively.

[b] Details of adjustments to the cash generation targets are set out on page 72.

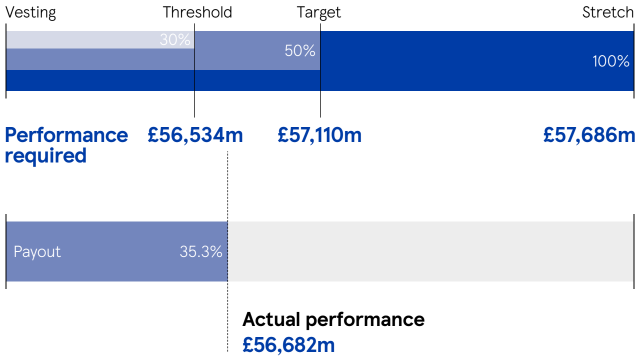
Based on the above performance, 28.8% of the 2016 PSP awards will vest in May 2019. This will result in 635,814 shares and 346,807 shares vesting to Dave Lewis and Alan Stewart, respectively.

Annual bonus outcomes (audited).

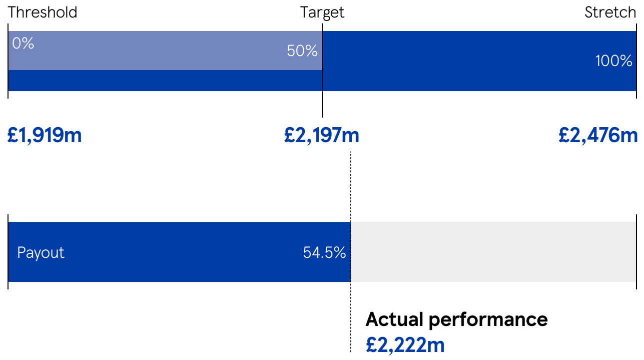
The Committee determined that 52.5% and 49.4% of the maximum bonus opportunity be awarded to Dave Lewis and Alan Stewart, respectively. Actual profit performance exceeded the underpin. Performance against each of the objectives for 2018/19 was assessed as follows:

Financial performance in 2018/19 (80% of bonus maximum) (audited).

Sales growth (40% weighting).



Group operating profit (40% weighting).



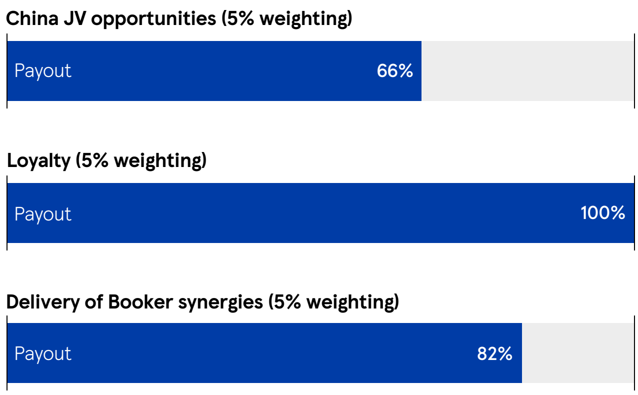
(a) For consistency, reported outcomes at constant exchange rates are used for incentive purposes.

Performance for the financial elements of the annual bonus has been positive, with sales growth being between threshold and target and Group operating profit before exceptional items and amortisation of acquired intangibles performance being between target and stretch.

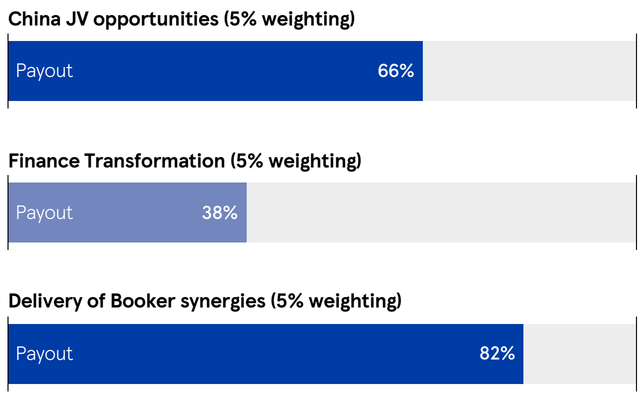
Strategic objective performance in 2018/19 (20% of bonus maximum) (audited).

The Committee carefully reviewed the performance of the Executive Directors against their individual objectives set at the beginning of the financial year. Details of how their performance towards these objectives was assessed is set out below. Further details are provided on page 71.

Individual objectives: Dave Lewis.



Individual objectives: Alan Stewart.



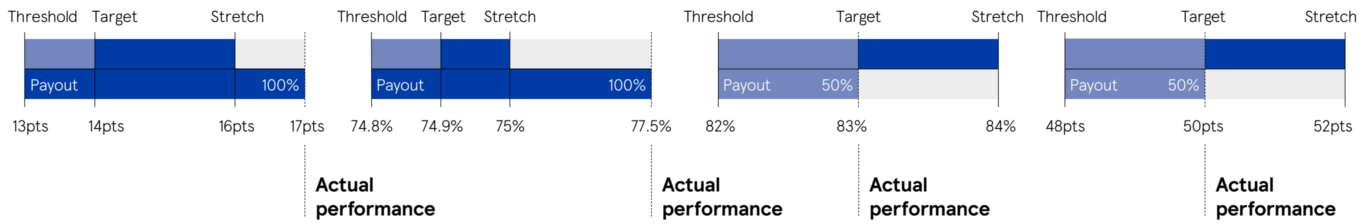
Stakeholder objectives (5% weighting): Dave Lewis and Alan Stewart.

Customer (1.66% weighting)

Supplier (1.66% weighting)

Colleague (Great place to work) (0.83% weighting)

Colleague (Great place to shop) (0.83% weighting)



Directors' remuneration policy.

Implementation in 2019/20.

We have reviewed our remuneration policy in the year, particularly in light of the amended 2018 Code. We will continue to implement the remuneration policy that was approved at the 2018 AGM. A summary of the proposed 2019/20 remuneration packages for the Executive Directors is set out below. The full remuneration policy, as approved at the 2018 AGM, can be found on the Tesco website at www.tescoplc.com/investors/corporate-governance.

Fixed pay.

Element of remuneration	Dave Lewis	Alan Stewart
Base salary	£1,250,000	£750,000
Pension	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 25% of base salary

Annual bonus.

	Dave Lewis	Alan Stewart
Quantum	Maximum of 250% of base salary	Maximum of 225% of base salary
Annual bonus deferral	50% of bonus awarded deferred into Tesco PLC shares for three years	
Annual bonus performance metrics[a]	Group operating profit before exceptional items and amortisation of acquired intangibles (50%), sales growth (30%), strategic objectives (20%) and Group operating profit before exceptional items and amortisation of acquired intangibles underpin	

[a] Annual bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. Therefore, we do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the bonus outcome is reported.

Performance share plan.

	Dave Lewis	Alan Stewart
Quantum	Maximum of 275% of base salary	Maximum of 275% of base salary
PSP term	Three-year performance period and two-year post-vest holding period	

			Vesting level	
	Performance measure	Weighting	Threshold (25%)	Stretch (100%)
PSP performance metrics and targets	EPS*[a][b][d]	50%	17.2p	23.2p
	Free cash flow (three years)[a][b][c]	50%	£4,334m	£6,501m

[a] EPS* and free cash flow targets have been adjusted for the impact of IFRS 16.

[b] Both PSP performance measures have straight-line vesting between threshold and stretch.

[c] The free cash flow target has been increased to include the impact of the additional year-end working capital balance, as disclosed in relation to the 2016 PSP award on page 72.

[d] Threshold and stretch EPS* targets equate to compound growth of 7.6% and 18.9% per annum, respectively.

Minimum shareholding requirement.

	Dave Lewis	Alan Stewart
Shareholding requirement	400% of base salary	300% of base salary

Summary of remuneration policy and proposed amendments.

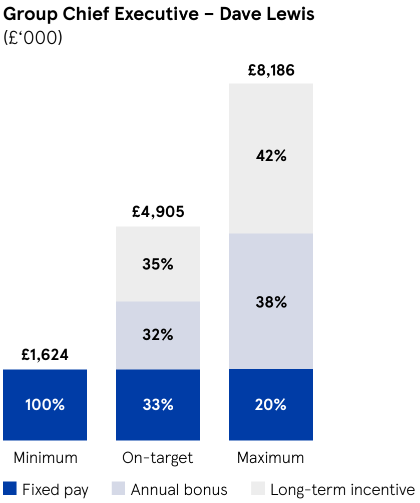
A summary of the remuneration policy is shown below, along with a summary of the key changes to how the policy will be implemented in 2019/20:

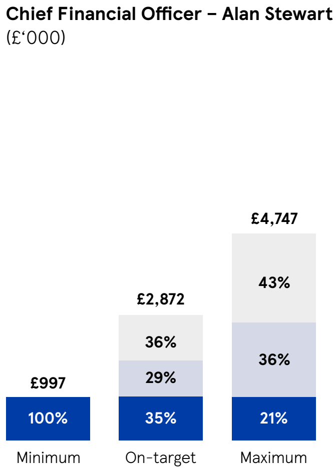
	Remuneration policy	Key changes to the implementation of remuneration policy in 2019/20
Base salary	– Executive Directors receive a base salary based on the size and scope of their responsibilities and their experience. – Salaries are normally reviewed annually, with changes being effective from 1 July. – Pay decisions are informed, but not driven, by external benchmarking and market data.	– The Committee believes that the current base salary levels continue to be appropriate. The base salaries of Dave Lewis and Alan Stewart will remain unchanged in 2019/20. This decision has been made alongside a review of colleague salaries.
Benefits	– Executive Directors receive a number of core benefits such as company car (or cash allowance), life assurance and health care insurance.	
Pension provision	– At the last policy review, we reduced our pension policy for new Executive Directors and Executive Committee members to 15% of base salary (from 25%), which is aligned with UK colleagues at middle management and above (about 1,800 colleagues). – Current Executive Directors receive a cash allowance in lieu of pension of 25% of base salary.	
Annual bonus	– Executive Directors can be awarded an annual bonus of up to 250% of base salary. – 50% of any bonus earned is deferred into Tesco PLC shares for three years. – Performance is measured against financial and non-financial metrics. – Clawback and malus provisions apply.	– The annual bonus metrics of Group operating profit before exceptional items and amortisation of acquired intangibles and sales growth have been retained, but the weighting has changed to 50% and 30%, respectively (previously both 40%).

	Remuneration policy	Key changes to the implementation of remuneration policy in 2019/20
Performance Share Plan	– Executive Directors can participate in a PSP with a maximum grant value of 350% of base salary. – Performance is measured against financial metrics over a three-year performance period. A subsequent two-year holding period applies post vesting. – Clawback and malus provisions apply.	– The Chief Financial Officer's PSP grant has been increased to 275% of base salary. This is in line with the Group Chief Executive's award of 275% of base salary and is within the approved policy limits. – The approved remuneration policy is that any vested PSP shares must be held until the earlier of five years from grant or two years from leaving. From 2019 grants, this requirement has been strengthened such that all vested shares cannot be sold until five years from grant.
Shareholding requirements	– The Group Chief Executive and the Chief Financial Officer are subject to a minimum shareholding requirement of 400% and 300% of base salary, respectively.	– The Committee noted the provision of the 2018 Code to have a policy on post-cessation shareholdings. A post-cessation holding requirement for Executive Directors was set at 100% of their shareholding requirement for one year, and 50% for the second year post departure. – To ensure this requirement can be implemented over time, the Committee has decided that Executive Directors will be required to sign an undertaking in this respect.

Scenario charts

The total remuneration opportunity of the Executive Directors is strongly performance based and weighted to the long term. The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at three different levels of performance: minimum, on-target and maximum. Note that the projected values exclude the impact of any share price movements or potential benefits under all-employee share schemes. These charts reflect projected remuneration for the financial year 2019/20.





Performance scenarios

On-target assumed to be 50% of maximum for annual bonus and Performance Share Plan (PSP).

	Group Chief Executive	Chief Financial Officer
Annual bonus (maximum as a % of base salary)	250%	225%
PSP (maximum as a % of base salary)	275%	275%
Minimum performance	No annual bonus payout No vesting under the PSP	
On-target performance	50% annual bonus payout 50% PSP vesting	
Maximum performance	100% annual bonus payout 100% PSP vesting	

Assuming a share price appreciation of 50% during the performance period of the PSP, the maximum for Dave Lewis and Alan Stewart would increase to £9,905,000 and £5,778,000, respectively.

Fixed pay is based on current values as set out in the table below:

	Base salary	Benefits[a]	Pension	Total fixed pay
Group Chief Executive – Dave Lewis (£'000)	1,250	61	313	1,624
Chief Financial Officer – Alan Stewart (£'000)	750	59	188	997

[a] Benefits for Dave Lewis and Alan Stewart are as set out in Single total figure of remuneration on page 66.

Annual report on remuneration.

This section details the remuneration of the Executive and Non-executive Directors during the financial year ended 23 February 2019 and has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Directors' remuneration report (excluding the Summary of remuneration policy) will be proposed for an advisory shareholder vote at the 2019 AGM.

Fixed remuneration.

Salary.

The Committee considered the Group Chief Executive's and Chief Financial Officer's base salaries during 2018/19 taking into account pay review budgets across the Group. As a result, the Committee determined that the base salaries for Dave Lewis and Alan Stewart would remain unchanged for 2019/20. The base salaries of Dave Lewis and Alan Stewart have remained unchanged since their dates of appointment in 2014.

	Dave Lewis		Alan Stewart	
Base salary	2018/19	2017/18	2018/19	2017/18
Increase in year (%)	**Nil**	Nil	**Nil**	Nil
Annual base salary (£'000)	**1,250**	1,250	**750**	750
Base salary received in year (£'000)	**1,250**	1,250	**750**	750

Benefits (audited).

Each Executive Director received a car or cash allowance and the benefit of a driver. The Company also provided health insurance and life assurance. Details of benefits paid in 2018/19 are set out in At a glance on page 66.

Pension.

Dave Lewis and Alan Stewart received a cash allowance in lieu of pension of 25% of base salary.

	Dave Lewis		Alan Stewart	
Pension	2018/19	2017/18	2018/19	2017/18
Annual cash allowance in lieu of pension (% of base salary)	**25%**	25%	**25%**	25%
Annual cash allowance in lieu of pension (£'000)	**313**	313	**188**	188

2018/19 variable remuneration (audited).

2018/19 annual bonus payouts for the Executive Directors.

In determining the final level of bonus payable, the Committee considered the wider performance of the Group and noted that management were continuing to make improvements in the way we serve customers, had met the vast majority of the turnaround targets and had strategically repositioned the Group. The Committee considered potential adjustments to the annual bonus measures to take account of events which have impacted outcomes, but which were not foreseen or allowed for at the start of the year when targets were set. The Committee decided to take the sales and profit numbers of Tesco Direct out from both targets and actuals following its closure. The Committee also decided to adjust targets to reflect Board approved strategic decisions and legal changes (e.g. restrictions being placed on trading days) in Central Europe. Outcomes have been adjusted to remove Tesco Direct sales and losses incurred in the first five months of the year before it was closed. This resulted in the sales performance figure for incentive purposes being £95m lower than the reported outcomes and the profit figure being £24m higher than the reported outcomes.

	Executive Directors	
Total annual bonus payout in 2018/19 (audited)	Dave Lewis	Alan Stewart
Stretch bonus opportunity (% of base salary)	250%	225%
Actual bonus (% of maximum)	52.5%	49.4%
– *sales growth*	*14.1%*	*14.1%*
– *Group operating profit*	*21.8%*	*21.8%*
– *individual objectives*	*12.4%*	*9.3%*
– *stakeholder objectives*	*4.2%*	*4.2%*
Actual bonus (% of base salary)	131.3%	111.2%
Actual bonus (£'000)	1,641	834
Deferred into shares (50% of actual bonus) (£'000)	820.5	417

[a] Details of the outcomes of each annual bonus metric are set out on page 67.

2018/19 achievement of individual objectives

Executive Director	China JV opportunities (5%)	Loyalty (5%)	Booker synergies (5%)
Dave Lewis	During the year, there were a number of initiatives focused on improving the performance of the Group's joint venture in China – Gain Land Limited. This resulted in a payout between target and stretch of 3.3%.	A number of improvements were made to Clubcard during the year, including a refresh of the Clubcard app with Faster Vouchers functionality, with users up 34% year-on-year, and the launch of Colleague Clubcard Plus. As a result of this performance a maximum payout was achieved of 5%.	Against a backdrop of considerable change, Booker synergies of £79m were generated. This was above the target of £60m and resulted in a payout of 4.1%.

Executive Director	China JV opportunities (5%)	Finance Transformation (5%)	Booker synergies (5%)
Alan Stewart	As above, payout between target and stretch of 3.3%.	The new general ledger went live in the UK in November 2018. Work remains on rolling it out to international businesses. Payout between threshold and target of 1.9%.	As above, payout between target and stretch of 4.1%.

(a) Details of the outturn of the financial and stakeholder performance metrics for the 2018/19 annual bonus are set out in At a glance on page 67.

2016 PSP vesting (audited)

The PSP award granted in 2016 will vest in May 2019 based on performance up to and including the 2018/19 financial year. The performance outcome was as follows:

	Performance targets			Vesting level					Number of shares to vest[c]	
Measures (% maximum)	Threshold	Target	Stretch	Threshold	Target	Stretch	Actual performance	Payout (% maximum)	Dave Lewis	Alan Stewart
Relative TSR[b] (50%)	Performance equal to the index	–	8% p.a. outperformance of the index	25%	Straight-line vesting between threshold and stretch	100%	Below index	0%		
Cash generation (30%)	£7,998m	£8,398m	£8,798m	25%	50%	100%	£8,379m	14.6%	635,814	346,807

(a) The stakeholder measures paid out at 14.2% of maximum opportunity. Further details are set out on page 66.
(b) TSR was assessed against a benchmark index made up of FTSE 350 Food and Drug Retailers (excluding Tesco) and FTSE 350 General Retailers weighted 85% and 15%, respectively.
(c) For the equivalent value in cash see the Single total figure of remuneration table on page 66.
(d) Details of adjustments to the cash generation targets are set out on page 72.

Based on the above performance, 28.8% of the 2016 PSP awards will vest in May 2019. The share price at grant of the 2016 PSP award was 159p. Based on the three-month average share price to 23 February 2019 of 210p, £324,011 of the value of the PSP award for Dave Lewis and £176,733 of the value of the PSP award for Alan Stewart is attributable to share price appreciation over the three-year performance period.

The Committee considered the formulaic outcomes of the PSP award in the context of specific Company performance, the wider shareholder and stakeholder experiences and the change in the actual value of shares which will be delivered to Dave Lewis and Alan Stewart as a result of share price appreciation. Following such considerations and despite agreeing that the formulaic outcomes did not reflect the Group's strong performance over the three-year performance period, the Committee determined that it would not apply any discretion in respect of their awards.

2018 PSP award grant (audited)

The following summarises the PSP awards made to Dave Lewis and Alan Stewart in 2018/19.

	Type of award	Date of award	Gross number of shares	Face value (% of base salary)	Face value (£)[a]	Threshold vesting (% of face value)	Stretch vesting (% of face value)	Vesting date
Dave Lewis	Performance share award subject to performance conditions and continued employment	16/07/18	1,340,103	275%	3,437,500	25%	100%	16/07/21
Alan Stewart	Performance share award subject to performance conditions and continued employment	16/07/18	730,965	250%	1,875,000	25%	100%	16/07/21

(a) The face value has been calculated using the market price on grant of 256.51p (16 July 2018). The range of the Company's share price for the year was 190p to 266p.
(b) The awards have a three-year performance period which will end on 27 February 2021 and are subject to malus and clawback. Details of the performance measures and targets applying to the awards were set out in last year's Annual Report.
(c) The vested shares, net of any tax liabilities, will be subject to a post-vesting holding period of two years.
(d) The table shows the maximum number of shares that could be released if awards were to vest in full.

Adjustments to PSP targets

The Committee considered adjustments to targets as a result of a number of unplanned items and agreed the following changes to ensure the PSP awards remained equally stretching and a clear line of sight was maintained.

2016 PSP award – Adjustments to cash generation targets

	Threshold (£m)	Target (£m)	Stretch (£m)
Original targets	8,600	9,000	9,400
Adjustments	(602)	(602)	(602)
Revised targets	7,998	8,398	8,798

[a] Targets were adjusted to:
- add targeted cash generation from the Booker business over the period following the merger in March 2018 to ensure the stretch in targets was maintained and management were incentivised to deliver the full financial benefits;
- remove the cash costs relating to the SFO fine and shareholder compensation scheme payments. This settlement related to historic accounting practices prior to the current management team joining the business;
- remove the one-off cash cost of the decision to pay the Colleague bonus plan from 2016 in cash, rather than shares. This decision was taken to appropriately manage equity issuance and did not reflect an additional economic cost; and
- reflect decisions impacting working capital made in the second half of the year, including the impact of additional stock build as a result of political uncertainty. The most significant of these related to a decision to delay the implementation of a new general ledger system by a few months, which resulted in the collection of some receivable balances being delayed into the beginning of 2019/20. As this was a timing issue, targets were adjusted accordingly. This adjustment was reviewed by the Audit Committee. A commensurate increase has been made to the budgets and targets for the 2019 PSP award. This adjustment will not be made to the cash flow measures on the 2017 and 2018 PSP awards, which are based on cumulative cash flow.

2017 PSP award – Adjustments to cash generation targets

	Threshold (£m)	Target (£m)	Stretch (£m)
Original targets	9,200	9,700	10,200
Revised targets (including impact of Booker transaction and SFO fine and shareholder compensation scheme payments)	9,603	10,103	10,603
Revised targets (including IFRS 16)	10,676	11,176	11,676

[a] The adjustments outlined for 2016 PSP awards above in relation to Booker and the SFO fine and shareholder compensation scheme payments, also apply to the 2017 PSP award.

[b] In addition, targets have been adjusted to take into account IFRS 16 (the new lease accounting standard) as the original targets were set on the basis of the previous accounting standard. This adjustment to targets is purely formulaic to take into account the new standard.

2018 PSP award – Adjustment to EPS targets*

	Threshold (p)	Target (p)	Stretch (p)
Original targets (excluding IFRS 16)	18.0	21.2	24.4
Revised targets (including IFRS 16)	16.1	19.3	22.5

[c] The EPS* targets for the 2018 PSP award have been adjusted to take into account IFRS 16. This adjustment to targets is purely formulaic to take into account the new accounting standard.

Remuneration of Charles Wilson in 2018/19 (audited)

Charles Wilson joined the Board as CEO, UK & ROI on 5 March 2018 and stepped down from the Board on 16 July 2018 due to illness. As he was on the Board for a short portion of the year, his remuneration has been disclosed separately from that of the other Executive Directors. The figures shown below relate to the portion of the year in which Charles Wilson was on the Board.

	Year	Base salary (£'000)	Benefits (£'000)	Pension (£'000)	Short-term annual bonus (£'000)	Long-term performance share plan (£'000)	Total (£'000)
Charles Wilson	2018/19	212	8	42	206	–	468

Fixed remuneration

Charles Wilson's base salary on appointment was £575,000 and his cash allowance in lieu of pension was 20% of base salary. He also received benefits consisting of life assurance and a cash car allowance.

Variable remuneration

The maximum annual bonus opportunity for Charles Wilson on appointment was 200% of base salary. This was measured against financial and strategic objective metrics, in line with other Executive Directors' and senior managers' awards. The financial metrics were measured, and the outcome was adjusted, in the same way as for other Executive Directors and senior managers, and therefore his performance outcome in the year against these metrics is the same as described in At a glance on page 67. Charles Wilson achieved a performance outcome of 10% against his strategic objectives, making his 2018/19 bonus outturn 45.9% of maximum opportunity. In accordance with the remuneration policy, 50% of the award will be deferred into Tesco PLC shares for three years, subject to continued employment. Details of his interests in share awards are set out on page 75.

Implementation of remuneration policy in 2019/20

2019/20 salary

The base salaries of Dave Lewis and Alan Stewart will remain unchanged in 2019/20 at £1,250,000 and £750,000, respectively.

2019/20 annual bonus awards

The maximum annual bonus opportunity and performance measures for each of the Executive Directors for 2019/20 is as follows:

Executive Director	Maximum opportunity
Dave Lewis	250%
Alan Stewart	225%

Measures	Weighting
Group operating profit before exceptional items and amortisation of acquired intangibles	50%
Sales growth	30%
Strategic objectives	20%
Group operating profit before exceptional items and amortisation of acquired intangibles	Underpin

Annual bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. Therefore, we do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the annual bonus outcome is reported.

The 2019/20 targets were set based on 2018/19 average actual foreign exchange rates. Performance against these targets will be measured based on the same rates in order to ensure consistent treatment of foreign exchange in both targets and actual performance. To ensure that Executive Directors are not incentivised to grow sales at the expense of satisfactory profitability, a Group operating profit before exceptional items and amortisation of acquired intangibles underpin will continue to be applied to the annual bonus below which no portion of the bonus will be paid.

2019 PSP award grant

As set out in the Annual statement, the Committee has agreed to increase from 250% to 275% of base salary the grant value of Alan Stewart's PSP. The value of the PSP awards to be granted to each Executive Director in 2019 and corresponding performance measures are as follows:

Executive Director	Maximum opportunity
Dave Lewis	275%
Alan Stewart	275%

Performance measure	Definition of measure
EPS*	Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments.
Free cash flow	Free cash flow includes all cash flows from operating and investing activities, plus the market purchase of shares net of proceeds from shares issued in relation to share schemes and lease payments. The following items are excluded: investing cash flows that increase/(decrease) items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

Both financial measures are defined in the same manner as the reported alternative performance measures as set out on pages 178 to 181.

The corresponding incentive targets over the three-year performance period are:

		Threshold		Stretch	
Performance measure	Weighting	Vesting level	Performance required	Vesting level	Performance required
EPS*[a][b][d]	50%	25%	17.2p	100%	23.2p
Free cash flow (three years)[a][b][c]	50%	25%	£4,334m	100%	£6,501m

[a] EPS* and free cash flow targets have been adjusted for the impact of IFRS 16.
[b] Both PSP performance measures have straight-line vesting between threshold and stretch.
[c] The free cash flow target has been increased to include the impact of the additional year-end working capital balance, as disclosed in relation to the 2016 PSP award on page 72.
[d] Threshold and stretch EPS* targets equate to compound growth of 7.6% and 18.9% per annum, respectively.

Performance targets are set taking into account internal budget forecasts, the Long Term Plan, external expectations and the need to ensure that targets remain incentivising.

Details of the awards made to Dave Lewis and Alan Stewart in 2019 will be reported in next year's Annual Report.

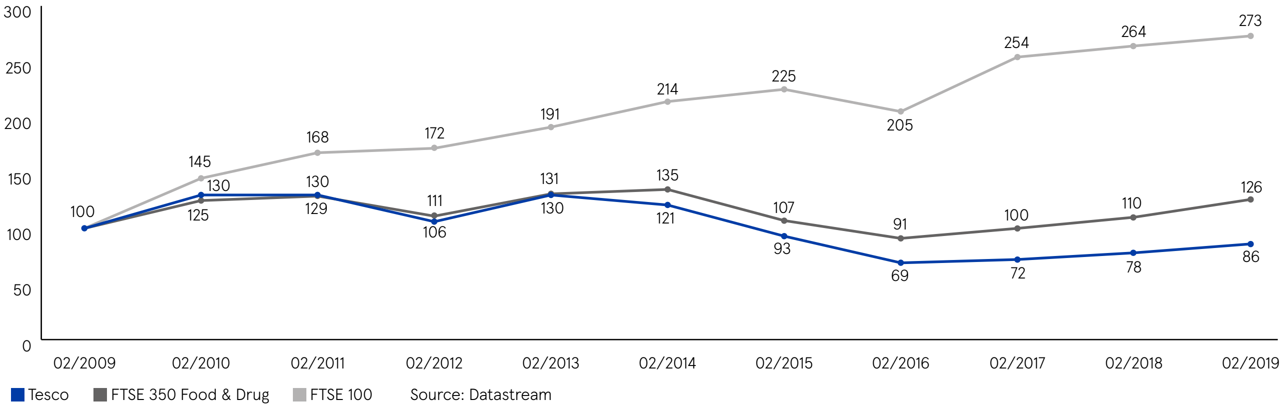
Dividend equivalents

Awards will incorporate the right (in cash or shares) to receive the value of dividends between grant and vest in respect of the number of shares that vest. The calculation of dividend equivalents will assume reinvestment of those dividends in Tesco PLC shares on a cumulative basis.

Performance graph

The following chart illustrates the performance of Tesco measured by Total Shareholder Return (share price growth plus dividends paid) against the FTSE 100, which is a broad market index of which Tesco is a constituent, over a period of 10 years. An additional line to illustrate the Company's performance compared with the FTSE 350 Food and Drug Retailers index over the previous 10 years is also included.

TSR performance graph
(Value of hypothetical £100 investment)



While total shareholder returns have been increasing for Tesco in recent years, the period covered by the chart reflects a period of corporate change, including the decision to make a significant reinvestment in our customer offer and withdraw the dividend in 2015, in order to focus on improving the competitiveness of the core UK business and protecting and strengthening the balance sheet. The sector more broadly has faced a number of challenges in recent years, including consumer uncertainty, price competition and cost inflation. Tesco is in a strong position to deal with these challenges and, reflecting improving performance and confidence in the future prospects for the Company, the Board reinstated the dividend in 2017.

Executive Directors' interests in shares and shareholding guidelines (audited)

The table below sets out shares held by the Executive Directors and their connected persons (including beneficial interests) and a summary of outstanding share awards. Both Dave Lewis and Alan Stewart exceed their relevant shareholding guideline.

Executive Director	Ordinary shares beneficially owned at 24/02/18	Ordinary shares beneficially owned at 23/02/19	Unvested deferred annual bonus options/awards subject to continued employment	Unvested PSP awards subject to performance conditions	Vested but unexercised nil cost options, not subject to performance conditions	Current shareholding (% of base salary)	Shareholding requirement (% of base salary)
Dave Lewis	103,346	167,691	2,114,803	5,508,876	2,666,136	454%	400%
Alan Stewart	53,033	116,576	1,139,654	3,004,839	1,171,604	376%	300%

[a] Value of Executive Directors' shareholdings based on the three-month average share price to 23 February 2019 of 210p.
[b] Vested and unvested options and awards include dividend equivalents added since the date of grant.
[c] Shares used to determine the shareholding guideline are shares beneficially owned and shares held in plans which are not subject to performance conditions on a net of tax basis.
[d] Between 23 February 2019 and 9 April 2019, Dave Lewis and Alan Stewart acquired 59 and 58 partnership shares, respectively, under the all-employee Share Incentive Plan. No other changes in Executive Director share interests occurred in the period.

Executive Committee members are required to build up and maintain a shareholding of at least 200% of base salary in Tesco PLC shares. As at the date of this report, this had been met by all Executive Committee members, except Natasha Adams, Alessandra Bellini, Christine Heffernan, Tony Hoggett, Gerry Mallon and Andrew Yaxley who joined the Committee between March 2017 and March 2019. In line with the Executive Directors, Executive Committee members are required to retain all shares that vest, net of any tax liability, and any other Tesco PLC shares held by them until the requirement is met.

Executive Directors' interests in share awards

Financial year awards vesting in	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Dave Lewis									
Vested awards	461,948	620,957	623,152	479,919	480,160	–	–	–	–
Options subject to service	–	–	–	–	–	939,720	655,815	477,485	–
Options subject to performance and service (PSP)	–	–	–	–	–	2,161,405	1,909,722	1,340,103	–
SAYE options (exercise price £1.88)	–	–	–	–	–	–	–	–	9,574
Alan Stewart									
Vested awards	–	258,287	334,088	259,156	320,073	–	–	–	–
Options subject to service	–	–	–	–	–	507,449	347,906	261,808	–
Options subject to performance and service (PSP)	–	–	–	–	–	1,178,948	1,041,666	730,965	–
SAYE options (exercise price £1.88)	–	–	–	–	–	–	–	–	9,574

(a) 1,096,891 and 598,304 nil-cost options granted under the PSP in 2015 to Dave Lewis and Alan Stewart, respectively, lapsed in 2018/19.

(b) Options over 11,920 shares under the Company's SAYE plan were exercised and the shares retained by both Dave Lewis and Alan Stewart in 2018/19.

(c) Charles Wilson stood down from the Board on 16 July 2018. While a Director, an option over 1,500,647 shares was granted to him on 6 March 2018 following the rollover of an option over 1.4 million Booker Group plc ordinary shares granted under the Booker Group plc Performance Share Plan 2008 on 3 July 2008. The option was exercised on 2 July 2018 and the shares retained by him. In addition, Charles Wilson was granted an award over 504,366 shares under the PSP on 16 July 2018, which will vest on 16 July 2021. Details of the performance measures and targets applying to the award were set out in last year's Annual Report.

(d) All options lapse 10 years after grant, except SAYE options which expire six months after maturity.

(e) Vested options include dividend equivalents added as shares since the date of grant.

Change in Group Chief Executive remuneration compared with changes in colleague remuneration

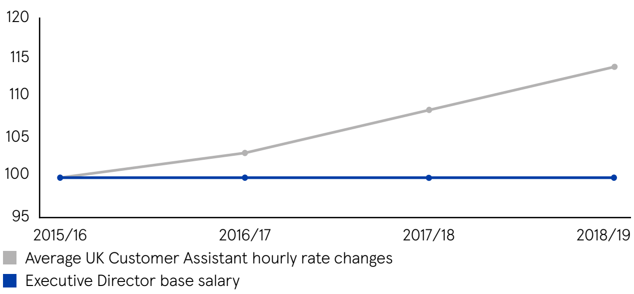
In the UK, the total reward package for a typical Customer Assistant is ahead of the voluntary Living Wage on a national basis and the same hourly rate is paid to all colleagues regardless of age. The Company is committed to rewarding colleagues with a total reward package that provides them with choice and that they really value.

The table below shows the percentage change in remuneration for the Group Chief Executive and the average UK Customer Assistant from 2017/18 to 2018/19.

The Committee decided to use UK Customer Assistants as the appropriate comparator group. The reasoning was that, as pay changes across the Group depending on local market conditions, UK Customer Assistants constitute the majority of Tesco's UK colleagues and the Group Chief Executive is predominantly based in the UK, albeit with a global role and responsibilities.

	Salary (% change from 2017/18 to 2018/19)	Benefits (% change from 2017/18 to 2018/19)	Bonus (% change from 2017/18 to 2018/19)
Group Chief Executive	0%	(6.2)%	(27.9)%
Average UK Customer Assistant	5.0%	0%	(4)%

Bonuses for 2018/19 for UK Customer Assistants paid out on average at 73% of the maximum bonus opportunity (2017/18: 77%).



The chart opposite shows that between 2015/16 and 2018/19 the hourly rate paid to UK Customer Assistants increased by 14%. The base salaries of Dave Lewis and Alan Stewart were unchanged over the same period.

Group Chief Executive remuneration history

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19
	Sir Terry Leahy	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis[b]	Dave Lewis	Dave Lewis	Dave Lewis	Dave Lewis
Group Chief Executive single figure of remuneration (£'000)	7,100	7,150	4,595	1,280	1,634	764	4,133	4,632	4,147	5,113	4,600
Annual bonus outturn (% of maximum award)	89%	75%	0%[a]	0%	0%	0%	n/a	96%	76%	73%	52.5%
PSP vest (% of maximum award)	83%	75%	46.5%	0%	0%	0%	n/a	n/a	n/a	30%	28.8%
Share option vesting (% of maximum award)	100%	100%	100%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

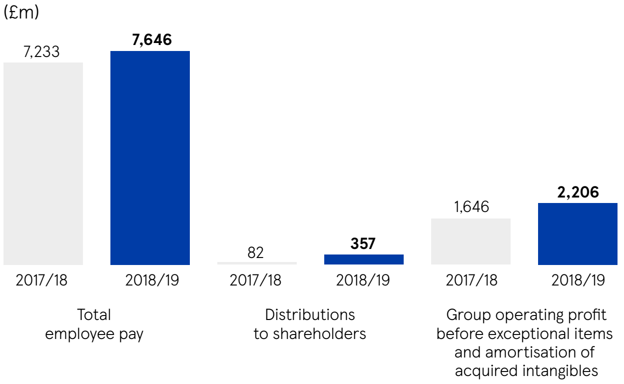
(a) Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014.

(b) The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis to compensate him for awards forfeited from his previous employer. The awards were made based on the expected value of the awards forfeited, taking into account performance at his previous employer and delivered in nil cost options which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards had no impact on the single figure for 2015/16 or any future years.

Relative importance of spend on pay

The chart shows total colleague pay compared with distributions to shareholders and for further context, Group operating profit before exceptional items and amortisation of acquired intangibles. Tesco's colleagues are essential to how the Company does business and meets the needs of its customers. In 2018/19, Tesco employed, on average, 464,505 colleagues across the Group (2017/18: 448,988).

Total employee pay includes wages and salaries, social security, pension and share-based costs at actual exchange rates (£7,646m in 2018/19 and £7,233m in 2017/18 – see Note 3 of the financial statements). Distributions to shareholders include interim and final dividends paid in respect of each financial year (£357m in 2018/19 and £82m in 2017/18 – see Note 8 of the financial statements). There were no share buybacks in 2017/18 or 2018/19.



Further information on remuneration in 2018/19

Payments to former Directors and for loss of office (audited)

There were no payments made to former Directors that exceeded the de minimis threshold of £10,000 set by the Company. There were no payments for loss of office made to Directors in the year.

Risk management

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk-taking or behaviours that are incompatible with Tesco's values and the long-term interests of shareholders. If necessary, the Committee would take appropriate steps to address this. The Committee also has the discretion to apply malus and clawback in certain circumstances.

Outside appointments

In 2018/19, Alan Stewart received £122,000 (2017/18: £118,000) in fees and a product allowance as a non-executive director of Diageo plc. He does not receive any fees as a Director of Tesco Personal Finance Group PLC (Tesco Bank).

Executive Directors' service agreements

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service agreement	Notice period
Dave Lewis	19 July 2014	12 months
Alan Stewart	9 July 2014	12 months

Funding of equity awards

Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue which provide that overall dilution under all plans should not exceed 10% over a 10-year period in relation to the Company's issued share capital, with a further limitation of 5% in any 10-year period for executive plans. The current dilution usage of discretionary plans is 2.0% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees' Share Scheme Trustees Limited or Tesco International Employee Benefit Trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 23 February 2019, the Trusts held 69,590,647 shares.

Implementation of remuneration policy for Non-executive Directors in 2018/19

Non-executive Directors' dates of appointment

Director	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment
John Allan	1 March 2015	None	AGM 2019
Mark Armour	2 September 2013	None	AGM 2019
Melissa Bethell	24 September 2018	None	AGM 2019
Stewart Gilliland	5 March 2018	None	AGM 2019
Steve Golsby	1 October 2016	None	AGM 2019
Byron Grote	1 May 2015	None	AGM 2019
Mikael Olsson	1 November 2014	None	AGM 2019
Deanna Oppenheimer	1 March 2012	None	AGM 2019
Simon Patterson	1 April 2016	None	AGM 2019
Alison Platt	1 April 2016	None	AGM 2019
Lindsey Pownall	1 April 2016	None	AGM 2019

Non-executive Director fees

The Chairman's fee was reviewed by the Committee (without the Chairman present) and the Non-executive Director fees by a committee comprising the Chairman, Group Chief Executive and Chief Financial Officer in 2018. Following a review of independently sourced data, it was deemed appropriate to increase the Chairman's fee by 3.1% to £670,000 and Non-executive Director annual fees in accordance with the levels set out in the table below with effect from 1 November 2018. The Chairman's fee has remained unchanged since his appointment in 2015 and the Non-executive Director fees were last increased with effect from 1 March 2017. In future, fees will be reviewed each year to coincide with salary reviews for colleagues.

	24 February to 31 October 2018	From 1 November 2018
Chairman	£650,000	£670,000
Non-executive Director fee	£72,000	£75,000
Additional fees:		
Senior Independent Director	£27,000	£27,000
Chairs of the Audit, Corporate Responsibility and Remuneration Committees	£31,000	£31,000
Membership of Audit, Corporate Responsibility, Nominations and Governance and Remuneration Committees	£12,500	£13,500

The Company reimburses the Non-executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these. The Company will pay reasonable legal fees for advice in relation to terms of engagement. For Non-executive Directors based overseas the Company meets travel and accommodation expenditure as required to fulfil their duties and may settle any tax incurred in relation to these. John Allan may have the benefit of home security, colleague discount and healthcare for himself and his partner.

Fees paid to Non-executive Directors during 2018/19 (audited)

The following table sets out the fees paid to the Non-executive Directors for the year ended 23 February 2019. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

Non-executive Director	Date	Fees (£'000)	Taxable expenses[a] (£'000)	Total (£'000)
John Allan	2018/19	655	8	663
	2017/18	650	10	660
Mark Armour	2018/19	86	–	86
	2017/18	84	–	84
Melissa Bethell[b]	2018/19	33	0.5	33.5
	2017/18	–	–	–
Stewart Gilliland[b]	2018/19	71	0.5	71.5
	2017/18	–	–	–
Steve Golsby	2018/19	99	13	112
	2017/18	89	9	98
Byron Grote	2018/19	129	–	129
	2017/18	128	–	128
Mikael Olsson	2018/19	98	5	103
	2017/18	97	4	101
Deanna Oppenheimer	2018/19	156	18	174
	2017/18	155	14	169
Simon Patterson	2018/19	86	–	86
	2017/18	84	–	84
Alison Platt	2018/19	86	0.5	86.5
	2017/18	84	2	86
Lindsey Pownall	2018/19	104	10	114
	2017/18	95	6	101

[a] Taxable expenses include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the table above include the grossed-up cost of UK tax paid by the Company on behalf of the Non-executive Directors. Non-taxable expense reimbursements have not been included in the table above.

[b] Stewart Gilliland and Melissa Bethell joined the Board on 5 March 2018 and 24 September 2018, respectively.

Beneficial share ownership (audited)

The table below outlines the current share interests of the Non-executive Directors. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors and there were no changes to their share interests between 24 February 2019 and 9 April 2019.

Non-executive Director	Ordinary shares held at 23 February 2019	Ordinary shares held at 24 February 2018
John Allan[(a)]	306,082	284,082
Mark Armour	50,000	50,000
Melissa Bethell	25,335	–
Stewart Gilliland	43,398	43,050
Steve Golsby	42,296	42,296
Byron Grote[(b)]	280,500	243,000
Mikael Olsson	30,418	20,101
Deanna Oppenheimer[(b)]	110,820	109,041
Simon Patterson	100,000	100,000
Alison Platt	34,255	11,242
Lindsey Pownall	70,000	20,000

(a) John Allan also held 398,000 bonds in the Company at 23 February 2019 (398,000 bonds at 24 February 2018).

(b) Byron Grote and Deanna Oppenheimer held their shares in the form of American Depositary Receipts. Each ADR is equivalent to three Ordinary shares of 5p each in the Company.

The Remuneration Committee in 2018/19

Operation of the Remuneration Committee

The members of the Committee during the year were: John Allan, Steve Golsby, Byron Grote, Mikael Olsson, Deanna Oppenheimer and Alison Platt. Steve Golsby took over the role of Chair of the Committee from Deanna Oppenheimer on 1 February 2019. Deanna Oppenheimer continues to serve as a member of the Committee. The Directors' biographies can be found on pages 40 to 42 and details of members' attendance at meetings during the year on page 47. No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco.

The Committee schedules meetings two years in advance. During the year, it held four scheduled meetings. Robert Welch, Group Company Secretary, is Secretary to the Committee and Dave Lewis, Group Chief Executive, and Natasha Adams, Chief People Officer, attend meetings at the invitation of the Committee. The Group Chief Executive, Chief People Officer and Group Company Secretary are not present when his or her own remuneration is being discussed. The Committee is supported by the Reward, Corporate Secretariat and Finance functions.

Relations with Tesco Bank

As required by the Financial Conduct Authority, Tesco Bank has a separate, independent remuneration committee. The Committee is consulted on, and makes recommendations in relation to, the remuneration arrangements for Tesco Bank colleagues, with the aim of encouraging consistency with Group remuneration policy, but it does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.

Remuneration Committee activities 2018/19

The following provides a summary of the key areas of focus of the Committee during the year:

Strategy and policy	Reviewed external market developments and best practice in remuneration. Considered feedback from investors on the 2018 remuneration policy.
Appointments and cessations	Approved remuneration packages for new Executive Committee members and other senior managers. Approved the cessation terms of Jane Lawrie on leaving the Executive Committee and the remuneration package of Charles Wilson on stepping down from the Board.
Pay	Reviewed Executive Directors' remuneration packages and agreed to increase the Chief Financial Officer's PSP grant to 275% of base salary. Determined an increase to the Chairman's fee.
Short-term incentives	Reviewed performance against targets and approved adjustments to the annual bonus outcome. Approved amendments to the weightings of the annual bonus metrics and determined 2018/19 targets. Reviewed the rules of the Tesco PLC Deferred Bonus Plan prior to being put to shareholders at the 2019 AGM. Approved amendments to share plan rules to implement the requirements of the 2018 Code.
Long-term incentives	Reviewed performance against targets and determined 2015 PSP outturn. Determined metrics and targets for the 2018 PSP award. Determined adjustments to the targets of unvested PSP awards. Approved amendments to share plan rules to implement the requirements of the 2018 Code.
Governance and other matters	Reviewed shareholder feedback on the 2018 Annual Report. Made a number of amendments to remuneration and disclosures to implement the requirements of the 2018 Code and the Companies (Miscellaneous Reporting) Regulations 2018. Reviewed shareholding guidelines and progress of Executive Directors and Executive Committee members. Approved the 2017/18 Directors' remuneration report. Received a report from Tesco Bank remuneration committee. Reviewed the Committee's performance and terms of reference.

Committee advisors

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. PwC was appointed advisor to the Committee in 2015 following a comprehensive selection process. The Chair of the Committee agrees the protocols under which PwC provides advice. PwC is a member of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee.

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, consulting with shareholders and corporate governance. PwC fees for advice provided to the Committee were £120,700 (2017/18: £166,000). Fees are charged on a time and materials basis. PwC also provided general consultancy services to management during the year. Separate teams within PwC provided unrelated advisory services in respect of corporate tax compliance, technology consulting and internal audit services during the year. However, the Committee is satisfied that these activities do not compromise the independence or objectivity of the advice it has received from PwC.

Compliance

In carrying out its duties, the Committee gives full consideration to best practice, including investor guidelines. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority. The auditor's report, set out on pages 84 to 91, covers the disclosures referred to in this Report that are specified for audit by the Financial Conduct Authority.

Shareholder voting

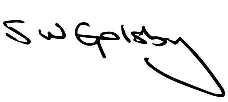
Tesco remains committed to ongoing shareholder dialogue and carefully reviews voting outcomes on remuneration matters. In the event of a substantial vote against a resolution in relation to Directors' remuneration, Tesco would seek to understand the reasons for any such vote, and would detail any actions taken in response in the next Directors' remuneration report.

Voting outcomes at 2018 AGM

	Votes for	%	Votes against	%
Remuneration policy (binding vote)[(a)]	6,732,074,335	93.15	495,171,972	6.85
Remuneration report (advisory vote)[(a)]	7,036,698,808	96.94	222,134,025	3.06

(a) 35,311,423 votes were withheld on the remuneration policy and 3,745,517 on the remuneration report. Votes withheld are not counted in the votes for or against a resolution, but would be considered by the Committee in the event of a significant number of votes being withheld.

Approved by the Board on 9 April 2019.



Steve Golsby
Remuneration Committee Chair

Directors' report

The Directors present their report, together with the audited accounts for the 52 weeks ended 23 February 2019.

Dividends

The profit for the financial year, after taxation, amounts to £1,320m (2017/18: £1,210m) from continuing operations. The Directors have declared dividends as follows:

Ordinary Shares	£m
Paid interim dividend of 1.67 pence per share† (2017/18: 1 pence per share)	162
Proposed final dividend of 4.10 pence per share (2017/18: 2 pence per share)	402
Total dividend of 5.77 pence per share for 2018/19* (2017/18: 3 pence per share)	564

* Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 21 June 2019 to all shareholders on the Register of Members at the close of business on 17 May 2019.

† Excludes £2m dividends waived (2018: £nil).

Certain nominee companies representing our employee benefit trusts hold shares in the Company in connection with the operation of the Company's share plans and evergreen dividend waivers remain in place on shares held by them that have not been allocated to employees.

Share capital and control of the Company and significant agreements

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares are set out in Note 28 on page 147.

No shareholder holds securities carrying special rights with regards to control of the Company and there are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2018 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-emption Group.

Shares held by the Company's Share Incentive Plan Trust, International Employee Benefit Trust, Employees' Share Scheme Trust, Tesco Ireland Share Bonus Scheme Trust and Booker Group 2010 Employee Benefit Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service and are available on the Company's website. The Company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 23 February 2019 and as at the date of this report:

	% of total voting rights as at 23 February 2019	% of total voting rights as at the date of this report
BlackRock, Inc.	6.64	6.64
Norges Bank	3.99	3.99
Schroders plc	4.99	4.99

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

Directors and their interests

The biographical details of the current serving Directors are set out on pages 40 to 42. The Directors who served during the year were: John Allan; Mark Armour; Melissa Bethell (appointed 24 September 2018); Steve Golsby; Byron Grote; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; Alan Stewart and Charles Wilson (stood down from the Board on 16 July 2018). The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 62 to 79.

On 5 March 2018 Stewart Gilliland and Charles Wilson were appointed to the Board. Charles Wilson resigned as a Director on 16 July 2018 due to ill health, but remains a member of the Executive Committee. On 24 September 2018 Melissa Bethell was appointed to the Board.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries. A qualifying third party indemnity provision, as defined in Section 234 of the Companies Act 2006, is in force for the benefit of each of the Directors and the Group Company Secretary (who is also a Director of certain subsidiaries of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year.

Employment policies

Our focus is on ensuring that our policies are simple, helpful and trusted, so that our colleagues are able to source the information they need quickly and easily. As our internal technology develops, we are transitioning to colleague self-service. The development of our Colleague Help service puts information into the hands of colleagues themselves, ensuring policies are better utilised, and available to all. These new platforms provide helpful feedback and analytics which facilitate our understanding of how and where we can continue to improve our offer.

Over the last year we have continued to work with our recognised trade union in the UK, Usdaw, to improve our policies so that they address the needs of all our colleagues. Our local and national forums are invaluable for giving colleagues a voice and ensuring they are engaged with business decisions that are made. Such feedback helps us drive our business forward as our colleagues are closest to our customers.

Our Equal Opportunities, Diversity and Inclusion policies support managers and colleagues in creating a diverse and inclusive culture where everyone is welcome. We are committed to employing and supporting people who are disabled, or become disabled during their career within the Group and where possible, we make reasonable adjustments in job design and provide appropriate training. Our policies demonstrate our commitment to providing equal opportunities to all colleagues, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation. We offer a range of colleague networks to maintain a culture of inclusivity, including: Out at Tesco; Women at Tesco; Black Asian Minority Ethnic Network; Armed Forces Network; and Disability Network. We are proud to be a Disability Confident Employer as part of the UK Government's Disability Confident scheme, a Global Diversity champion with Stonewall and a gold member of the UK Government's Armed Forces Covenant. This demonstrates Tesco's commitment to ensuring we create an environment where all colleagues have the opportunity to get on.

We publish a robust Guide to help managers ensure they are supporting both colleagues and new applicants with disabilities. Our recruitment principles ensure that any applicant who can meet the minimum assessment criteria will be invited to interview regardless of whether they have a protected characteristic. When arranging further assessment interviews we ask candidates if they require any reasonable adjustments to help support them during the interview process, such as making adjustments to the scoring mechanisms used for interview assessments for someone who has learning difficulties or dyslexia.

We actively encourage colleagues to become involved in the financial performance of our business through a variety of share and bonus schemes.

We review and update all our policies annually.

More information on engagement with our colleagues can be found on page 53.

Political donations

The Group did not make any political donations (2017/18: £nil) or incur any political expenditure during the year (2017/18: £nil).

Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (the Code)

The Code regulates aspects of the commercial relationship between the 12 largest grocery retailers in the UK and their suppliers of grocery products, establishing an overarching principle that retailers must deal with their suppliers fairly and lawfully. Specific supplier protections under the Code include the obligation for agreements to be in writing and copies retained; reasonable notice to be given of changes to the supply chain or reduction in the volume of purchases; and a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA), Christine Tacon. We continue to engage constructively and positively with the GCA and her office and in 2018/19 we worked together in particular on her Top Issues.

We have an established Code compliance programme at Tesco and One Stop which is embedded throughout our business. Following our merger with Booker in March 2018, we have been developing a bespoke GSCOP compliance programme at Booker which includes training and guidance on the Code. Similarly, as part of our strategic alliance, we have worked with Carrefour to deliver GSCOP training and guidance to colleagues working with suppliers to our UK business. At Tesco and One Stop we train colleagues across our Product and other functions in the UK and in Bengaluru on their obligations under the Code. In 2018/19, we trained 325 new starters and 1,393 colleagues received updated e-learning which is supplemented, where required, with face-to-face training sessions. In addition, 5,647 office colleagues have completed their annual Code of Compliance Declaration, and those colleagues who work with grocery suppliers have also completed a declaration to confirm they have complied with GSCOP during 2018/19.
During the year, 530 Booker colleagues attended face-to-face or virtual training sessions on the Code. Training on the Code has been supplemented at Booker through the rollout of detailed guidance documents.

We continue to strengthen and transform the way we work with suppliers through our Product Change Programme, simplifying how we do business and improving our supplier relationships. These developments are having a positive impact on our supplier relationships. In the GCA's annual supplier survey for 2018, Tesco placed second in the overall assessment of Code compliance, an improvement from fourth in 2017. Tesco continues to be the most improved supplier for a third year with 97% of our suppliers recognising that we comply 'consistently well' or 'mostly well' with the Code. In our own supplier survey for the second half of 2018/19, we are pleased that the results continue to reflect the progress we have made with suppliers. Our total UK score for suppliers rating their satisfaction with Tesco as either 'extremely satisfied' or 'very satisfied' was 79.7%. In relation to the areas discussed in this response, our strongest score in viewpoint continues to be 'Tesco pays promptly (within policy terms)' at 88.6%. In addition, 'Tesco ensures issues are listened to, discussed and addressed' saw 76.3% of our suppliers as either 'extremely satisfied' or 'very satisfied'.

This year, 40 Code-related issues were raised by suppliers (this includes four Booker suppliers and one One Stop supplier). In line with feedback sent by the GCA to all designated retailers, we have updated our internal reporting framework to capture all Code related issues raised by suppliers with any colleagues. Therefore, the scope of issues captured has widened for reporting purposes. As at 23 February 2019, we had resolved 34 of the concerns following further discussion between the buying team and the relevant supplier, or between our Code Compliance Officer and the supplier. Of the six remaining complaints to be resolved, we continue our discussions with these suppliers, with a view to resolving these matters.

Going concern, longer term prospects and viability statement

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The UK Corporate Governance Code 2016 requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 37.

Events after the balance sheet date.

There are no post balance sheet events.

Directors' statement of disclosure of information to the auditor.

Having made the requisite enquiries, the Directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Cautionary statement regarding forward-looking information.

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Principal risks and uncertainties on pages 32 to 36.

Neither the Group, nor any of the Directors, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Undue reliance should not be placed on these forward-looking statements. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Modern Slavery Act.

As per section 54(1) of the Modern Slavery Act 2015, our Modern Slavery Statement is reviewed and approved by the Board on an annual basis and published on our Group website. The statement covers the activities of Tesco PLC and its subsidiaries and details policies, processes and actions we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our business. More information on our Statement can be found on our website.

Anti-corruption and anti-bribery matters.

We have a zero-tolerance approach to bribery and our anti-bribery programme operates around the Group. The programme is built around a clear understanding of how and where bribery risks affect our business and comprises key controls such as policies (anti-bribery, gifts & entertainment, conflicts of interest, charitable donations), procedures such as conducting due diligence on suppliers (in particular those who will engage public officials on our behalf), training colleagues on bribery risks every year and ongoing assurance programmes to test that the controls are functioning effectively. Bribery risk management is discussed at senior leadership groups in each business unit, including at the Group level, and also twice a year with the Audit Committee.

Additional disclosures.

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Future developments	1 to 37
Research and development	15
Greenhouse gas emissions	31
Financial instruments and financial risk management	129 to 139
Corporate governance report	38 to 61
Employee engagement	53

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

	Pages
Statement of capitalised interest	114 to 122
Allotment for cash of equity securities	147
Waiver of dividends	80

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 1 to 37.

Statement of Directors' responsibilities

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and which enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and priorities. Each of the Directors, whose names and functions are set out on pages 40 to 42 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic report contained within this document includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

By order of the Board

Robert Welch
Group Company Secretary

9 April 2019

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Tesco PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 23 February 2019 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 36 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters

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

- Booker IFRS 3 acquisition accounting judgements and presentation of results;
- IFRS 16 presentation and disclosure;
- Tesco Bank: loan impairment;
- store impairment review;
- recognition of commercial income;
- pension obligation valuation;
- contingent liabilities;
- presentation of the Group's income statement; and
- retail technology environment, including IT security.

Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶.

Key audit matters have been updated for the current year where required.

Materiality

We have considered a number of benchmarks and determined that it is appropriate to base materiality on profit before tax before exceptional items and amortisation of acquired intangibles. The materiality that we used for the Group financial statements was £80m (2017/18: £50m) which equates to 4.7% (2017/18: 4.4%) of profit before tax before exceptional items and amortisation of acquired intangibles. Refer to page 89 for further details of exceptional items and amortisation of acquired intangibles.

Scoping

Our audit scoping provides full scope audit coverage of 95% (2017/18: 96%) of revenue and 95% (2017/18: 92%) of net assets. Following the completion of the Group's merger with Booker the acquired business became part of our full audit scope. The Group's convenience retail business, One Stop, is no longer subject to specific audit procedures due to the business not being significant in the context of the Group.

Significant changes in our approach

Our 2018/19 report includes three new key audit matters:

- Booker IFRS 3 acquisition accounting judgements and presentation of results;
- IFRS 16 presentation and disclosure; and
- Tesco Bank: loan impairment.

We no longer report inventory valuation as a key audit matter due to a reduction in the required level of management judgement.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement on page 83 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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

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

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

Principal risks and viability statement

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

- the disclosures on pages 32 to 37 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 32 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 37 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Key audit matters

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

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Booker IFRS 3 acquisition accounting judgments and presentation of Booker results		
Booker IFRS 3 acquisition accounting judgements As described in Note 31 (Business combinations), on 5 March 2018, the Group completed the acquisition of Booker Group plc for consideration of £3,993m. The transaction has been accounted for in accordance with IFRS 3 '*Business Combinations*'. £3,093m of goodwill and £900m of other assets or liabilities have been recognised, including £755m of acquired intangible assets. We have identified a key audit matter in relation to the completeness and valuation of separately identifiable assets recognised upon acquisition and the key assumptions underpinning the fair valuation of £220m of acquired land and buildings. The Audit Committee's discussion of this key audit matter is set out on page 58.	***Booker IFRS 3 acquisition accounting judgements*** Our audit procedures included assessing the design and implementation of key controls which relate to the completeness and valuation of identifiable intangible assets and the fair valuation of acquired land and buildings. In order to address this key audit matter we have completed audit procedures including: – engaging our valuation specialists to assist in assessing the completeness and key valuation assumptions such as the discount rate and long-term growth rates; – challenging management's key cash flow assumptions with reference to industry benchmarks and historical performance; and – engaging our real estate experts to assist with the assessment of management's property fair valuations.	***Booker IFRS 3 acquisition accounting judgements*** Management's key estimates underpinning the IFRS 3 acquisition accounting exercise, in relation to the completeness and valuation of separately identifiable assets and the fair value valuation of land and buildings are reasonable.
Presentation of Booker results As described in Note 1 (Accounting policies, judgements and estimates) and Note 2 (Segmental reporting), following the acquisition of Booker on 5 March 2018, management has applied judgment in their decision to present Booker within the UK & ROI segment under IFRS 8 '*Operating Segments*'. Management's key considerations include the fact that Booker is managed on an integrated basis with the rest of the UK retail business and the Chief Operating Decision Maker (CODM) monitors performance and allocates resources at a combined UK & ROI level which includes Booker. The Audit Committee's discussion of this key audit matter is set out on page 59.	***Presentation of Booker results*** Our audit procedures included assessing the design and implementation of the key controls relating to the segmental presentation of the Booker results. Our procedures to assess management's judgment include assessing the following key matters in the context of the guidance provided by IFRS 8: – reviewing management's internal reporting to verify that the CODM monitors performance and allocates resources at a combined UK & ROI level which includes Booker; – challenging management over the extent and timeliness of the integration of Booker's performance information into the UK & ROI management information; and – assessing whether the Group's external reporting narrative and its internal reporting lines were consistent with the inclusion of Booker within the UK & ROI segment.	***Presentation of Booker results*** The inclusion of Booker's results within the UK & ROI segment is in compliance with IFRS 8 with the presentation being reflective of how the CODM monitors performance and allocates resources to the business.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
IFRS 16 presentation and disclosure		
As described in Note 1 (Accounting policies, judgements and estimates), IFRS 16 '*Leases*' will be effective for the accounting period commencing 24 February 2019. Within Note 36 management notes IFRS 16 will have a significant impact on the reported assets, liabilities and the income statement of the Group (a reduction in the Group's net assets of £1.3bn as at 23 February 2019 and a decrease in 2018/19 statutory profit before tax of £57m). The expected impact of the IFRS 16 transition is reliant upon a number of key estimates, primarily determining the appropriate discount rates for each lease. Additionally, there is a risk that the lease data which underpin the IFRS 16 transition calculation are incomplete or inaccurate. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of the key controls relating to the determination of the IFRS 16 transition impact disclosure. Our procedures to assess management's key modelling estimates and the completeness/accuracy of the underlying lease data included: – assessing the discount rates used to calculate the lease obligation and measure any impairment of the right of use asset with support from our valuation specialists; – assessing the accuracy of the lease data by testing the lease data captured by management for a sample of leases through the inspection of lease documentation; – testing the completeness of the lease data by reconciling the Group's existing lease commitments to the lease data underpinning the IFRS 16 model; and – assessing the treatment of historical sale and leaseback transactions and property joint venture arrangements in the context of IFRS 16.	The key estimates and judgements underpinning the Group's IFRS 16 impact assessment are appropriate.
Tesco Bank: Loan impairment		
As described in Note 17 (Loans and advances to customers and banks) the Group holds a loan impairment provision of £485m (2017/18: £238m) against loans and advances to customers within Tesco Bank. Loan impairment provisioning is considered a key audit matter as it involves significant judgement to be applied by management in order to estimate expected future losses. As described in Note 1 (Accounting policies, estimates and judgements) for 2018/19 management's provisioning methodology changed from an "incurred loss" model to an "expected loss" model following the adoption of IFRS 9 '*Financial Instruments*' resulting in a £219m transitional increase in the Group's loan impairment provision requirement. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of key controls which relate to the determination of loan impairments. In order to address this key audit matter we have completed audit procedures including: – challenging the quantitative and qualitative triggers used to identify significant increases in credit risk to assess whether they are appropriate, consistently applied and based on reasonable information and meet the requirements of IFRS 9; – assessing and challenging the key assumptions used by management with reference to industry benchmarks and our credit risk specialists; – testing that these key assumptions have been accurately reflected in the calculation of expected credit losses; – performing completeness and accuracy testing over the data supporting management's key assumptions; – testing that these key assumptions have been accurately reflected in the calculation of expected credit losses; and – with support from our economic modelling experts, challenging the macro-economic scenarios including Brexit scenarios, incorporated by management.	Management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Store impairment review		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 11 (Property, plant and equipment), the Group held £19,023m (2017/18: £18,521m) of property, plant and equipment at 23 February 2019. Under IFRS, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. Judgement is required in identifying indicators of impairment and estimation is required in determining the recoverable amount of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods. There is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' or 'fair value less costs of disposal'. The three areas which are key to management's impairment review are as follows: – value-in-use is derived from cash flow projections which rely upon Directors' assumptions and estimates of future trading performance, including the Group's ability to realise forecast cost savings; – value-in-use is calculated by a number of complex models and as such there is a risk the models are not calculating the value-in-use accurately; and – the fair value of properties in each of the Group's territories. As noted within Note 11, the Group has incorporated a Brexit risk adjustment in the UK & ROI segment to reflect the associated risks in the Group's modelling. As a result of the Group's store impairment review completed during the year, a net impairment reversal of £73m (2017/18: net impairment reversal of £187m) was recognised. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of key controls around the impairment review processes. In relation to the Group's value-in-use assessment our procedures have included: – challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and the reasonableness of management's forecasts; – reviewing and challenging the adequacy of management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular forecast cash flows and property fair values; and – assessing the accuracy of the value-in-use modelling with reference to the requirements of IAS 36 '*Impairment of Assets*' and checking the integrity of the Group's value-in-use models. In relation to the Group's 'fair value less costs of disposal', we have challenged the Group's fair value assumptions using internal property valuation specialists and assessing whether appropriate valuation methodologies have been used and sufficient consideration given to comparable retail sector valuation evidence.	We note actions are required by the Group to achieve these forecasts over the medium-term. We concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and that the overall level of net reversal of impairment was reasonable. Additionally, the Group's incorporation of the risks associated with Brexit is considered to be appropriate.
Recognition of commercial income		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 20 (Commercial Income), the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from those suppliers. In accordance with IFRS, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held. The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement. As such we have identified this as a key audit matter and considered that there was a potential for fraud through possible manipulation of this income. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of key controls the Group has established in relation to commercial income recognition. In addition, we performed the following: – testing whether amounts recognised were accurate and recorded in the correct period, by agreeing to the contractual performance obligations in a sample of individual supplier agreements; – testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables (as set out in Note 20) via balance sheet reconciliation procedures; – circularising a sample of suppliers to test whether the arrangements recorded were complete. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; – holding discussions with a sample of the Group's buying personnel to further understand the buying processes, where required; – using data analytics to profile commercial income, identify deals which exhibited characteristics of audit interest upon which we completed detailed audit testing; – reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas of non-compliance which may require further investigation; – considering the Booker commercial income arrangements and compliance with the Group's relevant accounting practices; and – considering the adequacy of related disclosure within the Group's financial statements.	The results of our testing are satisfactory. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Pension obligation valuation		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 27 (Post-employment benefits), the Group has a defined benefit pension plan in the UK retail business. At 23 February 2019, the Group recorded a net retirement obligation before deferred tax of £2,808m (2017/18: £3,282m), comprising scheme assets of £15,054m (2017/18: £13,235m) and scheme liabilities of £17,862m (2017/18: £16,517m). The pension obligation valuation is material, dependent on market conditions, and sensitive to changes in key assumptions. The key audit matter specifically relates to the following key assumptions: discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of key controls in relation to the pension obligation valuation process. In testing the pension valuation, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.	We are satisfied that the methodology and assumptions applied in relation to determining the pension valuation are within an acceptable range.
Contingent liabilities		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 32 (Contingent liabilities) the Group has a number of contingent liabilities. Judgement is required in assessing the likelihood of outflow, the potential quantum of any outflow and the associated disclosure requirements. This key audit matter specifically relates to the following exposures: – in 2016/17 UK shareholder actions were initiated against the Group linked to the overstatement of expected profits in 2014 which may result in legal exposures; – following the sale of Homeplus in 2015 the Group has received claims from the purchaser relating to the sale of the business; and – Tesco Stores Limited has received claims from current and former store colleagues alleging that their work is of equal value to that of colleagues working in the Group's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable. The Audit Committee's discussion of this key audit matter is set out on page 58.	Our audit procedures included assessing the design and implementation of key controls in relation to the monitoring of known exposures. In assessing the potential exposures to the Group, we have completed a range of procedures including: – assessing the risks the business faces; – reading Board and other meeting minutes to identify areas subject to Group consideration; – meeting with the Group's internal legal advisors to understand ongoing and potential legal matters and reviewing third party correspondence and reports; – assessing the reasonableness of management's likelihood and quantification of outflow assessment; and – reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.	We conclude that the Group's contingent liabilities disclosure is complete. Specifically, the accounting and disclosures in relation to the ongoing UK shareholder actions, claims from the purchasers of the Homeplus business and the Group's equal pay matter are appropriate.
Presentation of the Group's income statement		
One of the Group's key performance indicators is 'Group operating profit before exceptional items and amortisation of acquired intangibles' (2018/19: £2,206m, 2017/18: £1,646m). Refer to Note 2 (Segmental reporting) for management's reconciliation of this key performance indicator to the Group's statutory profit measure. Management judgement is required when applying this accounting policy and when determining the classification of items as exceptional within the Group's income statement. We have determined that there was a potential for fraud through possible manipulation of the Group's income statement presentation due to the level of judgement involved and remuneration targets being linked to the key performance indicator. The Audit Committee's discussion of this key audit matter is set out on page 59.	Our audit procedures included assessing the design and implementation of key controls which address the risk of inappropriate presentation of the Group's income statement. In order to address this key audit matter we have completed audit procedures including: – considering exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures; – assessing whether any bias exists in management's presentation of results and assessing consistency of application across multiple financial years; – assessing transactions completed outside of the normal course of business; and – assessing the appropriateness of excluding amortisation of intangible assets acquired in business combinations from Group's operating profit alternative performance measure.	We note that consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items and amortisation of acquired intangibles which do not meet the Group's definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items and amortisation of acquired intangibles.

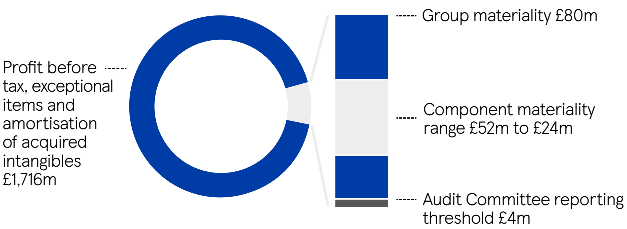
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Retail technology environment, including IT security		
The Group's retail operations utilise a range of information systems. In 2015/16, 2016/17 and 2017/18 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems. As described on page 57 within the Audit Committee's report, in 2018/19 the Group has implemented a new general ledger system for the UK business and is continuing the replacement of a number of its key systems as well as making changes to key elements of the Group's IT infrastructure to address the identified deficiencies. There is a risk the related data transfer process is incomplete or inaccurate.	We have continued to challenge and assess changes to the IT environment through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes. During the year we have assessed the design and implementation of the Group's key controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme. Consistent with 2017/18, in 2018/19 we were not able to take a control reliant audit approach due to the ongoing weaknesses in the IT environment. Where we noted deficiencies which affected applications and databases within the scope of our audit, we extended the scope of our substantive audit procedures.	Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment. We note that management's actions have reduced the number of deficiencies in the year relating to user access and change management controls linked to the Group's financial reporting.

Our application of materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£80m (2017/18: £50m)	£52m (2017/18: £35m)
Basis for determining materiality	4.7% (2017/18: 4.4%) of profit before tax before exceptional items and amortisation of acquired intangibles of £1,716m (2017/18: £1,145m). Refer to Note 9 for additional details of profit before tax before exceptional items and amortisation of acquired intangibles and management's reconciliation to the Group's statutory measure. Component materiality has been determined with reference to the component's contribution to the Group's overall result. The materiality applied by the component auditors ranges between £24m and £52m.	Materiality represents less than 1% (2017/18: less than 1%) of net assets.
Rationale for the benchmark applied	Profit before tax before exceptional items and amortisation of acquired intangibles is an appropriate metric since it is a key performance indicator and is not impacted by any potential volatility which may be caused by exceptional items and amortisation as a result of acquired intangibles recognised under IFRS 3. The materiality selected represents 0.5% (2017/18: 0.5%) of the Group's net assets.	As this is the Parent Company of the Group, it does not generate significant revenues but instead incurs costs. Net assets are of most relevance to users of the financial statements.



We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £4m (2017/18: £2.5m) for the Group and the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on 8 significant retail locations (UK, Booker, Republic of Ireland, Czech Republic, Hungary, Poland, Slovakia and Thailand) and Tesco Bank. The operations in Czech Republic, Hungary, Poland and Slovakia are managed as one combined business. All of these were subject to a full audit and represent 95% (2017/18: 96%) of the Group's revenue and 95% (2017/18: 92%) of net assets.

In addition, 3 other businesses (Malaysia, Dunnhumby and Tesco Mobile) were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the size of the Group's operations at those locations. The 3 businesses accounted for 3% (2017/18: 4%) of the Group's revenue and 6% (2017/18: 9%) of net assets. The Group's convenience retail business, OneStop, is no longer subject to specific audit procedures due to the business not being significant in the context of the Group.

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

The most significant component of the Group is its retail business in the UK. As such, there is extensive interaction between the Group and UK audit team to an appropriate level of direction and supervision in this audit work. During the course of our audit, the UK audit team visited 50 (2017/18: 50) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 4 (2017/18: 4) distribution centre inventory counts.

The Group audit team visited 7 (2017/18: 6) of the 8 (2017/18: 7) significant locations set out above, in addition to Tesco Bank and the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting 3 (2017/18: 4) of these locations. We also had a dedicated senior member of the audit team focused on overseeing the role of the component audit teams located outside of the UK and the Republic of Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's international business.

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

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

Other information

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

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

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, the Group's Internal Audit function, the Group's Security function, the Group's Compliance Officer, the Group's General Counsel and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
- the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Group's controls relating to GSCOP requirements;
- discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations and pensions regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: timing of recognition of commercial income, posting of unusual journals and complex transactions and manipulating the Group's alternative performance profit measures and other key performance indicators to meet remuneration targets and externally communicated targets; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included GSCOP, UK Companies Act, Listing Rules, employment law, health and safety, pensions legislation and tax legislation.

Audit response to risks identified

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the year ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is four years, covering financial years ending 27 February 2016 to 23 February 2019.

Consistency of the audit report with the additional report to the audit committee

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

Use of our report

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

Panos Kakoullis (Senior statutory auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

9 April 2019

Group income statement

	Notes	52 weeks ended 23 February 2019 Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles (Note 4) £m	Total £m	52 weeks ended 24 February 2018 (restated*) Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles (Note 4) £m	Total £m
Continuing operations							
Revenue	2	**63,911**	**–**	**63,911**	**57,493**	**–**	**57,493**
Cost of sales		(59,695)	(72)	(59,767)	(54,092)	(49)	(54,141)
Gross profit/(loss)		**4,216**	**(72)**	**4,144**	**3,401**	**(49)**	**3,352**
Administrative expenses		(1,989)	(86)	(2,075)	(1,786)	153	(1,633)
Profits/(losses) arising on property-related items		(21)	105	84	31	89	120
Operating profit/(loss)		**2,206**	**(53)**	**2,153**	**1,646**	**193**	**1,839**
Share of post-tax profits/(losses) of joint ventures and associates	13	24	11	35	(6)	–	(6)
Finance income	5	22	–	22	67	–	67
Finance costs	5	(536)	–	(536)	(562)	(38)	(600)
Profit/(loss) before tax		**1,716**	**(42)**	**1,674**	**1,145**	**155**	**1,300**
Taxation	6	(413)	59	(354)	(286)	(20)	(306)
Profit/(loss) for the year from continuing operations		**1,303**	**17**	**1,320**	**859**	**135**	**994**
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	–	–	–	–	216	216
Profit/(loss) for the year		**1,303**	**17**	**1,320**	**859**	**351**	**1,210**
Attributable to:							
Owners of the parent		1,305	17	1,322	859	349	1,208
Non-controlling interests		(2)	–	(2)	–	2	2
		1,303	**17**	**1,320**	**859**	**351**	**1,210**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			13.65p			14.80p
Diluted	9			13.55p			14.75p
Earnings/(losses) per share from continuing operations							
Basic	9			13.65p			12.15p
Diluted	9			13.55p			12.11p

The notes on pages 98 to 161 form part of these financial statements.

* Restated for the adoption of IFRS 15 and reclassification of derivative interest income as explained in Note 1 and Note 36.

Group statement of comprehensive income/(loss)

	Notes	52 weeks 2019 £m	52 weeks 2018 (restated*) £m
Items that will not be reclassified to income statement			
Remeasurement gains/(losses) of defined benefit pension schemes	27	364	3,265
Tax on items that will not be reclassified	6	(61)	(554)
		303	**2,711**
Items that may subsequently be reclassified to income statement			
Change in fair value of debt instruments at fair value through other comprehensive income		(10)	–
Change in fair value of available-for-sale financial assets and investments		–	(62)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		100	179
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement		–	140
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		130	(146)
Reclassified and reported in the Group income statement		(57)	(52)
Tax on items that may be reclassified	6	5	22
		168	**81**
Total other comprehensive income/(loss) for the year		**471**	**2,792**
Profit/(loss) for the year		1,320	1,210
Total comprehensive income/(loss) for the year		**1,791**	**4,002**
Attributable to:			
Owners of the parent		1,793	3,995
Non-controlling interests		(2)	7
Total comprehensive income/(loss) for the year		**1,791**	**4,002**
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		1,793	3,639
Discontinued operations		–	356
		1,793	**3,995**

The notes on pages 98 to 161 form part of these financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36.

Group balance sheet

	Notes	23 February 2019 £m	24 February 2018 (restated*) £m
Non-current assets			
Goodwill and other intangible assets	10	6,264	2,661
Property, plant and equipment	11	19,023	18,521
Investment property	12	36	100
Investments in joint ventures and associates	13	704	689
Financial assets at fair value through other comprehensive income	14	979	860
Trade and other receivables	16	195	186
Loans and advances to customers and banks	17	7,868	6,885
Derivative financial instruments	23	1,178	1,117
Deferred tax assets	6	132	116
		36,379	**31,135**
Current assets			
Financial assets at fair value through other comprehensive income	14	67	68
Inventories	15	2,617	2,264
Trade and other receivables	16	1,640	1,504
Loans and advances to customers and banks	17	4,882	4,637
Derivative financial instruments	23	52	27
Current tax assets		6	12
Short-term investments	18	390	1,029
Cash and cash equivalents	18	2,916	4,059
		12,570	**13,600**
Non-current assets classified as held for sale	7	98	149
		12,668	**13,749**
Current liabilities			
Trade and other payables	19	(9,354)	(8,994)
Borrowings	21	(1,599)	(1,479)
Derivative financial instruments	23	(250)	(69)
Customer deposits and deposits from banks	24	(8,832)	(7,812)
Current tax liabilities	6	(325)	(335)
Provisions	25	(320)	(544)
		(20,680)	**(19,233)**
Net current liabilities		**(8,012)**	**(5,484)**
Non-current liabilities			
Trade and other payables	19	(384)	(364)
Borrowings	21	(5,673)	(7,142)
Derivative financial instruments	23	(389)	(594)
Customer deposits and deposits from banks	24	(3,296)	(2,972)
Post-employment benefit obligations	27	(2,808)	(3,282)
Deferred tax liabilities	6	(236)	(96)
Provisions	25	(747)	(721)
		(13,533)	**(15,171)**
Net assets		**14,834**	**10,480**
Equity			
Share capital	28	490	410
Share premium		5,165	5,107
All other reserves		3,798	735
Retained earnings		5,405	4,250
Equity attributable to owners of the parent		**14,858**	**10,502**
Non-controlling interests		(24)	(22)
Total equity		**14,834**	**10,480**

The notes on pages 98 to 161 form part of these financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36.

Dave Lewis

Alan Stewart

Directors

The financial statements on pages 92 to 161 were approved and authorised for issue by the Directors on 9 April 2019.

Group statement of changes in equity

	Share capital £m	Share premium £m	All other reserves: Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve[b] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 24 February 2018 (as previously reported)	**410**	**5,107**	**–**	**16**	**40**	**655**	**(16)**	**40**	**4,228**	**10,480**	**(22)**	**10,458**
Cumulative adjustment to opening balances from application of IFRS 15 (net of tax) (Note 36)	–	–	–	–	–	–	–	–	22	22	–	22
At 24 February 2018 (restated[a])	**410**	**5,107**	**–**	**16**	**40**	**655**	**(16)**	**40**	**4,250**	**10,502**	**(22)**	**10,480**
Adjustment on initial application of IFRS 9 (net of tax) (Note 36)	–	–	1	–	(1)	–	–	–	(177)	(177)	–	(177)
At 25 February 2018	**410**	**5,107**	**1**	**16**	**39**	**655**	**(16)**	**40**	**4,073**	**10,325**	**(22)**	**10,303**
Profit/(loss) for the year	–	–	–	–	–	–	–	–	1,322	1,322	(2)	1,320
Other comprehensive income/(loss)												
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(10)	(10)	–	(10)
Currency translation differences	–	–	–	–	–	100	–	–	–	100	–	100
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	364	364	–	364
Gains/(losses) on cash flow hedges	–	–	(6)	–	79	–	–	–	–	73	–	73
Tax relating to components of other comprehensive income	–	–	–	–	–	3	–	–	(59)	(56)	–	(56)
Total other comprehensive income/(loss)	**–**	**–**	**(6)**	**–**	**79**	**103**	**–**	**–**	**295**	**471**	**–**	**471**
Total comprehensive income/(loss)	**–**	**–**	**(6)**	**–**	**79**	**103**	**–**	**–**	**1,617**	**1,793**	**(2)**	**1,791**
Transactions with owners												
Purchase of own shares	–	–	–	–	–	–	(277)	–	–	(277)	–	(277)
Share-based payments	–	–	–	–	–	–	114	–	67	181	–	181
Issue of shares (Note 28)	80	58	–	–	–	–	–	3,050	–	3,188	–	3,188
Dividends (Note 8)	–	–	–	–	–	–	–	–	(357)	(357)	–	(357)
Tax on items charged to equity	–	–	–	–	–	–	–	–	5	5	–	5
Total transactions with owners	**80**	**58**	**–**	**–**	**–**	**–**	**(163)**	**3,050**	**(285)**	**2,740**	**–**	**2,740**
At 23 February 2019	**490**	**5,165**	**(5)**	**16**	**118**	**758**	**(179)**	**3,090**	**5,405**	**14,858**	**(24)**	**14,834**

The notes on pages 98 to 161 form part of these financial statements.

[a] Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36.

[b] 'Merger reserve' was previously titled 'Other reserves' in prior financial years.

Group statement of changes in equity continued

	Share capital £m	Share premium £m	All other reserves: Currency basis reserve £m	All other reserves: Capital redemption reserve £m	All other reserves: Hedging reserve £m	All other reserves: Translation reserve £m	All other reserves: Own shares held £m	All other reserves: Merger reserve[a] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 25 February 2017 (as previously reported)	**409**	**5,096**	**–**	**16**	**217**	**350**	**(22)**	**40**	**332**	**6,438**	**(24)**	**6,414**
Adjustment on initial application of IFRS 15 (net of tax) (Note 36)	–	–	–	–	–	–	–	–	20	20	–	20
At 25 February 2017 (restated*)	**409**	**5,096**	**–**	**16**	**217**	**350**	**(22)**	**40**	**352**	**6,458**	**(24)**	**6,434**
Profit/(loss) for the year (as previously reported)	–	–	–	–	–	–	–	–	1,206	1,206	2	1,208
IFRS 15 adjustment to profit/(loss) for the period (Note 36)	–	–	–	–	–	–	–	–	2	2	–	2
Profit/(loss) for the year (restated*)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,208**	**1,208**	**2**	**1,210**
Other comprehensive income/(loss)												
Change in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–	–	(62)	(62)	–	(62)
Currency translation differences	–	–	–	–	–	314	–	–	–	314	5	319
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	–	3,265	3,265	–	3,265
Gains/(losses) on cash flow hedges	–	–	–	–	(198)	–	–	–	–	(198)	–	(198)
Tax relating to components of other comprehensive income	–	–	–	–	21	(9)	–	–	(544)	(532)	–	(532)
Total other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(177)**	**305**	**–**	**–**	**2,659**	**2,787**	**5**	**2,792**
Total comprehensive income/(loss) (restated*)	**–**	**–**	**–**	**–**	**(177)**	**305**	**–**	**–**	**3,867**	**3,995**	**7**	**4,002**
Transactions with owners												
Purchase of own shares	–	–	–	–	–	–	(14)	–	–	(14)	–	(14)
Share-based payments	–	–	–	–	–	–	20	–	105	125	–	125
Issue of shares	1	11	–	–	–	–	–	–	–	12	–	12
Dividends	–	–	–	–	–	–	–	–	(80)	(80)	–	(80)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	–	(5)	(5)
Tax on items charged to equity	–	–	–	–	–	–	–	–	6	6	–	6
Total transactions with owners	**1**	**11**	**–**	**–**	**–**	**–**	**6**	**–**	**31**	**49**	**(5)**	**44**
At 24 February 2018 (restated*)	**410**	**5,107**	**–**	**16**	**40**	**655**	**(16)**	**40**	**4,250**	**10,502**	**(22)**	**10,480**

The notes on pages 98 to 161 form part of these financial statements.

* Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36.

[a] 'Merger reserve' was previously titled 'Other reserves' in prior financial years.

Group cash flow statement

	Notes	52 weeks 2019 £m	52 weeks 2018 (restated*) £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		2,153	1,839
Depreciation and amortisation		1,375	1,295
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(107)	(66)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income		(8)	(165)
(Profit)/loss arising on sale of joint ventures and associates		–	(23)
Net impairment loss/(reversal) on financial assets at fair value through other comprehensive income		–	(22)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property		(58)	(167)
Adjustment for non-cash element of pensions charge	27	45	4
Additional contribution into defined benefit pension schemes	27	(266)	(245)
Share-based payments		77	113
Tesco Bank fair value movements included in operating profit/(loss)		127	156
Retail (increase)/decrease in inventories		11	55
Retail (increase)/decrease in development stock		(2)	21
Retail (increase)/decrease in trade and other receivables		98	(8)
Retail increase/(decrease) in trade and other payables		(307)	280
Retail increase/(decrease) in provisions		(238)	132
Retail (increase)/decrease in working capital		(438)	480
Tesco Bank (increase)/decrease in loans and advances to customers and banks		(1,585)	(1,738)
Tesco Bank (increase)/decrease in trade and other receivables		4	34
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		1,348	1,820
Tesco Bank increase/(decrease) in provisions		(25)	(6)
Tesco Bank (increase)/decrease in working capital		(258)	110
Cash generated from/(used in) operations		**2,642**	**3,309**
Interest paid		(306)	(328)
Corporation tax (paid)/received		(370)	(176)
Net cash generated from/(used in) operating activities		**1,966**	**2,805**
Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		286	253
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(1,101)	(1,440)
Purchase of intangible assets		(191)	(197)
Disposal of subsidiaries, net of cash disposed		8	66
Acquisition of subsidiaries, net of cash acquired	31	(715)	(27)
Proceeds from sale of joint ventures and associates		–	23
Net (increase)/decrease in loans to joint ventures and associates		5	–
Investments in joint ventures and associates		(11)	(21)
Net (investments in)/proceeds from sale of short-term investments		639	1,697
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		(122)	236
Dividends received from joint ventures and associates		41	26
Interest received		18	27
Net cash generated from/(used in) investing activities		**(1,143)**	**643**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital	28	60	11
Own shares purchased		(206)	–
Increase in borrowings		975	313
Repayment of borrowings		(2,471)	(3,721)
Net cash flows from derivative financial instruments		35	253
Repayments of obligations under finance leases		(17)	(10)
Dividends paid to equity owners	8	(357)	(82)
Net cash generated from/(used in) financing activities		**(1,981)**	**(3,236)**
Net increase/(decrease) in cash and cash equivalents		**(1,158)**	**212**
Cash and cash equivalents at the beginning of the year		4,059	3,832
Effect of foreign exchange rate changes		15	15
Cash and cash equivalents at the end of the year	18	**2,916**	**4,059**

The notes on pages 98 to 161 form part of these financial statements.

* Restated for the adoption of IFRS 15 and reclassification of derivative interest income as explained in Note 1 and Note 36.

Note 1 Accounting policies, judgements and estimates

General information

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

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

Basis of preparation

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

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Directors' report on page 81.

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

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the current financial year. IFRS 15 has been applied fully retrospectively and comparatives for the prior financial year have been restated, whilst IFRS 9 has been applied retrospectively at 25 February 2018 by adjusting the opening balance sheet at that date. Further details on the impacts of adoption of these standards is described in Note 36.

Basis of consolidation

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

The financial year represents the 52 weeks ended 23 February 2019 (prior financial year 52 weeks ended 24 February 2018). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 23 February 2019 (prior financial year 52 weeks ended 24 February 2018). For all other operations, the results are for the calendar year ended 28 February 2019 (prior calendar year ended 28 February 2018).

Subsidiaries

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

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

Joint ventures and associates

The Group's share of the results of joint ventures and associates is included in the Group income statement and Group statement of comprehensive income/(loss) using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Dividends received from joint ventures or associates with nil carrying value are recognised in the Group income statement as part of the Group's share of post-tax profits/(losses) of joint ventures and associates.

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

Prior financial year reclassification of derivative interest income

During the current financial year, the Group reclassified interest income arising from derivative financial instruments hedging the Group's borrowings from finance income to finance costs. This reclassification more appropriately reflects the net finance costs to the Group. Prior financial year comparatives have been restated to align to the current financial year approach. The impact of this reclassification on prior financial year amounts has been a reduction of finance costs and finance income in the Group income statement by £31m, and a reduction of interest received and interest paid in the Group cash flow statement by £23m.

Line item name changes

'Loans and advances to customers' has been renamed 'Loans and advances to customers and banks'. There were no balances relating to banks in this line in prior financial years.

'Other investments' has been renamed 'Financial assets at fair value through other comprehensive income'.

Revenue

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

Sale of goods

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

Clubcard (customer loyalty programme)

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

Financial services

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

Interest income on financial assets that are measured at amortised cost is determined using the effective interest rate method.

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

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

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

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

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

Commercial income

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

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

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

Finance income

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

Finance costs

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

Business combinations and goodwill

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

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

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

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

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

Cloud software licence agreements

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

Intangible assets

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

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives, at 5%–25% of cost per annum.

Note 1 Accounting policies, judgements and estimates continued

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

Property, plant and equipment

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

The following depreciation rates are applied for the Group:

- freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost;
- leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease; and
- fixtures and fittings, office equipment and motor vehicles – at rates varying from 10% to 33%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, over the term of the relevant lease.

Impairment of non-financial assets

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

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

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

Investment property

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

Inventories

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

Cash and cash equivalents

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

Non-current assets held for sale and discontinued operations

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

Discontinued operations

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated) and the assets and liabilities of these operations are presented separately in the Group balance sheet. Refer to Note 7 for further details.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Group balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Group income statement. Rentals payable under operating leases are charged to the Group income statement on a straight-line basis over the term of the lease.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group income statement.

Post-employment obligations

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

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

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

Share-based payments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under IAS 39, applicable for the comparative period, the Group's investments were classified as available-for-sale and recognised at fair value. Gains and losses arising from changes in fair value were recognised directly in other comprehensive income, until the security was disposed of or was determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income was included in the Group income statement for the period.

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

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

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

Note 1 Accounting policies, judgements and estimates continued

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

Under IAS 39, applicable for the comparative period, the Group's loan impairment provisions were established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. At each reporting date, management reviewed the carrying amounts of its loans and advances to determine whether there was any indication that those assets had suffered an impairment loss.

If there was objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances had been incurred, management measured the amount of the loss as the difference between the estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses were assessed individually for financial assets that were individually significant and collectively for assets that were not individually significant. In making collective assessments of impairment, financial assets were grouped into portfolios on the basis of similar characteristics.

Loan impairment provisions were established on a portfolio basis using statistical methodology taking into account the level of arrears, security, past loss experience, credit quality and defaults based on portfolio trends.

The portfolios include mortgages, credit card receivables, personal current accounts and personal loans. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported impairment loan provisions. These uncertainties include the economic environment, notable interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Impairment losses under IAS 39 were recognised in the Group income statement and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of impairment loss reduced and the reduction could be ascribed to an event after the impairment was recognised, the previously recognised loss was reversed by adjusting the allowance. Once an impairment loss was recognised on a financial asset or group of financial assets, interest income was recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Interest-bearing borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Fair value hedging

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

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the Group statement of comprehensive income/(loss) and the ineffective element is recognised immediately in the Group income statement within finance income or costs.

Amounts recognised in other comprehensive income are recycled to the Group income statement when the hedged item or transaction affects the Group income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss in other comprehensive income remains until the forecast transaction occurs or the original hedged item affects the Group income statement. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is reclassified to the Group income statement.

Net investment hedging

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

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

Provisions
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease.

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

Balances outstanding under current supplier financing arrangements are classified as accounts payables, since the financing arrangements are agreed between the supplier and the banks, and the Group does not provide additional credit enhancement nor obtain any benefit from the arrangements. These outstanding balances are not material to the Group.

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

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

Business combinations
The acquisition of Booker Group plc (Booker) on 5 March 2018 has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations', resulting in the recognition of goodwill of £3,093m. This goodwill is allocated and tested for impairment at the UK group of cash-generating units, which is the level at which management monitors the goodwill. Refer to Note 10 and Note 31 for further additional disclosures.

Joint ventures and associates
The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint Arrangements' and determined them to be joint ventures. The Group has also assessed that Gain Land Limited is an associate. These assessments required the exercise of judgement as set out in Note 13.

Leases
Management exercises judgement in determining the classification of leases as finance or operating leases at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the property, the lease is classified as a finance lease. All other leases are classified as operating leases.

Management further applies judgement in determining the accounting treatment of sale and leaseback transactions. Factors considered include the substance of the transaction (by applying the lease classification principles described above) whether or not the sale was made at the asset's fair value and the relationship with the buyer, which is based on levels of control and influence (the buyer may be an associate, joint venture or an unrelated party).

Refer to Note 34 for additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

Operating segments
Management has assessed the retail operations in different countries and determined that they share similar economic characteristics, products, customers and supply chain operations. The retail operations have therefore been aggregated in the UK & ROI, Central Europe and Asia segments, in line with the way they are managed below the Chief Operating Decision Maker (CODM).

Tesco Bank operates in a different industry and reports separately hence is a separate segment.

Following the acquisition of Booker on 5 March 2018, management has applied the guidance of IFRS 8 'Operating Segments' in determining the presentation of Booker's performance and balances within the Group. Management has carefully considered a number of areas including how the business is managed on an integrated basis with the rest of the UK retail business, the strategic rationale of the merger in forming the UK's leading Food business, the significant synergies flowing across the UK businesses, and the level at which the CODM monitors performance and allocates resources to the business.

Based on these considerations, management concluded that the most appropriate presentation for Booker is within the UK & ROI segment.

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

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

Refer to pages 178 to 181 for further details on the Group's APMs.

Note 1 Accounting policies, judgements and estimates continued

Key sources of estimation uncertainty

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

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions and sensitivities for post-employment benefit obligations are disclosed in Note 27.

Impairment

The Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment. Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less cost of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate. Key estimates and sensitivities are disclosed in Note 11.

Commercial income

Management is required to make estimates in determining the amount and timing of recognition of commercial income (as defined on page 99) for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimates the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

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

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the balance sheet. Refer to Note 20 for commercial income disclosures.

Tesco Bank expected credit loss measurement

The measurement of ECLs for Tesco Bank financial assets requires the use of complex models and significant assumptions about future macro-economic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Key assumptions and sensitivities for Tesco Bank ECLs are disclosed in Note 23.

Inventories

An inventory provision is booked for cases where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value. Management has estimated the inventory provisioning percentage for different product categories based on various factors, including the expected sales profiles of the items, the prevailing sales prices, the item's seasonality pattern and expected losses associated with slow-moving inventory items.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to Note 32 for the disclosures.

Interpretations and amendments to accounting standards effective for the current year

The following standards were adopted in the current year, and further details of their impact on the Group financial statements are given in Note 36:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

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

Standards issued but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following standards that have been issued but are not yet effective. The Group has not adopted any new or amended standards early.

IFRS 16 'Leases' will be adopted by the Group for the accounting period beginning 24 February 2019. Further details of the impact of IFRS 16 on the Group financial statements are given in Note 36.

The impact of the following standard is still under assessment:

- IFRS 17 'Insurance Contracts'

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

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

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

Purpose

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

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

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

The key APMs that the Group has focused on in the period are as follows:

- Group sales: This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.
- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates.
- Operating profit before exceptional items and amortisation of acquired intangibles: This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. 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 similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group.
- Retail operating cash flow: This is the operating cash flow from continuing operations, excluding the effects of Tesco Bank's cash flows.
- Retail free cash flow: Retail free cash flow includes all cash flows from operating and investing activities and the market purchase of shares net of proceeds from shares issued in relation to share schemes, excluding the effects of Tesco Bank's cash flows. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments: This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements on financial instruments attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options.

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

Changes to APMs

During the period, the following change has been applied to the Group's APMs:

- The Directors and management have decided to exclude the amortisation of intangible assets acquired in business combinations from profit measures. The amortisation charge is excluded because management does not consider the incremental amortisation charge arising from acquired intangible assets when assessing the underlying trading performance of the Group. Business combinations which occurred before the acquisition of Booker did not result in a material amortisation expense arising from the acquired intangible assets.

As a result of the change above, the following APMs have been changed to exclude the amortisation of intangible assets acquired in business combinations:

- Operating profit before exceptional items and amortisation of acquired intangibles;
- Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments;
- Earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments;
- Effective tax rate before exceptional items and amortisation of acquired intangibles; and
- Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments.

Operating margin is now calculated as Operating profit before exceptional items and amortisation of acquired intangibles divided by revenue.

Refer to the Glossary (pages 178 to 181) for a full list, comprehensive descriptions and purpose of the Group's APMs.

Note 2 Segmental reporting

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

Following the acquisition of Booker on 5 March 2018, management has applied judgement in determining the presentation of Booker within the UK & ROI Retail segment. Note 1 provides further details on the rationale for this presentation.

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

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom and Republic of Ireland;
  - Central Europe – Czech Republic, Hungary, Poland, Slovakia; and
  - Asia – Malaysia and Thailand.
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

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

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

Income statement

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

52 weeks ended 23 February 2019 At constant exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations							
Group sales	44,876	6,058	4,746	1,097	56,777	106	56,883
Revenue	51,636	6,325	4,746	1,097	63,804	107	63,911
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,536**	**186**	**279**	**197**	**2,198**	**8**	**2,206**
Exceptional items and amortisation of acquired intangibles	(2)	46	(66)	(30)	(52)	(1)	(53)
Operating profit/(loss)	**1,534**	**232**	**213**	**167**	**2,146**	**7**	**2,153**
Operating margin	**3.0%**	**2.9%**	**5.9%**	**18.0%**	**3.4%**		**3.5%**

52 weeks ended 23 February 2019 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	44,883	6,030	4,873	1,097	56,883
Revenue	51,643	6,298	4,873	1,097	63,911
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,537**	**186**	**286**	**197**	**2,206**
Exceptional items and amortisation of acquired intangibles	(2)	46	(67)	(30)	(53)
Operating profit/(loss)	**1,535**	**232**	**219**	**167**	**2,153**
Operating margin	**3.0%**	**3.0%**	**5.9%**	**18.0%**	**3.5%**
Share of post-tax profits/(losses) of joint ventures and associates					35
Finance income					22
Finance costs					(536)
Profit/(loss) before tax					**1,674**

52 weeks ended 24 February 2018 (restated) At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	38,656	6,343	4,947	1,047	50,993
Revenue	44,914	6,585	4,947	1,047	57,493
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	**1,059**	**119**	**299**	**169**	**1,646**
Exceptional items and amortisation of acquired intangibles	146	93	(22)	(24)	193
Operating profit/(loss)	**1,205**	**212**	**277**	**145**	**1,839**
Operating margin	**2.4%**	**1.8%**	**6.0%**	**16.1%**	**2.9%**
Share of post-tax profits/(losses) of joint ventures and associates					(6)
Finance income					67
Finance costs					(600)
Profit/(loss) before tax					**1,300**

Tesco Bank revenue of £1,097m (2018: £1,047m) comprises interest and similar revenues of £729m (2018: £673m) and fees and commissions revenue of £368m (2018: £374m).

Balance sheet

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal group). 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 23 February 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	4,927	27	284	1,026	–	6,264
Property, plant and equipment and investment property	13,638	2,669	2,690	62	–	19,059
Investments in joint ventures and associates	12	1	605	86	–	704
Non-current financial assets at fair value through other comprehensive income	3	–	–	976	–	979
Non-current trade and other receivables[a]	52	5	14	19	–	90
Non-current loans and advances to customers and banks	–	–	–	7,868	–	7,868
Deferred tax assets	–	24	50	58	–	132
Non-current assets[b]	**18,632**	**2,726**	**3,643**	**10,095**	**–**	**35,096**
Inventories and current trade and other receivables[c][d]	3,066	487	390	285	–	4,228
Current loans and advances to customers and banks	–	–	–	4,882	–	4,882
Current financial assets at fair value through other comprehensive income	–	–	–	67	–	67
Total trade and other payables	(7,627)	(801)	(1,069)	(241)	–	(9,738)
Total customer deposits and deposits from banks	–	–	–	(12,128)	–	(12,128)
Total provisions	(889)	(65)	(61)	(52)	–	(1,067)
Deferred tax liabilities	(196)	(28)	(12)	–	–	(236)
Net current tax	(265)	(12)	(11)	(31)	–	(319)
Post-employment benefits	(2,788)	–	(20)	–	–	(2,808)
Assets classified as held for sale	68	30	–	–	–	98
Net debt (including Tesco Bank)[e]	–	–	–	(378)	(2,863)	(3,241)
Net assets	**10,001**	**2,337**	**2,860**	**2,499**	**(2,863)**	**14,834**

[a] Excludes loans to joint ventures of £105m (2018: £138m) which form part of net debt.
[b] Excludes derivative financial instrument non-current assets of £1,178m (2018: £1,117m).
[c] Excludes net interest and other receivables of £1m (2018: £1m) which form part of net debt.
[d] Excludes loans to joint ventures of £28m (2018: £nil) which form part of net debt.
[e] Refer to Note 30.

At 24 February 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	1,281	36	271	1,073	–	2,661
Property, plant and equipment and investment property	13,190	2,799	2,564	68	–	18,621
Investments in joint ventures and associates	12	1	586	90	–	689
Non-current financial assets at fair value through other comprehensive income	3	–	–	857	–	860
Non-current trade and other receivables[a]	30	6	12	–	–	48
Non-current loans and advances to customers and banks	–	–	–	6,885	–	6,885
Deferred tax assets	18	33	65	–	–	116
Non-current assets[b]	**14,534**	**2,875**	**3,498**	**8,973**	**–**	**29,880**
Inventories and current trade and other receivables[c][d]	2,435	610	399	323	–	3,767
Current loans and advances to customers and banks	–	–	–	4,637	–	4,637
Current financial assets at fair value through other comprehensive income	–	–	–	68	–	68
Total trade and other payables	(7,236)	(853)	(1,028)	(241)	–	(9,358)
Total customer deposits and deposits from banks	–	–	–	(10,784)	–	(10,784)
Total provisions	(1,034)	(110)	(47)	(74)	–	(1,265)
Deferred tax liabilities	(21)	(35)	(32)	(8)	–	(96)
Net current tax	(263)	(9)	(16)	(35)	–	(323)
Post-employment benefits	(3,261)	–	(21)	–	–	(3,282)
Assets classified as held for sale	95	54	–	–	–	149
Net debt (including Tesco Bank)[e]	–	–	–	(288)	(2,625)	(2,913)
Net assets	**5,249**	**2,532**	**2,753**	**2,571**	**(2,625)**	**10,480**

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

Note 2 Segmental reporting continued

Other segment information

52 weeks ended 23 February 2019	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment[a]	1,028	113	232	4	1,377	–	1,377
Investment property	–	–	–	–	–	–	–
Goodwill and other intangible assets[b]	4,005	17	3	27	4,052	–	4,052
Depreciation and amortisation:							
Property, plant and equipment	(699)	(136)	(234)	(10)	(1,079)	–	(1,079)
Investment property	(1)	–	–	–	(1)	–	(1)
Other intangible assets	(201)	(14)	(7)	(73)	(295)	–	(295)
Impairment:							
Property, plant and equipment loss	(46)	(64)	(36)	–	(146)	–	(146)
Property, plant and equipment reversal	129	86	4	–	219	–	219
Investment property loss	–	(1)	–	–	(1)	–	(1)
Investment property reversal	2	–	–	–	2	–	2
Goodwill and other intangible assets loss	(5)	(16)	–	–	(21)	–	(21)
Other intangible assets reversal	–	5	–	–	5	–	5
Financial assets net (loss)/reversal	(20)	–	(1)	(164)	(185)	–	(185)

[a] Includes £326m acquired through business combinations.

[b] Includes £3,861m (2018: £8m) of goodwill and other intangible assets acquired through business combinations.

52 weeks ended 24 February 2018 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment	940	117	236	7	1,300	–	1,300
Investment property	1	–	–	–	1	–	1
Goodwill and other intangible assets	141	16	3	43	203	–	203
Depreciation and amortisation:							
Property, plant and equipment	(686)	(147)	(230)	(12)	(1,075)	–	(1,075)
Investment property	(1)	–	–	–	(1)	–	(1)
Other intangible assets	(121)	(18)	(9)	(71)	(219)	–	(219)
Impairment:							
Property, plant and equipment loss	(50)	(6)	(32)	–	(88)	–	(88)
Property, plant and equipment reversal	154	112	9	–	275	–	275
Investment property loss	–	(1)	–	–	(1)	–	(1)
Investment property reversal	3	2	–	–	5	–	5
Goodwill and other intangible assets loss	(20)	(8)	–	–	(28)	–	(28)
Other intangible assets reversal	4	–	–	–	4	–	4
Financial assets net (loss)/reversal	(6)	3	(1)	(137)	(141)	–	(141)

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, including a split of cash flows between Retail and Tesco Bank.

52 weeks ended 23 February 2019	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Tesco Group: Total £m
Operating profit/(loss) of continuing operations	**2,009**	**(23)**	**1,986**	**197**	**(30)**	**167**	**2,153**
Depreciation and amortisation	1,214	78	1,292	83	–	83	1,375
ATM net income	(34)	–	(34)	34	–	34	–
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	5	(104)	(99)	(8)	–	(8)	(107)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(1)	(7)	(8)	–	–	–	(8)
(Profit)/loss arising on sale of joint ventures and associates	–	–	–	–	–	–	–
Net impairment loss/(reversal) on financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(3)	(55)	(58)	–	–	–	(58)
Adjustment for non-cash element of pensions charge	45	–	45	–	–	–	45
Additional contribution into defined benefit pension schemes	(266)	–	(266)	–	–	–	(266)
Share-based payments	82	–	82	(5)	–	(5)	77
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	127	–	127	127
Cash flows generated from operations excluding working capital	**3,051**	**(111)**	**2,940**	**428**	**(30)**	**398**	**3,338**
(Increase)/decrease in working capital	(312)	(126)	(438)	(223)	(35)	(258)	(696)
Cash generated from/(used in) operations*	**2,739**	**(237)**	**2,502**	**205**	**(65)**	**140**	**2,642**
Interest paid	(301)	–	(301)	(5)	–	(5)	(306)
Corporation tax (paid)/received	(302)	–	(302)	(68)	–	(68)	(370)
Net cash generated from/(used in) operating activities	**2,136**	**(237)**	**1,899**	**132**	**(65)**	**67**	**1,966**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	22	263	285	1	–	1	286
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buybacks	(136)	–	(136)	–	–	–	(136)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(962)	–	(962)	(3)	–	(3)	(965)
Purchase of intangible assets	(164)	–	(164)	(27)	–	(27)	(191)
Disposal of subsidiaries, net of cash disposed	8	–	8	–	–	–	8
Acquisition of subsidiaries, net of cash acquired (Note 31)	(715)	–	(715)	–	–	–	(715)
Proceeds from sale of joint ventures and associates	–	–	–	–	–	–	–
Net increase/(decrease) in loans to joint ventures and associates	–	–	–	5	–	5	5
Investments in joint ventures and associates	(11)	–	(11)	–	–	–	(11)
Net (investments in)/proceeds from sale of short-term investments	639	–	639	–	–	–	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	(5)	7	2	(124)	–	(124)	(122)
Dividends received from joint ventures and associates	31	–	31	10	–	10	41
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	18	–	18	–	–	–	18
Net cash generated from/(used in) investing activities	**(1,225)**	**270**	**(955)**	**(188)**	**–**	**(188)**	**(1,143)**
Proceeds from issue of ordinary share capital	60	–	60	–	–	–	60
Own shares purchased	(206)	–	(206)	–	–	–	(206)
Add: Cash outflow from major acquisition (Note 31)	747	–	747	–	–	–	747
Less: Net increase/(decrease) in loans to joint ventures and associates	–	–	–	(5)	–	(5)	(5)
Less: Net investments in/(proceeds from sale of) short-term investments	(639)	–	(639)	–	–	–	(639)
APM: Free cash flow	**873**	**33**	**906**	**(61)**	**(65)**	**(126)**	**780**
Increase in borrowings	704	–	704	271	–	271	975
Repayment of borrowings	(2,046)	–	(2,046)	(425)	–	(425)	(2,471)
Net cash flows from derivative financial instruments	35	–	35	–	–	–	35
Repayment of obligations under finance leases	(17)	–	(17)	–	–	–	(17)
Dividends paid to equity holders	(357)	–	(357)	–	–	–	(357)
Net cash generated from/(used in) financing activities	**(1,827)**	**–**	**(1,827)**	**(154)**	**–**	**(154)**	**(1,981)**
Intra-Group funding and intercompany transactions	**(14)**	**–**	**(14)**	**14**	**–**	**14**	**–**
Net increase/(decrease) in cash and cash equivalents	**(930)**	**33**	**(897)**	**(196)**	**(65)**	**(261)**	**(1,158)**
Cash and cash equivalents at the beginning of the year			2,755			1,304	4,059
Effect of foreign exchange rate changes			15			–	15
Cash and cash equivalents at the end of the year			**1,873**			**1,043**	**2,916**

* APM: 'Retail operating cash flow' of £2,502m is the cash generated from operations of the continuing Retail business.

Note 2 Segmental reporting continued

Cash flow statement continued

52 weeks ended 24 February 2018 (restated)	Retail: Before exceptional items and amortisation of acquired intangibles £m	Retail: Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Tesco Bank: Before exceptional items and amortisation of acquired intangibles £m	Tesco Bank: Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Tesco Group: Total £m
Operating profit/(loss) of continuing operations	**1,477**	**217**	**1,694**	**169**	**(24)**	**145**	**1,839**
Depreciation and amortisation	1,212	–	1,212	83	–	83	1,295
ATM net income	(37)	–	(37)	37	–	37	–
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(8)	(58)	(66)	–	–	–	(66)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(3)	(162)	(165)	–	–	–	(165)
(Profit)/loss arising on sale of joint ventures and associates	(7)	(16)	(23)	–	–	–	(23)
Net impairment loss/(reversal) on financial assets at fair value through other comprehensive income	(22)	–	(22)	–	–	–	(22)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(8)	(159)	(167)	–	–	–	(167)
Adjustment for non-cash element of pensions charge	4	–	4	–	–	–	4
Additional contribution into defined benefit pension schemes	(245)	–	(245)	–	–	–	(245)
Share-based payments	109	–	109	4	–	4	113
Tesco Bank fair value movements included in operating profit	–	–	–	156	–	156	156
Cash flows generated from operations excluding working capital	**2,472**	**(178)**	**2,294**	**449**	**(24)**	**425**	**2,719**
(Increase)/decrease in working capital	493	(14)	479	114	(3)	111	590
Cash generated from/(used in) operations*	**2,965**	**(192)**	**2,773**	**563**	**(27)**	**536**	**3,309**
Interest paid	(324)	–	(324)	(4)	–	(4)	(328)
Corporation tax (paid)/received	(131)	–	(131)	(45)	–	(45)	(176)
Net cash generated from/(used in) operating activities	**2,510**	**(192)**	**2,318**	**514**	**(27)**	**487**	**2,805**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	175	78	253	–	–	–	253
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buybacks	(204)	(189)	(393)	–	–	–	(393)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(1,038)	–	(1,038)	(9)	–	(9)	(1,047)
Purchase of intangible assets	(152)	–	(152)	(45)	–	(45)	(197)
Disposal of subsidiaries, net of cash disposed	–	66	66	–	–	–	66
Acquisition of subsidiaries, net of cash acquired	(27)	–	(27)	–	–	–	(27)
Proceeds from sale of joint ventures and associates	4	19	23	–	–	–	23
Investments in joint ventures and associates	(6)	–	(6)	(15)	–	(15)	(21)
Net (investments in)/proceeds from sale of short-term investments	1,697	–	1,697	–	–	–	1,697
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	34	196	230	6	–	6	236
Dividends received from joint ventures and associates	26	–	26	–	–	–	26
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	27	–	27	–	–	–	27
Net cash generated from/(used in) investing activities	**586**	**170**	**756**	**(113)**	**–**	**(113)**	**643**
Proceeds from issue of ordinary share capital	11	–	11	–	–	–	11
Less: Net (investments in)/proceeds from sale of short-term investments	(1,697)	–	(1,697)	–	–	–	(1,697)
APM: Free cash flow	**1,410**	**(22)**	**1,388**	**401**	**(27)**	**374**	**1,762**
Increase in borrowings	13	–	13	300	–	300	313
Repayment of borrowings	(3,571)	–	(3,571)	(150)	–	(150)	(3,721)
Net cash flows from derivative financial instruments	253	–	253	–	–	–	253
Repayment of obligations under finance leases	(10)	–	(10)	–	–	–	(10)
Dividends paid to equity owners	(82)	–	(82)	–	–	–	(82)
Net cash generated from/(used in) financing activities	**(3,386)**	**–**	**(3,386)**	**150**	**–**	**150**	**(3,236)**
Intra-Group funding and intercompany transactions	**9**	**–**	**9**	**(9)**	**–**	**(9)**	**–**
Net increase/(decrease) in cash and cash equivalents	**(281)**	**(22)**	**(303)**	**542**	**(27)**	**515**	**212**
Cash and cash equivalents at the beginning of the year	–	–	3,043	–	–	789	3,832
Effect of foreign exchange rate changes	–	–	15	–	–	–	15
Cash and cash equivalents at the end of the year	**–**	**–**	**2,755**	**–**	**–**	**1,304**	**4,059**

* APM: 'Retail operating cash flow' of £2,773m is the cash generated from operations of the continuing Retail business.

Note 3 Income and expenses

Continuing operations	52 weeks 2019 £m	52 weeks 2018 £m
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £(35)m (2018: £(34)m) relates to investment properties	(398)	(372)
Other rental income	(56)	(55)
Direct operating expenses arising on rental-earning investment properties	19	17
Costs of inventories recognised as an expense	48,124	42,297
Inventory losses and provisions	1,399	1,373
Depreciation and amortisation charged	1,375	1,295
Operating lease expenses, of which £76m (2018: £70m) relates to hire of plant and machinery	1,078	1,018
Net impairment loss/(reversal) on property, plant and equipment and investment property	(73)	(191)
Net impairment loss/(reversal) of goodwill and other intangible assets	16	24
Net impairment loss/(reversal) on financial assets	185	141

Auditor's remuneration

	52 weeks 2019 £m	52 weeks 2018 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.6	1.5
The audit of the accounts of the Company's subsidiaries	6.4	5.3
Total audit services	**8.0**	**6.8**
Audit-related assurance services	0.5	0.5
Total audit and audit-related services	**8.5**	**7.3**
Fees payable to the Company's auditor and its associates for other services:		
Transaction services	–	1.9
All other non-audit services	3.5	4.3
Total non-audit services	**3.5**	**6.2**
Total auditor's remuneration	**12.0**	**13.5**

Other non-audit services of £3.5m (2018: £4.3m) represents: retail consultancy services £1.3m (2018: £1.5m), provision of data repository services for information needed by the Group and Serious Fraud Office (SFO) £1.7m (2018: £1.8m), SFO Monitor role £0.1m (2018: £0.8m), and other £0.4m (2018: £0.2m). In addition to the amounts shown above, the auditor received fees of £0.2m (2018: £0.2m) for the audit of the main Group pension scheme. Additional information on the non-audit services provided by the auditor is provided in the Corporate governance report on page 60, including how objectivity and independence is safeguarded.

Employment costs, including Directors' remuneration

Continuing operations	Notes	52 weeks 2019 £m	52 weeks 2018 £m
Wages and salaries[a]		6,447	6,026
Social security costs		520	486
Post-employment defined benefits[b]	27	78	38
Post-employment defined contributions	27	332	316
Share-based payments expense	26	118	252
Termination benefits[c]		151	115
Total		**7,646**	**7,233**

[a] Wages and salaries include £100m (2018: £nil) cost relating to cash bonuses offered in the current financial year. In the prior financial year, colleagues were offered the choice of cash or equity, with the corresponding cost of £124m included in the share-based payments expense line.

[b] Includes £43m (2018: £nil) past service cost related to guaranteed minimum pensions (GMPs). This is treated as an exceptional item. Refer to Note 4 and Note 27.

[c] Includes £145m (2018: £99m) of redundancy costs included within exceptional items. Refer to Note 4.

Post-employment defined contribution charges include £110m (2018: £108m) of salaries paid as pension contributions.

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

	Average number of employees		Average number of full-time equivalents	
Continuing operations	2019	2018	2019	2018
UK & ROI	344,117	324,117	223,542	210,312
Asia	62,403	61,623	44,473	59,110
Central Europe	54,301	59,300	50,068	54,857
Tesco Bank	3,684	3,948	3,407	3,637
Total	**464,505**	**448,988**	**321,490**	**327,916**

Note 4 Exceptional items and amortisation of acquired intangibles

Income statement

52 weeks ended 23 February 2019

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/(losses) £m	Taxation £m	Discontinued operations £m
Exceptional items:							
Tesco Direct closure costs[a]	(38)	–	–	(38)	–	7	–
Net restructuring and redundancy costs[b]	(159)	(23)	–	(182)	–	30	–
Provision for customer redress[c]	(16)	–	–	(16)	–	–	–
Release of amounts provided in relation to FCA obligations[d]	–	17	–	17	–	–	–
Insurance recovery of amounts in relation to FCA obligations[e]	–	20	–	20	–	–	–
Property transactions[f]	–	–	104	104	11	7	–
Tesco Bank FCA charge[g]	–	(16)	–	(16)	–	–	–
Booker integration[h]	(8)	(7)	–	(15)	–	3	–
Freetime VAT provision release[i]	176	–	–	176	–	(33)	–
Lazada contingent proceeds[j]	–	7	–	7	–	–	–
GMP equalisation[k]	(37)	(6)	–	(43)	–	7	–
Net impairment reversal of non-current assets and onerous property provisions[l]	10	–	1	11	–	23	–
Total exceptional items	**(72)**	**(8)**	**105**	**25**	**11**	**44**	–
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets (Note 10)	–	(78)	–	(78)	–	15	–
Total exceptional items and amortisation of acquired intangibles	**(72)**	**(86)**	**105**	**(53)**	**11**	**59**	–

(a) This relates to impairment, redundancy and inventory losses arising from the closure of the Group's non-food business, Tesco Direct in July 2018.

(b) This net charge relates to simplification of our business and working practices in Central Europe £(27)m, UK & ROI £(131)m and Asia £(26)m netted off against a £2m reduction in business simplification costs previously provided for in Tesco Bank.

(c) The charge of £(16)m relates to additional costs in respect of Payment Protection Insurance (PPI) as a result of higher claim rates than previously estimated.

(d) The Group had taken an exceptional charge in respect of the Deferred Prosecution Agreement (DPA), including the Shareholder Compensation Scheme, in the 52 weeks to 25 February 2017. £17m charges relating to the Shareholder Compensation Scheme have been released in the 52 weeks ended 23 February 2019.

(e) This relates to an insurance recovery recognised relating to the Shareholder Compensation Scheme.

(f) As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit of £104m. The £11m gain relates to the Group's share of the property disposal gain in Gain Land Limited, an associated undertaking of the Group.

(g) This relates to the settlement payment to the Financial Conduct Authority (FCA) in respect of an online fraudulent attack on Tesco Bank in 2016, as detailed in Note 25.

(h) This covers costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

(i) After the resolution of a dispute with HMRC regarding the treatment of VAT on Clubcard rewards, the related provision of £176m was released. Refer to Note 25.

(j) This relates to receipt of contingent proceeds previously held back and not recognised in our sale proceeds.

(k) This relates to a non-cash charge in respect of the Group's defined benefit pension liability arising from equalisation of guaranteed minimum pensions (GMPs) following recent high court ruling, as detailed in Note 27.

(l) This comprises a net impairment reversal of £69m in property, plant and equipment, a net impairment charge of £(14)m in other intangible assets and a net charge of £(44)m in onerous property provisions.

52 weeks ended 24 February 2018

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

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Exceptional items:							
Net restructuring and redundancy costs	(75)	(34)	7	(102)	–	19	–
Net impairment reversal of non-current assets and onerous lease provisions	50	–	3	53	–	28	–
Provision for customer redress	(24)	–	–	(24)	–	(3)	–
Investment disposal	–	124	–	124	–	(25)	–
Disposal of opticians business	–	38	–	38	–	(7)	–
Release of amounts provided in relation to DPA and FCA obligations	–	25	–	25	–	–	–
Property transactions	–	–	79	79	–	(32)	–
Foreign exchange losses on GBP short-term investments held in overseas entities	–	–	–	–	(38)	–	–
Exceptional items relating to discontinued operations	–	–	–	–	–	–	216
Total exceptional items	**(49)**	**153**	**89**	**193**	**(38)**	**(20)**	**216**
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets	–	–	–	–	–	–	–
Total exceptional items and amortisation of acquired intangibles	**(49)**	**153**	**89**	**193**	**(38)**	**(20)**	**216**

Cash flow statement

52 weeks ended 23 February 2019

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

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

	Cash flows from operating activities		Cash flows from investing activities	
	52 weeks 2019 £m	52 weeks 2018 £m	52 weeks 2019 £m	52 weeks 2018 £m
Payments relating to Tesco Direct closure	(38)	–	–	–
Prior year restructuring and redundancy costs[a]	(60)	(56)	–	–
Current year restructuring and redundancy costs[a]	(30)	(67)	–	–
Utilisation of onerous lease provisions	(82)	(93)	–	–
Property transactions[b]	–	9	263	(111)
Property transactions – sale of investment in joint venture	–	–	–	19
Settlement of claims for customer redress in Tesco Bank	(49)	(23)	–	–
DPA/shareholder compensation scheme payments	(43)	(149)	–	–
Freetime VAT refund[c]	12	160	–	–
Tesco Bank FCA settlement payment	(16)	–	–	–
Insurance recovery of amounts in relation to FCA obligations	16	–	–	–
Booker integration cash payments	(12)	–	–	–
Proceeds from sale of investments – Lazada	–	–	7	196
Proceeds from sale of opticians business	–	–	–	45
Proceeds from sale of subsidiaries treated as discontinued	–	–	–	26
Exceptional cash flows from discontinued operations	–	–	–	(5)
Total	**(302)**	**(219)**	**270**	**170**

[a] These are cash outflows on settlement of restructuring and redundancy costs.
[b] These relate to proceeds from disposal of properties primarily in UK & ROI and Central Europe.
[c] VAT recovered in relation to the appeal against HMRC regarding the treatment of VAT on Clubcard rewards.

Note 5 Finance income and costs

Continuing operations	Notes	52 weeks 2019 £m	52 weeks 2018 (restated[a]) £m
Finance income			
Interest receivable and similar income		22	44
Financial instruments – fair value remeasurements		–	23
Total finance income		**22**	**67**
Finance costs			
GBP MTNs and Loans		(144)	(207)
EUR MTNs		(77)	(94)
USD Bonds		(17)	(31)
Finance charges payable under finance leases and hire purchase contracts		(8)	(8)
Other interest payable		(49)	(62)
Capitalised interest	11	1	2
Financial instruments – fair value remeasurements[b]		(153)	–
Total finance costs before exceptional items and net pension finance costs		**(447)**	**(400)**
Net pension finance costs	27	(89)	(162)
Foreign exchange losses on GBP short-term investments held in overseas entities	4	–	(38)
Total finance costs		**(536)**	**(600)**
Net finance cost		**(514)**	**(533)**

[a] Restated for reclassification of derivative interest income as detailed in Note 1.
[b] Fair value remeasurements included £(121)m (2018: £(30)m) relating to the premium paid on the repurchase of long-dated bonds.

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Current tax (credit)/charge		
UK corporation tax	221	143
Overseas tax	131	118
Adjustments in respect of prior years	(8)	(29)
	344	**232**
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	3	25
Adjustments in respect of prior years	7	49
	10	**74**
Total income tax (credit)/charge	**354**	**306**

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these consolidated financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

Reconciliation of effective tax charge

	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Profit/(loss) before tax	**1,674**	**1,300**
Tax credit/(charge) at 19.0% (2018: 19.1%)	(318)	(248)
Effect of:		
Non-qualifying depreciation	(30)	(31)
Expenses not deductible[a]	(26)	(25)
Unrecognised tax losses	(9)	(27)
Property items taxed on a different basis to accounting entries[b]	21	25
Impairment of non-current assets	17	35
Banking surcharge tax	(18)	(19)
Differences in overseas taxation rates	14	5
Adjustments in respect of prior years	1	(20)
Share of losses of joint ventures and associates	7	(1)
Irrecoverable withholding taxes	(13)	–
Total income tax credit/(charge)	**(354)**	**(306)**
Effective tax rate	**21.1%**	**23.5%**

[a] This includes current year movements on uncertain tax positions and the release of amounts provided for in relation to DPA and FCA obligations.
[b] This includes property items where the carrying values differ from their valuation for tax purposes and recognition of capital losses on property asset disposals.

Reconciliation of effective tax charge on APMs

	52 weeks 2019 £m	52 weeks 2018 (restated) £m
Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles	**1,716**	**1,145**
Tax credit/(charge) at 19.0% (2018: 19.1%)	(326)	(219)
Effect of:		
Non-qualifying depreciation	(30)	(31)
Expenses not deductible[(a)]	(24)	(26)
Unrecognised tax losses	(5)	(18)
Property items taxed on a different basis to accounting entries[(b)]	–	18
Banking surcharge tax	(19)	(19)
Differences in overseas taxation rates	7	5
Adjustments in respect of prior years	(8)	5
Share of losses of joint ventures and associates	5	(1)
Irrecoverable withholding taxes	(13)	–
Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles	**(413)**	**(286)**
Effective tax rate before exceptional items and amortisation of acquired intangibles	**24.1%**	**25.0%**
Tax charge on net pension finance costs and fair value remeasurements at 19.0% on £242m (2018: 19.1% on £139m)	(46)	(26)
Change in tax rate	2	3
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements	**(457)**	**(309)**
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements	**23.3%**	**24.1%**

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

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

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

	52 weeks 2019 £m	52 weeks 2018 £m
Current tax credit/(charge) on:		
Share-based payments	2	–
Deferred tax credit/(charge) on:		
Share-based payments	3	6
Total tax on items credited/(charged) to the Group statement of changes in equity	**5**	**6**

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

	52 weeks 2019 £m	52 weeks 2018 £m
Current tax credit/(charge) on:		
Foreign exchange movements	3	(9)
Deferred tax credit/(charge) on:		
Pensions	(61)	(554)
Fair value of movement on financial assets at fair value through other comprehensive income	2	10
Fair value movements on cash flow hedges	–	21
Total tax on items credited/(charged) to Group statement of comprehensive income/(loss)	**(56)**	**(532)**

Note 6 Taxation continued

Deferred tax

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

	Property-related items[(a)] £m	Acquired intangibles £m	Retirement benefit obligation[(b)] £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Total £m
At 25 February 2017	**(644)**	**–**	**1,122**	**23**	**148**	**8**	**(38)**	**619**
Adjustment on initial application of IFRS 15	–	–	–	–	(6)	–	–	(6)
(Charge)/credit to the Group income statement	(65)	–	(14)	14	(1)	(7)	(1)	(74)
(Charge)/credit to the Group statement of changes in equity	–	–	–	6	–	–	–	6
(Charge)/credit to the Group statement of comprehensive income/(loss)	–	–	(554)	–	–	–	31	(523)
Foreign exchange and other movements[(c)]	(4)	–	–	–	2	–	–	(2)
At 24 February 2018	**(713)**	–	**554**	**43**	**143**	**1**	**(8)**	**20**
Adjustment on initial application of IFRS 9	–	–	–	–	–	–	59	59
(Charge)/credit to the Group income statement	46	15	(23)	–	(28)	2	(22)	(10)
(Charge)/credit to the Group statement of changes in equity	–	–	–	3	–	–	–	3
(Charge)/credit to the Group statement of comprehensive income/(loss)	–	–	(61)	–	–	–	2	(59)
Disposals	4	–	–	–	–	–	–	4
Business combinations	(7)	(129)	–	4	3	3	–	(126)
Foreign exchange and other movements[(c)]	–	–	–	1	3	–	1	5
At 23 February 2019	**(670)**	**(114)**	**470**	**51**	**121**	**6**	**32**	**(104)**

(a) Property-related items include a deferred tax liability on rolled-over gains of £287m (2018: £281m) and deferred tax assets on capital losses of £140m (2018: £119m). The remaining balance relates to accelerated tax depreciation. The Group does not expect a material reversal in the next financial year.

(b) The deferred tax asset on retirement benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 27.

(c) The deferred tax charge for foreign exchange and other movements is a £5m credit (2018: £(2)m charge) relating to the re-translation of deferred tax balances at the balance sheet date and is included within the Group statement of comprehensive income/(loss) under the heading 'Currency translation differences'.

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

	2019 £m	2018 £m
Deferred tax assets	132	116
Deferred tax liabilities	(236)	(96)
	(104)	**20**

No deferred tax liability is recognised on temporary differences of £3.7bn (2018: £3.7bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 23 February 2019 is estimated to be £237m (2018: £216m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Unrecognised deferred tax assets

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

	2019 £m	2018 £m
Deductible temporary differences	90	93
Tax losses	199	217
	289	**310**

As at 23 February 2019, the Group has unused trading tax losses from continuing operations of £894m (2018: £913m) available for offset against future profits. A deferred tax asset has been recognised in respect of £35m (2018: £2m) of such losses. No deferred tax asset has been recognised in respect of the remaining £859m (2018: £911m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £69m that will expire by 2023 (2018: £13m in 2022) and £139m that will expire between 2024 and 2039 (2018: £175m between 2023 and 2038). Other losses will be carried forward indefinitely.

Current tax

Within the Group current tax liability of £325m is £46m of capital gains tax liabilities that may arise in respect of the contribution of the Group's China operations into a venture with China Resource Enterprises Limited in 2014.

Changes in tax law or its interpretation

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

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

Non-current assets classified as held for sale

	2019 £m	2018 £m
Non-current assets classified as held for sale	98	149

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

There were no discontinued operations in the year. The discontinued operations in the prior financial year related to the Group's Turkish and Korean operations.

The tables below show the results of the discontinued operations which were included in the Group income statement and Group cash flow statement in the prior year.

Income statement

	52 weeks 2019 £m	52 weeks 2018 £m
Loss after tax on disposal of Turkish operations	–	(128)
Net adjustments to profit/(loss) of past disposals	–	344
Total profit/(loss) after tax of discontinued operation	**–**	**216**

Cash flow statement

	52 weeks 2019 £m	52 weeks 2018 £m
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**–**	**(11)**

Note 8 Dividends

	2019		2018	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	2.00	195	–	–
Paid interim dividend*	1.67	162	1.00	82
Dividends paid to equity owners in the financial year	**3.67**	**357**	**1.00**	**82**
Proposed final dividend at financial year end	**4.10**	**402**	**2.00**	**195**

* Excludes £2m dividends waived (2018: £nil).

The proposed final dividend was approved by the Board of Directors on 9 April 2019 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 23 February 2019, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 21 June 2019 to shareholders who are on the Register of members at close of business on 17 May 2019.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 31 May 2019.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles. £nil (2018: £2m) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 28 for further details.

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

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

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

For the 52 weeks ended 23 February 2019 there were 72 million (2018: 27 million) potentially dilutive share options. As the Group has recognised a profit for the year from its continuing operations, dilutive effects have been considered in calculating diluted earnings per share.

	2019			2018 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations*	1,322	–	1,322	992	–	992
Discontinued operations	–	–	–	216	–	216
Total	**1,322**	**–**	**1,322**	**1,208**	**–**	**1,208**
Weighted average number of shares (millions)	**9,686**	**72**	**9,758**	**8,165**	**27**	**8,192**
Earnings/(losses) per share (pence)						
Continuing operations	13.65	(0.10)	13.55	12.15	(0.04)	12.11
Discontinued operations	–	–	–	2.65	(0.01)	2.64
Total	**13.65**	**(0.10)**	**13.55**	**14.80**	**(0.05)**	**14.75**

* Excludes profits/(losses) from non-controlling interests of £(2)m (2018: £2m).

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

	Notes	52 weeks 2019	52 weeks 2018 (restated)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,716	1,145
Add: Net pension finance costs (£m)	5	89	162
Add/(less): Fair value remeasurements on financial instruments (£m)	5	153	(23)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (£m)		**1,958**	**1,284**
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		1,958	1,284
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		(455)	(309)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		**1,503**	**975**
Basic weighted average number of shares (millions)		9,686	8,165
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**15.52**	**11.94**
Diluted weighted average number of shares (millions)		9,758	8,192
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		**15.40**	**11.90**

Note 10 Goodwill and other intangible assets

	Goodwill £m	Software[a] £m	Customer relationships £m	Intangible assets £m	Total £m
Cost					
At 24 February 2018	**2,458**	**3,166**	**–**	**392**	**6,016**
Foreign currency translation	(6)	1	–	(1)	(6)
Additions	–	167	–	24	191
Acquired through business combinations[b]	3,098	–	715	48	3,861
Reclassification[c]	–	(140)	–	2	(138)
Disposals	–	(308)	–	(15)	(323)
Fully amortised assets[d]	–	(1,046)	–	(3)	(1,049)
At 23 February 2019	**5,550**	**1,840**	**715**	**447**	**8,552**
Accumulated amortisation and impairment losses					
At 24 February 2018	**662**	**2,378**	**–**	**315**	**3,355**
Foreign currency translation	(21)	–	–	(2)	(23)
Charge for the year[e]	–	210	72	13	295
Impairment losses	–	17	–	4	21
Reversal of impairment losses	–	(4)	–	(1)	(5)
Disposals	–	(301)	–	(5)	(306)
Fully amortised assets[d]	–	(1,046)	–	(3)	(1,049)
At 23 February 2019	**641**	**1,254**	**72**	**321**	**2,288**
Net carrying value					
At 23 February 2019	**4,909**	**586**	**643**	**126**	**6,264**
At 24 February 2018	1,796	788	–	77	2,661

[a] Software includes £297m (2018: £395m) of internally generated development costs.

[b] The acquisition of Booker on 5 March 2018 resulted in recognition of additional goodwill of £3,093m, customer relationships of £715m and other intangible assets of £40m. Refer to Note 31. This goodwill is supported by the expected increase in cash flows for the combined UK retail business and has been reflected at the UK level, consistent with the lowest level at which management monitors that goodwill.

[c] Reclassification includes £(105)m reclassified between property, plant and equipment and other intangible assets prior to removal from the fixed assets registers.

[d] During the current financial year, the Group performed a comprehensive review of all fully amortised assets held in the Group's fixed asset registers, and removed £1,049m of cost and accumulated amortisation and impairment losses relating to those fully amortised assets which are no longer in use by the Group. This change will provide users with a greater understanding of the imputed amortisation rates on the Group's assets.

[e] Of the £85m amortisation of customer relationships and other intangible assets, £78m has been included within "exceptional items and amortisation of intangible assets". £74m of this balance arises from amortisation of intangible assets recognised upon the Booker acquisition. Refer to Note 4 and Note 31 for further details.

	Goodwill £m	Software[a] £m	Intangible assets £m	Total £m
Cost				
At 25 February 2017	**2,426**	**2,971**	**363**	**5,760**
Foreign currency translation	28	21	2	51
Additions	–	180	15	195
Acquired through business combination	4	2	2	8
Reclassification	–	10	13	23
Disposals	–	(18)	(3)	(21)
At 24 February 2018	**2,458**	**3,166**	**392**	**6,016**
Accumulated amortisation and impairment losses				
At 25 February 2017	**634**	**2,092**	**317**	**3,043**
Foreign currency translation	28	17	1	46
Charge for the year	–	208	11	219
Impairment losses	–	28	–	28
Reversal of impairment losses	–	–	(4)	(4)
Reclassification	–	47	(8)	39
Disposals	–	(14)	(2)	(16)
At 24 February 2018	**662**	**2,378**	**315**	**3,355**

[a] Refer to previous table for footnote.

Impairment of goodwill

The goodwill balances, discount rates and long-term growth rates for each group of cash-generating units are shown below:

	Balances £m		Pre-tax discount rates		Post-tax discount rates		Long-term growth rates	
	2019	2018	2019	2018	2019	2018	2019	2018
Tesco Bank	802	802	10.4%	10.6%	7.8%	8.0%	2.0%	2.5%
UK	3,834	735	8.8%	8.9%	7.1%	7.2%	2.0%	2.1%
Thailand	193	180	9.6%	9.3%	7.7%	7.5%	1.9%	2.2%
Malaysia	77	75	11.8%	11.6%	9.0%	8.8%	2.4%	3.2%
ROI	3	4	8.5%	8.3%	7.4%	7.3%	1.9%	1.8%
	4,909	**1,796**						

The key estimates for the value in use calculations are those regarding discount rates and expected changes to future cash flows.

Note 10 Goodwill and other intangible assets continued

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, including a Brexit risk adjustment in the UK & ROI segment. The pre-tax discount rates used to calculate value in use are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each group of cash-generating units.

Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates as shown above. These long-term growth rates for the Retail business are based on inflation forecasts by recognised bodies. The long-term growth rate for Tesco Bank is based on inflation and GDP growth forecasts by recognised bodies.

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, using various reasonably possible scenarios based on recent market movements. Neither a one percentage point increase in discount rates nor a one percentage point decrease in year one sales growth would indicate impairment in any group of cash-generating units.

Impairment of other intangible assets

A net impairment loss of £16m (£21m losses offset by £5m reversal) has been recognised against other intangible assets as part of the impairment review discussed in Note 11. Of this loss, £14m has been included within exceptional items, classified as 'Net impairment reversal of non-current assets and onerous property provisions' within cost of sales in Note 4.

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 24 February 2018	**23,453**	**10,909**	**34,362**
Foreign currency translation	50	40	90
Additions[b]	518	533	1,051
Acquired through business combinations[c]	258	68	326
Reclassification[d]	926	(787)	139
Classified as held for sale	(48)	5	(43)
Disposals	(73)	(450)	(523)
Fully depreciated assets[e]	(135)	(3,255)	(3,390)
At 23 February 2019	**24,949**	**7,063**	**32,012**
Accumulated depreciation and impairment losses			
At 24 February 2018	**7,116**	**8,725**	**15,841**
Foreign currency translation	9	21	30
Charge for the year	500	579	1,079
Impairment losses	80	66	146
Reversal of impairment losses	(181)	(38)	(219)
Reclassification[d]	790	(787)	3
Classified as held for sale	(20)	5	(15)
Disposals	(60)	(426)	(486)
Fully depreciated assets[e]	(135)	(3,255)	(3,390)
At 23 February 2019	**8,099**	**4,890**	**12,989**
Net carrying value[f]			
At 23 February 2019	**16,850**	**2,173**	**19,023**
At 24 February 2018	16,337	2,184	18,521
Construction in progress included above[g]			
At 23 February 2019	**37**	**109**	**146**
At 24 February 2018	68	57	125

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,657m (2018: £1,752m), office equipment with a net carrying value of £292m (2018: £116m) and motor vehicles with a net carrying value of £224m (2018: £316m).

[b] Includes £1m (2018: £2m) 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 4.5% (2018: 4.5%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

[c] £326m relates to the acquisition of Booker. Refer to Note 31 for further details.

[d] Reclassification includes £892m related to fully depreciated assets no longer in use that were reclassified within property, plant and equipment, and £105m reclassified between property, plant and equipment and other intangible assets, prior to removal from the fixed assets registers.

[e] During the current financial year, the Group performed a comprehensive review of all fully depreciated assets held in the Group's fixed assets registers, and removed £3,390m of cost and accumulated depreciation and impairment losses relating to those fully depreciated assets which are no longer in use by the Group. This change will provide users with a greater understanding of the imputed depreciation rates on the Group's assets.

[f] Includes £803m (2018: £786m) of assets pledged as security for secured bonds and £489m (2018: £509m) of property held as security in favour of the Tesco PLC Pension Scheme. Refer to Notes 21 and 27.

[g] Construction in progress does not include land.

Assets held under finance leases

Net carrying value includes assets held under finance leases, which are analysed below. These assets are pledged as security for the finance lease liabilities.

	2019		2018	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	70	34	75	32

Land and buildings

The net carrying value of land and buildings comprises:

	2019 £m	2018 £m
Freehold assets[a][b]	14,563	14,117
Long leasehold improvements – 50 years or more	323	412
Short leasehold improvements – less than 50 years[a]	1,894	1,733
Assets held under finance leases[b]	70	75
Net carrying value	**16,850**	**16,337**

[a] £413m of freehold assets previously classified as short leasehold in the prior financial year have now been reclassified.
[b] Assets held under finance leases previously included within freehold land have now been disclosed separately.

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 25 February 2017	**22,690**	**10,681**	**33,371**
Foreign currency translation	312	116	428
Additions[b]	819	481	1,300
Reclassification	(83)	(49)	(132)
Classified as held for sale	(146)	(21)	(167)
Disposals	(139)	(299)	(438)
At 24 February 2018	**23,453**	**10,909**	**34,362**
Accumulated depreciation and impairment losses			
At 25 February 2017	**7,095**	**8,168**	**15,263**
Foreign currency translation	121	97	218
Charge for the year	470	605	1,075
Impairment losses	44	44	88
Reversal of impairment losses	(268)	(7)	(275)
Reclassification	(147)	100	(47)
Classified as held for sale	(92)	(11)	(103)
Disposals	(107)	(271)	(378)
At 24 February 2018	**7,116**	**8,725**	**15,841**
Net carrying value	**16,337**	**2,184**	**18,521**

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

Impairment of property, plant and equipment

The key estimates for value in use calculations are discount rates and expected changes to future cash flows.

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, including a Brexit risk adjustment in the UK & ROI segment. The 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 and range from 7% to 12% (2018: 7% to 12%). On a post-tax basis, the discount rates range from 6% to 9% (2018: 5% to 9%).

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on long-term average growth rates, which are derived from inflation forecasts by recognised bodies. These long-term average growth rates range from 1% to 3% (2018: 1% to 4%).

Fair values are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. 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. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £19,023m (2018: £18,521m) on the previous page comprises £15,067m (2018: £14,056m) of unimpaired assets and £3,956m (2018: £4,465m) of impaired assets. Of the impaired assets, £1,871m (2018: £1,795m) carrying value was supported by value in use and £2,085m (2018: £2,670m) 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.

The total net impairment reversal of £73m (£219m reversal offset by £146m losses) largely reflects normal fluctuations expected from store level performance, property fair values and changes in discount rates. These losses and reversals have been largely presented net at a country level to reflect the underlying trends in the businesses. The impairment reversal of £219m (2018: £275m) relates to properties in the UK & ROI of £129m (2018: £154m), Central Europe of £86m (2018: £112m) and Asia of £4m (2018: £9m), while the impairment losses of £146m (2018: £88m) relate to properties in the UK & ROI of £46m (2018: £50m), Central Europe of £64m (2018: £6m) and Asia of £36m (2018: £32m).

Note 11 Property, plant and equipment continued

Of the £73m net reversal (2018: £187m net reversal), a £68m reversal (2018: £183m reversal) within exceptional items related to trading stores has been classified as 'Net impairment reversal of non-current assets and onerous property provisions' within cost of sales. In addition, a £1m reversal (2018: £1m loss) within exceptional items related to closed stores has been classified as 'Net impairment reversal of non-current assets and onerous property provisions' within profits/(losses) arising on property-related items. In the prior financial year, a further £3m loss within exceptional items related to the unwind of the Group's joint venture with British Land has been classified as 'Property transactions' within profits/(losses) arising on property-related items. The remaining £4m reversal (2018: £8m reversal) has not been included within exceptional items as it relates to the Group's day-to-day management of the property portfolio.

The Group has carried out a sensitivity analysis on the impairment tests for its trading stores portfolio using various reasonably possible scenarios based on recent market movements including discount rates, sales growth and property fair values:

- An increase of one percentage point in the discount rates for each geographic region would increase impairment by £265m (2018: £231m). A decrease of one percentage point would decrease impairment by £227m (2018: £239m).
- An increase of one percentage point in year one sales growth for each geographic region would decrease impairment by £55m (2018: £40m). A decrease of one percentage point in year one sales growth would increase impairment by £64m (2018: £41m).
- An increase of five percentage points in property fair values for each geographic region would decrease impairment by £95m. A decrease of five percentage points in property fair values would increase impairment by £99m.

Note 12 Investment property

	2019 £m	2018 £m
Cost		
At the beginning of the year	**208**	**171**
Foreign currency translation	(3)	5
Additions	–	1
Reclassification	(1)	123
Classified as held for sale	–	(58)
Disposals	(86)	(34)
At the end of the year	**118**	**208**
Accumulated depreciation and impairment losses		
At the beginning of the year	**108**	**107**
Foreign currency translation	(2)	4
Charge for the year	1	1
Impairment losses for the year	1	1
Reversal of impairment losses for the year	(2)	(5)
Reclassification	(2)	23
Classified as held for sale	–	(3)
Disposals	(22)	(20)
At the end of the year	**82**	**108**
Net carrying value at the end of the year	**36**	**100**

The estimated fair value of the Group's investment property is £0.2bn (2018: £0.2bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

Note 13 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 169 to 172 for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 23 February 2019.

Consolidated structured entities

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

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 23 February 2019 within these financial statements.

Unconsolidated structured entities

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

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

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

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
Gain Land Limited	Associate	Retail	20%	British Virgin Islands	People's Republic of China/Hong Kong
Included in 'UK property joint ventures':					
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Atrato Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Property (No. 2) Limited Partnership	Joint venture	Property investment	50%	Jersey	United Kingdom
The Tesco Arena Unit Trust	Joint venture	Property investment	50%	Jersey	United Kingdom
Included in 'Other joint ventures and associates':					
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Tesco Underwriting Limited	Joint venture	Insurance	49.9%	England	United Kingdom
Trent Hypermarket Limited	Joint venture	Retail	50%	India	India
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Associate	Property investment	25%	Thailand	Thailand

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2018 to 28 February 2019. The accounting period end dates of joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

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

Management has applied judgement in determining that Gain Land Limited (Gain Land) is an associate of the Group. The Group has significant influence by virtue of holding 20% equity interest which presumes significant influence per IAS 28, together with having a contractual right to appoint two out of 10 Directors, while taking into account that the remaining 80% interest is held by one other party.

On 13 September 2018, the Group exercised its option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by the other joint venture partner. Refer to Note 34.

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

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

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

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

Note 13 Group entities continued

Summarised financial information for joint ventures and associates

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

	UK property joint ventures		Gain Land Limited	
	2019 £m	2018 £m	12 months to Dec 2018 £m	12 months to Dec 2017 £m
Summarised balance sheet				
Non-current assets[a]	3,786	3,851	3,864	3,924
Current assets (excluding cash and cash equivalents)	98	92	2,291	1,801
Cash and cash equivalents	40	37	649	414
Current liabilities[b]	(359)	(304)	(5,943)	(5,318)
Non-current liabilities[b]	(4,529)	(4,561)	(519)	(409)
Net assets/(liabilities)	**(964)**	**(885)**	**342**	**412**
Summarised income statement				
Revenue	289	280	9,038	9,097
Profit/(loss) after tax	**–**	**–**	**(48)**	**(230)**
Reconciliation to carrying amounts:				
Opening balance	**–**	**–**	**366**	**433**
Additions/(disposals)	–	–	–	–
Foreign currency translation	–	–	9	(21)
Share of profits/(losses)[c]	15	12	(10)	(46)
Dividends received from joint ventures and associates	(15)	(12)	–	–
Deferred profits offset against carrying amounts[d]	–	–	–	–
Closing balance	**–**	**–**	**365**	**366**
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/(liabilities)	(482)	(443)	68	82
Goodwill	–	–	297	284
Deferred property profits offset against carrying amounts[d]	(61)	(61)	–	–
Cumulative unrecognised losses[c]	183	168	–	–
Cumulative unrecognised hedge reserves[c]	360	336	–	–
Carrying amount	**–**	**–**	**365**	**366**

(a) The non-current asset balances of UK property joint ventures are reflected at historical depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the UK property joint ventures are £5,503m (2018: £4,983m).

(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,809m (2018: £3,892m) and derivative swap balances of £720m (2018: £672m) entered into to hedge the cash flow variability exposures of the joint ventures.

(c) The share of profit for the year for UK property joint ventures related to £15m dividends received from joint ventures with £nil carrying amounts. £2m of losses and £24m of increases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.

(d) Deferred profits that arose from the transfer of properties into the UK property joint ventures have been offset against the carrying amounts of the related joint ventures. £2m relating to BLT Properties Limited has been released during the prior financial year as a result of the joint venture being wound up on 6 April 2017.

At 23 February 2019, the Group has £105m (2018: £104m) loans to UK property joint ventures.

Other joint ventures and associates

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

	Joint ventures		Associates	
	2019 £m	2018 £m	2019 £m	2018 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	275	262	64	61
Group's share of profits/(losses) for the year	15	17	15	11

Impairment

Management has performed impairment tests and sensitivity analysis on its investments in Gain Land, Trent Hypermarket Limited and Tesco Underwriting Limited. The carrying values of Trent Hypermarket Limited of £102m (2018: £98m) and Tesco Underwriting Limited of £86m (2018: £90m) are included within 'Other joint ventures and associates' as discussed above.

The recoverable values of these investments were estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses. No impairment was recognised in the year for these investments. Future changes in estimated cash flows, discount rates, competitive landscape, retail market conditions and other factors may result in impairment losses or reversals of impairment in future periods.

Note 14 Financial assets at fair value through other comprehensive income

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

	2019 £m	2018 £m
Investments in debt instruments	1,040	924
Investments in equity instruments	6	4
Total financial assets at fair value through other comprehensive income	**1,046**	**928**
Of which:		
Current	67	68
Non-current	979	860
	1,046	**928**

Note 15 Inventories

	2019 £m	2018 £m (restated)
Goods held for resale	2,611	2,260
Development properties	6	4
	2,617	**2,264**

Goods held for resale are net of commercial income. Refer to Note 20.

Note 16 Trade and other receivables

	2019 £m	2018 £m (restated)
Trade receivables	598	488
Prepayments	297	317
Accrued income[a]	297	261
Other receivables	473	459
Amounts owed by joint ventures and associates (Note 29)[b]	170	165
Total trade and other receivables	**1,835**	**1,690**
Of which:		
Current	1,640	1,504
Non-current	195	186
	1,835	**1,690**

[a] Accrued income includes contract assets of £28m (2018: £15m) primarily related to insurance renewal income.
[b] Impairment on amounts owed by joint ventures and associates is not material.

Trade and other receivables include commercial income. Refer to Note 20. Trade and other receivables are generally non-interest-bearing. Credit terms vary by country and the nature of the debt, ranging from 7 to 60 days.

The table below presents the balance and movements in the provision for impairment of trade and other receivables.

	2019 £m	2018 £m (restated)
At the beginning of the year	**(46)**	**(55)**
IFRS 9 adjustment	–	–
Increase in allowance, net of recoveries, charged to the Group income statement	(21)	(4)
Amounts written off	8	13
At the end of the year	**(59)**	**(46)**

For the comparative period, analysis of the ageing of past due trade and other receivables under IAS 39 is set out below:

	Past due but not impaired 2018 £m	Past due and impaired 2018 £m
Up to three months past due	83	–
Three to six months past due	9	2
Over six months past due	3	11
	95	**13**

Note 17 Loans and advances to customers and banks

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

	2019 £m	2018 £m
Current	4,882	4,637
Non-current	7,868	6,885
	12,750	**11,522**

The maturity of these loans and advances is as follows:

	2019 £m	2018 £m
Repayable on demand or at short notice	4	4
Within three months	4,858	4,604
Greater than three months but less than one year	323	147
Greater than one year but less than five years	3,057	2,633
After five years	4,993	4,372
	13,235	**11,760**
Provision for impairment of loans and advances to customers and banks	(485)	(238)
	12,750	**11,522**

At 28 February 2019, £3.2bn (2018: £3.5bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £2.3bn (2018: £1.6bn).

At 28 February 2019, Delamare Cards MTN Issuer plc had £2.4bn (2018: £2.4bn) notes in issue in relation to securitisation transactions, of which £0.9bn (2018: £1.0bn) was externally issued. The Group owned £1.1bn (2018: £1.1bn) class A Credit Card backed notes and £0.3bn (2018: £0.3bn) class D Credit Card backed notes.

Of the total £1.1bn (2018: £1.1bn) class A notes, £0.5bn (2018: £0.3bn) is held in a distinct pool for the purposes of collateralising the Bank of England's Term Funding Scheme drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Provision for impairment of loans and advances

	2019 £m	2018 £m
At the beginning of the year	**(238)**	**(194)**
IFRS 9 adjustment	(228)	–
Increase in allowance, net of recoveries, charged to the Group income statement	(163)	(134)
Amounts written off	139	87
Unwinding of discount	5	3
At the end of the year	**(485)**	**(238)**

Note 18 Cash and cash equivalents and short-term investments

Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	2,683	3,580
Short-term deposits	233	479
	2,916	**4,059**

Short-term investments

	2019 £m	2018 £m
Money market funds	390	1,029

Cash and cash equivalents includes £62m of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts. At the prior financial year end, £777m was set aside for completion of the merger with Booker Group plc, with £766m being paid on completion. Refer to Note 31 for further details on the Booker merger.

Note 19 Trade and other payables

	2019 £m	2018 £m (restated)
Trade payables	5,750	5,416
Other taxation and social security	521	334
Other payables	1,794	1,947
Amounts payable to joint ventures and associates (Note 29)	20	20
Accruals	1,230	1,147
Contract liabilities	423	494
Total trade and other payables	**9,738**	**9,358**
Of which:		
Current	9,354	8,994
Non-current	384	364
	9,738	**9,358**

Trade and other payables are net of commercial income. Refer to Note 20.

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

Note 20 Commercial income

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

	2019 £m	2018 £m
Current assets		
Inventories	(69)	(69)
Trade and other receivables		
Trade/other receivables	183	169
Accrued income	155	186
Current liabilities		
Trade and other payables		
Trade payables*	327	199
Accruals	(4)	(7)

* The commercial income balance netted against trade payables increased from £199m to £327m. This increase primarily relates to the delayed settlement of commercial income receivables, due to the decision to delay the implementation of a new general ledger system in the UK & ROI, and inclusion of commercial income balances related to Booker.

Note 21 Borrowings

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

Current

	Par value	Maturity	2019 £m	2018 £m
Bank loans and overdrafts	–	–	387	351
Loans from joint ventures (Note 29)	–	–	–	6
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	–	126
3.375% MTN	€750m	Nov 2018	–	667
1.375% MTN[(a)]	€726m	Jul 2019	636	–
5.5% MTN[(a)]	£97m	Dec 2019	98	–
1% RPI Tesco Bank Retail Bond[(b)]	£72m	Dec 2019	72	–
LIBOR + 0.65% Tesco Bank Bond[(c)]	£300m	Apr 2020	–	300
LIBOR + 0.65% Tesco Bank Bond[(d)]	£350m	May 2021	350	–
5.5457% Secured Bond[(e)(f)]	£332m	Feb 2029	20	17
Finance leases (Note 34)			36	12
			1,599	**1,479**

Non-current

	Par value	Maturity	2019 £m	2018 £m
1.375% MTN[(a)]	€726m	Jul 2019	–	826
5.5% MTN[(a)]	£97m	Dec 2019	–	183
1% RPI Tesco Bank Retail Bond[(b)]	£72m	Dec 2019	–	70
2.125% MTN	€500m	Nov 2020	436	441
1m USD LIBOR + 0.70% Tesco Bank Bond	$350m	Nov 2020	262	–
5% Tesco Bank Retail Bond	£200m	Nov 2020	203	204
LIBOR + 0.65% Tesco Bank Bond[(d)]	£350m	May 2021	–	350
6.125% MTN[(a)]	£531m	Feb 2022	561	952
LIBOR + 0.53% Tesco Bank Bond[(g)]	£300m	Oct 2022	299	298
5% MTN[(a)]	£171m	Mar 2023	183	254
1.375% MTN	€750m	Oct 2023	658	–
2.5% MTN	€750m	Jul 2024	658	666
3.322% LPI MTN[(h)]	£346m	Nov 2025	349	338
5.5457% Secured Bond[(e)(f)]	£332m	Feb 2029	303	322
6.067% Secured Bond[(e)]	£200m	Feb 2029	191	190
LIBOR +1.2% Secured Bond[(e)]	£50m	Feb 2029	34	33
6% MTN[(a)]	£98m	Dec 2029	119	198
5.5% MTN[(a)]	£150m	Jan 2033	186	221
1.982% RPI MTN[(i)]	£286m	Mar 2036	288	279
6.15% USD Bond[(a)]	$525m	Nov 2037	428	616
4.875% MTN[(a)]	£32m	Mar 2042	32	103
5.125% MTN	€356m	Apr 2047	319	323
5.2% MTN[(a)]	£73m	Mar 2057	71	165
Finance leases (Note 34)			93	110
			5,673	**7,142**

(a) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 1.375% MTN Jul 2019 €205m, 5.5% MTN Dec 2019 £84m, 6.125% MTN Feb 2022 £369m, 5% MTN Mar 2023 £67m, 6% MTN Dec 2029 £61m, 5.5% MTN Jan 2033 £26m, 6.15% USD Bond Nov 2037 $325m, 4.875% MTN Mar 2042 £70m and 5.2% MTN Mar 2057 £95m.

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

(c) This bond was issued on 13 May 2015 and was redeemed on its scheduled redemption date in April 2018.

(d) This bond was issued on 6 June 2014. The scheduled redemption date of this bond is May 2019.

(e) 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 £803m (2018: £786m).

(f) This is an amortising bond which matures in February 2029. £20m (2018: £17m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.

(g) This bond was issued on 7 November 2017. The scheduled redemption date of this bond is October 2020.

(h) 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%.

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

Borrowing facilities

The Group has the following undrawn committed facilities available at 23 February 2019, in respect of which all conditions precedent had been met as at that date:

	2019 £m	2018 £m
Expiring in less than one year	38	38
Expiring between one and two years	–	–
Expiring in more than two years	3,000	4,232
	3,038	**4,270**

The undrawn committed facilities include £0.4bn (2018: £1.6bn) of bilateral facilities and a £2.6bn (2018: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 22 Financial instruments

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

	2019		2018 (restated)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	2,916	2,916	4,059	4,059
Loans and advances to customers and banks – Tesco Bank	12,750	12,931	11,522	11,659
Short-term investments	390	390	1,029	1,029
Joint ventures and associates loan receivables*	133	133	138	139
Liabilities				
Short-term borrowings:				
Amortised cost	(1,491)	(1,499)	(1,467)	(1,240)
Bonds in fair value hedge relationships	(72)	(70)	–	–
Long-term borrowings:				
Amortised cost	(3,954)	(4,369)	(6,137)	(6,210)
Bonds in fair value hedge relationships	(1,626)	(1,622)	(895)	(818)
Finance leases	(129)	(139)	(122)	(132)
Customer deposits – Tesco Bank	(10,465)	(10,427)	(9,245)	(9,224)
Deposits from banks – Tesco Bank	(1,663)	(1,663)	(1,539)	(1,539)

* Joint ventures and associates loan receivables carrying amounts of £133m (2018: £138m) are presented in the Group balance sheet net of deferred profits of £54m (2018: £54m) historically arising from the sale of property assets to joint ventures.

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

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

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

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 23 February 2019 and 24 February 2018 are as follows:

At 23 February 2019	Financial assets at fair value through other comprehensive income £m	Financial assets/ liabilities at amortised cost £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,885	31	2,916
Loans and advances to customers and banks – Tesco Bank	–	12,750	–	12,750
Short-term investments	–	390	–	390
Financial assets at fair value through other comprehensive income	1,046	–	–	1,046
Joint ventures and associates loan receivables	–	133	–	133
Customer deposits – Tesco Bank	–	(10,465)	–	(10,465)
Deposits from banks – Tesco Bank	–	(1,663)	–	(1,663)
Short-term borrowings	–	(1,563)	–	(1,563)
Long-term borrowings	–	(5,580)	–	(5,580)
Finance leases	–	(129)	–	(129)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(29)	(29)
Cross-currency swaps	–	–	325	325
Index-linked swaps	–	–	292	292
Forward contracts	–	–	3	3
	1,046	**(3,242)**	**622**	**(1,574)**

Note 22 Financial instruments continued

At 24 February 2018	Available-for-sale £m	Financial assets/ liabilities at amortised cost £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	4,059	–	4,059
Loans and advances to customers and banks – Tesco Bank	–	11,522	–	11,522
Short-term investments	–	1,029	–	1,029
Financial assets at fair value through other comprehensive income	928	–	–	928
Joint ventures and associates loan receivables	–	138	–	138
Customer deposits – Tesco Bank	–	(9,245)	–	(9,245)
Deposits from banks – Tesco Bank	–	(1,539)	–	(1,539)
Short-term borrowings	–	(1,467)	–	(1,467)
Long-term borrowings	–	(7,032)	–	(7,032)
Finance leases	–	(122)	–	(122)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(58)	(58)
Cross-currency swaps	–	–	297	297
Index-linked swaps	–	–	281	281
Forward contracts	–	–	(39)	(39)
	928	**(2,657)**	**481**	**(1,248)**

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

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 23 February 2019 and 24 February 2018, by level of fair value hierarchy:

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

At 23 February 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	1,040	–	6	1,046
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	38	–	38
Cross-currency swaps	–	342	–	342
Index-linked swaps	–	811	–	811
Forward contracts	–	39	–	39
Total assets	**1,040**	**1,230**	**6**	**2,276**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(67)	–	(67)
Cross-currency swaps	–	(17)	–	(17)
Index-linked swaps	–	(519)	–	(519)
Forward contracts	–	(29)	(7)	(36)
Total liabilities	**–**	**(632)**	**(7)**	**(639)**
Net assets/(liabilities)	**1,040**	**598**	**(1)**	**1,637**

At 24 February 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	923	–	5	928
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	47	–	47
Cross-currency swaps	–	345	–	345
Index-linked swaps	–	724	–	724
Forward contracts	–	28	–	28
Total assets	**923**	**1,144**	**5**	**2,072**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(105)	–	(105)
Cross-currency swaps	–	(48)	–	(48)
Index-linked swaps	–	(443)	–	(443)
Forward contracts	–	(67)	–	(67)
Total liabilities	**–**	**(663)**	**–**	**(663)**
Net assets/(liabilities)	**923**	**481**	**5**	**1,409**

The following table presents the changes in Level 3 instruments for the 52 weeks ended 23 February 2019 and 52 weeks ended 24 February 2018:

	2019 £m	2018 £m
At the beginning of the year	**5**	**130**
Gains/(losses) recognised in the Group statement of comprehensive income/(loss)	1	68
Addition of financial instrument at fair value through profit and loss	(7)	–
Disposal of financial asset at fair value through other comprehensive income	–	(196)
Addition of financial asset at fair value through other comprehensive income	–	3
At the end of the year	**(1)**	**5**

During the financial year, there were £nil transfers (2018: £nil) between Level 1 and Level 2 fair value measurements, and £nil transfers into and out of Level 3 fair value measurements (2018: £nil).

Offsetting of financial assets and liabilities

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

At 23 February 2019	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet: Financial instruments £m	Related amounts not offset in the Group balance sheet: Collateral £m	Net amount £m
Financial assets						
Cash and cash equivalents	4,227	(1,311)	2,916	–	–	2,916
Derivative financial instruments	1,230	–	1,230	(223)	(12)	995
Total trade and other receivables[a]	2,105	(270)	1,835	–	–	1,835
Total assets	**7,562**	**(1,581)**	**5,981**	**(223)**	**(12)**	**5,746**
Financial liabilities						
Bank loans and overdrafts	(1,698)	1,311	(387)	–	–	(387)
Repurchases, securities lending and similar agreements[b]	(324)	–	(324)	–	3,006	2,682
Derivative financial instruments	(639)	–	(639)	223	33	(383)
Total trade and other payables[c]	(10,008)	270	(9,738)	–	–	(9,738)
Total liabilities	**(12,669)**	**1,581**	**(11,088)**	**223**	**3,039**	**(7,826)**

At 24 February 2018	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet: Financial instruments £m	Related amounts not offset in the Group balance sheet: Collateral £m	Net amount £m
Financial assets						
Cash and cash equivalents	4,187	(128)	4,059	–	–	4,059
Derivative financial instruments	1,144	–	1,144	(217)	(18)	909
Total trade and other receivables[a]	1,887	(219)	1,668	–	–	1,668
Total assets	**7,218**	**(347)**	**6,871**	**(217)**	**(18)**	**6,636**
Financial liabilities						
Bank loans and overdrafts	(479)	128	(351)	–	–	(351)
Repurchases, securities lending and similar agreements[b]	(200)	–	(200)	380	–	180
Derivative financial instruments	(663)	–	(663)	217	55	(391)
Total trade and other payables[c]	(9,579)	219	(9,360)	–	–	(9,360)
Total liabilities	**(10,921)**	**347**	**(10,574)**	**597**	**55**	**(9,922)**

[a] Total trade and other receivables includes £297m (2018: £317m) of prepayments.
[b] Repurchases, securities lending and similar agreements are included within the deposits from banks balance of £1,663m (2018: £1,539m) in the Group balance sheet. Refer to Note 24.
[c] Total trade and other payables includes £423m (2018: £494m) of contract liabilities.

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

Note 23 Financial risk management

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

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

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

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

	2019		2018	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	52	(250)	27	(69)
Non-current	1,178	(389)	1,117	(594)
	1,230	**(639)**	**1,144**	**(663)**

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

Fair value hedges

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

Cash flow hedges

The Group uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged are expected to occur within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies.

The Group also uses forward contracts to hedge the future purchase of diesel for own use.

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations (with non-Sterling functional currency) against changes in value due to changes in foreign exchange rates.

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

		Continued hedges	Discontinued hedges
	Notional £m	Movement £m	Movement £m
Losses on net investment hedges brought forward		**(58)**	**(978)**
Borrowings	1,281	16	2
Losses carried forward		**(42)**	**(976)**

During the year, €205m of the opening €931m 1.375% MTN July 2019 was repaid, leaving €726m designated as a net investment hedge at the year end. €623m of the €750m 3.375% MTN Nov 2018, which matured in the period, was designated as a net investment hedge. There were no reclassifications from foreign currency translation reserve and net investment hedge ineffectiveness was £nil during the year.

Financial instruments not qualifying for hedge accounting

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

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

	2019				2018			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	37	3,844	(49)	2,701	43	2,424	(87)	1,728
Cross-currency swaps	126	180	(8)	222	129	401	(48)	207
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(17)	110	–	–	(17)	110
Cross-currency swaps	216	1,394	(9)	272	216	1,413	–	–
Index-linked swaps	187	692	–	–	160	672	–	–
Forward contracts	32	1,558	(18)	1,010	23	736	(53)	1,491
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	1	432	(1)	244	4	436	(1)	528
Cross-currency swaps	–	–	–	–	–	–	–	–
Index-linked swaps	624	3,589	(519)	3,589	564	3,590	(443)	3,590
Forward contracts	7	901	(18)	1,511	5	795	(14)	1,896
Total	**1,230**	**12,590**	**(639)**	**9,659**	**1,144**	**10,467**	**(663)**	**9,550**

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

	Maturity		
At 23 February 2019	Up to one year	One to five years	More than five years
Fair value hedges			
Interest rate risk			
Interest rate swaps – EUR			
– Notional amount (£m)	1,383	4,937	160
– Average net interest rate (pay)/receive	(0.83%)	(0.86%)	4.12%
Interest rate swaps – GBP			
– Notional amount (£m)	–	65	–
– Average net interest rate (pay)/receive	–	3.49%	–
Interest rate/Foreign currency risk			
Cross currency swaps (GBP:USD)			
– Notional amount (£m)	–	–	402
– Average exchange rate	–	–	1.50
– Average net interest rate (pay)/receive	–	–	3.04%
Cash flow hedges			
Interest rate risk			
Index linked swaps			
– Notional amount (£m)	60	–	632
– Average net interest rate (pay)/receive	(1.99%)	–	(4.22%)
Interest rate swaps			
– Notional amount (£m)	60	–	50
– Average net interest rate (pay)/receive	1.57%	–	(4.12%)
Interest rate/Foreign currency risk			
Cross currency swaps (GBP:USD) floating			
– Notional amount (£m)	–	272	–
– Average exchange rate	–	1.29	–
– Average net interest rate (pay)/receive	–	(1.62%)	–
Cross currency swaps (GBP:USD) fixed			
– Notional amount (£m)	–	434	960
– Average exchange rate	–	1.19	1.31
– Average net interest rate (pay)/receive	–	(0.87%)	(1.09%)

At 23 February 2019, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2.6bn were outstanding (2018: £2.2bn). These forward contracts are largely in relation to purchases of Euro (notional €2.0bn) and US Dollar (notional $1.1bn) with varying maturities up to January 2020. The notional and fair values of these contracts is shown in the table above.

Note 23 Financial risk management continued

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

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

[a] Accumulated amount of fair value hedge adjustments remaining in the Group balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses.
[b] Classified as loans and advances to customers.
[c] Classified as borrowings.

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

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

* Excludes deferred tax.

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

At 23 February 2019	Hedge ineffectiveness recognised in profit or loss £m	Line item in Group income statement that includes hedge ineffectiveness
Cash flow hedges	–	Net finance costs
Net investment hedges	–	Net finance costs
Fair value hedges		
Borrowings	(22)	Net finance costs
Derivatives	–	Net finance costs

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

	Cash flow hedge reserve £m	Currency basis reserve £m	Line item
At 24 February 2018 (as previously reported)	**40**	**–**	
Adjustment on initial application of IFRS 9 (net of tax) (Note 36)	(1)	1	
At 25 February 2018 (restated)	**39**	**1**	
Interest rate risk			
Index-linked swaps			
– Net fair value gains/(losses)	30	–	
– Amount reclassified to Group income statement	(20)	–	Net finance costs
Interest rate swaps			
– Net fair value gains/(losses)	(1)	–	
– Amount reclassified to Group income statement	–	–	Net finance costs
Interest rate/Foreign currency risk			
Cross currency swaps			
– Net fair value gains/(losses)	15	(6)	
– Amount reclassified to Group income statement	8	–	Net finance costs
Foreign currency risk			
Forward contracts			
– Net fair value gains/(losses)	92	–	
– Amount reclassified to Inventory	(45)	–	Inventory
Tax	–	–	
At 23 February 2019	**118**	**(5)**	

Interest rate risk

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

The Group's policy is to target fixing a minimum of 50% of interest costs for senior unsecured debt of the Group excluding Tesco Bank. At 23 February 2019, the percentage of interest-bearing debt at fixed rates was 78% (2018: 90%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 3.76% (2018: 4.26%).

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

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

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 137.

During 2019 and 2018, net debt was managed using derivative instruments to hedge interest rate risk.

	2019			2018		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	2,916	2,916	–	4,059	4,059
Loans and advances to customers – Tesco Bank	8,328	4,422	12,750	6,929	4,593	11,522
Short-term investments	–	390	390	–	1,029	1,029
Financial assets at fair value through other comprehensive income	475	571	1,046	803	125	928
Joint ventures and associates loan receivables	76	57	133	76	62	138
Finance leases	(129)	–	(129)	(122)	–	(122)
Bank and other borrowings	(5,810)	(1,333)	(7,143)	(6,836)	(1,663)	(8,499)
Customer deposits – Tesco Bank	(3,714)	(6,751)	(10,465)	(3,447)	(5,798)	(9,245)
Deposits from banks – Tesco Bank	(1,663)	–	(1,663)	(1,539)	–	(1,539)
Derivative effect:						
Interest rate swaps	(5,899)	5,899	–	(5,096)	5,096	–
Cross-currency swaps	402	(402)	–	608	(608)	–
Index-linked swaps	(346)	346	–	(337)	337	–
Total	**(8,280)**	**6,115**	**(2,165)**	**(8,961)**	**7,232**	**(1,729)**

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits from banks and financial institutions.

The Group holds positions with an approved list of investment-grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. The net counterparty exposure under derivative contracts is £1.0bn (2018: £0.9bn). The Group considers its maximum credit risk to be £19.7bn (2018: £19.6bn) largely based on the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 138.

Liquidity risk

The Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases. The policy is to maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise. The Group retains access to capital markets so that maturing debt may be refinanced as it falls due.

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has undrawn committed facilities totalling £3.0bn (2018: £4.3bn), consisting of a syndicated revolving credit facility and bilateral facilities, which mature between 2020 and 2021.

The Group has a £15.0bn Euro Medium Term Note programme, of which £4.2bn was in issue at 23 February 2019 (2018: £5.3bn), plus £0.4bn equivalent of USD denominated notes issued under 144A documentation (2018: £0.6bn).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 137 and 138.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivative liabilities taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow of £20.3bn is considered acceptable as it is offset by financial assets of £19.2bn (2018: £18.6bn offset by financial assets of £19.6bn).

Note 23 Financial risk management continued

The undiscounted cash flows will differ from both the carrying values and fair values. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 3% for the life of the liability (2018: 3%).

At 23 February 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,515)	(1,221)	(556)	(28)	(854)	(3,118)
Interest payments on borrowings	(258)	(205)	(176)	(142)	(141)	(1,267)
Customer deposits – Tesco Bank	(8,569)	(1,348)	(336)	(108)	(186)	(1)
Deposits from banks – Tesco Bank	(337)	(410)	(945)	–	–	–
Finance leases	(44)	(11)	(11)	(11)	(7)	(127)
Trade and other payables[(a)]	(9,354)	(28)	(41)	(11)	(11)	(293)
Derivative financial liabilities						
Net settled derivative contracts – receipts	6	3	2	–	–	–
Net settled derivative contracts – payments	(291)	(340)	(59)	(79)	(6)	(20)
Gross settled derivative contracts – receipts	2,438	(262)	14	–	–	–
Gross settled derivative contracts – payments	(2,460)	260	(43)	–	–	–
Total	**(20,348)**	**(3,562)**	**(2,151)**	**(379)**	**(1,205)**	**(4,826)**

At 24 February 2018	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,401)	(1,445)	(963)	(926)	(28)	(3,860)
Interest payments on borrowings	(298)	(323)	(243)	(219)	(163)	(1,852)
Customer deposits – Tesco Bank	(7,655)	(874)	(500)	(179)	(105)	–
Deposits from banks – Tesco Bank	(209)	(12)	(412)	(947)	–	–
Finance leases	(20)	(34)	(11)	(11)	(11)	(120)
Trade and other payables[(a)(b)]	(8,996)	(34)	(34)	(25)	(24)	(247)
Derivative financial liabilities						
Net settled derivative contracts – receipts	15	9	5	5	2	1
Net settled derivative contracts – payments	(27)	(197)	(340)	(37)	(58)	(109)
Gross settled derivative contracts – receipts	3,366	15	103	13	–	–
Gross settled derivative contracts – payments	(3,426)	(13)	(97)	(71)	–	–
Total	**(18,651)**	**(2,908)**	**(2,492)**	**(2,397)**	**(387)**	**(6,187)**

(a) Trade and other payables includes £423m (2018: £494m) of contract liabilities.

(b) Prior year derivative financial liabilities amounts have been adjusted to reflect the gross up of derivatives in a liability position at year-end.

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Group income statement are hedged. These exposures are hedged via forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group hedges a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. During the current financial year, currency movements increased the net value, after the effects of hedging, of the Group's overseas assets by £100m (2018: increase by £318m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries. These are hedged via foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

The impact on the Group financial statements from foreign currency volatility is shown in the sensitivity analysis below.

Sensitivity analysis

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

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

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 23 February 2019. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2019		2018	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2018: 1%)	58	(32)	69	(30)
10% appreciation of the Euro (2018: 10%)	1	(96)	4	(143)
10% appreciation of the US Dollar (2018: 10%)	–	100	6	129

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

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

Capital risk

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

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

The Group raises finance in the public debt markets and borrows from financial institutions. The policy for debt is to smooth the debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year, with debt redeemed of £2.3bn (2018: £2.7bn). One €750m bond with a maturity of October 2023 was issued in the current financial year (2018: nil). The Group borrows centrally and locally, using a variety of capital market instruments and borrowing facilities to meet the Group's business requirements of each local business.

Refer to Note 30 for the value of the Group's net debt (£3.2bn; 2018: £2.6bn), and the Group statement of changes in equity for the value of the Group's equity (£14.8bn; 2018: £10.5bn).

Insurance risk

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

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

Tesco Bank

Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates and from unexpected changes to the yield curve. Tesco Bank is exposed to interest rate risk through dealings with retail customers as well as through lending to and borrowing from the wholesale market. Tesco Bank has established limits for risk appetite and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. Tesco Bank also use the Capital at Risk (CaR) approach which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

Liquidity and funding risk

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

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

Note 23 Financial risk management continued

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

Credit risk

Credit risk is the risk that a bank borrower or counterparty will fail to meet its obligations in accordance with contractually agreed terms and Tesco Bank will incur losses as a result. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time. Assessment of the expected credit loss (ECL) on loans and advances to customers and banks has taken into account a range of macro-economic scenarios, one of which reflects a no-deal Brexit.

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

The sensitivities in the ECL allowance to reasonably possible changes in the following key assumptions as at 28 February 2019 are set out below:

Key assumption	Reasonably possible change	Impact on ECL allowance (£ million)
Probability of default	Increase of 2.5%	9
	Decrease of 2.5%	(9)
Loss given default	Increase of 2.5%	12
	Decrease of 2.5%	(12)
Macro-economic factors	Upside scenario	(33)
	Base scenario	(21)
	Downside scenario	67
Probability of default threshold (staging)	Increase of 20%	(14)
	Decrease of 20%	10

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

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

Controls and risk mitigants

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

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

	Gross Loans and Advances subject to Forbearance Programmes		Forbearance programmes as a proportion of total Loans and Advances by category		Proportion of Forbearance Programmes covered by impairment provision	
	2019 £m	2018 £m	2019 %	2018 %	2019 %	2018 %
Credit cards – UK	92.8	69.6	2.0	1.5	53.3	72.3
Credit cards – Europe	–	0.9	–	2.7	–	40.9
Credit cards – Commercial	0.1	0.1	4.8	4.7	90.8	95.0
Loans	48.4	42.4	1.1	1.0	48.0	68.2
Mortgages	6.0	5.9	0.2	0.2	1.2	0.2

Amended disclosures in line with IFRS 9 requirements have been applied to the current financial year only. The comparative period note disclosures repeat those disclosures made in the prior year. Below are the areas of disclosure in relation to the prior year which have been replaced in the current year by amended IFRS 9 disclosures as above.

Asset quality

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt.

Controls and risk mitigants

Tesco Bank's asset quality is reflected through the level of its impairment by lending type. Asset quality is maintained through credit and affordability assessments at asset origination, combined with regular monitoring and reporting of asset quality to the appropriate Senior Management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business. The prior financial year amounts below are presented gross of impairment and exclude fair value hedge adjustments of £(16)m.

At 24 February 2018	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	44	–	–	44
90-179 days past due	59	–	–	59
180 days plus past due	109	–	–	109
Past due but not impaired				
Less than 29 days past due	55	1	–	56
30-59 days past due	20	–	–	20
60-119 days past due	13	–	–	13
Neither past due nor impaired				
Low risk[a]	8,010	2,983	129	11,122
High risk[b]	327	26	–	353
Total	**8,637**	**3,010**	**129**	**11,776**

[a] Low risk is defined as an asset with a probability of default of less than 10%.

[b] High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off-balance sheet items in 2019, mainly undrawn contractual lending commitments, was £12.2bn (2018: £12.4bn).

Gross loans and advances to customers of £17m were subject to active forbearance arrangements and were considered to be not impaired on the basis that the Group did not anticipate that the future expected cash flows of the gross loans and advances would be impacted. Of this total, £5m was included in 'neither past due nor impaired' and £12m in 'past due but not impaired'.

Insurance risk

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

Note 24 Customer deposits and deposits from banks

	2019 £m	2018 £m
Customer deposits	10,465	9,245
Deposits from banks	1,663	1,539
	12,128	**10,784**
Of which:		
Current	8,832	7,812
Non-current	3,296	2,972
	12,128	**10,784**

Deposits from banks include liabilities of £324m (2018: £200m) that have been sold under sale and repurchase agreements.

Note 25 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 25 February 2017 (as previously reported)	**851**	**98**	**174**	**1,123**
IFRS 15 restatement (Note 36)	–	–	(3)	(3)
At 26 February 2017 (restated)	**851**	**98**	**171**	**1,120**
Foreign currency translation	5	1	–	6
Amount released in the year	(33)	(32)	(14)	(79)
Amount provided in the year	153	157	211	521
Amount utilised in the year	(120)	(146)	(50)	(316)
Unwinding of discount	13	–	–	13
At 24 February 2018	**869**	**78**	**318**	**1,265**
Foreign currency translation	2	(1)	–	1
Acquired through business combination (Note 31)	40	–	4	44
Amount released in the year	(68)	(26)	(196)	(290)
Amount provided in the year	115	221	53	389
Amount utilised in the year	(118)	(129)	(110)	(357)
Unwinding of discount	15	–	–	15
At 23 February 2019	**855**	**143**	**69**	**1,067**

The balances are analysed as follows:

	2019 £m	2018 £m
Current	320	544
Non-current	747	721
	1,067	**1,265**

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions.

The calculation of the value in use of the leased properties to the Group is based on the same assumptions for growth rates and expected changes to future cash flows as those for Group owned properties, as discussed in detail in Note 11, discounted at the appropriate risk-free rate. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the appropriate risk-adjusted rate. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Based on the factors set out above, the Group has recognised a net onerous property provision charge in the year of £47m (2018: £120m), comprising a £115m charge and £68m release, largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties.

Of the net £47m (2018: £120m) onerous property provision charge recognised in the year, a £44m (2018: £105m) charge has been recognised as an exceptional item within cost of sales classified as ‘Net impairment reversal of non-current assets and onerous property provisions’. The remaining £3m charge was not included in exceptional items.

The Group has performed sensitivity analysis on the onerous lease provisions using reasonably possible scenarios based on recent market movements. Neither a half a percentage point increase nor decrease in the risk-free rate would result in a material change to the onerous lease provisions.

Onerous lease provisions will be utilised over the relevant lease terms, predominantly within the next 25 years.

Restructuring provisions

Of the £195m net charge (£221m charge, £26m release) recognised in the year, £182m (2018: £102m) has been classified within exceptional items as ‘Net restructuring and redundancy costs’ and related to store and head office restructuring in the UK & ROI £131m (2018: £102m), Central Europe £27m (2018: £nil), Asia £26m (2018: £nil) and Tesco Bank £2m release (2018: £nil).

Other provisions

In prior financial years Tesco PLC and Tesco Freetime Limited, a wholly-owned subsidiary undertaking of the Group, initiated an appeal against Her Majesty’s Revenue and Customs (HMRC) regarding the treatment of VAT on Clubcard rewards. Following the Upper Tier Tribunal ruling in the Group’s favour on 24 January 2019, HMRC’s Solicitors Office confirmed that they would not appeal the ruling. The Group has therefore released the £176m provision within exceptional items, classified as ‘Freetime VAT provision release’ within cost of sales.

On 1 October 2018, the FCA issued a warning notice to the Group in relation to an online fraudulent attack against Tesco Bank’s debit cards in November 2016. The Group agreed to a settlement payment of £16m which was paid in the year.

Other provisions also include provisions for Tesco Bank customer redress in respect of potential complaints arising from the historical sales of PPI, and in respect of customer redress relating to instances where certain requirements of the Consumer Credit Act (CCA) for post-contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable. During the current financial year, an additional charge of £16m was recognised in the Group income statement within exceptional items, classified as ‘Provision for customer redress’ within cost of sales. Refer to Note 4 for further details.

Other provisions are expected to be utilised in the next financial year.

Note 26 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £118m (2018: £252m), which is made up of share option schemes and share bonus payments. Of this amount, £103m (2018: £128m) will be settled in equity and £15m (2018: £124m) in cash. The movement of cash-settled charge with reference to the prior year is due to employees no longer being offered cash-settled awards.

Share option schemes

The Company had 10 share option schemes in operation during the financial year, all of which are equity-settled schemes:

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

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

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

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

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

vi. The Discretionary Share Option Plan (2004) permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and 10 years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

vii. The Group Bonus Plan permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.

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

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

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

Note 26 Share-based payments continued

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

For the 52 weeks ended 23 February 2019

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group PLC Savings Related		Booker Group PLC Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 24 February 2018	**244,886,709**	**162.21**	**6,926,980**	**167.88**	**36,015,512**	**–**	**–**	**–**	**–**	**–**	**32,377,140**	**–**
Granted	50,220,486	188.00	1,925,295	168.00	411,499	–	15,684,396	141.47	17,446,916	–	–	–
Forfeited	(25,820,506)	188.17	(1,215,831)	178.35	(6,321,392)	–	(1,566,612)	145.59	(662,887)	–	(19,997,503)	–
Exercised	(53,695,441)	150.43	(1,165,466)	150.34	(4,728,490)	–	(4,290,079)	131.06	(5,561,682)	–	–	–
Outstanding at 23 February 2019	**215,591,248**	**168.04**	**6,470,978**	**175.06**	**25,377,129**	**–**	**9,827,705**	**145.36**	**11,222,347**	**–**	**12,379,637**	**338.40**
Exercise price range (pence)		150.00 to 322.00		150.00 to 322.00		–		88.26 to 163.76		–		338.40 to 427.00
Weighted average remaining contractual life (years)		2.46		2.71		7.31		1.89		0.96		0.20
Exercisable at 23 February 2019	**10,629,678**	**210.24**	**406,100**	**192.01**	**6,491,384**	**–**	**573,798**	**137.13**	**1,740,392**	**–**	**12,379,637**	**–**
Exercise price range (pence)		150.00 to 322.00		150.00 to 322.00		–		137.40		–		338.40
Weighted average remaining contractual life (years)		0.43		0.43		6.16		0.35		–		0.20

* Other Schemes includes Approved Share Option Scheme (Approved), Unapproved Share Option Scheme (Unapproved), and International Executive Share Option Scheme (International). Respectively: WAEP for Outstanding at 24 February 2018 were 391.25p (2017: 420.87p), 375.18p (2017: 395.84p) and 375.69p (2017: 397.17p); WAEP for Forfeited during the current financial year were 416.94p (2018: 458.33p), 400.96p (2018: 446.01p) and 396.04p (2018: 439.33p); WAEP for Outstanding at 23 February 2019 were 338.40p (2018: 391.25p), 338.40p (2018: 375.18p) and 338.40p (2018: 375.69p). Share options were exercised on a regular basis throughout the financial year. The average share price during the 52 weeks ended 23 February 2019 was 228.55p (2018: 187.68p).

For the 52 weeks ended 24 February 2018

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group PLC Savings Related		Booker Group PLC Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 25 February 2017	**256,862,881**	**168.91**	**6,339,307**	**179.46**	**27,640,320**	**–**	**–**	**–**	**–**	**–**	**47,965,090**	**–**
Granted	40,314,086	168.00	2,078,500	168.00	10,838,726	–	–	–	–	–	–	–
Forfeited	(47,125,400)	204.95	(1,471,619)	218.17	(1,740,742)	–	–	–	–	–	(15,587,950)	–
Exercised	(5,164,858)	150.29	(19,208)	150.02	(722,792)	–	–	–	–	–	–	–
Outstanding at 24 February 2018	**244,886,709**	**162.21**	**6,926,980**	**167.88**	**36,015,512**	**–**	**–**	**–**	**–**	**–**	**32,377,140**	**–**
Exercise price range (pence)		150.00 to 322.00		150.00 to 322.00		–		–		–	–	338.40 to 427.00
Weighted average remaining contractual life (years)		2.48		2.62		8.16		–		–	–	0.61 to 0.79
Exercisable at 24 February 2018	**4,482,116**	**282.00**	**118,702**	**282.00**	**4,597,668**	**–**	**–**	**–**	**–**	**–**	**32,377,140**	**375.18 to 391.25**
Exercise price range (pence)		282.00		282.00		–		–		–	–	338.40 to 427.00
Weighted average remaining contractual life (years)		0.43		0.43		6.93		–		–	–	0.61 to 0.79

* Refer to previous table for footnotes.

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

	2019		2018	
	SAYE	Nil cost	SAYE	Nil cost
Expected dividend yield (%)	1.5-4.2%	1.5%	2.2-3.6%	–
Expected volatility (%)	29%	25-30%	29-32%	33%
Risk-free interest rate (%)	0.8-1.1%	0.8-0.9%	0.9-1.0%	0.1-0.2%
Expected life of option (years)	3 or 5	3-6	3 or 5	3-6
Weighted average fair value of options granted (pence)	41.01	68.04-180.35	41.86	68.04-180.35
Probability of forfeiture (%)	7-11%	–	7-11%	–
Share price (pence)	212.40	204.00	187.00	180.35
Weighted average exercise price (pence)	0.88-188.00	–	168.00	–

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

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

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

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

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

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year were:

	2019		2018	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Group Bonus Plan	16,489,286	242.07	21,898,988	180.35
Performance Share Plan	25,570,973	254.79	24,638,938	180.94

Note 27 Post-employment benefits

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

Defined contribution
Defined contribution schemes are open to all Tesco employees in the UK.

Under the Group's defined contribution pension schemes, employees of the Group pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the employee's contributions. The Group has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes of £332m (2018: £316m) have been recognised in the Group income statement. This includes £110m (2018: £108m) of salaries paid as pension contributions.

Defined benefit schemes
The Group has a defined benefit pension deficit of £2,808m (2018: £3,282m), comprising a number of schemes. The most significant of these are for the Group's employees in the UK, which are closed to future accrual, and ROI. The defined benefit pension deficit in the UK represents 96% of the Group deficit (2018: 96%).

Business combinations
On 5 March 2018, the Group acquired Booker, which has three UK defined benefit pension schemes. The Booker Pension Scheme, closed to future accrual, is the primary scheme, with two smaller closed schemes relating to retail partners Budgens and Londis. The combined defined benefit pension deficit acquired on business combination was £22m.

Guaranteed minimum pension
On 26 October 2018 a high court judgement was handed down regarding the Lloyds Banking Group's defined benefit pension scheme which affects many pension schemes in the UK, including the Group's UK schemes. The judgement concluded that schemes should be amended to ensure that members who have guaranteed minimum pensions (GMPs) receive the same benefits regardless of their gender. This change impacts GMP benefits accrued between 1990 and 1997. The trustees of the Group's UK schemes are considering the impact of the judgement on scheme liabilities and individual members, and at 23 February 2019 this work is ongoing.

In consultation with independent actuaries, the Group has estimated the financial effect of equalising benefits to increase the Group accounting pension deficit by £43m. This has been recognised as a past service cost, and is presented as an exceptional item in the income statement (Note 4).

Note 27 Post-employment benefits continued

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with all relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

i. representatives of the Group; and

ii. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Scheme funding

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial assessment, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities based on corporate bond yields.

The most recent triennial actuarial assessment of the Scheme was performed on 31 March 2017 using the projected unit credit method. The funding position was a deficit of £3,016m. The market value of the Scheme's assets was £13,141m and these assets represented 81% of the benefits that had accrued to members, after allowing for expected increases in pensions in payment.

The Group has a plan to fund the Scheme pension deficit and to meet the expenses of the Scheme. Annual contributions of £285m for 10 years from April 2018 were agreed, with contributions being assessed at the next triennial review. The expenses for the year, which include the Pension Protection Fund levy, were £23m (2018: £25m). In the event that the Pension Protection Fund levy for the Scheme exceeds £75m over three years, the Group agreed to pay this excess amount to the Scheme over the following three years. The market value of assets held as security in favour of the Scheme is at least £575m.

The last Booker Pension Scheme triennial valuation showed a funding deficit of £41m at 31 March 2016, with agreed contributions of £5m per annum for six years from 1 April 2017. No contributions were required for the Budgens or Londis schemes.

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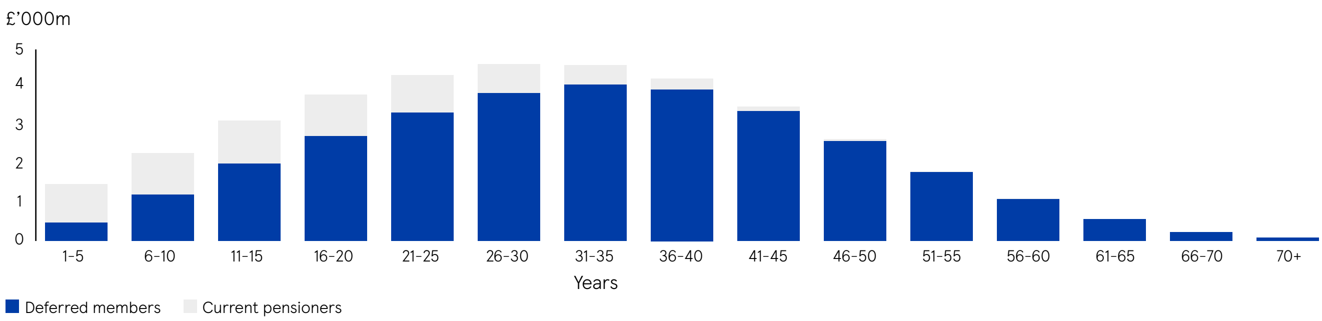
The Group is not required to recognise any additional liabilities in relation to funding plans, or limit the recognition of any surpluses, as any future economic benefits will be available to the Group by way of future refunds or reductions to future contributions.

Maturity Profile of Obligations

The estimated duration of the Scheme obligations is an indicator of the weighted average term of benefit payments after discounting. For the Scheme this is 24 years.

Around half of the undiscounted benefits are due to be paid beyond 30 years' time, with the last payments expected to be over 80 years from now.

The estimated undiscounted benefit payments expected to be paid out over the life of the Scheme is shown below:



The liabilities held by the Scheme as at 31 March 2017, the date of the last triennial valuation, are broken down as follows:

	%
Deferred	81
Pensioner	19

Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

Risk	Description of risk	Mitigation
Investment	The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Group.	The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy. The Trustee and Group take a balanced approach to investment risk, and use a long-term plan to manage investment risk.
Inflation	The Scheme's benefit obligations are linked to inflation. A higher rate of expected long-term inflation will therefore lead to higher liabilities, both for the IAS 19 and funding liability. If the Scheme's funding liability increases, this may require additional contributions to be made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as inflation expectations increase. This mitigates the impact of any adverse movement in long-term inflation expectations. The Scheme's holdings are designed to hedge against inflation risk up to the value of the funded liabilities. Additionally, changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).
Interest rate	A decrease in corporate bond yields will increase the accounting deficit under IAS 19. Similarly, a decrease in gilt yields will have an adverse impact on the funding position of the Scheme. This may lead to additional contributions to be made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as interest rates decrease. The Scheme's holdings are designed to hedge against interest rate risk up to the value of the funded liabilities. Because the aim of the portfolio is to mitigate risk for the funding position, ineffectiveness in hedging for the accounting deficit under IAS 19 can arise where corporate bond and gilt yields diverge. This is partially offset by Scheme holdings in corporate bonds.
Life expectancy	The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities.	To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years. The Trustee and Group regularly monitor the impact of changes in longevity on Scheme obligations.

The Operations and Audit Pensions Committee was established to further strengthen the Group's Trustee Governance and provide greater oversight and stronger internal control over the Group's risks. The Group Pensions Committee was also set up to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance and impacts of any regulatory changes.

Scheme principal assumptions

Financial assumptions

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

	2019 %	2018 %
Discount rate	2.8	2.9
Price inflation	3.1	3.1
Rate of increase in deferred pensions*	2.1	2.1
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.9	2.9
Benefits accrued after 1 June 2012	2.2	2.2

* In excess of any guaranteed minimum pension (GMP) element.

Mortality assumptions

The Group, in consultation with an independent actuary, conducted a mortality analysis under the Scheme as part of the triennial actuarial valuation process. Subsequent to this analysis, the Group adopted the best estimate assumptions for the calculation of the IAS 19 pension liability for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2016 improvements. In addition, the allowance for future mortality improvements from 2017 have been updated to be in line with CMI 2017, with a long-term improvement rate of 1.25% per annum.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

		Pensioner	Non-Pensioner
Male	Staff	100% of SAPS S2 Normal	105% of SAPS S2 Normal
	Senior Manager	85% of SAPS S2 Normal Light	87% of SAPS S2 Normal Light
Female	Staff	100% of SAPS S2 All	98% of SAPS S2 All
	Senior Manager	85% of SAPS S2 All	86% of SAPS S2 All

Note 27 Post-employment benefits continued

The following table illustrates the expectation of life of an average member retiring at age 65 at the reporting date and a member reaching age 65 at the reporting date +25 years. A comparison between the two retiree dates illustrates the expected improvements in mortality over the next 25 years.

		2019 Years	2018 Years
Retiring at reporting date at age 65:	Male	22.3	22.3
	Female	24.0	24.0
Retiring at reporting date +25 years at age 65:	Male	23.7	23.8
	Female	26.0	26.0

Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligations are detailed below:

	2019		2018	
Financial assumptions – Increase/(decrease) in UK defined benefit obligation	Discount rate £m	Inflation rate £m	Discount rate £m	Inflation rate £m
Impact of 0.1% increase of the assumption	(401)	334	(388)	339
Impact of 0.1% decrease of the assumption	401	(301)	404	(323)
Impact of 1.0% increase of the assumption	(3,406)	3,607	(3,377)	3,651
Impact of 1.0% decrease of the assumption	4,709	(2,839)	4,718	(2,876)

Mortality assumptions – Increase/(decrease) in UK defined benefit obligation	2019 £m	2018 £m
Impact of 1 year increase in longevity	685	630
Impact of 1 year decrease in longevity	(685)	(630)

Sensitivities are calculated by changing the relevant assumption whilst holding all other assumptions constant. The sensitivities reflect the range of recent assumption movements, and illustrate that the financial assumption sensitivities do not move in a linear fashion. Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

Overseas

The most significant overseas scheme is the funded defined benefit scheme which operates in ROI. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the ROI scheme as at 23 February 2019. At the financial year end, the IAS 19 deficit relating to ROI was £106m (2018: £104m).

Post-employment benefits other than pensions

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 23 February 2019 of £9m (2018: £11m) was determined in accordance with the advice of independent actuaries. During the financial year, £nil (2018: £nil) has been charged to the Group income statement and £nil (2018: £1m) of benefits were paid.

Plan assets

The Group's pension schemes hold assets that both provide returns and mitigate risk, including the volatility of future pension payments.

The table below shows a breakdown of the combined investments held by the Group's schemes:

	2019				2018			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities								
UK	203	–	203	1	284	–	284	2
Europe	684	–	684	5	823	–	823	6
Rest of the world	4,224	–	4,224	28	3,828	–	3,828	29
	5,111	**–**	**5,111**	**34**	**4,935**	**–**	**4,935**	**37**
Bonds								
Government	1,174	–	1,174	8	1,029	–	1,029	8
Corporates – investment grade	648	–	648	4	487	–	487	3
Corporates – non-investment grade	2	–	2	0	7	–	7	0
	1,824	**–**	**1,824**	**12**	**1,523**	**–**	**1,523**	**11**
Property								
UK	83	1,032	1,115	7	–	917	917	7
Rest of the world	6	423	429	3	–	381	381	3
	89	**1,455**	**1,544**	**10**	**–**	**1,298**	**1,298**	**10**
Alternative assets								
Hedge funds	2	383	385	3	–	405	405	3
Private equity	–	851	851	6	–	694	694	5
Other	230	827	1,057	7	14	740	754	6
	232	**2,061**	**2,293**	**16**	**14**	**1,839**	**1,853**	**14**
Liability Driven Investment (LDI) portfolios	**3,695**	**287**	**3,982**	**26**	**3,301**	**(24)**	**3,277**	**25**
Cash	**300**	**–**	**300**	**2**	**349**	**–**	**349**	**3**
Total fair value of assets	**11,251**	**3,803**	**15,054**	**100**	**10,122**	**3,113**	**13,235**	**100**

Quoted assets are those with a quoted price in an active market.

The LDI category consists of assets, including gilts and index-linked gilts, of the value of £6,683m (2018: £5,912m) and associated repurchase agreements and swaps of £(2,701)m (2018: £(2,635)m). Other derivatives are included in the asset category to which they relate, reflecting the underlying nature and exposure of the derivative.

The plan assets include £198m (2018: £185m) relating to property used by the Group. Group property with net carrying value of £489m (2018: £509m) (Note 11) and a value to the Scheme of at least £575m (2018: £575m) is held as security in favour of the Scheme.

Movement in the Group pension deficit during the current financial year

	Fair value of plan assets		Defined benefit obligation		Net defined benefit surplus/(deficit)	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Opening balance	**13,235**	**13,196**	**(16,517)**	**(19,817)**	**(3,282)**	**(6,621)**
Current service cost	–	–	(35)	(38)	(35)	(38)
Past service cost	–	–	(43)	–	(43)	–
Finance income/(cost)	396	326	(485)	(488)	(89)	(162)
Included in the Group income statement	**396**	**326**	**(563)**	**(526)**	**(167)**	**(200)**
Remeasurement gain/(loss):						
Financial assumptions gain/(loss)	–	–	(478)	2,190	(478)	2,190
Demographic assumptions gain/(loss)	–	–	(51)	680	(51)	680
Experience gain/(loss)	–	–	(39)	452	(39)	452
Return on plan assets excluding finance income	932	(57)	–	–	932	(57)
Foreign currency translation	(3)	8	3	(13)	–	(5)
Included in the Group statement of comprehensive income/(loss)	**929**	**(49)**	**(565)**	**3,309**	**364**	**3,260**
Member contributions	2	2	(2)	(2)	–	–
Employer contributions	33	34	–	–	33	34
Additional employer contributions	266	245	–	–	266	245
Benefits paid	(547)	(519)	547	519	–	–
Acquired through business combination (Note 31)	740	–	(762)	–	(22)	–
Other movements	**494**	**(238)**	**(217)**	**517**	**277**	**279**
Closing balance	**15,054**	**13,235**	**(17,862)**	**(16,517)**	**(2,808)**	**(3,282)**
Deferred tax asset					470	554
Deficit in schemes at the end of the year, net of deferred tax					**(2,338)**	**(2,728)**

Note 28 Called up share capital

	2019 Ordinary shares of 5p each		2018 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At the beginning of the year	**8,192,116,619**	**410**	**8,174,932,553**	**409**
Share options exercised	41,525,096	2	5,184,066	–
Share bonus awards issued	12,000,000	1	12,000,000	1
Shares issued for the acquisition of Booker (Note 31)	1,547,854,846	77	–	–
At the end of the year	**9,793,496,561**	**490**	**8,192,116,619**	**410**

During the financial year, 41.5 million (2018: 5.2 million) ordinary shares of 5 pence each were issued in relation to share options for an aggregate consideration of £60m (2018: £8m), 12.0 million (2018: 12.0 million) ordinary shares of 5 pence each were issued in relation to share bonus awards and 1,548 million ordinary shares of 5 pence each were issued as a result of the acquisition of Booker.

The shares issued as consideration for the acquisition of Booker were valued at £3,127m based on the published share price on 2 March 2018 of 202.0 pence with £77m recognised as share capital and the remaining £3,050m recognised as merger reserve, included within other reserves on the Group statement of changes in equity. Refer to Note 31 for further details.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme the shares and dividends associated with shares of untraced members are forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. During the financial year, the Group received £nil (2018: £3m) proceeds from sale of untraced shares and £nil (2018: £2m) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 23 February 2019, the Directors were authorised to purchase up to a maximum in aggregate of 977.2 million (2018: 817.5 million) ordinary shares before the Annual General Meeting 2019 on 13 June 2019.

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

Note 28 Called up share capital continued

Own shares purchased

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

The own shares held represents the cost of shares in Tesco PLC purchased from the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans (refer to Note 26). The number of ordinary shares held by the Tesco International Employee Benefit Trust at 23 February 2019 was 68.1 million (2018: 11.5 million). This represents 0.70% of called-up share capital at the end of the year (2018: 0.14%).

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

Note 29 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Transactions

	Joint ventures		Associates	
	2019 £m	2018 £m	2019 £m	2018 £m
Sales to related parties	486	474	–	–
Purchases from related parties	376	396	20	18
Dividends received	29	15	12	11
Injection of equity funding	11	21	–	–

Sales to related parties consist of services/management fees and loan interest.

Purchases from related parties include £280m (2018: £275m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Transactions between the Group and the Group's pension plans are disclosed in Note 27.

Balances

	Joint ventures		Associates	
	2019 £m	2018 £m	2019 £m	2018 £m
Amounts owed to related parties	20	20	–	–
Amounts owed by related parties	37	27	–	–
Loans to related parties (net of deferred profits)*	133	138	–	–
Loans from related parties (Note 21)	–	6	–	–

* Loans to related parties of £133m (2018: £138m) are presented net of deferred profits of £54m (2018: £54m) historically arising from the sale of property assets to joint ventures. For loans to related parties, a 12-month expected credit loss is recorded on initial recognition. The expected credit loss was immaterial as at the current reporting date.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 (Regulations) apply. The financial statements for those partnerships have been consolidated into these financial statements pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Key management personnel compensation for the financial year was as follows:

	2019 £m	2018 £m
Salaries and short-term benefits	17	17
Pensions and cash in lieu of pensions	2	2
Share-based payments	13	19
Joining costs and loss of office costs	1	4
	33	**42**
Attributable to:		
The Board of Directors (including Non-executive Directors)	10	12
Executive Committee (members not on the Board of Directors)	23	30
	33	**42**

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the financial year end:

	Credit card, mortgage and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 23 February 2019	**3**	**–**	**10**	**2**
At 24 February 2018	7	1	5	–

Note 30 Analysis of changes in net debt

	At 24 February 2018 £m	IFRS 9 adjustment* £m	Cash flow £m	Fair-value movements £m	Foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	At 23 February 2019 £m
Total Group								
Bank and other borrowings	(8,318)	–	1,496	(136)	(6)	(43)	–	(7,007)
Finance lease payables	(122)	–	17	–	(2)	–	(22)	(129)
Net derivative financial instruments	465	–	(35)	128	–	20	–	578
Arising from financing activities	**(7,975)**	**–**	**1,478**	**(8)**	**(8)**	**(23)**	**(22)**	**(6,558)**
Cash and cash equivalents	4,059	–	(1,158)	–	15	–	–	2,916
Short-term investments	1,029	–	(639)	–	–	–	–	390
Joint venture loans	138	(13)	(5)	–	–	–	13	133
Interest and other receivables	1	–	(18)	–	–	18	–	1
Interest payables	(181)	–	306	–	(2)	(259)	–	(136)
Net derivative interest	16	–	–	–	–	(3)	–	13
Total Group	**(2,913)**	**(13)**	**(36)**	**(8)**	**5**	**(267)**	**(9)**	**(3,241)**
Tesco Bank								
Bank and other borrowings	(1,584)	–	154	9	–	–	–	(1,421)
Net derivative financial instruments	(42)	–	–	13	–	–	–	(29)
Arising from financing activities	**(1,626)**	**–**	**154**	**22**	**–**	**–**	**–**	**(1,450)**
Cash and cash equivalents	1,304	–	(261)	–	–	–	–	1,043
Joint venture loans	34	–	(5)	–	–	–	–	29
Interest payables	–	–	5	–	–	(5)	–	–
Tesco Bank	**(288)**	**–**	**(107)**	**22**	**–**	**(5)**	**–**	**(378)**
Retail								
Bank and other borrowings	(6,734)	–	1,342	(145)	(6)	(43)	–	(5,586)
Finance lease payables	(122)	–	17	–	(2)	–	(22)	(129)
Net derivative financial instruments	507	–	(35)	115	–	20	–	607
Arising from financing activities	**(6,349)**	**–**	**1,324**	**(30)**	**(8)**	**(23)**	**(22)**	**(5,108)**
Cash and cash equivalents	2,755	–	(897)	–	15	–	–	1,873
Short-term investments	1,029	–	(639)	–	–	–	–	390
Joint venture loans	104	(13)	–	–	–	–	13	104
Interest and other receivables	1	–	(18)	–	–	18	–	1
Interest payables	(181)	–	301	–	(2)	(254)	–	(136)
Net derivative interest	16	–	–	–	–	(3)	–	13
Net debt	**(2,625)**	**(13)**	**71**	**(30)**	**5**	**(262)**	**(9)**	**(2,863)**

* Impact of adopting IFRS 9 as explained in Note 1 and Note 36.

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 30 Analysis of changes in net debt continued

	At 25 February 2017 £m	Cash flow £m	Fair value movements £m	Foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	Non-cash movements – Turkey disposal £m	Re-classification of movements in net debt of the disposal group £m	At 24 February 2018 £m
Total Group									
Bank and other borrowings	(11,712)	3,408	91	(49)	(56)	–	73	(73)	(8,318)
Finance lease payables	(114)	10	–	(2)	–	(16)	–	–	(122)
Net derivative financial instruments	893	(253)	(195)	–	20	–	–	–	465
Arising from financing activities	**(10,933)**	**3,165**	**(104)**	**(51)**	**(36)**	**(16)**	**73**	**(73)**	**(7,975)**
Cash and cash equivalents	3,821	212	–	15	–	–	–	11	4,059
Short-term investments	2,727	(1,697)	–	(1)	–	–	–	–	1,029
Joint venture loans	137	–	–	–	–	1	–	–	138
Interest and other receivables	1	(27)	–	–	27	–	–	–	1
Interest payables	(167)	351	–	(3)	(362)	–	3	(3)	(181)
Net derivative interest	28	(23)	–	–	11	–	–	–	16
Net debt of the disposal group	(65)	–	–	–	–	–	–	65	–
Total Group	**(4,451)**	**1,981**	**(104)**	**(40)**	**(360)**	**(15)**	**76**	**–**	**(2,913)**
Tesco Bank									
Bank and other borrowings	(1,440)	(150)	6	–	–	–	–	–	(1,584)
Net derivative financial instruments	(105)	–	63	–	–	–	–	–	(42)
Arising from financing activities	**(1,545)**	**(150)**	**69**	**–**	**–**	**–**	**–**	**–**	**(1,626)**
Cash and cash equivalents	789	515	–	–	–	–	–	–	1,304
Joint venture loans	34	–	–	–	–	–	–	–	34
Interest payables	–	4	–	–	(4)	–	–	–	–
Tesco Bank	**(722)**	**369**	**69**	**–**	**(4)**	**–**	**–**	**–**	**(288)**
Retail									
Bank and other borrowings	(10,272)	3,558	85	(49)	(56)	–	73	(73)	(6,734)
Finance lease payables	(114)	10	–	(2)	–	(16)	–	–	(122)
Net derivative financial instruments	998	(253)	(258)	–	20	–	–	–	507
Arising from financing activities	**(9,388)**	**3,315**	**(173)**	**(51)**	**(36)**	**(16)**	**73**	**(73)**	**(6,349)**
Cash and cash equivalents	3,032	(303)	–	15	–	–	–	11	2,755
Short-term investments	2,727	(1,697)	–	(1)	–	–	–	–	1,029
Joint venture loans	103	–	–	–	–	1	–	–	104
Interest and other receivables	1	(27)	–	–	27	–	–	–	1
Interest payables	(167)	347	–	(3)	(358)	–	3	(3)	(181)
Net derivative interest	28	(23)	–	–	11	–	–	–	16
Net debt of the disposal group	(65)	–	–	–	–	–	–	65	–
Net debt	**(3,729)**	**1,612**	**(173)**	**(40)**	**(356)**	**(15)**	**76**	**–**	**(2,625)**

Reconciliation of net cash flow to movement in Net debt

	2019 £m	2018 £m
Net increase/(decrease) in cash and cash equivalents	(1,158)	212
Elimination of Tesco Bank movement in cash and cash equivalents	261	(515)
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(639)	(1,697)
Net increase/(decrease) in joint venture loans	–	–
Net (increase)/decrease in borrowings and lease financing	1,359	3,568
Net cash flows from derivative financial instruments	(35)	(253)
Net interest paid on components of Net debt	283	297
Change in Net debt resulting from cash flow	**71**	**1,612**
Retail IFRS 9 adjustment	(13)	–
Retail net interest charge on components of Net debt	(262)	(356)
Retail fair value and foreign exchange movements	(25)	(213)
Debt disposed on disposal of Turkish operations	–	76
Retail other non-cash movements	(9)	(15)
(Increase)/decrease in Net debt	**(238)**	**1,104**
Opening Net debt	(2,625)	(3,729)
Closing Net debt	**(2,863)**	**(2,625)**

Note 31 Business combinations

On 5 March 2018, the Group acquired a 100% stake in Booker Group plc (Booker). Booker is the largest food wholesaler in the UK. The acquisition builds on the Group's core expertise of sourcing, distributing and selling food in the UK market and will enable the Group to enter the out-of-home food consumption market. The Directors expect the merger to deliver financial synergies through both revenue and cost synergies.

The transaction has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. The total consideration of £3,993m was satisfied by cash, shares and other items as detailed in the table below. Booker shareholders received 0.861 Tesco PLC ordinary shares and 42.6 pence in cash per Booker share held. A total of 1,548 million new ordinary shares of the Company have been issued as a result of the transaction, with new shares carrying equal voting and distribution rights as the existing ordinary shares. The fair value of the shares is based on the published share price on 2 March 2018 of 202.0 pence.

The consideration and cash flow impacts of acquisitions in the current financial year are reflected below:

		Cash flow statement		
	Consideration £m	Operating cash flows £m	Investing cash flows £m	Cash outflow from major acquisition £m
Acquisition of Booker				
Cash consideration	766	–	(766)	(766)
Equity shares issued	3,127	–	–	–
	3,893	–	**(766)**	**(766)**
Fair value of Booker's share plans acquired	33	–	–	–
Dividend paid to Booker shareholders	67	–	(67)	(67)
Acquisition costs paid	–	(43)	–	(43)
Less: cash acquired	–	–	129	129
Total Booker	**3,993**	**(43)**	**(704)**	**(747)**
Acquisition of another subsidiary	11	–	(11)	–
Total acquisitions	**4,004**	**(43)**	**(715)**	**(747)**

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

	Fair value £m
Property, plant and equipment	326
Acquired intangible assets	755
Asset held for sale	34
Cash and cash equivalents	129
Trade and other receivables	173
Inventories	357
Deferred tax	(126)
Trade and other payables	(663)
Non-current liabilities	(19)
Provisions	(44)
Post-employment benefit obligations	(22)
Total	**900**
Goodwill	3,093
Purchase consideration	**3,993**

The goodwill is primarily attributable to synergies, new customers, the acquired workforce and business expertise. None of the goodwill is expected to be deductible for tax purposes. Acquired intangible assets comprise catering customer relationships of £657m, retail customer relationships of £58m, brands of £30m and a property-related purchase option valued at £10m. The customer relationships and brand assets are amortised over 9 to 15 years. Refer to Note 10. The amortisation charge on the acquired intangibles is excluded from the Group's operating profit before exceptional items and amortisation of acquired intangibles.

The fair value of acquired trade and other receivables is £173m and includes trade receivables with a fair value of £123m. The gross contractual amount for trade receivables due was £132m, of which £9m is expected to be uncollectable.

Booker contributed revenues of £5,826m and net profit after tax of £122m to the Group from 5 March 2018 to 23 February 2019. The £122m profit includes the impact of consolidation adjustments, primarily £74m of amortisation expense on acquired intangible assets. If the acquisition had occurred on 25 February 2018, Group revenue and net profit after tax for the 52 weeks ended 23 February 2019 would not be materially different. Transaction costs of £22m have been included in administrative expenses for the 52 weeks ended 23 February 2019 (52 weeks ended 24 February 2018: £21m).

Note 32 Commitments and contingencies

Capital commitments

At 23 February 2019, there were commitments for capital expenditure contracted for, but not incurred, of £70m (2018: £116m), principally relating to store development.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

As previously reported, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement of expected profits in 2014, and purport to have secured third party funding for such litigation. In this regard, the Group has received two high court claims against Tesco PLC. The first was received on 31 October 2016 from a group of 112 investors (now reduced to 78 investors) and the second was received on 5 December 2016 from an investment company and a trust company. The merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group is subject to a number of significant uncertainties and, therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure.

Prior to the disposal of its Korean operations (Homeplus), Tesco PLC provided guarantees in respect of 13 Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus' default. Entities controlled by MBK Partners and Canada Pension Plan Investment Board (CPPIB), as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. Five guarantees currently remain outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2031. The maximum potential liability under these outstanding guarantees is between KRW 229bn (£156m) and KRW 377bn (£256m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 167bn (£114m), with funds of KRW 73bn (£50m) placed in escrow to provide the primary payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 94bn (£64m). Additionally, Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made over and above the amounts in escrow.

Following the sale of Homeplus in 2015, as disclosed in the Prospectus issued by the Company on 5 February 2018, the Group has received claims from the purchasers relating to the sale of the business. The claims are being vigorously defended. Whilst the claims have evolved since originally issued, the Group does not believe the claims are likely to lead to a material outflow of funds.

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

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Name	Company number	Name	Company Number	Name	Company Number
Tesco International Internet Retailing Limited	00041420	One Stop Convenience Stores Limited	02467178	Armitage Finance Unlimited	05966324
Dillons Newsagents Limited	00140624	NutriCentre Limited	02602894	Spen Hill Regeneration Limited	06418300
One Stop Community Stores Limited	00198980	Tapesilver Limited	05205362	Tesco Red (3LP) Limited	10127765
Paper Chain (East Anglia) Limited	00256555	Tesco FFC Limited	08859202	Tesco PENL Limited	06479938
Cullen's Stores Limited	00279206	Tesco Mobile Communications Limited	04780729	Tesco Aqua (GP) Limited	05721654
Stewarts Supermarkets Limited	00299400	Tesco Mobile Services Limited	04780734	Tesco Red (GP) Limited	05721630
Europa Foods Limited	00658774	Spen Hill Developments Limited	04827219	Tesco Aqua (3LP) Limited	09947521
Gibbs News Limited	00744680	Launchgrain Limited	05260856	The Tesco Aqua Limited Partnership	LP011520
T&S Stores Limited	01228935	Buttoncable Limited	05294246	The Tesco Red Limited Partnership	LP011522
Day and Nite Stores Limited	01746058	Buttoncase Limited	05298861	Faraday Properties Limited	SC119496
Adminstore Limited	01882853	Tesco Aqua (FinCo1) Limited	05888959	Wm. Low Supermarkets Limited	SC119497
Spen Hill Management Limited	02460426	Tesco Gateshead Properties Limited	08312535	Spen Hill Properties (Holdings) PLC	02412674
Tesco TLB Finance Limited	04967622	Tesco PEG Limited	06480309	Cheshunt Finance Unlimited	06807552

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 23 February 2019 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

Tesco PLC has irrevocably guaranteed the liabilities and commitments of the following Irish subsidiary undertakings, which have been exempted pursuant to Section 357 of the Companies Act 2014 of Ireland from the provisions of Section 347 and 348 of that Act: Monread Developments Limited; Edson Properties Limited; Edson Investments Limited; Cirrus Finance (2009) Limited; Commercial Investments Limited; Chirac Limited; Clondalkin Properties Limited; Tesco Ireland Pension Trustees Limited; Orpingford Unlimited Company; Tesco Trustee Company of Ireland Limited; WSC Properties Limited; Thundridge Unlimited Company; Pharaway Properties Limited; R.J.D. Holdings Unlimited Company; Nabola Development Limited; PEJ Property Investments Limited; Cirrus Finance Limited; Tesco Ireland Limited; Wanze Properties (Dundalk) Limited; Tesco Ireland Holdings Limited; and Tesco Mobile Ireland Limited. The irrevocable guarantee may be relied upon for the purposes of the aforementioned exemption, while the United Kingdom remains part of the European Economic Area.

Tesco Bank
At 28 February 2019, Tesco Bank had contractual lending commitments totalling £12.2bn (2018: £12.4bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

Note 33 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the reporting date:

	2019 £m	2018 (restated) £m
Common equity tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,439	1,502
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	–	99
Total tier 2 regulatory adjustments	(29)	(34)
Total regulatory capital	**1,645**	**1,802**

On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules are currently being phased in. The following tables analyse the regulatory capital resources of TPF (being the regulated entity) applicable as at the financial year end.

The movement in common equity tier 1 capital during the financial year is analysed as follows:

	2019 £m	2018 (restated) £m
At the beginning of the year	**1,502**	**1,381**
Initial application of IFRS 15	–	14
At the beginning of the year (restated)	**1,502**	**1,395**
Initial application of IFRS 9	(166)	–
Share capital and share premium	–	–
Profit attributable to shareholders*	136	127
Other reserves	(15)	6
Ordinary dividends	(60)	(50)
Movement in material holdings	–	3
Increase in intangible assets	47	29
Other – Tier 1	–	–
At the end of the year, excluding CRD IV adjustments	**1,444**	**1,510**
CRD IV adjustments – deferred tax (assets)/liabilities related to intangible assets	(5)	(8)
At the end of the year, including CRD IV adjustments	**1,439**	**1,502**

* Profit attributable to shareholders restated for IFRS 15 (previously £130m).

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Note 34 Lease commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings that are held under finance leases. The fair value of the Group's lease obligations approximate their carrying value.

Future minimum lease commitments under finance leases and hire purchase contracts, together with the present value of the net minimum lease commitments, are as follows:

	Minimum lease commitments	
	2019 £m	2018 £m
Within one year	44	20
Greater than one year but less than five years	40	67
After five years	127	120
Total minimum lease commitments	**211**	**207**
Less future finance charges	(82)	(85)
Present value of minimum lease commitments	**129**	**122**

	Present value of net minimum lease commitments	
	2019 £m	2018 £m
Within one year	36	12
Greater than one year but less than five years	15	40
After five years	78	70
Total minimum lease commitments	**129**	**122**
Analysed as:		
Current	36	12
Non-current	93	110
	129	**122**

Note 34 Lease commitments continued

Operating lease commitments – Group as lessee

Future undiscounted minimum lease commitments under non-cancellable operating leases are as follows:

	2019 £m	2018 £m
Within one year	1,148	1,077
Greater than one year but less than five years	3,536	3,552
After five years	6,688	6,788
Total undiscounted minimum lease commitments	**11,372**	**11,417**

Future undiscounted minimum lease commitments under non-cancellable operating leases after five years are analysed further as follows:

	2019 £m	2018 £m
Greater than five years but less than 10 years	3,131	3,035
Greater than 10 years but less than 15 years	1,976	2,008
After 15 years	1,581	1,745
Total undiscounted minimum lease commitments – after five years	**6,688**	**6,788**

The Group has used operating lease commitments discounted at 7% (2018: 7%) of £6,999m (2018: £6,931m) in its calculation of total indebtedness. The discounted operating lease commitment included in total indebtedness is different from the £10,505m (2018: £10,272m) lease liability under IFRS 16 'Leases' disclosed in Note 36, primarily due to differences in the discount rates used and the treatment of additional lease rentals arising from contracts that contain extend or buy conditions.

Operating lease commitments 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.

On 13 September 2018, the Group exercised its option to buy back the 50% equity holding in the Tesco Atrato Limited Partnership held by the other joint venture partner. The acquisition is scheduled to complete in September 2019, and under current accounting would lead to a reduction in minimum lease commitments of £790m (discounted: £400m). The most recent financial information for the partnership as at 31 December 2018 showed net liabilities of £(6)m, principally composed of investment properties of £666m, borrowings of £(479)m and derivative financial liabilities of £(195)m.

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 commitments exclude those falling after the buy-back date. The current market value of these properties is £2.8bn (2018: £2.8bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £3.0bn (2018: £2.6bn) using current rent values, as shown below.

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

	2019 £m	2018 £m
Within one year	–	2
Greater than one year but less than five years	420	265
Greater than five years but less than 10 years	761	738
Greater than 10 years but less than 15 years	761	659
After 15 years	1,063	935
Total undiscounted contingent additional lease rentals	**3,005**	**2,599**
Total discounted contingent additional lease rentals at 7%	**1,378**	**1,159**

The lease-break options are exercisable between 2019 and 2023.

Operating lease commitments with joint ventures and associates

In prior years, the Group 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 varied. However, common factors included: 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.

Operating lease receivables – Group as lessor

The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease amounts are contractually receivable from tenants:

	2019 £m	2018 £m
Within one year	213	202
Greater than one year but less than five years	287	291
After five years	230	222
Total minimum lease receivables	**730**	**715**

Note 35 Events after the reporting period

There were no material events after the balance sheet date.

Note 36 Changes in accounting policies

Standards effective in the current year

This section explains the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on the Group's financial position and financial performance.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard became applicable for the current financial year. The Group has applied the classification, measurement and impairment requirements of the standard retrospectively, adjusting the opening balance sheet at the transition date of 25 February 2018 with no restatement of comparative periods. Hedge accounting relationships within the scope of IFRS 9 have transitioned prospectively.

Classification and measurement

The Group has made the following classification changes:

- all financial instruments classified as loans and receivables under IAS 39 have been classified and measured at amortised cost under IFRS 9;
- all financial instruments classified as available-for-sale under IAS 39 have been classified and measured at fair value through other comprehensive income under IFRS 9; and
- all financial instruments classified as fair value through profit or loss under IAS 39 will continue to be classified and measured at fair value through profit or loss under IFRS 9.

Impairment

IFRS 9 requires the Group to recognise expected credit losses (ECL), and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial assets. The ECL have been measured under the simplified approach, with the exception of loans and advances to customers and banks, debt instruments at fair value through other comprehensive income and joint venture and associate loans, where the general approach is applied.

The assessment of credit risk and the estimation of ECL are required to be unbiased, forward-looking and probability-weighted, determined by evaluating at the reporting date for each financial asset a range of possible outcomes using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions. The estimation of ECL also takes into account the time value of money.

Transition adjustment

The change in impairment methodology reduced the Group's opening retained earnings on 25 February 2018 by £177m, with corresponding changes in the following balance sheet items:

	24 February 2018 (restated) £m	IFRS 9 adjustment £m	25 February 2018 £m
Non-current assets			
Trade and other receivables	186	(13)	173
Loans and advances to customers and banks	6,885	(73)	6,812
Deferred tax assets	116	59	175
Current assets			
Loans and advances to customers and banks	4,637	(150)	4,487
Total adjustment		**(177)**	

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group recognises revenue from the principal activities of retailing and associated activities and retail banking and insurance services through Tesco Bank. For the majority of revenue streams, there is a low level of judgement applied in determining the consideration or the timing of transfer of control. The following revenue streams have been impacted by the adoption of IFRS 15.

Note 36 Changes in accounting policies continued

Insurance renewal commission
Prior to the adoption of IFRS 15, the Group recognised Tesco Bank insurance commission income on policy renewals at the time of the renewal. Under IFRS 15, the Group recognises commission income as policies are sold for a minority of insurance policies managed and underwritten by a third party. This is the point in time at which the Group has satisfied all of its performance obligations in relation to the policies sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. A contract asset has been recognised in relation to this revenue, which is included within trade and other receivables.

Clubcard
Consistent with previous accounting policy, Clubcard and loyalty initiatives are considered a separate performance obligation. IFRS 15 introduces a change in the valuation of these initiatives; from the standalone fair value to the relative standalone selling prices. A contract liability continues to be recognised for Clubcard points issued, not yet redeemed and is included within trade and other payables.

Tesco Mobile
Prior to adoption of IFRS 15, the Group recognised handset and airtime income on pay monthly telecoms contracts as airtime services were provided to the customer. Under IFRS 15, the total contract transaction price is allocated across the two performance obligations; with handset income being recognised on delivery of the handset to the customer and airtime income recognised over time as the service is provided. A contract asset has been recognised in relation to handset revenue, which is included within trade and other receivables.

Transition adjustment
The Group has adopted IFRS 15 retrospectively, with comparatives restated from a transition date of 26 February 2017. Opening retained earnings increased by £20m with a corresponding increase in trade and other receivables of £19m, an increase in inventory of £1m, a decrease in trade and other payables of £3m, a decrease in provisions of £3m, and an increase in the deferred tax liability of £(6)m.

In the financial year ended 24 February 2018, as a result of applying IFRS 15, revenue and operating profit increased by £2m and taxation expense moved by £nil leading to an increase in profit after tax of £2m.

Standards issued but not yet effective
This section explains the impact that the adoption of IFRS 16 'Leases' will have on the Group's financial position and financial performance for the financial year ended 23 February 2019, which will form the restated comparative period when the Group reports under IFRS 16 for the accounting period commencing 24 February 2019.

IFRS 16 'Leases'
IFRS 16 'Leases' will be effective in the Group financial statements for the accounting period commencing 24 February 2019. The Group will adopt the standard retrospectively, with comparatives restated from a transition date of 25 February 2018.

IFRS 16 requires lessees to recognise right of use assets and lease liabilities on balance sheet for all leases, except short-term and low value asset leases. At commencement of the lease, the lease liability equals the present value of future lease payments, and the right of use asset equals the lease liability, adjusted for payments already made, lease incentives, initial direct costs and any provision for dilapidation costs.

For pre-IFRS 16 operating leases, the rental charge is replaced by depreciation of the right of use asset and interest on the lease liability. IFRS 16 therefore results in an increase to operating profit, which is reported prior to interest being deducted. Depreciation is charged on a straight-line basis, however, interest is charged on outstanding lease liabilities and therefore reduces over the life of the lease. As a result, the impact on the income statement below operating profit is highly dependent on average lease maturity. For an immature portfolio, depreciation and interest are higher than the rental charge they replace and therefore IFRS 16 is dilutive to EPS. For a mature portfolio, they are lower and therefore IFRS 16 is accretive. The Group's lease portfolio on transition is relatively immature, being approximately one-third through an average total lease term of 26 years.

Under IFRS 16, the lease liability is remeasured upon the occurrence of certain events, such as a change in lease term or a change in future lease payments resulting from a change in an index or rate (for example, inflation-linked payments or market rate rent reviews). A corresponding adjustment is made to the right of use asset. Over three-quarters of the Group's lease liability on transition is subject to inflation-linked rental uplifts. The Group will no longer recognise property provisions for onerous lease contracts as the lease payments are included within the lease liability.

The Group has applied the practical expedient not to reassess whether a contract is, or contains, a lease on transition. The Group has elected to recognise payments for short-term leases and leases of low value assets on a straight-line basis as an expense in the income statement.

IFRS 16 has not had a significant impact on the Group's existing finance leases or on leases in which the Group is a lessor.

The most significant IFRS 16 judgements include the determination of lease term when there are extension or termination options, the selection of an appropriate discount rate to calculate the lease liability and the impairment of right of use assets.

The Group's lease portfolio consists of retail, distribution and office properties and other assets such as motor vehicles.

The Group's IFRS 16 Project is governed by a Steering Committee, which regularly reports progress to the Group Audit Committee. The Group has finalised its IFRS 16 accounting policies, determined the appropriate discount rates to apply to lease payments, selected and implemented an IT system to collate and report lease data, established procedures and controls for accounting and reporting under IFRS 16 and established a process of parallel reporting for the comparative period.

IFRS 16 has a significant impact on reported assets, liabilities and the income statement of the Group, as well as the classification of cash flows relating to lease contracts. The standard impacts a number of key measures such as operating profit and cash generated from operations, as well as a number of alternative performance measures used by the Group. Further details on the impact of IFRS 16 can be found in the Group's 'Introducing IFRS 16' analyst and investor briefing held on 15 February 2019 and available on www.tescoplc.com/investors/reports-results-and-presentations.

The tables below set out the expected impact of IFRS 16 on the transition balance sheet at 24 February 2018 and on the comparative year balance sheet as at 23 February 2019 and related debt measures. Right of use assets (net of any impairments) and lease liabilities are presented separately on the face of the balance sheet. Net debt, which includes lease liabilities, increases. Total indebtedness also increases as the IFRS 16 lease liability exceeds the discounted operating lease commitments previously included. Provisions decrease as onerous lease provisions are replaced by impairments of the right of use assets. Trade and other payables reduce as accruals for straight line rental expense on leases with fixed rent increases are eliminated. Trade and other receivables also reduce as lease prepayments are eliminated. A deferred tax asset is recognised on the transition adjustment.

Balance sheet restatement

	As at 23 February 2019			As at 24 February 2018		
	Reported £m	IFRS 16 impact £m	Restated £m	Reported[a] £m	IFRS 16 impact £m	Restated £m
Non-current assets						
Goodwill and other intangible assets	6,264	–	6,264	2,661	–	2,661
Property, plant and equipment	19,023	163	19,186	18,521	191	18,712
Right of use assets	–	7,713	7,713	–	7,527	7,527
Investment property	36	–	36	100	–	100
Investments in joint ventures and associates	704	(38)	666	689	(35)	654
Financial assets at fair value through other comprehensive income	979	–	979	860	–	860
Trade and other receivables	195	48	243	186	31	217
Loans and advances to customers and banks	7,868	–	7,868	6,885	–	6,885
Derivative financial instruments	1,178	–	1,178	1,117	–	1,117
Deferred tax assets	132	119	251	116	285	401
	36,379	**8,005**	**44,384**	**31,135**	**7,999**	**39,134**
Current assets						
Financial assets at fair value through other comprehensive income	67	–	67	68	–	68
Inventories	2,617	–	2,617	2,264	–	2,264
Trade and other receivables	1,640	(90)	1,550	1,504	(89)	1,415
Loans and advances to customers and banks	4,882	–	4,882	4,637	–	4,637
Derivative financial instruments	52	–	52	27	–	27
Current tax assets	6	–	6	12	–	12
Short-term investments	390	–	390	1,029	–	1,029
Cash and cash equivalents	2,916	–	2,916	4,059	–	4,059
	12,570	**(90)**	**12,480**	**13,600**	**(89)**	**13,511**
Non-current assets classified as held for sale	98	–	98	149	–	149
	12,668	**(90)**	**12,578**	**13,749**	**(89)**	**13,660**
Current liabilities						
Trade and other payables	(9,354)	223	(9,131)	(8,994)	221	(8,773)
Borrowings	(1,599)	36	(1,563)	(1,479)	12	(1,467)
Lease liability	–	(646)	(646)	–	(712)	(712)
Derivative financial instruments	(250)	–	(250)	(69)	–	(69)
Customer deposits and deposits from banks	(8,832)	–	(8,832)	(7,812)	–	(7,812)
Current tax liabilities	(325)	–	(325)	(335)	–	(335)
Provisions	(320)	94	(226)	(544)	128	(416)
	(20,680)	**(293)**	**(20,973)**	**(19,233)**	**(351)**	**(19,584)**
Net current liabilities	**(8,012)**	**(383)**	**(8,395)**	**(5,484)**	**(440)**	**(5,924)**
Non-current liabilities						
Trade and other payables	(384)	19	(365)	(364)	–	(364)
Borrowings	(5,673)	93	(5,580)	(7,142)	110	(7,032)
Lease liability	–	(9,859)	(9,859)	–	(9,560)	(9,560)
Derivative financial instruments	(389)	–	(389)	(594)	–	(594)
Customer deposits and deposits from banks	(3,296)	–	(3,296)	(2,972)	–	(2,972)
Post employment benefit obligations	(2,808)	–	(2,808)	(3,282)	–	(3,282)
Deferred tax liabilities	(236)	187	(49)	(96)	14	(82)
Provisions	(747)	600	(147)	(721)	592	(129)
	(13,533)	**(8,960)**	**(22,493)**	**(15,171)**	**(8,844)**	**(24,015)**
Net assets	**14,834**	**(1,338)**	**13,496**	**10,480**	**(1,285)**	**9,195**
Equity						
Share capital	490	–	490	410	–	410
Share premium	5,165	–	5,165	5,107	–	5,107
All other reserves	3,798	(21)	3,777	735	(18)	717
Retained earnings	5,405	(1,317)	4,088	4,250	(1,267)	2,983
Equity attributable to the owners of the parent	**14,858**	**(1,338)**	**13,520**	**10,502**	**(1,285)**	**9,217**
Non-controlling interests	(24)	–	(24)	(22)	–	(22)
Total equity	**14,834**	**(1,338)**	**13,496**	**10,480**	**(1,285)**	**9,195**
APMs						
Net debt[b]	(2,863)	(10,341)	(13,204)	(2,625)	(10,114)	(12,739)
Total indebtedness[c]	(12,200)	(3,342)	(15,542)	(12,284)	(3,183)	(15,467)

[a] After restating for the adoption of IFRS 15 'Revenue from Contracts with Customers'.

[b] Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables/payables, offset by cash and cash equivalents and short-term investments. It excludes the net debt of Tesco Bank, which has lease liabilities of £35m (2018: £36m).

[c] Total indebtedness pre-IFRS 16 comprises Net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum lease payments under non-cancellable operating leases. Post-IFRS 16, lease liabilities are included in Net debt, replacing the present value of future minimum lease payments under non-cancellable operating leases.

Note 36 Changes in accounting policies continued

The table below sets out the expected impact of IFRS 16 on the comparative period income statement for the 52 weeks ended 23 February 2019 and related APMs. Cost of sales and administrative expenses reduce and finance costs increase as straight line operating lease rental expense is replaced by depreciation of the right of use asset and interest on the lease liability. This results in higher gross profit, operating profit and operating margin. As the interest expense is front-end loaded and decreases as the lease liability decreases, profit before tax is lower in the early stages of a lease and higher in the later stages when compared to a straight-line rental expense. Profit before tax before exceptional items and amortisation of acquired intangibles decreases by £152m, whereas profit before tax (which includes the impact of exceptional impairment reversals of £56m and the reversal of exceptional onerous lease provision charges of £39m) decreases by £57m.

Income statement restatement for the 52 weeks ended 23 February 2019

	52 weeks ended 23 February 2019 (reported)			IFRS 16 impact			52 weeks ended 23 February 2019 (restated)		
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Total £m
Continuing operations									
Revenue	**63,911**	**–**	**63,911**	**–**	**–**	**–**	**63,911**	**–**	**63,911**
Cost of sales	(59,695)	(72)	(59,767)	394	95	489	(59,301)	23	(59,278)
Gross profit/(loss)	**4,216**	**(72)**	**4,144**	**394**	**95**	**489**	**4,610**	**23**	**4,633**
Administrative expenses	(1,989)	(86)	(2,075)	7	–	7	(1,982)	(86)	(2,068)
Profits/(losses) arising on property-related items	(21)	105	84	–	–	–	(21)	105	84
Operating profit/(loss)	**2,206**	**(53)**	**2,153**	**401**	**95**	**496**	**2,607**	**42**	**2,649**
Share of post-tax profits/(losses) of joint ventures and associates	24	11	35	(3)	–	(3)	21	11	32
Finance income	22	–	22	3	–	3	25	–	25
Finance costs	(536)	–	(536)	(553)	–	(553)	(1,089)	–	(1,089)
Profit/(loss) before tax	**1,716**	**(42)**	**1,674**	**(152)**	**95**	**(57)**	**1,564**	**53**	**1,617**
Taxation	(413)	59	(354)	16	(9)	7	(397)	50	(347)
Profit/(loss) for the year	**1,303**	**17**	**1,320**	**(136)**	**86**	**(50)**	**1,167**	**103**	**1,270**
Earnings/(losses) per share from continuing and discontinued operations									
Basic			13.65p			(0.52)p			13.13p
Diluted			13.55p			(0.51)p			13.04p
Earnings/(losses) per share from continuing operations									
Basic			13.65p			(0.52)p			13.13p
Diluted			13.55p			(0.51)p			13.04p
KPIs and APMs									
Operating margin			3.5%			0.6%			4.1%
Diluted adjusted EPS			15.40p			(1.39)p			14.01p

The table below sets out the expected impact of IFRS 16 on the comparative period cash flow statement for the 52 weeks ended 23 February 2019 and related APMs. IFRS 16 has no impact on total cash flow for the year or cash and cash equivalents at the end of the year. Cash generated from operations and free cash flow measures increase as operating lease rental expenses are no longer recognised as operating cash outflows. Cash outflows are instead split between interest paid and repayments of obligations under leases, which both increase.

Cash flow statement restatement for the 52 weeks ended 23 February 2019

	Retail			Tesco Bank			Tesco Group		
52 weeks ended 23 February 2019	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Tesco Group (reported) £m	IFRS 16 impact £m	Tesco Group (restated) £m
Operating profit/(loss) of continuing operations	**1,986**	**494**	**2,480**	**167**	**2**	**169**	**2,153**	**496**	**2,649**
Depreciation and amortisation	1,292	673	1,965	83	2	85	1,375	675	2,050
ATM net income	(34)	–	(34)	34	–	34	–	–	–
(Profit)/loss arising on sale of property, plant and equipment and intangible assets and early termination of leases	(99)	(24)	(123)	(8)	–	(8)	(107)	(24)	(131)
(Profit)/loss arising on sale of subsidiaries and financial assets at fair value through other comprehensive income	(8)	–	(8)	–	–	–	(8)	–	(8)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(58)	(56)	(114)	–	–	–	(58)	(56)	(114)
Adjustment for non-cash element of pensions charge	45	–	45	–	–	–	45	–	45
Additional contribution into defined benefit pension schemes	(266)	–	(266)	–	–	–	(266)	–	(266)
Share-based payments	82	–	82	(5)	–	(5)	77	–	77
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	127	–	127	127	–	127
Cash flows generated from operations excluding working capital	**2,940**	**1,087**	**4,027**	**398**	**4**	**402**	**3,338**	**1,091**	**4,429**
(Increase)/decrease in working capital	(438)	48	(390)	(258)	–	(258)	(696)	48	(648)
Cash generated from/(used in) operations	**2,502**	**1,135**	**3,637**	**140**	**4**	**144**	**2,642**	**1,139**	**3,781**
Interest paid	(301)	(550)	(851)	(5)	(3)	(8)	(306)	(553)	(859)
Corporation tax (paid)/received	(302)	–	(302)	(68)	–	(68)	(370)	–	(370)
Net cash generated from/(used in) operating activities	**1,899**	**585**	**2,484**	**67**	**1**	**68**	**1,966**	**586**	**2,552**
Proceeds from the sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	285	–	285	1	–	1	286	–	286
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buybacks	(136)	–	(136)	–	–	–	(136)	–	(136)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(962)	–	(962)	(3)	–	(3)	(965)	–	(965)
Purchase of intangible assets	(164)	–	(164)	(27)	–	(27)	(191)	–	(191)
Disposal of subsidiaries, net of cash disposed	8	–	8	–	–	–	8	–	8
Acquisition of subsidiaries, net of cash acquired	(715)	–	(715)	–	–	–	(715)	–	(715)
Net increase/(decrease) in loans to joint ventures and associates	–	–	–	5	–	5	5	–	5
Investments in joint ventures and associates	(11)	–	(11)	–	–	–	(11)	–	(11)
Net (investments in)/proceeds from sale of short-term investments	639	–	639	–	–	–	639	–	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	2	–	2	(124)	–	(124)	(122)	–	(122)
Dividends received from joint ventures and associates	31	–	31	10	–	10	41	–	41
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–	–	–
Interest received	18	3	21	–	–	–	18	3	21
Net cash generated from/(used in) investing activities	**(955)**	**3**	**(952)**	**(188)**	**–**	**(188)**	**(1,143)**	**3**	**(1,140)**

Note 36 Changes in accounting policies continued

Cash flow statement restatement for the 52 weeks ended 23 February 2019 continued

	Retail			Tesco Bank			Tesco Group		
52 weeks ended 23 February 2019	Retail (reported) £m	IFRS 16 impact £m	Retail (restated) £m	Tesco Bank (reported) £m	IFRS 16 impact £m	Tesco Bank (restated) £m	Tesco Group (reported) £m	IFRS 16 impact £m	Tesco Group (restated) £m
Proceeds from issue of ordinary share capital	60	–	60	–	–	–	60	–	60
Own shares purchased	(206)	–	(206)	–	–	–	(206)	–	(206)
Repayment of obligations under leases	(17)	(588)	(605)	–	(1)	(1)	(17)	(589)	(606)
Add: Cash outflow from major acquisition	747	–	747	–	–	–	747	–	747
Less: Net increase/(decrease) in loans to joint ventures and associates	–	–	–	(5)	–	(5)	(5)	–	(5)
Less: Net investments in/(proceeds from sale of) short-term investments	(639)	–	(639)	–	–	–	(639)	–	(639)
APM: Free Cash Flow*	**889**	**–**	**889**	**(126)**	**–**	**(126)**	**763**	**–**	**763**
Increase in borrowings	704	–	704	271	–	271	975	–	975
Repayment of borrowings	(2,046)	–	(2,046)	(425)	–	(425)	(2,471)	–	(2,471)
Net cash flows from derivative financial instruments	35	–	35	–	–	–	35	–	35
Dividends paid to equity owners	(357)	–	(357)	–	–	–	(357)	–	(357)
Net cash generated from/(used in) financing activities	**(1,827)**	**(588)**	**(2,415)**	**(154)**	**(1)**	**(155)**	**(1,981)**	**(589)**	**(2,570)**
Intra-Group funding and intercompany transactions	**(14)**	**–**	**(14)**	**14**	**–**	**14**	**–**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**(897)**	**–**	**(897)**	**(261)**	**–**	**(261)**	**(1,158)**	**–**	**(1,158)**
Cash and cash equivalents at the beginning of the year	2,755	–	2,755	1,304	–	1,304	4,059	–	4,059
Effect of foreign exchange rate changes	15	–	15	–	–	–	15	–	15
Cash and cash equivalents at the end of the year	**1,873**	**–**	**1,873**	**1,043**	**–**	**1,043**	**2,916**	**–**	**2,916**

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

Segmental reporting restatement

The tables below set out the expected comparative period segmental income statement for the 52 weeks ended 23 February 2019 and segmental balance sheet as at 23 February 2019, restated for the impact of IFRS 16. Refer to Note 2 for the reported segmental income statement and balance sheet.

Segmental income statement restatement

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

Segmental balance sheet restatement

At 23 February 2019 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	4,927	27	284	1,026	–	6,264
Property, plant and equipment and investment property	14,017	2,694	2,449	62	–	19,222
Right of use assets	6,537	479	682	15	–	7,713
Investments in joint ventures and associates	12	1	567	86	–	666
Non-current financial assets at fair value through other comprehensive income	3	–	–	976	–	979
Non-current trade and other receivables[a]	100	5	14	19	–	138
Non-current loans and advances to customers and banks	–	–	–	7,868	–	7,868
Deferred tax assets	86	34	71	60	–	251
Non-current assets[b]	**25,682**	**3,240**	**4,067**	**10,112**	**–**	**43,101**
Inventories and current trade and other receivables[c][d]	2,999	482	372	285	–	4,138
Current loans and advances to customers and banks	–	–	–	4,882	–	4,882
Current financial assets at fair value through other comprehensive income	–	–	–	67	–	67
Total trade and other payables	(7,452)	(800)	(1,016)	(228)	–	(9,496)
Total customer deposits and deposits from banks	–	–	–	(12,128)	–	(12,128)
Total provisions	(245)	(27)	(49)	(52)	–	(373)
Deferred tax liabilities	(15)	(24)	(10)	–	–	(49)
Net current tax	(265)	(12)	(11)	(31)	–	(319)
Post-employment benefits	(2,788)	–	(20)	–	–	(2,808)
Assets classified as held for sale	68	30	–	–	–	98
Net debt (including Tesco Bank)[e]	(9,060)	(728)	(682)	(413)	(2,734)	(13,617)
Net assets	**8,924**	**2,161**	**2,651**	**2,494**	**(2,734)**	**13,496**

[a] Excludes loans to joint ventures of £105m which form part of net debt.
[b] Excludes derivative financial instrument non-current assets of £1,178m.
[c] Excludes net interest and other receivables of £1m which form part of net debt.
[d] Excludes loans to joint ventures of £28m which form part of net debt.
[e] Includes lease liabilities in UK & ROI £9,060m, Central Europe £728m, Asia £682m, Tesco Bank £35m, Unallocated £nil and Total £10,505m.

Tesco PLC – Parent Company balance sheet

	Notes	23 February 2019 £m	24 February 2018 £m
Non-current assets			
Investments	6	17,887	13,093
Receivables	7	2,139	20
Derivative financial instruments	12	1,043	952
		21,069	**14,065**
Current assets			
Receivables	7	1,154	6,625
Short-term investments	8	11	369
Cash and cash equivalents	9	6	793
		1,171	**7,787**
Current liabilities			
Borrowings	11	(766)	(693)
Payables	10	(242)	(4,767)
Derivative financial instruments	12	(213)	–
		(1,221)	**(5,460)**
Net current assets/(liabilities)		**(50)**	**2,327**
Non-current liabilities			
Borrowings	11	(2,536)	(3,632)
Payables	10	(88)	–
Derivative financial instruments	12	(303)	(488)
		(2,927)	**(4,120)**
Net assets		**18,092**	**12,272**
Equity			
Share capital	15	490	410
Share premium		5,165	5,107
All other reserves		2,969	62
Retained earnings (including profit/(loss) for the financial year of £3,074m (2018: £(136)m))		9,468	6,693
Total equity		**18,092**	**12,272**

The notes on pages 164 to 168 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The Parent Company financial statements on pages 162 to 168 were approved and authorised for issue by the Directors on 9 April 2019.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

			All other reserves						
	Share capital £m	Share premium £m	Currency basis reserve* £m	Capital redemption reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 24 February 2018	**410**	**5,107**	**–**	**16**	**62**	**(16)**	**–**	**6,693**	**12,272**
Adjustment on initial application of IFRS 9 (net of tax)	–	–	(13)	–	13	–	–	(5)	(5)
At 25 February 2018	**410**	**5,107**	**(13)**	**16**	**75**	**(16)**	**–**	**6,688**	**12,267**
Profit/(loss) for the year	–	–	–	–	–	–	–	3,074	3,074
Other comprehensive income/(loss)									
Gains/(losses) on cash flow hedges	–	–	–	–	38	–	–	–	38
Reclassified and reported in the Company income statement	–	–	–	–	(13)	–	–	–	(13)
Tax relating to components of other comprehensive income	–	–	–	–	(5)	–	–	–	(5)
Total other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**20**	**–**	**–**	**–**	**20**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**20**	**–**	**–**	**3,074**	**3,094**
Transactions with owners									
Purchase of own shares	–	–	–	–	–	(277)	–	–	(277)
Share-based payments	–	–	–	–	–	114	–	63	177
Issue of shares	80	58	–	–	–	–	3,050	–	3,188
Dividends	–	–	–	–	–	–	–	(357)	(357)
Total transactions with owners	**80**	**58**	**–**	**–**	**–**	**(163)**	**3,050**	**(294)**	**2,731**
At 23 February 2019	**490**	**5,165**	**(13)**	**16**	**95**	**(179)**	**3,050**	**9,468**	**18,092**

			All other reserves						
	Share capital £m	Share premium £m	Currency basis reserve* £m	Capital redemption reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 25 February 2017	**409**	**5,096**	**–**	**16**	**168**	**(22)**	**–**	**6,795**	**12,462**
Profit/(Loss) for the year	–	–	–	–	–	–	–	(136)	(136)
Other comprehensive income/(loss)									
Gains/(losses) on cash flow hedges	–	–	–	–	(5)	–	–	–	(5)
Reclassified and reported in the Company income statement	–	–	–	–	(127)	–	–	–	(127)
Tax relating to components of other comprehensive income	–	–	–	–	26	–	–	–	26
Total other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(106)**	**–**	**–**	**–**	**(106)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(106)**	**–**	**–**	**(136)**	**(242)**
Transactions with owners									
Purchase of own shares	–	–	–	–	–	(14)	–	–	(14)
Share-based payments	–	–	–	–	–	20	–	114	134
Issue of shares	1	11	–	–	–	–	–	–	12
Dividends	–	–	–	–	–	–	–	(80)	(80)
Total transactions with owners	**1**	**11**	**–**	**–**	**–**	**6**	**–**	**34**	**52**
At 24 February 2018	**410**	**5,107**	**–**	**16**	**62**	**(16)**	**–**	**6,693**	**12,272**

* 'Currency basis reserve' was previously titled 'Other reserves'.

The notes on pages 164 to 168 form part of these financial statements.

Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the 52 weeks ended 23 February 2019 were approved by the Board of Directors on 9 April 2019 and the Company balance sheet was signed on the Board's behalf by Dave Lewis and Alan Stewart.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act).

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The financial year represents the 52 weeks to 23 February 2019 (prior financial year 52 weeks to 24 February 2018).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, impairment of assets, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Short-term investments

Short-term investments are recognised initially at fair value, and subsequently at amortised cost. All income from these investments is included in the income statement as interest receivable and similar income.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments

Financial assets and financial liabilities are recognised in the Company balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings

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

Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes; however if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

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

Fair value hedging

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

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the Company statement of comprehensive income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company income statement in the same period or periods during which the hedged transaction affects the Company income statement. The classification of the effective portion when recognised in the Company income statement is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company income statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

Pensions
The Company participates in defined benefit pension schemes. There are no formal policies or contractual agreements for recharging within the Group and the Company cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the financial year is based upon the cash contributions payable.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

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

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

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

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

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

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

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

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

The preparation of the Company financial statements for the financial year did not require the exercise of any critical accounting judgements or significant estimates.

New standards effective for the current financial year
IFRS 9 'Financial Instruments'
IFRS 9 'Financial Instruments' replaced IAS 39 'Financial Instruments: Recognition and Measurement' with the exception of macro hedge accounting.

The following changes arose from the transition to IFRS 9:

- Classification and measurement: All financial instruments classified as loans and receivables under IAS 39 are classified and measured at amortised cost under IFRS 9.
- Impairment: The impairment requirements of IFRS 9 require expected credit losses to be applied to amounts owed by related undertakings and by joint ventures and associates.
- Hedge accounting: All existing hedge relationships for the company have transitioned to IFRS 9 on adoption.

IFRS 15 'Revenues from Contracts with Customers'
This standard has not had a material impact on the Company.

Standards issued but not yet effective
IFRS 16 'Leases'
This standard is not expected to have a material impact on the Company.

Other standards and amendments
Refer to Note 1 to the Group financial statements.

Note 3 Auditor remuneration
Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 to the Group financial statements.

Note 4 Dividends
For details of dividends see Note 8 to the Group financial statements.

Note 5 Employment costs, including Directors' remuneration

	Notes	2019 £m	2018 £m
Wages and salaries		17	14
Social security costs		3	2
Pension costs	14	4	4
Share-based payment expense	13	7	7
		31	**27**

The amounts above include recharges from other Group companies for Tesco PLC related activities.

The average number of employees (all Directors of the Company) during the financial year was 13 (2018: 11).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 62 to 79.

Note 6 Investments

	Total £m
Cost	
At 24 February 2018	**16,632**
Additions	5,102
Disposals	(451)
At 23 February 2019	**21,283**
Impairment	
At 24 February 2018	**(3,539)**
Impairment	(290)
Disposals	433
At 23 February 2019	**(3,396)**
Net carrying value	
At 23 February 2019	**17,887**
At 24 February 2018	13,093

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 169 to 173.

Note 7 Receivables

	2019 £m	2018 £m
Amounts owed by Group undertakings*	3,232	6,598
Amounts owed by joint ventures and associates	21	20
Other receivables	40	27
	3,293	**6,645**
Of which:		
Current	1,154	6,625
Non-current	2,139	20
	3,293	**6,645**

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship, with interest rates ranging from 0% to 3%, with maturities up to and including March 2025.

Note 8 Short-term investments

	2019 £m	2018 £m
Money market funds	11	369

Note 9 Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	6	793

Included in cash and cash equivalents is an amount of £nil (2018: £777m) that was set aside at the balance sheet date for completion of the merger with Booker Group PLC. This cash was invested at a floating rate of interest, held in ring-fenced accounts and was not available to the Group. The merger was completed on 5 March 2018, with £766m being paid on completion. Refer to Note 31 to the Group financial statements for further details on the Booker merger.

Note 10 Payables

	2019 £m	2018 £m
Amounts owed to Group undertakings[(a)]	299	4,707
Other payables	11	43
Taxation and social security	3	3
Accruals and deferred income	–	6
Deferred tax liability[(b)]	17	8
Total payables	**330**	**4,767**
Of which:		
Current	242	4,767
Non-current	88	–
	330	**4,767**

(a) Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship, with interest rates ranging from 0% to 3%, with maturities up to and including February 2051.

(b) The deferred tax asset/(liability) recognised by the Company, and the movements thereon, during the current financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 24 February 2018	**(12)**	**4**	**(8)**
Charge to the income statement for prior years	–	(4)	(4)
Movement in other comprehensive income for the year	(5)	–	(5)
At 23 February 2019	**(17)**	**–**	**(17)**

Note 11 Borrowings

Current

	Par value	Maturity	2019 £m	2018 £m
Bank loans and overdrafts	–	–	668	26
3.375% MTN	€750m	Nov 2018	–	667
5.5% MTN[(a)]	£97m	Dec 2019	98	–
			766	**693**

Non-current

	Par value	Maturity	2019 £m	2018 £m
5.5% MTN[(a)]	£97m	Dec 2019	–	183
6.125% MTN[(a)]	£531m	Feb 2022	561	952
5% MTN[(a)]	£171m	Mar 2023	183	254
3.322% LPI MTN[(b)]	£346m	Nov 2025	349	338
6% MTN[(a)]	£98m	Dec 2029	119	198
5.5% MTN[(a)]	£150m	Jan 2033	186	221
1.982% RPI MTN[(c)]	£286m	Mar 2036	288	279
6.15% USD Bond[(a)]	$525m	Nov 2037	428	616
4.875% MTN[(a)]	£32m	Mar 2042	32	103
5.125% MTN	€356m	Apr 2047	319	323
5.2% MTN[(a)]	£73m	Mar 2057	71	165
			2,536	**3,632**

(a) During the current financial year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early: 5.5% MTN Dec 2019 £84m, 6.125% MTN Feb 2022 £369m, 5% MTN Mar 2023 £67m, 6% MTN Dec 2029 £61m, 5.5% MTN Jan 2033 £26m, 6.15% USD Bond Nov 2037 $325m, 4.875% MTN Mar 2042 £70m and 5.2% MTN Mar 2057 £95m.

(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, indexed for increases in the RPI over the life of the MTN.

Note 12 Derivative financial instruments

The fair values of derivative financial instruments have been presented in the Company balance sheet as:

	2019		2018	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	–	(213)	–	–
Non-current	1,043	(303)	952	(488)
Total derivative financial instruments	**1,043**	**(516)**	**952**	**(488)**

	2019				2018			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	11	65	–	–	12	65	–	–
Cross-currency swaps	126	180	(10)	222	128	401	(52)	207
Cash flow hedges								
Cross-currency swaps	138	309	–	–	129	313	–	–
Index-linked swaps	170	632	–	–	140	612	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	598	3,339	(506)	3,339	543	3,339	(436)	3,339
Total	**1,043**	**4,525**	**(516)**	**3,561**	**952**	**4,730**	**(488)**	**3,546**

Note 13 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, refer to Note 26 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

For the 52 weeks ended 23 February 2019

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
Outstanding at 24 February 2018	**23,840**	**151.00**	**14,271,355**	**–**
Granted	19,148	188.00	200,518	–
Forfeited	–	–	(1,704,300)	–
Exercised	(23,840)	151.00	(23,840)	–
Outstanding at 23 February 2019	**19,148**	**188.00**	**12,743,733**	–
Exercise price range (pence)		188.00		–
Weighted average remaining contractual life (years)		3.03		7.18
Exercisable at 23 February 2019	**–**	**–**	**3,837,740**	**–**
Exercise price range (pence)		–		–
Weighted average remaining contractual life (years)		–		6.00

For the 52 weeks ended 24 February 2018

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
Outstanding at 25 February 2017	**23,840**	**151.00**	**10,548,558**	**–**
Granted	–	–	4,031,340	–
Forfeited	–	–	(308,543)	–
Exercised	–	–	–	–
Outstanding at 24 February 2018	**23,840**	**151.00**	**14,271,355**	**–**
Exercise price range (pence)		151.00		–
Weighted average remaining contractual life (years)		1.44		8.00
Exercisable at 24 February 2018	**–**	**–**	**2,989,805**	**–**
Exercise price range (pence)		–		–
Weighted average remaining contractual life (years)		–		7.06

Share bonus and incentive schemes

Executive Directors participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to Executive Directors who have completed a required service period and depend on the achievement of the corporate and individual performance targets. For further information on these schemes, including the valuation models and assumptions used, refer to Note 26 to the Group financial statements.

The number of share bonuses awarded during the financial year were 739,293 (2018: nil) for Group Bonus Plan and 2,071,068 (2018: nil) for Performance Share Plan. Respectively weighted average fair value (WAFV) was 241.8p (2018: £nil) and 254.8p (2018: £nil).

Note 14 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £4.4m (2018: £4.4m). Further disclosure relating to all schemes can be found in Note 27 to the Group financial statements.

Note 15 Called up share capital

Refer to Note 28 of the Group financial statements.

Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 32 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £1,715m (2018: £2,201m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £162m (2018: £217m) at the reporting date. These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed use retail developments.

The likelihood of the above items being called upon is considered remote.

Note 17 Events after the reporting period

No material events occurred after the year-end date of 23 February 2019 and before the signing of the Company's financial statements.

Related undertakings of the Tesco Group

In accordance with Section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office address and the percentage of share class owned as at 23 February 2019 are disclosed below. Changes to the list of related undertakings since the year-end date are detailed in the footnotes below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	–
Adminstore Limited	1	£0.01 A Ordinary	100
		£0.01 B Ordinary	100
		£0.01 C Ordinary	100
Adsega Limited†	1	£1.00 Ordinary	100
Alfred Preedy & Sons Limited	2	£1.00 Deferred	100
		£1.00 Ordinary	100
Armitage Finance Unlimited	1	£0.90 Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	–
Berry Lane Management Company Limited	1	Limited by Guarantee	–
BF Limited	38	£1.00 Ordinary	100
Bishop's Group Limited	38	£0.01 Ordinary	100
Booker Cash & Carry Limited	38	£1.00 Ordinary	100
Booker Direct Limited	38	£0.01 Ordinary	100
Booker EBT Limited	38	£0.01 Ordinary	100
Booker Group Limited	38	£1.00 Ordinary	100
Booker Limited	38	£1.00 Ordinary	100
Booker Retail Partners (GB) Limited	38	£1.00 Ordinary	100
Booker Retail Limited	38	£0.01 Ordinary	100
Booker Wholesale Holdings Limited	38	£0.01 Ordinary	100
Broughton Retail Park Nominee 1 Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 2 Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 3 Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 4 Limited	1	£1.00 Ordinary	100
Budgen Holdings Limited	38	£1.00 Ordinary	100
Budgens Pension Trustees No.2 Limited	38	£1.00 Ordinary	100
Budgens Property Investments Limited	38	£1.00 Ordinary	100
Budgens Stores Limited	38	£1.00 Ordinary	100
Buttoncable Limited	1	£1.00 Ordinary	100
Buttoncase Limited+	1	£1.00 Cumulative Redeemable Preference	100
		£1.00 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	–
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	–
Comar Limited†	1	£1.00 Ordinary	100
Cullen's Holdings Limited	1	£0.10 Ordinary	100
Cullen's Stores Limited	1	£1.00 Ordinary	100
Day and Nite Stores Limited	2	£1.00 Cumulative Convertible Participating Preferred Ordinary	100
		£1.00 Cumulative Redeemable Preference	100
		£1.00 Ordinary	100
Dillons Newsagents Limited	2	£0.25 Non-Voting Ordinary	100
dunnhumby Advertising Limited	5	£1.00 Ordinary	100
dunnhumby Holding Limited	5	£1.00 Ordinary	100
dunnhumby International Limited	5	£1.00 Ordinary	100
dunnhumby Limited	5	£3.59 Ordinary	100
dunnhumby Overseas Limited	5	£1.00 Ordinary	100
dunnhumby Trustees Limited	5	£1.00 Ordinary	100
Europa Foods Limited	1	£1.00 Ordinary	100
Faraday Properties Limited	6	£1.00 Ordinary	100
Giant Bidco Limited	38	£1.00 Ordinary	100
Giant Booker Limited	38	£0.25 Ordinary	100
Giant Midco Limited	38	£1.00 Ordinary	100
Gibbs News Limited	2	£1.00 Ordinary	100
Highams Green Management Company Limited	1	Limited by Guarantee	–
IRTH (15) Limited	38	£1.00 Ordinary	100
IRTH (19) Limited	38	£1.00 Ordinary	100
KSS Retail Limited	5	£0.001 Ordinary	100
Launchgrain Limited†	1	£1.00 Ordinary	100
Linnco Limited	38	£1.00 Ordinary	100
Londis (Holdings) Limited	38	£50.00 Ordinary	100
Londis Pension Trustees Limited	38	£1.00 Ordinary	100
M & W Limited	2	£0.10 Ordinary	100
Makro Holding Limited	38	£1.00 Ordinary	100
Makro Properties Limited	38	£1.00 Ordinary	100
Makro Self Service Wholesalers Limited	38	£1.00 Ordinary A	100
		£1.00 Ordinary B	100
Motorcause Limited	1	£1.00 Ordinary	100
Murdoch Norton Limited	38	£0.05 Ordinary	100
NutriCentre Limited	1	£0.10 Ordinary	100
Oakwood Distribution Limited	1	£1.00 Ordinary	100
One Stop Community Stores Limited	2	£1.00 Ordinary	100
One Stop Convenience Stores Limited	2	£1.00 Ordinary	100
One Stop Stores Limited†(a)	2	£1.00 Ordinary	100
One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100
Orpington (Station Road) Limited	1	£1.00 Ordinary	100
Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	–
Paper Chain (East Anglia) Limited	2	£1.00 Deferred	100
		US$0.001 Ordinary	100
PTLL Limited	1	£1.00 Ordinary	100
Ritter-Courivaud Limited	38	£0.10 Ordinary	100
Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100
Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100
Spen Hill Developments Limited	1	£1.00 Ordinary	100
Spen Hill Management Limited†(b)	1	£1.00 Ordinary	100
Spen Hill Properties (Holdings) plc†	1	£1.00 Ordinary	100
Spen Hill Regeneration Limited	1	£1.00 Ordinary	100
Spen Hill Residential No 1 Limited	1	£1.00 Ordinary	100
Spen Hill Residential No 2 Limited	1	£1.00 Ordinary	100
Station House Welling Management Limited	1	Limited by Guarantee	–
Statusfloat Limited	1	£1.00 Ordinary	100
Stewarts Supermarkets Limited†	1	£1.00 Ordinary	100
T & S Stores Limited†	2	£0.05 Ordinary	100
Tapesilver Limited†	1	£1.00 Ordinary	100
Teesport (GP) Limited	1	£1.00 Ordinary	100
Tesco (Overseas) Limited†	1	£1.00 Ordinary	100
Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100
Tesco Aqua (FinCo1) Limited	1	£1.00 Ordinary	100
Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100
Tesco Aqua (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Atrato (1LP) Limited	1	£1.00 Ordinary	100
Tesco Blue (3LP) Limited	1	£1.00 Ordinary	100
Tesco Blue (FinCo2) Limited	1	£1.00 Ordinary	100
Tesco Blue (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary(c)	100
Tesco Blue (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Corporate Treasury Services PLC†	1	£1.00 Ordinary	100
Tesco Depot Propco Limited	1	£1.00 Ordinary	100
Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100
Tesco Distribution Limited	1	£1.00 Ordinary	100

Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Dorney (1LP) Limited	1	£1.00 Ordinary	100
Tesco Employees' Share Scheme Trustees Limited†(d)	1	£1.00 Ordinary	100
Tesco Family Dining Limited	1	£1.00 Ordinary	100
Tesco Food Sourcing Limited	1	£1.00 Ordinary	100
Tesco Freetime Limited	1	£1.00 Ordinary	100
Tesco (3LP) Limited	1	£1.00 Ordinary	100
Tesco Gateshead Property Limited	1	£1.00 Ordinary	100
Tesco Holdings Limited†	1	£0.10 Ordinary	100
		£1.00 Preference	100
Tesco International Internet Retailing Limited†	1	£1.00 Ordinary	100
Tesco International Services Limited†	1	£1.00 Ordinary	100
Tesco Lagoon GP Limited	6	£1.00 Ordinary	100
Tesco Maintenance Limited	1	£1.00 Ordinary	100
Tesco Mobile Communications Limited†	1	£1.00 Ordinary	100
Tesco Mobile Services Limited	1	£1.00 Ordinary	100
Tesco Navona (1LP) Limited	1	£1.00 Ordinary	100
Tesco Navona (GP) Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B(c)	100
Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100
Tesco Overseas Investments Limited†	1	£1.00 Ordinary	100
Tesco Overseas ULC	1	£0.00000025 A Ordinary	100
		£0.00000025 B Ordinary	100
		£0.00000025 C Ordinary	100
		£0.00000025 D Ordinary	100
		£0.00000025 E Ordinary	100
		£0.00000025 F Ordinary	100
		£0.00000025 G Ordinary	100
		£0.00000025 H Ordinary	100
		£0.00000025 J Ordinary	100
		£0.00000025 K Ordinary	100
		£0.00000025 L Ordinary	100
		£0.00000025 M Ordinary	100
		£0.00000025 N Ordinary	100
		£0.00000025 O Ordinary	100
		£0.00000025 P Ordinary	100
Tesco Passaic (1LP) Limited	1	£1.00 Ordinary	100
Tesco Passaic (GP) Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B(c)	100
Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100
Tesco PEG Limited	1	£0.01 Ordinary	100
Tesco PENL Limited	1	£1.00 Ordinary	100
Tesco Pension Investment Limited(c)	1	£1.00 Ordinary	100
Tesco Pension Trustees Limited†(e)	1	£1.00 Ordinary	100
Tesco Personal Finance Group PLC†	10	£0.10 A Ordinary	100
		£0.10 B Ordinary	100
		£0.10 C Ordinary	100
Tesco Personal Finance PLC	10	£0.10 Ordinary	100
Tesco Property (Nominees) (No.1) Limited	11	£1.00 Ordinary	100
Tesco Property (Nominees) (No.2) Limited	11	£1.00 Ordinary	100
Tesco Property (Nominees) Limited	11	£1.00 Ordinary	100
Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100
Tesco Property Finance 1 PLC	1	£1.00 Ordinary	100
Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100
Tesco Property Holdings Limited	1	£1.00 Ordinary	100
Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100
Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Property Partner (No.1) Limited†	1	£1.00 Ordinary	100
Tesco Property Partner (No.2) Limited†	1	£1.00 Ordinary	100
Tesco Red (3LP) Limited	1	£1.00 Ordinary	100
Tesco Red (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Sarum (1LP) Limited	1	£1.00 Ordinary	100
Tesco Seacroft Limited	1	£1.00 Ordinary	100
Tesco Secretaries Limited	1	£1.00 Ordinary	100
Tesco Services Limited	1	£1.00 Ordinary	100
Tesco Stores Limited	1	£1.00 A Preference	100
		£1.00 B Preference	100
		£1.00 Ordinary	100
Tesco TLB Finance Limited	1	£1.00 Ordinary	100
Tesco TLB Properties Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B	100
Tesco Treasury Services PLC†	1	£1.00 Ordinary	100
The Big Food Group Limited	38	£0.10 Ordinary	100
The Teesport Limited Partnership	1	Limited Partnership	100
The Tesco Aqua Limited Partnership	1	Limited Partnership	100
The Tesco Blue Limited Partnership	1	Limited Partnership	100
The Tesco Navona Limited Partnership	1	Limited Partnership	100
The Tesco Passaic Limited Partnership	1	Limited Partnership	100
The Tesco Property Limited Partnership	1	Limited Partnership	100
The Tesco Red Limited Partnership	1	Limited Partnership	100
TPI Fund Managers Limited	1	£1.00 Ordinary	100
TPT Holdco No.1 Limited	1	£1.00 Ordinary	100
Ventnor High Street Management Company Limited	1	Limited by Guarantee	–
Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100
Wm. Low Supermarkets Limited	6	£1.00 Ordinary	100

International subsidiary undertakings.

Name of undertaking	Registered address	Class of share held	% held by Group
Arena (Jersey) Management Limited†	87	£1.00 Ordinary	100
Booker Cyprus Limited	91	€1.00 Ordinary	100
Booker India Private Limited	88	INR 10.00 Ordinary	100
Booker Satnam Wholesale Private Limited	88	INR 1.00 Ordinary	87
Cheshunt Holdings Guernsey Limited†	18	£1.00 Ordinary	100
Cheshunt Hungary Servicing Limited Liability Company	22	HUF 100,000 Quota	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100
		€1.00 Ordinary	100
Cirrus Finance Limited	24	£1,000 Ordinary	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100
Commercial Investments Limited	24	€1.25 Ordinary	100
Crest Ostrava a.s	16	CZK 100,000 Ordinary	100
Delamare Holdings B.V.	30	€1.00 Ordinary	100
Department store Pardubice s.r.o.	16	CZK 100,000 Ordinary	100
dunnhumby (Korea) Limited	62	KRW 5,000 Ordinary	100
dunnhumby (Malaysia) Sdn Bhd	64	RM 1.00 Ordinary	100
dunnhumby (Thailand) Limited	69	THB 1,000,000 Ordinary	100
dunnhumby Advertising (Shanghai) Co., Ltd	83	€130,000 Registered Capital	100
dunnhumby Australia PTY Limited	94	AUD 100 Ordinary	100
dunnhumby Brasil Consultora Ltda	53	BRL$1.00 Ordinary	100
dunnhumby Canada Limited	37	CA$ 1.00 Ordinary	100
dunnhumby Chile SpA	95	CLP 500,000 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Colombia S.A.S.	52	COP 2,000 Type A COP 41.00 Type B COP 1.00 Type C	100
dunnhumby Computer Information Technology and Consultancy Services LLC	54	TL 25.00 Ordinary	100
dunnhumby Consulting Canada Limited	55	CAD$0.01 Ordinary	100
dunnhumby Consulting Services India Private Limited	56	INR 10.00 Ordinary	100
dunnhumby Czech s.r.o.	16	CZK 200,000 Ordinary	100
dunnhumby Finland Oy	70	100 Kovellinum Oy	100
dunnhumby France SAS	57	€2.00 Ordinary	100
dunnhumby Germany GmbH	72	€1.00 Ordinary	100
dunnhumby Hungary Kft	22	Registered capital HUF 3,000,000	100
dunnhumby Inc.	35	No par value	–
dunnhumby Information Technology Consulting (Shanghai) Company Limited	58	Registered capital US$140,000	100
dunnhumby Ireland Limited	63	€1.00 Ordinary	100
dunnhumby IT Services India Private Limited	59	INR 10.00 Ordinary	100
dunnhumby Italia Srl.	60	€1.00 Ordinary	100
dunnhumby Japan K.K	61	JPY 10,000 Ordinary	100
dunnhumby Mexico S. de R.L. de C.V.	65	MXN 2,970 Ordinary A MXN 30.00 Ordinary B	100
dunnhumby Netherlands B.V.	77	€1.00 Ordinary	100
dunnhumby New Zealand	96	NZD 100.00 Ordinary	100
dunnhumby Poland Sp. z o.o.	32	PLN 50,000 Ordinary	100
dunnhumby Russia LLC	79	RUB 1.00 Ordinary	100
dunnhumby Singapore Pte Ltd	80	SGD 1.00 Ordinary	100
dunnhumby SARL	75	€100.00 Ordinary	100
dunnhumby Serviços de Promoção Digital Ltda	73	R$1.00 Ordinary	100
dunnhumby Slovakia s.r.o.	67	No shares in issue	–
dunnhumby Sp. z o.o.	78	PLN 50.00 Ordinary	100
dunnhumby Spain S.L	8	€1.00 Ordinary	100
dunnhumby South Africa (Pty) Ltd	68	No par value Ordinary	100
dunnhumby Ventures LLC	71	–	–
Edson Investments Limited	24	€2.00 Ordinary	100
Edson Properties Limited	24	€1.00 Ordinary	100
Ek-Chai Distribution System Co., Ltd.*	34	THB 10.00 Ordinary	99.9
ELH Insurance Limited	19	£1.00 Ordinary	100
Genesis sp. z o.o.	32	PLN 500.00 Ordinary	100
J.Smylie & Sons (IOM) Limited	92	£1.00 Ordinary	100
Jasper Sp. z o.o.	32	PLN 100.00 Ordinary	100
Kabaty Investments Tesco (Polska) Sp. z o.o. Sp.k	32	PLN Partnership Interests	100
Letňany Development land 1 s.r.o.	16	CZK 100,000 Ordinary	100
Letňany Development land 2 s.r.o.	16	CZK 100,000 Ordinary	100
Marine Coffee Company Holdings Limited	25	€1.00 Ordinary	100
Monread Developments Limited	24	€0.001 Ordinary	100
Nabola Development Limited	24	€1.25 A Ordinary	100
		€1.25 B Ordinary	100
Orpingford Unlimited Company	24	€1.00 Ordinary	100
PEJ Property Developments Limited	24	€1.00 Ordinary	100
Pharaway Properties Limited	24	€1.00 Ordinary	100
R.J.D. Holdings Unlimited Company	24	€1.269738 Ordinary	100
Saneyia Limited	91	€1.00 Ordinary	100
Seberov site s.r.o.	16	CZK 100,000 Ordinary	100
Sociomantic Labs Inc	35	US$50.00 Common Stock	100
Sociomantic Labs Internet Hizmetleri Limited Şireketi	82	TRY 25.00 Ordinary	100
Sociomantic Labs Private Limited	76	INR 10.00 Ordinary	100
Tesco (Polska) Sp. z o.o.	32	PLN 500.00 Ordinary	100
Tesco Akadémia Képzési és Fejlesztési Korátolt Felelősségű Társaság	22	HUF 1.00 Business Share	100
Tesco Angel Fundation	22	Foundation	100
Tesco Bengaluru Private Limited	23	INR 10.00 Ordinary	100
Tesco Capital No. 1 Limited†	28	£0.50 A Ordinary	100
		£0.50 B Ordinary	100
		£0.01 Preference – Guaranteed fixed rate cumulative preference	100
		£0.01 Preferred Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Capital No. 2 Limited	28	£0.01 Floating Rate Redeemable Preference†	100
		£1.00 Ordinary	100
Tesco Chile Sourcing Limitada	13	CLP 1.00 Ordinary	100
		US$ 1.00 Ordinary	100
Tesco Digital Ventures Pte Ltd	33	SGD 1.00 Ordinary	100
Tesco Dystrybucja Sp. z o.o.	32	PLN 50.00 Ordinary	100
Tesco Europe B.V.	30	€1.00 Ordinary	100
Tesco Food Sourcing Brazil Consultoria De Negoçios Ltda.	12	BRL 1.00 Ordinary	100
Tesco Foundation (Nadacia Tesco)	51	No par value basic capital	100
Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100
Tesco-Global Stores Privately Held Company Limited	22	HUF 10.00 Common	99.9
Tesco Global Employment Company Limited	34	THB 100.00 Ordinary	100
Tesco Guangdong (HK) Co. Limited	20	US$ 1.00 Ordinary	100
Tesco Holdings B.V.	30	€1.00 Ordinary	100
Tesco International Clothing Brand s.r.o.	51	€1.00 Ordinary	100
Tesco International Franchising s.r.o.	51	€1.00 Ordinary	100
Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100
Tesco Ireland Holdings Limited	24	€1.25 Ordinary	100
Tesco Ireland Limited	24	€1.25 Ordinary	100
Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100
Tesco Joint Buying Service (Shanghai) Co., Limited	14	US$ 1.00 Ordinary	100
Tesco Mobile (Thailand) Co. Limited	34	THB 100.00 Ordinary	100
Tesco Mobile Ireland Limited	24	€1.00 Ordinary	100
Tesco Property (No. 1) Limited	28	£1.00 Ordinary	100
Tesco Property Limited	15	US$1.00 Registered Capital	100
Tesco Sourcing India Private Limited	84	INR 10.00 Ordinary	100
Tesco Stores (Malaysia) Sdn Bhd*	42	RM 1.00 A Ordinary	100
		RM 10.00 Non-Convertible Non-Cumulative Irredeemable Preference Shares	100
		RM 1.00 B Ordinary	100
Tesco Stores (Thailand) Limited*	34	THB 10.00 A Ordinary	100
		THB 10.00 B Preference	<0.001
		THB 10.00 C Preference	100
Tesco Stores ČR a.s.	16	CZK 1,000 Ordinary	100
Tesco Stores SR, a.s.	51	€33,193.92 Ordinary	100
Tesco Technology Services HK Limited	21	HKD 1.00 Ordinary	100
Tesco Trustee Company of Ireland Limited†	24	€1.25 Ordinary	100
TESCO Üzleti és Technológiai Szolgáltatások Zârtkörüen Múködó Részvénytársaság	9	HUF 100,000	100
Thundridge Unlimited	24	€1.00 Ordinary	100
Valiant Insurance Company DAC	26	£1.00 Ordinary	100
Victoria BB Sp. z o.o.	32	PLN 800.00 Ordinary	100
Wanze Properties (Dundalk) Limited	24	€1.00 Ordinary	100
WSC Properties Limited	24	€0.0000005 Ordinary	100

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Alfred Preedy & Sons (Trustees) Limited	89	£1.00 Ordinary	100
Anthony Heagney Limited	89	£1.00 Ordinary	100
Beehythe Estates Limited(f)	89	£1.00 Ordinary	100
Bedminster Estates Limited	3	£1.00 Ordinary	100
Cheshunt Finance Unlimited	89	£0.000000001	100
Cheshunt Overseas LLP	3	Limited Liability Partnership	100
Crazy Prices†	86	£1.00 Ordinary	100
Daily Wrap Produce Limited†	4	£1.00 Ordinary	100
Food & Wine Lovers Limited(f)	89	£1.00 Ordinary	100
Gibbs Newsagent Limited(f)	89	£1.00 A Ordinary	100
Halesworth SPV Limited	89	£1.00 Ordinary	100
Harts the Grocers (Russell Square) Limited	89	£1.00 Ordinary	100
Harts the Grocers (TCR) Limited(f)	89	£1.00 Ordinary	100
J.E. Cohen & Company Limited	89	£1.00 Ordinary	100
Linebush III Limited	89	£1.00 Ordinary A	100
		£1.00 Ordinary B	100
Linebush IV Limited	89	£0.01 Ordinary A	100
		£1.20 Ordinary B	100
		£0.01 Ordinary C	100
Linebush Limited	89	£0.01 A Ordinary	100
		£1.00 B Ordinary	100
Linebush V Limited	89	£1.20 Ordinary A	100
		£1.20 Ordinary B	100
London and Home Counties Superstores Limited	89	£1.00 Ordinary A	100
Mills (East Midlands) Limited	89	£1.00 Ordinary	100
Mills Group Limited	89	£1.00 Ordinary	100
Morgam News Limited	89	£1.00 Ordinary	100
Snowman Retail 1 Limited	89	£1.00 Ordinary	100
Snowman Retail 2 Limited	89	£1.00 Ordinary	100
T & S Properties Limited	89	£1.00 Ordinary	100
Tesco FFC Limited	89	£0.01 Ordinary	100
Tesco FTO Limited(f)	89	£1.00 Ordinary	100
Tesco Kirkby (General Partner) Limited	89	£1.00 Ordinary	100
Tesco Kirkby (LP) Limited	89	£1.00 Ordinary	100
Tesco Kirkby (Unitholder1) Limited	89	£1.00 Ordinary	100
Tesco Kirkby (Unitholder2) Limited	89	£1.00 Ordinary	100
Tesco TLB Barnstaple Limited	89	£1.00 Ordinary	100
Tesco TLB Nottingham Limited	89	£1.00 Ordinary	100
Tesco TLB Pontypridd Limited	89	£1.00 Ordinary	100
Verulam Properties Limited	89	£1.00 Ordinary	100

The following subsidiary undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Netherlands BV	66	€1.00 Ordinary	100
Tesco Mauritius Holdings Limited	29	£1.00 Ordinary	100
Tesco Vin Plus S.A.	17	€1.60 Ordinary	100

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Broadfields Management Limited	47	£0.10 Ordinary	35.3
Clarepharm Limited	48	£0.10 Ordinary	26.5
Fresh Food Trader Limited	7	£1.00 Ordinary	50
		£1.00 Preference	100
Shire Park Limited	49	£1.00 Ordinary	54.5
Tesco Atrato (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Atrato (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Atrato (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Atrato (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Atrato Depot Propco Limited	1	£1.00 Ordinary	100
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Jade (GP) Limited	90	£1.00 A Ordinary	30
		£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
		£0.90 B Ordinary	100
Tesco Property (Sparta Nominees) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.3) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.4) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP No.2) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Underwriting Limited	50	£1.00 Ordinary	49.9
The Tesco Atrato Limited Partnership	1	Limited Partnership	50
The Tesco Coral Limited Partnership	1	Limited Partnership	50
The Tesco Dorney Limited Partnership	1	Limited Partnership	50
The Tesco Property (No.2) Limited Partnership	27	Limited Partnership	50
The Tesco Sarum Limited Partnership	1	Limited Partnership	50

The following associated undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Arena Unit Trust	87	–	50
China Wisdom dunnhumby Limited	40	RMB 264,000 Ordinary	50
China Wisdom dunnhumby (Shanghai) Limited	39	RMB 26,400,000 Registered capital	50
dunnhumby Denmark IvS	81	DKK1.00 Ordinary	100
dunnhumby Mitsui Bussan Customer Science Co., Ltd	31	Common stock 1,000	50
dunnhumby Norge A.S.	43	NOK 1,000 Ordinary	50
Gain Land Limited	36	$1.00 Ordinary	20
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51.9
Retail Property Co., Limited*	44	THB 100.00 Ordinary A	100
Synergistic Property Development Co. Limited	93	THB 100.00 Ordinary	50
Tesco Card Services Limited	45	THB 100.00 Ordinary A	100
Tesco for Thais Foundation	34	Foundation	–
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	46	THB non par value listed	25
Tesco Mobile ČR s.r.o.	16	CZK 100,000 Ordinary	50
Tesco Mobile Slovakia s.r.o.	51	€1.00 Ordinary	50
Trent Hypermarket Private Limited	41	INR 10.00 Equity	50

Consolidated Structured Entities

Name of undertaking	Registered address	Nature of business
Delamare Cards Holdco Limited	85	Securitisation entity
Delamare Cards MTN Issuer plc	85	Securitisation entity
Delamare Cards Receivables Trustee Limited	85	Securitisation entity
Delamare Cards Funding 1 Limited	85	Securitisation entity
Delamare Cards Funding 2 Limited	85	Securitisation entity
Delamare Finance PLC	11	Securitisation entity
Delamare Group Holdings Limited	11	Securitisation entity

* Undertaking where other share classes are held by a third party.
† Interest held directly by Tesco PLC.
(a) 95% held by Tesco PLC.
(b) 66.6% held by Tesco PLC.
(c) Shares held by Tesco Pension Trustees Limited (TPTL), the corporate trustee of the Tesco PLC Pension Scheme (the Scheme). On behalf of the Scheme, TPTL holds a 50% shareholding in three property joint ventures with Tesco, and is the sole shareholder of Tesco Pension (Jade) Limited and Tesco Pension Investment Limited.
(d) 50% held by Tesco PLC.
(e) This company is the corporate trustee of the Tesco PLC Pension Scheme.
(f) Company dissolved on 07/03/2019

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Supplementary information (unaudited)

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

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**16.6%**	**18.9%**	**14.5%**	**14.6%**	**17.7%**	**14.5%**	**16.1%**
UK & ROI (comparable growth[b])	**3.5%**	**3.5%**	**0.6%**	**0.7%**	**3.5%**	**0.7%**	**2.1%**
UK	1.9%	1.7%	(0.9)%	0.4%	1.8%	(0.2)%	0.8%
ROI	9.5%	7.2%	3.4%	0.7%	8.4%	2.0%	5.0%
Booker	12.8%	13.7%	9.7%	2.6%	13.3%	6.1%	9.6%
Central Europe	**0.7%**	**(5.8)%**	**(7.2)%**	**(6.9)%**	**(2.7)%**	**(7.1)%**	**(4.9)%**
Asia	**(6.8)%**	**(1.3)%**	**(3.3)%**	**5.0%**	**(4.1)%**	**1.0%**	**(1.6)%**
Tesco Bank	**7.0%**	**1.1%**	**2.2%**	**8.5%**	**4.2%**	**5.3%**	**4.7%**
Group	**12.1%**	**13.4%**	**9.9%**	**10.8%**	**12.8%**	**10.4%**	**11.5%**
Group (comparable growth[b])	**2.3%**	**2.0%**	**(0.5)%**	**0.3%**	**2.2%**	**(0.1)%**	**1.0%**

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

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**16.5%**	**18.9%**	**14.5%**	**14.5%**	**17.7%**	**14.5%**	**16.1%**
UK & ROI (comparable growth[b])	**3.4%**	**3.5%**	**0.7%**	**0.7%**	**3.5%**	**0.7%**	**2.1%**
UK	1.9%	1.7%	(0.9)%	0.4%	1.8%	(0.2)%	0.8%
ROI	6.8%	7.6%	4.1%	0.2%	7.2%	2.1%	4.5%
Booker	12.8%	13.7%	9.7%	2.6%	13.3%	6.1%	9.6%
Central Europe	**(2.9)%**	**(4.2)%**	**(5.2)%**	**(5.7)%**	**(3.5)%**	**(5.4)%**	**(4.5)%**
Asia	**(7.2)%**	**(2.5)%**	**(6.0)%**	**(0.7)%**	**(5.0)%**	**(3.3)%**	**(4.1)%**
Tesco Bank	**7.0%**	**1.1%**	**2.2%**	**8.5%**	**4.2%**	**5.3%**	**4.7%**
Group	**11.5%**	**13.5%**	**9.9%**	**10.4%**	**12.5%**	**10.2%**	**11.3%**
Group (comparable growth[b])	**1.8%**	**2.1%**	**(0.5)%**	**(0.0)%**	**2.0%**	**(0.3)%**	**0.8%**

[a] Sales growth shown on a comparable days basis and includes an adjustment to last year's figures to reflect a change in the reporting of consignment sales.
[b] Comparable total growth presents growth with Booker sales included in the prior year base from Q1 2018/19.

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

	1Q 2018/19	2Q 2018/19	3Q 2018/19	4Q 2018/19	1H 2018/19	2H 2018/19	FY 2018/19
UK & ROI	**3.5%**	**4.2%**	**1.9%**	**1.9%**	**3.8%**	**1.9%**	**2.9%**
UK	2.1%	2.5%	0.7%	1.7%	2.3%	1.2%	1.7%
ROI	3.0%	3.1%	(0.2)%	(0.4)%	3.1%	(0.3)%	1.3%
Booker	14.3%	15.1%	11.0%	4.3%	14.7%	7.6%	11.1%
Central Europe	**(1.0)%**	**(2.0)%**	**(3.0)%**	**(3.0)%**	**(1.5)%**	**(3.0)%**	**(2.3)%**
Asia	**(9.0)%**	**(4.8)%**	**(8.0)%**	**(3.0)%**	**(7.0)%**	**(5.4)%**	**(6.2)%**
Tesco Bank	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Group	**1.8%**	**2.7%**	**0.5%**	**0.9%**	**2.2%**	**0.7%**	**1.4%**

Country detail – Retail.

	Revenue (exc. VAT, inc. fuel)* Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	43,445	43,445	1.0	1.0
ROI	2,683	2,372	1.1	1.1
Booker	5,826	5,826	1.0	1.0
Czech Republic	43,338	1,492	29.0	28.8
Hungary	573,887	1,585	362.1	355.5
Poland	9,613	1,986	4.8	4.7
Slovakia	1,375	1,216	1.1	1.1
Thailand	172,850	4,055	42.6	43.9
Malaysia	4,383	818	5.4	5.5

* Excludes franchising revenue within Central Europe of £19m, which is not allocated to individual countries.

UK sales area by size of store.

	February 2019			February 2018		
Store size (sq. ft.)	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0-3,000	2,515	5.4	14.0	2,512	5.2	13.1
3,001-20,000	284	3.0	7.8	284	3.4	8.5
20,001-40,000	284	8.2	21.3	284	8.2	20.6
40,001-60,000	182	8.8	22.9	182	9.4	23.6
60,001-80,000	120	8.4	21.8	120	8.5	21.4
80,001-100,000	45	3.7	9.6	45	4.2	10.6
Over 100,000	8	1.0	2.6	8	0.9	2.2
Total*	**3,438**	**38.5**	**100.0**	**3,435**	**39.8**	**100.0**

* Excludes Booker and franchise stores.

Group space summary.

Actual Group space – store numbers.[a]

	2017/18 year-end[b]	Openings	Closures/ disposals	Net gain/ (reduction)[c]	2018/19 year-end	Repurposing/ extensions
Large	801	–	(4)	(4)	797	–
Small	1,852	9	(6)	3	1,855	–
Dotcom only	6	–	–	–	6	–
Total Tesco	**2,659**	**9**	**(10)**	**(1)**	**2,658**	**–**
One Stop[d]	776	4	(8)	(4)	772	–
Booker	198	1	(2)	(1)	197	1
Jack's	–	8	–	8	8	–
UK[d]	**3,633**	**22**	**(20)**	**2**	**3,635**	**1**
ROI	**150**	**2**	**–**	**2**	**152**	**–**
UK & ROI[d]	**3,783**	**24**	**(20)**	**4**	**3,787**	**1**
Czech Republic[d]	189	–	(1)	(1)	188	5
Hungary	206	–	(2)	(2)	204	4
Poland	415	–	(62)	(62)	353	4
Slovakia	151	–	(1)	(1)	150	1
Central Europe[d]	**961**	**–**	**(66)**	**(66)**	**895**	**14**
Malaysia	72	2	(1)	1	73	6
Thailand	1,951	70	(56)	14	1,965	20
Asia	**2,023**	**72**	**(57)**	**15**	**2,038**	**26**
Group[d]	**6,767**	**96**	**(143)**	**(47)**	**6,720**	**41**
UK (One Stop)	169	19	(14)	5	174	–
Czech Republic	97	5	(3)	2	99	–
Franchise stores	**266**	**24**	**(17)**	**7**	**273**	**–**

[a] Continuing operations.
[b] Adjusted to include Booker and a change in classification of UK store formats.
[c] The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.
[d] Excludes franchise stores.

Actual Group space – '000 sq. ft.[a]

	2017/18 year-end[b][c]	Openings[c]	Closures/ disposals[c]	Repurposing/ extensions[d]	Net gain/ (reduction)	2018/19 year-end
Large	31,426	–	(58)	–	(58)	31,368
Small	5,128	16	(47)	–	(31)	5,097
Dotcom only	716	–	–	–	–	716
Total Tesco	**37,270**	**16**	**(105)**	**–**	**(89)**	**37,181**
One Stop[e]	1,266	7	(12)	–	(5)	1,261
Booker	8,580	9	(153)	–	(144)	8,436
Jack's	–	81	–	–	81	81
UK[e]	**47,116**	**113**	**(270)**	**–**	**(157)**	**46,959**
ROI	**3,272**	**63**	**–**	**–**	**63**	**3,335**
UK & ROI[e]	**50,388**	**176**	**(270)**	**–**	**(94)**	**50,294**
Czech Republic[e]	4,832	–	(68)	(162)	(230)	4,602
Hungary	6,511	–	(3)	(227)	(230)	6,281
Poland	8,909	–	(861)	(244)	(1,105)	7,804
Slovakia	3,555	–	(81)	(36)	(117)	3,438
Central Europe[e]	**23,807**	**–**	**(1,013)**	**(669)**	**(1,682)**	**22,125**
Malaysia	3,637	79	(84)	(99)	(104)	3,533
Thailand	14,835	543	(112)	(242)	189	15,024
Asia	**18,472**	**622**	**(196)**	**(341)**	**85**	**18,557**
Group[e]	**92,667**	**798**	**(1,479)**	**(1,010)**	**(1,691)**	**90,976**
UK (One Stop)	224	23	(20)	–	3	227
Czech Republic	92	5	(2)	–	3	95
Franchise stores	**316**	**28**	**(22)**	**–**	**6**	**322**

[a] Continuing operations.
[b] Adjusted to include Booker and a change in classification of UK store formats.
[c] Our definition of space has been updated to reflect retail selling space excluding checkouts, customer services desks and customer toilets.
[d] Repurposing of retail selling space.
[e] Excludes franchise stores.

Group space summary continued

Group space forecast to 29 February 2020 – ’000 sq. ft.[a]

	2018/19 year-end[b]	Openings[b]	Closures/ disposals[b]	Repurposing/ extensions[c]	Net gain/ (reduction)	2019/20 year-end
Large	31,368	–	–	–	–	31,368
Small	5,097	43	–	–	43	5,140
Dotcom only	716	–	–	–	–	716
Total Tesco	**37,181**	**43**	**–**	**–**	**43**	**37,224**
One Stop[d]	1,261	16	–	–	16	1,277
Booker	8,436	–	–	–	–	8,436
Jack’s	81	70	–	–	70	151
UK[d]	**46,959**	**129**	**–**	**–**	**129**	**47,088**
ROI	**3,335**	**3**	**–**	**–**	**3**	**3,338**
UK & ROI[d]	**50,294**	**132**	**–**	**–**	**132**	**50,426**
Czech Republic[b]	4,602	33	–	(265)	(232)	4,370
Hungary	6,281	–	–	(493)	(493)	5,788
Poland	7,804	–	(50)	–	(50)	7,754
Slovakia	3,438	54	–	(246)	(192)	3,246
Central Europe[d]	**22,125**	**87**	**(50)**	**(1,004)**	**(967)**	**21,158**
Malaysia	3,533	61	–	(172)	(111)	3,422
Thailand	15,024	146	–	–	146	15,170
Asia	**18,557**	**207**	**–**	**(172)**	**35**	**18,592**
Group[d]	**90,976**	**426**	**(50)**	**(1,176)**	**(800)**	**90,176**
UK (One Stop)	227	33	–	–	33	260
Czech Republic	95	14	–	–	14	109
Franchise stores	**322**	**47**	**–**	**–**	**47**	**369**

(a) Continuing operations.
(b) Our definition of space has been updated to reflect retail selling area space excluding checkouts, customer services desks and customer toilets.
(c) Repurposing of retail selling space.
(d) Excludes franchise stores.

Tesco Bank income statement

	2019[a] £m	2018[b] £m
Revenue		
Interest receivable and similar income	729	673
Fees and commissions receivable	368	374
	1,097	**1,047**
Direct costs		
Interest payable	(175)	(176)
Fees and commissions payable	(27)	(22)
	(202)	**(198)**
Gross profit	**895**	**849**
Other expenses		
Staff costs	(170)	(174)
Premises and equipment	(80)	(77)
Other administrative expenses	(201)	(209)
Depreciation and amortisation	(83)	(83)
Provisions for bad and doubtful debts	(164)	(137)
Operating profit before exceptional items	**197**	**169**
Exceptional items[c]	(30)	(24)
Operating profit	**167**	**145**
Net finance costs: movements on derivatives and hedge accounting	(4)	11
Net finance costs: interest	(4)	(4)
Share of profit/(loss) of joint venture	8	10
Profit before tax	**167**	**162**

(a) These results are for the 12 months ended 28 February 2019 and the previous period represents the 12 months ended 28 February 2018.
(b) Restated for the adoption of IFRS 15 as explained in Note 1 and Note 36 of the Group financial statements.
(c) Exceptional items in 2019 comprise of a PPI provisions charge of £(16)m, a regulatory charge of £(16)m partially offset by a restructuring credit of £2m reflecting a reduction in dilapidations and onerous lease provision. Exceptional items in 2018 consist of an increase in PPI provision of £(35)m partially offset by a decrease in CCA provision of £1m and a credit of £10m received following the conclusion of negotiations with a third party in respect of previously recognised customer redress.

Task Force on Climate-related Financial Disclosures

Tesco has publicly committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We recognise climate change as the biggest environmental threat the world faces, and one which could pose particular challenges to our business including our supply chain and operations. Disclosing these climate related risks is an important step in demonstrating our understanding of these risks and efforts to mitigate them. In addition to enhancing business resilience, it also enables us to take advantage of any opportunities it may offer.

This year represents our first disclosure to address the TCFD recommendations and we expect this to develop and evolve over time to reflect our analysis.

Governance.

Climate change is one of the Foundations underpinning our Little Helps Plan and climate impacts from our supply chain are also considered within the Products pillar of the Plan. The Little Helps Plan outlines Tesco's commitment to tackle social and environmental challenges facing the business, our customers and our communities. The Board's Corporate Responsibility Committee is responsible for managing our impacts on climate change, as well as the risks that climate change may pose to our business. The Committee meets three times during the year and receives regular updates on our Little Helps Plan commitments and performance.

Strategy.

Our Little Helps Plan sets our commitments to and our progress towards mitigating the climate change impacts of our own operations and supply chain, as set out on page 31. In addition to addressing our impacts on the climate, we also aim to anticipate and respond to any risks and opportunities to our business posed by the changing climate.

In order to better understand the resilience of our business to short and long-term climate risks and opportunities, Alan Stewart, the Chief Financial Officer, commissioned scenario analysis in line with the TCFD recommendations. This year we are assessing the UK business – our biggest market – prioritising our estate as well as produce and animal protein categories. These are our key commercial categories, with supply chains around the world.

We are assessing the risks and opportunities we may face in 2030 under two climate scenarios. We use the scenarios developed by the Intergovernmental Panel on Climate Change and other credible organisations to assess Tesco's exposure to physical climate risks such as rising temperatures, shifts of precipitation patterns and extreme weather events. We have focused on agricultural production by country and product. Beyond physical risks, we are also assessing any risks and opportunities arising from a transition to a low-carbon world aligned with the Paris Climate Agreement. Our focus is on material risks for Tesco arising from market and policy shifts in energy and agriculture.

The results of our scenario analysis will inform our long-term strategic business planning.

Risk management.

The identification and mangement of climate-related risks follows our established risk management process. Key elements of the risk management process are set out on page 59.

Metrics and targets.

In May 2017, we announced new science-based targets for our own operations, aligned with the Paris Agreement's aspiration to limit global warming to 1.5 degrees. We are on track to reduce absolute carbon emissions from our operations from 2015/16 levels by 35% by 2020, 60% by 2025 and 100% by 2050. To help us meet our targets, we have committed to source 100% of our electricity from renewable sources by 2030. We also announced science-based climate change targets for our manufacturing and agricultural suppliers. Climate change metrics and targets are disclosed in the Little Helps Plan section on page 31.

Glossary – alternative performance measures.

Introduction.

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

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

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

Purpose.

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

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

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

The key APMs that the Group has focused on and changes to APMs within the period can be found in Note 1.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Income statement **Revenue measures**				
Group sales	Revenue	– Exclude sales made at petrol filling stations	Note 2	– Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	– Consistent with accounting policy	Not applicable	– Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	– Consistent with accounting policy	Not applicable	– Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
Income statement **Profit measures**				
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	– Exceptional items – Amortisation of acquired intangibles	Note 2	– Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance. This is a key management incentive metric.
Operating margin	No direct equivalent	– Consistent with accounting policy	Not applicable	– Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Earnings before exceptional items, interest, tax, depreciation, amortisation and rent expense (EBITDAR)	Operating profit*	– Exceptional items – Depreciation and amortisation – Rent expense – Tesco Bank EBITDAR – Discontinued operations	Page 181	– This measure is based on Retail operating profit from continuing operations before exceptional items. It excludes Retail depreciation, amortisation and rent expense and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Profit before tax	– Exceptional items – Amortisation of acquired intangibles – Net pension finance costs – Fair value remeasurements on financial instruments	Note 9	– This measure excludes exceptional items and amortisation of acquired intangibles, net finance costs of the defined benefit pension deficit and fair value remeasurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Profits/(losses) arising on property-related items	No direct equivalent	– Consistent with accounting policy	Not applicable	– Profits/(losses) arising on property-related items relates to the Group's property activities including; gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. – These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail and financial services operations of the business. They are often one-time in nature and can have a disproportionate impact on profit between reporting periods.
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements on financial instruments	Finance costs	– Exceptional items – Net pension finance costs – Fair value remeasurements on financial instruments	Note 5	– Total finance costs before exceptional items, net pension finance costs and fair value remeasurements on financial instruments is the net finance costs adjusted for non-recurring one-off items, net pension finance costs and fair value remeasurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Diluted earnings per share	– Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements on financial instruments	Note 9	– This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period. – It excludes net pension finance costs and fair value remeasurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements on financial instruments resulting from liability management exercises.
Income statement **Tax measures**				
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact	Note 6	– Effective tax rate before exceptional items and amortisation of acquired intangibles is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles divided by profit before tax before exceptional items and amortisation of acquired intangibles. This provides an indication of the ongoing tax rate across the Group.
Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments	Effective tax rate	– Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact – Net pension finance costs and their tax impact – Fair value remeasurements on financial instruments and their tax impact	Note 6	– Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements divided by the profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note/page reference for reconciliation	Definition and purpose
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	– Net debt from Tesco Bank	Note 30	– Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, 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. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.
Total indebtedness	Borrowings less cash and related hedges	– Net debt from Tesco Bank – Present value of future minimum lease payments under non-cancellable operating leases – IAS 19 deficit in the pension schemes	Page 181	– Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum lease payments under non-cancellable operating leases to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	– Consistent with accounting policy	Page 181	– Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month EBITDAR. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Fixed charge cover	No direct equivalent	– Consistent with accounting policy	Page 181	– Fixed charge cover is calculated as the rolling 12-month EBITDAR divided by the sum of rent expense and net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Cash flow measures				
Retail operating cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Discontinued operations	Note 2	– Retail operating cash flow is the cash generated from operations of continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency by the Retail business, recognising that Tesco Bank is run and regulated independently from the Retail operations, and a key measure to demonstrate the recovery of the Retail operations. This is a key management incentive metric.
Free cash flow	Cash generated from operating activities	– Net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes – Investing cash flows that increase/ decrease items within Group net debt – Cash flows from major corporate acquisitions and disposals	Note 2	– Free cash flow includes all cash flows from operating and investing activities, and the market purchase of shares net of proceeds from shares issued in relation to share schemes. The following items are excluded: investing cash flows that increase/(decrease) items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.
Retail free cash flow	Cash generated from operating activities	– Tesco Bank operating cash flow – Retail net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes – Investing cash flows that increase/ decrease items within Net debt – Cash flows from major corporate acquisitions and disposals	Note 2	– Retail free cash flow includes all cash flows from operating and investing activities for the Retail business, and the market purchase of shares net of proceeds from shares issued in relation to share schemes. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

APMs: Reconciliation of debt metrics.

EBITDAR (restated)

	Notes	2019 £m	2018 £m
Operating profit/(loss) from continuing operations before exceptional items and amortisation of acquired intangibles	2	2,206	1,646
Less: Tesco Bank operating profit/(loss) before exceptional items	2	(197)	(169)
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	2	1,297	1,295
Less: Tesco Bank depreciation and amortisation	2	(83)	(83)
Add: Retail operating lease expense*	3	1,075	1,015
		4,298	**3,704**

* Group operating lease expense of £1,078m (2018: £1,018m) includes £3m (2018: £3m) relating to Tesco Bank.

Total indebtedness ratio (restated)

	Notes	2019	2018
Net debt (£m)	30	2,863	2,625
Add: Defined benefit pension deficit, net of deferred tax (£m)	27	2,338	2,728
Add: Discounted operating lease commitments (£m)	34	6,999	6,931
Total indebtedness (£m)		**12,200**	**12,284**
EBITDAR (£m)		**4,298**	**3,704**
Total indebtedness ratio		**2.8**	**3.3**

Fixed charge cover (restated)

	Notes	2019	2018
Net finance cost (£m)	5	514	533
Less: Net pension finance costs (£m)	5	(89)	(162)
Less: Exceptional foreign exchange losses on GBP short-term investments held in overseas entities (£m)	5	–	(38)
Add: Capitalised interest (£m)	5	1	2
Add: Fair value remeasurements on financial instruments (£m)	5	(153)	23
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements on financial instruments (£m)		**273**	**358**
Add: Retail operating lease expense (£m)*	3	1,075	1,015
		1,348	**1,373**
EBITDAR (£m)		**4,298**	**3,704**
Fixed charge cover		**3.2**	**2.7**

Other.

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

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

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

FTE.
FTE refers to full-time equivalents.

LPI.
LPI refers to limited price inflation.

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

MTN.
MTN refers to Medium Term Note.

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

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

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

RPI.
RPI refers to the retail price index.

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

Five-year record

Figures below reflect the latest published information. For financial years prior to 2019, these figures represent the comparatives from the following years' financial statements. During 2017, the Group decided to sell its operations in Turkey. Accordingly, these operations were treated as discontinued in 2017. The 2016 statistics have been re-presented to be consistent with 2017. Prior years have not been re-presented. Korea was first classified as a discontinued operation in 2015/16. China was first classified as a discontinued operation in 2013/14.

The Group has determined new segments and defined new non-GAAP measures for 2015/16 onwards. Refer to Note 1 and Note 2. 2014/15 data for these new measures and segments has been presented, but prior historic data has not.

In 2018, the Group reassessed its reportable segments and determined that the retailing and associated activities previously disclosed within the International segment should be segregated between the Central Europe and Asia segments. Refer to Note 2. The Group had also determined new segments and defined new APMs during 2016. Historical data up to 2015 data for these new measures and segments has been presented, but prior historic data has not. The Group determined new APMs during 2019 and historical data for the new measures have not been restated as the impact is not considered material. Refer to Note 1 and the Glossary.

	2015[a]	2016	2017	2018	2019
Financial statistics (£m)					
Sales					
UK & ROI	38,228	37,189	37,692	38,656	44,883
Central Europe	6,186	5,268	5,977	6,343	6,030
Asia	4,492	4,447	5,186	4,947	4,873
Tesco Bank	947	955	1,012	1,047	1,097
Group sales[c]	**49,853**	**47,859**	**49,867**	**50,993**	**56,883**
Revenue					
UK & ROI	45,062	43,080	43,524	44,914	51,643
Central Europe	6,424	5,451	6,195	6,585	6,298
Asia	4,492	4,447	5,186	4,947	4,873
Tesco Bank	947	955	1,012	1,047	1,097
Group revenue	**56,925**	**53,933**	**55,917**	**57,493**	**63,911**
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles[c]					
UK & ROI	498	503	803	1,059	1,537
Central Europe	(4)	102	58	119	186
Asia	258	218	262	299	286
Tesco Bank	188	162	157	169	197
Group operating profit/(loss) before exceptional items and amortisation of acquired intangibles[c]	**940**	**985**	**1,280**	**1,646**	**2,206**
Operating profit margin before exceptional items and amortisation of acquired intangibles	**1.7%**	**1.8%**	**2.3%**	**2.9%**	**3.5%**
Operating profit/(loss)					
UK & ROI	(5,334)	597	519	1,205	1,535
Central Europe	(666)	111	190	212	232
Asia	97	203	231	277	219
Tesco Bank	153	161	77	145	167
Group operating profit/(loss)	**(5,750)**	**1,072**	**1,017**	**1,839**	**2,153**
Share of post-tax profits/(losses) of joint ventures and associates	(13)	(21)	(107)	(6)	35
Net finance costs	(571)	(849)	(765)	(533)	(514)
Profit/(loss) before tax	**(6,334)**	**202**	**145**	**1,300**	**1,674**
Taxation	670	54	(87)	(306)	(354)
Profit/(loss) for the year from continuing operations	**(5,664)**	**256**	**58**	**994**	**1,320**
Discontinued operations	(102)	(127)	(112)	216	–
Profit/(loss) for the year	**(5,766)**	**129**	**(54)**	**1,210**	**1,320**
Attributable to:					
Owners of the parent	(5,741)	138	(40)	1,208	1,322
Non-controlling interests	(25)	(9)	(14)	2	(2)
Profit before tax, exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments[c]	**516**	**509**	**781**	**1,284**	**1,958**
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations	(69.56)p	3.22p	0.81p	12.11p	13.55p
Diluted earnings per share – continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments[c]	5.70p	5.79p	7.30p	11.90p	15.40p
Dividend per share[b]	1.16p	–	–	3.00p	3.67p
Cash generated from retail operating activities (£m)	1,860	2,581	2,278	2,773	2,502
APM: Free cash flow (£m)	(716)	1,482	1,288	1,388	906
Return on capital employed (ROCE)[c]	4.0%	6.2%	8.1%	11.0%	11.1%
Total shareholder return[c]	(9.5%)	(11.8%)	(7.5%)	8.7%	10.2%
Net debt (£m)[c]	8,481	5,110	3,729	2,625	2,863
Discounted operating lease commitments – continuing operations (£m)	9,353	7,814	7,440	6,931	6,999
Pension deficit, net of deferred tax – Group (£m)	3,885	2,612	5,504	2,728	2,338
Total indebtedness (£m)[c]	**21,719**	**15,536**	**16,673**	**12,284**	**12,200**
Enterprise value (£m)[c]	28,415	20,101	19,262	19,452	24,683
Group retail statistics					
Number of stores[d]	6,849	6,733	6,809	7,033	6,993
Total sales area ('000 sq. ft.)[d]	95,811	91,195	89,041	92,983	91,298
Average employees	480,607	475,399	464,520	448,988	464,505
Average full-time equivalent employees (FTE)	362,370	351,289	342,770	327,916	321,490
UK & ROI retail statistics					
Number of stores[d]	3,710	3,743	3,739	3,952	3,961
Total sales area ('000 sq. ft.)[d]	45,946	45,253	43,610	42,032	50,521
Average full-time equivalent employees (FTE)	225,192	225,378	218,522	210,312	223,542
Revenue (exc. fuel) (per FTE – £)	169,757	165,007	172,486	183,804	200,781
Weekly revenue (exc. fuel) (per sq. ft. – £)	15.81	15.68	16.31	17.36	18.65

[a] 53 weeks. [b] Dividend per share relating to the interim and proposed final dividend. [c] See glossary for definitions. [d] Including franchise stores.

Shareholder information

Annual General Meeting 2019 (AGM)

This year's AGM will be held on Thursday 13 June 2019 in the Heart building on our Welwyn Garden City campus. The meeting will start at 11.30am and registration will be open from 9.30am.

A separate notice convening the meeting has been sent to our shareholders, which includes details of the ordinary and special business to be considered at the meeting. A copy of the Notice of Meeting can be found on our website www.tescoplc.com/investors.

Managing shares online

Many of our shareholders find that the easiest way to manage their shareholding is online by setting up a Shareview portfolio at www.shareview.co.uk. This is a free, easy and secure service provided by the Company's registrars, Equiniti.

Some of the benefits of having a Shareview portfolio are:

- monitor your shareholding;
- access shareholder information;
- elect to receive shareholder communications electronically;
- vote on the resolutions at the AGM, and any other shareholder meetings; and
- keep your contact details up to date.

For more information and to register for this service, please visit www.shareview.co.uk. Registration can be completed within minutes in just four easy steps. Please note, you will need your Shareholder Reference Number.

Dividend

An interim dividend of 1.67 pence per share was paid on 23 November 2018. Shareholders will be asked to approve a final dividend of 4.10 pence per share for the year ended 23 February 2019 at this year's AGM. If approved, this will be paid on 21 June 2019 to all shareholders on the Register of Members at the close of business on 17 May 2019.

Dividends can be paid quickly and securely directly into your bank account instead of being dispatched to you by cheque. You may also choose to have your dividends reinvested in further Tesco shares through our dividend reinvestment plan (DRIP) (terms and conditions apply). To arrange either of these options, simply call Equiniti on the number provided overleaf. Alternatively, you can manage your dividend payment choices by registering with Shareview at www.shareview.co.uk.

E-comms

We encourage our shareholders to accept all shareholder communications and documents electronically, in place of receiving traditional paper copies by post. This helps us to reduce the environmental impact of our business and to reduce costs. If you would like to sign up to receive all future shareholder communications electronically, please register with Shareview by visiting www.shareview.co.uk. Once you have signed up, you will receive an email to let you know when shareholder documents become available on our website, including our annual and interim financial results, notices of shareholder meetings and other shareholder documents. Assistance to sign up to receive electronic communications will be available at the AGM.

Share dealing service

Equiniti offer Shareview Dealing, which is a real-time telephone and internet share dealing service in Tesco PLC shares available to all UK residents.

Further information about the Shareview Dealing service can be found at www.shareview.co.uk/dealing or by calling 03456 037 037 between 8.00am and 4.30pm, Monday to Friday.

Please remember that dealing fees vary between brokers and you are recommended to check that you are being charged the most competitive rate.

Tesco Share Account

We offer our shareholders a service to help them hold and manage their Tesco shares in a safe and simple way. With the Tesco Share Account (TSA) you can enjoy the convenience and reassurance of holding shares electronically, avoiding the need to hold paper share certificates, which can be lost or stolen and expensive to replace.

The TSA also offers shareholders access to preferential dealing rates and up-to-date market information through the Equiniti Share Dealing service.

The TSA is a sponsored nominee service operated for Tesco by Equiniti Financial Services Limited (Equiniti Financial), which is authorised and regulated by the Financial Conduct Authority. When you join the TSA, your shares are registered in the name of Equiniti Corporate Nominees Limited and held on your behalf on a private register. You remain the beneficial owner of your shares and continue to have the right to receive shareholder communications, vote at general meetings and to receive any dividends paid on your shares.

It is completely free to participate in the TSA and there are no annual fees to pay (terms and conditions apply). If you would like to join the TSA please contact Equiniti Financial on 0371 3284 2977 (or +44 121 415 7053 if outside of the UK).

Duplicate documents

Some of our shareholders hold multiple accounts on the share register and therefore receive duplicate copies of shareholder documentation as a result. If you have been receiving duplicate copies of shareholder documentation, please contact Equiniti to arrange for your accounts to be combined.

Changes to personal details

In order to avoid missing important correspondence relating to your shareholding, please inform Equiniti as soon as possible if you have recently moved house or there are any changes to your bank details.

Share price information

Details of our current and historical share price data and other share price tools are available at www.tescoplc.com/investors.

American Depositary Receipts (ADRs)

The Company has a sponsored Level 1 ADR programme for which J.P. Morgan Chase Bank N.A. acts as depositary. The ADRs are traded in the US, where one ADR represents three ordinary shares. The ADR programme confers the right to receive dividends in US dollars.

ADR details

Symbol	TSCDY
CUSIP	881575302
Exchange	OTC
Ratio	1:3
Effective Date	April 01, 1992

All enquiries relating to the ADR programme should be directed to:

Tesco PLC
c/o JP Morgan Chase Bank N.A.
P.O. Box 64504
St. Paul, MN 55164-0504

Email jpmorgan.adr@eq-us.com
Telephone + 1 800 990 1135
International +1 651 453 2128 (from outside US)
Website www.adr.com

ShareGift

If you have a small shareholding which would cost more to sell than the shares are worth, you may wish to consider donating the shares to the charity ShareGift (Registered Charity 1052686), a charity that specialises in the donation of such shares for good causes. There are no implications for capital gains tax purposes on gifts of shares to charity. Further information about ShareGift can be found by visiting www.sharegift.org or by calling 0207 930 3737.

Corporate website

You can access the corporate website at www.tescoplc.com. The Tesco PLC corporate website provides useful information including annual reports, results announcements and share price data, as well as background information about the Company and current issues.

Shareholders are encouraged to sign up to receive email notification of results and press announcements as they are released by registering at www.tescoplc.com/investors/regulatory-news/regulatory-news-email-alerts/.

Shareholder security

In recent years, Tesco PLC has become aware that its shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based ‘brokers’ who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as ‘boiler rooms’. These brokers can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. Details of any share dealing facilities that we endorse are included in genuine mailings from us and on our website.

If you receive any unsolicited investment advice:

- make sure you note the correct name of the person and the organisation and make a record of any other information they give you;
- check the Financial Services Register by visiting register.fca.org.uk to see if the person and firm contacting you are authorised by the FCA;
- search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/unauthorised-firms-individuals; and
- report the matter to the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm or by calling the Consumer Helpline on 0800 111 6768.

Information on the latest investment scams can be found at scamsmart.fca.org.uk/warninglist.

Share register analysis

As at 23 February 2019, the Company had 9,793,496,561 shares in issue (24 February 2018: 8,192,116,619) and 246,725 registered holders of Ordinary shares (24 February 2018: 254,249). Shareholdings are analysed below.

Breakdown of shareholdings overall

Range of shareholding	Number of holdings	% of issued share capital
1 – 500	151,581	0.19%
501 – 1,000	24,086	0.18%
1,001 – 5,000	48,808	1.18%
over 5,001	22,250	98.45%
Total	**246,725**	**100.00%**

Breakdown of shareholdings with over 5,001 shares

Range of shareholding	Number of holdings	% of issued share capital
5,001 – 10,000	11,730	0.84%
10,001 – 50,000	8,574	1.64%
50,001 – 100,000	634	0.45%
100,001 – 500,000	620	1.46%
500,001 – 1,000,000	188	1.37%
1,000,001 – 5,000,000	278	6.50%
5,000,001+	226	86.19%
Total	**22,250**	**98.45%**

Category of shareholders

	Number of shareholders	% of total shareholders	Number of Ordinary shares	% of issued share capital
Private	240,513	97.48%	546,362,046	5.58%
Institutional and corporate	6,212	2.52%	9,247,134,515	94.42%

Useful contacts

Tesco PLC registered office
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AL7 1GA

Investor Relations
Investor Relations Department
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Calls are charged at national rates.
Calls from a mobile device may incur network extras.
Website www.equiniti.co.uk

Group Company Secretary
Robert Welch

Corporate brokers
Barclays Bank PLC
Citigroup Global Markets Limited

Independent auditors
Deloitte LLP

General queries
Switchboard +44 (0) 1992 632 222

Website www.tescoplc.com

Financial calendar 2019/20

February 2019 – **23 February 2019** Financial year end 2018/19

June 2019 – **13 June 2019** Q1 trading statement and AGM; **21 June 2019** Proposed payment date for final dividend

October 2019 – **2 October 2019** Interim results announcement

January 2020 – **January 2020** Q3 and Christmas trading statement

February 2020 – **29 February 2020** Financial year end 2019/20

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