

TESCO

Buttencase Ltd
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Serving shoppers a little better every day.

Annual Report and Financial Statements 2020

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Tesco PLC Company Number 00445790

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Our business was built with a simple mission – to be the champion for customers. That’s as true today as it was when Jack Cohen first set out his East London market stall in 1919.

Our core purpose is ‘serving shoppers a little better every day’ – putting customers at the heart of everything we do and guiding every decision we make.

2020 highlights.

Headline measures.

Group sales^Δ

▼(0.7)% **£56.5bn**
(2019: £56.9bn)

Group operating profit before exceptional and other items^{Δ(a)}

▲13.5% **£2,959m**
(2019: £2,607m)

Diluted EPS before exceptional and other items^{Δ(b)}

▲27.9% **17.92p**
(2019: 14.01p)

Dividend per share

▲58.6% **9.15p**
(2019: 5.77p)

Retail free cash flow^{Δ(c)}

▲132.1% **£2,063m**
(2019: £889m)

Net debt^{Δ(c)}

▼(8.4)% **£(12.1)bn**
(2019: £(13.2)bn)

Statutory measures.

Statutory revenue

▲1.3% **£64.8bn**
(2019: £63.9bn)

Operating profit

▼(4.9)% **£2,518m**
(2019: £2,649m)

Statutory profit before tax

▼(18.7)% **£1,315m**
(2019: £1,617m)

Statutory diluted EPS

▼(26.8)% **9.54p**
(2019: 13.04p)



Visit www.tescopl.com/ar2020
for more information.

^Δ Alternative performance measures (APMs)

Measures with this symbol Δ are defined in the Glossary section on pages 164 to 169. All measures reported on a continuing operations and 52-week comparable basis. Change shown at actual exchange rates. 2019 figures restated for adoption of IFRS 16 as explained in Note 1 and Note 37.

^(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 underlying Group performance.

^(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 of financial instruments.

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

A year of significant progress.

Highlights.

- Significant progress in the financial year ended 29 February 2020, as we marked the completion of our turnaround.
- Announced the proposed sale of our businesses in Thailand and Malaysia will release material value, and allow us to simplify and focus our business.
- Appointed a new Group Chief Executive, Ken Murphy, to succeed Dave Lewis in October 2020.

This report covers our 2019/20 financial year, which ended on 29 February 2020.

That year was one of significant progress, as we achieved our turnaround goals, further improved our business for customers, and firmly established ourselves on a strong financial footing.

However, while the entire Tesco business has dealt with some serious challenges through the last five years of turnaround, undoubtedly the most significant of these occurred after our 2019/20 year end, with the global outbreak of COVID-19.

As Dave reflects in his Group Chief Executive's review, our more than 400,000 colleagues have risen to the challenge incredibly, working day and night to ensure our customers have access to the food and essentials they need, in a safe environment. I cannot commend them highly enough for their efforts, which have been nothing short of inspirational.

The remainder of this report addresses, for the most part, the 2019/20 financial year – before the greatest impact of the significant changes that COVID-19 brought to our business, and indeed our society as a whole.

Our priority is to keep an absolute focus on serving customers and to play our part in feeding the nation, as the situation with COVID-19 continues to dominate our current trading following the year end. Given these circumstances, we have included commentary on COVID-19 in this report where possible, while recognising that, at the time of writing, the situation is rapidly evolving.

For the latest updates on our response to the COVID-19 outbreak, I would encourage you to visit www.tescopl.com/covid-19.

From turnaround to growth.

In 2019/20, we marked the end of our turnaround.

The management team set in 2015 and shared in 2016 a strategy to stabilise the business, to rebuild the brand, and to move towards the next chapter of growth. Guided by six strategic drivers, the whole Tesco team worked tirelessly to achieve these objectives and by October 2019, we had achieved every one of our turnaround goals. That momentum continued through this year, with full-year Group operating profit before exceptional items and amortisation of acquired intangibles up 13.5% to £2.959m.

We now have a strong platform from which we can enter a new strategic phase, focused around earnings growth, cash profitability and cash flow, and with customer satisfaction at the heart. In June 2019, we hosted a Capital Markets day, which set out untapped value opportunities for the Group, broadly categorised across three areas: growth, innovation and enabling technology.

After the year end, we also announced the proposed sale of our businesses in Thailand and Malaysia. This transaction, supported unanimously by the Board, will unlock significant value from an exceptionally high-quality business, and allows us to further simplify and focus the Group. On completion, and subject to approval, we have taken the decision to return c.£5bn of the proceeds to shareholders through a special dividend.

CEO succession.

In October 2019, we shared the news that Dave will leave the business later this year. The Board and I believe that Dave has done an outstanding job in turning the business around and reconnecting Tesco to its core purpose.

The Board undertook a thorough succession process to find the best possible candidate and, as a result, we made the decision to appoint Ken Murphy to take up the baton from Dave.

Ken will bring to Tesco a wealth of experience, proven leadership in international retail businesses, a strong strategic mind and a track record in commercial and brand. What was very important to the Board in the recruitment process was that the new CEO would be a good fit for the strong culture that we have developed.

On behalf of the whole Board, I am extremely grateful to Dave for everything that he has achieved, and we look forward to welcoming Ken Murphy to the Board, and to Tesco, in October.



John Allan
Non-executive Chairman
7 April 2020

Group Chief Executive's review

Together, we can do this.

Highlights.

- Five years of turnaround now complete - built a better business for customers, colleagues, suppliers and shareholders.
- Strong foundations allow us to tackle the challenges of COVID-19 from a position of strength.

In our five years of turnaround, we have taken decisive action to refocus our business on customers, making our offer more relevant and more competitive than ever before.

By focusing completely on customers, re-engaging our colleagues and fundamentally rethinking our relationship with suppliers, we have managed to deliver on the turnaround plan we set out in 2015. I am very proud of the achievement of the team over these five years.

As a stronger, more customer-focused business, we are also in a better position to step up and meet the unprecedented challenges of the COVID-19 outbreak.

Our colleagues have risen brilliantly to those challenges. In very difficult circumstances the whole Tesco team has pulled together to look after our customers and each other, doing everything possible to provide more of the food that people need, in a clean and safe environment.

I am incredibly proud of what our colleagues are doing, and also the way that they're doing it - working day and night to ensure everyone has access to the essentials, and putting our customers first, even while many of our colleagues have very real concerns about their own loved ones.

At the time of writing, it seems likely that we are closer to the beginning of this situation than the end. While we are still learning and adjusting, we will step up and respond to each new challenge as it comes. And at all times, our focus will be the same: to ensure the health and safety of our customers and colleagues, to increase food and household supplies across stores and online, and to support our fantastic colleagues.

There is almost no part of our operation that remains untouched by this situation.

- To ensure food is available for all, we have changed the way we run our stores - taking actions to manage demand and support the smooth running of our supply chain.
- Our Online team is exploring every opportunity possible to increase capacity, so that we can help the most vulnerable in society. For the majority of our customers that are able to shop in store safely, we have introduced distancing measures to protect customers and colleagues.
- We have taken steps to support colleagues on sickness leave and also provided long-term sickness support for those required to isolate for 12 weeks. We also recruited more than 45,000 additional colleagues in the two weeks to 7 April.
- We have announced a £30m support package for local communities tackling COVID-19, including £25m towards our food donation programme.

- Other parts of our business are stepping up too. Booker is supporting thousands of independent retailers in communities right across the UK, and Tesco Bank is providing critical services at a time of financial difficulty for many customers.

It is impossible to present an exhaustive list, or to overstate how much has changed - and the extraordinary lengths the whole Tesco team has gone to - in order to look after our customers.

Recognising the incredible contribution of our colleagues, in March we announced a 10% bonus for front-line colleagues in the UK & Ireland, with similar colleague recognition schemes in Central Europe and Asia.

The contribution of our supplier partners has also been outstanding. Existing supplier partners have increased production of key products to meet increased demand from customers, and new suppliers have stepped up to support at short notice.

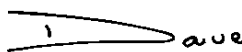
We also know that for many of our partners, and in particular our smallest suppliers, this is a challenging time economically. To support their businesses, we have reduced our payment terms for small suppliers from 14 days to five days.

These actions are the right ones to take, in a unique and difficult set of circumstances. Some of the things we've done have resulted in significant extra costs, as we meet unprecedented levels of demand and do everything possible to protect the health and safety of our customers and colleagues.

Our financial performance, and the strong platform we have built over the last five years, means that we are well-placed to deal with this and to continue meeting customers' needs, and gives us confidence that the long-term future of our business is secure.

As a team, Tesco has faced into many challenges over the last five years and we will rise to the challenges of the current situation in much the same way, working together to put customers first.

Together, we can do this.



Dave Lewis
Group Chief Executive
7 April 2020

Turnaround delivered.

We have now delivered every element of our turnaround plan. From this position of strength, the transformation of our business continues at pace.

Key performance for all four stakeholder groups summarised below.

Customers.	14/15	19/20	Change
Customer NPS ^(a)	10	29	+19 pts
Brand perception ^(b)	6.8	26.1	+19.3 pts
Quality perception ^(c)	12.2	27.4	+15.2 pts
Value perception ^(c)	6.1	21.0	+14.9 pts

Colleagues.	14/15 ^(d)	19/20 ^(d)	Change
Great place to work ^(e)	70%	82%	+12% pts
Great place to shop ^(f)	23	44	+21 pts
Inclusive culture ^(g)	73%	81%	+8% pts
Engagement in purpose ^(h)	64%	86%	+22% pts

Suppliers.	14/15	19/20	Change
Overall satisfaction ⁽ⁱ⁾	55%	80%	+25% pts
Simple, transparent and easy to deal with ^(j)	36%	71%	+35% pts
Treats me fairly ^(k)	55%	82%	+27% pts

Shareholders.	14/15 ^(l)	19/20 ^(l)	Change
Operating profit ^(m)	£940m	£2,959m	+£2,019m
Free cash flow ⁽ⁿ⁾	£(1,340)m	£2,063m	+£3,403m
Total indebtedness ^(o)	£(21.7)bn	£(14.7)bn	down 32%
Dividend	1.16p	9.15p	+689%
Market capitalisation ^(p)	£13.7bn	£23.2bn	+£9.5bn

^(a) Walnut Tesco Multichannel tracker. Reflects % of UK Fans minus Critics answering the question 'Based on your most recent experience of doing a grocery shop how likely is it that you would recommend this store to a friend or colleague?'.
^(b) Based on YouGov Brand Index which is a score based upon six component questions covering quality, value, reputation and satisfaction, 12-week rolling data.

^(c) Reflects YouGov Brand perception measures of quality and value on a 12-week rolling basis.

^(d) 14/15 data based on our 2014 What Matters to You survey and 2019/20 data based on our 2020 Every Voice Matters survey.

^(e) % of colleagues recommending Tesco as a great place to work.

^(f) The net promoter score for colleagues recommending Tesco as a great place to shop.

^(g) % of colleagues agreeing that 'Treat people how we like to be treated is practised at Tesco' (2014) and 'I feel I can be myself at Tesco without fear of judgement' (2020).

⁽ⁱ⁾ % of colleagues agreeing that 'I can see a clear link between my work and the Tesco vision (2014) and 'The link between my team's work and Tesco's purpose is clear' (2020).

^(j) Reflects % of UK & ROI suppliers responding positively to the statements 'Overall satisfaction of working with Tesco', 'Tesco is simple, transparent and easy to deal with', 'Tesco treats me fairly', as part of the Supplier Viewpoint survey.

^(k) These figures reflect Tesco's performance based on accounting standards applicable at the time of publication. Korea was first classified as a discontinued operation during FY15/16 and Turkey during FY16/17. Booker was consolidated from FY18/19.

^(l) Group operating profit before exceptional items and amortisation of acquired intangibles.

^(m) Free cash flow and total indebtedness exclude the impact of Tesco Bank.

⁽ⁿ⁾ Market capitalisation as at the end of 1H 2014/15 and end of 1H 2019/20.

In June 2019, we held a Capital Markets day to share 'untapped value opportunities' across the Group. Some of these opportunities are well-advanced in their execution, while others are at early stages of consideration.

Areas of progress this year include:

Growth.

New store openings

We have done extensive work to improve the model of our Express format, reducing the capital and the operational costs, while improving the mix. We have identified opportunities to open 150 new Express stores in the UK over the next three years.

Urban fulfilment centres

We have plans to open at least 25 urban fulfilment centres in the UK, as part of a plan to double the capacity of our online grocery business. These centres make use of existing surplus space in large stores, with a more efficient, automated system in a small footprint.

Clubcard Plus

We launched Clubcard in 1995 to help us better understand and communicate with our customers, and today there are 19 million households in the UK with Clubcard. At the end of 2019, we launched the UK's first grocery loyalty subscription service, Clubcard Plus, giving customers even more value from their Tesco shop, including 10% off two big shops in-store each month.

A new Clubcard

Innovation.

Simplify to serve

As customer shopping habits continue to change, we are adapting the way we run our stores – improving customer service, and reducing our operating costs. In the UK, we have rolled out a new proposition for fresh food counters and in February we announced changes to the way we bake in our large stores, to better reflect customer demands.

Plant-based food

We have a market-leading range of plant-based foods, catering to a growing trend of veganism and flexitarian diets. In September 2019 we launched our new 'Plant Chef' range, and we continue to expand this – for example with the launch of the UK's first plant-based condiment range in January.

Plastic packaging

Our packaging strategy is based on '4 Rs':

- Remove it where we can.
- Reuse more.
- Reduce it where we can't.
- Recycle what's left.

This year, we committed to remove one billion pieces of plastic from our UK stores by the end of 2020, and are working with our suppliers to remove 67 million pieces of multipack plastic from cans in our stores, saving 350 tonnes of plastic each year.

From multipacks to multibuys

Enabling technology.

Simpler for colleagues

All our large stores are using a new scheduler tool, providing greater flexibility and choice for colleagues. This simple technology enables us to reduce administration, making it simpler for colleagues to book and amend shifts, and feedback has been extremely positive.

Booker.co.uk relaunch

Booker already has a significant digital business, serving many thousands of customers online. These Booker customers will now benefit from the technology capability of Tesco, following a relaunch of Booker.co.uk this year. There have already been improvements to web analytics and invoicing, making the order process simpler for Booker customers.

A seamless store experience

Different technologies work for different customers, so we will continue to offer a choice of ways to shop and pay. One area we are exploring is the use of new technology to make shopping 'frictionless': where items are automatically added to a digital shopping basket as customers pick them up from the shelf. We are testing this technology with colleagues in the Express store at our Welwyn Garden City campus.

New ways to shop

Our business model

Serving shoppers better.

Our differentiating capabilities.

Understanding customers.

We use our expertise to understand and meet our customers' needs better than anybody else.

Our colleagues.

Our more than 400,000 colleagues share a single purpose: to serve shoppers a little better every day.

Scale and reach.

Our unparalleled reach allows us to bring great quality products to more customers.

Own Brand and product.

We source the best quality products, with expert technical teams and close partnerships with growers and suppliers.

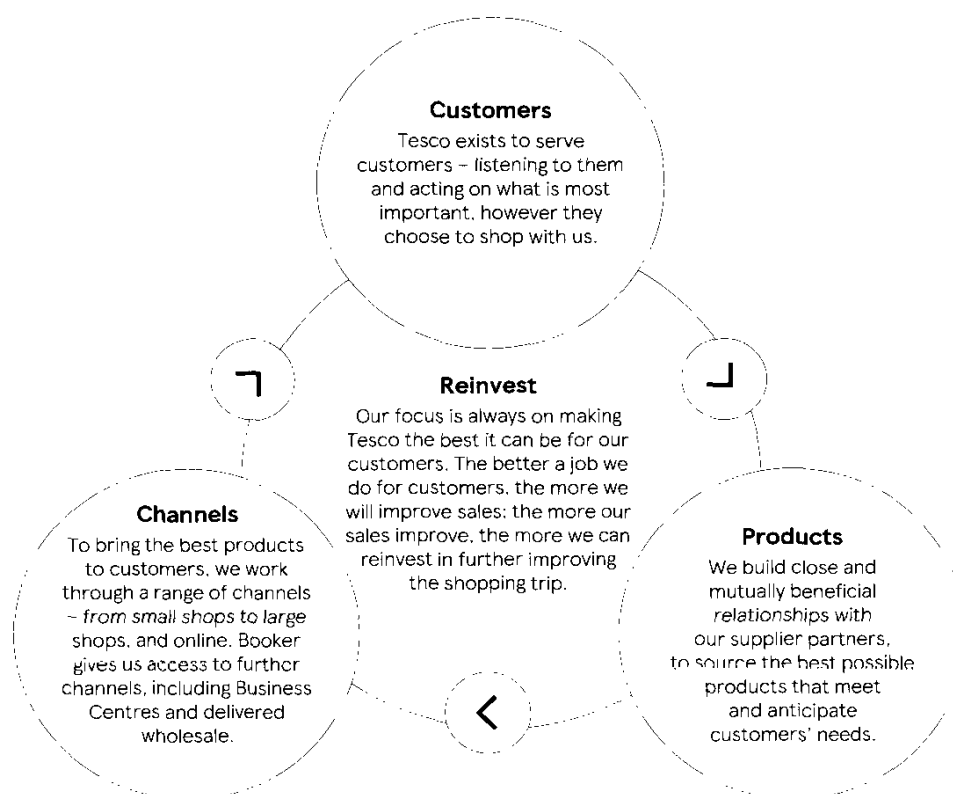
Services.

Services such as Mobile and Banking focus on the needs of Tesco shoppers and allow us to earn and retain their loyalty.

Innovation.

We encourage a culture of innovation so that our business remains at the cutting edge of new trends and demand.

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.

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 gives further 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.

Voted Britain's Favourite Supermarket* by customers for

5 years

* Grocer Gold Awards 2019

Colleagues agreeing we have an inclusive culture

81%

Record level of Group supplier satisfaction

77.8%

Full-year dividend

9.15p
per share

Financial review

Turnaround complete.

“With our turnaround complete, our balance sheet strong and our liquidity and funding positions robust, we are well-placed to support colleagues and customers through the current challenging times.”

Alan Stewart
Chief Financial Officer

Headline Group results.

53 weeks ended 29 February 2020 on a continuing operations basis	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year ^a	YoY 53-week change (Actual exchange rates)	YoY 52-week change (Actual exchange rates)	YoY 52-week change (Constant exchange rates)
Group sales (exc. VAT, exc. fuel)^b	£57,370m	£(843)m	£56,527m	£56,883m	1.1%	(0.7)%	(1.0)%
UK & ROI	£45,752m	£(843)m	£44,909m	£44,883m	2.0%	0.1%	0.2%
Central Europe	£5,332m	-	£5,332m	£6,030m		(12.1)%	(10.1)%
Asia	£5,218m	-	£5,218m	£4,873m		6.7%	0.1%
Tesco Bank	£1,068m	-	£1,068m	£1,097m		(2.6)%	(2.6)%
Fuel	£7,390m	£(140)m	£7,250m	£7,028m	5.1%	3.2%	3.2%
Revenue (exc. VAT, inc. fuel)	£64,760m	£(983)m	£63,777m	£63,911m	1.3%	(0.2)%	(0.5)%
Group operating profit before exceptional items and amortisation of acquired intangibles^c	£3,005m	£(46)m	£2,959m	£2,607m	15.3%	13.5%	12.6%
UK & ROI	£2,230m	£(46)m	£2,184m	£1,868m	19.4%	16.9%	16.9%
Central Europe	£156m	-	£156m	£221m		(29.4)%	(27.6)%
Asia	£426m	-	£426m	£319m		33.5%	24.8%
Tesco Bank	£193m	-	£193m	£199m		(3.0)%	(3.0)%
Include exceptional items and amortisation of acquired intangibles	£(487)m	£34m	£(453)m	£42m			
Group statutory operating profit	£2,518m	-	n/a	£2,649m	(4.9)%		
Adjusted Group profit before tax ^d	£2,276m	£(37)m	£2,239m	£1,806m	26.0%	24.0%	
Group statutory profit before tax	£1,315m	-	n/a	£1,617m	(18.7)%		
Adjusted diluted EPS ^e	18.23p	(0.31)p	17.92p	14.01p	30.1%	27.9%	
Statutory diluted EPS	9.54p	-	n/a	13.04p	(26.8)%		
Statutory basic EPS	9.60p	-	n/a	13.13p			
Dividend per share	9.15p	-	n/a	5.77p	58.6%		
Capex^f	£1.1bn	-	n/a	£1.1bn			
Net debt^g	£(12.3)bn	£0.2bn	£(12.1)bn	£(13.2)bn	6.9%	8.4%	
Retail free cash flow^h	£1.9bn	£0.2bn	£2.1bn	£0.9bn	109.9%	132.1%	

Detailed below is a summary of our performance for the last financial year, which for UK & ROI was the 53 weeks ending 29 February 2020, and for all other operations was for the calendar year ended 29 February 2020. To aid comparability, headline results and associated commentary is presented on a 52-week comparable basis.

We have delivered a strong performance, significantly growing profitability and free cash flow.

Group operating profit before exceptional items and amortisation of acquired intangibles of £2,959m grew by 13.5%. Strong performance in our UK & ROI and Asia segments was partly offset by the impact of disruption as we transform our business in Central Europe to improve long-term profitability in the region.

Retail free cash flow increased by £1,174m year-on-year to £2,063m, reflecting the strong increase in cash profitability, an improvement in working capital and the contribution from the sale of our share in our joint venture in China, Gain Land.

Reflecting the strength of our performance last year and given our robust liquidity and balance sheet, we propose to pay a final dividend of 6.50 pence per ordinary share. This takes the total dividend for the year to 9.15 pence per ordinary share, up 58.6% year-on-year, including the payment of an interim dividend of 2.65 pence per ordinary share in November 2019. This represents a full-year dividend payout ratio of 50% on a 53-week basis.

In March we announced that we had agreed to sell our businesses in Thailand and Malaysia to a combination of CP Group entitiesⁱ, following inbound interest and a detailed strategic review. Consideration for the disposal represents an enterprise value of \$10.6bn (c.£8.2bn) on a cash and debt-free basis. Following completion of the disposal, we intend to return c.£5bn to shareholders via a special dividend and further de-risk the business by reducing indebtedness through a £2.5bn pension contribution, which is expected to eliminate the funding deficit.

^a Last year figures restated for the adoption of IFRS 16 as explained in Note 1 and Note 37 to the Group financial statements.

^b Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis for Central Europe and Asia. Booker consolidated from 5 March 2018 and therefore includes nine additional days in 2019/20 vs. 2018/19. The nine additional days of Booker sales in the current year contributed 0.2% to Group sales growth in the year.

^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 Net debt and Retail free cash flow exclude the impact of Tesco Bank in order to provide further analysis of the Retail cash flow statement. Net debt also includes lease liabilities following the adoption of IFRS 16. Net debt excluding lease liabilities was £(2.6)bn, down £0.2bn year-on-year.

^e Headline 'diluted earnings per share' and 'adjusted Group profit before tax' measures exclude exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.

^f Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 53 weeks ended 29 February 2020 was £2.1bn (2018/19: £1.2bn).

^g On 9 March 2020 we announced the proposed sale of our businesses in Thailand and Malaysia to a combination of CP Group entities. Completion of the disposal, which is conditional on shareholder approval and customary regulatory approvals in Thailand and Malaysia, is expected during the second half of 2020. Thailand and Malaysia will be treated as discontinued operations for the 2020/21 financial year. All guidance and forward-looking statements are on a continuing operations basis.

Financial review continued

Segmental results.

UK & ROI^(a)

In the UK, we continued our centenary celebrations offering significant savings to customers through our '100 Years of Great Value' events, and introduced exclusive Clubcard Prices for our 19 million Clubcard holders. We have further strengthened our value proposition with the launch of our 'Aldi Price Match campaign' in March 2020, price matching to Aldi on hundreds of Tesco and branded products.

The customer reaction to the launch of Clubcard Plus in November has been encouraging. For a £7.99 monthly subscription, customers can benefit from 10% off two big shops in-store as well as savings on popular Tesco brands and double data on Tesco Mobile. Subscribers can also apply for a Clubcard Plus credit card from Tesco Bank with no foreign exchange fees abroad^(b).

Our fresh food volumes outperformed the market by 0.5%^(c) supported by strong performance in our 'food-to-go' offer. We continue to improve our overall product mix, making our general merchandise offer more relevant by focusing on categories that are complementary to our food offer such as Home and Cook. In the coming year we are planning to rebalance space further, in particular by augmenting our F&F clothing offer in a number of our large stores.

Our online grocery customer service ratings all improved year-on-year. Following a strong sales performance in the first half, a slower rate of growth in the second half of the year reflected our decision to maintain a sustainable approach to incentivising new customers in a highly competitive environment. We are taking steps to increase our online capacity to align to the long-term growth in customer demand in this channel, with our first urban fulfilment centre planned in our West Bromwich Extra store. This year we will also increase the number of vans and trial unmanned Click & Collect sites to further support order growth.

In November we announced we will become the first UK retailer to remove plastic-wrapped tinned multipacks from all stores and replace them with plastic-free multi-buys, eliminating 67 million pieces of plastic. This forms part of our commitment to remove one billion pieces of plastic from our UK stores by the end of 2020.

Booker sales grew (on a comparable days basis) by 3.8% excluding tobacco (2.9% including tobacco) despite a challenging market in both wholesale and retail, with small business confidence remaining low. The continued focus on customer service was recognised in November when Booker was named 'Best National Wholesaler' for overall customer satisfaction^(d). The acquisition of Best Food Logistics in early March 2020 will provide more customers with the benefits of the sourcing capabilities of the wider Tesco business.

In ROI, sales grew by 0.8% at constant exchange rates, and we saw particularly strong sales growth in core fresh food, including bakery and produce, as customers responded well to the continued investment in our 'You won't pay more' value campaign.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles grew by 16.9% at actual exchange rates to £2,184m, with operating margin up 59 basis points year-on-year. The increase in profitability was driven by the actions we have taken to improve product mix, and cost savings through further refinements to our operating model including changes to our in-store counters offer and simplification of stock control processes.

We have now delivered cumulative synergies (comprising the in-year benefit of new initiatives combined with the carry forward of prior year activity) of £207m from the Booker merger, exceeding our c.£200m target a year earlier than planned. While we still see many opportunities to deliver further synergies, these will no longer be considered separately to our overall UK & ROI performance. In the period, the challenge of a weak market in both the wholesale and catering sectors was exacerbated by the effect of the clearance of excess stock that had been built up in anticipation of Brexit disruption. Despite these challenges Booker's profit growth (including synergies) outperformed the industry as a whole.

Central Europe^(e)

In Central Europe, we have undertaken a significant transformation, fundamentally changing our approach in Poland and resizing, simplifying and improving the relevance of our businesses in the Czech Republic, Hungary and Slovakia. Sales fell by (10.1)% at constant exchange rates, reflecting disruption from the actions we have taken including the rationalisation of our general merchandise offer, making our customer offer more relevant and compelling. Across the region we rightsized 545 hypermarkets, closed 28 stores and, in Poland, completed the transition to a two-format model (compact hypermarkets and supermarkets). We also invested to improve the shopping trip for customers, focusing on availability which improved by 1% and our key 'Star Lines' products which saw like-for-like growth of 20%.

Operating profit before exceptional items in Central Europe was £156m, (29.4)% lower year-on-year. The actions described above to simplify our operations resulted in significant sales disruption and stock clearance costs, particularly in the second half of the year. In addition, performance reflected investments to improve the competitiveness of our offer, in particular our key 'Star Lines' products, over 600 everyday items which we have made available to customers at market-leading prices. Excluding a £(13)m provision made in the first half in respect of potential historical VAT liabilities, the change in operating profit was (23.5)%.

Asia^(f)

In Asia, sales grew by 6.7% at actual exchange rates and by 0.1% at constant exchange rates. In Thailand, our new Express proposition roll out and large store reinvention programme are both progressing well and as part of our innovation in store formats we now have two of our 'ultra convenient' E-Pop stores in the Bangkok region. We have simplified our fresh food offer, with more competitive prices and our 'Food Love Stories' campaign has further improved customer quality perceptions. The simplification of our general merchandise ranges impacted our headline sales by c.(1)% in the year. In Malaysia, we increased our market share, opening two new small stores following favourable legislation changes, with plans for a further four openings in 2020/21. Across the region we are building trust with customers through our focus on reducing food waste and plastic usage.

We saw a strong increase in profitability in Asia, with growth of 33.5% at actual exchange rates and 24.8% at constant exchange rates. We accelerated our cost savings initiatives in Thailand, including a more efficient distribution operation and more focused, more effective marketing activity. In addition, we benefited from the flow through of prior year initiatives. We continued to optimise the mix of our product ranges as we focus on sustainable, profitable ranges in general merchandise. Performance also included a £24m benefit as a result of changes to how property tax is levied on businesses in Thailand.

In 2020/21, our Asia operations will be treated as a discontinued operation following the announcement on 9 March 2020 of the proposed sale of our businesses in Thailand and Malaysia^(g).

Tesco Bank

	This year	Last year	YoY
Revenue	£1,068m	£1,097m	(2.6)%
Operating profit before exceptional items	£193m	£199m	(3.0)%
Statutory operating profit	£74m	£169m	(56.2)%
Lending to customers	£8,451m	£12,426m	(32.0)%
Customer deposits	£7,707m	£10,465m	(26.4)%
Net interest margin	4.1%	3.8%	0.3%
Total capital ratio	23.1%	18.3%	4.8%

Tesco Bank focuses on providing simple banking and insurance products to a broad range of Tesco customers. Tesco Bank sales were impacted by our decision to exit the mortgage market in September, which also drove the decline in lending to customers. The insurance market remains highly competitive and we continue to focus our investment on retention of existing customers. This year we have also invested in the customer experience through a number of initiatives, including the launch of the Clubcard Plus credit card, and a new Student Shopper

^(a) UK & ROI consists of Tesco UK, ROI and Booker. Booker consolidated from 5 March 2018.

^(b) Subject to status.

^(c) Data is for the 52 weeks ending 22 February 2020 and is sourced from IRI Retail Advantage™, global insight providers to the retail industry. Aldi and Lidl do not submit data to IRI and are therefore excluded from their market definition.

^(d) HIM annual Wholesale Tracking programme.

^(e) Central Europe consists of Czech Republic, Hungary, Poland and Slovakia.

^(f) Asia consists of Thailand and Malaysia.

^(g) Completion of the disposal is subject to shareholder and regulatory approval.

Card as part of our gift card range. In addition, we upgraded the Tesco Mobile app to allow customers to purchase foreign currency and we rolled out our Click & Collect service to more stores.

Operating profit before exceptional items decreased by (3.0)% year-on-year to £193m. Our insurance income decreased as we focused on competitive pricing, however we delivered increased income from our loans portfolio in line with increased lending to customers, and higher income from our gift cards and travel money. The significant cost savings made this year include lower fraud costs resulting from the Bank's continued focus on improved technology and safeguarding our customers, and lower ATM maintenance costs as a result of optimisation efficiencies. This has contributed to the cost:income ratio improving by 1.9% pts year-on-year.

In February we stopped accepting new applications for personal current accounts, as part of our repositioning of Tesco Bank to focus on the right products and services for Tesco customers. This resulted in an exceptional charge of £(56)m relating to accelerated depreciation of intangible and fixed assets. Total exceptional items within statutory operating profit relating to Tesco Bank were £(119)m.

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

	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year
Net restructuring and redundancy costs	£(151)m	£44m	£(107)m	£(182)m
Net property disposals	£55m	£(11)m	£44m	£104m
Booker integration costs	£(23)m	-	£(23)m	£(15)m
Acquisition of property joint venture	£(136)m	-	£(136)m	-
Net impairment (loss)/reversal of non-current assets	£(15)m	-	£(15)m	£106m
Impairment of investment in India joint venture	£(47)m	-	£(47)m	-
Profit on disposal of Gain Land	£37m	-	£37m	-
Other corporate activity costs	£(22)m	-	£(22)m	-
Tesco Bank mortgage disposal	£(5)m	-	£(5)m	-
Closure of Tesco Bank current accounts to new customers	£(56)m	-	£(56)m	-
Provision for customer redress	£(45)m	-	£(45)m	£(16)m
Tesco Direct closure costs	-	-	-	£(38)m
Tesco Bank FCA provision	-	-	-	£(16)m
Release of amounts provided in relation of FCA obligations	-	-	-	£37m
Release of provision relating to HMRC VAT appeal	-	-	-	£176m
Sale of Lazada	-	-	-	£7m
Guaranteed minimum pensions (GMP) equalisation	-	-	-	£(43)m
Total exceptional items in statutory operating profit	£(408)m	£33m	£(375)m	£120m
Amortisation of acquired intangible assets	£(79)m	£1m	£(78)m	£(78)m
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	£(487)m	£34m	£(453)m	£42m

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.

This year, total exceptional items resulted in a net cost of £(375)m, compared to a net credit of £120m in the prior year. This year-on-year movement is principally due to provision releases and net impairment reversals in the base, as well as the accounting impact of obtaining full control of one of our property joint ventures (The Tesco Atrato Limited Partnership) through the acquisition of our partner's 50% stake in September 2019. All of these significant movements are non-cash.

Exceptional restructuring and redundancy costs of £(107)m include a £(51)m charge relating to the simplification of our store operating model in the UK and a £(43)m charge relating to the transformation we have undertaken in Central Europe.

Exceptional net profits on property transactions of £44m have arisen from property disposals within the UK (£18m) and Central Europe (£26m).

We have incurred a £(23)m exceptional charge relating to Booker integration costs, bringing costs to date to £(38)m.

The acquisition of our partner's stake in The Tesco Atrato Limited Partnership results in the Group taking on the joint venture's external debt in addition to its freehold assets (15 stores and two distribution centres). The exceptional charge of £(136)m represents the net effect of the derecognition of the previously held IFRS 16 lease liabilities and right of use assets, and the impairment of the acquired assets.

As announced at the half year, the impairment charge of £(47)m relating to our Trent Hypermarket joint venture relates to reduced profit expectations due to investments in the competitiveness of our offer and reduced store expansion plans.

Other exceptional items include a profit of £37m on the disposal of our 20% share in Gain Land in China, and a £(22)m charge relating to corporate activity, which includes costs relating to the proposed sale of our businesses in Thailand and Malaysia in addition to other Group projects.

Tesco Bank recognised a £(56)m exceptional accelerated depreciation charge following the decision to close our current account business to new customers. Also, as announced at the half year, Tesco Bank recognised an additional £(45)m provision for customer redress due to an unexpectedly high number of claims received in the weeks prior to the 29 August deadline in respect of Payment Protection Insurance (PPI).

Net exceptional items of £(33)m in week 53 comprise a £(44)m charge relating to further changes to our UK store operating model and £11m of net profits on property transactions in the UK.

Amortisation of acquired intangible assets is also excluded from our headline performance measures. The £(78)m charge primarily relates to our merger with Booker in March 2018, which resulted in the recognition of goodwill of £3.093m and a £755m intangible asset.

Joint ventures and associates.

Our share of post-tax profits from joint ventures and associates before exceptional items was £26m, an increase of £5m year-on-year primarily due to a reduced level of losses from Gain Land, our former associate in China.

Exceptional items of £(8)m comprise a £(12)m charge for land penalties arising in our 20% share of Gain Land, and in Tesco Bank, an exceptional gain of £4m in our insurance joint venture, Tesco Underwriting, reflecting a revision to the Ogden compensation tables which are used to calculate future losses in personal injury and fatal accident claims.

Following the sale of our 20% share in Gain Land and proposed sale of our business in Thailand, which is inclusive of our 25% share of the Tesco Lotus Retail Growth Freehold and Leasehold Property Fund (TLGF), our share of post-tax profits from joint ventures and associates will primarily relate to our UK property joint ventures. In 2019/20 TLGF contributed £26m to profit.

Finance income and finance costs

	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year
Net interest on medium-term notes, loans and bonds	£(212)m	£3m	£(209)m	£(238)m
Other interest receivable and similar income	£23m	-	£23m	£25m
Other finance charges and interest payable	£(25)m	-	£(25)m	£(49)m
Finance charges payable on lease liabilities	£(541)m	£6m	£(535)m	£(561)m
Capitalised interest	-	-	-	£1m
Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	£(755)m	£9m	£(746)m	£(822)m
Fair value remeasurements of financial instruments	£(244)m	£18m	£(226)m	£(153)m
Net pension finance costs	£(71)m	-	£(71)m	£(89)m
Net finance costs before exceptional charges	£(1,070)m	£27m	£(1,043)m	£(1,064)m
Exceptional items:				
- Fair value remeasurement on restructuring derivative financial instruments	£(180)m	-	£(180)m	-
- Gain on Tesco Bank mortgage disposal	£29m	-	£29m	-
Net finance costs	£(1,221)m	£27m	£(1,194)m	£(1,064)m

Financial review continued

Net finance costs before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments reduced by £76m year-on-year to £(746)m, mainly driven by a reduction in net interest payable following debt maturities, bond tenders and new debt issued at a significantly lower rate of interest. In addition, finance charges payable on lease liabilities reduced by £26m year-on-year due to ongoing lease utilisation and the buyback of 21 leasehold properties in the year.

Fair value remeasurements of financial instruments increased by £73m year-on-year driven by a fall in inflation expectations impacting the new index-linked swaps, which offset those put in place as part of historical sale and leaseback property transactions. The swaps were restructured to eliminate the impact of future inflation on the Group's cash flow in relation to these property transactions. Fair value remeasurements also includes £(65)m primarily relating to the premium paid on the repurchase on long-dated bonds (last year: £(121)m).

Net pension finance costs decreased by £18m year-on-year, primarily due to a lower opening pension deficit. For the 2020/21 financial year, net pension finance costs are expected to be no more than c.£55m. The exact cost will depend on the timing of the one-off pension contribution of £2.5bn, described overleaf.

The exceptional charge of £(180)m included in net finance costs relates to actions taken to remove inflation risk from the historical sale and leaseback property transactions. The charge, which is non-cash, relates to the revaluation of credit risk associated with the historical swaps, described above, over a shorter timeframe.

An exceptional credit of £29m relates to a fair value remeasurement as part of the sale of Tesco Bank's mortgage book that was completed in September.

Group tax

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(430)m, £33m higher than last year due to increased profitability. This year's charge also includes a credit arising from closing a number of issues relating to prior years across the Group. Group cash tax paid in the year was £340m, including £207m of corporate tax paid in the UK.

Following the reversal of the enacted 2% reduction in the rate of UK corporation tax from 1 April 2020, we now expect the Group's effective tax rate to be around 21% in the medium term. For the 2020/21 financial year we expect an effective tax rate of c.24% as a result of a one-off rate change impact from revaluing deferred tax from 17% to 19%.

As previously announced, following changes to the timing of UK corporation tax payments, in common with other large UK companies we will have two additional quarterly cash payments in the 2021 fiscal year. This change effectively moves from payment of around half the tax liability after the financial year end to full payment in-year, and is expected to create a one-off additional cash outflow in the first half of our 2020/21 financial year.

As part of the use of proceeds from the proposed sale of our businesses in Thailand and Malaysia, we intend to make a £2.5bn one-off contribution into the UK defined benefit pension scheme. As the Group will receive tax relief on this contribution, it is anticipated that the level of cash tax payable will be reduced by c.£120m in the year of payment and c.£60m per annum in the following three years.

On a statutory 53-week basis, the total tax charge is £(380)m which includes a £53m credit relating to exceptional items.

Earnings per share

	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year
Diluted EPS pre-exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	18.23p	(0.31)p	17.92p	14.01p
Statutory diluted earnings per share	9.54p	-	n/a	13.04p
Statutory basic earnings per share	9.60p	-	n/a	13.13p

Our diluted earnings per share before exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments was 17.92p, 27.9% higher year-on-year, due to our improved profit performance.

Statutory basic earnings per share from continuing operations were 9.60p, (26.9)% lower year-on-year, primarily reflecting the change in the level of exceptional items year-on-year.

Summary of Total indebtedness.^(a)

	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year	Movement
Underlying Net debt (excludes lease liabilities and Tesco Bank)	£(2,765)m	£191m	£(2,574)m	£(2,734)m	£160m
Lease liabilities	£(9,533)m	£6m	£(9,527)m	£(10,470)m	£943m
Pension deficit, IAS 19 basis (post-tax)	£(2,573)m	-	£(2,573)m	£(2,338)m	£(235)m
Total Indebtedness	£(14,871)m	£197m	£(14,674)m	£(15,542)m	£868m

^(a) Total indebtedness is defined in the glossary, starting on page 164.

Total indebtedness was £(14,674)m, down £868m year-on-year driven by a reduction in our lease liabilities and underlying net debt, partly offset by an increase in the pension deficit.

Our lease liabilities decreased by £943m year-on-year, principally reflecting the purchase of our partner's 50% stake in the Tesco Atrato Limited property joint venture. The acquisition, which is treated as an asset acquisition, increases our freehold property ownership and borrowings, replacing associated right of use assets and lease liabilities. In addition, our lease liabilities reduced due to capital repayments made in the year and the buyback of a number of other leasehold properties.

On an IAS 19 basis, our pension deficit increased by £(235)m to £(2.6)bn. An increase in the measurement of scheme liabilities due to a fall in corporate bond yields was largely offset by strong asset performance, including that of our liability-driven investment portfolio, in addition to continued deficit contributions and the application of the latest actuarial assumptions.

As part of the use of proceeds from the proposed sale of our businesses in Thailand and Malaysia, we have reached agreement with the Trustees to make a £2.5bn one-off contribution into the Scheme. This, along with other measures, is expected to eliminate the funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future.

The agreement with the Trustees also covers the key principles of the triennial scheme valuation, which will now be calculated as at 31 December 2019. The Trustees will aim to conclude the valuation as soon as is reasonably possible.

Our key credit metrics, which are Fixed charge cover and Total indebtedness/EBITDA, have further improved since the end of the last financial year, from 3.0 to 3.4 times and from 3.6 to 3.1 times respectively. We are now targeting leverage of c.2.5 times.

Summary retail cash flow.

Retail free cash flow increased by £1,174m year-on-year to £2,063m, reflecting a strong increase in cash profitability, a decrease in working capital and the contribution from the sale of our share in Gain Land.

We generated a net working capital inflow of £163m. This improvement is lower than initially planned, and includes the reversal of the £(210)m impact seen in the second half of last year primarily relating to our decision to delay the implementation of a new general ledger system. Our planned progress was held back by the timing of non-trade related payments, the deleveraging effect of lower sales in Central Europe and the continued prioritisation of securing availability for customers ahead of potential Brexit deadlines. These factors were partly offset by a refinement of payment terms with our largest suppliers.

The £(240)m impact shown in the table overleaf in working capital relating to week 53 is primarily driven by the timing of a fuel payment.

Cash capital expenditure was £142m lower year-on-year as we maintain our disciplined approach to capital investment.

An £80m reduction in cash interest principally relates to debt maturities and bond tenders at a significantly lower rate of interest. Cash interest also includes the interest element of lease rental payments, which reduced by £26m year-on-year as leases were utilised and we bought back a number of other leasehold properties.

Retail cash tax paid in the year was £271m, a decrease of £31m year-on-year. The decrease year-on-year was due to IFRS 16 transitional adjustments and a higher charge for fair value remeasurements in the period, which are both eligible for cash tax relief.

We generated £258m of property proceeds including £167m from the sale of properties in Central Europe, mainly in Poland. We utilised £172m of cash primarily for the buyback of our Blandford, Chesterfield and High Wycombe stores, which will result in an annual cash rental saving of £8m.

We purchased £149m of shares in the market following our commitment to offset any dilution from the issuance of new shares to satisfy the requirements of share schemes. Going forward we continue to expect to utilise c.£150m a year, with the precise amount depending on performance and market conditions.

The increase in repayments of obligations under leases of £27m is largely offset by a corresponding decrease within the interest element of lease rental payments included in net interest.

As previously announced, we will make a £0.3bn pension deficit contribution in the 2020/21 financial year, which in addition to the proposed one-off £2.5bn contribution in the second half of 2020, is expected to eliminate the funding deficit and significantly reduce the prospect of having to make further deficit contributions in the future, releasing c.£260m of annual free cash flow.

	This year 53-week basis	Exclude week 53	This year 52-week basis	Last year
Operating profit before exceptional items and amortisation of acquired intangibles	£3,005m	£(46)m	£2,959m	£2,607m
Less: Tesco Bank operating profit before exceptional items	£(193)m	-	£(193)m	£(199)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	£2,812m	£(46)m	£2,766m	£2,408m
Add back: Depreciation and amortisation	£1,937m	£(29)m	£1,908m	£1,887m
Other reconciling items	£66m	£12m	£78m	£70m
Pension deficit contribution	£(267)m	-	£(267)m	£(266)m
Underlying (increase)/decrease in working capital	£(77)m	£240m	£163m	£(306)m
Retail cash generated from operations before exceptional items	£4,471m	£177m	£4,648m	£3,793m
Exceptional cash items:	£(230)m	-	£(230)m	£(156)m
Relating to prior years:				
Shareholder Compensation Scheme payments and SFO fine	-	-	-	£(43)m
Onerous contract provisions	-	-	-	£(1)m
Restructuring payments	£(133)m	-	£(133)m	£(60)m
Relating to current year:				
Restructuring payments	£(64)m	-	£(64)m	£(68)m
Integration costs	£(23)m	-	£(23)m	£(12)m
Corporate costs	£(10)m	-	£(10)m	-
Other ^a	-	-	-	£28m
Retail operating cash flow	£4,241m	£177m	£4,418m	£3,637m
Cash capex	£(988)m	£4m	£(984)m	£(1,126)m
Net interest	£(777)m	£27m	£(750)m	£(830)m
Tax	£(271)m	-	£(271)m	£(302)m
Property proceeds	£269m	£(11)m	£258m	£285m
Property purchases – store buybacks	£(172)m	-	£(172)m	£(136)m
Market purchases of shares (net of proceeds)	£(149)m	-	£(149)m	£(146)m
Acquisitions, disposals and dividends received	£345m	-	£345m	£(635)m
Add back: Booker acquisition costs (included above)	-	-	-	£747m
Repayments of obligations under leases	£(632)m	-	£(632)m	£(605)m
Retail free cash flow	£1,866m	£197m	£2,063m	£889m

^a Booker integration costs were previously included within 'Other'.

Capital expenditure.

Our capital expenditure for the year was £1.1bn, broadly level on the prior year, and was primarily focused on store maintenance and refits.

In the UK & ROI spend has related to the maintenance of our stores in addition to 18 new Express store openings and our temporary replacement store in Kennington. We also opened five Jack's stores in the UK, bringing the total to 12.

In Central Europe, our programme to address unproductive selling space by either refitting, downsizing or repurposing stores is now largely complete. In Poland we moved to a two-format model, which involved

closing or resizing all hypermarkets to our better performing compact supermarket format. The total space reduction in Central Europe was c.3 million sq. ft. with c.2.1 million sq. ft. of this within Poland.

In Asia we opened two new stores in Malaysia, following favourable legislation changes and a further 54 new stores in Thailand, primarily in our Express format. Following the proposed sale of our businesses in Thailand and Malaysia, in future years we expect our annual Group capital expenditure to be within a range of £0.9bn to £1.2bn.

Statutory capital expenditure of £2.1bn includes £914m relating to the acquisition of full control of the The Tesco Atrato Limited Partnership (comprising 15 stores and two distribution centres) and £136m relating to the buyback of a number of other leasehold properties in the year.

	This year	Last year
UK & ROI	£769m	£709m
Central Europe	£108m	£130m
Asia	£134m	£235m
Tesco Bank	£52m	£31m
Group	£1,063m	£1,105m

Property.

The estimated market value of our fully owned property as at the year end increased by £0.4bn to £21.7bn. The market value of £21.7bn represents a surplus of £2.8bn over the net book value. Our Group freehold property ownership percentage, by value, has increased by 2% year-on-year. In September we completed the purchase of our partner's 50% stake in The Tesco Atrato Limited Partnership property joint venture, which includes 15 stores and two distribution centres. This asset acquisition increased our percentage of fully owned property in UK & ROI by c.2% and will lead to an annualised cash rental saving of £41m. The repurchase of three large stores in the UK also supported an improvement in the percentage of fully-owned property, in addition to an annualised cash rental saving of £8m.

Dividend.

Reflecting the strength of our performance last year and given our robust liquidity and balance sheet, we propose to pay a final dividend of 6.50 pence per Ordinary share. This takes the total dividend for the year to 9.15 pence per Ordinary share, up 58.6% year-on-year, including the payment of an interim dividend of 2.65 pence per Ordinary share in November 2019. This represents a full-year dividend payout ratio of 50% on a 53-week basis. We expect to maintain a full-year dividend payout ratio of 50% going forward and from 2020/21 our interim dividend will be set at 35% of the prior year full-year dividend.

The proposed final dividend was approved by the Board of Directors on 7 April 2020 and is subject to the approval of shareholders at this year's AGM. The final dividend will be paid on 3 July 2020 to shareholders who are on the register of members at close of business on 22 May 2020 (the Record Date). Shareholders may elect to reinvest their dividend in the dividend reinvestment plan (DRIP). The last date for receipt of DRIP elections and revocations will be 12 June 2020.

Looking ahead.

COVID-19 is having a material impact on the operations of our business and we are incurring significant additional costs, particularly in payroll as we recruit additional colleagues to meet demand and cover the work of those colleagues who are absent and being paid.

While the full financial impact of the crisis for 2020/21 is impossible to predict with a high degree of certainty, we have considered a range of scenarios to understand potential outcomes on our business and plan appropriately. Dependent on the scenario, the estimated impact on our retail cost lines is between c.£(650)m and c.£(925)m including significant cost increases in payroll, distribution and store expenses.

At this stage it would not be prudent to provide financial guidance for 2020/21, however if customer behaviour were to return to normal by August it is likely that the additional cost headwinds incurred in our retail operations would be largely offset by the benefits of food volume increases, 12 months' business rates relief in the UK and prudent operations management.

Tesco Bank, which operates as a standalone regulated entity, is expected to be impacted by a reduction in income from all of its activities, including credit cards, loans and travel money. This expected decrease in income, in addition to provisions for potential bad debts, is likely to result in a loss for the Bank in the year ending February 2021. Notwithstanding this, the Bank's capital ratios (Tier 1 ratio: 20.6% and Total ratio: 23.1% as at 29 February 2020) and liquidity are expected to remain strong.

Key performance indicators

Our Big 6 KPIs.

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 declined by (1.0)% at constant exchange rates and (0.7)% at actual exchange rates, to £56.5bn. In the UK & ROI, total sales increased by 0.1% at actual exchange rates, against a backdrop of subdued market growth.

Group sales^Δ

**£56.5bn (2018/19: £56.9bn)
down (1.0)%^(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 of £2,959m grew by 13.5% at actual exchange rates and 12.6% at constant exchange rates.

Group operating profit before exceptional items and amortisation of acquired intangibles^Δ

**£2,959m (2018/19: £2,607m*)
up 13.5%^(b)**

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 £4,418m, up 21.5%. This reflects a strong increase in cash profitability and a decrease in working capital.

Retail operating cash flow^Δ

**£4,418m (2018/19: £3,637m*)
up 21.5%^(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 'How likely is it that you would recommend Tesco to a friend or colleague?'

How we performed.

Our net promoter score for the Group declined by 3 points to 14 points. While our full-year performance is down on last year, we saw an improving trend in the final quarter of the year.

Group net promoter score

14 pts, down 3 pts^(c)

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

Why it's important.

When we get things right for our more than 400,000 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.

Colleagues continue to recommend Tesco as a great place to work, with 82% of our colleagues across the Group agreeing. This is 10% higher than our peers, based on a benchmark of global retail companies.

**Great place to shop 46 pts,
down 4 pts^(d)**

Great place to work 82%

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 Group supplier satisfaction reached its highest score to date of 77.8%. We saw particular improvements in supplier ratings for cooperation, respect and communication.

Group supplier satisfaction

77.8%, up 0.3% pts

^Δ Alternative performance measures APMs.

Measures with this symbol ^Δ are defined in the Glossary section on pages 164 to 169.

^{*} Reported on a continuing operations basis. Growth is at constant exchange rates on a non-comparable days, 52-week basis.

[†] Reported on a continuing operations basis. Growth is at actual exchange rates on a 52-week basis.

^{**} Basis Tesco Global Brand tracker

^{††} Recommendations from Tesco retail colleagues. Excludes Tesco Bank, Jack's, Tesco Bengaluru and Tesco Maintenance.

^{*} Restated for the adoption of IFRS 16. For more information see Note 1 and Note 37 on pages 84 and 143.

Principal risks and uncertainties

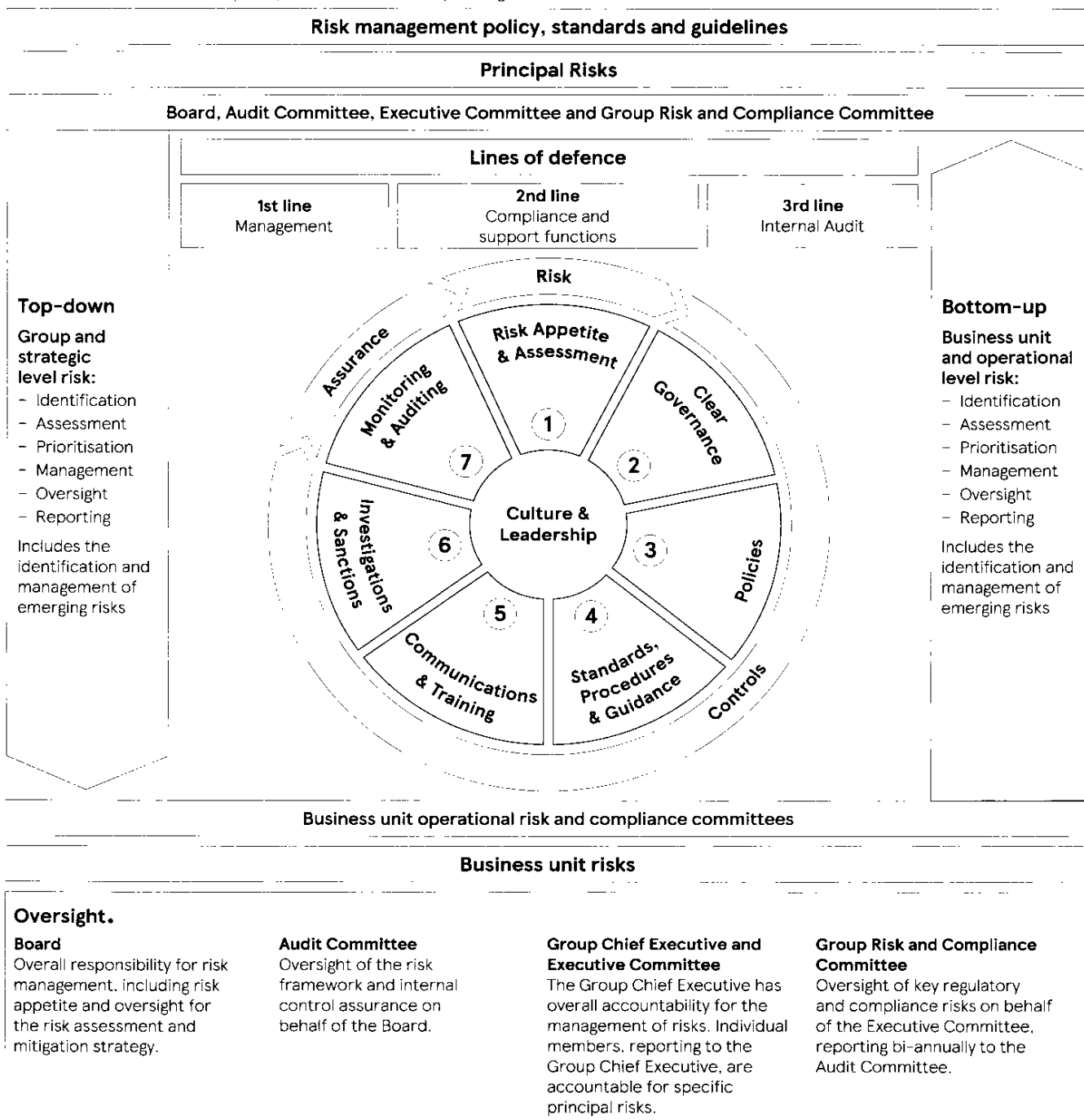
A robust approach to risk.

Key elements of our risk management framework.

We have an established risk management framework to manage and report the risks that we face as a business (see diagram below). A risk that can seriously affect our performance, future prospects or reputation of the Group is termed a principal risk.

To manage our risks effectively we have identified a risk appetite which is driven by the following:

- our performance should be competitive, responsible and focused on creating value for all our stakeholders including customers, colleagues, suppliers and shareholders;
- our behaviours must be in line with our code of business conduct to protect and enhance our reputation;
- we aim to operate our business within the capital allocation framework we have set out; and
- we seek to ensure that our principal risks are effectively managed.



Principal risks and uncertainties continued

Principal risks are discussed and agreed by Executive management and the Audit Committee and are cascaded to the business units (top-down) who manage and report on the principal risks and any additional significant business unit risks. Business units also escalate risks as appropriate (bottom-up) to the Executive Committee.

The principal risks are discussed and evaluated through regular meetings with senior management. Each principal risk is discussed at least annually by the Board to provide oversight and ensure that they remain well managed and relevant.

The seven steps of the risk, controls and assurance framework on page 13 are embedded within our business as a key element of how we manage our risks and ensure appropriate controls are established.

The risk assessment process relies on our evaluation of the risk likelihood and impact, and on the development and monitoring of appropriate internal controls. We maintain risk registers detailing the risks we face, and this is an important component of how we manage our risks.

Risk management.

We have performed a robust review of our principal risks which includes periodic assessments of the risks we believe could threaten the Group's business model, future performance, solvency or liquidity.

The COVID-19 outbreak has become a global pandemic moving from an emerging risk for the business to a principal risk. The Booker integration and synergy realisation risk has significantly reduced over the year and is now considered to be operating in a business as usual capacity. Consequently it has been retired as a principal risk. Other principal risks remain largely unchanged from last year.

Risks related to climate change and sustainability remain an integral part of a number of our principal risks including brand, reputation and trust, and responsible sourcing and supply chain. We have enhanced our risk descriptions for these two principal risks over the year to further reflect that.

The risks associated with Brexit remain due to there being no clarity on the long-term trading relationship with the EU. Although the UK entered the standstill transition period on 31 January 2020,

uncertainty over the longer-term trade issues could remain until 31 December 2020 and potentially beyond. We have amended our Brexit risk description accordingly and continue to monitor this risk.

Liquidity and risks related to our transformation programme have reduced. An improved credit rating, reduction in indebtedness and improving cash flow position has resulted in reduced exposure and the transformation programme is delivering capability with pilot and major releases taking place over the past year.

We have noted a slight increase in our Health and Safety risk primarily driven by a shift in the external regulatory landscape leading to potentially higher penalties and legal action. Our Group-wide injury statistics continue to improve as we identify and implement improvement opportunities to further enhance our controls.

We recognise the potential risk of disruption to activities in view of the proposed sale of our businesses in Thailand and Malaysia. We have appropriate plans in place to monitor and manage these risks.

Key focus areas

As part of our focus on continuous improvement we have begun work to refine risk appetite for our principal risks with the Executive and Audit Committee this year and will continue to progress this in the coming year (see risk appetite below). We have also developed our assessment of emerging risks and integrated this into our bi-annual risk review process (see emerging risks and Corporate governance).

The table opposite sets out our principal risks, their movement during the year, and a summary of key controls and mitigating factors. They do not comprise all our risks and are not set out in priority order. Additional risks not presently known, or currently deemed to be less material, may also have adverse effects.

Emerging risks – This year we have conducted a formal exercise to identify and assess emerging risks. While assessing potential emerging risks we have considered our risk exposure across a number of themes e.g. finance and economics, geopolitical and security, social and humanitarian, technological, climate and sustainability (see TCFD on page 20).

Emerging risk and horizon scanning are integrated as part of regular risk discussions and reported at both business unit and Executive Committee level and we will continue to embed this further going forward. Our subject matter experts supported by our second line of defence teams have been working through the year to deepen our understanding of key risks like climate change, sustainability, cyber, packaging, artificial intelligence, animal welfare and more recently pandemics.

Risk appetite – During the year we have initiated work to formalise our approach to develop and report our risk appetite. We have worked with the Executive Committee, Audit Committee and subject matter experts to agree our methodology. We have revised our internal Board reporting guidance to ensure matters presented for approval clearly indicate the risk(s) and as we progress we will also integrate reference to our risk appetite. Next year we will formalise reporting to the Board and improve oversight by further developing and embedding our assessment and reporting against risk appetite.

Key risk movement.





Principal risk	Risk movement	Key controls and mitigating factors
Customer.[†] Uncertainties (including Brexit) and macroeconomic conditions impact our customers' budgets and force customers to reappraise the concepts of value and loyalty in a way in which we are unable to respond.		<ul style="list-style-type: none"> - We have a value, price, promotions and Clubcard strategy that drives our business priorities with governance and oversight mechanisms. - We have a consistent approach to building impactful customer propositions, offering high-quality and competitive value while improving the customer experience. - Propositions are being developed across channels and geographies to ensure consistency in the customer engagement. - Group-wide customer insight analysis is undertaken to understand and leverage trends around customer behaviour, expectations and experience across the different parts of the business to improve our propositions. - 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 customer 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, results in an inability to progress sufficiently quickly to maintain or increase operating margin and generate sufficient cash to meet business objectives.		<ul style="list-style-type: none"> - We have clear market strategies and business plans to address changes to business priorities, strategic objectives and external market factors. - We have executive-level governance and oversight for all the transformation activities to ensure programmes are adequately resourced, milestones achieved and to approve key rollout decisions. - Real-time independent assurance activities are conducted over the transformation programme.
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.		<ul style="list-style-type: none"> - 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 results in a loss of market share and failure to improve profitability.		<ul style="list-style-type: none"> - 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 includes the 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.
Brand, reputation and trust.[†] Failure to create brand reappraisal opportunities to improve quality, value and service perceptions as well as meet climate and sustainability expectations results in a negative impact on the trust which our stakeholders place in our brand.		<ul style="list-style-type: none"> - Our Group policies, procedures and our Code of Business Conduct sets out detailed expectations and behaviours around how we can make the right decisions for our customers, colleagues, suppliers, communities and investors. - We listen to our customers and stakeholders as part of our communication and engagement programmes. We reflect these needs in our plans including building upon health, community, sourcing, climate and sustainability initiatives as part of our LHP on pages 21 to 23. - 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 oversees all corporate responsibility activities and initiatives, including climate and sustainability programmes which ensures alignment with customer priorities and our brand strategy.

Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
Technology. Failure of our IT infrastructure or key IT systems results in a loss of information, inability to operate effectively, financial or regulatory penalties, and negative impacts on our reputation. Further, failure to build resilience at the time of investing in and implementing new technology, results in potential loss of operating capability.	There continues to be a growing dependence on technology throughout the Group. We continue to make improvements and invest in disaster recovery and business continuity measures which are helping to limit exposure to external threats. 	<ul style="list-style-type: none"> Our multi-year programme continues 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 new data centre facility provides greater resiliency and oversight for our key systems. Our technology security programme continues to enhance information security capabilities thereby strengthening our infrastructure and information technology general controls. We have combined governance processes covering both technology disaster recovery and business continuity to ensure alignment.
Data security and data privacy.[†] Failure to comply with legal or regulatory requirements relating to data security and 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 may result in an adverse impact on our financial performance or unfavourable effects on our ability to do business.	As a retail organisation we hold a large amount of customer and colleague personal data, and the threat landscape has been ever growing. Since the introduction of General Data Protection Regulation (GDPR) we have seen an increase in individuals' awareness levels, as well as an increase in the financial penalties which can be levied by the data protection authorities. 	<ul style="list-style-type: none"> 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 is driving the enhancement of our data security capabilities. We have an established team in our security operations centre to detect, report and respond to security incidents. We have a third-party supplier assurance programme focusing on third-party data security and privacy risks. We invest significantly across the Group to help us comply with the requirements of GDPR in Europe, and any other relevant legislation globally. We have a privacy compliance programme, which includes assessment and monitoring of risk across our global business. There is regular reporting on progress and results of the security and privacy programmes to governance and oversight committees. We recognise the importance of training and communication to help prevent data security and privacy-related incidents and have regular induction, awareness and refresher courses for our colleagues. Our data privacy and protection policies clearly set out how we can protect and appropriately restrict customer, supplier and colleague data. Next generation behaviour-based anti-virus and malware solutions, data and payment encryption and threat detection tools help us reduce the likelihood of being compromised.
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.	Long-term changes in the global political environment, including that in some markets there is a push towards greater regulation of foreign ownership of companies resulting in favouring of local companies. 	<ul style="list-style-type: none"> Wherever we operate, we aim to ensure that the impact of political and regulatory changes is incorporated in our strategic planning and policies. We have compliance programmes and committees to manage our most important risks (e.g. anti-bribery and competition law). Our compliance programmes ensure that controls are implemented to mitigate the risk and we conduct assurance activities for each risk area. Our Code of Business Conduct and various policies (e.g. gifts and entertainment, conflicts of interest) are 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 to the successful management of this risk area. Structured communication plans are established to provide a clear tone, from the top, for our colleagues.
Health and safety. Failure to meet safety standards in relation to our workplace, results in death or injury to our customers, colleagues or third parties and leads to adverse financial and reputational consequences.	This risk has increased primarily driven by a shift in the regulatory landscape which may lead to an increase in penalties and fines. Group-wide injury statistics continue to improve alongside identifying continuous improvement opportunities to further embed controls. 	<ul style="list-style-type: none"> 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 comprehensive risk register and a safety improvement plan to document and track enhancements. Governance and oversight is established in the form of our Group Risk and Compliance Committee and business unit-specific health and safety committees. These committees review critical metrics and monitor the effectiveness of related controls. Safety audits, whistleblowing arrangements and annual colleague survey results, informs management on delivery of targeted safety initiatives including communication plans. Second and third line of defence assurance activities such as store and distribution compliance reviews, safety health checks and audits help us assess compliance with established policies and processes and continuously seek to identify areas of potential improvement.

Principal risk	Risk movement	Key controls and mitigating factors
People. Failure to attract, retain and develop the required capability and continue to evolve our culture results in an impact on the delivery of our purpose and strategic drivers.	Market competitiveness continues to affect our ability to attract and retain key specialist talent. There is a continued challenge from fast-changing and complex legislation. 	<ul style="list-style-type: none"> - Our talent planning and people development processes are established across the Group. - Talent and succession planning are regularly discussed by line management and the Executive Committee with regular oversight by the Nominations and Governance Committee and the Board. - We have clear potential and performance criteria and talent principles which are underpinned by our employer value proposition and strategy. - 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. - 'How to' and 'when to' speak up has been relaunched across all areas and our protector line and complaint process allows colleagues to confidentially raise any workplace concerns e.g. dishonest activity or something endangering colleagues, the public or the environment. - We have a Group Inclusion strategy to ensure we provide equal opportunities for growth and development to all our colleagues.
Responsible sourcing and supply chain. Failure to meet product safety standards results in death, injury or illness to customers. Failure to ensure that products are sourced responsibly across our supply chain (including fair pay for workers, adhering to human rights, clean and safe working environments, meeting climate change and sustainability commitments) and that all social and environmental standards are met results in supply chain disruption, regulatory breaches, and reputational impacts of not meeting societal expectations.	Given the evolution in external standards and expectations we recognise the importance of sourcing safe products in a responsible manner. We continue to monitor and improve our controls to ensure we have a sustainable supply chain. 	<ul style="list-style-type: none"> - We have product standards, policies and guidance covering both food and non-food, as well as goods and services not for resale, to help ensure that products are safe, legal and of the required quality. - Assurance, improvement and empowerment are our three human rights pillars in place to appropriately monitor conditions and progress, tackle endemic sector risks and address wider community needs. Measures include policies and guidance to help to ensure the rights of workers are respected and environmental impacts are managed responsibly. Refer to pages 21 to 23 for specific actions highlighted under our LHP. - Supplier audit and product analysis programmes are in place to monitor product safety, traceability and integrity, human rights and environmental standards, including unannounced audits of supplier sites 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. - Crisis management procedures are embedded within operations to quickly resolve issues if non-compliant products are produced or sold with clear escalation protocols. - Our LHP pages 21 to 23 references the creation of a fourth pillar, Planet, and the steps being implemented to cover climate and sustainability.
Brexit.[†] Failure to prepare for the UK's future trading relationship with the EU (whatever form that may take) results in disruption to and creates uncertainty around our business and our ability to supply our customers. Any disruption or uncertainty could have an adverse effect on our business, financial results and operations.	The UK entered the standstill transition period on 31 January 2020 and uncertainty over the longer-term trade issues could remain until 31 December 2020 and potentially beyond. The risk of business disruption and cost increases therefore remain unchanged. 	<ul style="list-style-type: none"> - With the UK's future trading relationship with the EU (and others) still to be determined, we continue to contribute to important public policy discussions and engage with government, regulatory bodies and industry e.g. sharing of analysis and data, to aid policy makers' understanding of food and product supply chains. - We continue to assess and monitor the potential risks and impacts on our customers, colleagues and shareholders, while taking appropriate mitigation measures to address challenges including logistics, resourcing and supply. - We have developed a detailed Brexit contingency plan for any political and macroeconomic changes that could have a material impact on our market and customer proposition with clear oversight by our senior leaders through the Brexit Governance Group.

Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
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.	The Bank continues to actively manage the risks to which it is exposed. 	<ul style="list-style-type: none"> - The Bank has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Bank's risk appetite, approved by the Bank Board and supported by the risk management framework. - The Tesco PLC Board also reviews and approves the financial risk appetite. Risk appetite defines the type and amount of risk that the Bank is prepared to accept in order to meet its strategic objectives. It forms a link between day-to-day risk management of the business and its strategic priorities, long-term plan, capital planning and stress testing. Adherence to risk appetite is monitored monthly. - The risk management framework brings together governance, risk appetite, the three lines of defence, the policy framework and the risk management tools to support the business in managing risk as part of day-to-day activities. - There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee provided by the Bank's Chief Financial Officer, and Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank's Board to enhance visibility and knowledge sharing.
COVID-19.[†] The recent outbreak and global spread of the COVID-19 may have a significant and prolonged impact on global economic conditions, disrupt our supply chain (including our supplier base, specifically regarding business closure and consolidation, labour shortage, raw material supply and potential cost inflation), increase employee absenteeism and adversely impact our operations. Governments and public bodies in affected countries have introduced temporary emergency public measures such as travel bans, quarantines and public lockdowns (also impacting our mail operations). Should these continue for an extended period of time, they would increase pressure on our supply chain and operations (including Tesco Bank due to an economic downturn).	The COVID-19 outbreak has become a global pandemic moving from an emerging risk to becoming a principal risk for the business. 	<ul style="list-style-type: none"> - The safety and wellbeing of our colleagues and customers has been and continues to be our overriding priority. Our Executive Committee are monitoring events closely with regular Board oversight evaluating the impacts and designing appropriate response strategies. - The availability of cash resources and committed facilities together with strong cash flow, support Tesco's liquidity and longer-term viability. - Our teams are working tirelessly to implement specific actions to minimise disruption faced by our customers in these challenging times. Our business continuity and crisis management plans have been mobilised in all parts of the Group and additional measures have been implemented including increasing our retail store colleague headcount (with redeployment of colleagues where possible), securing additional supply chain capacity to meet changes in demand (including measures to prevent customer stockpiling), implementing changes to stores (including hours, additional security, hygiene and social distancing measures), and extending support to colleagues and customers at increased risk.

[†] Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on page 19

Internal control.

The key elements of the Group's internal control framework are monitored throughout the year and the Audit Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board. To support the Board's annual assessment, Group Audit and Advisory prepared a report on the Group's principal risks and internal controls. This describes the risk management systems and key internal controls, as well as the 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 effectively manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against the risk of material misstatement or financial loss.

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 long-term plan, which is updated and approved annually by the Board. The plan delivers the Group's purpose of 'serving shoppers a little better every day' and is underpinned by a clear strategic focus on driving sustainable and profitable growth through innovation and technology.

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 considered over a three-year period, as this horizon most appropriately reflects the dynamic and changing retail environment in which the Group operates.

Long-term planning process

The long-term 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

The Group has delivered on every part of the turnaround plan outlined in 2016 and continues the transformation of the business at pace, supported by:

- A strategic focus on driving growth across the Group through innovation and technology.
- A clear set of financial priorities to deliver cash profit, free cash flow and earnings per share growth, underpinned by a robust capital allocation framework.
- A diversified portfolio of businesses covering retail, wholesaling, banking and data science.

Refer to the Group Chief Executive's review on page 3 and the Financial review from page 7 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 (such as climate change), and the Group's response to these.
- 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.
- How the Group can best position itself to take advantage of the rapidly evolving retail market and structural shifts in how customers shop.
- Opportunities for further cost reduction through operational simplification and leveraging technology.
- The resilience afforded by the Group's operational scale.

Assessing the Group's viability

The viability of the Group has been assessed, taking into account the Group's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the Group's principal risks outlined on pages 13 to 18.

Four 'severe but plausible' scenarios have been modelled that address the principal risks that the Group has assessed would have the most direct and material impact on the Group. None of these scenarios, either individually or in aggregate threaten the viability of the Company.

Scenario	Associated principal risks	Description
Competitive pressure	<ul style="list-style-type: none"> - Brand, reputation and trust - Competition and markets - Customer 	Failure to respond to fierce competition and changes in the retail market drive sustained like-for-like volume decline in core food categories with no offsetting price inflation, putting pressure on margins.

Scenario	Associated principal risks	Description
Data security or regulatory breach	<ul style="list-style-type: none"> - Brand, reputation and trust - Data security and data privacy - Political, regulatory and compliance 	<p>A serious data security or regulatory breach results in a significant monetary penalty, and a loss of customer reputation. The modelling of this scenario is approached via a 'reverse-stress test' given the inherent uncertainty of value.</p> <p>This assesses the risk in the context of the residual headroom after all other downside scenarios have been applied.</p>
Brexit impact	<ul style="list-style-type: none"> - Competition and markets - Political, regulatory and compliance - Brexit 	<p>Assumes a no-deal Brexit scenario which results in an increase to cost of goods sold.</p> <p>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.</p> <p>Appropriate mitigation options open to the Group have also been considered within this scenario.</p>
Reduction in cost savings and cash generation	<ul style="list-style-type: none"> - 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.
Impact of COVID-19	<ul style="list-style-type: none"> - COVID-19 - Liquidity - Tesco Bank 	<p>Assumes a 12-week lockdown and phased recovery. A broad assessment of the financial impact has been modelled including the impact on sales, margin and operating costs.</p> <p>In modelling the scenario, the Group has considered the potential impact on retail, catering and wholesale sales, the cost implications of the operational actions being taken to continue to serve customers, together with the impact of reduced income from the mall businesses in Central Europe and Asia.</p> <p>The Bank has modelled an economic downturn scenario from the impact of COVID-19 in relation to the expected credit losses on its lending book. The Bank has sourced updated macroeconomic projections from a third-party provider and has used this modelling to assess the adequacy of capital and liquidity in place to support the business through the expected economic downturn.</p>

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 Group will continue in operation and meet its liabilities as they fall due over the three-year period considered.

Task Force on Climate-related Financial Disclosures

In June 2017 Tesco 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 poses particular challenges to our business including our supply chain and operations. Conversely, effectively responding to climate change can enhance our business resilience and enable us to take advantage of any opportunities it may offer.

Our first TCFD scenario analyses were conducted in the financial year 2018/19, assessing the UK business – our biggest market. We prioritised produce, animal protein categories as well as our UK estate. Produce and animal protein are key commercial categories, with supply chains around the world.

Strategy.

We assessed the risks and opportunities we may face in 2030 under two climate scenarios; a 'Pessimistic' scenario and an 'Optimistic' scenario. The 'Pessimistic' scenario is where the world fails to address climate change, leading to global temperatures continuing to rise well above 2 degrees. This scenario assumes limited policy or regulatory support and looks at physical climate risks. The 'Optimistic' scenario is where the world rises to the challenge of tackling climate change and limits global warming to well below 2 degrees. This low-carbon transition scenario centres on the rapid changes that will be needed by 2030 to cut emissions in line with the Paris Agreement. Our scenarios are based on those developed by the Intergovernmental Panel on Climate Change.

Our scenario analyses assessed Tesco's exposure to physical climate risks such as rising temperatures, changes in rainfall patterns and extreme weather events. Beyond physical risks, we also assessed risks and opportunities arising from a transition to a low-carbon world aligned with the Paris Agreement. These transition risks are a result of market and societal shifts related to agriculture, diets and energy use.

For produce, we focused on agricultural production by country and product. Our assessments indicate some physical risks and opportunities to our produce supply chain. For animal protein, our assessment focused on milk, beef, lamb and chicken. The assessment shows transition risks and opportunities arising from potential policy and societal shifts. To assess climate risks on our property estate, we assessed how our stores and distribution centres might fare under these scenarios.

Key findings.

Produce

The results of our risk assessment indicate physical risks as well as unrealised opportunities to our produce supply chain. For example, long-term changes in temperature and rainfall patterns (chronic climate change) will adversely impact production by 2030. The countries most impacted will be South Africa, Egypt, Spain and Peru. In the UK, our analysis shows that higher temperatures and rainfall by 2030 can support a longer growing season. This can potentially increase yield for certain crops if other growing conditions such as land availability and soil fertility are also favourable.

We are currently sharing these results with our supply partners and working with those in the impacted areas to conduct more detailed scenario analyses and mitigation planning.

Protein

The results of our scenario analysis show transition risks to our protein supply chain. These include societal dietary shifts away from animal protein as well as potential new policies aimed at keeping global temperature rises well below 2 degrees. Opportunities

identified include projected growth in plant-based food and meat alternatives. Working with our key suppliers, we are expanding our plant-based ranges, addressing the climate impacts of livestock farming as well as supporting effective climate policy development.

UK property

Our scenario analysis of climate risks facing our UK estate shows both physical and transition climate risks. For example, some of our stores and distribution centres, especially those in the South East region, will face an increased risk of flooding as a result of climate change. Effective policies to address carbon emissions from energy could increase our compliance costs. These results are informing our risk management and business continuity plans. Our renewable electricity transition plan forms part of our mitigation plan, enabling us to switch to onsite renewable electricity generation as well as long-term power purchase agreements which provide price stability and limit our exposure to high carbon prices.

Governance.

Our LHP outlines our climate change commitments, both for our own operations and our supply chain. The Corporate Responsibility Committee is responsible for climate change as part of the LHP. The Committee meets three times during the year and receives regular updates on our LHP commitments and performance. This year, results of the TCFD analysis were presented to the Executive Committee and the Corporate Responsibility Committee. Climate risks were also evaluated at the Audit Committee as part of the overall risk framework.

Risk management.

The identification and management of climate-related risks follow our established risk management process. Key elements of the risk management process are set out on page 13. Following our assessment of emerging risks, climate change has been highlighted and is considered an integral part of both the responsible sourcing and supply chain, and the brand, reputation and trust principal risks on pages 17 and 15. Principal risks are monitored by the Audit Committee to ensure effective management and mitigation through our policies, processes, practices and performance.

Metrics and targets.

In May 2017, Tesco announced new science-based climate targets for our own operations and supply chain. Our own operations targets are 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 these targets, we have committed to source 100% of our electricity from renewable sources by 2030. Our science-based climate change targets for our supply chain includes explicit targets for manufacturing and agricultural suppliers – recognising the different approaches required to reduce emissions in both areas. Our climate change metrics and targets are disclosed in the full LHP report available on our website.

Future TCFD analysis.

We aim to conduct climate risks assessments for all relevant parts of our business. In 2020/21, we will expand our assessment to the grocery and prepared foods categories as well as soy – a key commodity in animal feed. The results of this assessment will be reported in next year's Annual Report.

Little Helps Plan

Making a difference every day.

Our approach.

Everything we do is driven by our purpose to serve shoppers a little better every day. That means we try to get each of the 80 million weekly transactions in store right, every time, for every customer. It also means taking actions today to ensure we serve tomorrow's shoppers equally well.

For 100 years, Tesco has provided affordable, quality food to customers from all walks of life and we know that to continue doing so for the next 100 years, we must continue to embrace sustainable production and consumption behaviours while adapting to the changing world around us. Our Little Helps Plan helps us to navigate our way forward, focusing on areas where we can make a big difference while supporting our values:

- **No one tries harder for customers** shapes our belief that it's our responsibility to make the right calls on behalf of our customers;
- **We treat people how they want to be treated** drives how we work with suppliers, partners, colleagues and communities; and
- **Every little help makes a big difference** captures our belief that everyone at Tesco has a role to play. This encapsulates our ambition to make a positive difference.

Our Little Helps Plan is the framework through which we shape our long-term approach to sustainability and enables us to demonstrate, monitor and improve our performance, both within our own operations and the wider supply chain. The Plan focuses on the aspects of sustainability that are most relevant for Tesco and our stakeholders and demonstrates the positive contribution we make toward the UN Sustainable Development Goals (SDGs) by measuring our impacts, targeting our responses and framing our collaboration with key stakeholders to scale our efforts.

This year we have refreshed the framework. After incorporating stakeholder feedback and external trends, we have integrated our previous foundation areas under the existing three pillars while creating a fourth pillar – Planet. This new pillar provides a platform for the work we're doing to address important environmental issues such as climate change, deforestation and sustainable agriculture. Our Code of Business Conduct underpins everything we do to ensure we remain a responsible, safe, ethical business both within our own operations and across our global supply chain.

Serving shoppers a little better every day.

Our values

No one tries harder
for customers

We treat people how they
want to be treated

Every little help makes
a big difference

People.

Employment and skills
Diversity and inclusion
Human rights
Health, safety
and wellbeing

Products.

Food waste
Packaging
Health and diets
Animal welfare

Planet.

Climate change
Agriculture
Marine
Forests

Places.

Supporting
communities

Code of Business Conduct

UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) provide a useful benchmark to assess the relevance of our initiatives and in line with UN Global Compact guidance we have focused on goals which are particularly relevant to us: where expectations, risks and opportunities for Tesco are greatest, and where we can make the biggest difference. See www.tescopl.com/sustainability for more information on how our strategy supports the SDGs

Our Little Helps Plan helps us navigate some of the biggest challenges facing the world today.

Further information about the governance of the Little Helps Plan and a full review of our activity and performance against our KPIs can be found on our website and within the comprehensive Little Helps Plan Report available online.



Visit www.tescopl.com/sustainability to learn more about our activities and progress.

People.

Our customers, colleagues and those within our supply chain are vital to our continued success. As an employer of choice, we remain committed to treating people how they want to be treated and giving everyone the opportunity to get on. Our latest gender pay gap report can be found on our website.

Decent, fair, safe work for all.

With more than 400,000 colleagues around the world and millions of people who work within our supply chain, we are committed to promoting human rights and seek to ensure that there is decent, fair, safe work for all.

Health and safety is central to how we do business and we are committed to our vision that no one should ever be hurt while working or shopping at Tesco. We have seen a 17% reduction in our injury volume year-on-year in our UK, Republic of Ireland and Central Europe businesses. Our accident frequency rate has also reduced by 7%. This has been primarily driven by continued efforts to *strengthen our operating routines and an unrelenting focus on safe colleague behaviour as a culture across Tesco.*

Investing in the future.

The world of work is changing and preparing colleagues with the skills needed for the future is a top priority. This year we have continued to invest in digital skills for colleagues. Across the UK, Central Europe and Asia, our digital champions have delivered over 90,000 learning opportunities to improve the digital confidence of colleagues, and in India we have helped develop more than 200 colleagues in leading on automation and continuous improvement. Other key priorities for this year included developing diverse talent and building diversity and inclusion capability across all levels of the business. We continued to build an understanding of diversity and inclusion among colleagues and leaders through the introduction of digital learning and have leveraged our colleague networks to help inform the agenda. This includes making commitments to the Race at Work Charter and The Valuable 500. We've also renewed our colleague engagement approach through the launch of our Every Voice Matters programme, which will help give more timely and responsive insight into how our colleagues are feeling across the Group and enable us to drive more focused action.

Sourcing with care.

Beyond our own colleagues, our human rights strategy focuses on four priority areas within our supply chain: sustainable livelihoods, forced labour, worker representation and gender equality. We support our suppliers to comply with the Ethical Trade Initiative (ETI) Base Code and undertake due diligence to help them meet our standards on human rights. This year 97% of critical non-conformances identified at our tier 1 suppliers were remediated on time and we continue to work with the remaining 3% to resolve these issues.

In December 2019, a UK customer found a handwritten message within a Christmas card we sold reading 'please help us and notify human rights organisation'. We immediately launched an investigation and removed the cards from sale. While we did not find evidence of prison labour, we found other issues of concern that had regrettably not been identified by the independent auditor who had visited the previous month. We ceased working with the factory and supplier and have since reviewed our whole supply base for cards. Further information is provided in our Modern Slavery Statement available on our website.

Gender diversity 2019/20 (actual year-end headcount)

	Male		Female	
Board of Directors	9	69%	4	31%
Senior managers – Directors	376	75%	128	25%
Senior managers – Directors and Managers	2,809	63%	1,639	37%
All employees	180,186	44%	225,320	56%

Product.

Our Product pillar focuses on addressing issues related to health, food waste, packaging and animal welfare as we strive to provide affordable, sustainable, healthy products while ensuring that we never compromise on product safety.

Tackling food waste.

At Tesco, we have no time for waste and we have committed to help halve food waste from farm to fork in each of the markets in which we operate in line with UN SDG Target 12.3. We publish our food waste data for every market in the Group. Our target is that no food that is safe for human consumption will be wasted in our UK retail operations. Over the course of this year, we have reached 77%³ of our target as we have embedded new processes to ensure our progress is sustainable.



Visit www.tescopl.com/sustainability to find out more about our food waste performance.

Packaging: Remove, Reduce, Reuse, Recycle.

We are committed to only using packaging where it serves a purpose. This year in the UK we announced our Remove, Reduce, Reuse and Recycle plan to deliver our goals. Since 2018, we have removed over 10,000 tonnes of hard-to-recycle packaging from our Own Brand products and we pledged to remove one billion pieces of plastic from products for sale in UK stores by the end of 2020. In January we announced the elimination of 350 tonnes of plastic wrap from 67 million tinned food multipacks.

Healthier food choices.

We continually adjust the recipes of our Own Brand products to help customers lead healthier lives and respond to changing dietary preferences. In 2019, we more than doubled the range of our exclusive plant-based range Wicked Kitchen and also launched new products within our Tesco branded range, Plant Chef. We now have over 300 lines of targeted plant-based products.

As a Peas Please Pledger and a supporter of Veg Power, we are committed to increasing vegetable consumption and 42% of our chilled and frozen ready meals now contribute at least 1 of 5 a day, up from 26% in 2018.

Planet.

Our long-term success depends on the health of the natural environment. The climate crisis, global biodiversity loss and the inefficient way in which resources are consumed present a real threat to our ability to provide customers with affordable, healthy, sustainable food. Details on our carbon strategy are provided on page 67 and our response to the recommendations of TCFD can be found on page 20.

Halving the environmental impact of the average UK shopping basket.

In 2018, we launched our ground-breaking partnership with WWF to make it easier for customers to buy affordable, healthy, sustainable food. This year we jointly launched the Sustainable Basket Metric, which will help us track our progress in halving the environmental impact of the average UK shopping basket against seven key sustainability issues.

³ KPMG LLP was engaged to provide independent limited assurance over the selected food waste data highlighted in this report with a 0 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.tescopl.com/foodwastefigures.

Places.

We are proud to be a valued member of thousands of communities around the world, and we are passionate about playing an active role in helping these communities thrive – from the jobs we provide to the good causes we support. This year, across the Group, we have donated £98m to good causes through our charity partnerships, community grant programmes and colleague and customer fundraising.

Record-breaking giving.

We continued to support our three national health charity partners, Cancer Research UK, Diabetes UK and the British Heart Foundation with the aim of lowering the risk of heart and circulatory disease, cancer and Type 2 diabetes. In the UK this year, we raised over £6.6m through store events, donations and fundraising activity. A showcase moment was almost 5,000 people taking part in our biggest fundraising event Dance Beats – the longest dance marathon relay ever at Wembley Stadium, 30 hours of continuous dancing to claim the GUINNESS WORLD RECORDS[®] and donate £2m to our charity partners.

Beyond our corporate charity partners, we also continued to support local community groups with our Bags of Help scheme in the UK, Community Fund initiative in Ireland and our You Choose, We Help programme in Central Europe, allowing customers to

decide which local projects receive funding. To celebrate our 100th birthday, this year we introduced increased funding for larger projects with our Bags of Help Centenary grants in England, Scotland and Wales and, in Northern Ireland, our Tesco Centenary Fund. We announced that we will be introducing Bags of Help in Northern Ireland in 2020. This dedicated grant will see community groups share more than £125,000 across the year.

Food redistribution.

One of our important commitments is that no food that is safe for human consumption will be wasted in our UK retail operations. In support of that commitment, we continued our work with FareShare to donate surplus food from our stores through Community Food Connection. Since 2016 we have donated over 48 million meals to people in crisis through this initiative in the UK. We now run surplus food donation programmes in all the markets in which we operate.

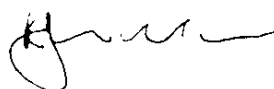
Our Tesco Food Collection programme encourages customers to donate long-life food to our charity partners, The Trussell Trust, who have a network of over 400 foodbanks, and FareShare, who redistribute surplus food to a network of charities including homeless hostels, women's refuges and breakfast clubs.

Section 172 statement.

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole but having regard to a range of factors set out in section 172(1)(a)–(f) in the Companies Act 2006. In discharging our section 172 duty, we have regard for these factors taking them into consideration when decisions are made. Examples of how the Directors have oversight of stakeholder matters and had regard for these matters when making decisions are set out on pages 40 to 43.

This Strategic report, including the non-financial reporting statement below, 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
7 April 2020



Non-financial reporting statement.

This LHP section of the Annual Report and the full LHP report (available at www.tescopl.com/littlehelpsplan) contain a wide range of non-financial information about employees, environmental and social matters – from human rights to food waste. As required under the 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.

Non-financial matter	Policies and standards which govern our approach	Pages
Business model	Strategic review	4 and 5
	Business model and KPIs	6 and 12
	Principal risks and uncertainties	13 to 18
Environmental matters	Principal risks and uncertainties: political, regulatory and compliance	16
	Principal risks and uncertainties: responsible sourcing and supply chain	17
	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	16 and 17
	Chairman's letter, culture and inclusion, Company purpose and values	24, 25, 26
	Directors' report: employment policies	66
	Stakeholder engagement: colleagues	41
Social matters	Principal risks and uncertainties: COVID-19	18
	Information about how we do business, including our approach to tax, can be found on our website	
	Directors' report: Groceries Supply Code of Practice	66
Respect for human rights	Principal risks and uncertainties: responsible sourcing and supply chain	17
	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 Our Code of Business Conduct and other related policies can be found on our website	67

Chairman's letter.

"Having an effective corporate governance framework supports our culture and the delivery of our strategy."

Board role and effectiveness.

In my role as Chairman, my responsibility is to provide leadership and ensure that we have a Board able to make high-quality decisions and that works effectively for the benefit of our business and all of our stakeholders. A key part of that role is to ensure the Board works collaboratively with the executive team, providing support and guidance, constructively challenging management when necessary, and exercising an appropriate level of rigorous enquiry and intellectual debate. This involves having Directors with a diverse range of skills, experience and attributes, which we have across our current Board.

The Board is committed to maintaining the highest standards of corporate governance in the management of its affairs and ensuring its activities reflect the culture we wish to nurture with our colleagues and other stakeholders. Throughout the year, the Board has focused on four key areas of business, some of which were considered at each meeting and others reviewed periodically throughout the year. A breakdown of the time spent on these key focus areas is set out below:

Operational performance	20%
Financial performance and risk	24%
Governance (including culture and stakeholder matters)	22%
Strategy	34%

Following the external Board effectiveness review last year, it was agreed that an internal review be conducted this year. This assessed progress against the actions agreed as part of last year's review as well as some current themes and areas of boardroom best practice. It concluded that the Board continues to operate in an effective way, with good progress made against all of the areas identified for improvement last year. For further information on the Board effectiveness review, see page 37.

Culture and inclusion.

The Group's success depends on our continual commitment to high corporate governance standards, as well as a strong and healthy culture both in the boardroom and across the Group. Our culture comes to life through our three values:

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

Our values are integral to the way we behave and the way we do business. They ensure that every colleague at Tesco understands what is important, how we work together as a team and why customers are at the centre of everything we do.

The Board and executive management play a key role in ensuring that our culture, strategy and capability are all aligned in a way that creates sustainable value for our stakeholders.

We monitor our progress against goals and gather feedback from our stakeholders. Through stakeholder insights, metrics and KPIs we can assess our progress and respond accordingly. The Board was encouraged by the new colleague-listening programme 'Every Voice Matters': over 254,000 colleagues completed the new deep-dive survey in January 2020 and 82% would recommend Tesco as a great place to work.

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. As part of our overall approach to inclusion,

we have established an External Advisory Panel to help guide our inclusion agenda and implemented an Inclusion Strategy which aims to ensure that everyone feels welcome at Tesco. We also have several well-established colleague networks supported by an Executive Committee member, including Women at Tesco, Black Asian Minority Ethnic Network, Armed Forces Network, Disability Network and Out at Tesco, each providing support to allow colleagues to be themselves at work and develop within the Group. We also work with the young, retired and those who have been in long-term unemployment through various external organisations, providing them with the tools and confidence needed to get back into the workplace and reach their full potential.

Stakeholder engagement.

The Board is supportive of the 2018 UK Corporate Governance Code and, in particular, its focus on boards demonstrating how the views of stakeholders are captured and taken into account when making decisions. This is an area where we have strong foundations on which to build.

We have a diverse and global community of stakeholders which includes colleagues, customers, shareholders and supplier partners, as well as the communities in which we operate. We continue to listen to these stakeholders and their insights help shape our strategy and the decisions we take. 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. The Board also receives regular updates throughout the year on engagement with our stakeholders, including feedback from colleague surveys and engagement forums, discussing customer and supplier surveys, and details of stakeholder meetings.

During the summer, we held a Capital Markets Day to share our thoughts on the untapped value opportunities available to us, and also held our first environmental, social and governance event. These provided opportunities to engage with stakeholders and receive their feedback, which has helped to inform Board and Committee decisions.

Board changes.

On 30 September 2020, Dave Lewis will step down as Group Chief Executive. He will be succeeded by Ken Murphy, who will join us from Walgreens Boots Alliance, on 1 October 2020. Ken's appointment follows a thorough and orderly process to identify and interview prospective candidates.

As part of its discussions on succession planning and regular Board refreshment, the Board had also planned that Mark Armour would retire from the Board as a Non-executive Director at the 2020 AGM. However, in the interest of continuity in these turbulent times, Mark has agreed to continue in his role for a further year to provide the Board and the Audit Committee with valuable input during their discussions, especially given his specialisms of risk and strategy, which make him an important member of the Board and the Audit Committee during this period. One effect this will have is on Board diversity levels. It had been intended that, following Mark's retirement, one third of the Board would be female, bringing it into line with the target set by the Hampton-Alexander Review. The Board would like to reiterate their continued strong commitment to reaching this aim in the very near future, and will revisit this once the marketplace for directors stabilises.



John Allan
Non-executive Chairman

Board leadership and company purpose.

Company purpose and values.

Our values and leadership behaviours are a vital part of our culture to ensure that through our conduct and decision-making we do the right thing for the business and our stakeholders.

The Board has overall responsibility for establishing the Company's purpose, values and strategy to deliver the long-term sustainable success of the Company and generate value for shareholders. The Board places great importance on ensuring these key themes continue to be appropriate for the businesses and markets in which we operate around the world, while being aligned with our culture.

The Board recognises that it is accountable to stakeholders for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours. Our purpose is at the heart of everything we do at Tesco, and the Board is responsible for ensuring that its activities reflect the culture we wish to instil in colleagues to drive the right behaviours. The Board has a responsibility to ensure that colleagues do the right things in the right way by setting the tone from the top and leading by example. This means that in decisions taken, and plans developed, the Directors ask themselves one simple question: how will it help serve our shoppers a little better every day?

Our values are recognised across the Group and support our culture. They ensure that every colleague at Tesco understands what is important, how we work together as a team and how customers are at the centre of what we do. Leadership behaviours further guide our conduct and decision-making so that we do the right thing for the business and our stakeholders, with reward being linked to delivery and performance. This helps create a culture of inclusivity, where everyone feels welcome, talent is fostered, and colleagues can achieve their full career potential.

Our Code of Business Conduct, which defines the standards and behaviours expected of colleagues, is a fundamental part of our culture and supports our 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. All new colleagues are required to complete training on the Code of Business Conduct within five days of joining Tesco and 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 routinely receives updates on compliance with the Code of Business Conduct and also receives reports of any matters raised through Protector Line which are subject to independent investigation. Updates on any investigations undertaken are provided to the Board.



Our Code of Business Conduct can be found on our website at www.tescopl.com.

Our purpose.

Serving shoppers a little better every day.

As a business, serving customers is at the heart of everything we do.

Our values underpin our purpose and are recognised across the Group as the basis of our culture.

The Board sets the strategy for the Group to align with our purpose. It oversees the implementation of that strategy to ensure that the Group is suitably resourced to deliver on its strategic objectives.

The Board holds an annual strategic planning session at which senior managers present on each of our global business areas to better understand market trends, technology developments, innovation and people strategies as well as culture, diversity and inclusion, which support the long-term planning and strategic direction of the Group.

Throughout the year, the Board receives regular updates on these areas to ensure the delivery of strategy in line with our purpose.

Board leadership and company purpose continued

Company purpose and values continued

Our values	No one tries harder for customers.	
Link to strategy	Understanding people – customers, colleagues, communities – and what matters to them is key to our success at Tesco. To us, making a difference starts with listening to customers and talking to them using all the tools at our disposal, from Clubcard data to social media, and then acting by <i>changing and innovating to meet their needs.</i>	
Board oversight	Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than their last interaction with us. This applies to their entire Tesco experience, from the quality of the offer to the thoughtfulness of the service. With the skills, expertise and dedication of colleagues worldwide, we are well placed to achieve this. Issues that matter to our customers also <i>matter to the Board.</i> Independent consumer research commissioned each year helps	identify where consumers and influencers think we should be focusing our attention and how well they feel we are addressing these issues currently. Across our markets consumers have told us similar things. They want good, fresh, affordable food that is produced with respect for farmers and suppliers, and for all our colleagues to be treated fairly. These key focus areas for our customers are also key focus <i>areas for the Board.</i>
Our values	We treat people how they want to be treated.	
Link to strategy	We know that looking after our colleagues with respect and compassion is essential to building a culture of trust, a necessary component to the success of Tesco. We focus on ensuring that our business is a place where colleagues feel recognised and rewarded for the work they do together, where they have the opportunity to get on and where they are supported in their development as they move through their careers in the business.	
Board oversight	<p>We employ more than 400,000 colleagues globally and the Board aims to ensure that every one of them has the opportunity to get on.</p> <p>The Board recognises that getting on means different things to different colleagues. For some, it's about enabling them to be themselves, flexibility that allows them to fit work around their lives and being supported in leading a healthy lifestyle. For others, it means developing the skills they need now and in the future, choices to move roles and opportunities to gain experience. Whatever it is colleagues want to achieve, the Board's aim is to help</p>	<p>them succeed by providing them with the flexibility, skills and reward to get on.</p> <p>Customers are at the heart of everything we do and every decision we make to ensure we offer customers the value, quality and service that they expect and it is delivered in the right way for them. In support of this, members of the Board have spent time engaging with customers, colleagues and a wide range of stakeholders. Through customer, colleague and supplier surveys the Board receives insight into how Tesco is perceived, what our stakeholders want and how they want to be treated.</p>
Our values	Every little help makes a big difference.	
Link to strategy	<p>This value captures how, when we add up all the small things we do, Tesco can make a big difference to the things customers, colleagues, communities and wider society care about.</p> <p>It covers the little things we do every day as well as linking these things together to contribute to <i>the bigger global initiatives in which we are involved.</i> It helps us take the right actions to ensure trust and transparency in our business.</p>	
Board oversight	<p>The philosophy of how small actions can add up to make a big difference, plays a key part in how the Board thinks about its decisions and actions, trying at all times to make a positive contribution to the lives of colleagues, customers and the communities we operate in.</p> <p>The Little Helps Plan is the embodiment of this value and identifies the most pressing social and environmental challenges facing the business, our customers and our communities.</p> <p>The Little Helps Plan sets out our commitments to help tackle these challenges.</p>	<p>Further details can be found on pages 21 to 23 and on our website at www.tescopl.com.</p> <p>Updates and progress on the Little Helps Plan are reviewed by the Corporate Responsibility Committee, which approves and monitors changes to the Little Helps Plan. The Committee further oversees the Group's conduct with regard to its corporate and societal obligations as a responsible corporate citizen. More detail on the Committee's activities can be found on pages 44 to 45.</p>

Board of Directors.

John Allan CBE Non-executive Chairman

Appointed March 2015

Tenure 5 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.

Contribution.

John has extensive leadership experience and a wealth of knowledge gained across a number of business sectors, including retail. As Chairman, he has a deep understanding of governance and what is required to lead an effective Board.

External appointments.

- Chairman of Barratt Developments PLC;
- President of the Confederation of British Industry; and
- Chair of the Council of Imperial College.

Dave Lewis Group Chief Executive

Appointed September 2014

Tenure 5.5 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.

Contribution.

Dave's extensive international consumer experience and expertise in change management, business strategy, brand management and customer development, along with his drive, enthusiasm and commitment to customers make him a valuable member of the Board.

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 5.5 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 WH Smith PLC and CFO for AWAS and Marks & Spencer plc. He was previously a non-executive director of Games Workshop Group plc.

Contribution.

Alan's deep understanding of financial operations and risk management, and his leadership experience and ability to set financial strategy make him a valuable member of the Board.

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 6.5 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.

Contribution.

Mark's background in finance, risk and strategy and associated sectors make him a valuable member of the Board.

External appointments.

- Member of the Takeover Panel.

Board leadership and company purpose continued

Board of Directors continued

Melissa Bethell
Independent Non-executive Director

(A) (I)

Appointed September 2018
Tenure 1.5 years

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.

Contribution.

Melissa's extensive international corporate experience, with a focus in the financial sector is invaluable in delivering our strategy.

External appointments.

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

Stewart Gilliland
Independent Non-executive Director

(N) (A) (I)

Appointed March 2018
Tenure 2 years

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.

Contribution.

Stewart has over 20 years' experience and knowledge in international marketing, logistics and business management having held a number of senior roles, predominantly in customer-centric businesses. The breadth and diversity of his experience benefit the Board.

External appointments.

- Interim executive chairman of C&C Group plc;
- Non-executive director and chair of the remuneration committee of Nature's Way Foods Ltd; and
- Chairman of Curious Drinks Limited.

Steve Golsby
Independent Non-executive Director

(R) (C) (I)

Appointed October 2016
Tenure 3.5 years

Skills and experience.

Steve has a wealth of knowledge of operating internationally, specifically significant leadership experience in Asia. 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.

Contribution.

Steve's extensive experience of building and developing international businesses, together with his operational experience and strong background in consumer marketing, make him a valuable member of the Board. As Chairman of the Remuneration Committee, he is responsible for setting and implementing the remuneration policy.

External appointments.

- Advisor to Thai Union Group PLC, a global leader in the seafood industry;
- Honorary Advisor to The British Chamber of Commerce Thailand;
- Honorary investment advisor to the Thailand Board of Investment; and
- External advisor to Bain & Company.

Byron Grote
Independent Non-executive Director

(N) (A) (R) (I)

Appointed May 2015
Tenure 5 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.

Contribution.

Byron brings a wide range of experience and skills including finance, strategy, risk and supply chain logistics through a variety of executive and non-executive roles. He is Chairman of the Audit Committee and, as such, is responsible for leading the Committee to ensure effective internal controls and risk management systems are in place.

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

(R)(C)(I)

Appointed November 2014

Tenure 5.5 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.

Contribution.

Mikael brings an extensive range of skills with his strategic, retail and property experience through his executive and non-executive directorships, supporting the delivery of the Group's strategy.

External appointments.

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

Deanna Oppenheimer Senior Independent Director

(N)(R)(C)(I)

Appointed March 2012

Tenure 8 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 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.

Contribution.

Deanna's extensive board, investor and commercial experience makes her a strong Senior Independent Director and fundamental to the effective operation of the Board.

External appointments.

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

Simon Patterson Independent Non-executive Director

(A)(I)

Appointed April 2016

Tenure 4 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.

Contribution.

Simon brings to the Board more than 20 years' experience in senior positions, predominantly in the management consultancy, technology, digital and finance sectors.

External appointments.

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

Alison Platt CMG Independent Non-executive Director

(N)(R)(I)

Appointed April 2016

Tenure 4 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 while 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.

Contribution.

Alison has gained significant business-to-business and international commercial experience from working for high-profile consumer-facing companies. Her membership of the steering group for the Hampton-Alexander Review provides strategic insights on diversity and inclusion.

External appointments.

- Member of the steering group of the Hampton-Alexander Review; and
- Non-executive director of Dechra Pharmaceuticals PLC.

Board leadership and company purpose continued

Board of Directors continued

Lindsey Pownall OBE
Independent Non-executive Director

Appointed April 2016

Tenure 4 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.

Contribution.

Lindsey's in-depth understanding of the food retail sector and stakeholder focus together with her wealth of experience in supply leadership and strategic development make her a valuable member of the Board. As Chair of the Corporate Responsibility Committee, she is responsible for corporate responsibility objectives and strategy.

External appointments.

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



Ken Murphy
Group Chief Executive Designate

Skills and experience.

Ken will join the Board of Tesco PLC on 1 October 2020 to succeed Dave Lewis as Group Chief Executive. Ken has worked for Walgreens Boots Alliance, Inc. for over 20 years in a number of senior management roles across the business. Through his role as Executive Vice President, Chief Commercial Officer and President Global Brands at Walgreens Boots Alliance Ken had overall responsibility for brand strategy and the commercial offer in the retail businesses of Walgreens and Boots. He previously worked for Procter & Gamble and Coopers & Lybrand.

Contribution.

Ken is a growth-orientated business leader with strong commercial, marketing and brand experience within retail and wholesale businesses. He has experience in global product brand management, product development, sales and marketing, sourcing, manufacturing and distribution.

External appointments.

- Non-executive director of Hatch Beauty LLC.

Robert Welch
Group Company Secretary

Appointed August 2016

Skills and experience.

Robert has worked as a company secretary for over 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 BPP 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.

Board Committee key.

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

Board and Committee meetings.

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	Audit Committee	Nominations and Governance Committee	Corporate Responsibility Committee	Remuneration Committee
John Allan	● 6/6	-	● 4/4	3/3	4/4
Mark Armour	6/6	5/5	-	-	-
Melissa Bethell ²⁹	6/6	4/5	-	-	-
Stewart Gilliland ³⁰	6/6	5/5	3/3	-	-
Steve Golsby	6/6	-	-	3/3	● 4/4
Byron Grote	6/6	● 5/5	4/4	-	4/4
Dave Lewis ³¹	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 ³²	6/6	-	3/3	-	4/4
Lindsey Pownall	6/6	-	-	● 3/3	-
Alan Stewart	6/6	-	-	-	-

²⁹ Melissa Bethell's absence at a scheduled Committee meeting during the year was due to commitments pre-dating her appointment to the Board.

³⁰ Stewart Gilliland and Alison Platt became members of the Nominations and Governance Committee on 18 April 2019. Board changes: It was announced in October 2019 that Ken Murphy would succeed Dave Lewis as Group Chief Executive. Dave Lewis will cease to be a Director of the Board on 30 September 2020. Ken Murphy will join the Board on 1 October 2020.

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 27.

Alan Stewart **Chief Financial Officer**

Alan joined the Board and the Executive Committee on 23 September 2014. His full biography appears on page 27.

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 joining Tesco in 2017, Alessandra worked at Unilever for over 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 building 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 venture in 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 joined Tesco in 2018 and 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.

Corporate governance report continued

Board leadership and company purpose continued

Executive Committee continued

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.

Compliance with the UK Corporate Governance Code.

The Board is committed to high standards of governance and has applied the Principles set out in the UK Corporate Governance Code 2018 (Code) throughout the period under review. The Board has complied with all of the Code's Provisions with the exception of Provision 38, aligning executive director pension contributions with the workforce. An explanation of how we will comply with this Provision in the future is set out on page 53 in the Directors' remuneration report.

Monitoring compliance with the Code is the responsibility of the Nominations and Governance Committee who receive regular updates from management and report their findings to the Board. During the year, all Committee terms of reference have been reviewed to reflect the requirements in the updated Code.

Board leadership and company purpose.

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 the wider society in a way that is supported by the right culture and behaviours.

See pages 25 to 26 for more details on culture, purpose and values.

Division of responsibilities.

The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group, which is supported by the corporate governance framework. Responsibilities are clearly defined in role statements to ensure that no one individual has unrestricted powers of decision-making and no small group of Directors can dominate the Board's decision-making.

Committee terms of reference determine the authority given to each of the Board's Committees.

For more details on Board composition, leadership and role statements see pages 33 to 35.

Composition, succession and evaluation.

The Board, with the support of the Nominations and Governance Committee, keeps under constant review the composition of the Board and its Committees, succession planning, diversity, inclusion and governance-related matters.

The Board undertakes a review of its effectiveness and that of its Committees and Directors annually. Every third year the evaluation is conducted by an external Board evaluation specialist.

See page 37 for more details on Board effectiveness. The activities of the Nominations and Governance Committee can be found on pages 38 to 39.

Audit, risk and internal control.

The Board is accountable to stakeholders for ensuring that the Group is appropriately managed. 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 receives regular updates on audit, risk and internal control matters with detailed oversight undertaken by the Audit Committee and its findings are reported to the Board.

See pages 13 to 14 and 46 to 51 for more details on audit, risk management and internal control and the work of the Audit Committee.

Remuneration.

The Board, supported by the Remuneration Committee, ensures that the remuneration policies are designed to support strategy and promote long-term sustainable success. Executive remuneration is aligned to the successful delivery of the Company's long-term strategy.

See page 59 for more details on the remuneration policy and implementation of the policy.

Further details demonstrating how the Principles and Provisions of the 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 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.

Division of responsibilities.

Operations of the Board.

The Board is collectively responsible for the long-term success of the Group ensuring that it operates within a framework of effective controls.

The Board is responsible for setting the overall strategy of the Group ensuring that value is created over the long-term. There is a formal schedule of matters reserved for the Board of those matters that are considered of significance to the Group owing to their strategic, financial or reputational importance. Further details are set out below.

Board information.

The Board has a detailed programme that ensures operational and financial performance, risk, governance, strategy, culture and stakeholder engagement are discussed at the appropriate time.

At Board meetings, Directors receive and consider papers and presentations from the Executive Directors, senior management and subject-matter experts. The Board challenges management to ensure that the flow and quality of information to the Board is of a high standard. A review and refresh of Board and Committee papers was undertaken during the year to ensure that high-quality, clear and timely information is provided to Directors supporting the Board in its decision-making process.

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.

Board balance.

The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills and experience 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 as a whole, with due consideration for all stakeholders who may be affected.

Role statements.

Role statements set out the division of responsibilities between the Chairman and Group Chief Executive as well as the responsibilities of the Senior Independent Director and Non-executive Directors ensuring challenge, debate and an independent and objective mindset.

Chairman

The Chairman is responsible for effective leadership of the Board and maintaining a culture of openness and transparency at Board meetings. The Chairman promotes the effective communication between Executive and Non-executive Directors and ensures all Directors effectively contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chairman ensures all Directors receive accurate, timely and clear information to assist them to make their decisions, identifies training and development needs as required, and ensures appropriately tailored induction programmes are delivered for new Directors.

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 operational updates to the Board on all matters of significance relating to the Group's business or reputation and for ensuring effective communication with shareholders and other key stakeholders.

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, and 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 meets with the Non-executive Directors at least annually when leading the Non-executive Directors appraisal of 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 and play leading roles in the functioning of the Board Committees, bringing an independent view to the discussion. They 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. His responsibilities include ensuring the Board has the information, time and resources it needs in order to discharge its duties and function effectively and efficiently.

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; and
- Dividend policy and payment.



The schedule of matters reserved for the Board can be found at www.tescopl.com.

Corporate governance report continued

Division of responsibilities continued

Operations of the Board continued

The Group Company Secretary advises the Board on all governance matters and facilitates induction programmes for new Directors and provides briefings and guidance on governance, legal and regulatory matters. The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole.

Time commitment.

Regular Board and Committee meetings are scheduled throughout the year ensuring that Directors allocate sufficient time to discharge their duties effectively. During the year, the Board held six scheduled meetings and additional strategy and planning days, which included presentations by senior management on each of the business areas. In addition to scheduled meetings, the Board held additional meetings to consider matters of a time-sensitive nature, including the proposed sale of the Thailand and Malaysia businesses. Directors are expected to attend all Board and relevant Committee meetings. The table on page 30 shows the record of attendance at the scheduled Board and Committee meetings. The nature of the Non-executive Director role makes it impossible to be specific about the maximum time commitment. However, it is anticipated that at least 20 days per annum after the induction phase is required plus additional time to devote to preparation ahead of each meeting. Directors are also required to regularly update and refresh their skills, knowledge and familiarity with the Company. It is recognised that at certain times it may be necessary to convene additional Board, Committee or shareholder meetings.

Prior to appointment, the Nominations and Governance Committee assesses the commitments of a proposed candidate, including other directorships, to ensure they have sufficient time to devote to the role. Thereafter, the Committee regularly assesses the time commitments of Directors to ensure that they each continue to have sufficient time for their role. This assessment

takes into account the number of external commitments each Director has and considers the potential additional time required in the event of corporate stress. Directors obtain approval prior to undertaking additional external appointments.

Conflicts of interest.

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.

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 52 to 64.

If Directors have concerns about the Company or a proposed action which cannot be resolved, it is recorded in the Board minutes. Upon resignation, Directors are encouraged to provide a written statement of any concerns for consideration by the Board. No such concerns were raised in 2019/20 and up to the date of this report.

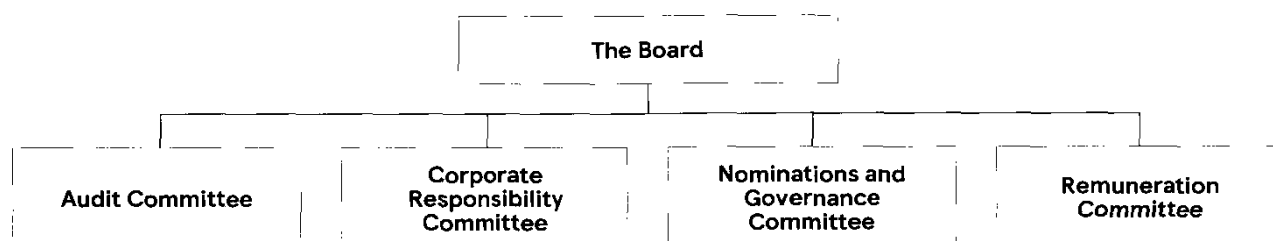
Independent advice.

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 2019/20.

A Directors' and Officers' Liability Insurance policy is maintained for all Directors and each Director has the benefit of a Deed of Indemnity.

Corporate governance framework.

The Board is supported by the activities of each of the Board Committees which ensure the right level of attention and consideration are given to specific matters.



Committee roles.

Role of Audit Committee

Provides independent assessment and oversight of financial reporting processes including related internal controls, risk management and compliance, as well as overseeing the effectiveness of the internal and external audit functions. For more information see pages 13 to 18 and 46 to 51.

Role of Corporate Responsibility Committee

Ensures that the Board maintains an adequate focus on corporate responsibility and sustainability matters, especially those that support Tesco's strategy. For more information see pages 44 to 45.

Role of Nominations and Governance Committee

Reviews the size, composition, tenure and skills of the Board, leads the process for new appointments, monitors Board and senior management succession planning, considers independence, diversity, inclusion and Group governance matters. For more information see pages 38 to 39.

Role of Remuneration Committee

Determines remuneration policy and packages for Executive Directors and senior managers, having regard to pay across the Group. For more information see pages 52 to 64.

Having an effective corporate governance framework supports the Board in the delivery of the Group's strategy and supports long-term sustainable growth. Through matters reserved for the Board, Committee terms of reference and a robust delegated authority framework, it sets out how the business is managed and ensures effective and efficient decision-making through defined authority levels. Efficient internal reporting, internal controls and oversight of current and emerging risks are embedded into our business processes which align to the Group's strategy, purpose and values.

The Board has delegated specific responsibilities to four key Board Committees which are each chaired by an Independent Non-executive Director, focusing on specific areas of the Board's responsibilities.

The composition of each Committee is reviewed by the Nominations and Governance Committee annually and also at the time of any Board changes. Cross-Committee membership

provides visibility and awareness of matters relevant between the Committees. Each Committee Chair provides a written and verbal report on Committee activities to the Board after each Committee meeting and Committee papers and minutes are shared with all Directors.

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.



Matters considered by each of the Committees are set out in the Committee terms of reference which can be found at www.tescopl.com.

Composition, succession and evaluation.

Having a diverse Board with different perspectives, insights and viewpoints benefits the Group's stakeholders through better business performance.

Board composition
(number of Directors)

Board gender split
(%)

Board tenure
(number of Directors)

Board expertise
(number of Directors)

Diversity and inclusion.

The Board sets the tone for inclusion and diversity across the Group and believes it is important to have an appropriate balance of skills, knowledge, experience and diversity on the Board and at senior management level to ensure good decision-making. It recognises the need to create conditions that foster talent and encourage all colleagues to achieve their full potential. 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. More detail on the Group's employment policies are set out in the Directors' report on pages 65 to 66.

The Board, Nominations and Governance Committee, and Executive Committee receive regular updates on the progress of diversity and inclusion initiatives across the Group, with the goal of ensuring all colleagues have an opportunity to get on, developing the skills they need for now and the future, whoever they are, wherever they work and whatever they do.

The Board has adopted a Board diversity and inclusion policy which sets out its approach to diversity and inclusion on the Board. This policy sits alongside the Company's equal opportunities and diversity policy, which sets out the Group's wider commitment to diversity and inclusion across Tesco. More information on the implementation of the Board diversity and inclusion policy can be found in the Nominations and Governance Committee report on pages 38 to 39. The policy can be found on the Company's website at www.tescopl.com.

Composition, succession and evaluation continued

Board expertise.

The Board's skills matrix supports our approach to diversity by mapping the broad diversity of the Board in regard to gender, ethnicity, geographical expertise, professional background, tenure, age and other distinctions between Directors, linking these to our strategy. This enables the Board to develop a refreshment and succession plan for Non-executive Directors that meets the future needs of the Group. This is vital for bringing the expertise required and enabling different perspectives, insights and viewpoints to be brought to Board and Committee meetings.

As set out in their biographies on pages 27 to 30, each member of the Board offers a range of core skills and experience that is relevant to the successful operation of the Group, while providing a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling the vital role of corporate accountability. The oversight each of the Directors provides is balanced with individuals contributing a broad range of skills, diverse experience and knowledge, demonstrating independence and constructive challenge.

Non-executive Directors' independence.

The Nominations and Governance Committee considers whether each of the Non-executive Directors continues to be independent in character and judgement in line with the definition set out in the Code. For more information on the conclusion of the review undertaken by the Committee see pages 38 to 39.

The Non-executive Directors met with the Chairman without the Executive Directors being present on a number of occasions and, at least annually, Directors meet with the Senior Independent Director to review the Chairman's performance and other matters.

Appointment, induction and development.

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. 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.

After three years' service the performance of a Non-executive Director is rigorously assessed by the Nominations and Governance Committee. Any development needs identified are discussed by the Chairman with the Non-executive Director.

All Directors will submit themselves for election or re-election at the forthcoming AGM in June 2020. Detailed information on the contribution that each of the Directors brings to the Board is set out in the Board biographies on pages 27 to 30 and in the 2020 Notice of Annual General Meeting.

Upon appointment, 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 Board believes strongly in the development of its Directors and the Group's colleagues. The Chairman regularly discusses training requirements with each Director.

New Director induction programme is delivered through:

- meetings with senior managers across the Group as well as a number of advisors;
- attendance at Committee meetings;
- site visits to stores and distribution centres;
- working in a store, providing an opportunity to meet colleagues and see at first hand the operations of a store; and
- access to a library of reference materials.

In support of the ongoing development of Directors, teach-ins and technical updates are provided at Board and Committee meetings to ensure that Directors remain up to date with key developments in the business environment in which Tesco operates. Directors are encouraged to attend training sessions to ensure their knowledge is up to date on relevant legal, regulatory and financial developments or changes.

The Board receives presentations on each of the business areas to understand the market conditions and challenges in the different countries the Group operates in. Directors have spent time individually and collectively exploring specific operational activities in detail through presentations, meetings and site visits giving them the opportunity to meet with local senior management to gain an insight of the business operations.

The Board visits our overseas business functions on a regular basis to gain a greater understanding of the market conditions that the business operates in and to understand the challenges they face. This provides in-depth knowledge for the Directors, enabling them to share their own experiences and challenge the business.

Board visit to Thailand.

In June 2019, the Board travelled to Thailand to meet colleagues and customers, and gain a greater understanding of the Thai business operations and retail market. During the trip, the Board visited one of our Thai hypermarkets in Bangkok taking part in the 'hypermarket reinvention' programme. The programme optimises sales floor space to better cater to today's customers and their shopping experience, as well as maximising efficiency and simplifying store processes.



Further details of the Group's approach to diversity and inclusion can be found online at www.tescopic.com.

Board effectiveness.

Good corporate governance is about implementing the right systems and controls across the Group to facilitate effective management and sound decision-making.

The Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year. The evaluation is externally facilitated every three years. The next external evaluation will be in respect of the 2021/22 financial year.

Progress against 2018/19 actions.

Set out below is the progress made against actions identified through the 2018/19 external Board effectiveness review:

Action	Progress
Further shaping the narrative and agreeing the priorities of the Group for the longer term.	During the year, the Board held an additional strategy session which focused on long-term opportunities and threats. Regular updates were provided throughout the year to the Board and its Committees on progress against strategic developments and plans.
Continuing to develop and articulate the appetite for risk and ensuring it is aligned with the emerging longer-term strategy.	A risk appetite framework has been developed during the year and formalised risk appetite metrics are being progressed with the business. Additional narrative is disclosed on pages 13 to 14.
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.	A Non-executive Director composition assessment exercise was undertaken to enable the Nominations and Governance Committee to plan for the Board changes due to occur in the next few years. A skills matrix was developed to ensure that the Board has the necessary skills to fulfil its strategic objectives.

2019/20 internal evaluation.

During the year, an internal evaluation was led by the Chairman, with the support of the Group Company Secretary using an online questionnaire to capture the views of each Director. The evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation, and assist in identifying any potential for improvement in the Board's processes.

Internal evaluation themes.



The internal evaluation concluded that the Board, its Committees and each of its Directors continue to be effective, with high scores being recorded across each of the themes. All Directors continued to demonstrate a collaborative and constructive mindset, creating a conducive environment at Board meetings for participation and challenge. The clarity of the strategy together with the understanding of the capabilities for implementing and monitoring it were regarded highly.

The internal effectiveness review identified some opportunities for the Board and the resulting areas of focus are summarised below:

- greater focus on the impact of technology and the threats and opportunities of an ever-changing market on the development of a longer-term strategy;
- further increase the oversight of succession planning at the Board, while maintaining the strong oversight at the Nominations and Governance Committee; and
- further developing the appetite for risk and ensuring it is aligned with the emerging longer-term strategy.

Nominations and Governance Committee.

“It is important to have a diverse Board to bring different perspectives, insights and viewpoints in decision-making which ultimately benefits the Group’s stakeholders through better business performance.”

John Allan
Chairman

Dear Shareholder.

The Committee held four scheduled meetings during the year, which were attended by all members. Two further meetings were held to discuss the appointment of Ken Murphy as successor to Dave Lewis. Committee membership together with attendance at meetings is detailed in the table on page 30. The Committee’s full terms of reference are available on the corporate website at www.tescopl.com.

Committee responsibilities and key activities.

Details of the key areas of responsibility of the Committee and the time spent on each area during 2019/20 are set out below:

Board composition:

- Review the size and composition of the Board and its Committees;
- Review Directors’ skills matrix;
- Recommendation of annual re-election of Directors; and
- Three-year and six-year review of Non-executive Directors’ performance.

Succession planning:

- Succession plans for the Board, Executive Committee and senior management; and
- Talent management.

Effectiveness:

- Review plans for the current year’s effectiveness review;
- Review progress against the actions identified in the previous year’s effectiveness review;
- Review Non-executive Director time commitments; and
- Review of Non-executive Director independence.

Governance:

- Review and approve changes to the Group’s corporate governance framework;
- Ensure compliance with the UK Corporate Governance Code;
- Review of matters reserved for the Board;
- Review Directors’ conflicts of interest; and
- Assess the Group’s approach to diversity and inclusion.

Board composition and diversity.

The Committee has sought to balance the composition of the Board and its Committees and to refresh them progressively over time. In discharging its responsibilities, the Committee regularly reviews the structure, size and composition of the Board and its Committees, including skills, knowledge, independence and diversity, to ensure they are aligned with the Group’s strategy.

Our Non-executive Directors are drawn from a wide range of industries and backgrounds, including retail, infant nutrition, retail and investment banking, property, extractive industry and food manufacturing, and have a wealth of experience in complex organisations with global reach.

The Committee recognises the importance of the Board’s awareness and preparations for the future, and ensuring that the skills, experience and knowledge of individuals reflect the changing demands of the business, all while upholding the culture and values of the Group. During the year a composition assessment exercise was undertaken by the Committee and a Non-executive Director succession plan developed. This provides a structured and systematic approach to refreshing the Board, replacing retiring Non-executive Directors and planning for the future. To support the succession plan, a skills matrix was also developed to ensure the Board and its Committees have and maintain the necessary skills to deliver the Group’s strategic priorities.

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 critical challenge needed to support good decision-making, helping with risk management and strategic planning at the current time of crisis.

As set out in the Board’s diversity and inclusion policy:

- all Board appointments are made on merit against a set of objective criteria, in the context of the skills and experience needed for the Board to be effective and guard against ‘group think’;
- the Committee will only work with executive search firms who have signed up to the UK Voluntary Code of Conduct on Gender Diversity; and
- the Board supports the recommendations set out in the Hampton-Alexander Review on gender diversity and the Parker Report on ethnic diversity.

The Committee will continue to review progress against the Board diversity and inclusion policy annually and report on progress against the policy in the Annual Report. As at the date of this report, 31% of the Board are female and the intention was for this to rise above the 33% target at the AGM, when Mark Armour was due to step down. However, Mark’s skills in risk and strategy as well as his knowledge of the business are crucial at the present time.

Focus of Committee activities in 2019/20

Board composition	22%
Succession planning	24%
Effectiveness	28%
Governance	26%

and his offer to continue to support the Board through the current situation was gratefully accepted. This means that the Board will not be able to reach the Hampton-Alexander target by the time of the AGM, as hoped, but the Committee will continue to work towards this in the very near future.

The Committee would like to provide its assurance that it is dedicated to bringing the Board in line with the target set by the Hampton-Alexander Review. Alison Platt is helping ensure this commitment is offered all due attention, given her role on the steering group for the Hampton-Alexander Review, and in providing leadership on the Committee's goals on diversity and inclusion. The Committee will now be looking to fulfil this aim through seeking key Board additions when the director recruitment market returns to normal.

Following the appointment of Melissa Bethell in September 2018, the Board is in line with the Parker Report's recommendation. Further details on initiatives to promote and support diversity and inclusion throughout Tesco can be found on pages 35 to 36. The Board diversity and inclusion policy is available at www.tescopl.com.

Following a formal review of the composition of Board Committees and discussions with each Non-executive Director, the Board agreed to a recommendation from the Committee appointing Stewart Gilliland and Alison Platt to the Nominations and Governance Committee from April 2019. These appointments have enhanced the experience on the Committee and further strengthened its capabilities to meet its responsibilities.

In accordance with the Non-executive Directors' letters of appointment, the Committee reviewed the performance of Mark Armour and Steve Golsby after having been on the Board for six and three years, respectively. The review took into account each Director's commitment, contribution and effectiveness on the Board and relevant Committees. The Committee also considered the training and development needs of the Directors. The review concluded that both Mark Armour and Steve Golsby continued to make a significant contribution to the Board and its Committees.

Succession planning.

Ken Murphy will join the Board from Walgreens Boots Alliance as CEO when Dave Lewis steps down from the Board on 30 September 2020. Our succession process is described below.

When Dave Lewis informed the Board of his intention to leave the Company, the Committee engaged the Lygon Group, which specialises in the recruitment of high-calibre executives, to carry out a targeted search for his successor. Lygon Group has no connection with Tesco or any commercial connection with any Director of the Group other than to assist with searches for executive and non-executive talent.

In conjunction with the Lygon Group, the Committee considered the role of Group Chief Executive in order to formulate a more detailed role and person profile. This considered the experience, knowledge and leadership characteristics required for the position.

The Lygon Group initiated a thorough global search against this profile, which produced a long-list of candidates, which was then reduced to a shortlist of several candidates. These shortlisted candidates were interviewed by members of the Committee, the Group Chief Executive and other members of the Board, and feedback on each candidate was compiled. Following an in-depth critique, an independent leadership assessment and further testing of the candidates' credentials, the process culminated with the Committee meeting to agree a recommendation to the Board that Ken Murphy be appointed as the successor Group Chief Executive. The recommendation received unanimous Board approval. On 2 October, the Board announced that Ken Murphy would succeed Dave Lewis as Group Chief Executive, subject to

shareholder approval at the 2020 AGM. Through regular dialogue with institutional shareholders, we have discussed these changes.

Succession planning continues to be a priority for the Committee and throughout the year the Committee focused on the succession pipeline for the Board and senior management. This is essential to ensure a continuous level of quality in management. It further aids us in avoiding instability by mitigating the risks which may be associated with unforeseen events, such as the departure of a key individual, as well as promoting diversity and inclusion. In this regard the Committee is pleased to note that Mark Armour deferred leaving the Board in order to provide some additional continuity during these challenging times.

The Committee has also continued to focus on talent and the ability to retain and progress high-potential colleagues to improve the overall capability of the Group. This has been facilitated through regular presentations and discussions with the Chief People Officer. This has provided the Committee with oversight of internal talent progress targeted at potential future Executive Committee members and a broader leadership talent pool, with a bespoke development plan having been put in place for these colleagues. The Board also met with high-potential colleagues in Thailand on its visit to the country in June.

Effectiveness.

As highlighted in my letter on page 24, an internal Board effectiveness review was conducted during the year. It concluded that the Board and its Committees continued to operate effectively. The review was overseen by the Committee and full details are provided on page 37. The Senior Independent Director also met with the Directors to appraise my own performance.

During the year, the Committee reviewed the independence, time commitment and potential conflicts of interests of the Non-executive Directors and concluded that each continued to demonstrate challenge and independent judgement and to devote sufficient time to discharging their duties.

Governance.

During the year, the Committee reviewed the matters which are reserved for the decision of the Board and recommended a number of updates which were adopted by the Board. The full schedule of matters reserved for the Board is available at www.tescopl.com.

Additionally, the Committee considered recent corporate governance developments and their implications for Tesco. The new UK Corporate Governance Code 2018 and the Companies (Miscellaneous Reporting) Regulations 2018 apply to Tesco for this financial year. An implementation plan was put in place by the Committee for these new requirements, including the implementation of a new Tesco Corporate Governance Code for large subsidiary companies. This will allow us to report on them in 2020, including in this Annual Report.

The Committee reviewed compliance with the UK Corporate Governance Code. While the pension contributions of the current Executive Directors are not yet aligned with the workforce, the Remuneration Committee has agreed that the Chief Financial Officer's pension contributions will be reduced to 7.5% by the end of 2022. Full disclosure on pension arrangements for Executive Directors can be found on page 53 of the Directors' remuneration report.



John Allan
Nominations and Governance Committee Chair

Stakeholders.

Our business was built on a simple mission: to be the champion for customers. That mission is the same today. Our customers want great value products which they can buy easily. To achieve this we rely on our customers, colleagues, suppliers, communities and shareholders.

Culture, underpinned by our values, plays a fundamental role in the way that we do business and the delivery of our strategic goals and KPIs. Our values ensure that every colleague understands what is important to Tesco, how we work together as a team and why customers are the centre of everything we do.

Our Little Helps Plan identifies the most pressing social and environmental challenges facing the business. This provides a philosophy for how our business should be run in a way that makes a positive contribution to our colleagues, customers, supplier partners and communities.

The Board recognises that having robust governance structures in place is vital to decision-making. The Board spends a lot of time listening to and understanding the views of its key stakeholders. When discussing matters at Board meetings these views form an integral part of its decision-making.

Customers.

- Customers are at the heart of what we do. Every decision we take is to ensure we deliver great value and great quality for our customers.

Colleagues.

- The experience and expertise of our colleagues is essential for the delivery of our strategic objectives. Operating within a culture of openness and inclusivity ensures that each of our colleagues is focused on delivering great service for our customers.

Suppliers.

- Building trusted partnerships with our suppliers is important in enabling us to provide the best products at the best prices for our customers and provides a great platform for our suppliers to grow.

Shareholders.

- A key objective of the Board is to create value for shareholders and deliver long-term, sustainable growth.

Community.

- The Board is committed to improving sustainability and helping communities thrive by positively contributing both socially and economically. We strive to make sustainable products accessible and affordable for all.

A key consideration of the Board in making its decisions is to balance the sometimes conflicting needs of our stakeholders to ensure they are all treated consistently and fairly.

This was demonstrated through the decisions made when considering the proposed sale of our Thai and Malaysian businesses. This decision followed a detailed strategic review in response to interest received in selling the businesses. Directors unanimously agreed that it would be in the best interests of all stakeholders, taking into consideration among other things:

- the impact on our colleagues and customers in Asia recognising that through the sale, significantly higher value could be generated for the Asia business from a well-established retailer in the region than could be achieved through the continued ownership and investment from Tesco;
- the release of material value which will enable a stronger focus on driving cash generation and returns to shareholders; and
- a further de-risking of the business by reducing indebtedness through a significant pension contribution.

Set out on pages 41 to 43 you will find examples of how the Board and its Committees have oversight of stakeholder considerations, which are taken into account when making key decisions.

Directors' duty under section 172 of Companies Act 2006.

In discharging our section 172 duties, Directors are required to have regard, among other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In addition to the above, we also have regard to other factors which we consider relevant to the decision being made. Those factors include the interests and views of Tesco pensioners and our relationship with regulators and NGOs.

The Board acknowledges that every decision it makes will not necessarily result in a positive outcome for all of the Group's stakeholders. By considering the Company's purpose, vision and values, together with its strategic priorities and having a process in place for decision-making the Board does however, aim to make sure that its decisions are consistent and predictable.

Details on how the Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, the key stakeholder considerations that were central to those discussions and the way in which it has had regard to the need to foster the Company's business relationship with customers, suppliers and other stakeholders are set out on pages 40 to 43. More detail of the activity undertaken by the Board and its Committees' activities can be found on pages 38 to 39, 44 to 64, together with the Strategic report on pages 1 to 23.

Colleagues.

Culture, succession planning, diversity and inclusion.

We have more than 400,000 colleagues serving Tesco customers around the world. We continue to celebrate the diversity within our business and create an environment where colleagues can be themselves and have an opportunity to get on. The Board receives updates on key elements of the people strategy which provides insight into a variety of areas including culture, diversity and inclusion, succession planning, future capabilities and colleague engagement.

Workforce engagement.

Building on the long-established forums and conferences at store, regional and national level, the Board established four 'Colleague Contribution Panels' during the year hosted by an Independent Non-executive Director. These Colleague Contribution Panels will normally meet twice a year to seek the views of our global workforce on areas of specific interest to the Board and our colleagues. The case study below sets out details of the panel meetings held during 2019, with an overview of the discussions and outcomes.

In addition to the Colleague Contribution Panels, we have engaged with contractors through a survey to obtain their views as part of capturing wider workforce engagement. The main concerns arising from our contracted workforce was the impact of tax legislation being extended to cover contractors in the private sector (IR35) and access to Tesco technology platforms. An action plan was put in place to ensure we were ready to comply with the changes relating to IR35 and consider the concerns of the contracted workforce, although the changes that the Government was due to make to these regulations have now been deferred for a year.

This year, we have also launched our new colleague-listening programme, Every Voice Matters, across the Group which has included updated questions and faster results. This will allow more frequent feedback to be provided to the Board on business priorities and how colleagues are feeling and will also enable timely, more focused action to be taken. More than 254,000 colleagues completed the new deep-dive survey in January 2020.

Little Helps Plan commitment.

Our commitment to helping our colleagues get on is one of the key pillars of the Little Helps Plan and also aligns to our people strategy. Through the targets set by the Board, it aims to help colleagues succeed by providing them with flexibility, skills and a competitive total reward package. Delivery of the KPIs is overseen and challenged by the Corporate Responsibility Committee and reported to the Board.

Whistleblowing.

Oversight by the Audit Committee of the whistleblowing policy and Protector Line, our independent and confidential whistleblowing service, provides colleagues and suppliers with the ability to raise concerns regarding misconduct and breach of the Code of Business Conduct. The Board routinely receives reports on any matters raised through Protector Line.

Wellbeing.

Building on insights from the 2019 colleague health survey, this year we have worked with our charity partners to refine the colleague health strategy and align our ambitions to the wider customer health goals. Our work focuses on the little steps to wellbeing that colleagues can take to help them live healthier lifestyles both while at work and at home. Working alongside the mental health charity, Mind, our colleagues and their family members have access to a confidential employee assistance programme. This offers an independent and unlimited 24/7 telephone support line should they be feeling anxious, concerned about money, or needing some extra support in their life. We also offer online learning modules, Mindapples, for colleagues to explore and understand their own minds better.

Colleague Clubcard.

UK colleagues are offered a package of benefits through our colleague Clubcard scheme to reward them for their hard work and commitment to Tesco. The Board receives updates on Clubcard initiatives, including the introduction of Clubcard Plus.

Health and safety at work.

The Board places great importance on looking after the safety of colleagues, customers and anyone else impacted by our business, and is responsible for making Tesco a safe place to work and shop. Regular health and safety updates are provided to the Board.

Case study.

Colleague Contribution Panels

The purpose of the Colleague Contribution Panels is for elected colleague representatives to meet with designated Non-executive Directors to strengthen the colleague voice in the boardroom, while helping colleagues to develop a better awareness of Board matters and business priorities. Colleagues' views from the first 'what's on your mind' focus session saw some key themes emerging such as managing through growth and change, opportunities to get on, technology, reward and recognition.

Following the Colleague Contribution Panels, the Board considered the feedback and developed an action plan. Actions included:

- providing colleagues with a deeper understanding of the context of change;
- greater access to training and opportunities to get on;
- improvements in technological capabilities;
- simplification through automation; and
- opportunities to further develop our reward strategy.

Progress updates will be presented to representatives at this year's Colleague Contribution Panels and panel representatives will feed back to colleagues. Our aim is to develop these Colleague Contribution Panels to facilitate open discussions and ensure that the Board is aware of the views of the workforce.

Having a designated Non-executive Director for each region allows a deeper understanding of specific workforce-related matters in each country.

Customers.

Customer feedback surveys.

The Board values feedback from customers – it helps to ensure we are providing them with what they want and need from Tesco. Through customer surveys and engagement, the Board is able to listen to customer views and take appropriate actions to ensure improvements are made.

Understanding the customer.

We are innovative in the approaches we use to understand our customers. We use multiple data sources including Clubcard and we ensure we spend time with our customers to understand their needs so that we can develop products and propositions they will like. Insight about our customers is used to inform our decisions and we evaluate our propositions so that we can learn and improve continuously.

In 2019 we launched Clubcard Plus offering additional rewards for loyalty. Regular updates on customer insight is provided to the Board.

Competitive market.

The Board receives updates on the competitive market that we operate in, which helps to form our strategy and goals for the coming year – ensuring that our customers are at the heart of what we do.

Through business updates from Tesco Bank, Booker, dunnhumby, Tesco Mobile and through our regional updates, the Board has visibility of customer requirements globally and the challenges within each of their markets. This oversight assists the Board with its strategic decision-making and enables us to offer the services our customers need.

Innovation.

Innovation at Tesco can come across through our products, our online or in-store experiences and the way we interact with our customers. It is essential that we keep innovating for the future to meet the changing needs of our customers, which is why we have a Group Innovation Team that ensures creativity and continuous improvement is embedded in our culture.

The Board receives updates on innovation and technology advances to ensure that we have the capabilities to meet future requirements.

Shareholders.

Investors' views and key market issues.

Senior management and the Investor Relations team held regular meetings with existing and potential institutional investors and analysts during 2019/20. The Investor Relations team provides the Board with regular feedback on investors' views and key market issues so the Board keeps up to date with market conditions and ensures shareholder sentiment is understood and considered in decisions. The Chairman, Senior Independent Director and Committee chairs hold meetings with institutional shareholders, when required, to discuss key issues.

Annual General Meeting.

The 2019 AGM was webcast to allow all shareholders globally to view the event. In 2019, all resolutions were passed with votes in favour ranging from 93.38% to 99.99%, with an average of 71% of votes cast. All Directors made themselves available to answer questions from shareholders.

Store tours.

The Chairman hosts tours of our stores for private shareholders to provide insight into Tesco's operations and obtain direct feedback that is passed to the Board. For more detail about the store tours that took place during 2019, see the case study below.

ESG and Capital Markets days.

In June 2019, Tesco hosted ESG and Capital Markets days, providing an opportunity for investors and analysts to hear more about Tesco's strategy and performance, and ask questions. Members of the Board attended the event.

Funding and balance sheet strategy.

Throughout the year the Board has reviewed and approved various aspects of the Group's funding strategy, including liability management, pension scheme deficit, market considerations, future dividend capability, approval of dividends, capital allocation, balance sheet and tax strategy. It considers the views of shareholders to: provide expected returns; ensure sufficient capital is retained to invest in the customer offer and grow the business in line with strategy; and ensure there are sufficient reserves for creditors and supplier payments. Senior management maintains regular dialogue with our relationship banks.

Case study.

Store tours

During the year, the Chairman hosted three tours around the Orpington Extra store, which celebrated its 10th anniversary since opening. This store continues to be a focal point within the Orpington community.

The tour gave private shareholders the opportunity to meet and talk to the Chairman and senior management, receive a presentation on store operations and learn about its role in the local community. Feedback from attendees enables the Board to better understand what is important to our private shareholders and balance this with what our customers want.

Suppliers.

Partnerships with suppliers.

The Board is committed to building trusted partnerships with our suppliers, which are crucial to delivering many of our commitments. Through these partnerships, we deliver value and quality to our customers, and we help our partners to develop and grow.

With oversight from the Corporate Responsibility Committee, we conduct initiatives such as working with suppliers to remove hard-to-recycle plastic packaging material from multipacks and tackling deforestation in our soy supply chains. It is important that we work closely with suppliers, combining our knowledge and expertise to help bring solutions to the industry. These collaborative activities provide direct insight into the challenges and provide visibility on supplier progress which helps us to meet our responsibilities and obligations.

In August 2019, we invited suppliers to a conference to talk about how we can tackle the problem of packaging waste together. Over two days, we gave details of our progress and shared the latest part of our strategy. Updates on progress are provided to the Board.

Supplier insight.

The Board receives feedback on supplier surveys which seek suppliers' views in relation to their interaction and experiences with Tesco. Management action plans set out focus areas for further improvements.

A responsible sourcing strategy has been developed to identify key challenges across the supply chain. The Corporate Responsibility Committee continues to monitor progress against the strategy and reports to the Board on specific matters.

During 2019, the Board visited a number of suppliers in Thailand to gain a greater understanding of the challenges in the Thai market and obtained first-hand insight into how farming is undertaken in the region.

Treating suppliers fairly.

The Board places great importance on ensuring suppliers are treated fairly. Expected behaviours are set out in Tesco's Code of Business Conduct. Additionally, Tesco complies with the Groceries Supply Code of Practice (GSCOP). The Board and Audit Committee receive updates in relation to compliance with the Code of Business Conduct, GSCOP and engagement with the Groceries Code Adjudicator. More information on our compliance with GSCOP can be found on page 66.

Communities.

Contributing to the community.

The Board places great importance on helping the communities we serve. The Little Helps Plan targets include supporting local community projects and facilitating food surplus donations to provide meals for those in need globally. Progress against these actions and the impact that these actions have on stakeholders are reviewed by the Corporate Responsibility Committee.

Renewable energy.

We are committed to sourcing 100% of our electricity from renewable sources by 2030. The Board regularly reviews our renewable energy strategy, which is approved on an annual basis.

Sustainability.

Through the Little Helps Plan, the Board and Corporate Responsibility Committee have oversight of sustainability issues facing the business. We work in partnership with our stakeholders to contribute to solving some of the global challenges, such as climate change, sustainability, food waste and health and wellbeing issues. Through engagement with customers, suppliers, non-governmental organisations and other stakeholders this ensures alignment of our stakeholder priorities and helps us deliver our strategic objectives against our Little Helps Plan KPIs. Progress against these actions, and the impact that these actions have on stakeholders are reviewed by the Corporate Responsibility Committee.

Charity partnerships.

Through our health charity partnerships approved by the Board, we support our colleagues in living healthier lives and our customers in making healthier choices every time they shop with us through initiatives such as in-store health events and our partnership with Jamie Oliver promoting healthier recipes.

With our partner WWF, and overseen by the Corporate Responsibility Committee, we are working to reduce the overall environmental impact of the average shopping basket by half. In order to achieve this, we have developed the Tesco-WWF Sustainable Basket Metric to enable us to measure the impact of an average shopping basket and understand how best to reduce it.

Progress against our health-related KPIs is reported within the Little Helps Plan on which the Corporate Responsibility Committee receives updates. More detailed information on these initiatives can be found at www.tescopl.com.

Corporate Responsibility Committee.

“Through the Little Helps Plan we demonstrate that ‘every little help makes a big difference’ and recognise the global responsibility Tesco has to the communities and customers it serves.”

Lindsey Pownall
Non-executive Director

Details of the key areas of responsibility of the Committee and the time spent on each of them during 2019/20 are detailed below:

Progress against corporate responsibility strategy:

- Progress against KPIs
- Update on Little Helps Plan activity
- Regional updates
- Strategic plan and evolution of the Little Helps Plan

Responsible sourcing strategy:

- Thailand visit
- Animal welfare
- Deforestation
- Packaging
- Human rights and supply chain

Little Helps Plan communications/marketing strategy:

- Engagement with external stakeholders
- Oversight of the health charity partnership initiatives
- Strategic partnership with WWF
- Community programmes

Governance:

- Committee effectiveness
- Review of terms of reference
- Oversight of ESG engagement
- Engagement with stakeholders
- Oversight of TCFD findings

Dear Shareholder.

Committee responsibilities and key activities.

The Corporate Responsibility Committee oversees the Group's social and environmental obligations as a responsible citizen, ensures its responsibilities are discharged in such a way as to build trust, respect and confidence, and identifies and monitors external developments which may affect the Group. It is an important forum in the Board's oversight and challenge on engagement with many of our stakeholders including: customers; suppliers; NGOs; and health partnerships.

The Committee held three scheduled meetings during the year, which were attended by all members. Committee membership together with attendance at meetings is detailed in the table on page 30. During the year a review was undertaken to ensure that the Committee continued to operate effectively and that its terms of reference delegated from the Board remained relevant. The Committee's full terms of reference are available on our website at www.tescopl.com.

Progress against our corporate responsibility strategy.

Every little help makes a big difference is a core value at Tesco. It is at the heart of the Little Helps Plan and is how Tesco makes a difference to the social and environmental challenges that matter most to our customers, colleagues and communities. As part of the corporate governance framework, the Committee tracks the progress and potential risks associated with the Little Helps Plan through regional updates detailing how we are implementing and delivering on the targets and actions of the Little Helps Plan. While good progress has been made so far there is still more to accomplish and the Committee is excited to be part of the journey.

As part of our long-term business planning process and in line with the Group's principal risks, each country has set a three-year roadmap for delivery of the Little Helps Plan targets. This year the Committee reviewed the updated Little Helps Plan strategy and the appropriateness of the key performance indicators. The evolved approach will be cascaded across the Group during 2020/21.

Focus of Committee activities in 2019/20

Progress against corporate responsibility strategy	30%
Responsible sourcing strategy	25%
Little Helps Plan communications/marketing strategy	25%
Governance	20%



More information on the Little Helps Plan can be found on pages 21 to 23 and on our website at www.tescopl.com.

Responsible sourcing strategy.

One of our business values is to treat people how they want to be treated. To enable our customers to enjoy affordable, sustainable and healthy food in the long term, we need to work hand-in-hand with our suppliers and customers to respond to the challenges across the global food industry. We are passionate about leading the industry in addressing sustainability challenges in our supply chains, ensuring our products are sourced with respect for the environment and the suppliers who produce them.

As a Committee, we were delighted that Tesco attained a high score in the Oxfam second annual scorecard for supermarket efforts on human rights in food supply chains. The Committee continues to oversee the governance of modern slavery and human rights and the processes in place to identify high-risk areas.

A responsible sourcing strategy has been developed in consultation with a range of experts to identify key challenges across the supply chain. The Committee reviewed the responsible sourcing strategy and will continue to monitor the progress.

Through ongoing engagement with our stakeholders, Governments and NGOs, we are committed to achieving net zero deforestation in key raw materials by 2020 and are taking the lead on initiatives where we can make a real difference, although there are challenges in the global market. In December 2019, we demonstrated our leadership on deforestation by becoming the first company to contribute to the Cerrado Initiative, committing £10m over five years to support soy farmers in Brazil and help end soy-associated deforestation in one of the most important areas of biodiversity.

We are committed to promoting animal welfare and to delivering on our commitment to treat animals humanely at all life stages. The Committee has discussed the Group's position, minimum standards and challenges faced in each of the countries we serve, noting the differences from country to country due to differing local standards and culture. Steps are being taken to address key issues where it makes good business sense to do so. The Committee will continue to review the Group's position and drive change where necessary.

We take the sustainability of our products and packaging extremely seriously and always consider the impact of our business on the environment. In September 2019, we launched a new own-brand range of affordable plant-based products as part of our commitment to making food more sustainable. This delivers on stakeholder recommendations for more plant-based food options to be available to the customer in an effort to improve health, and reduce emissions and climate change impacts from food products.

In November 2019, we announced we will remove one billion pieces of plastic from products for sale in UK stores by the end of 2020 in support of our Remove, Reduce, Reuse, Recycle strategy. We have removed carrier bags from our online deliveries and we are working towards our packaging becoming part of a closed loop system. I visited one of our UK stores trialling some of these initiatives and was excited by the progress and the enthusiasm of our colleagues. The Committee discussed the progress being made in the UK and other areas of the Group, noting feedback from customers and lessons to be shared across the Group. As a result of these initiatives, we announced in January 2020 that we would remove 67 million pieces of plastic through replacing plastic-wrapped multipacks with plastic-free multibuy on tinned foods, eliminating 350 tonnes of plastic from the environment.

Case study.

During the Committee's visit to Thailand, Committee members spent time at the Duang Prateep Foundation. The Foundation operates a number of projects covering education, child abuse and welfare of both the elderly and slum youths.

The Committee were able to see how surplus food donated from Tesco Lotus is distributed to children at the Foundation. Tesco Lotus provides fresh food from local hypermarkets and packaged food from distribution centres.

In June 2019, members of the Board visited Thailand to see the corporate responsibility work in practice, with a focus on food waste and farming. This was an opportunity to observe food surplus donations at a local Tesco store, meal preparation using surplus food at the Duang Prateep Foundation and visits to a local seafood supplier and other suppliers connected to our direct sourcing programme which strives to improve farming in the region.

Little Helps Plan communications and marketing strategy.

During the year, the Committee reviewed the marketing and communication strategy of the Little Helps Plan. The strategy demonstrates the dependencies between a successful Tesco and a thriving society and planet and is designed to show the value we create across all stakeholder groups. Success is measured through improvements in our YouGov brand health index and bespoke shareholder engagements. Since 2016, we have increased customer trust in every single year.

In 2019/20, a calendar of events was approved by the Committee, including Dance Beats which culminated in the world's longest dance marathon relay at Wembley stadium. This was held in conjunction with our health charity partnerships, British Heart Foundation, Cancer Research UK and Diabetes UK, to support the life-changing work of the charities. Over £1m was raised by our colleagues, customers and other stakeholders, which was matched by Tesco.

We have also launched a groundbreaking, long-term partnership with WWF. The aim of the partnership is to improve the sustainability of food, while ensuring it remains affordable for all. The Committee has reviewed the key deliverables of the partnership and the one-year plan to establish metrics and measure progress. More on this can be found in our Little Helps Plan report online at www.tescopic.com.



Lindsey Pownall
Corporate Responsibility Committee Chair

Audit Committee.

"The Committee has continued to support in monitoring the integrity of financial reporting, the effectiveness of risk management and internal controls processes, and in governance and compliance matters."

Byron Grote
Non-executive Director

Dear Shareholder.

I am pleased to present this year's Audit Committee report which provides an insight into the work carried out by the Committee, our discussions and focus over the past year. The Committee supports the Board in fulfilling its responsibilities in respect of monitoring the integrity of financial reporting, the effectiveness of risk management and internal controls processes and governance and compliance matters. The Committee also recommended the appointment of the external auditor, Deloitte, as well as monitored and assessed their effectiveness, objectivity and independence. Further details of this process can be found on page 50. As well as the key activities undertaken or overseen by the Committee during the year the Committee has, through a periodic and structured rolling forward-looking planner, considered a variety of special focus matters including:

- the accounting judgements used to assess the Group's international assets, reviewing the store impairment model and annual property valuation, the impact of reporting against IFRS 16;
- store buybacks and acquisition accounting;
- future cash flows and the management of the Group's debt profile; as well as receiving updates on the continuing transformation programmes.

Looking ahead, these items will remain a key focus in 2020/21 and, as the full impact of COVID-19 emerges, the Committee will continue to monitor developments and adapt its approach to best support the Group's stakeholders.

In October 2019, the Financial Reporting Council published a thematic review of impairment disclosures. Having reviewed their recommendations, we strengthened our impairment disclosures. The Committee continues to oversee the integrity of financial disclosures, ensuring that financial information is presented in a fair, balanced and understandable manner.

In November 2019, the Committee held a dedicated product quality assurance session during which we explored the Group's adoption of a risk management and controls framework and reviewed the mitigations in place for those principal risks relevant to product safety, set out on pages 13 to 18.

In support of the Board's strategy to simplify the Group and reduce total indebtedness, the Committee considered an in-depth valuation report in relation to the disposal of our businesses in Thailand, Malaysia and China, including the recommended pension contribution and return of funds to shareholders. The Committee also considered the sale of the Tesco Bank mortgage book, and debt capital management initiatives.



Committee membership together with attendance at meetings is detailed in the table on page 30.



The Committee's full terms of reference are available at www.tescopl.com.

The Committee regularly monitored the Group's known and emerging 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 and the recent emerging global spread of COVID-19, and the public health responses of governments in all markets in which the Group operates. Further information can be found on pages 13 to 18 of this Annual Report.

Byron Grote
Audit Committee Chair

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, having both held Chief Financial Officer roles for significant periods, are considered suitably qualified 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 27 to 30.

Robert Welch is appointed as Secretary to the Committee. At the invitation of the Chair of the Committee other regular attendees 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, each of whom can be asked to withdraw from the meeting if necessary.

Audit Committee meetings.

The Committee held five scheduled meetings in the year. 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.

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, including the oversight of various Tesco Bank matters and a deep dive into product quality assurance. The Committee considered the significant progress made towards the Group's integration of Booker and consequently endorsed the retirement of the Booker integration and synergy realisation risk from the Group's principal risks. More information can be found at page 14. The Committee received updates from management in relation to: key financial controls; the Group's transformation programmes; information technology general controls and system renewals; treasury; tax; pensions; insurance; and compliance. The Committee also 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 Group Audit & Advisory (GAA), detailed on pages 49 to 50, and at each meeting receives a GAA 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, 2020/21 audit plan and executive expenses.

GAA provided regular updates on its work, including findings from its internal audit programme, the status of management actions to address such findings and the continued support provided to the business. The Committee continued its focus on Group transformation and the enhancement of internal controls and received 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 the Committee considers reports from our external auditor, Deloitte, in relation to their interim and year-end reports, audit plan, audit fees, auditor independence and non-audit services, early warning report, management letter observations and updates on their ongoing audit work.

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

Key financial controls

The Committee has overseen the introduction of a number of enhancements to the Group's key financial controls programme during the year, which included: a refresh of the Key Financial Controls environment, ensuring controls remain relevant and appropriately mitigate financial risk for our core processes; the inclusion of IT general controls; the introduction of operating effectiveness testing to strengthen our control rigour; and changing our organisational structure and resources to strengthen our 2nd line of defence capability. Enhancements made through the Finance Transformation programme provide effective tools with which to monitor and report on our key financial controls. These changes directly support our management and mitigation of the technology and transformation principal risks. Further details can be found on pages 13 to 18.

Impairment reviews

The Committee regularly received updates on various impairment reviews across the Group and discussed the associated accounting policies and judgements, underlying valuations, stress testing and material triggers used in the impairment assessment. In addition, the Committee considered the goodwill impairment testing and the impairment of the Group's investments in preparation for the disposals announced prior to publication of this report. The Committee also reviewed recommendations from the FRC Thematic Review on impairment reporting to improve disclosure. See Note 15 for further information.

IT general controls

The Committee has continued to monitor the Group's emerging risks in relation to technology and progress against its IT remediation, data collection processes and transformation plans, including a review of the Group's technology platforms and systems. The Committee received regular risk updates from the Chief Technology Officer, the Chief Audit and Risk Officer and the external auditors which were discussed in the context of the Group's risk appetite. See our technology risk on page 16 of this Annual Report.

Cash flow

In support of the Group's focus on managing free cash flow, throughout the year the Committee received reports from the Chief Finance Officers for the UK & ROI, Central Europe and Asia which provided an insight into retail operations and impairment reviews. The Committee regularly reviewed working capital management arrangements, including consideration of the Group's distributable reserves position. Regular updates were provided in relation to the Group's commitment to offset the dilution of shares through the issuance of share-based awards. As part of the Committee's oversight of finance policies, reports on the Group's interest rate risk management and debt capital management policies were received.

Brexit

During the year the Committee continued to consider the management and mitigation of Brexit as a principal risk and received regular updates on the business' contingency preparation with a particular focus on the possible impacts to: working capital; goods and services for and not for resale; Tesco Bank's metrics; and the modelling of scenarios as part of the Group's viability assessment. The Committee will continue to monitor the possible impacts of Brexit closely during the Brexit Transition Period.

Compliance

The Committee received and reviewed the annual ethics and compliance data covering: privacy; fraud; anti-bribery; gifts and entertainment; and the annual Code of Business Conduct declarations. The Committee discussed the controls and mitigating actions employed to reduce instances of fraud and compliance breaches in support of the Group's overall compliance 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).

Product quality assurance

During the year, the Committee held a deep-dive session which examined the approach to risk management controls in product quality across the Group. The session explored the system of technical standards and accompanying assurance framework which had been in operation across the Group since 2018. The Committee evaluated the rigorous standards in place to drive focus on improving food quality and safety standards for all consumers. The Committee reviewed the business' mobility and response protocols in the scenario of an emergency product withdrawal, as well as the impact of social and economic pressures on farming and the risks in agriculture, especially animal welfare.

Audit committee continued

Key activities.

Statutory reporting

In relation to the financial statements, the Committee ensures that Tesco provides accurate, timely financial results and implements accounting standards and judgements effectively. This includes our status as a going concern and longer-term prospects and viability. The Committee reviewed and recommended the approval of the 2019/20 interim financial statements, the Group's 2019/20 preliminary results and this annual report. It considered property valuations, impairment reviews, reviewed the Group's distributable reserves position in advance of the declaration of dividends, reviewed corporate governance disclosures and monitored the statutory audit. The Committee considered 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 Group's financial reporting and accounting policies and practices.

The Committee considered the viability and going concern statements, their underlying assumptions and the longer-term prospects, including the appropriateness of a three-year period assessment reflecting the dynamic and changing retail environment in which the Group operates, see page 19. 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.

Risk and control

On behalf of the Board, the Committee oversees the risk management strategy and appetite and the appropriateness, effectiveness of internal control processes and UK Corporate Governance Code compliance, further details of discussions can be found on pages 13 to 18. The Committee reviews and approves principal and emerging risks (including climate change, Brexit and COVID-19) via updates from the

UK & ROI, Central Europe and Asia Finance Directors.

This includes key financial controls updates, insurable risk reviews, risk appetite monitoring and review of internal control effectiveness.

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 2018/19 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 Group Audit and Advisory and Group Finance directors, on the development and effectiveness of the Group's key internal financial controls.

Risk and control further encompasses People and Technology Transformation programmes: IT general controls and security programme updates. Oversight of pensions, solvency and liquidity, debt capital management, tax, Tesco Bank (including the Bank's risks) and corporate simplification updates were also considered during the year.

Compliance

The Committee supports the Board's in discharging its responsibilities in relation to anti-bribery, whistleblowing, GSCOP, annual and Group compliance statements, as well as GDPR and privacy compliance. The Committee also monitors anti-fraud, as well as gifts and entertainment policy compliance.

External audit

The Committee considers the audit scope and auditor's fees, auditor independence and non-audit fees, as well as update reports, management letter observations and effectiveness reviews.

Internal audit

The Committee receives update reports detailing progress against next steps and recommendations, the 2020/21 audit plan, internal audit charter, review of executive expenses and an effectiveness review.

Other governance matters

The Committee annually reviews its own effectiveness and its terms of reference.

Significant financial statement reporting issues.

The Committee considered the following significant issues during the year. As part of these considerations, the Committee received updates from management and sought assurance from the internal and external auditors. The Committee was satisfied with how each of the significant issues discussed was addressed.

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 forecast cash flows including sensitivity to trading and expenditure plans, and for the potential impact of uncertainties including Brexit and the COVID-19 pandemic. 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 19 of this Annual Report.
Disposals and discontinued operations	The Committee considered the key judgements made by management regarding the disposal of Tesco Bank's mortgage business and the disposal of the Group's 20% share in its associate Gain Land Limited, including the classification of assets as held for sale and their valuation, and the presentation of discontinued operations. The Committee also carefully considered the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' regarding the status of the Group's strategic review of its Asia business at the balance sheet date. For further information, see Note 1 to the financial statements.
Impairment	The Committee reviewed and challenged management's impairment testing of goodwill and the Group's portfolio of store cash-generating units. The Committee noted that an impairment modelling tool has now been deployed in key markets, ensuring a consistent workflow and approach to the process. 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. The Committee also reviewed the enhanced impairment disclosures. For further information, see Note 15 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, including the discount rate. For further information, see Note 29 to the financial statements.

Issue	How the issue was addressed by the Committee
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 34 to the financial statements.
Recognition and disclosure of commercial income	The Committee reviewed management's reporting against the controls that exist over the recognition of commercial income across the Group, including Booker, and considered the appropriateness of accounting judgements adopted. See Notes 1 and 22 to the financial statements.
Exceptional items	The Committee considered the presentation of the Group's financial statements and, in particular, the appropriateness of the presentation of exceptional items. The Committee reviewed the nature of items identified and concurred with management that the treatment was clear, even-handed and consistently applied across years. 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 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 presentation of the impact. See Notes 1 and 37 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, compliance 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 2020, 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 which were discussed with the Committee Chairman, Chief Financial Officer and Chief Audit and Risk Officer. This assessment included

Audit committee continued

consideration of the structure and scope of GAA's work, its capabilities, independence, the adequacy and responsiveness of the audit plan, quality of audit reports and its engagement with stakeholders.

The Committee discussed the approach and findings of the assessment. The overall assessment concluded that GAA was highly effective, with good ratings across all measures. Improvements noted included the adequacy and delivery of the audit plan and the opportunity for stakeholders to contribute to it, quality of the audit reports and the monitoring and follow-up on audit findings and improved stakeholder relationships. In addition, there was recognition of the level of independence of GAA and its expertise and ability to handle difficult issues. The Committee also concluded that GAA is adequately resourced.

Aspects highlighted to focus on included increasing the focus on risk and responding and adapting to Tesco's priorities and the external environment. Additionally, a continuing focus on technology including the use of data analytics to keep pace with advances was deemed appropriate. Continuing to build on the sharing of insights and audit learnings through the business was also highlighted as a focus area alongside increasing the level of engagement with the business to further develop relationships within Tesco.

The Committee reviewed and agreed the GAA Charter and 2020/21 Internal Audit Plan in November 2019. Following the recent changes to the IIA Code of Practice, the GAA Charter will be updated and subject for approval by the Committee in July 2020. Due to the evolving situation with the COVID-19 virus and the impact on the business, the Internal Audit Plan will continue to be reviewed to ensure, where necessary, it adapts appropriately to the changing needs of the business.

External audit.

Deloitte continued as our external auditor for the 2019/20 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. During 2019, Panos Kakoulis, who had been the lead partner since Deloitte's initial appointment in 2015/16, retired and Simon Lettis, who had been part of the external audit team since 2015/16, was appointed as the new lead partner and he took responsibility for the 2019/20 audit opinion. John Adam will replace Simon Lettis in April 2020, having undertaken a transition into this role in the second half of the 2019/20 financial year. The Committee worked closely with management to ensure that a suitable auditor onboarding process was in place.

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, among 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 2020, 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 2020 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 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 2019/20, Deloitte received total fees of £9.7m (2018/19: £12.0m) consisting of £7.4m of audit fees (2018/19: £8.0m), and £2.3m for non-audit and audit-related services (2018/19: £4.0m), which is a decrease of £1.7m in total fees versus the previous period. The total of Deloitte's non-audit and audit-related fees in the year equated to 31% 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 51.







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 ensure the level of non-audit fees going forward is compliant with the 70% non-audit fee cap rules.

Key.

 Increase
  No change
  Decrease

External audit fees – non-audit and audit related services.

Nature of service	Level of fees in 2019/20 (£m)	Level of fees in 2018/19 (£m)	Change	Safeguards to preserve independence
Provision of reporting accountant services relating to Group disposals, working capital and profit forecast reporting	0.2	-		Engagement team separate to the audit team with independent reviews and working with informed management.
Retail consultancy: provision of administrative support relating to the Group's markdown price optimisation process ^(a)	-	1.3		Engagement team separate to the audit team. The service is limited to the provision of administrative support. Decision-making accountability remained with management. ^(a)
Forensic services: provision of data repository services for information needed by the Group and the SFO ^(a)	0.6	1.7		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.
SFO Monitor role: Deloitte has been appointed as Monitor by the SFO under the Deferred Prosecution Agreement, agreed with Tesco Stores Limited	0.6	0.1		Under the Deferred Prosecution Agreement Deloitte was appointed to conduct independent reviews by individuals not directly involved in the commercial income audits.
Other non-audit services: tax compliance and advisory projects relating to businesses outside of the EU and other miscellaneous risk and compliance services	0.4	0.4		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.
Interim review performed under International Standards of Review Engagements (UK and Ireland) 2410	0.5	0.5		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.
Total	2.3	4.0		

^(a) Engagement pre-dates Deloitte's appointment as external auditor

^(a) Deloitte's work concluded in January 2019.

Appointment of auditor statement.

Following a formal tender process, Deloitte was 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 2020, 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 2020 is 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 Committee was evaluated this year as part of the Board evaluation process and rated very highly overall. Further details can be found on page 37. 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 and agreed that: developing a risk appetite approach for our principal risks, effective monitoring of the control environment and overseeing risk management remained a key focus for 2020/21.

Directors' remuneration report.

Annual statement.

"We have been busy this year building on our proud history of fostering a culture where colleagues feel welcome, included and fairly rewarded."

Steve Golsby
Remuneration Committee Chair

Dear Shareholder.

I am pleased to present this year's Directors' remuneration report. 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 that the remuneration policy received, with over 93% in favour, following constructive dialogue with a number of shareholders, their representative bodies and the wider stakeholder group. Overall, the Committee believes the remuneration policy is operating well, which was reflected in a vote of 97.25% in favour of the remuneration report at the 2019 AGM. No changes are proposed to the remuneration policy for 2020/21.

During the year, we continued to review the implementation of the remuneration policy and the Committee further reviewed colleague remuneration and related policies throughout the Group in light of the UK Corporate Governance Code 2018 (the Code). As a Committee, we are committed to ensuring that the interests of colleagues, shareholders and other key stakeholders are considered fairly, and in the context of wider societal expectations.

To live up to our purpose, our colleagues need to reflect and represent the communities that we serve. The Committee has been busy this year, building on our proud history of fostering a culture where colleagues feel welcome, included, and fairly rewarded. During the year, we held our first Colleague Contribution Panels in each of our three regions, using the opportunity to hear directly from colleagues across the Group and consider their views on executive remuneration and other matters of interest to them. Further details of this engagement are set out in the Corporate Governance report. The Committee will continue to use the Colleague Contribution Panels to explain to colleagues how decisions on Executive Director remuneration reflect the Group's reward principles and as valuable insight when making wider remuneration decisions. We have set out in the Reward Principles section on pages 55 and 56 specific details of how we are responding to the wider workforce aspects of the Code.

Key Committee decisions in the year.

The Executive remuneration framework has a number of specific goals. It is designed to be clear, simple and consistent. The framework must also 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 to be effective in competing for talent.

There were three key decisions for the Committee in 2019/20:

- setting challenging targets for annual bonus and long-term incentives;
- determining 2019/20 incentive outcomes for Executive Directors and Executive Committee members; and
- remuneration matters relating to the appointment of Ken Murphy as CEO and the stepping down of Dave Lewis.

Targets for annual bonus and long-term incentives.

Annually in November, the Board reviews and adopts the Long Term Plan (LTP). Thereafter, in February the Committee reviews the metrics and targets of the annual bonus plan and Performance Share Plan (PSP) for the one- and three-year performance periods. This review takes into account not only the LTP, but also the performance of the business and market conditions since November to ensure metrics and targets are appropriately challenging, support the Group's culture and strategy, and create value for stakeholders. The Committee also considers the overall construct of the remuneration package to ensure that potential pay outcomes are appropriate and reasonable against different performance scenarios.

The Committee remains mindful of the long-term focus of the business on the four key strategic metrics of: customer satisfaction, cash profitability, free cash flow and earnings growth. The way in which the annual bonus plan and PSP align with and support these metrics, as well as the delivery of the Big 6 KPIs, is set out below.

Financial performance metric	Link to strategy	Annual bonus performance measure/ (weighting)	PSP performance measure/ (weighting)
Group sales	Grow sales (Big 6 KPI)	✓ (30%)	
Group operating profit before exceptional items and amortisation of acquired intangibles	Deliver profit (Big 6 KPI)	✓ (50%)	
EPS	Earnings growth (key strategic metric)		✓ (50%)
Free cash flow	Improve operating cash flow (Big 6 KPI) and Free cash flow (key strategic metric)		✓ (50%)

No change was made to the quantum or the financial metrics of the annual bonus during the year. The Committee reviewed the strategic objectives comprising individual and stakeholder metrics, which represent 20% of the annual bonus opportunity, and the significant progress made, and being made by the business on stakeholder metrics. It concluded that while stakeholder metrics continued to be core to the way we do business and would continue to be used for certain Executive Committee members who had specific responsibility for them, they would no longer apply to Executive Directors with their strategic objectives being based entirely on individual metrics.

2019/20 incentive outcomes.

As outlined in the Chairman's Statement and Group Chief Executive's review, Tesco has delivered a strong performance against a backdrop of challenging external conditions. With every element of the turnaround plan complete, the Group has been focused on generating sustainable growth within our disciplined capital expenditure allocation through the three pillars of Growth, Innovation and Enabling Technology. Further details can be found on page 5.

Following the end of the financial year, the Committee met and reviewed performance under the annual bonus plan and PSP for the Executive Directors and Executive Committee members. For the annual bonus, Group sales and Group operating profit were achieved at 10.9% and 47.9% of maximum, respectively. The Committee used its judgement in evaluating the strategic objectives, which varied from executive to executive. This led to an overall outcome of 75.9% for Dave Lewis and 76.4% for Alan Stewart of the maximum opportunity. Further details of the annual bonuses earned by the Executive Directors are reported on page 58.

For the 2017 PSP award, the Committee took all relevant factors into consideration to ensure that the outturn was a fair reflection of performance. In particular, the Committee considered the appropriateness of the TSR benchmark in view of significant changes in the retail landscape that were unforeseen when the targets were set. As Ocado has seen a significant shift away from being a retail-focused business towards a technology-focused business during the performance period, the Committee decided to remove Ocado from the TSR benchmark from 16 May 2018. This was the date on which a clear pattern emerged of Ocado pursuing a technology strategy.

The Committee also noted that during the performance period management had taken decisions in the best interests of the Company that resulted in lower cash flow. It therefore adjusted the cash generation outcome for the rightsizing of the Poland business. In this way, the improvement in cash profitability, which has been a key strength of Tesco's successful turnaround, is reflected appropriately in the 2017 PSP outcome.

In combination with the consistently strong performance across all stakeholder measures, the overall outcome for the 2017 PSP is 48.8% of maximum opportunity, with awards vesting later in the year. The Committee considered this outcome to be a fair and proportionate result.

Appointment of new Group Chief Executive.

Dave Lewis will be stepping down as Group Chief Executive on 30 September 2020. Ken Murphy will be appointed to the Board as Group CEO on 1 October 2020. Details of leaving and joining arrangements for Dave Lewis and Ken Murphy can be found on page 60. In summary, the Committee has approved good leaver status for Dave Lewis and his unvested annual bonus share awards will continue to vest at their normal time, with unvested PSP awards subject to pro-rata. No PSP award will be granted to him in 2020, but he will receive a pro rata annual bonus for 2020/21. The reward package for Ken Murphy has been set in line with the existing remuneration policy. There are no buyout arrangements.

Implementation of the remuneration policy in 2020/21 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 approach, the base salary and maximum annual bonus and PSP opportunities for Alan Stewart will remain unchanged for 2020/21. The Committee is however cognisant of the current market volatility and negative impact on shareholders of the recent COVID-19 outbreak. While we do not believe it is possible at this stage to make a sensible and informed adjustment to the incentives, the Committee will use the discretion available to it under the remuneration policy when determining the final annual bonus and PSP outcomes and will make any necessary adjustments to ensure that the Executive Directors do not benefit unduly from windfall gains when the market recovers, and determine a fair outcome based on the performance of the Group.

The Committee will be reviewing the pension contribution rate of Alan Stewart, currently 25% of base salary. In line with our established reward principle of fairness throughout the organisation and the pension contribution rate for Ken Murphy of 7.5% of base salary, we will ensure that the pension provision of Alan Stewart is reduced to that available to the wider workforce, currently 7.5% of base salary, by the end of 2022. The approach for moving to this position will be set out in next year's remuneration policy to be put before shareholders.

Dave Lewis' base salary, maximum annual bonus opportunity and pension contribution rate for 2020/21, until his departure, will remain unchanged.

Given that the remuneration policy will expire at the 2021 AGM, this year the Committee will undertake a review of Tesco's remuneration arrangements. This review will take into consideration the governance developments and emerging market practices since the current policy was approved. However, we plan to undertake a more fundamental review of the policy in 2021/22 once Ken Murphy has had some time in role, so that his views can be expressed in the policy design. This policy would then be put before shareholders at the 2022 AGM. We plan to continue regular dialogue with shareholders and will hold meetings with Tesco's largest investors on both policies to obtain their views and feedback.

Conclusion.

The Committee will endeavour to report remuneration matters with clarity and transparency. We welcome any suggestions on how we can add to these qualities in the future and any comment you may have on this report.

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Steve Golsby
Remuneration Committee Chair

Governance summary.

Operation of the Remuneration Committee.

The Committee determines the Company's framework and policy for executive remuneration, as well as setting the remuneration of the Chairman, Executive Directors, Executive Committee members, Chief Audit and Risk Officer and Company Secretary. The Committee also reviews the remuneration arrangements for Group employees whose salaries exceed specified levels and administers the Group's share incentive plans. In addition, the Committee has regard to workforce remuneration, related policies and the alignment of incentives and rewards with culture when setting Executives' remuneration.

The Committee maintains an active dialogue with shareholders and their representative bodies and its terms of reference were reviewed during the year.

Committee composition.

The Committee consists of Steve Golsby (Chair), John Allan, Byron Grote, Mikael Olsson, Deanna Oppenheimer and Alison Platt, who are all independent Non-executive Directors, except John Allan who is Non-executive Chairman. Meetings attendance is set out on page 30. No member of the Committee has any personal financial interest in the matters decided, other than as a shareholder, nor do members have any day-to-day involvement in running the business of Tesco. Robert Welch, Group Company Secretary, is Secretary to the Committee. Dave Lewis, Group Chief Executive, and Natasha Adams, Chief People Officer, attend meetings at the invitation of the Committee. The Committee is supported by the Reward, Corporate Secretariat and Finance functions. No Directors or Executives are involved in determining their own remuneration.

Risk management.

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk-taking or behaviours that are incompatible or inconsistent with Tesco's values, environmental and sustainability objectives, and the long-term interests of shareholders and other

stakeholders. 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.

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 the Group remuneration policy. The Committee, however, does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.

Committee advisers.

The Committee appoints an independent remuneration consultant to provide advice on particular matters.

During the year, the Committee conducted a competitive tendering exercise and agreed to retain PwC as its remuneration consultant. PwC is a signatory to the Remuneration Consultants' Code of Conduct.

In 2019/20, PwC provided advice and commentary on a range of topics including remuneration trends, the leaving terms of Dave Lewis and joining terms of Ken Murphy, consulting with shareholders and corporate governance. PwC fees for advice provided to the Committee were £144,400 (2018/19: £120,700). Fees are charged on a time and materials basis. PwC also provided general consultancy services to management during the year and separate teams within PwC provided unrelated advisory services in respect to corporate tax compliance, technology consulting and internal audit services. However, the Committee is satisfied that these activities do not compromise the independence or objectivity of the advice it has received from PwC.

Remuneration Committee activities 2019/20.

The Committee met seven times during the year and the following provides a summary of the key areas of focus:

Base salaries	- reviewed base salaries in accordance with the remuneration policy and in the broader colleague context
Annual bonus	- 2019/20 annual bonus: reviewed performance against targets - 2020/21 annual bonus: reviewed and set metrics and targets to ensure continued alignment to strategy - 2020/21 annual bonus: agreed to align threshold vesting level at 25% for both financial metrics
Performance share plan	- 2017 PSP: reviewed performance against targets - 2019 PSP: set challenging targets to drive performance
Governance and other matters	- approved leaving terms for Dave Lewis and joining terms for Ken Murphy - reviewed pension provision for Alan Stewart - considered 2018/19 Directors' remuneration report - reviewed shareholder feedback on 2018/19 Directors' remuneration report - evaluated the Committee's performance - reviewed the Committee's terms of reference

Shareholder voting.

The table below sets out the voting outcome for the remuneration report at the 2019 AGM and the remuneration policy at the 2018 AGM.

	Votes For		Votes Against		Votes withheld
	Number of shares (millions)	Percentage of votes	Number of shares (millions)	Percentage of votes	Number of shares (millions)
Remuneration report	6.989	97.25	198	2.75	1.5
Remuneration policy	6.732	93.15	495	6.85	35

Reward principles.

The principles of a fair workplace.

To live up to our 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, irrespective of their background. We are proud of our long history of helping colleagues develop their careers in Tesco.

Our approach to reward is guided by the following principles:

- Competitive: setting pay with reference to internal relativity and external market practices.
- Simple: helping all colleagues to understand how they are rewarded.
- Fair: achieving consistent outcomes through flexible and transparent policies.
- Sustainable: aligning reward to business strategy and performance.

How our principles are brought to life.

Tesco provides colleagues across the Group with a competitive reward package. The Committee has responsibility for reviewing remuneration and related policies of colleagues throughout the Group. This ensures the reward, incentives and conditions available to colleagues are taken into account when deciding the remuneration of Executive Directors and senior management.

In Tesco's UK business in 2019/20 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	WL1-3*		
		Executive Committee and WL4-5*	Hourly-paid colleagues in stores	Other colleagues
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.	✓	✓	✓
All-colleague share plans	The opportunity to purchase shares in Tesco.	✓	✓	✓
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.	✓	(b)	✓
Performance Share Plan	Colleagues with responsibility for long-term Group performance are incentivised to achieve Tesco's strategy and create sustainable shareholder value.	✓		

* WL refers to Work Levels, which are Tesco's internal grading system.

† It was agreed jointly with our unions in 2019 that hourly-paid colleagues in stores would no longer receive annual bonus, replacing it with a higher rate of base pay

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.

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 how they feel about pay and benefits at Tesco. In our 2020 survey, 71% of colleagues agreed that the total reward package at Tesco is competitive, which is well ahead of relevant external benchmarks. In addition, 85% said that they are able to work flexibly and 76% agreed that Tesco supports their health and wellbeing.

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. Our ongoing initiatives include:

- helping our colleagues be at their best through our health and wellbeing offerings;
- helping young people start their careers, with increased apprenticeships and support for developing employability in partnership with the Prince's Trust and Institute of Grocery Distribution (IGD); and
- building skills for the future, with many online learning programmes, creating greater choice for colleagues to work flexibly and own their own careers.

In March 2020, we announced a 10% bonus for front-line colleagues in the UK & ROI to recognise their incredible contribution in helping customers get the products that they need during the COVID-19 pandemic, with similar colleague recognition schemes in Central Europe and Asia.

We will continue to invest in our colleagues to ensure we remain an employer of choice.

Directors' remuneration report continued

Reward principles continued

Group Chief Executive 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. Given the workforce profile, all three of the Group Chief Executive pay ratio reference points compare our Group Chief Executive's remuneration with that of colleagues in mainly customer-facing roles and there is relatively little difference in the outcomes as shown below. Whatever the Group Chief Executive pay ratio, Tesco will continue to invest in competitive pay for all colleagues.

The following table shows the ratio between the single total figure of remuneration (STFR) of the Group Chief Executive for 2019/20 and the lower quartile, median and upper quartile pay of our UK colleagues. The median pay ratios for 2018/19, which we voluntarily disclosed in last year's Directors' remuneration report, are shown for comparison.

Total pay ratio

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2018/19	Option C	247:1	226:1	209:1
2019/20	Option C	355:1	305:1	279:1

Total pay and benefits amounts used to calculate the ratio

Financial year	Method	25th percentile pay ratio		50th percentile pay ratio		75th percentile pay ratio	
		Total pay and benefits	Total salary	Total pay and benefits	Total salary	Total pay and benefits	Total salary
2019/20 ^(a)	Option C	£18,086	£17,025	£21,057	£19,692	£23,046	£20,135

^(a) The total FTE pay and benefits for the relevant colleagues is based on the period from 10 February 2019 to 8 February 2020.

The reporting regulations offer three calculation approaches for determining the pay ratio – Options A, B and C. The table above was calculated using the approach determined by Option C, which is deemed the most appropriate methodology for Tesco.

As more than half of Tesco's colleagues work part-time, the exercise required to determine full-time equivalent (FTE) is extensive and particularly complex, making it not feasible to adopt Option A. Option B was not considered appropriate because the definition of pay for Gender Pay Gap (GPG) purposes is very restrictive compared to the FTE pay and benefits used for this exercise. This could result in some unusual results for the best equivalents chosen on the basis of GPG data alone (for example the ratio for the P50 colleague being lower than that of the P75 colleague).

Tesco decided to use Option C as it has completed comprehensive data collation and analysis of all relevant colleagues for the purpose of GPG reporting and was able to use additional pay data which is not used for GPG reporting (including overtime, salary sacrifice values and employer pension contributions). This approach minimised the differing definitions of pay for STFR and GPG to enable Tesco to select the 'best equivalents' of P25, P50 and P75.

The only adjustments made to determine the pay and benefits of the colleagues identified as P25, P50 and P75 related to working hours, basing amounts on a 36-hour working week.

Tesco believes the 'best equivalent' colleagues identified are reasonably representative of the 25th, 50th and 75th percentiles as Tesco has compiled pay on an FTE basis by using the most recent GPG data, then adding further pay and benefits data to ensure the STFR reflects total pay paid throughout the financial year. Tesco reviewed pay across a sample of employees at each percentile before selecting the employee which was most representative.

As set out on page 55, our reward framework across the Group is based on a consistent set of principles for all – that overall remuneration should be competitive when compared to similar roles in other organisations from which we draw our talent. Colleague pay is therefore determined using the same principles as the pay for our Executive Directors. On this basis, we believe the median ratio is consistent with the Company's wider policies on employee reward, pay and progression.

In the case of the Group Chief Executive, his total remuneration comprises a significant proportion in variable pay and therefore the single figure will vary considerably depending on the level of performance against the metrics which drive the annual bonus and PSP. In 2018/19 the annual bonus and PSP paid out at 52.5% and 28.8% of maximum potential compared to 75.9% and 48.8% in 2019/20, which has resulted in an increase in the pay ratio.

Gender pay.

Tesco's gender pay report for the year to April 2019 shows that the median gender pay gap has reduced from 8.9% to 8.0%. This is significantly below the UK national average of 17.3%. The median bonus gap has reduced from 31.1% to 25.4%.

These improvements indicate that the actions we are taking are working. The remaining gap is largely driven by two factors:

- 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 3.6%; and
- a higher proportion of men are in more senior roles. As a member of the 30% Club, we are improving the balance and are committed to achieving a minimum of 30% of women in our senior roles. This has already been achieved on our Board and Executive Committee.

We will continue to focus our efforts across three core pillars:

- support and attract talented women: initiatives like the 'Women at Tesco' network and 'Own Your Career' programme provide opportunities for women to drive their careers forward. We also monitor recruitment practices and insist on gender-balanced hiring;
- equip and empower our leaders: all our business leaders, directors and managers have completed diversity and inclusion training programmes; and
- sustain an inclusive culture: we review our policies and practices to ensure a truly inclusive colleague experience.

Through these actions, Tesco is creating a diverse and inclusive workplace, where everyone is welcome.



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

Annual report on remuneration.

Guided by our remuneration policy, we aim to reward colleagues responsibly and fairly so that all our people are rewarded competitively against the relevant pay benchmark for their role.

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

- Between 2015/16 and 2019/20, 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 salary of Dave Lewis and Alan Stewart has remained unchanged as set out in the chart on page 62.
- Since July 2014, Executive Committee base salary costs as a proportion of the total Group spend on remuneration have fallen by 27% and now represent 0.1% of total Group wage costs. During this period, the average total reward package for colleagues across the Group, inclusive of variable pay outcomes, has risen by about 15%, as set out in the chart below.
- Share-based incentive awards to our Executive Committee are linked to performance, and the Committee remains sensitive to the views of investors and other stakeholders, particularly regarding restraint when determining the potential size of awards.

Executive remuneration and all-colleague costs

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

The following table provides a summary single total figure of remuneration for 2019/20 and 2018/19 for Executive Directors.

	Dave Lewis		Alan Stewart	
	2019/20	2018/19	2019/20	2018/19
Fixed pay				
Base salary (£'000)	1,250	1,250	750	750
Taxable benefits (£'000)	62	61	62	59
Pension (£'000)	313	313	188	188
Total fixed pay (£'000)	1,625	1,624	1,000	997
Variable pay				
Annual bonus (short-term pay)	2,372	1,641	1,289	834
PSP (long-term pay) ^(a)	2,428	1,513	1,324	825
Value delivered through corporate performance (£'000)	1,762	1,011	961	551
Value delivered through share price growth performance (£'000) ^(a)	666	502	363	274
Total variable pay (£'000)	4,800	3,154	2,613	1,659
Single total figure of remuneration (£'000)	6,425	4,778	3,613	2,656

^(a) The PSP figures for 2018/19 have been adjusted, in line with statutory reporting requirements, following last year's report to show the actual value upon vesting of the award in June 2019 based on the then share price of 238p. The estimated value shown in the table for 2019/20 is based on the three-month average share price at 29 February 2020 of 248p. Values include dividend equivalents added in shares since the date of grant.

^(b) The difference between the share price at grant of the 2017 PSP award, which will vest in 2020, of 180p and the three-month average share price at 29 February 2020 of 248p has been used to calculate the value delivered through share price growth.

2019/20 fixed remuneration.

Salary

The salaries shown in the table above reflect a 2019/20 salary. Salaries are normally reviewed annually, with changes being effective from 1 July. The Committee considered the Group Chief Executive's and Chief Financial Officer's salaries during 2019 taking into account pay review budgets across the Group. As a result, the Committee determined that the salaries for the Group Chief Executive and the Chief Financial Officer would remain unchanged in 2019/20.

Benefits

Benefits are provided at an appropriate level, taking into account market practice and the level of benefits provided to other colleagues in the Company. Core benefits include a car or cash allowance and the benefit of a driver, private health insurance and life assurance. Executive Directors participate in the Company's all-employee share schemes on the same terms as other colleagues.

Directors' remuneration report continued

Annual report on remuneration continued

Pension

Dave Lewis and Alan Stewart received a cash allowance in lieu of pension of 25% of base salary paid in four weekly instalments. As set out on page 53, the pension contribution rate of Alan Stewart will be reduced to align it with that available to the wider workforce, currently 7.5% of base salary, by the end of 2022.

2019/20 variable pay.

2019/20 annual bonus outcomes (audited)

Annual bonuses for 2019/20 will be paid in May 2020. Annual bonus is determined by financial metrics and strategic objectives designed to support the achievement of certain strategic outcomes. The breakdown of annual bonus metrics and the payout for each Executive Director is set out below. Half of the annual bonus payment is subject to compulsory deferral into Tesco PLC shares for a three-year period.

Financial performance metric	Weighting (% of total annual bonus opportunity)	Performance targets (and % payout)			Actual achievement	CEO payout (as a % of total annual bonus opportunity)	CFO payout (as a % of total annual bonus opportunity)
		Threshold	Target	Stretch			
Group sales ^(a)	30%	£55,988m	£57,137m	£58,285m	£56,353m	10.9%	10.9%
		(30% payout)	(50% payout)	(100% payout)			
Group operating profit before exceptional items and amortisation of acquired intangibles ^(a)	50%	£2,579m	£2,766m	£2,953m	£2,937m	47.9%	47.9%
		(0% payout)	(50% payout)	(100% payout)			
Other metric							
Strategic objectives	20%	See 2019/20 achievement of individual objectives below				17.1%	17.6%
Total (% of total annual bonus opportunity)	100%					75.9%	76.4%

^(a) Actual achievement is based on performance over 52 weeks at constant foreign exchange rates to align with targets. Outcomes at actual foreign exchange rates were £56,527m (Group sales) and £2,959m (Group operating profit). A reconciliation to statutory financial results is provided in the Glossary commencing on page 167.

2019/20 achievement of individual objectives

Executive Director	Portfolio review (6.66%)	Group-wide talent and succession planning review (6.66%)	Capital allocation framework (6.66%)
Dave Lewis	In February 2020, the Group completed the sale of its stake in its joint venture in China, and in March 2020 announced the proposed sale of its Asia business for \$10.3bn. This resulted in a payout slightly below stretch of 6.0%.	Succession and talent management plans were put in place for senior management during the year. High potential WL3 colleagues were also identified and development plans put in place. This resulted in a payout between target and stretch of 4.5%.	During the year, the Group's priorities for allocating capital were communicated to the market. These were well understood and accepted. This resulted in a payout at stretch of 6.6%.
Alan Stewart	Finance transformation (6.66%)	Payment strategy (6.66%)	Capital allocation review (6.66%)
	During the year, significant progress was made on the rollout of the finance transformation programme, with projects being delivered on time and within budget. This resulted in a payout between target and stretch at 5.0%.	During the year, a customer trial was conducted of a concept loyalty and payment tool to further enhance the customer offer. This resulted in a payout slightly below stretch of 6.0%.	As above, payout at stretch of 6.6%.

The performance outcome resulted in the following bonus payouts:

Executive Director	Stretch bonus opportunity (% of base salary)	Actual bonus (% of base salary)	Actual bonus (£'000)	Deferred into shares (50% of bonus)
Dave Lewis	250%	189.8%	2,372	1,186
Alan Stewart	225%	171.9%	1,289	645

2019 PSP award grant (audited)

The following summarises the PSP awards made to Dave Lewis and Alan Stewart in 2019/20:

Executive Director	Type of award	Date of award	Shares granted	Face value (% of base salary)	Face value (£) ^(a)	Threshold vesting (% of face value)	Stretch vesting (% of face value)	Vesting date
Dave Lewis	Conditional award	20/06/2019	1,492,747	275%	3,437,498	25%	100%	20/06/2022
Alan Stewart	Conditional award	20/06/2019	895,648	275%	2,062,500	25%	100%	20/06/2022

^(a) The face value has been calculated using the market price on grant of 230p (20 June 2019).

^(b) The awards have a three-year performance period which will end on 26 February 2022 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.

Details of the PSP award made to Alan Stewart in 2020 will be reported in next year's Annual Report.

Dividend equivalents

Awards will incorporate the right 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. Since the reinstatement of dividends in 2017, dividend equivalents on awards have been paid in shares.

2017 PSP vesting (audited)

The PSP award granted in 2017 will vest in May 2020 based on performance over three years up to and including the 2019/20 financial year. In determining a fair and proportionate outcome, the Committee discussed the TSR comparator group in view of significant changes in the retail landscape over the performance period. Since the awards were granted in 2017, Ocado has experienced significant share price growth which analysis shows is directly correlated to the sales of its technology platform as opposed to its food business. As a result of Ocado's divergence from the retail market (and hence as a direct comparator for Tesco), the Committee decided to remove Ocado from the TSR comparator group for the 2017 PSP after 16 May 2018. This was when Ocado signed its third major technology deal, establishing a clear pattern of pursuing a technology strategy.

The Committee also noted that during the performance period management had taken decisions in the best interests of the Company that resulted in lower cash flow. It therefore adjusted the cash generation outcome for the rightsizing of the Poland business. In this way, the improvement in cash profitability, which has been a key strength of Tesco's successful turnaround, is reflected appropriately in the PSP outcome. Taking all factors into account, the 2017 PSP performance outcome was as follows:

Metrics (% maximum)	Performance targets (and % payout)			Actual performance	Payout (vesting level)	Payout (% of maximum)	Number of shares to vest ^a	
	Threshold	Target	Stretch				Dave Lewis	Alan Stewart
Relative TSR ^(a) (50%)	Performance equal to the index (25% payout)	–	6% p.a. outperformance of the index (100% payout)	3.3% p.a. outperformance of the index	66.8%	33.4%		
Cumulative cash generation ^{(c)(d)} (30%)	£10.676m (25% payout)	£11.176m (50% payout)	£11.676m (100% payout)	£10.738m	28.0%	8.4%		
Stakeholder:	(0% payout)	–	(100% payout)					
Customer (6.66%)	7pts	–	20pts	14pts	54.1%	3.6%		
Supplier (6.66%)	77%	–	81%	78%	25.5%	1.6%		
Colleague:								
Great place to work (3.33%)	81%	–	84%	82%	33.0%	1.1%		
Great place to shop (3.33%)	45pts	–	50pts	46pts	21.0%	0.7%		
Total					48.8%		979,113	534,061

^a For the equivalent value in cash see the Single total figure of remuneration table on page 57.

^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. Ocado was removed from the benchmark index for the 2017 PSP awards for the reasons set out above. The impact of the removal of Ocado from the TSR comparator group was to change the actual performance from 4.2% to 3.3% of the index.

^c The cash generation outcome was adjusted upwards by £240m to reflect the rightsizing of the Poland business. It may also be appropriate for adjustments to be applied in respect of cash flow measures in the 2018 and 2019 PSP awards when they vest in future years.

^d As disclosed in last year's Directors' remuneration report, the cash generation targets were adjusted in relation to Booker and the SFO fine and shareholder compensation scheme payments, as well as to take into account IFRS 16.

Implementation of policy in 2020/21.

We have set out below how the Committee intends to implement the remuneration policy for 2020/21. We note that when determining the final outcomes under the annual bonus and PSP awards, the Committee will take into account any share price movements and underlying Company performance and make any necessary adjustments to ensure that the level of payout is fair and appropriate and avoid any windfall gains, in particular those arising as a result of COVID-19. The full remuneration policy, as approved at the 2018 AGM, can be found on the Tesco website at www.tescoplcl.com/investors/corporate-governance.

Fixed pay.

Element of remuneration	Dave Lewis ^a	Alan Stewart	Ken Murphy ^b
Annual base salary	£1,250,000	£750,000	£1,350,000
Pension	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 7.5% of base salary

^a Dave Lewis will receive his base salary and cash allowance in lieu of pension until he departs on 30 September 2020. More detail on his leaving arrangements can be found on page 60.

^b As disclosed elsewhere in the report, Ken Murphy will be joining as Group Chief Executive on 1 October 2020. He will receive his base salary and cash allowance in lieu of pension from this date. More detail on his joining arrangements can be found on page 60.

Annual bonus.

Element of remuneration	Dave Lewis ^a	Alan Stewart	Ken Murphy ^b
Quantum ^(a)	Maximum of 250% of base salary	Maximum of 225% of base salary	Maximum of 250% of base salary
Annual bonus deferral	50% of bonus awarded deferred into Tesco PLC shares for three years		
Annual bonus performance metrics	Group sales (30%) Group operating profit before exceptional items and amortisation of acquired intangibles (50%) Individual objectives (20%) Group operating profit before exceptional items and amortisation of acquired intangibles underpin, below which no portion of the bonus will be paid.		

^a Annual bonus awards made in 2020/21 to both Dave Lewis and Ken Murphy will be pro rata to reflect the time of their service as Group Chief Executive in the year.

^b 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.

^c To simplify the annual bonus and better align it with market practice, the threshold vesting level for both Group sales and Group operating profit before exceptional items and amortisation of acquired intangibles have been aligned at 25% (previously 30% and 0%, respectively).

^d The 2020/21 targets were set based on 2019/20 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.

Directors' remuneration report continued

Annual report on remuneration continued

2020 PSP award grant

	Dave Lewis	Alan Stewart	Ken Murphy
Quantum	No grant in 2020 ^(a)	Maximum of 275% of base salary	No grant in 2020 ^(b)
PSP term	Three-year performance period and two-year post-vest holding period		
		Weighting	Performance targets (and % payout)
			Threshold (25% payout) Stretch (100% payout)
PSP performance metrics and targets ^{(c)(d)}	EPS	50%	16.5p 24.7p
	Free cash flow (three years)	50%	£4.435m £6.653m

^(a) As Dave Lewis will leave the Company on 30 September 2020, he will not be awarded a 2020 PSP grant.

^(b) As Ken Murphy will commence employment on 1 October 2020, he will not be awarded a 2020 PSP grant. From 2021/22, he will receive a maximum PSP award of 275% of base salary.

^(c) Both performance metrics are defined in the same manner as the reported alternative performance measures as set out on pages 164 to 166.

^(d) Both PSP performance metrics have straight-line vesting between threshold and stretch.

Malus and clawback

The Committee has the discretion to scale back deferred share awards and PSP awards prior to the satisfaction of such awards in the event that:

- results are materially misstated; or
- the participant has contributed to serious reputational damage of the Company or one of its business units; or
- the participant's conduct has amounted to serious misconduct, fraud, dishonesty, a breach of the Code of Business Conduct or material wrongdoing; or
- the determination of the vesting or value of an award has been affected by an underlying incorrect figure in the accounts; or
- an error or miscalculation in determining the vesting or value of an award is identified.

Where PSP awards are settled prior to the fifth anniversary of the grant of the award, the Committee shall have the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances described above.

Cash bonus payments can also be clawed back in the circumstances described above up to the third anniversary of payment.

Leaving arrangements for Dave Lewis.

As announced on 2 October 2019, Dave Lewis will be stepping down as Group Chief Executive and as an Executive Director of Tesco PLC. His last day as a Director and Group Chief Executive will be 30 September 2020.

Severance

As Dave Lewis is a voluntary leaver, he will not receive any severance payment or pay in lieu of notice when he leaves the Company.

Annual bonus

Dave Lewis will be eligible for an annual bonus (cash and deferred shares) under the 2020/21 annual bonus plan. Any bonus paid would be pro rata to reflect his period of service as Group Chief Executive up to 30 September 2020 and will be disclosed in full in next year's Directors' remuneration report.

Unvested share awards

The Committee has determined that Dave Lewis will be treated as a good leaver in respect of his outstanding awards under Tesco's discretionary share plans. Accordingly, his unvested deferred bonus awards will vest in full in accordance with their original time frames. Any shares released from the 2019 deferred bonus award may be subject to a post-employment shareholding requirement, with post-tax vested shares being held until 30 September 2022. Additionally, the 2018 and 2019 PSP awards will vest on their original vesting dates to the extent that the performance conditions are met and, on vesting, would be pro rata to reflect his period of service as Group Chief Executive until 30 September 2020. The vested pro rata shares will be subject to a post-vesting holding period of two years.

Joining arrangements for Ken Murphy.

Ken Murphy will join Tesco on 1 October 2020. All pay and benefits for Ken Murphy have been set in line with the current remuneration policy. The salary has been set at a level that the Committee regards as appropriate for the size and scope of the role, noting that the incumbent's salary had not been increased since 2014.

In line with the remuneration policy, Ken Murphy will also receive benefits, including relocation assistance for a period of 24 months and relocation support in the event of him deciding to move his main residence from Ireland to the UK. He will be required to build up a shareholding of 400% of base salary and to retain all shares that are vested to him, net of any tax liabilities, until the requirement is satisfied. He will also be subject to Tesco's post-employment shareholding requirement. There are no buyout arrangements. A summary of the remuneration arrangements for Ken Murphy can be found on page 59 and above.

His service agreement is terminable on 12 months' notice by either party.

Additional Remuneration disclosures for Executive Directors.

Executive Directors' interests in shares and shareholding guidelines (audited)

The Committee wants to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Company. For this reason, when the Committee looks at the remuneration paid in the year, it also looks at the total equity Executive Directors hold and its value based on the performance of the Company. The table opposite sets out the 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.

	Ordinary shares beneficially owned at 24/02/2019 (value of shares) ^a	Ordinary shares beneficially owned at 29/02/2020 (value of shares) ^{a,†}	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)
Executive Director							
Dave Lewis	167,691 (£415,874)	173,160 (£429,437)	1,533,613	4,904,848	4,383,629	657%	400%
Alan Stewart	116,576 (£289,108)	120,555 (£298,976)	814,723	2,757,694	2,094,947	550%	300%

^a Value of Executive Directors' shareholdings based on the three-month average share price to 29 February 2020 of 248p.

[†] Between 29 February 2020 and 7 April 2020, Dave Lewis and Alan Stewart acquired 61 and 62 partnership shares, respectively, under the all-employee Share Incentive Plan. No other changes in Executive Director share interests occurred in the period.

[‡] Vested and unvested options and awards include dividend equivalents added as shares since the date of grant.

[§] The Group Chief Executive and the Chief Financial Officer are required to establish and maintain a minimum personal shareholding of 400% and 300% of base salary, respectively.

^{||} 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.

Executive Committee members are required to build up and maintain a shareholding of at least 200% of base salary in Tesco PLC shares, this is monitored regularly by the Committee.

Executive Directors' interests in share awards

Awards vesting in financial year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Dave Lewis ^{(a)(b)}									
Vested options ^{(c)(d)}	475,154	638,709	640,967	493,639	493,887	1,641,273	–	–	–
Options/awards subject to service	–	–	–	–	–	–	655,815	477,485	336,028
Options/awards subject to performance and service (PSP)	–	–	–	–	–	–	1,909,722	1,340,103	1,492,747
SAYE options (exercise price 188p)	–	–	–	–	–	–	–	–	9,574
Alan Stewart ^{(a)(b)}									
Vested options ^{(c)(d)}	–	265,670	343,638	266,564	329,222	889,853	–	–	–
Options/awards subject to service	–	–	–	–	–	–	347,906	261,808	170,740
Options/awards subject to performance and service (PSP)	–	–	–	–	–	–	1,041,666	730,965	895,648
SAYE options (exercise price 188p)	–	–	–	–	–	–	–	–	9,574

^(a) No options were exercised by Dave Lewis and Alan Stewart in 2019/20. In 2018/19 both Dave Lewis and Alan Stewart made a gain of £8,463 on the exercise of 11,920 shares under the Company's SAYE plan.

^(b) 1,538,921 and 839,411 nil cost options granted under the PSP in 2016 to Dave Lewis and Alan Stewart, respectively, lapsed in 2019/20.

^(c) All vested options expire 10 years after grant, except SAYE options which expire six months after maturity.

^(d) Vested options include dividend equivalents added as shares since the date of grant.

^(e) The range of the Company's share price for the year was 213p to 259p. The year-end price was 229p.

Change in remuneration of colleagues and Directors

The table below shows the percentage change in the remuneration of Directors and the average UK colleague from 2018/19 to 2019/20.

As the only employees of the Company are its Directors, the Committee decided to use the average UK colleague as the appropriate comparator group as they represent the majority of Tesco colleagues and the Group Chief Executive is predominantly based in the UK.

	Salary or fees (% change from 2018/19 to 2019/20)	Benefits (% change from 2018/19 to 2019/20)	Bonus (% change from 2018/19 to 2019/20)
Average UK colleague	3.0%	0%	(100)% ^(a)
Dave Lewis	0%	1.6%	44.5%
Alan Stewart	0%	5.1%	54.6%
John Allan	2.5%	63%	–
Mark Armour	2.8%	100%	–
Melissa Bethell	2.8%	100%	–
Stewart Gilliland	2.9%	300%	–
Steve Golsby	2.1%	31%	–
Byron Grote	2.3%	100%	–
Mikael Olsson	2.9%	(60)%	–
Deanna Oppenheimer	2.5%	(50)%	–
Simon Patterson	2.8%	100%	–
Alison Platt	2.9%	0%	–
Lindsey Pownall	1.9%	(20)%	–

^(a) It was agreed jointly with our unions in 2019 that hourly-paid colleagues in stores would no longer receive an annual bonus, replacing it with a higher rate of base pay.

Further details of fees and taxable expenses paid to Non-executive Directors are set out on page 64.

Directors' remuneration report continued

Annual report on remuneration continued

The chart below shows that between 2015/16 and 2019/20 the hourly-rate paid to UK store colleagues increased by 14%. The base salaries of Dave Lewis and Alan Stewart were unchanged.

Total Shareholder Return (TSR)

The graph below illustrates the Company's TSR performance (share price growth plus dividends paid) against the performance of the FTSE 100 over a ten-year period to 29 February 2020. The FTSE 100 index has been chosen because it is a broad-based index of which the Company has been a constituent member throughout the period.

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. The turnaround goals shared in October 2016 were completed this year and the full-year dividend payout ratio reached 50%. The many opportunities available to Tesco for further profitable growth were set out at the Capital Markets day in June 2019 and the business continues at pace to implement these opportunities.

Group Chief Executive remuneration history

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Sir Terry Leahy	Philip Clarke**	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis†	Dave Lewis	Dave Lewis	Dave Lewis	Dave Lewis
Group Chief Executive single figure of remuneration (£'000)	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)	75%	0% ^(a)	0%	0%	0%	–	96%	76%	73%	52.5%
PSP vest (% of maximum award)	75%	46.5%	0%	0%	0%	–	–	–	30%	28.8%
Share option vesting (% of maximum award)	100%	100%	0%	–	–	–	–	–	–	–

^(a) Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014

^(†) 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 were 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 table below indicates how the earnings of Executive Directors compare with other financial dispersals.

	2018/19 £m	2019/20 £m	% change
Executive Directors' remuneration ^(a)	7.4	10.0	35.1%
Dividends to shareholders ^(b)	357	656	83.8%
Total taxes paid ^(c)	347	380	9.5%
Colleague costs ^(d)	7,646	7,396	(3.3)%

^(a) Calculated on the same basis as the Single total figure of remuneration on page 57.

^(b) Dividends to shareholders include interim and final dividends paid in each financial year (see Note 8 of the financial statements for further information).

As set out in the Income Statement (see Note 6 of the financial statements for further information).

^(d) Employee costs includes wages and salaries, social security, pension and share-based costs at actual exchange rates (see Note 3 of the financial statements for further information)

For every £1 spent on Executive Directors' remuneration by the Company in 2019/20, £66 was made in dividend payments, £38 was paid in tax and £740 was spent on colleague costs.

Payments to former Directors and for loss of office (audited)

The former Group CEO, Philip Clarke, who stepped down from the Board in September 2014 and ceased employment with the Company in January 2015, opted on 15 March 2020 to receive a one-off cash lump sum in exchange for his contractual SURBS pension entitlement (the Company's contractual unfunded retirement benefit scheme, which was closed to new entrants in April 2011). Philip Clarke's pension from his SURBS was previously disclosed alongside his pension from the Tesco pension scheme in his single total figure of remuneration in the relevant annual report on remuneration until he stepped down from the Board in 2014. The value of the lump sum payment was £10.7m, recognising his 40 years with the business, and is valued based on the SURBS scheme transfer value minus employer National Insurance costs. This payment brings to a close the Company's pension liabilities toward Philip Clarke in respect of both his Tesco pension scheme pension and SURBS pension. No additional pension value above his contractual entitlement has been provided by the Company. The option of providing SURBS members with an exchange for their annual pension of a one-off cash lump sum helps to de-risk the potential liabilities under the scheme when it is chosen. There were no other 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.

Outside appointments

In 2019/20, Alan Stewart received £123,000 (2018/19: £122,000) 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 from the Company. The details of existing Executive Directors' service contracts are summarised in the table below.

Executive Director	Date of service agreement	Notice period from Company	Notice period from Executive Director
Dave Lewis	19 July 2014	12 months	6 months
Alan Stewart	9 July 2014	12 months	6 months

Funding of equity awards

Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. These guidelines 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 1.23% 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 (together, the Trusts) in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 29 February 2020, the Trusts held 89,072,821 shares.

Remuneration disclosures for Non-executive Directors.

Non-executive Director fees

The fees for the Chairman and the Non-executive Directors are reviewed each year and may be increased if considered appropriate. The Chairman's fee is 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 2019, following a review of independently sourced data, it was deemed appropriate to increase the Chairman's fee by 2.5% and the average Non-executive Director fees by 2.6%, from 1 September 2019. This is below the average increase for broader UK colleagues and is set out below.

	1 November 2018 to 31 August 2019 (per annum)	From 1 September 2019 (per annum)
Chairman	£670,000	£687,000
Non-executive Director fee	£75,000	£77,000
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	£13,500	£14,000

Directors' remuneration report continued

Annual report on remuneration continued

Fees paid to Non-executive Directors during 2019/20 (audited)

The following table sets out the fees paid to the Non-executive Directors for the year ended 29 February 2020. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

Non-executive Director	2019/20			2018/19		
	Fees (£'000)	Taxable expenses ^a (£'000)	Total (£'000)	Fees (£'000)	Taxable expenses ^a (£'000)	Total (£'000)
John Allan	677	13	690	655	8	663
Mark Armour	90	2	92	86	–	86
Melissa Bethell ^b	90	1	91	33	0.5	33.5
Stewart Gilliland ^{(a)(c,1)}	101	2	103	71	0.5	71.5
Steve Golsby ^(a,1)	121	17	138	99	13	112
Byron Grote	134	1	135	129	–	129
Mikael Olsson	103	2	105	98	5	103
Deanna Oppenheimer	144	9	153	156	18	174
Simon Patterson	90	0.5	90.5	86	–	86
Alison Platt ^(c)	101	0.5	101.5	86	0.5	86.5
Lindsey Pownall	107	8	115	104	10	114

^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 UK. John Allan also has the benefit of home security and healthcare for himself and his partner. 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.

^c Steve Golsby became Chair of the Remuneration Committee on 1 February 2019, and Stewart Gilliland and Alison Platt became members of the Nominations and Governance Committee on 18 April 2019.

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 29 February and 7 April 2020. Non-executive Directors are expected to build up and maintain a personal shareholding in the Company equal to the value of their base fee over a period of five years following appointment.

Non-executive Director	Ordinary shares held at 24 February 2019	Ordinary shares held at 29 February 2020	Current shareholding (% of base fee)	Compliance with shareholding guideline
John Allan ^(a)	306,082	306,082	113	✓
Mark Armour	50,000	50,000	165	✓
Melissa Bethell ^(b)	25,335	25,335	84	x
Stewart Gilliland	43,398	44,630	148	✓
Steve Golsby	42,296	42,296	140	✓
Byron Grote ^(d)	280,500	280,500	928	✓
Mikael Olsson	30,418	46,278	153	✓
Deanna Oppenheimer ^(c)	110,820	114,048	377	✓
Simon Patterson	100,000	100,000	331	✓
Alison Platt	34,255	35,246	117	✓
Lindsey Pownall	70,000	70,000	231	✓

^(a) John Allan also held 398,000 bonds in the Company at 29 February 2020 and 24 February 2019.

^(b) Melissa Bethell has until September 2023 to meet the shareholding guideline.

^(c) Byron Grote and Deanna Oppenheimer held their shares in the form of American Depositary Receipts (ADRs). Each ADR is equivalent to three Ordinary shares of 5p each in the Company.

^(d) Value of Non-executive Directors' shareholdings is based on the three-month average share price to 29 February 2020 of 248p.

Non-executive Directors' dates of appointment

Non-executive Director	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment	Total length of service as at 29 February 2020 (years)
John Allan	1 March 2015	None	AGM 2020	5.0
Mark Armour	2 September 2013	None	AGM 2020	6.5
Melissa Bethell	24 September 2018	None	AGM 2020	1.4
Stewart Gilliland	5 March 2018	None	AGM 2020	2.0
Steve Golsby	1 October 2016	None	AGM 2020	3.4
Byron Grote	1 May 2015	None	AGM 2020	4.8
Mikael Olsson	1 November 2014	None	AGM 2020	5.3
Deanna Oppenheimer	1 March 2012	None	AGM 2020	8.0
Simon Patterson	1 April 2016	None	AGM 2020	3.9
Alison Platt	1 April 2016	None	AGM 2020	3.9
Lindsey Pownall	1 April 2016	None	AGM 2020	3.9

Approved by the Board on 7 April 2020.

Steve Golsby
Remuneration Committee Chair

Directors' report

The Directors present their report, together with the audited accounts for the 53 weeks ended 29 February 2020.

Dividends.

The profit for the financial year, after taxation, amounts to £935m (2018/19: £1,270m) from continuing operations. The Directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 2.65 pence per share ^(a) (2018/19: 1.67 pence per share)	257
Proposed final dividend of 6.5 pence per share ^(b) (2018/19: 4.10 pence per share)	637
Total dividend of 9.15 pence per share for 2019/20 ^(c) (2018/19: 5.77 pence per share)	894

^(a) Excludes £3m dividends waived (2018/19: £2m)

^(b) Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 3 July 2020 to all shareholders on the Register of Members at the close of business on 22 May 2020.

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 30 on page 137.

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 2019 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. As at 29 February 2020 and the date of this report, the Company had received notification of the following interests in voting rights pursuant to Chapter 5 of the DTR:

	% of voting rights ^(a)
BlackRock, Inc.	6.64
Schroders plc	4.99
Norges Bank	3.99

^(a) Percentages are shown as a percentage of the Company's total voting rights as at the date the Company was notified of the change in holding.

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 27 to 30. The Directors who served during the year were: John Allan; Mark Armour; Melissa Bethell; Stewart Gilliland; Steve Golsby; Byron Grote; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; Alan Stewart; and Dave Lewis who will stand down from the Board on 30 September 2020. Ken Murphy will take up the role of Group Chief Executive on 1 October 2020, subject to shareholder approval at the forthcoming AGM, and will join the Board on the same date. 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 52 to 64.

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.

We have continued to focus 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. We are transitioning to online colleague self-service which is now available to all UK colleagues, as this supports and enables an honest and transparent culture. 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.

Directors' report continued

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. In particular, we have doubled our provision for paid paternity leave from two weeks to four and also increased the amount of paid maternity leave we offer. 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. To supplement these forums we have also set up Colleague Contribution Panels which give our colleagues the opportunity to share their views directly with our Non-executive Directors who then relay these onto the Board for discussion and action.

Our equal opportunities, diversity and inclusion policies support managers and colleagues in creating a diverse and inclusive culture where everyone is welcome. Our policies demonstrate our commitment to providing equal opportunities to all colleagues, irrespective of age, disability (including colleagues who may have become disabled during service), gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation. To further strengthen our commitment in this area, we have recently commenced a review of all of our family-friendly, flexible working and reasonable adjustments policies across the Group to establish common minimum standards that we can adopt in excess of legislative requirements. This is with a view to improving diversity and inclusion outcomes across all our companies and the geographies that we operate in.

We offer a range of colleague networks which we have relaunched this year, 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 actively encourage colleagues to become involved in the financial performance of our business through a variety of share and bonus schemes. While we have recently agreed with our unions to consolidate the colleague bonus scheme into basic pay for colleagues in stores, we continue to operate such schemes for other colleagues in the business.

Political donations.

The Group did not make any political donations (2018/19: £nil) or incur any political expenditure during the year (2018/19: £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 13 designated grocery retailers in the UK and their suppliers of grocery products. The aim of the Code is to establish and embed the overarching principles of fairness and lawfulness within retailer and supplier relationships. 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 in full and without delay.

Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA). In 2019/20 we continued to engage constructively and positively with the GCA and her office around

new areas of interest: crates and trays; buying alliances; and our approach to the Code compliance risk management, in addition to longstanding topics such as delays in payment.

We have an established Code compliance programme at Tesco, One Stop and Booker which is embedded throughout our business. We train relevant colleagues across our Product and other functions in the UK and in Bengaluru on their obligations under the Code. In this financial year, we trained 114 new starters and 953 colleagues completed our annual refresher training. Where required, face-to-face training sessions were also completed. At the date of reporting, 7,248 UK-based office colleagues have completed their annual Code of Business Conduct declaration, and those colleagues who work with grocery suppliers have also completed a declaration to confirm they have complied with the Code during 2019/20.

We continued 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. We have implemented various new and/or improved supplier-facing systems to improve transparency with our suppliers. These developments are having a positive impact on our supplier relationships. In the GCA's annual supplier survey for 2019, 94% of our suppliers recognised that we comply 'consistently well' or 'mostly well' with the Code. In our own Supplier Viewpoint survey for the second half of 2019/20, we are pleased that the results continue to reflect the progress we have made with suppliers. Both our total Group and UK & ROI score for suppliers rating their satisfaction with Tesco as either 'extremely satisfied' or 'very satisfied' were our highest score to date of 77.8% and 80.2% respectively. In relation to the areas discussed to this response, our strongest score in Viewpoint continues to be 'Tesco pays promptly (within policy terms)' at 89.7%. In addition, 'Main Tesco contact communicates well and is available when needed' and 'Tesco values our cooperation and treats us with respect' saw 82.3% and 80.4% of our suppliers as either 'extremely satisfied' or 'very satisfied' respectively.

This year, 45 Code-related issues (44 Tesco and one Booker) were raised by suppliers, of which 39 related to de-listing and six to no delay in payment, in addition to five issues carried over from 2018/19. There were no issues raised by One Stop suppliers in 2019/20. We received two formal Disputes (as defined by Part 5, Article 11 of the Order); both matters were resolved between Tesco and the supplier without the need for arbitration.

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 member of staff. Therefore, the scope of issues captured has widened for reporting purposes. As at the end of the reporting period, we had resolved 45 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 five remaining complaints to be resolved, we continue our discussions with these suppliers, with a view to resolving these matters in the near future.

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 2018 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 19.

Events after the balance sheet date.

On 7 March 2020, the Group acquired the trade and assets of Best Food Logistics (trading name of BFS Group Ltd), which will be accounted for as a business combination. More information can be found on page 8 in the Strategic report and in Note 36 on page 142.

On 9 March 2020, the Group announced the proposed sale of the Group's businesses in Thailand and Malaysia to a combination of CP Group entities for net cash proceeds of \$10.3bn (equivalent to £8.0bn) before tax and other transaction costs. The transaction is subject to shareholder and customary regulatory approvals and is expected to complete during the second half of calendar year 2020. More information can be found in the Strategic report on pages 1 to 23 and in Note 36 on page 142.

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic, the UK Government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. More information can be found in the Strategic report on pages 1 to 23 and in Note 36 on page 142.

Directors' statement of disclosure of information to the auditor.

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company'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 Annual Report contains forward-looking statements, these are based on current expectations and assumptions and speak only as of the date they are made. These statements should be treated with caution due to the inherent risks, uncertainties and assumptions 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 expressed or implied in any forward-looking statement. Such factors include, but are not limited to, those discussed under principal risks and uncertainties on pages 13 to 18.

Forward-looking statements can be identified by the use of relevant terminology including the words: 'may', 'will', 'seek', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe' or other words of similar meaning and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of our officers, Directors and employees concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business.

Neither the Group, nor any of the officers, Directors or employees, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Annual Report will actually occur. Undue reliance should not be placed on these forward-looking statements. Other than in accordance with our legal and regulatory obligations, 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.

Climate change.

We have a longstanding commitment to reducing carbon emissions from our operations and in 2017 we became the first company worldwide to commit to science-based targets that are aligned with the Paris Climate Agreement recommendation of limiting global warming to a 1.5°C trajectory. To achieve this, we need to reduce absolute carbon emissions from our operations by 100% from 2015/16 levels, reaching ambitious milestones on the way: 35% by 2020, 60% by 2025, 85% by 2030 and 100% by 2050. In our UK operations, the ambition is to reach net zero by 2035. Further information on our climate strategy can be found in our Little Helps Plan available on our website www.tescopl.com/littlehelpsplan.

Greenhouse gas emissions.

	Global tonnes of CO ₂ e		
	2019/20	2018/19	Base year 2015/16
Scope 1	1,252,038*	1,328,543*	1,388,168
Scope 2 ¹			
Market-based method	916,616*	1,045,760*	2,053,703
Location-based method	1,597,144*	1,831,835*	2,609,983
Scope 1 and 2 carbon intensity (kg CO ₂ e/sq. ft. of stores and DCs)	19.15*	20.83*	29.57
Scope 3	819,984*	913,802*	1,129,342
Total gross emissions	2,988,638*	3,288,104*	4,572,832
CO ₂ e from renewable energy exported to the grid	516*	593*	1,513
Total net emissions	2,988,122*	3,287,512*	4,571,319
Overall net carbon intensity (total net emissions kg CO ₂ e/sq. ft. of stores and DCs)	26.39*	28.84*	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.tescopl.com/carbonfigures

¹ Our method statement is available at www.tescopl.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.

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-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 and 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.

Directors' report continued

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
Events after the reporting period	142
Future developments	1 to 23
Research and development	4 to 5
Financial instruments and financial risk management	116 to 130
Corporate governance report	24 to 51
Colleague engagement	41
Stakeholder engagement	40 to 43
Section 172 statement	23

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

	Pages
Statement of capitalised interest	107
Allotment for cash of equity securities	137
Waiver of dividends	65

The Company has chosen, in accordance with Section 414C(1) 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 23.

Statement of Directors' responsibilities.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each 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 and Article 4 of the International Accounting Standard (IAS) Regulation and have also chosen to prepare the Parent Company financial statements in accordance with Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company 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 FRS 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

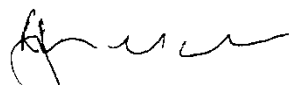
In preparing the Parent Company financial statements, the Directors are required to:

- properly select and apply accounting policies;
- 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 IFRSs 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
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the Directors, whose names and functions are set out on pages 27 to 30, confirm that, to the best of their knowledge:

- the financial statements, 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 Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board



Robert Welch
Group Company Secretary
7 April 2020

Tesco PLC
Registered number 00445790

Independent auditor's report to the members of Tesco PLC

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 29 February 2020 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 Financial Reporting Standard 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 37 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:

- ➊ proposed disposal of the Asia business;
- ➋ store impairment review;
- ➌ recognition of commercial income;
- ➍ pension obligation valuation;
- ➎ contingent liabilities;
- ➏ presentation of the Group's income statement;
- ➐ Tesco Bank loan impairment; and
- ➑ retail technology environment, including IT security.

Within this report, key audit matters are identified as follows:

- ➊ Newly identified
- ➋ Similar level of risk

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 £85m (2018/19: £80m) which equates to 4.3% (2018/19: 5.1% restated) of profit before tax before exceptional items and amortisation of acquired intangibles. Refer to page 94 for further details of exceptional items and amortisation of acquired intangibles.

Scoping

Our audit scoping provides full scope audit coverage of 96% (2018/19: 95%) of revenue and 92% (2018/19: 94% restated) of net assets.

Significant changes in our approach

Our 2019/20 report includes a new key audit matter relating to the proposed disposal of the Asia business.

We no longer report the following as key audit matters:

- Booker IFRS 3 acquisition accounting judgements and presentation of results – as the related judgements were concluded upon in 2018/19; and
- IFRS 16 presentation and disclosure key audit matter – as the key estimates and judgements underpinning management's IFRS 16 impact assessment and related transition disclosures were concluded upon in 2018/19.

There are no other significant changes in our approach except for changes in key audit matters as described above.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement on page 68 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 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 the Covid-19 pandemic and 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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

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 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 13 to 18 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 13 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 19 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.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

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
<p>Proposed disposal of the Asia business</p> <p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 36 (Events after the reporting period) of the financial statements, on 9 March 2020, the Group announced the proposed sale of its Asia business for net cash proceeds of \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. The transaction is subject to shareholder and regulatory approval and is expected to complete during the second half of calendar year 2020.</p> <p>Under IFRS 5— Non-current Assets Held for Sale and Discontinued Operations, the Group is required to assess whether the Asia business should be presented as 'Held for sale' and the financial results of the business be included within 'Discontinued operations'.</p> <p>We identified a key audit matter relating to management's judgement that the Group was not committed to the disposal as at 29 February 2020 and therefore the results continue to be presented within continuing operations.</p> <p>As disclosed in Note 1 of the financial statements, the Group has concluded that at the balance sheet date the criteria for held for sale were not met and consequently the financial results of the Asia business have not been classified as discontinued operations.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included challenging whether the presentation of assets and liabilities in the balance sheet and financial results in the income statement of the Asia business was in line with the requirements of IFRS 5, which would have required the sale to be approved by the Board before year-end. In order to assess this, we discussed the matter with members of the Board and reviewed minutes of the relevant Board meetings.</p>	<p>We are satisfied that the Group was not committed to a disposal of the businesses as at 29 February 2020 and therefore the results of the Asia business are appropriately presented within continuing operations.</p>
<p>Store impairment review</p> <p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 11 (Property, plant and equipment) of the financial statements, the Group held £19,234m (2018/19: £19,186m) of property, plant and equipment and £6,874m of right of use assets (2018/19: £7,713m) at 29 February 2020.</p> <p>Under IAS 36, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal.</p> <p>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.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls around the impairment review processes.</p> <p>In relation to the Group's value-in-use assessment our procedures have included:</p> <ul style="list-style-type: none"> – 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; 	<p>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 impairment charge was reasonable.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Store impairment review continued		
<p>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'.</p> <p>The two areas which are key to management's impairment review are as follows:</p> <ul style="list-style-type: none"> – value-in-use 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; and – fair value of properties or sublet rental potential supporting the carrying value of store assets in each of the Group's territories. <p>As disclosed within Note 15 of the financial statements, the Group has incorporated a Brexit risk adjustment in the UK & ROI segment and a Covid-19 risk adjustment for all segments to reflect the associated risks in the Group's modelling based on reasonable and supportable information available to management at year end.</p> <p>As a result of the Group's store impairment review completed during the year, a net impairment charge of £312m (2018/19: net impairment reversal of £129m) was recognised.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<ul style="list-style-type: none"> – 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 sublet rental potential; and – assessing the extent to which the need for large scale government intervention in response to Covid-19 was evident as at 29 February 2020. <p>With the involvement of our property valuation specialists we challenged the assumptions used by the Group in determining the fair market value including those completed by external valuers and assessed whether appropriate valuation methodologies have been applied.</p>	
Recognition of commercial income		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 22 (Commercial income) of the financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from those suppliers.</p> <p>In accordance with IFRS 15, 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.</p> <p>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.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls the Group has established in relation to commercial income recognition.</p> <p>In addition, we performed the following:</p> <ul style="list-style-type: none"> – 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 22) 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; – 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; and – considering the adequacy of related disclosure within the Group's financial statements. 	<p>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.</p>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Pension obligation valuation		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 29 (Post-employment benefits) of the financial statements, the Group has a defined benefit pension plan in the UK retail business. At 29 February 2020, the Group recorded a net retirement obligation before deferred tax of £2,998m (2018/19: £2,808m), comprising scheme assets of £17,513m (2018/19: £15,054m) and scheme liabilities of £20,511m (2018/19: £17,862m).</p> <p>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.</p> <p>The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls in relation to the pension obligation valuation process.</p> <p>In addition, we performed the following:</p> <ul style="list-style-type: none"> – worked without internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions; and – benchmarked and performed a sensitivity analysis on the key assumption determined by the Directors. 	<p>We are satisfied that the overall methodology is appropriate and the assumptions applied in relation to determining the pension valuation are within an acceptable range. The actual discount rate applied of 1.93% is within the market range. The methodology used by the Group applies a different approach to estimating yields of longer-term high quality corporate bonds compared to the majority of companies, which results in a discount rate which is at the optimistic end of the market range.</p>
Contingent liabilities		
<p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 34 (Contingent liabilities) of the financial statements, 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.</p> <p>This key audit matter specifically relates to the following exposures:</p> <ul style="list-style-type: none"> – 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. <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included assessing the design and implementation of relevant controls in relation to the monitoring of known exposures.</p> <p>In assessing the potential exposures to the Group, we have completed a range of procedures including:</p> <ul style="list-style-type: none"> – 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. 	<p>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.</p>
Presentation of the Group's income statement		
<p>One of the Group's key performance indicators is 'Group operating profit before exceptional items and amortisation of acquired intangibles' (2019/20: £3,005m, 2018/19: £2,607m).</p> <p>Refer to Note 2 (Segmental reporting) of the financial statements for management's reconciliation of this key performance indicator to the Group's statutory profit measure.</p> <p>Management judgement is required when applying this accounting policy and when determining the classification of items as exceptional within the Group's income statement. Additionally, we have considered the impact of the 2019/20 financial period being a 53-week year on the disclosures.</p>	<p>Our audit procedures included obtaining an understanding of key controls which address the risk of inappropriate presentation of the Group's income statement.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> – considering exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures; 	<p>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.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Presentation of the Group's income statement continued		
<p>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.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<ul style="list-style-type: none"> - 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; - assessing the appropriateness of excluding amortisation of intangible assets acquired in business combinations from Group's operating profit alternative performance measure; and - evaluating the impact of the 2019/20 financial period being a 53 week year. 	<p>We concur that these have been appropriately included within profit before exceptional items and amortisation of acquired intangibles.</p> <p>We have reviewed the calculation of the Alternative Performance Measures which have been calculated on a 52-week basis, where relevant, and are satisfied that this has been done on an appropriate basis.</p>
🔍 Tesco Bank loan impairment		
<p>As described in Note 19 (Loans and advances to customers and Banks) the Group held an impairment provision in respect of loans and advances to customers of £488m at 29 February 2020 (2018/19: £485m). The expected credit loss on these loans and advances was £178m in the year to 29 February 2020 (2018/19: £163m). The impact of further deterioration in the economic outlook on expected credit losses (ECLs) after the reporting date is discussed in note 36 (Events after the reporting period).</p> <p>Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in the UK and, at the reporting date the potential impact of the global Covid-19 outbreak. As described in Note 1 (Accounting policies, estimates and judgements) management's provisioning methodology is based on an "expected loss" model as required under IFRS 9 'Financial Instruments'.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>Our audit procedures included assessing the design and implementation of key controls which relate to the determination of loan impairments.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> - with support from internal economic modelling experts, challenging the macro-economic scenario forecasts that were incorporated into the ECL model; - challenging how management had assessed the impact of Covid-19 within the ECL model to assess whether that it was appropriately considered in the measurement of ECLs at year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by Covid-19 at the reporting date with reference to the reasonable and supportable information available to management at that date; - considering whether events arising after the reporting date, such as the declaration of the outbreak as a global pandemic by the World Health Organization on 11 March 2020, nationwide lockdowns, and the fiscal and monetary policy responses to combat the economic effects of Covid-19, provided evidence that such events were possible future events which management could assign an appropriate probability to at the reporting date, based on reasonable and supportable information available to management at that date; - challenging whether management's severe downside macro-economic scenario adequately captured the potential macro-economic downside risks arising as a result of the Covid-19 outbreak, based on reasonable and supportable information available to management at the reporting date; - assessing management's methodology, including the refinements made, against the requirements of IFRS 9 with input from our internal credit risk-modelling specialists and we tested the application of that methodology within the impairment models; - challenging the quantitative and qualitative triggers used to identify significant increases in credit risk to assess whether they were consistently applied, and whether they were based on reasonable information indicative of a significant increased risk of default since initial recognition; - assessing and challenging the key assumptions used by management to estimate the expected life of both credit cards and unsecured personal loans using historical observed data; and - challenging the appropriateness and completeness of management overlays, assessing and independently recalculating those which were included. 	<p>Based on our audit procedures above, we concluded that management's provision is reasonably stated, and is supported by a methodology that is consistently applied and compliant with IFRS 9.</p>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
◉ Retail technology environment, including IT security		
<p>The Group's retail operations utilise a range of information systems. In 2015/16, 2016/17, 2017/18 and 2018/19 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.</p> <p>IT remediation is a complex, multi-year project involving management judgement and activities which are at risk of being inappropriately designed, executed or at risk of error. These areas include:</p> <ul style="list-style-type: none"> – inappropriate controls in place to govern the IT changes such as inappropriate approval controls; and – appropriateness of remediated access controls and whether the remediated controls address previously identified deficiencies. <p>The Audit Committee's discussion of this key audit matter is set out on page 49.</p>	<p>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.</p> <p>During the year we have assessed the design and implementation of the Group's relevant controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme.</p> <p>Consistent with 2018/19, in 2019/20 we did not plan to take a control reliant audit approach in the retail business due to the ongoing weaknesses in the IT environment.</p> <p>Accordingly, we extended the scope of our substantive audit procedures in response to the deficiencies which affected the applications and databases within the scope of our audit.</p>	<p>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.</p> <p>Management's actions have reduced the number of deficiencies in the year by closing the deficiencies relating to batch management and change management controls linked to the Group's financial reporting. Further remediation work is ongoing.</p>

Our application of materiality

Materiality

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

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

	Group financial statements	Parent Company financial statements
Materiality	£85m (2018/19: £80m)	£55m (2018/19: £52m)
Basis for determining materiality	<p>4.3% (2018/19: 5.1% restated) of profit before tax before exceptional items and amortisation of acquired intangibles of £1,961m (2018/19 restated: £1,564m).</p> <p>Refer to Note 4 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.</p>	<p>Materiality represents less than 1% (2018/19: less than 1%) of net assets.</p>
Rationale for the benchmark applied	<p>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.</p> <p>The materiality selected represents 0.6% (2018/19: 0.6% restated) of the Group's net assets.</p>	<p>As this is the Parent Company of the Group, it does not generate significant revenues but instead incurs costs.</p> <p>Net assets are of most relevance to users of the financial statements.</p>

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 66% of Group materiality for the 2019/20 audit (2018/19: 70%). As we continue to be unable to rely on internal controls in the retail business we have used a lower percentage of materiality to determine our performance materiality for 2019/20. In determining performance materiality, we have also considered the uncorrected misstatements identified in the previous period.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £4.25m (2018/19: £4m) 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 eight 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 96% (2018/19: 95%) of the Group's revenue, 92% (2018/19: 93%) restated of profit before tax and 92% (2018/19: 94% restated) of net assets.

In addition, three 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 three businesses accounted for 2% (2018/19: 3%) of the Group's revenue, 8% (2018/19: 3% restated) of profit before tax and 6% (2018/19: 6% restated) of net assets.

Revenue

Profit before tax

Net assets

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or 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 52 (2018/19: 50) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 5 (2018/19: 4) distribution centre inventory counts.

The Group audit team visited 7 (2018/19: 7) of the 8 (2018/19: 8) 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 5 (2018/19: 3) of these locations. We also had a dedicated audit partner 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.

Subsequent to the travel restrictions being put in place as a result of the Covid-19 pandemic, we arranged for the component audit files to be reviewed remotely and held regular calls with the local teams to discuss the results and resolve any queries.

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 provide 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

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

- **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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

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

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, we have considered the following:

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

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

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

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

Audit response to risks identified

As a result of performing the above, we identified presentation of the Group's income statement, accounting for the UK customer loyalty scheme and recognition of commercial income as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters. In relation to accounting for the UK customer loyalty scheme, which is not a key audit matter, our procedures included:

- obtaining an understanding of relevant controls relating to the UK customer loyalty scheme;
- re-calculating the average fair value of unredeemed points and assessing the appropriateness of the methodology applied;
- agreeing the inputs to the UK loyalty scheme calculation, recalculating the year end accrual and assessing whether the redemption percentages used in the calculation were reasonable; and
- assessing that the accounting entries have been recorded in accordance with IFRS 15: Revenue.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; 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 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; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

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 five years, covering the years ending 27 February 2016 to 29 February 2020.

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.

Simon Letts (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

7 April 2020

Group income statement

	Notes	53 weeks ended 29 February 2020			52 weeks ended 23 February 2019 (restated*)		
		Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles (Note 4) £m	Total £m	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	64,760	–	64,760	63,911	–	63,911
Cost of sales		(59,871)	(309)	(60,180)	(59,325)	110	(59,215)
Gross profit/(loss)		4,889	(309)	4,580	4,586	110	4,696
Administrative expenses		(1,884)	(178)	(2,062)	(1,979)	(68)	(2,047)
Operating profit/(loss)		3,005	(487)	2,518	2,607	42	2,649
Share of post-tax profits/(losses) of joint ventures and associates	14	26	(8)	18	21	11	32
Finance income	5	23	–	23	25	–	25
Finance costs	5	(1,093)	(151)	(1,244)	(1,089)	–	(1,089)
Profit/(loss) before tax		1,961	(646)	1,315	1,564	53	1,617
Taxation	6	(433)	53	(380)	(397)	50	(347)
Profit/(loss) for the year from continuing operations		1,528	(593)	935	1,167	103	1,270
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	–	38	38	–	–	–
Profit/(loss) for the year		1,528	(555)	973	1,167	103	1,270
Attributable to:							
Owners of the parent		1,526	(555)	971	1,169	103	1,272
Non-controlling interests		2	–	2	(2)	–	(2)
		1,528	(555)	973	1,167	103	1,270
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			9.99p			13.13p
Diluted	9			9.93p			13.04p
Earnings/(losses) per share from continuing operations							
Basic	9			9.60p			13.13p
Diluted	9			9.54p			13.04p

The notes on pages 84 to 147 form part of these financial statements.

* Restated for the adoption of IFRS 16 and reclassification of profits/(losses) arising on property-related items as explained in Note 1 and Note 37.

Group statement of comprehensive income/(loss)

	Notes	53 weeks 2020 £m	52 weeks 2019 (restated*) £m
Items that will not be reclassified to the Group income statement			
Remeasurements of defined benefit pension schemes	29	(466)	364
Net fair value gains/(losses) on inventory cash flow hedges		49	-
Tax on items that will not be reclassified	6	71	(61)
		(346)	303
Items that may subsequently be reclassified to the Group income statement			
Change in fair value of debt instruments at fair value through other comprehensive income		9	(10)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		(68)	90
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		57	130
Reclassified and reported in the Group income statement		(7)	(57)
Tax on items that may be reclassified	6	(9)	5
		(18)	158
Total other comprehensive income/(loss) for the year		(364)	461
Profit/(loss) for the year		973	1,270
Total comprehensive income/(loss) for the year		609	1,731
Attributable to:			
Owners of the parent		607	1,733
Non-controlling interests		2	(2)
Total comprehensive income/(loss) for the year		609	1,731
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		569	1,733
Discontinued operations		38	-
		607	1,733

The notes on pages 84 to 147 form part of these financial statements.

* Restated for the adoption of IFRS 16 and reclassification of profits/(losses) arising on property-related items as explained in Note 1 and Note 37

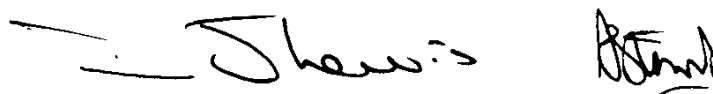
Group balance sheet

	Notes	29 February 2020 £m	23 February 2019 (restated*) £m	25 February 2018 (restated*) £m
Non-current assets				
Goodwill and other intangible assets	10	6,119	6,264	2,661
Property, plant and equipment	11	19,234	19,186	18,712
Right of use assets	12	6,874	7,713	7,527
Investment property	13	26	36	100
Investments in joint ventures and associates	14	307	602	597
Financial assets at fair value through other comprehensive income	16	866	979	860
Trade and other receivables	18	166	243	217
Loans and advances to customers and banks	19	4,171	7,868	6,885
Derivative financial instruments	25	1,083	1,178	1,117
Deferred tax assets	6	292	251	401
		39,138	44,320	39,077
Current assets				
Financial assets at fair value through other comprehensive income	16	202	67	68
Inventories	17	2,433	2,617	2,264
Trade and other receivables	18	1,396	1,550	1,415
Loans and advances to customers and banks	19	4,280	4,882	4,637
Derivative financial instruments	25	63	52	27
Current tax assets		21	6	12
Short-term investments	20	1,076	390	1,029
Cash and cash equivalents	20	3,408	2,916	4,059
		12,879	12,480	13,511
Assets classified as held for sale	1	285	98	149
		13,164	12,578	13,660
Current liabilities				
Trade and other payables	21	(8,922)	(9,131)	(8,773)
Borrowings	23	(1,490)	(1,563)	(1,467)
Lease liabilities	12	(598)	(646)	(712)
Derivative financial instruments	25	(61)	(250)	(69)
Customer deposits and deposits from banks	26	(6,377)	(8,832)	(7,812)
Current tax liabilities		(324)	(325)	(335)
Provisions	27	(155)	(226)	(416)
		(17,927)	(20,973)	(19,584)
Net current liabilities		(4,763)	(8,395)	(5,924)
Non-current liabilities				
Trade and other payables	21	(170)	(365)	(364)
Borrowings	23	(6,005)	(5,580)	(7,032)
Lease liabilities	12	(8,968)	(9,859)	(9,560)
Derivative financial instruments	25	(887)	(389)	(594)
Customer deposits and deposits from banks	26	(1,830)	(3,296)	(2,912)
Post-employment benefit obligations	29	(3,085)	(2,808)	(3,282)
Deferred tax liabilities	6	(40)	(49)	(82)
Provisions	27	(137)	(147)	(129)
		(21,122)	(22,493)	(24,015)
Net assets		13,253	13,432	9,138
Equity				
Share capital	30	490	490	410
Share premium		5,165	5,165	5,107
All other reserves		3,658	3,770	717
Retained earnings		3,962	4,031	2,926
Equity attributable to owners of the parent		13,275	13,456	9,160
Non-controlling interests		(22)	(24)	(22)
Total equity		13,253	13,432	9,138

* Restated for the adoption of FRS 16 as explained in Note 1 and Note 37

The notes on pages 84 to 147 form part of these financial statements

Dave Lewis
Alan Stewart
Directors



The financial statements on pages 78 to 147 were approved and authorised for issue by the Directors on 7 April 2020.

Group statement of changes in equity

	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	All other reserves			Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 23 February 2019 (as previously reported)	490	5,165	(5)	16	118	758		(179)	3,090	5,405	14,858	(24)	14,834
Cumulative adjustment to opening balances from application of IFRS 16 (net of tax)	-	-	-	-	-	(28)	-	-	-	(1,374)	(1,402)	-	(1,402)
At 23 February 2019 (restated*)	490	5,165	(5)	16	118	730		(179)	3,090	4,031	13,456	(24)	13,432
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	971	971	2	973
Other comprehensive income/(loss)													
Currency translation differences	-	-	-	-	-	(68)	-	-	-	-	(68)	-	(68)
Change in fair value of debt instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	9	9	-	9
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	-	(466)	(466)	-	(466)
Gains/(losses) on cash flow hedges	-	-	(12)	-	111	-	-	-	-	-	99	-	99
Tax relating to components of other comprehensive income	-	-	2	-	(11)	1	-	-	-	70	62	-	62
Total other comprehensive income/(loss)	-	-	(10)	-	100	(67)	-	-	-	(387)	(364)	-	(364)
Total comprehensive income/(loss)	-	-	(10)	-	100	(67)	-	-	-	584	607	2	609
Inventory cash flow hedge movements													
Gains/(losses) transferred to the cost of inventory	-	-	-	-	(64)	-	-	-	-	-	(64)	-	(64)
Total inventory cash flow hedge movements	-	-	-	-	(64)	-	-	-	-	-	(64)	-	(64)
Transactions with owners													
Purchase of own shares	-	-	-	-	-	-	(221)	-	-	-	(221)	-	(221)
Share-based payments	-	-	-	-	-	-	150	-	-	5	155	-	155
Dividends	-	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Tax on items charged to equity	-	-	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Total transactions with owners	-	-	-	-	-	-	(71)	-	-	(653)	(724)	-	(724)
At 29 February 2020	490	5,165	(15)	16	154	663		(250)	3,090	3,962	13,275	(22)	13,253

The notes on pages 84 to 147 form part of these financial statements.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.

Group statement of changes in equity continued

	Share capital £m	Share premium £m	Currency basis reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non- controlling interests £m	Total equity £m
At 24 February 2018 (as previously reported)	410	5,107	-	16	40	655	(16)	40	4,250	10,502	(22)	10,480
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	-	(18)	-	-	(1,324)	(1,342)	-	(1,342)
At 25 February 2018 (restated*)	410	5,107	-	16	40	637	(16)	40	2,926	9,160	(22)	9,138
Adjustment on initial application of IFRS 9 (net of tax)	-	-	1	-	(1)	-	-	-	(177)	(177)	-	(177)
At 25 February 2018	410	5,107	1	16	39	637	(16)	40	2,749	8,983	(22)	8,961
Profit/(loss) for the year (as previously reported)	-	-	-	-	-	-	-	-	1,322	1,322	(2)	1,320
IFRS 16 adjustment to profit/ (loss) for the year	-	-	-	-	-	-	-	-	(50)	(50)	-	(50)
Profit/(loss) for the year (restated*)	-	-	-	-	-	-	-	-	1,272	1,272	(2)	1,270
Other comprehensive income/(loss)												
Currency translation differences (as previously reported)	-	-	-	-	-	100	-	-	-	100	-	100
IFRS 16 adjustment to currency translation differences	-	-	-	-	-	(10)	-	-	-	(10)	-	(10)
Currency translation differences (restated*)	-	-	-	-	-	90	-	-	-	90	-	90
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(10)	(10)	-	(10)
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) (restated*)	-	-	(6)	-	79	93	-	-	295	461	-	461
Total comprehensive income/(loss) (restated*)	-	-	(6)	-	79	93	-	-	1,567	1,733	(2)	1,731
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(277)	-	-	(277)	-	(277)
Share-based payments	-	-	-	-	-	-	114	-	67	181	-	181
Issue of shares	80	58	-	-	-	-	-	3,050	-	3,188	-	3,188
Dividends	-	-	-	-	-	-	-	-	(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 (restated*)	490	5,165	(5)	16	118	730	(179)	3,090	4,031	13,456	(24)	13,432

The notes on pages 84 to 147 form part of these financial statements.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37

Group cash flow statement

	Notes	53 weeks 2020 £m	52 weeks 2019 (restated*) £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss)		2,518	2,649
Depreciation and amortisation		2,157	2,050
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale and early termination of leases		(170)	(131)
(Profit)/loss arising on sale of financial assets		(3)	(8)
(Profit)/loss arising on sale of joint ventures and associates		(68)	-
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property		302	(114)
Impairment of joint ventures		47	-
Adjustment for non-cash element of pensions charge		9	45
Other defined benefit pension scheme payments	29	(267)	(266)
Share-based payments		87	77
Tesco Bank fair value movements included in operating profit/(loss)		100	127
Retail (increase)/decrease in inventories		178	11
Retail (increase)/decrease in development stock		1	(2)
Retail (increase)/decrease in trade and other receivables		175	108
Retail increase/(decrease) in trade and other payables		(391)	(310)
Retail increase/(decrease) in provisions		(87)	(197)
Retail (increase)/decrease in working capital		(124)	(390)
Tesco Bank (increase)/decrease in loans and advances to customers and banks		127	(1,585)
Tesco Bank (increase)/decrease in trade and other receivables		310	4
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		(3,849)	1,348
Tesco Bank increase/(decrease) in provisions		5	(25)
Tesco Bank (increase)/decrease in working capital		(3,407)	(258)
Cash generated from/(used in) operations		1,181	3,781
Interest paid		(803)	(859)
Corporation tax paid		(340)	(370)
Net cash generated from/(used in) operating activities		38	2,552
Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		3,965	286
Purchase of property, plant and equipment and investment property		(1,003)	(1,101)
Purchase of intangible assets		(201)	(191)
Disposal of subsidiaries, net of cash disposed		4	8
Acquisition of subsidiaries, net of cash acquired		-	(715)
Disposal of associate	33	277	-
Net (increase)/decrease in loans to joint ventures and associates		8	5
Investments in joint ventures and associates		(9)	(11)
Net (investments in)/proceeds from sale of short-term investments		(687)	639
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income		(6)	(122)
Dividends received from joint ventures and associates		42	41
Interest received		18	21
Net cash generated from/(used in) investing activities		2,408	(1,140)
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital	30	-	60
Own shares purchased		(149)	(206)
Repayment of obligations under leases		(634)	(606)
Increase in borrowings		1,332	975
Repayment of borrowings		(1,788)	(2,471)
Net cash flows from derivative financial instruments		(17)	35
Dividends paid to equity owners	8	(656)	(357)
Net cash generated from/(used in) financing activities		(1,912)	(2,570)
Net increase/(decrease) in cash and cash equivalents		534	(1,158)
Cash and cash equivalents at the beginning of the year		2,916	4,059
Effect of foreign exchange rate changes		(42)	15
Cash and cash equivalents at the end of the year	20	3,408	2,916

The notes on pages 84 to 147 form part of these financial statements.

* Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37.

Notes to the Group financial statements

Note 1 Accounting policies, judgements and estimates

General information

Tesco PLC (the Company) is a public limited company incorporated and domiciled in 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.

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

The following standards and amendments were adopted in the current financial year, and further details of their impact on the Group financial statements are given in Note 37 and Note 25 respectively:

- IFRS 16 'Leases', which has been applied fully retrospectively; and
- 'Interest rate benchmark reform' amendments, which have been adopted early.

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

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

- IFRS 17 'Insurance contracts'.

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

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 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For the UK and the Republic of Ireland (UK & ROI), the results are for the 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For all other operations, the results are for the calendar year ended 29 February 2020 (prior calendar year ended 28 February 2019).

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 period reclassifications

The Group no longer presents 'Profits/(losses) arising on property-related items' separately in the Group income statement. Amounts previously reported within 'Profits/(losses) arising on property-related items' are presented within 'Cost of sales' or 'Administrative expenses'. Items previously determined to be exceptional by virtue of their size and nature continue to be reported within 'Exceptional items and amortisation of acquired intangibles' in the Group income statement, with further details of such items provided in the notes to the financial statements. Prior period comparatives have been reclassified to align to the current period presentational approach.

Following the adoption of IFRS 16, the Group now presents right of use assets and lease liabilities on the face of the Group balance sheet. Assets previously held under finance leases have been reclassified from 'Property, plant and equipment' to 'Right of use assets' and the associated lease liability has been reclassified from 'Borrowings' to 'Lease liabilities'.

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, after allowance for expected credit losses (ECLs).

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

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

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

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

Commercial income

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

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

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

Finance income

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

Finance costs

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

Business combinations and goodwill

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

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

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

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

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

Cloud software licence agreements

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

Intangible assets

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

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

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

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

Property, plant and equipment

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

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

Impairment of non-financial assets

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates. For all other non-financial assets (including other intangible assets, property, plant and equipment and right of use assets) 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, credit and debit card receivables, 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.

The net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated). Refer to Note 7 for further details.

Leases

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

The Group as a lessee

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

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

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

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

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

The Group as a lessor

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

Sale and leaseback

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

Post-employment obligations

For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) 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 at the balance sheet date. Exchange differences are recognised in the Group income statement in the period in which they arise, apart from exchange differences on transactions entered into to hedge certain foreign currency risks, and exchange differences on monetary items forming part of the net investment in a foreign operation.

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

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

Financial instruments

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

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 allowance for ECLs.

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 Group income statement. When the debt instrument is derecognised, cumulative amounts in other comprehensive income are reclassified to the Group 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.

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 ECLs.

Impairment of financial assets

The Group assesses on a forward-looking basis the 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.

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

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.

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

Interest-bearing borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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 designated as the hedging instrument is recognised directly in the Group statement of comprehensive income/(loss) and accumulated in the hedging reserve. Any cost of hedging, such as the change in fair value related to forward points and currency basis adjustment is separately accumulated in the currency basis reserve. The ineffective element is recognised immediately in the Group income statement within finance income or costs.

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

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

Net investment hedging

Financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the instrument is recognised directly in other comprehensive income. 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 contracts are recognised when the Group believes that the unavoidable costs of meeting or exiting the contract exceed the economic benefits expected to be received under the contract.

Supplier financing arrangements

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

Under the arrangements, suppliers may choose to access payment early rather than on our normal payment terms, at a funding cost to the supplier that is set by the provider banks but based on Tesco's credit risk and the appropriate country risk premium. If

suppliers choose not to access early payment, the provider banks pay the suppliers on our normal payment terms. The Group pays the provider banks on our normal payment terms, regardless of whether the supplier has chosen to access funding early.

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

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

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:

Assets held for sale and discontinued operations

On 27 September 2019, the Group completed the sale of the majority of Tesco Bank's mortgage portfolio to Bank of Scotland, which is part of Lloyds Banking Group. As is customary in such a transaction, the Group continued to recognise a small element of the mortgage business, representing new advances to existing mortgage customers, until migration of all mortgage accounts to the purchaser, which took place on 30 March 2020. The remaining assets and liabilities of the mortgage operations were classified as a disposal group held for sale in the Group balance sheet. Based on the relative size of the mortgage business to the Group, management concluded that it does not represent a separate major line of business or geographical area and hence has not been classified as a discontinued operation.

On 9 March 2020, the Group reached agreement on the terms of a proposed sale of its operations in Thailand and Malaysia. The transaction is subject to shareholder and regulatory approval and is expected to complete during the second half of 2020. As at the balance sheet date, the Board had not formally received final offers, including, for example, pricing and commercial terms, details of bidders' secured financing, or indications of the level of activities to be undertaken regarding competition clearance. Discussions were also ongoing regarding the level of a possible one-off contribution to the Group's pension scheme from any sale proceeds. The Board had therefore not given approval for any sale to proceed. Management therefore concluded that these operations did not meet the criteria to be classified as held for sale as at the balance sheet date, and consequently they have not been classified as discontinued operations. It is expected that these operations will meet the criteria to be classified as held for sale and presented as discontinued operations in the 2020/2021 interim financial statements.

Leases

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term. Break and extension options are included to provide operational flexibility should the economic outlook for an asset be

different to expectations, and hence at commencement of the lease, break or extension options are not typically considered reasonably certain to be exercised, unless there is a valid business reason otherwise.

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

Refer to Note 12 for additional disclosures relating to leases.

Joint ventures and associates

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

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.

Refer to pages 164 to 169 for further details on the Group's APMs.

Impact of COVID-19

In light of the rapidly escalating COVID-19 pandemic, the Group has considered whether any adjustments are required to reported amounts in the financial statements.

As at the 29 February 2020 balance sheet date, no global pandemic had been declared, the UK was still in the 'containment' phase, large global share price falls had not yet occurred, and larger-scale outbreaks were only apparent in China, Republic of Korea, Iran and northern Italy where the Group does not have operations. The full ramifications of COVID-19, and the extent of Government interventions in response, were not apparent. To the extent that there were indicators of some level of disruption observable at the balance sheet date, these have been factored in to the Group's financial statements as at 29 February 2020, in particular assessing the impact of incorporating an additional COVID-19 risk factor in to discount rates used in impairment testing of goodwill and non-current assets and incorporating an additional downside scenario in to ECL calculations in Tesco Bank.

Subsequent to the balance sheet date, the World Health Organization declared a pandemic on 11 March, the UK Government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The first large falls in stock markets occurred in early March, and Tesco introduced a '3 items only' limit on purchases on 19 March in response to customer demand. The Group has therefore concluded that the necessity for large-scale government interventions (both in the UK and the other countries in which the Group operates) in response to COVID-19 only became apparent after the balance sheet date and therefore that the consequences of such interventions represent non-adjusting post balance sheet events. However, given these events are of such significance, further disclosures, including additional sensitivities, are given in Note 36.

Notes to the Group financial statements continued

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, inflation rate and mortality assumptions. 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 29.

Impairment

The Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right of use assets. 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 15.

Commercial income

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

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

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the Group balance sheet. Refer to Note 22 for commercial income disclosures.

Tesco Bank ECL measurement

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

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that

a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to Note 34 for the disclosures.

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.

Changes to APMs

As with many retail businesses, the Group has a 53-week financial year every five to six years. As the financial year to 29 February 2020 is a 53-week period, APMs are presented on a 52-week basis excluding week 53, in order to provide comparability with the prior year.

Retail operating profit is introduced as a measure of the Group's operating profit from the Retail business excluding Tesco Bank. It is based on Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles.

As a result of adopting IFRS 16 in the current financial year, the Directors and management have applied the following changes to the Group's APMs:

- Free cash flow and Retail free cash flow have been redefined to include 'Repayments of obligations under leases'. The impact of adopting IFRS 16 has been to replace rental payments presented within operating profit with a combination of interest payments and capital repayments of the lease obligation, with no overall change in total cash flow for the Group. Redefining Free cash flow and Retail free cash flow to include the capital repayments of obligations under leases ensures that the Group's reported free cash flow measures are consistent with those previously reported.
- Retail EBITDA is introduced as a measure of the Group's operating performance and cash profitability. It is based on Retail operating profit from continuing operations before exceptional items, excluding Retail depreciation and amortisation. It is also now used to derive the Total indebtedness ratio and Fixed charge cover APMs. Rent expense is now de minimis following the adoption of IFRS 16, and so the Total indebtedness ratio denominator has changed from EBITDAR (Retail EBITDA before Retail rent expense) to Retail EBITDA, consistent with the Group's use of Retail EBITDA as a measure of operating performance and profitability. Similarly, the Fixed charge cover numerator has changed from EBITDAR to Retail EBITDA.
- Total indebtedness has also been redefined to no longer include the present value of future minimum lease payments under non-cancellable operating leases. Following the adoption of IFRS 16, the Group's measure of Total indebtedness includes lease liabilities (with the exception of short-term and low value asset leases).
- The Fixed charge cover denominator has also been redefined to exclude interest on lease liabilities from net finance costs and include all lease liability payments made in the period. Amending the calculation ensures that all cash payments made in the period with respect to the Group's lease liabilities continue to be included in the calculation of Fixed charge cover.

Refer to the Glossary on pages 164 to 169 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.

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 the Glossary. Refer to Note 4 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating segments is not material.

Income statement

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

53 weeks ended 29 February 2020 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	45,784	5,447	4,896	1,068	57,195	175	57,370
Revenue	52,931	5,695	4,896	1,068	64,590	170	64,760
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	2,231	160	398	193	2,982	23	3,005
Exceptional items and amortisation of acquired intangibles	(286)	(73)	(11)	(119)	(489)	2	(487)
Operating profit/(loss)	1,945	87	387	74	2,493	25	2,518
Operating margin	4.2%	2.8%	8.1%	18.1%	4.6%		4.6%

53 weeks ended 29 February 2020 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales*	45,752	5,332	5,218	1,068	57,370
Revenue	52,898	5,576	5,218	1,068	64,760
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles*	2,230	156	426	193	3,005
Exceptional items and amortisation of acquired intangibles	(286)	(71)	(11)	(119)	(487)
Operating profit/(loss)	1,944	85	415	74	2,518
Operating margin*	4.2%	2.8%	8.2%	18.1%	4.6%
Share of post-tax profits/(losses) of joint ventures and associates					18
Finance income					23
Finance costs					(1,244)
Profit/(loss) before tax					1,315

* Refer to page 167 for a reconciliation from Group sales, Operating profit before exceptional items and amortisation of acquired intangibles and Operating margin shown above to the Group's 52-week alternative performance measures.

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

Tesco Bank revenue of £1.068m (2019: £1.097m) comprises interest and similar revenues of £733m (2019: £729m) and fees and commissions revenue of £335m (2019: £368m).

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Balance sheet

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

At 29 February 2020	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill and other intangible assets	4,892	28	285	914	-	6,119
Property, plant and equipment and investment property	14,635	2,199	2,365	61	-	19,260
Right of use assets	5,719	491	650	14	-	6,874
Investments in joint ventures and associates	11	1	208	87	-	307
Non-current financial assets at fair value through other comprehensive income	7	-	-	859	-	866
Non-current trade and other receivables ^(a)	65	-	13	65	-	143
Non-current loans and advances to customers and banks	-	-	-	4,171	-	4,171
Deferred tax assets	129	33	61	69	-	292
Non-current assets^(b)	25,458	2,752	3,582	6,240	-	38,032
Inventories and current trade and other receivables ^{(c)(d)}	2,678	410	384	252	-	3,724
Current loans and advances to customers and banks	-	-	-	4,280	-	4,280
Current financial assets at fair value through other comprehensive income	-	-	-	202	-	202
Total trade and other payables	(7,215)	(639)	(989)	(249)	-	(9,092)
Total customer deposits and deposits from banks	-	-	-	(8,207)	-	(8,207)
Total provisions	(161)	(25)	(49)	(57)	-	(292)
Deferred tax liabilities	(4)	(36)	-	-	-	(40)
Net current tax	(270)	9	(16)	(26)	-	(303)
Post-employment benefits	(3,056)	-	(29)	-	-	(3,085)
Assets classified as held for sale	75	165	-	45	-	285
Net debt (including Tesco Bank)^(e)	(8,203)	(663)	(667)	47	(2,765)	(12,251)
Net assets	9,302	1,973	2,216	2,527	(2,765)	13,253

^(a) Excludes loans to joint ventures of £23m (2019: £105m) which form part of net debt.

^(b) Excludes derivative financial instrument non-current assets of £1,083m (2019: £1,178m).

^(c) Excludes net interest and other receivables of £1m (2019: £1m) which form part of net debt.

^(d) Excludes loans to joint ventures of £104m (2019: £28m) which form part of net debt.

^(e) On adoption of IFRS 16, lease liabilities included within net debt have been presented within their respective segments. Previously the Group's finance lease liabilities were presented within the Unallocated segment. The prior financial year has been restated. Refer to Note 37.

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	503	86	-	602
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	4,003	10,112	-	43,037
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	2,587	2,494	(2,734)	13,432

^{(a) - (e)} Refer to previous table for footnotes

Other segment information

53 weeks ended 29 February 2020	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment ^(a)	1,674	97	128	7	1,906
Goodwill and other intangible assets ^(b)	145	12	6	44	207
Depreciation and amortisation:					
Property, plant and equipment	(771)	(137)	(221)	(9)	(1,138)
Right of use assets	(537)	(45)	(67)	(2)	(651)
Investment property	(1)	–	–	–	(1)
Other intangible assets	(218)	(13)	(6)	(130)	(367)
Impairment of financial assets					
Financial asset net (loss)/reversal	(4)	–	3	(179)	(180)
52 weeks ended 23 February 2019 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Capital expenditure (including acquisitions through business combinations):					
Property, plant and equipment ^(a)	1,028	113	228	4	1,373
Goodwill and other intangible assets ^(b)	4,005	17	3	27	4,052
Depreciation and amortisation:					
Property, plant and equipment	(756)	(151)	(222)	(10)	(1,139)
Right of use assets	(519)	(40)	(54)	(2)	(615)
Investment property	(1)	–	–	–	(1)
Other intangible assets	(201)	(14)	(7)	(73)	(295)
Impairment of financial assets					
Financial asset net (loss)/reversal	(20)	–	(1)	(164)	(185)

^(a) Includes £914m related to obtaining control of The Tesco Atrato Limited Partnership. Refer to Note 33 for further details.

^(b) Includes £nil (2019: £326m) acquired through business combinations.

^(c) Includes £nil (2019: £3,861m) acquired through business combinations.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, including a split of cash flows between Retail and Tesco Bank.

	Retail			Bank			Tesco Group
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
53 weeks ended 29 February 2020							
Operating profit/(loss) of continuing operations	2,812	(368)	2,444	193	(119)	74	2,518
Depreciation and amortisation	1,937	79	2,016	77	64	141	2,157
ATM net income	(34)	–	(34)	34	–	34	–
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	5	(175)	(170)	–	–	–	(170)
(Profit)/loss arising on sale of financial assets	–	–	–	–	(3)	(3)	(3)
(Profit)/loss arising on sale of joint ventures and associates	–	(68)	(68)	–	–	–	(68)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	–	302	302	–	–	–	302
Impairment of joint ventures	–	47	47	–	–	–	47
Adjustment for non-cash element of pensions charge	9	–	9	–	–	–	9
Other defined benefit pension scheme payments	(267)	–	(267)	–	–	–	(267)
Share-based payments	86	–	86	1	–	1	87
Tesco Bank fair value movements included in operating profit/(loss)	–	–	–	100	–	100	100
Cash flows generated from operations excluding working capital	4,548	(183)	4,365	405	(58)	347	4,712
(Increase)/decrease in working capital	(77)	(47)	(124)	(3,422)	15	(3,407)	(3,531)
Cash generated from/(used in) operations^{(a)(b)}	4,471	(230)	4,241	(3,017)	(43)	(3,060)	1,181
Interest paid	(795)	–	(795)	(8)	–	(8)	(803)
Corporation tax paid	(271)	–	(271)	(69)	–	(69)	(340)
Net cash generated from/(used in) operating activities	3,405	(230)	3,175	(3,094)	(43)	(3,137)	38
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	3	266	269	–	3,696	3,696	3,965
Purchase of property, plant and equipment and investment property – store buybacks	(136)	(36)	(172)	–	–	–	(172)
Purchase of property, plant and equipment and investment property – other capital expenditure	(826)	–	(826)	(5)	–	(5)	(831)
Purchase of intangible assets	(162)	–	(162)	(39)	–	(39)	(201)
Disposal of subsidiaries, net of cash disposed	4	–	4	–	–	–	4
Acquisition of subsidiaries, net of cash acquired	–	–	–	–	–	–	–
Disposal of associate (Note 33)	–	277	277	–	–	–	277
Net (increase)/decrease in loans to joint ventures and associates	–	–	–	8	–	8	8
Investments in joint ventures and associates	(9)	–	(9)	–	–	–	(9)
Net (investments in)/proceeds from sale of short-term investments	(687)	–	(687)	–	–	–	(687)
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income	(3)	–	(3)	(3)	–	(3)	(6)
Dividends received from joint ventures and associates	26	–	26	16	–	16	42
Dividends received from Tesco Bank	50	–	50	(50)	–	(50)	–
Interest received	18	–	18	–	–	–	18
Net cash generated from/(used in) investing activities	(1,722)	507	(1,215)	(73)	3,696	3,623	2,408
Proceeds from issue of ordinary share capital	–	–	–	–	–	–	–
Own shares purchased	(149)	–	(149)	–	–	–	(149)
Repayments of obligations under leases	(632)	–	(632)	(2)	–	(2)	(634)
Add: Cash outflow from major acquisition	–	–	–	–	–	–	–
Less: Net increase/(decrease) in loans to joint ventures and associates	–	–	–	(8)	–	(8)	(8)
Less: Net investments in/(proceeds from sale of) short-term investments	687	–	687	–	–	–	687
Free cash flow^(a)	1,589	277	1,866	(3,177)	3,653	476	2,342
Increase in borrowings	1,082	–	1,082	250	–	250	1,332
Repayment of borrowings	(1,378)	–	(1,378)	(410)	–	(410)	(1,788)
Net cash flows from derivative financial instruments	(17)	–	(17)	–	–	–	(17)
Dividends paid to equity holders	(656)	–	(656)	–	–	–	(656)
Net cash generated from/(used in) financing activities	(1,750)	–	(1,750)	(162)	–	(162)	(1,912)
Intra-Group funding and intercompany transactions	3	–	3	(3)	–	(3)	–
Net increase/(decrease) in cash and cash equivalents	(64)	277	213	(3,332)	3,653	321	534
Cash and cash equivalents at the beginning of the year			1,873			1,043	2,916
Effect of foreign exchange rate changes			(42)			–	(42)
Cash and cash equivalents at the end of the year			2,044			1,364	3,408

^(a) Refer to page 169 for a reconciliation from Retail operating cash flow, Retail free cash flow and Free cash flow shown above to the Group's 52-week alternative performance measures.

^(b) 'Retail operating cash flow' of £4,241m (2019: £3,637m (restated)) is the cash generated from operations of the continuing Retail business.

	Retail			Tesco Bank			Tesco Group
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
52 weeks ended 23 February 2019 (restated)							
Operating profit/(loss) of continuing operations	2,408	72	2,480	199	(30)	169	2,649
Depreciation and amortisation	1,887	78	1,965	85	-	85	2,050
ATM net income	(34)	-	(34)	34	-	34	-
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets and assets held for sale and early termination of leases	(19)	(104)	(123)	(8)	-	(8)	(131)
(Profit)/loss arising on sale of financial assets	(1)	(7)	(8)	-	-	-	(8)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(3)	(111)	(114)	-	-	-	(114)
Impairment of joint ventures	-	-	-	-	-	-	-
Adjustment for non-cash element of pensions charge	45	-	45	-	-	-	45
Other defined benefit pension scheme payments	(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	4,099	(72)	4,027	432	(30)	402	4,429
(Increase)/decrease in working capital	(306)	(84)	(390)	(223)	(35)	(258)	(648)
Cash generated from/(used in) operations	3,793	(156)	3,637	209	(65)	144	3,781
Interest paid	(851)	-	(851)	(8)	-	(8)	(859)
Corporation tax paid	(302)	-	(302)	(68)	-	(68)	(370)
Net cash generated from/(used in) operating activities	2,640	(156)	2,484	133	(65)	68	2,552
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	22	263	285	1	-	1	286
Purchase of property, plant and equipment and investment property - store buybacks	(136)	-	(136)	-	-	-	(136)
Purchase of property, plant and equipment and investment property - 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	(715)	-	(715)	-	-	-	(715)
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	21	-	21	-	-	-	21
Net cash generated from/(used in) investing activities	(1,222)	270	(952)	(188)	-	(188)	(1,140)
Proceeds from issue of ordinary share capital	60	-	60	-	-	-	60
Own shares purchased	(206)	-	(206)	-	-	-	(206)
Repayments of obligations under leases	(605)	-	(605)	(1)	-	(1)	(606)
Add: Cash outflow from major acquisition	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*	775	114	889	(61)	(65)	(126)	763
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
Dividends paid to equity holders	(357)	-	(357)	-	-	-	(357)
Net cash generated from/(used in) financing activities	(2,415)	-	(2,415)	(155)	-	(155)	(2,570)
Intra-Group funding and intercompany transactions	(14)	-	(14)	14	-	14	-
Net increase/(decrease) in cash and cash equivalents	(1,011)	114	(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 equivalent at the end of the year			1,873			1,043	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 previously reported Retail free cash flow of £906m to £889m. There is no overall impact to cash and cash equivalents at the end of the year.

Notes to the Group financial statements continued

Note 3 Income and expenses

Auditor's remuneration

	53 weeks 2020 £m	52 weeks 2019 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.6	1.6
The audit of the accounts of the Company's subsidiaries	5.8	6.4
Total audit services	7.4	8.0
Audit-related assurance services	0.5	0.5
Total audit and audit-related assurance services	7.9	8.5
Fees payable to the Company's auditor and its associates for other services:		
Transaction services	0.2	–
All other non-audit services	1.6	3.5
Total non-audit services	1.8	3.5
Total auditor's remuneration	9.7	12.0

Other non-audit services of £1.6m (2019: £3.5m) represents: retail consultancy services £nil (2019: £1.3m), provision of data repository services for information needed by the Group and Serious Fraud Office (SFO) £0.6m (2019: £1.7m), SFO Monitor role £0.6m (2019: £0.1m), and other services £0.4m (2019: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.1m (2019: £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 Audit committee report on page 50, including how objectivity and independence is safeguarded.

Employment costs, including Directors' remuneration

	Notes	53 weeks 2020 £m	52 weeks 2019 £m
Continuing operations			
Wages and salaries		6,266	6,447
Social security costs		497	520
Post-employment defined benefits ^(a)	29	45	78
Post-employment defined contributions	29	343	332
Share-based payments expense	28	129	118
Termination benefits ^(b)		116	151
Total		7,396	7,646

^(a) Includes £nil (2019: £43m) past service cost related to guaranteed minimum pensions (GMPs). This is treated as an exceptional item. Refer to Note 4 and Note 29.

^(b) Includes £110m (2019: £145m) of redundancy costs included within exceptional items. Refer to Note 4.

Post-employment defined contribution charges include £116m (2019: £110m) 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	
	2020	2019	2020	2019
Continuing operations				
UK & ROI	319,303	344,117	210,768	223,542
Central Europe	44,199	54,301	40,864	50,068
Asia	56,003	62,403	39,026	44,473
Tesco Bank	3,587	3,684	3,305	3,407
Total	423,092	464,505	293,963	321,490

Note 4 Exceptional items and amortisation of acquired intangibles

Group income statement

53 weeks ended 29 February 2020

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	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/ (losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Exceptional items:							
Net restructuring and redundancy costs ^(a)	(138)	(13)	(151)	-	-	21	-
Property transactions ^(b)	55	-	55	-	-	15	-
Booker integration costs ^(c)	(18)	(5)	(23)	-	-	4	-
Derivative restructuring ^(d)	-	-	-	-	(180)	34	-
Acquisition of property joint venture ^(e)	(136)	-	(136)	-	-	(23)	-
Net impairment loss of non-current assets ^(f)	(19)	4	(15)	-	-	17	-
Impairment of investment in India joint venture ^(g)	-	(47)	(47)	-	-	-	-
Disposal of China associate ^(h)	-	37	37	-	-	(30)	-
China land penalties ⁽ⁱ⁾	-	-	-	(12)	-	-	-
China tax liability release ^(j)	-	-	-	-	-	-	38
Other corporate activity costs ^(k)	-	(22)	(22)	-	-	-	-
Tesco Bank mortgage book disposal ^(l)	(8)	3	(5)	-	29	(14)	-
Tesco Bank current accounts ^(m)	-	(56)	(56)	-	-	14	-
Provision for customer redress ⁽ⁿ⁾	(45)	-	(45)	-	-	-	-
Ogden rate change ^(o)	-	-	-	4	-	-	-
Total exceptional items	(309)	(99)	(408)	(8)	(151)	38	38
Amortisation of acquired intangibles:							
Amortisation of acquired intangible assets (Note 10)	-	(79)	(79)	-	-	15	-
Total exceptional items and amortisation of acquired intangibles	(309)	(178)	(487)	(8)	(151)	53	38

^(a) This charge relates to simplification of our operating model in Tesco Bank £(13)m, Central Europe £(43)m, and the UK & ROI £(95)m.

^(b) As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties which generated a profit in Central Europe £26m and the UK & ROI £29m.

^(c) Costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

^(d) The Group is subject to inflation risk on certain lease liabilities with its joint ventures, which increase annually with LPI (RPI restricted to a range of 0-5%). In order to mitigate this inflation risk to the Group, a restructure of derivatives held with external counterparties was undertaken during the year. This resulted in the remeasurement of the fair value of these derivatives, giving rise to a non-cash exceptional charge of £(180)m.

^(e) The Group obtained control of The Tesco Atrato Limited Partnership, previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest in the partnership for a net consideration of £36m. The acquisition, which is treated as an asset acquisition, increases the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities. Refer to Note 33 for further details.

^(f) Net impairment loss relating to the Group's non-current assets. Refer to Note 15 for further details.

^(g) Investments in our offer to remain competitive in the market, combined with a strategic decision to reduce store expansion, have impacted our profit expectations of the joint venture resulting in an impairment charge in the year.

^(h) Gain from completing the sale of the Group's 20% share of Gain Land to China Resources Holdings. Refer to Note 33 for further details.

⁽ⁱ⁾ The Group's China associate recognised certain penalties in the year relating to delays in property development. This charge represents the Group's 20% share of these penalties.

^(j) During the current financial year, the Group reached a settlement with the Chinese tax authority relating to a withholding tax liability arising on the formation of the Gain Land associate with China Resources Holdings in 2014. As a result of the settlement, the Group has released the remaining withholding tax liability of £38m - this has been classified within discontinued operations, consistent with the classification of the original liability in 2014.

^(k) Includes costs incurred relating to the announced sale of the Group's operations in Asia and other corporate activity during the current financial year.

^(l) The Group completed the majority of the transfer of the beneficial ownership of Tesco Bank's mortgage book to Lloyds Banking Group, of which £30m is related to the gain on the disposal, which is offset by the Group disposing of a proportion of Tesco Bank's goodwill amounting to £(27)m. The Group also incurred £(8)m related to accelerated amortisation and generated a £29m fair value remeasurement gain.

^(m) Following the decision to close the Bank's current accounts to new customers, accelerated depreciation was charged on related intangible and fixed assets, resulting in an additional charge of £(56)m.

⁽ⁿ⁾ The charge of £(45)m relates to additional costs in respect of Payment Protection Insurance (PPI) as a result of higher claim rates ahead of the deadline of 29 August 2019.

^(o) The Group's share of the results for the period of its joint venture, Tesco Underwriting, reflects a credit adjustment to insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims.

Notes to the Group financial statements continued

Note 4 Exceptional items and amortisation of acquired intangibles continued

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	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/(losses) £m	Taxation £m	Exceptional items within discontinued operations £m
Exceptional items (restated):						
Tesco Direct closure costs	(38)	-	(38)	-	7	-
Net restructuring and redundancy costs	(159)	(23)	(182)	-	30	-
Provision for customer redress	(16)	-	(16)	-	-	-
Release of amounts provided in relation to FCA obligations	-	17	17	-	-	-
Insurance recovery of amounts in relation to FCA obligations	-	20	20	-	-	-
Property transactions*	87	17	104	11	7	-
Tesco Bank FCA charge	-	(16)	(16)	-	-	-
Booker integration costs	(8)	(7)	(15)	-	3	-
Freetime VAT provision release	176	-	176	-	(33)	-
Lazada contingent proceeds	-	7	7	-	-	-
GMP equalisation	(37)	(6)	(43)	-	7	-
Net impairment reversal of non-current assets and onerous property provisions*	105	1	106	-	14	-
Total exceptional items	110	10	120	11	35	-
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 10)	-	(78)	(78)	-	15	-
Total exceptional items and amortisation of acquired intangibles	110	(68)	42	11	50	-

* Reclassified for the change in presentation of profits/(losses) arising on property-related items as explained in Note 1.

Group cash flow statement

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

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

	Cash flows from operating activities		Cash flows from investing activities	
	53 weeks 2020 £m	52 weeks 2019 (restated) £m	53 weeks 2020 £m	52 weeks 2019 £m
Payments relating to Tesco Direct closure	-	(38)	-	-
Prior year restructuring and redundancy costs	(133)	(60)	-	-
Current year restructuring and redundancy costs	(69)	(30)	-	-
Onerous contract provisions	-	(1)	-	-
Property transactions ^(a)	-	-	266	263
Settlement of claims for customer redress in Tesco Bank	(38)	(49)	-	-
DPA/shareholder compensation scheme payments	-	(43)	-	-
Freetime VAT refund ^(a)	-	12	-	-
Tesco Bank FCA settlement payment	-	(16)	-	-
Insurance recovery of amounts in relation to FCA obligations	-	16	-	-
Booker integration cash payments	(23)	(12)	-	-
Proceeds from sale of Tesco Bank's mortgage book	-	-	3,696	-
Proceeds from sale of Lazada	-	-	-	7
Acquisition of property joint venture (Note 33)	-	-	(36)	-
Proceeds from disposal of China associate (Note 33)	-	-	277	-
Corporate activity costs	(10)	-	-	-
Total	(273)	(221)	4,203	270

^(a) These relate to proceeds from disposal of properties primarily in UK & ROI and Central Europe.

^(a) 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	53 weeks 2020 £m	52 weeks 2019 (restated) £m
Finance income			
Interest receivable and similar income		19	22
Finance income receivable on net investment in leases		4	3
Total finance income		23	25
Finance costs			
GBP MTNs and loans		(142)	(144)
EUR MTNs		(59)	(77)
USD bonds		(11)	(17)
Finance charges payable on lease liabilities		(541)	(561)
Other interest payable		(25)	(49)
Capitalised interest	11	–	1
Fair value remeasurements of financial instruments*		(244)	(153)
Total finance costs before exceptional items and net pension finance costs		(1,022)	(1,000)
Net pension finance costs	29	(71)	(89)
Total finance costs before exceptional items		(1,093)	(1,089)
Fair value remeasurement loss on derivative restructuring	4	(180)	–
Fair value remeasurement gain on Tesco Bank mortgage book disposal	4	29	–
Total finance costs		(1,244)	(1,089)
Net finance costs		(1,221)	(1,064)

* Fair value remeasurements of financial instruments included £(65)m (2019: £(121)m) relating to the premium paid on the repurchase of long-dated bonds.

Note 6 Taxation

Recognised in the Group income statement

Continuing operations		53 weeks 2020 £m	52 weeks 2019 (restated) £m
Current tax (credit)/charge			
UK corporation tax		254	221
Overseas tax		154	131
Adjustments in respect of prior years		(41)	(8)
		367	344
Deferred tax (credit)/charge			
Origination and reversal of temporary differences		30	3
Adjustments in respect of prior years		(17)	–
		13	3
Total income tax (credit)/charge		380	347

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 financial statements. Temporary differences have been measured using these enacted tax rates. Legislation has been substantively enacted after the current financial year balance sheet date to repeal the reduction of the main corporation tax rate thereby maintaining the current rate of corporation tax at 19%. The Group expects to recognise a charge of £30m in the Group income statement for the rate change impact from remeasuring opening temporary differences to be reported in the financial year ending 27 February 2021.

Notes to the Group financial statements continued

Note 6 Taxation continued

Reconciliation of effective tax charge

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
Profit/(loss) before tax	1,315	1,617
Tax credit/(charge) at 19.0% (2019: 19.0%)	(250)	(307)
Effect of:		
Non-qualifying depreciation	(34)	(35)
Expenses not deductible ^(a)	(58)	(26)
Unrecognised tax losses	(35)	(10)
Property items taxed on a different basis to accounting entries ^(b)	(3)	21
Impairment of non-current assets	(36)	20
Banking surcharge tax	(11)	(18)
Differences in overseas taxation rates	4	13
Adjustments in respect of prior years ^(c)	58	1
Share of losses of joint ventures and associates	3	7
Irrecoverable withholding taxes	(18)	(13)
Total income tax credit/(charge)	(380)	(347)
Effective tax rate	28.9%	21.5%

^(a) This includes current year movements on uncertain tax positions. Prior year includes 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.

^(c) This includes adjustments to prior years' uncertain tax positions.

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

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles	1,961	1,564
Tax credit/(charge) at 19.0% (2019: 19.0%)	(373)	(297)
Effect of:		
Non-qualifying depreciation	(34)	(35)
Expenses not deductible ^(a)	(40)	(24)
Unrecognised tax losses	(13)	(9)
Banking surcharge tax	(17)	(19)
Differences in overseas taxation rates	4	3
Adjustments in respect of prior years ^(b)	53	(8)
Share of losses of joint ventures and associates	5	5
Irrecoverable withholding taxes	(18)	(13)
Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles	(433)	(397)
Effective tax rate before exceptional items and amortisation of acquired intangibles	22.1%	25.4%
Tax charge on net pension finance costs and fair value remeasurements of financial instruments at 19.0% on £315m (2019: 19.0% on £242m)	(60)	(46)
Change in tax rate	2	2
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments	(491)	(441)
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments^(c)	21.6%	24.4%

^(a) This includes current year movements on uncertain tax positions and expenses not qualifying for tax relief.

^(b) This includes adjustments to prior years' uncertain tax positions.

^(c) Refer to page 168 for a reconciliation from Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measure.

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

	53 weeks 2020 £m	52 weeks 2019 £m
Current tax credit/(charge) on:		
Share-based payments	1	2
Deferred tax credit/(charge) on:		
Share-based payments	(3)	3
Total tax on items credited/(charged) to the Group statement of changes in equity	(2)	5

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

	53 weeks 2020 £m	52 weeks 2019 £m
Current tax credit/(charge) on:		
Foreign exchange movements	1	3
Deferred tax credit/(charge) on:		
Pensions	71	(61)
Fair value of movement on financial assets at fair value through other comprehensive income	(1)	2
Fair value movements on cash flow hedges	(9)	-
Total tax on items credited/(charged) to Group statement of comprehensive income/(loss)	62	(56)

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	Post-employment benefits ^(b) £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Total £m
At 25 February 2018 (restated)	(414)	-	554	43	143	1	(8)	319
Adjustment on initial application of IFRS 9	-	-	-	-	-	-	59	59
(Charge)/credit to the Group income statement	53	15	(23)	-	(28)	2	(22)	(3)
(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 (restated)	(364)	(114)	470	51	121	6	32	202
(Charge)/credit to the Group income statement	37	14	(31)	2	(28)	(2)	(5)	(13)
(Charge)/credit to the Group statement of changes in equity	-	-	-	(3)	-	-	-	(3)
(Charge)/credit to the Group statement of comprehensive income/(loss)	-	-	71	-	-	-	(10)	61
Disposals	1	-	-	-	-	-	-	1
Foreign exchange and other movements ^(c)	1	-	2	1	-	-	-	4
At 29 February 2020^(d)	(325)	(100)	512	51	93	4	17	252

^(a) Property-related items include a deferred tax liability on rolled-over gains of £291m (2019: £287m), deferred tax assets on capital losses of £166m (2019: £140m) and deferred tax assets on IFRS 16 transitional adjustments of £276m (2019: £306m). 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 post-employment benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 29.

^(c) The deferred tax charge for foreign exchange and other movements is a £4m credit (2019: £5m credit) relating to the retranslation 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'.

^(d) Remeasurement of temporary differences for the UK corporation tax rate change substantively enacted post the balance sheet date will increase the opening deferred tax asset in the financial year ended 27 February 2021 by £23m.

Notes to the Group financial statements continued

Note 6 Taxation continued

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:

	2020 £m	2019 (restated) £m
Deferred tax assets	292	251
Deferred tax liabilities	(40)	(49)
	252	202

No deferred tax liability is recognised on temporary differences of £6.8bn (2019 revised: £6.0bn) 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 29 February 2020 is estimated to be £237m (2019: £237m) 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:

	2020 £m	2019 £m
Deductible temporary differences	78	90
Tax losses	226	199
	304	289

As at 29 February 2020, the Group has unused trading tax losses from continuing operations of £1,016m (2019: £894m) available for offset against future profits. A deferred tax asset has been recognised in respect of £25m (2019: £35m) of such losses. No deferred tax asset has been recognised in respect of the remaining £991m (2019: £859m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £219m that will expire by 2024 (2019: £69m in 2023) and £142m that will expire between 2025 and 2040 (2019: £139m between 2024 and 2039). Other losses will be carried forward indefinitely.

Changes in tax law or its interpretation

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

Note 7 Discontinued operations and assets classified as held for sale

Assets classified as held for sale

	2020 £m	2019 £m
Assets classified as held for sale	285	98

The assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year and the remaining assets of Tesco Bank's mortgage operations of £45m (2019: £nil). Refer to Note 1 Critical accounting judgements for further details on the mortgage book disposal.

Discontinued operations

During the current financial year, the Group reached a settlement with the Chinese tax authority relating to a withholding tax liability arising on the formation of the Gain Land Limited associate with China Resources Holdings in 2014. As a result of the settlement, the Group has released the remaining withholding tax liability of £38m - this has been classified within discontinued operations, consistent with the classification of the original withholding tax liability in 2014. Refer to Note 4 for further details.

Note 8 Dividends

	2020		2019	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend ^(a)	4.10	399	2.00	195
Paid interim dividend ^(b)	2.65	257	1.67	162
Dividends paid to equity owners in the financial year	6.75	656	3.67	357
Proposed final dividend at financial year end	6.50	637	4.10	402

^(a) Excludes £3m prior financial year final dividend waived (2019: £nil).

^(b) Excludes £3m interim dividend waived (2019: £2m).

The proposed final dividend was approved by the Board of Directors on 7 April 2020 and is subject to the approval of shareholders at the AGM. The proposed dividend has not been included as a liability as at 29 February 2020, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 3 July 2020 to shareholders who are on the Register of members at close of business on 22 May 2020.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 12 June 2020.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. £nil (2019: £nil) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 30 for further details.

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

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

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

For the 53 weeks ended 29 February 2020 there were 67 million (2019: 72 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.

	2020			2019 (restated)		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations*	933	-	933	1,272	-	1,272
Discontinued operations	38	-	38	-	-	-
Total	971	-	971	1,272	-	1,272
Weighted average number of shares (millions)	9,716	67	9,783	9,686	72	9,758
Earnings/(losses) per share (pence)						
Continuing operations	9.60	(0.06)	9.54	13.13	(0.09)	13.04
Discontinued operations	0.39	-	0.39	-	-	-
Total	9.99	(0.06)	9.93	13.13	(0.09)	13.04

* Excludes profits/(losses) from non-controlling interests of £2m (2019: £(2)m).

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

	Notes	53 weeks 2020	52 weeks (restated) 2019
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,961	1,564
Add: Net pension finance costs (£m)	5	71	89
Add/(less): Fair value remeasurements of financial instruments (£m)	5	244	153
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)^(a)		2,276	1,806
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) ^(b)		2,273	1,806
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) ^(c)		(490)	(439)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)		1,783	1,367
Basic weighted average number of shares (millions)		9,716	9,686
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)		18.35	14.11
Diluted weighted average number of shares (millions)		9,783	9,758
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)^(a)		18.23	14.01

^(a) Refer to page 168 for a reconciliation from Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments and Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measures.

^(b) Excludes profit before tax attributable to non-controlling interests of £3m (2019: £nil)

^(c) Excludes tax charges on profits attributable to non-controlling interests of £11m (2019: £(2)m).

Notes to the Group financial statements continued

Note 10 Goodwill and other intangible assets

	Goodwill £m	Software ^(a) £m	Customer relationships £m	Intangible assets £m	Total £m
Cost					
At 23 February 2019	5,550	1,840	715	447	8,552
Foreign currency translation	(5)	(2)	–	(1)	(8)
Additions	–	188	–	19	207
Reclassification	–	40	–	(5)	35
Disposals ^(b)	(27)	(198)	–	(2)	(227)
At 29 February 2020	5,518	1,868	715	458	8,559
Accumulated amortisation and impairment losses					
At 23 February 2019	641	1,254	72	321	2,288
Foreign currency translation	(4)	(1)	–	–	(5)
Charge for the year ^(c)	–	281	76	10	367
Impairment losses ^(d)	–	15	–	12	27
Reversal of impairment losses ^(d)	–	(31)	–	(7)	(38)
Reclassification	–	2	–	(3)	(1)
Disposals	–	(196)	–	(2)	(198)
At 29 February 2020	637	1,324	148	331	2,440
Net carrying value					
At 29 February 2020	4,881	544	567	127	6,119
At 23 February 2019	4,909	586	643	126	6,264

^(a) Software includes £341m (2019: £297m) of internally generated development costs.

^(b) The disposal of goodwill relates to the sale of Tesco Bank's mortgage book.

^(c) Of the £86m (2019: £85m) amortisation of customer relationships and other intangible assets, £79m (2019: £78m) has been included within exceptional items and amortisation of intangible assets £76m (2019: £74m) of this balance arises from amortisation of intangible assets recognised upon the Booker acquisition. Refer to Note 4 for further details.

^(d) Refer to Note 15.

	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	3,098	–	715	48	3,861
Reclassification	–	(140)	–	2	(138)
Disposals	–	(308)	–	(15)	(323)
Fully-amortised assets	–	(1,046)	–	(3)	(1,049)
At 23 February 2019	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 ^(c)	–	210	72	13	295
Impairment losses ^(d)	–	15	–	27	42
Reversal of impairment losses ^(d)	–	(2)	–	(24)	(26)
Disposals	–	(301)	–	(5)	(306)
Fully-amortised assets	–	(1,046)	–	(3)	(1,049)
At 23 February 2019	641	1,254	72	321	2,288

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

Note 11 Property, plant and equipment

	Land and buildings £m	Other ¹ £m	Total £m
Cost			
At 23 February 2019 (restated)	24,484	6,993	31,477
Foreign currency translation	(69)	(15)	(84)
Additions ^{2(a)}	1,285	621	1,906
Reclassification	(24)	(28)	(52)
Classified as held for sale	(589)	(36)	(625)
Disposals	(219)	(610)	(829)
At 29 February 2020	24,868	6,925	31,793
Accumulated depreciation and impairment losses			
At 23 February 2019 (restated)	7,523	4,768	12,291
Foreign currency translation	(23)	(11)	(34)
Charge for the year	525	613	1,138
Impairment losses ^{3(a)}	611	111	722
Reversal of impairment losses ^{3(a)}	(391)	(104)	(495)
Reclassification	41	(23)	18
Classified as held for sale	(298)	(34)	(332)
Disposals	(147)	(602)	(749)
At 29 February 2020	7,841	4,718	12,559
Net carrying value^(a)			
At 29 February 2020	17,027	2,207	19,234
At 23 February 2019 (restated)	16,961	2,225	19,186
Construction in progress included above^(b)			
At 29 February 2020	88	114	202
At 23 February 2019	37	109	146

^(a) Other assets consist of fixtures and fittings with a net carrying value of £1.712m (2019: £1,720m), office equipment with a net carrying value of £245m (2019: £304m) and motor vehicles with a net carrying value of £250m (2019: £201m).

^(b) Includes £nil (2019: £1m) 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 4.3% (2019: 4.5%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

^(c) Includes £914m of land and buildings related to obtaining control of The Tesco Atrato Limited Partnership, which was impaired by £287m on acquisition. Refer to the breakdown of assets and liabilities acquired within Note 33.

^(d) Refer to Note 15.

^(e) Includes £1,406m (2019: £803m) of assets pledged as security for secured bonds (refer to Note 23) and £478m (2019: £489m) of property held as security in favour of the Tesco PLC Pension Scheme (refer to Note 29).

^(f) Construction in progress does not include land.

	Land and buildings £m	Other ¹ £m	Total £m
Cost (restated)			
At 25 February 2018	23,018	10,852	33,870
Foreign currency translation	24	36	60
Additions ^{2(a)}	514	533	1,047
Acquired through business combinations	258	68	326
Reclassification	926	(796)	130
Classified as held for sale	(48)	5	(43)
Disposals	(73)	(450)	(523)
Fully-depreciated assets ³	(135)	(3,255)	(3,390)
At 23 February 2019	24,484	6,993	31,477
Accumulated depreciation and impairment losses (restated)			
At 25 February 2018	6,559	8,599	15,158
Foreign currency translation	(6)	18	12
Charge for the year	542	597	1,139
Impairment losses ^{3(a)}	421	167	588
Reversal of impairment losses ^{3(a)}	(568)	(141)	(709)
Reclassification	790	(796)	(6)
Classified as held for sale	(20)	5	(15)
Disposals	(60)	(426)	(486)
Fully-depreciated assets ³	(135)	(3,255)	(3,390)
At 23 February 2019	7,523	4,768	12,291
Net carrying value	16,961	2,225	19,186

¹ ^(a) Refer to previous table for footnotes

³ During the prior financial year, the Group performed a comprehensive review of all fully-depreciated assets held in the Group's fixed asset registers, and removed £3,390m of cost, accumulated depreciation and impairment losses relating to those fully-depreciated assets which are no longer in use by the Group.

Notes to the Group financial statements continued

Note 12 Leases

Group as lessee

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

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

On 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 completed on 23 September 2019, at which point the associated property leases from the joint venture became intercompany leases and are eliminated on consolidation. Refer to Note 33 for further details.

Right of use assets

	Land and buildings £m	Other £m	Total £m
Net carrying value at 23 February 2019	7,561	152	7,713
Additions (including through business combinations)	146	58	204
Depreciation charge for the year	(584)	(67)	(651)
Impairment losses ^(a)	(267)	-	(267)
Reversal of impairment losses ^(a)	182	-	182
Derecognition on acquisition of property joint venture (Note 33)	(335)	-	(335)
Other movements ^(b)	31	(3)	28
Net carrying value at 29 February 2020	6,734	140	6,874

^(a) Refer to Note 15.

^(b) Other movements include lease terminations, modifications and reassessments, foreign exchange, reclassifications to assets held for sale and entering into finance subleases.

	Land and buildings £m	Other £m	Total £m
Net carrying value at 25 February 2018	7,362	165	7,527
Additions (including acquisitions through business combinations)	619	44	663
Depreciation charge for the year	(556)	(59)	(615)
Impairment losses ^(a)	(195)	-	(195)
Reversal of impairment losses ^(a)	203	-	203
Other movements ^(b)	128	2	130
Net carrying value at 23 February 2019	7,561	152	7,713

^{(a) (b)} Refer to footnotes in table above.

Lease liabilities

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

	2020 £m	2019 (restated) £m
Current	598	646
Non-current	8,968	9,859
Total lease liabilities	9,566	10,505

	2020 £m	2019 (restated) £m
Maturity analysis – contractual undiscounted lease payments		
Within one year	1,081	1,202
Greater than one year but less than five years	3,958	4,218
Greater than five years but less than ten years	4,178	4,539
Greater than ten years but less than fifteen years	2,810	3,267
After fifteen years	2,596	3,209
Total undiscounted lease payments	14,623	16,435

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

Amounts recognised in the Group income statement

	53 weeks 2020 £m	52 weeks 2019 (restated) £m
Interest on lease liabilities	541	561
Variable payment expenses not included in lease liabilities	6	9
Expenses relating to short-term leases	19	16
Expenses relating to leases of low value assets (excluding amounts already included in short-term leases above)	1	2

Amounts recognised in the Group cash flow statement

	53 weeks 2020	52 weeks 2019 (restated)
	£m	£m
Total cash outflow for leases*	1,175	1,167

* Includes £5m (2019: £4m) related to Tesco Bank

Future possible cash outflows not included in the lease liability

Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £11.8bn (2019: £12.0bn).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately 72% (2019: 73%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 12% (2019: 12%) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.

The Group is committed to payments totalling £93m (2019: £42m) in relation to leases that have been signed but have not yet commenced.

Sale and leaseback

In October 2019, the Group completed a sale and leaseback transaction in respect of a store and mall in Poland. Cash proceeds of £24m were received and a gain of £11m was recognised. The store and mall are being leased back over a three-year lease term at market rentals.

Group as lessor

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

Amounts recognised in the Group income statement

	53 weeks 2020	52 weeks 2019 (restated)
	£m	£m
Finance lease – interest income ⁽ⁱ⁾	4	3
Operating lease – rental income ⁽ⁱⁱ⁾	341	328

⁽ⁱ⁾ Includes £4m (2019: £3m) of sublease interest income.

⁽ⁱⁱ⁾ Includes £74m (2019: £70m) of sublease rental income.

Finance lease payments receivable

The finance lease receivable (net investment in the lease) included in the Group balance sheet is £48m (2019: £54m).

Operating lease payments receivable maturity analysis

	2020 £m	2019 (restated) £m
Within one year	220	223
Greater than one year but less than two years	128	138
Greater than two years but less than three years	71	75
Greater than three years but less than four years	38	40
Greater than four years but less than five years	27	28
Greater than five years but less than ten years	83	77
Greater than ten years but less than fifteen years	44	40
After fifteen years	82	84
Total undiscounted operating lease payments receivable	693	705

Note 13 Investment property

	2020 £m	2019 £m
Cost		
At the beginning of the year	118	208
Foreign currency translation	(1)	(3)
Reclassification	(11)	(1)
Disposals	(6)	(86)
At the end of the year	100	118
Accumulated depreciation and impairment losses		
At the beginning of the year	82	108
Foreign currency translation	(1)	(2)
Charge for the year	1	1
Impairment losses for the year*	5	1
Reversal of impairment losses for the year*	(4)	(2)
Reclassification	(4)	(2)
Disposals	(5)	(22)
At the end of the year	74	82
Net carrying value at the end of the year	26	36
Rental income earned from investment properties under operating leases	11	18
Direct operating expenses incurred on rental-earning investment properties	(3)	(19)

* Refer to Note 15

The estimated fair value of the Group's investment property is £0.2bn (2019: £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.

Notes to the Group financial statements continued

Note 14 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 155 to 160 for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 29 February 2020.

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 29 February 2020 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
Included in 'UK property joint ventures':					
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco 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 Private 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 2019 to 29 February 2020. The accounting period end dates of joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

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

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

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

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

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

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

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	
	2020	2019	2020	2019 (restated)
	£m	£m	£m	£m
Summarised balance sheet				
Non-current assets ^(a)	3,242	3,786	–	6,360
Current assets (excluding cash and cash equivalents)	101	98	–	2,238
Cash and cash equivalents	28	40	–	649
Current liabilities ^(b)	(487)	(359)	–	(6,102)
Non-current liabilities ^(b)	(3,621)	(4,529)	–	(3,313)
Net assets/(liabilities)	(737)	(964)	–	(168)
Summarised income statement				
Revenue	258	289	8,551	9,038
Profit/(loss) after tax	–	–	(95)	(64)
Reconciliation to carrying amounts:				
Opening balance	–	–	263	274
Foreign currency translation	–	–	(4)	2
Share of profits/(losses) ^(c)	12	15	(19)	(13)
Dividends received from joint ventures and associates	(12)	(15)	–	–
Disposals ^(d)	–	–	(240)	–
Closing balance	–	–	–	263
Group's share in ownership	50%	50%	–	20%
Group's share of net assets/(liabilities)	(369)	(482)	–	(34)
Goodwill	–	–	–	297
Deferred property profits offset against carrying amounts	(61)	(61)	–	–
Cumulative unrecognised losses ^(e)	205	183	–	–
Cumulative unrecognised hedge reserves ^(e)	225	360	–	–
Carrying amount	–	–	–	263

^(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 £4,338m (2019: £5,053m).

^(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,616m (2019: £3,809m) and derivative swap balances of £452m (2019: £720m) entered into to hedge the cash flow variability exposures of the joint ventures.

The share of profit for the year for UK property joint ventures related to £12m dividends received from joint ventures with £nil carrying amounts, £3m of losses and £37m 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.

The Group completed the sale of its 20% investment in Gain Land Limited on 28 February 2020 for a consideration of £277m. Refer to Note 33 for further details.

As at 29 February 2020, the Group has £106m (2019: £105m) loans to UK property joint ventures.

Other joint ventures and associates

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

	Joint ventures		Associates	
	2020	2019	2020	2019
	£m	£m	£m	£m
Aggregate carrying amount of individually immaterial joint ventures and associates	230	275	77	64
Group's share of profits/(losses) for the year	14	15	11	15

Notes to the Group financial statements continued

Note 15 Impairment of non-current assets

Impairment losses and reversals

No goodwill impairment losses were recognised by the Group in 2020 (2019: £nil).

The table below summarises the Group's pre-tax impairment losses and reversals on other non-current assets and investments in joint ventures and associates, with the former aggregated by segment due to the large number of individually immaterial store cash-generating units. This excludes any losses recognised on classifying an asset or disposal group as held for sale. Impairment losses and reversals are presented gross, and prior financial year comparatives have been re-presented on the same basis and restated following adoption of IFRS 16, 'Leases'.

	UK & ROI		Central Europe		Asia		Tesco Bank		Total*	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
53 weeks ended 29 February 2020										
Group balance sheet										
Other intangible assets	(27)	36	–	2	–	–	–	–	(27)	38
Property, plant and equipment	(428)	272	(266)	195	(28)	28	–	–	(722)	495
Right of use assets	(242)	142	(10)	28	(15)	12	–	–	(267)	182
Investment property	(5)	–	–	4	–	–	–	–	(5)	4
Other non-current assets	(702)	450	(276)	229	(43)	40	–	–	(1,021)	719
Investments in joint ventures and associates	–	–	–	–	(47)	–	–	–	(47)	–
Total impairment (loss)/reversal	(702)	450	(276)	229	(90)	40	–	–	(1,068)	719
Group income statement										
Cost of sales – underlying	–	–	(5)	8	(2)	–	–	–	(7)	8
Cost of sales – exceptional	(658)	407	(271)	217	(41)	40	–	–	(970)	664
Administrative expenses – underlying	(44)	43	–	–	–	–	–	–	(44)	43
Administrative expenses – exceptional	–	–	–	4	(47)	–	–	–	(47)	4
Total impairment (loss)/reversal	(702)	450	(276)	229	(90)	40	–	–	(1,068)	719

* Of the £302m other non-current assets net impairment loss for the Group (2019: £114m reversal), a net loss of £302m (2019: £111m reversal) has been classified within exceptional items, of which a net loss of £251m (2019: £109m reversal) related to the UK & ROI, a net loss of £50m (2019: £44m reversal) related to Central Europe and a net loss of £1m (2019: £42m loss) related to Asia.

	UK & ROI		Central Europe		Asia		Tesco Bank		Total*	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
52 weeks ended 23 February 2019 (restated)										
Group balance sheet										
Other intangible assets	(26)	21	(16)	5	–	–	–	–	(42)	26
Property, plant and equipment	(426)	534	(128)	163	(34)	12	–	–	(588)	709
Right of use assets	(147)	150	(25)	49	(23)	4	–	–	(195)	203
Investment property	–	2	(1)	–	–	–	–	–	(1)	2
Other non-current assets	(599)	707	(170)	217	(57)	16	–	–	(826)	940
Investments in joint ventures and associates	–	–	–	–	–	–	–	–	–	–
Total impairment (loss)/reversal	(599)	707	(170)	217	(57)	16	–	–	(826)	940
Group income statement										
Cost of sales – underlying	–	–	(1)	1	–	–	–	–	(1)	1
Cost of sales – exceptional	(597)	704	(162)	206	(56)	15	–	–	(815)	925
Administrative expenses – underlying	(2)	1	(7)	10	–	1	–	–	(9)	12
Administrative expenses – exceptional	–	2	–	–	(1)	–	–	–	(1)	2
Total impairment (loss)/reversal	(599)	707	(170)	217	(57)	16	–	–	(826)	940

* Refer to previous table for footnote

The impairment loss in UK & ROI includes an impairment loss of £287m (2019: £nil) in the UK in respect of the Group obtaining control of The Tesco Atrato Limited Partnership. Refer to Note 33 for further details.

The impairment loss/reversal in Central Europe includes an impairment loss of £220m (2019: £nil) and reversal of £142m (2019: £nil) in Poland following the announcement in July 2019 that Tesco Poland will refocus its business on its best performing smaller store formats, converting its largest hypermarkets into smaller compact hypermarkets, which will be run alongside its existing smaller supermarkets. A full impairment review was conducted in Poland at the time of the announced changes.

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

The Group recognised an impairment loss of £47m (2019: £nil) against its investment in its joint venture Trent Hypermarket Private Limited in India, reflecting investments in our offer to remain competitive in the market, combined with a strategic decision to reduce store expansion, which has impacted our profit expectations of the joint venture.

Net carrying value of non-current assets

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

At 29 February 2020	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Net carrying value					
Other intangible assets	1,055	28	16	139	1,238
Property, plant and equipment	14,612	2,196	2,365	61	19,234
Right of use assets	5,719	491	650	14	6,874
Investment property	23	3	–	–	26
Other non-current assets	21,409	2,718	3,031	214	27,372
Goodwill ^(a)	3,837	–	269	775	4,881
Investments in joint ventures and associates ^(b)	11	1	208	87	307
Net carrying value of non-current assets	25,257	2,719	3,508	1,076	32,560
Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:					
Value in use	3,448	254	163	–	3,865
Fair value less costs of disposal ^(c)	2,105	269	209	–	2,583
	5,553	523	372	–	6,448

^(a) Goodwill of £4,881m (2019: £4,909m) consists of UK £3,834m (2019: £3,834m), ROI £3m (2019: £3m), Thailand £193m (2019: £193m), Malaysia £76m (2019: £77m) and Tesco Bank £775m (2019: £802m).

^(b) The carrying value of the Group's investments include: Gain Land Limited Enil (2019: £263m), Trent Hypermarket Private Limited £59m (2019: £102m) and Tesco Underwriting Limited £87m (2019: £86m).

Due to the individual nature of each property, fair values are classified as Level 3 within the fair value hierarchy.

At 23 February 2019 (restated)	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total £m
Net carrying value					
Other intangible assets	1,090	27	14	224	1,355
Property, plant and equipment	13,988	2,687	2,449	62	19,186
Right of use assets	6,537	479	682	15	7,713
Investment property	29	7	–	–	36
Other non-current assets	21,644	3,200	3,145	301	28,290
Goodwill ^(a)	3,837	–	270	802	4,909
Investments in joint ventures and associates ^(b)	12	1	503	86	602
Net carrying value of non-current assets	25,493	3,201	3,918	1,189	33,801
Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:					
Value in use	3,311	426	184	–	3,921
Fair value less costs of disposal ^(c)	1,976	498	213	–	2,687
	5,287	924	397	–	6,608

^(a) Refer to previous table for footnotes.

Impairment methodology

Cash-generating units

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

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

Head office and central assets such as distribution centres and associated costs are allocated to store cash-generating units based on level of use, estimated with reference to sales. Customer fulfilment centres and associated costs that are part of a store are included in the store cash-generating unit. Standalone customer fulfilment centres and associated costs are allocated to the store cash-generating units in the area that they serve to match the customer base, based on level of use, estimated with reference to sales.

Value in use

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

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

Management estimates discount rates using pre-tax rates that reflect the market assessment as at the balance sheet date of the time value of money and the risks specific to the cash-generating units, including a Brexit risk adjustment in the UK & ROI segment, and a COVID-19 risk adjustment to the discount rates for all cash-generating units to reflect the impact of increased volatility in forecast cash flows observable at that time. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region. Risk-free rates are based on government bond rates in each geographical region and equity risk premia are based on forecasts by recognised bodies.

Notes to the Group financial statements continued

Note 15 Impairment of non-current assets continued

Fair value less costs of disposal

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

Investments in joint ventures and associates

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

Key assumptions and sensitivity

Key assumptions

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

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

	UK		ROI		Thailand		Malaysia		Tesco Bank	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Pre-tax discount rates	8.0	8.8	8.1	8.5	9.0	9.6	11.5	11.8	9.7	10.4
Post-tax discount rates	6.6	7.1	7.1	7.4	7.2	7.7	8.7	9.0	7.2	7.8
Long-term growth rates	2.0	2.0	1.9	1.9	1.6	1.9	2.4	2.4	1.8	2.0

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

	UK & ROI		Central Europe		Asia		Tesco Bank	
	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %	2020 %	2019 %
Pre-tax discount rates	8.0 – 8.1	8.5 – 8.8	7.0 – 9.3	7.4 – 9.8	9.0 – 11.5	9.6 – 11.8	9.7	10.4
Post-tax discount rates	6.6 – 7.1	7.1 – 7.4	5.5 – 8.3	5.9 – 8.4	7.2 – 8.7	7.7 – 9.0	7.2	7.8
Long-term growth rates	1.9 – 2.0	1.9 – 2.0	2.0 – 3.0	2.0 – 2.7	1.6 – 2.4	1.9 – 2.4	1.8	2.0

Sensitivity

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

- Neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in year one sales growth nor a one percentage point decrease in long-term growth rates would indicate impairment in any group of cash-generating units to which goodwill has been allocated.
- While there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year, the table below summarises the reasonably possible changes in each key assumption and its impact on the impairment of the Group's entire portfolio of store cash-generating units, presented in aggregate due to the large number of individually immaterial store cash-generating units:

Key assumption	Reasonably possible change	Impact on impairment	2020* £m	2019 (restated) £m
Post-tax discount rates	Increase of 1.0%pt for each geographic region	Increase	(482)	(477)
	Decrease of 1.0%pt for each geographic region	Decrease	485	406
Year one sales growth	Increase of 1.0%pt for each geographic region	Decrease	61	51
	Decrease of 1.0%pt for each geographic region	Increase	(61)	(52)
Long-term growth rates	Increase of 1.0%pt for each geographic region	Decrease	445	379
	Decrease of 1.0%pt for each geographic region	Increase	(410)	(404)
Property fair values	Increase of 5.0%pt for each geographic region	Decrease	105	129
	Decrease of 5.0%pt for each geographic region	Increase	(105)	(130)

* These sensitivities are presented on a consistent basis with the prior financial year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of COVID-19 is given in Note 36.

Note 16 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.

	2020 £m	2019 £m
Investments in debt instruments	1,058	1,040
Investments in equity instruments	10	6
Total financial assets at fair value through other comprehensive income	1,068	1,046
Of which:		
Current	202	67
Non-current	866	979
	1,068	1,046

Note 17 Inventories

	2020 £m	2019 £m
Goods held for resale	2,429	2,611
Development properties	4	6
	2,433	2,617

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

Cost of inventories recognised as an expense for the 53 weeks ended 29 February 2020 was £48,260m (52 weeks ended 23 February 2019: £48,124m). Inventory losses and provisions recognised as an expense for the 53 weeks ended 29 February 2020 were £1,320m (52 weeks ended 23 February 2019: £1,399m).

Note 18 Trade and other receivables

	2020 £m	2019 (restated) £m
Trade receivables	495	598
Prepayments	192	279
Accrued income ¹	262	297
Other receivables	439	449
Amounts owed by joint ventures and associates (Note 31) ²	174	170
Total trade and other receivables	1,562	1,793
Of which:		
Current	1,396	1,550
Non-current	166	243
	1,562	1,793

¹ Accrued income includes contract assets of £60m (2019: £54m) primarily related to insurance renewal income. The expected credit loss was immaterial as at 29 February 2020 (2019: immaterial).

² Expected credit losses on amounts owed by joint ventures and associates is not material.

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

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

	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 29 February 2020					
Trade receivables	438	70	6	15	529
Other receivables	431	7	4	17	459
Trade and other receivables	869	77	10	32	988

Allowance for expected credit losses:

At the beginning of the year	(5)	(11)	(14)	(29)	(59)
Foreign currency translation	–	1	–	–	1
Increase in allowance, net of recoveries, charged to the Group income statement	(2)	–	4	(3)	(1)
Amounts written off	–	1	2	2	5
At the end of the year	(7)	(9)	(8)	(30)	(54)

	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 23 February 2019					
Trade receivables	499	106	18	17	640
Other receivables	435	16	2	13	466
Trade and other receivables	934	122	20	30	1,106

Allowance for expected credit losses:

At the beginning of the year	(3)	(10)	(16)	(17)	(46)
Increase in allowance, net of recoveries, charged to the Group income statement	(2)	(2)	–	(17)	(21)
Amounts written off	–	1	2	5	8
At the end of the year	(5)	(11)	(14)	(29)	(59)

Note 19 Loans and advances to customers and banks

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

	2020 £m	2019 £m
Current	4,280	4,882
Non-current	4,171	7,868
	8,451	12,750

Notes to the Group financial statements continued

Note 19 Loans and advances to customers and banks continued

The maturity of these loans and advances is as follows:

	2020 £m	2019 £m
Repayable on demand or at short notice	4	4
Within three months	4,543	4,858
Greater than three months but less than one year	86	323
Greater than one year but less than five years	3,322	3,057
After five years	984	4,993
	8,939	13,235
Expected credit loss allowance for loans and advances to customers and banks	(488)	(485)
	8,451	12,750

At 29 February 2020, £3.5bn (2019: £3.2bn) 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 £0.8bn (2019: £2.3bn).

At 29 February 2020, Delamare Cards MTN Issuer plc had £2.0bn (2019: £2.4bn) notes in issue in relation to securitisation transactions, of which £0.6bn (2019: £0.9bn) was externally issued. The Group owned £1.2bn (2019: £1.1bn) class A credit card-backed notes and £0.2bn (2019: £0.3bn) class D credit card-backed notes.

Of the total £1.2bn (2019: £1.1bn) class A notes, £nil (2019: £0.5bn) 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.

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

Note 20 Cash and cash equivalents and short-term investments

Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	3,251	2,683
Short-term deposits	157	233
	3,408	2,916

Short-term investments

	2020 £m	2019 £m
Money market funds	1,076	390

Cash and cash equivalents includes £35m (2019: £62m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

Note 21 Trade and other payables

	2020 £m	2019 (restated) £m
Trade payables	5,579	5,750
Other taxation and social security	477	521
Other payables	1,793	1,552
Amounts payable to joint ventures and associates (Note 31)	26	20
Accruals	841	1,230
Contract liabilities	376	423
Total trade and other payables	9,092	9,496
Of which:		
Current	8,922	9,131
Non-current	170	365
	9,092	9,496

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

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

Trade payables include £393m (2019: £348m) that suppliers have chosen to early-fund under supplier financing arrangements. Refer to Note 1. Amounts in trade payables that are overdue for payment to the provider banks are immaterial.

Note 22 Commercial income

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

	2020 £m	2019 £m
Current assets		
Inventories	(55)	(69)
Trade and other receivables		
Trade/other receivables	138	183
Accrued income	157	155
Current liabilities		
Trade and other payables		
Trade payables	292	327
Accruals	(3)	(4)

Note 23 Borrowings

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

Current

	Par value	Maturity	2020 £m	2019 (restated) £m
Bank loans and overdrafts	–	–	413	387
1.375% MTN	€726m	Jul 2019	–	636
5.5% MTN	£97m	Dec 2019	–	98
1% RPI Tesco Bank Retail Bond ^a	£73m	Dec 2019	–	72
2.125% MTN ^b	€296m	Nov 2020	255	–
1m USD LIBOR + 0.70% Tesco Bank Bond	\$350m	Nov 2020	273	–
5% Tesco Bank Retail Bond	£200m	Nov 2020	202	–
LIBOR + 0.65% Tesco Bank Bond ^c	£350m	May 2021	–	350
LIBOR + 0.53% Tesco Bank Bond ^c	£300m	Oct 2022	299	–
5.5457% Secured Bond ^{d,e,f}	£312m	Feb 2029	22	20
6.0517% Secured Bond ^{g,h}	£471m	Oct 2039	26	–
			1,490	1,563

Non-current

	Par value	Maturity	2020 £m	2019 (restated) £m
2.125% MTN ^b	€296m	Nov 2020	–	436
1m USD LIBOR + 0.70% Tesco Bank Bond	\$350m	Nov 2020	–	262
5% Tesco Bank Retail Bond	£200m	Nov 2020	–	203
6.125% MTN ^b	£417m	Feb 2022	416	561
LIBOR + 0.53% Tesco Bank Bond ^c	£300m	Oct 2022	–	299
5% MTN ^b	£93m	Mar 2023	103	183
1.375% MTN	€750m	Oct 2023	660	658
2.5% MTN	€750m	Jul 2024	653	658
2.5% MTN	£400m	May 2025	418	–
3.5% Tesco Bank Senior MREL Notes ⁱ	£250m	Jul 2025	250	–
3.322% LPI MTN ^j	£354m	Nov 2025	358	349
0.875% MTN	€750m	May 2026	640	–
5.5457% Secured Bond ^{d,e,f}	£312m	Feb 2029	281	303
6.067% Secured Bond ^e	£200m	Feb 2029	192	191
LIBOR + 1.2% Secured Bond ^e	£50m	Feb 2029	36	34
6% MTN ^b	£48m	Dec 2029	58	119
5.5% MTN ^b	£109m	Jan 2033	133	186
1.982% RPI MTN ^k	£294m	Mar 2036	297	288
6.15% USD Bond	\$525m	Nov 2037	555	428
6.0517% Secured Bond ^{g,h}	£471m	Oct 2039	590	–
4.875% MTN ^b	£20m	Mar 2042	20	32
5.125% MTN	€356m	Apr 2047	316	319
5.2% MTN ^l	£30m	Mar 2057	29	71
			6,005	5,580

^a The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.

^b During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early: 2.125% MTN Nov 2020 €204m, 6.125% MTN Feb 2022 £114m, 5% MTN Mar 2023 £78m, 6% MTN Dec 2029 £50m, 5.5% MTN Jan 2033 £41m, 4.875% MTN Mar 2042 £12m and 5.2% MTN Mar 2057 £43m.

This bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date in May 2019.

^c This bond was issued on 7 November 2017. The scheduled redemption date of this bond is October 2020.

^d The bonds are secured by a charge over the property, plant and equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amount of assets pledged as security for secured bonds is £794m (23 February 2019: £803m).

^e This is an amortising bond which matures in Feb 2029. £22m (23 February 2019: £20m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Feb 2029.

^f This bond is secured by a charge over the property, plant and equipment held within The Tesco Atrato Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amount of assets pledged as security for secured bonds is £612m.

^g This is an amortising bond which matures in Oct 2039. £26m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in Oct 2039.

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

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

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

Notes to the Group financial statements continued

Note 24 Financial instruments

The carrying value and fair value of the following financial assets and liabilities are set out below:

	2020		2019	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Loans and advances to customers and banks – Tesco Bank	8,451	8,672	12,750	12,931
Joint ventures and associates loan receivables*	127	193	133	205
Liabilities				
Short-term borrowings:				
Amortised cost	(1,015)	(928)	(1,491)	(1,499)
Bonds in fair value hedge relationships	(475)	(478)	(72)	(70)
Long-term borrowings:				
Amortised cost	(4,049)	(4,714)	(3,954)	(4,369)
Bonds in fair value hedge relationships	(1,956)	(1,954)	(1,626)	(1,622)
Customer deposits – Tesco Bank	(7,707)	(7,711)	(10,465)	(10,427)
Deposits from banks – Tesco Bank	(500)	(500)	(1,663)	(1,663)

* Joint ventures and associates loan receivables carrying amounts of £127m (2019: £133m) are presented in the Group balance sheet net of deferred profits of £54m (2019: £54m) historically arising from the sale of property assets to joint ventures.

The above table excludes cash and cash equivalents, short-term investments, 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 29 February 2020 and 23 February 2019 are as follows:

	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
At 29 February 2020				
Cash and cash equivalents	–	3,382	26	3,408
Loans and advances to customers and banks – Tesco Bank	–	8,451	–	8,451
Short-term investments	–	1,076	–	1,076
Financial assets at fair value through other comprehensive income	1,068	–	–	1,068
Joint ventures and associates loan receivables	–	127	–	127
Customer deposits – Tesco Bank	–	(7,707)	–	(7,707)
Deposits from banks – Tesco Bank	–	(500)	–	(500)
Short-term borrowings	–	(1,490)	–	(1,490)
Long-term borrowings	–	(6,005)	–	(6,005)
Lease liabilities	–	(9,566)	–	(9,566)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(23)	(23)
Cross-currency swaps	–	–	497	497
Index-linked swaps	–	–	(275)	(275)
Forward contracts	–	–	(1)	(1)
	1,068	(12,232)	224	(10,940)

	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
At 23 February 2019 (restated)				
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)
Lease liabilities	-	(10,505)	-	(10,505)
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	(13,618)	622	(11,950)

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 29 February 2020 and 23 February 2019, 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).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 29 February 2020				
Assets				
Financial assets at fair value through other comprehensive income	1,058	-	10	1,068
Financial assets at fair value through profit or loss	-	26	-	26
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	47	-	47
Cross-currency swaps	-	497	-	497
Index-linked swaps	-	541	-	541
Forward contracts	-	61	-	61
Total assets	1,058	1,172	10	2,240
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	(70)	-	(70)
Index-linked swaps	-	(816)	-	(816)
Forward contracts	-	(62)	-	(62)
Total liabilities	-	(948)	-	(948)
Net assets/(liabilities)	1,058	224	10	1,292
At 23 February 2019				
Assets				
Financial assets at fair value through other comprehensive income	1,040	-	6	1,046
Financial assets at fair value through profit or loss	-	31	-	31
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	1,261	6	2,307
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	629	(1)	1,668

Notes to the Group financial statements continued

Note 24 Financial instruments continued

The following table presents the changes in Level 3 instruments for the 53 weeks ended 29 February 2020 and 52 weeks ended 23 February 2019:

	2020 £m	2019 £m
At the beginning of the year	(1)	5
Gains/(losses) recognised in the Group statement of comprehensive income/(loss)	1	1
Addition of financial instrument at fair value through profit or loss	–	(7)
Disposal of financial instrument at fair value through profit or loss	6	–
Addition of financial asset at fair value through other comprehensive income	4	–
At the end of the year	10	(1)

During the financial year, there were no transfers (2019: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2019: no transfers).

Offsetting of financial assets and liabilities

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

	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	Collateral £m	Net amount £m
At 29 February 2020						
Financial assets						
Cash and cash equivalents	4,137	(729)	3,408	–	–	3,408
Derivative financial instruments	1,146	–	1,146	(168)	–	978
Total trade and other receivables ^(a)	1,802	(240)	1,562	–	–	1,562
Total assets	7,085	(969)	6,116	(168)	–	5,948
Financial liabilities						
Bank loans and overdrafts	(1,142)	729	(413)	–	–	(413)
Derivative financial instruments	(948)	–	(948)	168	45	(735)
Total trade and other payables ^(b)	(9,332)	240	(9,092)	–	–	(9,092)
Total liabilities	(11,422)	969	(10,453)	168	45	(10,240)

^(a) Total trade and other receivables includes £192m (2019: £279m) of prepayments.

^(b) Total trade and other payables includes £376m (2019: £423m) of contract liabilities.

	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	Collateral £m	Net amount £m
At 23 February 2019 (restated)						
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)	2,063	(270)	1,793	-	-	1,793
Total assets	7,520	(1,581)	5,939	(223)	(12)	5,704
Financial liabilities						
Bank loans and overdrafts	(1,698)	1,311	(387)	-	-	(387)
Deposits from banks – repurchases, securities lending and similar agreements (Note 26)	(324)	-	(324)	-	3,006	2,682
Derivative financial instruments	(639)	-	(639)	223	33	(383)
Total trade and other payables ^(b)	(9,766)	270	(9,496)	-	-	(9,496)
Total liabilities	(12,427)	1,581	(10,846)	223	3,039	(7,584)

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

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

Note 25 Financial risk management

The 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.

The fair values of derivative financial instruments have been disclosed in the Group balance sheet as follows:

	2020		2019	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	63	(61)	52	(250)
Non-current	1,083	(887)	1,178	(389)
	1,146	(948)	1,230	(639)

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.

These derivative contracts receive a fixed rate of interest and pay a variable interest rate. These are formally designated in fair value hedging relationships and are used to hedge the exposure to changes in the fair value of debt which has been issued by the Group at fixed rates.

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

Cash flow hedges

Foreign currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group entities.

The Group uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale and designates the spot element of these contracts to hedge the foreign currency risk, and designates the spot component of foreign currency forwards in hedge relationships.

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

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. During the current financial year, a bond tender took place relating to the Euro 2.125% €500m 2020 MTN which was in a cash flow hedge relationship. Of the outstanding €500m, €204m of the bond was bought back and the associated hedging instrument was monetised. As the interest payment cash flows on the bought back element will now not take place, cash flow hedging was discontinued on this portion.

Commodity price risk

The Group is affected by the price of certain commodities, and uses forward contracts to hedge future purchases of diesel for own use, which are forecast to occur within a 12-month period.

Net investment hedges

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

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that is attributable to a change in the spot rate with changes in the investment in foreign operations due to movements in the spot rate.

The Group has established a hedge ratio of 1:1 as the underlying risk of the hedging instrument is identical to the hedged risk component.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

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

	Notional £m	Movement on continued hedges £m	Movement on discontinued hedges £m
Gains/(losses) on net investment hedges			
At 24 February 2018	1,368	(58)	(978)
Borrowings – movement		16	2
At 23 February 2019	1,281	(42)	(976)
Borrowings – movement		48	(89)
At 29 February 2020	1,281	6	(1,065)

During the current financial year, the €726m 1.375% MTN matured in July 2019 which reduced the amount of net investment hedging. In November 2019, the Group issued the €750m 0.875% MTN, maturing in May 2026, which was designated as a net investment hedge at inception, thereby increasing net investment hedging. There were no reclassifications from foreign currency translation reserve and net investment hedge ineffectiveness was £nil (2019: £nil) during the year.

IBOR reform

The Group has early adopted the 'Interest rate benchmark reform' amendments in the current financial year. These allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms. The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows.

None of the Group's current GBP LIBOR- or EURIBOR-linked contracts include adequate and robust fallback provisions for a cessation of the referenced benchmark interest rate. The Group is monitoring the market and the output from various industry working groups managing the transition to new benchmark interest rates, and will look to implement fallback language for different instruments and IBORs when appropriate. For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fallback clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements in 2020.

Details of the hedging relationships for which the Group has applied the 'Interest rate benchmark reform' amendments are given below. These relate to the utilisation of derivatives to achieve the desired mix of fixed and floating debt.

The following table sets out the extent of the risk exposure associated with managing the fixed and floating debt mix as at 29 February 2020.

Hedging instrument	Carrying value			Interest rate benchmark	Hedged item	Hedge relationship
	Notional	Asset	Liability			
Interest rate swaps	645	17	-	EURIBOR	MTN	Fair value hedge
Interest rate swaps	3,469	30	(51)	LIBOR	MTN	Fair value hedge
Cross-currency interest rate swaps	409	232	-	LIBOR	MTN	Fair value hedge

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:

	2020				2019			
	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	47	1,710	(51)	2,404	37	3,844	(49)	2,701
Cross-currency swaps	232	409	-	-	126	180	(8)	222
Cash flow hedges								
Interest rate swaps and similar instruments	-	-	(19)	50	-	-	(17)	110
Cross-currency swaps	265	1,477	-	-	216	1,394	(9)	272
Index-linked swaps	186	649	-	-	187	692	-	-
Forward contracts	38	1,133	(29)	954	32	1,558	(18)	1,010
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	-	35	-	13	1	432	(1)	244
Cross-currency swaps	-	-	-	-	-	-	-	-
Index-linked swaps	355	3,025	(816)	5,130	624	3,589	(519)	3,589
Forward contracts	23	1,139	(33)	1,416	7	901	(18)	1,511
Total	1,146	9,577	(948)	9,967	1,230	12,590	(639)	9,659

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

Maturity profile	2020			2019		
	Up to one year	One to five years	More than five years	Up to one year	One to five years	More than five years
Fair value hedges						
Interest rate risk						
Interest rate swaps – GBP						
– Notional amount (£m)	953	1,910	607	1,383	4,351	160
– Average net interest rate (pay)/receive	1.08%	0.84%	1.39%	(0.83%)	(1.00%)	4.12%
Interest rate swaps – EUR						
– Notional amount (£m)	–	645	–	–	651	–
– Average net interest rate (pay)/receive	–	0.63%	–	–	0.55%	–
Interest rate/Foreign currency risk						
Cross-currency swaps (GBP:USD)						
– Notional amount (£m)	–	–	409	–	–	402
– Average exchange rate	–	–	1.50	–	–	1.50
– Average net interest rate (pay)/receive	–	–	3.15%	–	–	3.04%
Cash flow hedges						
Interest rate risk						
Index-linked swaps						
– Notional amount (£m)	–	–	649	60	–	632
– Average net interest rate (pay)/receive	–	–	(4.22%)	(1.99%)	–	(4.22%)
Interest rate swaps						
– Notional amount (£m)	–	–	50	60	–	50
– Average net interest rate (pay)/receive	–	–	(4.23%)	1.57%	–	(4.12%)
Interest rate/Foreign currency risk						
Cross-currency swaps (GBP:USD) floating						
– Notional amount (£m)	272	–	–	–	272	–
– Average exchange rate	1.29	–	–	–	1.29	–
– Average net interest rate (pay)/receive	0.84%	–	–	–	1.62%	–
Cross-currency swaps (GBP:EUR) fixed						
– Notional amount (£m)	254	645	306	–	434	960
– Average exchange rate	1.19	1.25	1.47	–	1.19	1.31
– Average net interest rate (pay)/receive	(0.87%)	(1.46%)	(0.32%)	–	(0.87%)	(1.09%)

At 29 February 2020, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2.1bn were outstanding (2019: £2.6bn). These forward contracts are largely in relation to purchases of Euro (notional €0.8bn) (2019: notional €2.0bn) and US Dollar (notional \$0.9bn) (2019: notional \$1.1bn) with varying maturities up to August 2021. The notional and fair values of these contracts is shown on page 120.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

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

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

^(a) Accumulated amount of fair value hedge adjustments remaining in the Group balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses.

^(b) Classified as Loans and advances to customers and banks.

^(c) Classified as Borrowings.

At 23 February 2019	Carrying amount		Accumulated amounts of fair value adjustments on hedged item		Changes in fair value for calculating hedge ineffectiveness	Residual hedge adjustments ^a
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£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 ^(d)	473	-	(5)	-	(3)	-
Fixed-rate bonds ^(c)	-	(1,778)	-	95	(57)	(59)

^{(a) (c)} Refer to previous table for footnotes

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

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

* Excludes deferred tax.

		Cumulative impact on Cash flow hedge reserve and Currency basis reserve ^a			
		Change in value of hedging instrument for calculating hedge ineffectiveness £m	Change in value of hedged item for calculating hedge ineffectiveness £m	Continued hedges £m	Discontinued hedges £m
At 23 February 2019	Hedging instrument				
Interest rate risk					
Index-linked bonds	Index-linked swaps	(1)	1	72	-
Borrowings	Interest rate swaps	-	-	-	-
Foreign currency risk					
Trade payables	Forward contracts	-	-	22	-
Interest rate/Foreign currency risk					
MTNs	Cross-currency swaps	(9)	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:

		2020	2019
	Line item in Group income statement that includes hedge ineffectiveness	Hedge ineffectiveness recognised in profit or loss £m	Hedge ineffectiveness recognised in profit or loss £m
Cash flow hedges	Finance income/costs	-	-
Net investment hedges	Finance income/costs	-	-
Fair value hedges – interest rate risk			
– Borrowings	Finance income/costs	(6)	(22)
– Derivatives	Finance income/costs	-	-

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

	2020		2019	
	Cash flow hedge reserve £m	Currency basis reserve £m	Cash flow hedge reserve £m	Currency basis reserve £m
Opening balance	118	(5)	40	-
Adjustment on initial application of IFRS 9 (net of tax)	-	-	(1)	1
Opening balance (restated)	118	(5)	39	1
Interest rate risk				
Index-linked swaps				
– Net fair value gains/(losses)	1	-	30	-
– Amount reclassified to Group income statement	(2)	-	(20)	-
Interest rate swaps				
– Net fair value gains/(losses)	(2)	-	(1)	-
– Amount reclassified to Group income statement	(1)	-	-	-
Interest rate/Foreign currency risk				
Cross-currency swaps				
– Net fair value gains/(losses)	70	(12)	15	(6)
– Amount reclassified to Group income statement	(4)	-	8	-
Foreign currency risk				
Forward contracts				
– Net fair value gains/(losses)	49	-	92	-
– Amount reclassified to Inventories	(64)	-	(45)	-
Tax	(11)	2	-	-
Closing balance	154	(15)	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 and a range of 55% to 85% for fixed-rate leases of the Group excluding Tesco Bank. At 29 February 2020, the percentage of interest-bearing debt at fixed rates was 68% (2019: 78%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 3.30% (2019: 3.76%).

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 127. During 2020 and 2019, Group net debt was managed using derivative instruments to hedge interest rate risk.

	2020			2019 (restated)		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	-	3,408	3,408	-	2,916	2,916
Loans and advances to customers and banks – Tesco Bank	4,370	4,081	8,451	8,328	4,422	12,750
Short-term investments	-	1,076	1,076	-	390	390
Financial assets at fair value through other comprehensive income	659	409	1,068	475	571	1,046
Joint ventures and associates loan receivables	106	21	127	76	57	133
Lease liabilities	(9,566)	-	(9,566)	(10,505)	-	(10,505)
Bank and other borrowings	(6,260)	(1,235)	(7,495)	(5,810)	(1,333)	(7,143)
Customer deposits – Tesco Bank	(3,164)	(4,543)	(7,707)	(3,714)	(6,751)	(10,465)
Deposits from banks – Tesco Bank	(500)	-	(500)	(1,663)	-	(1,663)
Derivative effect:						
Interest rate swaps	(1,092)	1,092	-	(5,899)	5,899	-
Cross-currency swaps	410	(410)	-	402	(402)	-
Index-linked swaps	(294)	294	-	(346)	346	-
Total	(15,331)	4,193	(11,138)	(18,656)	6,115	(12,541)

Notes to the Group financial statements continued

Note 25 Financial risk management continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations leading to a financial loss for the Group. Credit risk arises from Cash and cash equivalents, Trade and other receivables (excluding prepayments), Derivative financial instruments, Loans and advances to customers and banks, Financial assets at fair value through other comprehensive income and Short-term investments.

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

For Trade and other receivables, credit risk is managed with various mitigating controls including credit checks, credit insurance and master netting agreements. Due to the nature of the Retail business, there is little concentration of risk due to the large number of customers which are spread across wide geographical areas.

The net counterparty exposure under derivative contracts is £1.0bn (2019: £1.0bn). The Group considers its maximum credit risk to be £15.6bn (2019: £19.7bn) largely based on the Group's total financial assets.

The low credit risk exemption has been applied to Cash and cash equivalents, Short-term investments and Financial assets at fair value through other comprehensive income as these are held with counterparties with investment-grade ratings (BBB or above) or are short term in nature.

A reconciliation of the Group's expected credit loss (ECL) allowance on loans to related joint ventures and associates is provided below:

	£m
24 February 2018 (as previously reported)	-
Adjustment on initial application of IFRS 9	13
25 February 2018 (restated)	13
Increase/(decrease) in the allowance recognised in the Group income statement	(13)
23 February 2019	-
Increase/(decrease) in the allowance recognised in the Group income statement during the current financial year	2
29 February 2020	2

Gross loans to related parties of £183m (2019: £200m) are presented net of loss allowances of £2m (2019: £nil) and deferred profits of £54m (2019: £54m) on the Group balance sheet. The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) for the relevant time period and for each specific loan.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 127 to 129.

Liquidity risk

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

The Group finances its liquidity position and 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, to maintain a smooth debt profile and maturing senior unsecured debt will not exceed £1.5bn in any 12-month period.

The Group retains access to capital markets so that maturing debt may be refinanced as it falls due. The Group has a £15.0bn Euro Medium Term Note programme, of which £4bn was in issue at 29 February 2020 (2019: £4.2bn), plus £0.4bn equivalent of USD-denominated notes issued under 144A documentation (2019: £0.4bn).

Liquidity risk is continuously monitored by short-term and long-term cash flow forecasts. In addition, the Group has the following undrawn committed facilities which mature between 2020 and 2021.

Borrowing facilities

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

	2020 £m	2019 £m
Expiring in less than one year	38	38
Expiring between one and two years	3,000	-
Expiring in more than two years	-	3,000
	3,038	3,038

The undrawn committed facilities include £0.4bn (2019: £0.4bn) of bilateral facilities and a £2.6bn (2019: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates.

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 127.

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 £19.3bn is considered acceptable as it is offset by financial assets of £16.8bn (2019: £21.3bn offset by financial assets of £19.7bn).

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.

At 29 February 2020

	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	(1,391)	(467)	(53)	(795)	(956)	(3,776)
Interest payments on borrowings	(227)	(208)	(181)	(179)	(159)	(1,237)
Customer deposits – Tesco Bank	(6,426)	(797)	(233)	(187)	(115)	-
Deposits from banks – Tesco Bank	(3)	(1)	(501)	-	-	-
Lease liabilities	(1,081)	(1,018)	(996)	(993)	(951)	(9,584)
Trade and other payables*	(8,922)	(22)	(18)	(2)	(1)	(127)
Derivative financial liabilities						
Net settled derivative contracts – receipts	10	11	467	116	-	25
Net settled derivative contracts – payments	(717)	(42)	(470)	(148)	(160)	(18)
Gross settled derivative contracts – receipts	2,534	-	-	-	-	-
Gross settled derivative contracts – payments	(2,585)	-	-	-	-	-
Total	(18,808)	(2,544)	(1,985)	(2,188)	(2,342)	(14,717)

At 23 February 2019 (restated)

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(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)	-	-	-
Lease liabilities	(1,202)	(1,107)	(1,071)	(1,034)	(1,006)	(11,015)
Trade and other payables*	(9,131)	(28)	(22)	(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	(21,319)	(4,658)	(3,192)	(1,402)	(2,204)	(15,714)

* Trade and other payables includes £376m (2019: £423m) of contract liabilities. Refer to Note 21.

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 and the policy is to have minimum (20%) and maximum (80%) hedge level of forecast uncommitted exposure within the next 12 months;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group's policy is to hedge 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 decreased the net value, after the effects of hedging, of the Group's overseas assets by £70m (2019: increased by £100m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries in currencies other than in the Group's functional currency. The Group's policy is that 100% of the foreign exchange risk is hedged. The risk exposure is managed by the use of 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.

Sensitivity analysis

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

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment 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 29 February 2020. 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.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2020*		2019	
	Income gain/ (loss) £m	Equity gain/(loss) £m	Income gain/ (loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2019: 1%)	39	(42)	58	(32)
10% appreciation of the Euro (2019: 10%)	1	(117)	1	(96)
10% appreciation of the US Dollar (2019: 10%)	5	78	–	100
25 basis points parallel upward shift in the forward inflation curve (2019: 25 basis points)	86	–	–	–

* These sensitivities are presented on a consistent basis with the prior financial year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of COVID-19 is given in Note 36

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

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

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

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

Capital risk

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

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

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

In line with the Group's objectives, during the current financial year, the Group issued a £400m bond maturing in 2025 and €750m bond maturing in 2026.

Refer to Note 32 for the value of the Group's net debt (£12.3bn; 2019: £13.2bn), and the Group statement of changes in equity for the value of the Group's equity (£13.3bn; 2019: £13.4bn).

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.

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

Credit risk

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

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

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

* Excludes loans and advances to banks of £nil (2019: £324m). Refer to Note 19.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

	2019			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
23 February 2019				
Gross exposure	11,464	1,179	271	12,914
Loan commitments	12,115	110	1	12,226
Total exposure	23,579	1,289	272	25,140
Allowance for expected credit losses				
At 24 February 2018	(95)	(211)	(151)	(457)
Transfers:				
Transfers from stage 1 to stage 2	11	(11)	-	-
Transfers from stage 2 to stage 1	(46)	46	-	-
Transfers to stage 3	3	41	(44)	-
Movements recognised in the Group income statement:				
Net remeasurement following transfer of stage	26	(19)	(90)	(83)
New financial assets originated	(28)	(36)	(11)	(75)
Changes in risk parameters and other movements	45	(41)	(36)	(32)
Other movements:				
Write-offs and asset disposals	2	1	160	163
Transfer from provisions for liabilities and other charges	(2)	1	-	(1)
At 23 February 2019	(84)	(229)	(172)	(485)
Reconciliation to Group balance sheet				
Gross exposure	11,464	1,179	271	12,914
Allowance for expected credit losses	(84)	(229)	(172)	(485)
	11,380	950	99	12,429
Fair value adjustment				(3)
Carrying value at 23 February 2019*				12,426

* Refer to previous table for footnote.

The Bank defines four classifications of credit quality for all credit exposures: high, satisfactory, low and below standard. Credit exposures are segmented according to the probability of default (PD), with credit impaired reflecting a PD of 100%. At 29 February 2020 the quality of the Bank's loans and advances to customers was high for 75% of the total exposure (2019: 83%), satisfactory for 17% (2019: 11%), low for 5% (2019: 4%) and below standard for 3% (2019: 2%). The quality of the loan commitments was high for 97% of the total exposure (2019: 98%), satisfactory for 3% (2019: 2%), low for 0% (2019: 0%) and below standard for 0% (2019: 0%).

Expected credit losses (ECL)

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

The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios. The key economic variables are based on historical patterns observed over a range of economic cycles.

The Group has engaged a third-party supplier to provide relevant economic data for this purpose which, prior to incorporation into the ECL calculation, is subject to internal review and challenge with reference to other publicly available market data and benchmarks. From this data, a base case scenario has been developed, together with four additional scenarios, each of which have been assigned a relative probability. The base case represents an estimate of the most-likely outcome while other scenarios represent more optimistic (upside) and more pessimistic (downside) outcomes. Downside scenario 1 reflects an economic downside caused by the UK being unable to secure a favourable trade deal with the EU, while Downside scenario 2 represents a more severe recession. As a result of COVID-19 developments at the balance sheet date, a fifth scenario was introduced which used Downside 2 as a proxy, to reflect the increased risk of an adverse impact on the economy from the COVID-19 pandemic. The scenarios have been assigned weightings of 40%, 20%, 30%, 5% and 5% respectively, which is considered to be appropriate for the calculation of unbiased ECLs.

Default

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

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

Significant increase in credit risk

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

The sensitivities in the ECL allowance, to reasonably possible changes in the following key assumptions, are set out below:

Key assumption	Reasonably possible change	2020* £m	2019 £m
Probability of default	Increase of 2.5%	11	9
	Decrease of 2.5%	(11)	(9)
Loss given default	Increase of 2.5%	12	12
	Decrease of 2.5%	(12)	(12)
Macroeconomic factors	Upside scenario	(41)	(33)
	Base scenario	(28)	(21)
	Downside scenario 1	40	67
	Downside scenario 2	103	–
	COVID-19	103	–
Probability of default threshold (staging)	Increase of 20%	(17)	(14)
	Decrease of 20%	21	10

* These sensitivities are presented on a consistent basis with the prior financial year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of COVID-19 is given in Note 36.

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 allowance for expected credit losses	
	2020 £m	2019 £m	2020 %	2019 %	2020 %	2019 %
Credit cards – UK	107.6	92.8	2.5	2.0	49.7	53.3
Credit cards – Europe	–	–	–	–	–	–
Credit cards – Commercial	0.1	0.1	4.7	4.8	94.1	90.8
Loans	48.9	48.4	1.0	1.1	44.3	48.0
Mortgages	–	6.0	–	0.2	–	1.2

Notes to the Group financial statements continued

Note 25 Financial risk management continued

Insurance risk

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

Note 26 Customer deposits and deposits from banks

	2020 £m	2019 £m
Customer deposits	7,707	10,465
Deposits from banks	500	1,663
	8,207	12,128
Of which:		
Current	6,377	8,832
Non-current	1,830	3,296
	8,207	12,128

Deposits from banks include balances of £nil (2019: £324m) in respect of securities sold under sale and repurchase agreements and balances of £500m (2019: £1,339m) drawn under the Bank of England's Term Funding Scheme. The underlying securities sold under agreements to repurchase had a carrying value of £nil (2019: £358m).

Note 27 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 23 February 2019 (restated)	161	143	69	373
Foreign currency translation	(6)	–	2	(4)
Amount released in the year	(2)	(20)	(4)	(26)
Amount provided in the year	9	171	53	233
Amount utilised in the year	(7)	(230)	(48)	(285)
Unwinding of discount	1	–	–	1
At 29 February 2020	156	64	72	292

The balances are analysed as follows:

	2020 £m	2019 (restated) £m
Current	155	226
Non-current	137	147
	292	373

Property provisions

Property provisions comprise onerous property provisions, including non-lease contracts related to unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions.

Restructuring provisions

Of the £151m net charge (£171m charge, £20m release) recognised in the year, £151m (2019: £182m) has been classified within exceptional items as 'Net restructuring and redundancy costs' and related to store and head office restructuring in the UK & ROI £95m (2019: £131m), Central Europe £43m (2019: £27m), Asia £nil (2019: £26m) and Tesco Bank £13m (2019: £2m release).

Other provisions

Other provisions 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 £45m 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 28 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £129m (2019: £118m), which is made up of share option schemes and share bonus payments. Of this amount, £113m (2019: £103m) will be settled in equity and £16m (2019: £15m) in cash. National Insurance payable in connection with options granted is treated as a cash-settled transaction.

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 (now Booker Group Limited) (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 (now Booker Group Limited) 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.

Notes to the Group financial statements continued

Note 28 Share-based payments continued

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

For the 53 weeks ended 29 February 2020

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group plc Savings Related Share Option Plan		Booker Group plc Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 23 February 2019	215,591,248	168.04	6,470,978	175.06	25,377,129	-	9,827,705	145.36	11,222,347	-	12,379,637	-
Granted	44,387,158	219.00	1,977,339	219.00	537,271	-	-	-	-	-	-	-
Forfeited	(23,512,462)	200.62	(1,062,090)	187.69	(5,502,793)	-	(766,057)	147.40	(2,870,980)	-	(12,379,637)	-
Exercised	(20,653,850)	167.18	(530,614)	180.60	(1,955,766)	-	(3,961,499)	137.46	(3,375,131)	-	-	-
Outstanding at 29 February 2020	215,812,094	175.06	6,855,613	185.35	18,455,841	-	5,100,149	151.21	4,976,236	-	-	-
Exercise price range (pence)	150.00 to 322.00		150.00 to 219.00		-		137.13 to 152.78		-		-	
Weighted average remaining contractual life (years)	2.09		2.55		6.39		1.32		0.51		-	
Exercisable at 29 February 2020	2,948,571	189.92	243,886	190.00	9,359,089	-	523,817	137.45	977,437	-	-	-
Exercise price range (pence)	151.00 to 322.00		190.00		-		137.45		-		-	
Weighted average remaining contractual life (years)	0.41		0.42		5.60		0.42		-		-	

* Other Schemes includes Approved Share Option Scheme (Approved), Unapproved Share Option Scheme (Unapproved), and International Executive Share Option Scheme (International). Respectively: WAEP for Outstanding at 23 February 2019 were 338.40p (2018: 391.25p), 338.40 (2018: 375.18p) and 338.40p (2018: 375.69p). WAEP for Forfeited during the current financial year were 338.40p (2019: 416.94p), 338.40p (2019: 400.96p) and 338.40p (2019: 396.04p); WAEP for Outstanding at 29 February 2020 were nil (2019: 338.40p), nil (2019: 338.40p) and nil (2019: 338.40p).

Share options were exercised on a regular basis throughout the financial year. The average share price during the 53 weeks ended 29 February 2020 was 237.69p (2019: 228.55p).

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 Share Option Plan		Booker Group plc Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 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	111,199	-	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	-
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 to 427.00	
Weighted average remaining contractual life (years)	0.43		0.43		6.16		0.35		-		0.20	

* 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.

	2020		2019	
	SAYE	Nil cost	SAYE	Nil cost
Expected dividend yield (%)	3.7-4.3%	-	1.5-4.2%	1.5%
Expected volatility (%)	23-28%	-	29%	25-30%
Risk-free interest rate (%)	0.8%	-	0.8-1.1%	0.8-0.9%
Expected life of option (years)	3 or 5	-	3 or 5	3-6
Weighted average fair value of options granted (pence)	38.56	-	41.01	68.04-180.35
Probability of forfeiture (%)	7-10%	-	7-11%	-
Share price (pence)	243.00	-	212.40	204.00
Weighted average exercise price (pence)	219.00	-	0.88-188.00	-

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

Share bonus and incentive schemes

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

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

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

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

The number and weighted average fair value (WAFV) of share bonuses and share incentives awarded were:

	2020		2019	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Group Bonus Plan	11,496,310	237.80	16,489,286	242.07
Performance Share Plan	39,136,637	233.77	25,570,973	254.79

Note 29 Post-employment benefits

Pensions

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

Defined contribution

Defined contribution schemes are open to all Tesco employees in the UK.

Under the Group's defined contribution pension schemes, employees of the Group pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the employee's contributions. The Group has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes of £343m (2019: £332m) have been recognised in the Group income statement. This includes £116m (2019: £110m) of salaries paid as pension contributions.

Defined benefit schemes

The Group has a defined benefit pension deficit of £3,085m (2019: £2,808m), 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 92% of the Group deficit (2019: 96%).

Business combinations

In the prior financial year, 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 in the prior year was £22m.

Guaranteed minimum pension

In the prior financial year 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. In consultation with independent actuaries, the Group recognised the financial effect of equalising benefits as a one-off £43m exceptional past service cost in the prior financial year. This was presented as an exceptional item in the Group income statement (Note 4).

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee (the Trustee) that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with all relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

1. representatives of the Group; and
2. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Scheme funding

The Group considers two measures of the pension deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial assessment, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities based on corporate bond yields.

The most recent completed triennial actuarial assessment of the Scheme was performed 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. Work is underway on the next triennial valuation, with an effective date of 31 December 2019, with the Trustee concluding as soon as reasonably possible.

The Group has a plan to fund the Scheme pension deficit and to meet the expenses of the Scheme. Annual contributions of £285m for nine years from April 2018 were agreed, with contributions being assessed at the next triennial review. The expenses for the current financial year, which include the Pension Protection Fund levy, were £28m (2019: £23m). 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.

Notes to the Group financial statements continued

Note 29 Post-employment benefits continued

Subject to the proposed sale of the Group's businesses in Thailand and Malaysia (refer to Note 36), the Group has agreed with the Trustee to contribute £2.5bn to the Tesco PLC Pension Scheme, to eliminate the current funding deficit and significantly reduce the prospect of having to make further pension deficit contributions in the future.

The most recent Booker Pension Scheme triennial valuation showed a funding deficit of £103m at 31 March 2019, with agreed contributions of £15m per annum until the end of 2028. No contributions were required for the Budgens or Londis schemes.

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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 25 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 members	81
Current pensioners	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 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:

	2020 %	2019 %
Discount rate	1.9	2.8
Price inflation	2.8	3.1
Rate of increase in deferred pensions*	2.0	2.1
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.7	2.9
Benefits accrued after 1 June 2012	2.1	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 of the Scheme as part of the triennial actuarial valuation process. Subsequent to this analysis, the Group adopted the best estimate assumptions for the calculation of the IAS 19 pension liability for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2019 improvements. In addition, the allowance for future mortality improvements from 2017 have been updated to be in line with CMI 2019, with a long-term improvement rate of 1.25% per annum.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

		Pensioner	Non-Pensioner
Male	Staff	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

The following table illustrates the expectation of life of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 at the balance sheet date +25 years. A comparison between the two retiree dates illustrates the expected improvements in mortality over the next 25 years.

		2020 Years	2019 Years
Retiring at the balance sheet date at age 65:	Male	22.0	22.3
	Female	23.8	24.0
Retiring at the balance sheet date +25 years at age 65:	Male	23.4	23.7
	Female	25.8	26.0

Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligation are detailed below:

	2020*		2019	
	Discount rate £m	Inflation rate £m	Discount rate £m	Inflation rate £m
Financial assumptions				
Impact of 0.1% increase of the assumption	(460)	383	(401)	334
Impact of 0.1% decrease of the assumption	479	(383)	401	(301)
Impact of 1.0% increase of the assumption	(4,002)	4,289	(3,406)	3,607
Impact of 1.0% decrease of the assumption	5,572	(3,313)	4,709	(2,839)
Mortality assumptions			2020* £m	2019 £m
Impact of 1 year increase in longevity			881	685
Impact of 1 year decrease in longevity			(881)	(685)

* These sensitivities are presented on a consistent basis with the prior financial year to aid comparability. Commentary on additional sensitivities adjusted for the impact of increased volatility as a result of COVID-19 is given in Note 36.

Sensitivities are calculated by changing the relevant assumption while holding all other assumptions constant. The sensitivities reflect the range of recent assumption movements, and illustrate that the financial assumption sensitivities do not move in a linear fashion. Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

Overseas

The 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 29 February 2020. At the financial year end, the IAS 19 deficit relating to ROI was £206m (2019: £106m).

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 29 February 2020 of £8m (2019: £9m) was determined in accordance with the advice of independent actuaries. During the current financial year, £nil (2019: £nil) has been charged to the Group income statement and £nil (2019: £nil) of benefits were paid.

Notes to the Group financial statements continued

Note 29 Post-employment benefits continued

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:

	2020				2019			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities								
UK	255	–	255	2	203	–	203	1
Europe	746	–	746	4	684	–	684	5
Rest of the world	4,347	–	4,347	25	4,224	–	4,224	28
	5,348	–	5,348	31	5,111	–	5,111	34
Bonds								
Government	750	–	750	4	1,174	–	1,174	8
Corporates – investment grade	1,362	–	1,362	8	648	–	648	4
Corporates – non-investment grade	2	–	2	0	2	–	2	0
	2,114	–	2,114	12	1,824	–	1,824	12
Property								
UK	44	1,036	1,080	6	83	1,032	1,115	7
Rest of the world	7	475	482	3	6	423	429	3
	51	1,511	1,562	9	89	1,455	1,544	10
Alternative assets								
Hedge funds	2	304	306	2	2	383	385	3
Private equity	–	881	881	5	–	851	851	6
Other	225	1,043	1,268	7	230	827	1,057	7
	227	2,228	2,455	14	232	2,061	2,293	16
LDI portfolio	4,580	444	5,024	29	3,695	287	3,982	26
Cash	922	–	922	5	300	–	300	2
Total fair value of plan assets	13,242	4,183	17,425	100	11,251	3,803	15,054	100

Quoted assets are those with a quoted price in an active market.

The LDI portfolio consists of assets, including gilts and index-linked gilts, of the value of £8.115m (2019: £6.683m) and associated repurchase agreements and swaps of £(3.091)m (2019: £(2.701)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 £209m (2019: £198m) relating to property used by the Group. Group property with net carrying value of £478m (2019: £489m) (Note 11) and a value to the Scheme of at least £575m (2019: £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)	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Opening balance	15,054	13,235	(17,862)	(18,517)	(2,808)	(3,282)
Current service cost	–	–	(40)	(35)	(40)	(35)
Past service cost	–	–	(5)	(43)	(5)	(43)
Finance income/(cost)	409	396	(480)	(485)	(71)	(89)
Included in the Group income statement	409	396	(525)	(563)	(116)	(167)
Remeasurement gain/(loss):						
Financial assumptions gain/(loss)	–	–	(2,867)	(478)	(2,867)	(478)
Demographic assumptions gain/(loss)	–	–	182	(51)	182	(51)
Experience gain/(loss)	–	–	61	(39)	61	(39)
Return on plan assets excluding finance income	2,158	932	–	–	2,158	932
Foreign currency translation	(3)	(3)	5	3	2	–
Included in the Group statement of comprehensive income/(loss)	2,155	929	(2,619)	(565)	(464)	364
Member contributions	2	2	(2)	(2)	–	–
Employer contributions	36	33	–	–	36	33
Additional employer contributions	262	266	–	–	262	266
Benefits paid	(493)	(547)	498	547	5	–
Acquired through business combinations	–	740	–	(762)	–	(22)
Other movements	(193)	494	496	(217)	303	277
Closing balance	17,425	15,054	(20,510)	(17,862)	(3,085)	(2,808)
Deferred tax asset	–	–	–	–	512	470
Deficit in schemes at the end of the year, net of deferred tax					(2,573)	(2,338)

Note 30 Called-up share capital

	2020		2019	
	Number of 5p Ordinary shares	£m	Number of 5p Ordinary shares	£m
Allotted, called-up and fully paid:				
At the beginning of the year	9,793,496,561	490	8,192,116,619	410
Share options exercised	–	–	41,525,096	2
Share bonus awards issued	–	–	12,000,000	1
Shares issued for the acquisition of Booker	–	–	1,547,854,846	77
At the end of the year	9,793,496,561	490	9,793,496,561	490

No shares were issued during the current financial year in relation to share options. During the previous financial year, 41.5 million Ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £60m. No (2019: 12 million) Ordinary shares of 5p each were issued in relation to the share bonus awards.

During the prior financial year, 1.548 million shares were issued in relation to the Booker acquisition. 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.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme the shares and dividends associated with shares of untraced members are forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. For more information on how these proceeds have been spent, please see our Little Helps Plan Report (available at www.tescopl.com/littlehelpsplan). During the current financial year, the Group received £nil (2019: £nil) proceeds from sale of untraced shares and £nil (2019: £nil) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 29 February 2020, the Directors were authorised to purchase up to a maximum in aggregate of 979.3 million (2019: 977.2 million) Ordinary shares before the AGM 2020 on 26 June 2020.

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

Own shares purchased

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

The own shares held represents the cost of shares in Tesco PLC purchased from the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans (refer to Note 28). The number of Ordinary shares held by the Tesco International Employee Benefit Trust at 29 February 2020 was 87.6 million (2019: 68.1 million). This represents 0.89% of called-up share capital at the end of the year (2019: 0.70%).

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

Note 31 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Transactions

	Joint ventures		Associates	
	2020 £m	2019 (restated) £m	2020 £m	2019 (restated) £m
Sales to related parties	491	486	–	–
Purchases from related parties	100	96	12	11
Dividends received	29	29	13	12
Injection of equity funding	–	11	12	–

Sales to related parties consist of services/management fees and loan interest.

Transactions between the Group and the Group's pension plans are disclosed in Note 29.

Balances

	Joint ventures		Associates	
	2020 £m	2019 £m	2020 £m	2019 £m
Amounts owed to related parties	26	20	–	–
Amounts owed by related parties	47	37	–	–
Lease liabilities payable to related parties	3,206	3,718	146	141
Loans to related parties (net of deferred profits)*	127	133	–	–

* Loans to related parties of £127m (2019: £133m) are presented net of deferred profits of £54m (2019: £54m), historically arising from the sale of property assets to joint ventures. Refer to Note 14 for further details. For loans to related parties, a 12-month expected credit loss (ECL) allowance is recorded on initial recognition. The ECL allowance was immaterial as at the current and prior financial years.

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.

Notes to the Group financial statements continued

Note 31 Related party transactions continued

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Cost of key management personnel compensation for the financial year was as follows:

	2020 £m	2019 £m
Salaries and short-term benefits	20	17
Pensions and cash in lieu of pensions	2	2
Share-based payments	16	13
Joining costs and loss of office costs	1	1
	39	33
Attributable to:		
The Board of Directors (including Non-executive Directors)	10	10
Executive Committee (members not on the Board of Directors)	29	23
	39	33

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 29 February 2020	6	–	13	1
At 23 February 2019	3	–	10	2

Note 32 Analysis of changes in net debt

	At 23 February 2019 (restated) £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisition of property joint venture ¹⁴ £m	Other £m	At 29 February 2020 £m
Total Group									
Bank and other borrowings	(7,143)	456	255	(192)	2	(251)	(622)	–	(7,495)
Lease liabilities	(10,505)	634	541	–	1	(541)	455	(151)	(9,566)
Net derivative financial instruments	591	17	7	(208)	–	14	(223)	–	198
Arising from financing activities	(17,057)	1,107	803	(400)	3	(778)	(390)	(151)	(16,863)
Cash and cash equivalents	2,916	–	534	–	(42)	–	–	–	3,108
Short-term investments	390	–	687	–	(1)	–	–	–	1,076
Joint venture loans	133	–	(8)	–	–	2	–	–	127
Interest and other receivables	1	–	(18)	–	(1)	19	–	–	1
Total Group	(13,617)	1,107	1,998	(400)	(41)	(757)	(390)	(151)	(12,251)
Tesco Bank									
Bank and other borrowings	(1,421)	160	5	1	–	(5)	–	–	(1,260)
Lease liabilities	(35)	2	3	–	–	(3)	–	–	(33)
Net derivative financial instruments	(29)	–	–	(16)	–	–	–	–	(45)
Arising from financing activities	(1,485)	162	8	(15)	–	(8)	–	–	(1,338)
Cash and cash equivalents	1,043	–	321	–	–	–	–	–	1,364
Joint ventures loans	29	–	(8)	–	–	–	–	–	21
Tesco Bank	(413)	162	321	(15)	–	(8)	–	–	47
Retail									
Bank and other borrowings	(5,722)	296	250	(193)	2	(246)	(622)	–	(6,235)
Lease liabilities	(10,470)	632	538	–	1	(538)	455	(151)	(9,533)
Net derivative financial instruments	620	17	7	(192)	–	14	(223)	–	243
Arising from financing activities	(15,572)	945	795	(385)	3	(770)	(390)	(151)	(15,525)
Cash and cash equivalents	1,873	–	213	–	(42)	–	–	–	2,044
Short-term investments	390	–	687	–	(1)	–	–	–	1,076
Joint ventures loans	104	–	–	–	–	2	–	–	106
Interest and other receivables	1	–	(18)	–	(1)	19	–	–	1
Net debt¹⁵	(13,204)	945	1,677	(385)	(41)	(749)	(390)	(151)	(12,298)

¹⁴ Movements in Group net debt arising from the acquisition of The Tesco Atrato Limited Partnership. Refer to Note 33 for further details

¹⁵ Refer to page 168 for a reconciliation from Net debt (Retail net debt) shown above to the Group's 52-week alternative performance measure.

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

	At 25 February 2018 (restated) £m	IFRS 9 adjustment £m	Cash flows arising from financing activities £m	Operating and investing cash flows £m	Non-cash movements					At 23 February 2019 (restated) £m
					Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisition of subsidiary £m	Other £m	
Total Group										
Bank and other borrowings	(8,499)	-	1,496	298	(136)	(8)	(294)	-	-	(7,143)
Lease liabilities	(10,272)	-	606	561	-	(16)	(561)	(504)	(319)	(10,505)
Net derivative financial instruments	481	-	(35)	-	128	-	17	-	-	591
Arising from financing activities	(18,290)	-	2,067	859	(8)	(24)	(838)	(504)	(319)	(17,057)
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	-	-	(21)	-	-	21	-	-	1
Total Group	(13,063)	(13)	2,067	(964)	(8)	(9)	(817)	(504)	(306)	(13,617)
Tesco Bank										
Bank and other borrowings	(1,584)	-	154	5	9	-	(5)	-	-	(1,421)
Lease liabilities	(36)	-	1	3	-	-	(3)	-	-	(35)
Net derivative financial instruments	(42)	-	-	-	13	-	-	-	-	(29)
Arising from financing activities	(1,662)	-	155	8	22	-	(8)	-	-	(1,485)
Cash and cash equivalents	1,304	-	-	(261)	-	-	-	-	-	1,043
Joint ventures loans	34	-	-	(5)	-	-	-	-	-	29
Tesco Bank	(324)	-	155	(258)	22	-	(8)	-	-	(413)
Retail										
Bank and other borrowings	(6,915)	-	1,342	293	(145)	(8)	(289)	-	-	(5,722)
Lease liabilities	(10,236)	-	605	558	-	(16)	(558)	(504)	(319)	(10,470)
Net derivative financial instruments	523	-	(35)	-	115	-	17	-	-	620
Arising from financing activities	(16,628)	-	1,912	851	(30)	(24)	(830)	(504)	(319)	(15,572)
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	-	-	(21)	-	-	21	-	-	1
Net debt	(12,739)	(13)	1,912	(706)	(30)	(9)	(809)	(504)	(306)	(13,204)

Reconciliation of net cash flow to movement in Net debt

	2020 £m	2019 (restated) £m
Net increase/(decrease) in cash and cash equivalents	534	(1,158)
Elimination of Tesco Bank movement in cash and cash equivalents	(321)	261
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	687	(639)
Net increase/(decrease) in joint venture loans	-	-
Net (increase)/decrease in borrowings and lease liabilities	928	1,947
Net cash flows from derivative financial instruments	17	(35)
Net interest paid on components of Net debt	777	830
Change in Net debt resulting from cash flow	2,622	1,206
Retail IFRS 9 adjustment	-	(13)
Retail net interest charge on components of Net debt	(749)	(809)
Retail fair value and foreign exchange movements	(426)	(39)
Retail other non-cash movements	(151)	(306)
Acquisition of property joint venture (Note 33)	(390)	-
Acquisition of subsidiary	-	(504)
(Increase)/ decrease in Net debt	906	(465)
Opening Net debt	(13,204)	(12,739)
Closing Net debt*	(12,298)	(13,204)

* Refer to page 168 for a reconciliation from Net debt (Retail net debt) shown above to the Group's 52-week alternative performance measure

Note 33 Acquisitions and disposals

Acquisition of property joint venture – The Tesco Atrato Limited Partnership

On 23 September 2019, the Group obtained control of The Tesco Atrato Limited Partnership (the partnership or Atrato), previously accounted for as a joint venture. The Group obtained control through the acquisition of the other partner's 50% interest in the partnership for £32m (net of derecognition of a £5m purchase commitment derivative). The partnership had bond and derivative liabilities, and owns 15 stores and two distribution centres, which the partnership previously leased to the Group. The acquisition, which has been treated as an asset acquisition, increased the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities, which are eliminated on consolidation.

Notes to the Group financial statements continued

Note 33 Acquisitions and disposals continued

The table below sets out the values to the Group in respect of obtaining control of the partnership:

	Notes	£m
Property, plant and equipment	11	914
Cash and cash equivalents		1
Borrowings	32	(622)
Derivative liabilities	32	(223)
Other payables		(7)
Total assets and liabilities acquired		63
Revaluation of the Group's original 50% investment		31
Consideration paid (net of derecognition of a £5m purchase commitment derivative)	4	32
Total cost		63

The Group recognised a net loss of £136m (before tax) from gaining control of the partnership as an exceptional item within cost of sales on the Group income statement. The related tax charge of £(23)m has also been classified as an exceptional item. Refer to Note 4 for further details.

	Notes	£m
Revaluation of the Group's original 50% investment		31
Impairment of property, plant and equipment acquired	15	(287)
Derecognition of the Group's lease liabilities with the partnership	32	455
Derecognition of the Group's right of use assets with the partnership	12	(335)
Total exceptional loss within cost of sales		(136)
Taxation - exceptional	4	(23)
Total exceptional loss after taxation		(159)

Disposal of China associate – Gain Land

On 28 February 2020, the Group completed the sale of its 20% share in its associate Gain Land Limited (Gain Land) in China. The Group recognised a gain on disposal of £37m which has been recognised as an exceptional item within administrative expenses classified as 'Disposal of China associate'. The carrying value of Gain Land on the disposal date was £240m. The Group received cash proceeds of £277m, recognised as an exceptional item within cash flows from investing activities. Refer to Note 4 for exceptional items.

Note 34 Commitments and contingencies

Capital commitments

At 29 February 2020, there were commitments for capital expenditure contracted for, but not incurred, of £140m (2019: £70m), 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 56 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 as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. At 29 February 2020, five guarantees remained outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2031. The maximum potential liability under these outstanding guarantees is between KRW 205bn (£132m) and KRW 333bn (£214m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 161bn (£103m), with funds of KRW 65bn (£42m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 96bn (£62m). 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.

On 23 March 2020, Tesco PLC was released from one of the guarantees, reducing the maximum potential liability under the remaining four outstanding guarantees to between KRW 116bn (£74m) and KRW 198bn (£127m). In the event that the remaining four guarantees are called, the potential economic outflow is estimated at KRW 112bn (£72m), with funds of KRW 37bn (£24m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco PLC is therefore reduced to an estimated KRW 75bn (£48m).

Following the sale of Homeplus in 2015, Tesco PLC has received claims from the purchasers relating to the sale of the business. The claims are being vigorously defended. While the claims have evolved since originally issued, Tesco PLC 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 vigorously defend them.

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Name	Company number	Name	Company Number	Name	Company Number
Adminstore Limited	01882853	Spen Hill Development Limited	04827219	Tesco Mobile Communications Limited	04780729
Armitage Finance Limited	05966324	Spen Hill Management Limited	02460426	Tesco Mobile Services Limited	04780734
Buttoncable Limited	05294246	Spen Hill Properties (Holdings) PLC	02412674	Tesco PEG Limited	06480309
Buttoncase Limited	05298861	Spen Hill Regeneration Limited	06418300	Tesco PENL Limited	06479938
Day and Nite Stores Limited	01746058	T & S Stores Limited	01228935	Tesco Red (3LP) Limited	010127765
Dillons Newsagents Limited	00140624	Tapesilver Limited	05205362	Tesco Red (GP) Limited	05721630
Launchgrain Limited	05260856	Tesco Aqua (3LP) Limited	09947521	Tesco TLB Finance Limited	04967622
Oakwood Distribution Limited	05721635	Tesco Aqua (GP) Limited	05721654	Tesco TLB Properties Limited	03159425
One Stop Community Stores Limited	00198980	Tesco Family Dining Limited	08514605	The Tesco Aqua Limited Partnership	LP011520
One Stop Convenience Stores Limited	02467178	Tesco Freetime Limited	04345023	The Tesco Red Limited Partnership	LP011522
Paper Chain (East Anglia) Limited	0256555	Tesco Gateshead Property Limited	08312532		

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 29 February 2020 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Tesco PLC will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

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 sections 347 and 348 of that Act: Chirac Limited; Cirrus Finance (2009) Limited; Clondalkin Properties Limited; Commercial Investments Limited; Edson Investments Limited; Edson Properties Limited; Monread Developments Limited; Nabola Development Limited; Orpingford; Pharaway Properties Limited; R.J.D. Holdings; Tesco Ireland Holdings Limited; Tesco Ireland Limited; Tesco Ireland Pension Trustees Limited; Tesco Mobile Ireland Limited; Tesco Trustee Company of Ireland Limited; Thundridge; Wanze Properties (Dundalk) Limited; WSC Properties Limited. The irrevocable guarantee may be relied upon for the purposes of the aforementioned exemption, while the UK remains part of the European Economic Area for the duration of the transition period, to 31 December 2020.

Tesco Bank

At 29 February 2020, Tesco Bank had contractual lending commitments totalling £11.9bn (2019: £12.2bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

Note 35 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date:

	2020 £m	2019 (restated) £m
Common equity tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,567	1,434
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	-	-
Total tier 2 regulatory adjustments	(21)	(29)
Total regulatory capital	1,781	1,640

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:

	2020 £m	2019 (restated) £m
At the beginning of the year	1,434	1,497
Initial application of IFRS 9	-	(166)
Share capital and share premium	-	-
Profit attributable to shareholders	93	136
Other reserves	4	(15)
Ordinary dividends	(50)	(60)
Movement in material holdings	-	-
Increase in intangible assets	86	47
Other - tier 1	-	-
At the end of the year, excluding CRD IV adjustments	1,567	1,439
CRD IV adjustments - deferred tax (assets)/liabilities related to intangible assets	-	(5)
	1,567	1,434

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.

Notes to the Group financial statements continued

Note 36 Events after the reporting period

On 7 March 2020, the Group acquired the trade and assets of Best Food Logistics (trading name of BFS Group Ltd), which will be accounted for as a business combination. The cash consideration value will be finalised when the completion accounts are agreed, but is likely to be negative. Best Food Logistics provides a food supply chain and logistics services to a number of national fast food and casual dining clients, including Pret-a-Manger, KFC, Burger King and others. Best Food Logistics employs c.1,500 staff and operates out of three main distribution centres. The initial accounting for the transaction is not yet complete and so it is not possible to include any further disclosures.

On 9 March 2020, the Group announced the proposed sale of its businesses in Thailand and Malaysia to a combination of CP Group entities for net cash proceeds of \$10.3bn (equivalent to £8.0bn) before tax and other transaction costs. The transaction is subject to shareholder and customary regulatory approvals and is expected to complete during the second half of the calendar year 2020. Following completion of the disposal, the Board intends to return c.£5.0bn to shareholders via a special dividend with associated share consolidation, and reduce indebtedness through a £2.5bn pension contribution that is expected to significantly reduce the prospect of having to make further pension deficit contributions in the future. Refer to Note 1.

Impact of COVID-19

The Group's operational response to COVID-19 is set out on page 3.

Refer to Note 1 for details of the Group's judgement that the extent of Government interventions in response to the COVID-19 pandemic only became apparent after the balance sheet date and represent a non-adjusting post balance sheet event. Given these events are of such significance, further explanation of the impact of increased volatility of assumptions on sensitivities presented in the financial statements are given below.

Impairment of non-current assets

Refer to Notes 1 and 15 for details of the Group's impairment methodology, impairment losses and reversals, net carrying value of non-current assets, and key assumptions and sensitivity analysis. As at 29 February 2020, indicators observable at the balance sheet date have been factored in to the Group's impairment testing of goodwill and fixed assets, including a COVID-19 risk adjustment to discount rates to reflect the impact of increased volatility in forecast cash flows.

Subsequent to the balance sheet date, the Group has incurred significant additional costs in meeting customer demand and protecting the health and safety of customers and colleagues. In particular, payroll costs will be higher than normal as additional colleagues have been recruited both to meet demand and cover the work of those colleagues who are absent and being paid. The Group has also simplified ranges, and Booker's wholesale business has seen a significant shift in balance from catering to retail sales. The Group's businesses in Central Europe and Asia have incurred similar cost increases and also expect to generate a lower level of mall income as the vast majority of tenants in malls have not been able to remain open. The UK Government's emergency policy changes (most notably the 12-month business rates holiday) will be an important offsetting benefit.

The Group has carried out further sensitivity analysis for its portfolio of store cash-generating units, in addition to the sensitivity analysis detailed in Note 15. While the full financial impact of the pandemic for 2020/21 is impossible to predict with a high degree of certainty, if customer behaviour were to return to normal by August it is likely that the additional cost headwinds incurred in our retail operations would be largely offset by the benefits of food volume increases, 12 months' business rates relief in the UK and prudent operations management. The overall impact of the above changes to cash flows would not cause a material impact on the Group's non-current asset impairment provision. An increase of 2.0% pts in post-tax discount rates for each geographic region, and a decrease in property fair values of 10% pts would increase the Group's non-current asset impairment provision by £971m and £209m respectively. These additional sensitivities would not indicate impairment in any group of cash-generating units to which goodwill has been allocated.

Tesco Bank expected credit loss (ECL) calculations

Refer to Note 25 for details of the Group's ECL calculations and sensitivity analysis. As at the balance sheet date, a five-scenario economic model is used, including a downside scenario representing a more severe recession incorporating the increased risk of an adverse impact on the economy given COVID-19 developments as at the balance sheet date. This scenario has been assigned a weighting of 5% and incorporates a higher unemployment rate and lower GDP than the base case.

Subsequent to the balance sheet date, the Group has sourced four updated economic forecasts reflecting current economic developments. The base scenario on which the Group has placed most reliance assumes a delayed 'V' shaped recovery in the third quarter of 2020 and is in line with Bank of England guidance that there will be significant economic disruption while social distancing measures are in place, followed by an expected sharp recovery when these are lifted. The ECL sensitivity to this base scenario is shown below, and excludes the estimated mitigating impact of any support the Group offers to customers who are experiencing financial difficulty as a result of the pandemic, and the effectiveness of this at reducing customer defaults.

	COVID-19 base scenario impact on ECL allowance
GDP (five-year average)	+1.2%
GDP (Q2 2020)	-12.0%
Unemployment (five-year average)	4.8%
Unemployment peak (Q3 2020)	6.2%
Base rate (five-year average)	0.1%
Increase in ECL – 100% weighted	£116m

The sensitivity of ECLs to increases in unemployment between the balance sheet date and 31 December 2020 is approximately £60m for each 1% increase in unemployment.

Pension deficit

Review of the key financial assumptions relating to the Group's pension schemes subsequent to the year end indicate movements that fall within the range of sensitivities described in Note 29. It is too early to assess the impact of COVID-19 upon the Group's long-term life expectancy assumptions. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

Financial risks

The interest rate, foreign exchange rate and inflation rate sensitivity assumptions in Note 25 have been reviewed in light of the latest market data. For all three assumptions, the sensitivities shown (1%, 10% and 25 basis points respectively) remain valid in the current economic environment. In reaching this conclusion, the Group has analysed both past- and forward-looking market data as well as movements in the relevant forward curves since the balance sheet date. Furthermore, interest rates are at an all-time low, the Group's fixed/floating mix policy is unchanged, inflation rates are also already low, and material foreign exchange risk exposure is largely hedged.

Deferred tax asset recognition

Deferred tax assets can only be recognised to the extent it is probable there will be future taxable profits. Subsequent to the balance sheet date, the Group has reviewed the current impact of COVID-19 on those future taxable profits and concluded that deferred tax assets can continue to be recognised in full.

Note 37 Changes in accounting policies – IFRS 16 'Leases'

This note explains the impact of the adoption of IFRS 16 'Leases' on the Group's financial position and financial performance.

IFRS 16 is effective for the accounting period commencing 24 February 2019. The Group adopted 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 Group 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 no longer recognises property provisions for onerous lease contracts as the lease payments are included within the lease liability.

The Group 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 Group 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 and estimates 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. See Note 1 for further information.

The Group's lease portfolio consists of retail, distribution and office properties and other assets such as motor vehicles.

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.tescopl.com/investors/reports-results-and-presentations.

Group balance sheet restatement

The table on the following page sets out the impact of IFRS 16 on the transition balance sheet at 25 February 2018 and on the comparative period Group 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 Group 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.

Notes to the Group financial statements continued

Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

Group balance sheet restatement continued

	23 February 2019			25 February 2018		
	Reported £m	IFRS 16 impact £m	Restated £m	Reported £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 ^(a)	704	(102)	602	689	(92)	597
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	7,941	44,320	31,135	7,942	39,077
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
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 liabilities	–	(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 liabilities	–	(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	(1,402)	13,432	10,480	(1,342)	9,138
Equity						
Share capital	490	–	490	410	–	410
Share premium	5,165	–	5,165	5,107	–	5,107
All other reserves	3,798	(28)	3,770	735	(18)	717
Retained earnings	5,405	(1,374)	4,031	4,250	(1,324)	2,926
Equity attributable to the owners of the parent	14,858	(1,402)	13,456	10,502	(1,342)	9,160
Non-controlling interests	(24)	–	(24)	(22)	–	(22)
Total equity	14,834	(1,402)	13,432	10,480	(1,342)	9,138
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) The estimated impact of adopting IFRS 16 on the Group's Gain Land Limited associate has been updated to reflect new, more detailed, information received. The Group completed the sale of its 20% shareholding in Gain Land Limited on 28 February 2020. Refer to Note 33 for further details.

^(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 £36m as at 25 February 2018, and £35m as at 23 February 2019.

^(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.

Group income statement restatement

The table below sets out the impact of IFRS 16 on the comparative period Group 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.

	52 weeks ended 23 February 2019 (reported) ^a			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	(59,719)	15	(59,704)	394	95	489	(59,325)	110	(59,215)
Gross profit/(loss)	4,192	15	4,207	394	95	489	4,586	110	4,696
Administrative expenses	(1,986)	(68)	(2,054)	7	–	7	(1,979)	(68)	(2,047)
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
APMs									
Operating margin			3.5%			0.6%			4.1%
Diluted EPS before exceptional and other items ^b			15.40p			(1.39)p			14.01p

^a Reclassified for the change in presentation of profits/(losses) arising on property-related items as explained in Note 1.

^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 of financial instruments.

Notes to the Group financial statements continued

Note 37 Changes in accounting policies – IFRS 16 ‘Leases’ continued

Group cash flow statement restatement

The table below sets out the 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.

	Retail			Tesco Bank			Tesco Group		
	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
52 weeks ended 23 February 2019									
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, investment property, intangible assets and assets held for sale and early termination of leases	(99)	(24)	(123)	(8)	–	(8)	(107)	(24)	(131)
(Profit)/loss arising on sale of financial assets	(8)	–	(8)	–	–	–	(8)	–	(8)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(58)	(56)	(114)	–	–	–	(58)	(56)	(114)
Adjustment for non-cash element of pensions charge	45	–	45	–	–	–	45	–	45
Other defined benefit pension scheme payments	(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	(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 assets classified as held for sale	285	–	285	1	–	1	286	–	286
Purchase of property, plant and equipment and investment property – store buybacks	(136)	–	(136)	–	–	–	(136)	–	(136)
Purchase of property, plant and equipment and investment property – 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)

Cash flow statement restatement 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

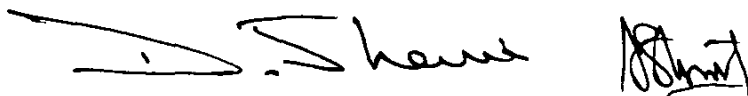
* Free cash flow has been redefined to include 'Repayments of obligations under leases' due to IFRS 16. This results in a minor adjustment of £17m, restating reported Retail free cash flow of £906m to £889m. There is no overall impact to cash and cash equivalents at the end of the year.

Tesco PLC – Parent Company balance sheet

	Notes	29 February 2020 £m	23 February 2019 £m
Non-current assets			
Investments	6	17,829	17,887
Receivables	7	1,043	2,139
Derivative financial instruments	12	1,167	1,043
		20,039	21,069
Current assets			
Receivables	7	547	1,154
Short-term investments	8	-	11
Cash and cash equivalents	9	249	6
		796	1,171
Current liabilities			
Borrowings	11	(43)	(766)
Payables	10	(238)	(242)
Derivative financial instruments	12	-	(213)
		(281)	(1,221)
Net current assets/(liabilities)		515	(50)
Non-current liabilities			
Borrowings	11	(2,285)	(2,536)
Payables	10	(82)	(88)
Derivative financial instruments	12	(735)	(303)
		(3,102)	(2,927)
Net assets		17,452	18,092
Equity			
Share capital	15	490	490
Share premium		5,165	5,165
All other reserves		2,950	2,969
Retained earnings (including profit/(loss) for the financial year of £(21)m (2019: £3,074m))		8,847	9,468
Total equity		17,452	18,092

The notes on pages 150 to 154 form part of these financial statements.

Dave Lewis
Alan Stewart
Directors



The Parent Company financial statements on pages 148 to 154 were approved and authorised for issue by the Directors on 7 April 2020.

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 23 February 2019	490	5,165	(13)	16	95	(179)	3,050	9,468	18,092
Profit/(loss) for the year	-	-	-	-	-	-	-	(21)	(21)
Other comprehensive income/(loss)									
Gains/(losses) on cash flow hedges	-	-	(7)	-	92	-	-	-	85
Reclassified and reported in the Company income statement	-	-	-	-	(23)	-	-	-	(23)
Tax relating to components of other comprehensive income	-	-	1	-	(11)	-	-	-	(10)
Total other comprehensive income/(loss)	-	-	(6)	-	58	-	-	-	52
Total comprehensive income/(loss)	-	-	(6)	-	58	-	-	(21)	31
Transactions with owners									
Purchase of own shares	-	-	-	-	-	(221)	-	-	(221)
Share-based payments	-	-	-	-	-	150	-	56	206
Dividends	-	-	-	-	-	-	-	(656)	(656)
Total transactions with owners	-	-	-	-	-	(71)	-	(600)	(671)
At 29 February 2020	490	5,165	(19)	16	153	(250)	3,050	8,847	17,452

	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

The Company has considered the profits available for distribution to shareholders. At 29 February 2020, the Company had retained earnings of £8.8bn, of which the unrealised profit elements are £1.7bn of share-based payment reserves and £1.4bn of dividends received from subsidiary undertakings not yet settled by qualifying consideration. After deducting the cost of its own shares held in trust of £0.3bn, the Company had profits available for distribution of £5.4bn, sufficient to support the planned 50% ordinary dividend payout ratio in line with the Group's dividend policy.

The Group also has retained profits in its subsidiary companies which are expected to flow up to the Company in due course to further supplement its distributable reserves position. The Company would expect to receive such dividends from the proceeds of the proposed sale of the Group's businesses in Thailand and Malaysia, which is subject to shareholder approval. The Company has announced its intention to declare a special dividend of c.£5bn, also subject to shareholder approval, following completion of the sale and publication of interim Company financial statements.

The notes on pages 150 to 154 form part of these financial statements.

Notes to the Parent Company financial statements

Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the 53 weeks ended 29 February 2020 were approved by the Board of Directors on 7 April 2020 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 53 weeks to 29 February 2020 (prior financial year 52 weeks to 23 February 2019).

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 Company 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. The Company tests the investment balances for impairment annually or when there are indicators of impairment.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Company income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Own shares held

Own shares represent the shares of Tesco PLC that are held in Treasury or by the Employee Benefit Trust. The Company adopts a 'look-through' approach which, in substance, accounts for the trust as an extension of the Company. Own shares are recorded at cost and are deducted from equity.

Financial instruments

Financial assets and financial liabilities are recognised in the Company balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less any expected credit losses.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings

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

Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

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 reporting date are disclosed as non-current.

Fair value hedging

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

Cash flow hedging

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

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company income statement in the same period or periods during which the hedged transaction affects the Company income statement. The classification of the effective portion when recognised in the Company income statement is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company income statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

Pensions

The Company participates in defined benefit pension schemes. 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/(loss), in which case the deferred tax is also recognised in equity, or other comprehensive income/(loss), respectively.

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 16 'Leases' which had no material impact on the Company; and
- 'Interest rate benchmark reform' amendments, which have been adopted early. Refer to Note 25 to the Group financial statements for the impact of IBOR Reform amendments on the Company.

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.

Notes to the Parent Company financial statements continued

Note 5 Employment costs, including Directors' remuneration

	Notes	2020 £m	2019 £m
Wages and salaries		16	17
Social security costs		2	3
Pension costs	14	2	4
Share-based payment expense	13	7	7
Total		27	31

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 (2019: 13).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' remuneration report on pages 52 to 64.

Note 6 Investments

	2020 £m
Cost	
At 23 February 2019	21,283
Additions	87
Disposals	(684)
At 29 February 2020	20,686
Accumulated impairment losses	
At 23 February 2019	(3,396)
Impairment losses	(144)
Disposals	683
At 29 February 2020	(2,857)
Net carrying value	
At 29 February 2020	17,829
At 23 February 2019	17,887

The impairment losses of £144m relate to the Group's disposal of Gain Land Limited and the subsequent impairment of its intermediate holding company Cheshunt Holdings Guernsey Limited to a recoverable amount of £241m, based on net asset value, a fair value less costs of disposal measurement at Level 3 in the fair value hierarchy. Refer to Note 33 in the Group financial statements for further details.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 155 to 160.

Note 7 Receivables

	2020 £m	2019 £m
Amounts owed by Group undertakings*	1,530	3,232
Amounts owed by joint ventures and associates	24	21
Other receivables	36	40
	1,590	3,293
Of which:		
Current	547	1,154
Non-current	1,043	2,139
	1,590	3,293

* 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.

The expected credit loss on receivables is immaterial (2019: immaterial).

Note 8 Short-term investments

	2020 £m	2019 £m
Money market funds	–	11

Note 9 Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	249	6

Note 10 Payables

	2020 £m	2019 £m
Amounts owed to Group undertakings*	278	299
Other payables	11	11
Taxation and social security	4	3
Deferred tax liability	27	17
Total payables	320	330
Of which:		
Current	238	242
Non-current	82	88
	320	330

* 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.

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 23 February 2019	(17)	–	(17)
Movement in other comprehensive income/(loss) for the year	(10)	–	(10)
At 29 February 2020	(27)	–	(27)

Note 11 Borrowings

Current

	Par value	Maturity	2020 £m	2019 £m
Bank loans and overdrafts	–	–	43	668
5.5% MTN	£97m	Dec 2019	–	98
			43	766

Non-current

	Par value	Maturity	2020 £m	2019 £m
6.125% MTN ^(a)	£417m	Feb 2022	416	561
5% MTN ^(a)	£93m	Mar 2023	103	183
3.322% LPI MTN ^(b)	£354m	Nov 2025	358	349
6% MTN ^(a)	£48m	Dec 2029	58	119
5.5% MTN ^(a)	£109m	Jan 2033	133	186
1.982% RPI MTN ^(c)	£294m	Mar 2036	297	288
6.15% USD Bond	\$525m	Nov 2037	555	428
4.875% MTN ^(a)	£20m	Mar 2042	20	32
5.125% MTN	€356m	Apr 2047	316	319
5.2% MTN ^(a)	£30m	Mar 2057	29	71
			2,285	2,536

^(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: 6.125% MTN Feb 2022 £114m, 5% MTN Mar 2023 £78m, 6% MTN Dec 2029 £50m, 5.5% MTN Jan 2033 £41m, 4.875% MTN Mar 2042 £12m and 5.2% MTN Mar 2057 £43m.

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

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

Note 12 Derivative financial instruments

The fair values of derivative financial instruments have been presented in the Company balance sheet as:

	2020		2019	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	–	–	–	(213)
Non-current	1,167	(735)	1,043	(303)
Total derivative financial instruments	1,167	(735)	1,043	(516)

	2020				2019			
	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	10	65	–	–	11	65	–	–
Cross-currency swaps	228	409	–	–	126	180	(10)	222
Cash flow hedges								
Cross-currency swaps	208	306	–	–	138	309	–	–
Index-linked swaps	185	649	–	–	170	632	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	536	3,339	(735)	4,461	598	3,339	(506)	3,339
Total	1,167	4,768	(735)	4,461	1,043	4,525	(516)	3,561

Notes to the Parent Company financial statements continued

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 28 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEF) of share option schemes relating to the Company employees are:

For the 53 weeks ended 29 February 2020

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEF	Options	WAEF
Outstanding at 23 February 2019	19,148	188.00	12,743,733	–
Granted	–	–	295,554	–
Forfeited	–	–	(2,405,420)	–
Exercised	–	–	–	–
Outstanding at 29 February 2020	19,148	188.00	10,633,867	–
Exercise price range (pence)	–	188.00	–	–
Weighted average remaining contractual life (years)	–	2.01	–	6.15
Exercisable at 29 February 2020	–	–	6,454,736	–
Exercise price range (pence)	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	5.46

For the 52 weeks ended 23 February 2019

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEF	Options	WAEF
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

Share bonus and incentive schemes

Executive Directors participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to Executive Directors who have completed a required service period and depend on the achievement of the corporate and individual performance targets. For further information on these schemes, including the valuation models and assumptions used, refer to Note 28 to the Group financial statements.

The number of share bonuses and share incentives awarded during the financial year were 506,768 (2019: 739,293) for Group Bonus Plan and 2,388,395 (2019: 2,071,068) for Performance Share Plan. Respectively, weighted average fair value (WAFV) was 244.1p (2019: 241.8p) and 230.3p (2019: 254.8p).

Note 14 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £1.9m (2019: £4.4m). Further disclosure relating to all schemes can be found in Note 29 to the Group financial statements.

Note 15 Called up share capital

Refer to Note 30 to the Group financial statements.

Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 34 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,589m (2019: £1,715m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £168m (2019: £162m) 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

On 9 March 2020, the Group announced the proposed sale of its businesses in Thailand and Malaysia for net cash proceeds of \$10.3 billion (equivalent to £8.0 billion) before tax and other transaction costs. Subject to completion of the transaction, which is subject to shareholder and regulatory approval, the Board intends to return c.£5.0 billion to shareholders via a special dividend with associated share consolidation. Refer to Note 36 to the Group financial statements for further details on the transaction.

Refer to Note 36 to the Group financial statements for further details of the Group's assessment of the impact of COVID-19.

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 29 February 2020 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	Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	-	Londis (Holdings) Limited	8	£50.00 Ordinary	100
Adminstore Limited	1	£0.01 A Ordinary	100	Londis Pension Trustees Limited	8	£1.00 Ordinary	100
		£0.01 B Ordinary	100	Makro Holding Limited	8	£1.00 Ordinary	100
		£0.01 C Ordinary	100	Makro Properties Limited	8	£1.00 Ordinary	100
Alfred Freedy & Sons Limited	2	£1.00 Deferred	100	Makro Self Service Wholesalers Limited	8	£1.00 Ordinary A	100
		£1.00 Ordinary	100			£1.00 Ordinary B	100
Armitage Finance Unlimited	1	£0.90 Ordinary	100	Maldon Finance Limited*	1	£1.00 Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	-			US\$1.00 A Preference	100
Berry Lane Management Company Limited	1	Limited by Guarantee	-			US\$0.50 B Preference	100
BF Limited	8	£1.00 Ordinary	100	Motorcause Limited	1	£1.00 Ordinary	100
Bishop's Group Limited	8	£0.01 Ordinary	100	Munster Road Management Company Limited	1	Limited by Guarantee	-
Booker Cash & Carry Limited	8	£1.00 Ordinary	100	Oakwood Distribution Limited	1	£1.00 Ordinary	100
Booker Direct Limited	8	£0.01 Ordinary	100	One Stop Community Stores Limited	2	£0.00001200004 Ordinary	100
Booker Group Limited	8	£0.0000000055625 Ordinary	100	One Stop Convenience Stores Limited	2	£1.00 Ordinary	100
Booker Limited	8	£1.00 Ordinary	100	One Stop Stores Limited**	2	£1.00 Ordinary	100
Booker Retail Partners (GB) Limited	8	£1.00 Ordinary	100	One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100
Booker Retail Limited	8	£0.10 Ordinary	100	Orpington (Station Road) Limited	1	£1.00 Ordinary	100
Booker Pension Trustees Limited	8	Limited by Guarantee	100	Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	-
Booker Wholesale Holdings Limited	8	£0.01 Ordinary A1	100	Paper Chain (East Anglia) Limited	2	£1.00 Deferred	100
Booker Unapproved Scheme Trustees Ltd	8	Limited by Guarantee	-			US\$0.001 Ordinary	100
Bourne End Residential Management Company Limited	1	Limited by Guarantee	-	PTLL Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 1 Limited	1	£1.00 Ordinary	100	Ritter-Courivaud Limited	8	£0.10 Ordinary	100
Broughton Retail Park Nominee 2 Limited	1	£1.00 Ordinary	100	Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 3 Limited	1	£1.00 Ordinary	100	Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 4 Limited	1	£1.00 Ordinary	100	Spenn Hill Developments Limited	1	£1.00 Ordinary	100
Budgen Holdings Limited	8	£1.00 Ordinary	100	Spenn Hill Management Limited***	1	£1.00 Ordinary	100
Budgens Pension Trustees No 2 Limited	8	£1.00 Ordinary	100	Spenn Hill Properties (Holdings) plc	1	£1.00 Ordinary	100
Budgens Property Investments Limited	8	£1.00 Ordinary	100	Spenn Hill Regeneration Limited	1	£1.00 Ordinary	100
Budgens Stores Limited	8	£1.00 Ordinary	100	Spenn Hill Residential No 1 Limited	1	£1.00 Ordinary	100
Buttoncable Limited	1	£1.00 Ordinary	100	Spenn Hill Residential No 2 Limited	1	£1.00 Ordinary	100
Buttoncase Limited	1	£1.00 Cumulative Redeemable Preference	100	Station House Welling Management Limited	1	Limited by Guarantee	-
		£1.00 Ordinary	100	Statusfloat Limited	1	£1.00 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	-	T & S Stores Limited	2	£0.05 Ordinary	100
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	-	Tapesilver Limited	1	£1.00 Ordinary	100
Comar Limited	1	£1.00 Ordinary	100	Teesport (GP) Limited	1	£1.00 Ordinary	100
Day And Nite Stores Limited	2	£1.00 Cumulative Convertible Participating Preferred Ordinary	100	Tesco (Overseas) Limited	1	£1.00 Ordinary	100
		£1.00 Cumulative Redeemable Preference	100	Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Tesco Aqua (FinCo1) Limited	1	£1.00 Ordinary	100
Dillons Newsagents Limited*	2	£0.25 Non-Voting Ordinary	100	Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100
dunnhumby Holding Limited	4	£1.00 Ordinary	100	Tesco Aqua (GP) Limited	1	£1.00 A Ordinary	100
dunnhumby International Limited	4	£1.00 Ordinary	100			£1.00 B Ordinary	100
dunnhumby Limited	4	£3.59 Ordinary	100	Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100
dunnhumby Overseas Limited	4	£1.00 Ordinary	100	Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100
dunnhumby Trustees Limited	4	£1.00 Ordinary	100	Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Giant Bidco Limited	8	£1.00 Ordinary	100	Tesco Atrato (1LP) Limited	1	£1.00 Ordinary	100
Giant Booker Limited	8	£0.25 Ordinary	100	Tesco Atrato (GP) Limited	1	£1.00 A Ordinary	100
Giant Midco Limited	8	£1.00 Ordinary	100			£1.00 B Ordinary	100
Highams Green Management Company Limited	1	Limited by Guarantee	-	Tesco Atrato (Nominee 1) Limited	1	£1.00 Ordinary	100
IRTH (15) Limited	8	£1.00 Ordinary	100	Tesco Atrato (Nominee 2) Limited	1	£1.00 Ordinary	100
IRTH (19) Limited	8	US\$0.00000052383172 Ordinary	100	Tesco Atrato (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Launchgrain Limited	1	£1.00 Ordinary	100	Tesco Atrato Depot Propco Limited	1	£1.00 Ordinary	100
Linnco Limited	8	£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	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

Related undertakings of the Tesco Group continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Depot Propco Limited	1	£1.00 Ordinary	100	Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100
Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100	Tesco Property Holdings Limited	1	£1.00 Ordinary	100
Tesco Distribution Limited	1	£1.00 Ordinary	100	Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100
Tesco Dorney (ILP) Limited	1	£1.00 Ordinary	100	Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
Tesco Employees' Share Scheme Trustees Limited ⁽¹⁾	1	£1.00 Ordinary	100	Tesco Property Partner (GP) Limited ¹	1	£1.00 A Ordinary £1.00 B Ordinary	100
Tesco Family Dining Limited	1	£1.00 Ordinary	100	Tesco Property Partner (No.1) Limited ¹	1	£1.00 Ordinary	100
Tesco Food Sourcing Limited	1	£1.00 Ordinary	100	Tesco Property Partner (No.2) Limited ¹	1	£1.00 Ordinary	100
Tesco Freetime Limited	1	£1.00 Ordinary	100	Tesco Red (3LP) Limited	1	£1.00 Ordinary	100
Tesco Fuchsia (3LP) Limited	1	£1.00 Ordinary	100	Tesco Red (GP) Limited	1	£1.00 Ordinary A £1.00 Ordinary B	100
Tesco Gateshead Property Limited	1	£1.00 Ordinary	100	Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Holdings Limited ¹	1	£0.10 Ordinary £1.00 Preference	100	Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco International Services Limited ¹	1	£1.00 Ordinary	100	Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Lagoon GP Limited	5	£1.00 Ordinary	100	Tesco Sarum (ILP) Limited	1	£1.00 Ordinary	100
Tesco Maintenance Limited	1	£1.00 Ordinary	100	Tesco Seacroft Limited	1	£1.00 Ordinary	100
Tesco Mobile Communications Limited ¹	1	£1.00 Ordinary	100	Tesco Secretaries Limited	1	£1.00 Ordinary	100
Tesco Mobile Services Limited	1	£1.00 Ordinary	100	Tesco Services Limited	1	£1.00 Ordinary	100
Tesco Navona (ILP) Limited	1	£1.00 Ordinary	100	Tesco Stores Limited	1	£1.00 A Preference £1.00 B Preference £1.00 Ordinary	100
Tesco Navona (GP) Limited	1	£1.00 Ordinary A £1.00 Ordinary B	100	Tesco TLB Finance Limited	1	£1.00 Ordinary	100
Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100	Tesco TLB Properties Limited	1	£1.00 A Ordinary £1.00 B Ordinary	100
Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100	The Big Food Group Limited	8	£0.10 Ordinary	100
Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100	The Teesport Limited Partnership	1	Limited Partnership	100
Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100	The Tesco Aqua Limited Partnership	1	Limited Partnership	100
Tesco Overseas Investments Limited ¹	1	£1.00 Ordinary	100	The Tesco Atrato Limited Partnership	1	Limited Partnership	100
Tesco Overseas ULC	1	£0.00000025 A Ordinary £0.00000025 B Ordinary £0.00000025 C Ordinary £0.00000025 D Ordinary £0.00000025 E Ordinary £0.00000025 F Ordinary £0.00000025 G Ordinary £0.00000025 H Ordinary £0.00000025 J Ordinary £0.00000025 K Ordinary £0.00000025 L Ordinary £0.00000025 M Ordinary £0.00000025 N Ordinary £0.00000025 O Ordinary £0.00000025 P Ordinary	100 100 100 100 100 100 100 100 100 100 100 100 100 100 100 100	The Tesco Blue Limited Partnership	1	Limited Partnership	100
Tesco Passaic (ILP) Limited	1	£1.00 Ordinary	100	The Tesco Navona Limited Partnership	1	Limited Partnership	100
Tesco Passaic (GP) Limited	1	£1.00 Ordinary A £1.00 Ordinary B	100	The Tesco Passaic Limited Partnership	1	Limited Partnership	100
Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100	The Tesco Red Limited Partnership	1	Limited Partnership	100
Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100	TPI Fund Managers Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100	TPT Holdco No.1 Limited	1	£1.00 Ordinary	100
Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100	Ventnor High Street Management Company Limited	1	Limited by Guarantee	-
Tesco PEG Limited	1	£0.01 Ordinary	100	Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100
Tesco PENL Limited	1	£1.00 Ordinary	100				
Tesco Pension Investment Limited ⁽¹⁾	1	£1.00 Ordinary	100				
Tesco Pension Trustees Limited ¹	1	£1.00 Ordinary	100				
Tesco Personal Finance Group PLC ¹	6	£0.10 A Ordinary £0.10 B Ordinary £0.10 C Ordinary	100 100 100				
Tesco Personal Finance PLC	6	£0.10 Ordinary	100				
Tesco Property (Nominees) (No.1) Limited	7	£1.00 Ordinary	100				
Tesco Property (Nominees) (No.2) Limited	7	£1.00 Ordinary	100				
Tesco Property (Nominees) Limited	7	£1.00 Ordinary	100				
Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100				
Tesco Property Finance 1 PLC	1	£1.00 Ordinary £0.25 Ordinary	100 100				

International subsidiary undertakings

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Arena (Jersey) Management Limited*	33	£1.00 Ordinary	100	Nabola Development Limited	24	€1.25 A Ordinary	100
Agate Jewel sp. z o.o.	75	PLN 50 Ordinary	100			£1.25 B Ordinary	100
Amethyst Jewel sp. z o.o.	75	PLN 50 Ordinary	100	Onyx Jewel sp. z o.o.	75	PLN 50 Ordinary	100
Cheshunt Holdings Guernsey Limited*	27	£1.00 Ordinary	100	Opal Jewel sp. z o.o.	75	PLN 50 Ordinary	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100	Orpingford Unlimited Company	24	€1.00 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100	Pharaway Properties Limited	24	€1.00 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100	Pearl Jewel sp. z o.o.	75	PLN 50 Ordinary	100
		€1.00 Ordinary	100	Quartz Jewel sp. z o.o.	75	PLN 50 Ordinary	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100	R.J.D. Holdings Unlimited Company	24	€1.269738 Ordinary	100
Commercial Investments Limited	24	€1.25 Ordinary	100	Ruby Jewel sp. z o.o.	75	PLN 50 Ordinary	100
Coral Jewel sp. z o.o.	75	PLN 50 Ordinary	100	Sapphire Jewel sp. z o.o.	75	PLN 50 Ordinary	100
Crest Ostrava a.s.	16	CZK 100,000 Ordinary	100	Sociomantic Labs Internet Hizmetleri Limited Şirketi	51	TRY 25.00 Ordinary	100
Diamond Jewel sp. z o.o.	75	PLN 50 Ordinary	100	Tesco (Polska) Sp. z o.o.	42	PLN 500.00 Ordinary	100
dunnhumby (Korea) Limited	66	KRW 5,000 Ordinary	100	Tesco Akadémia Képzési és Fejlesztési Korlátolt Felelősségű Társaság	32	HUF 1.00 Business Share	100
dunnhumby (Malaysia) Sdn Bhd	84	RM 1.00 Ordinary	100	Tesco Bengaluru Private Limited	41	INR 10.00 Ordinary	100
dunnhumby (Thailand) Limited	73	THB 1,000,000 Ordinary	100	Tesco Capital No. 1 Limited*	28	£0.50 A Ordinary	100
dunnhumby Advertising (Shanghai) Co., Ltd.	23	€130,000 Registered Capital	100			£0.50 B Ordinary	100
dunnhumby Australia PTY Limited	65	AUD 100 Ordinary	100			£0.01 Preference-Guaranteed Cumulative Fixed Rate Preference	100
dunnhumby Brasil Consultoria Ltda	77	BRL\$1.00 Ordinary	100	Tesco Capital No. 2 Limited	28	£0.01 Preferred Ordinary	100
dunnhumby Canada Limited	59	CAN\$1.00 Ordinary	100			£0.01 Floating Rate Redeemable Preference*	100
dunnhumby Chile SpA	48	CLP 500,000 Ordinary	100			£1.00 Ordinary	100
dunnhumby Colombia S.A.S.	74	COP 2,000 Type A	100	Tesco Chile Sourcing Limitada	22	CLP 1.00 Ordinary	100
		COP 41.00 Type B	100			US\$1.00 Ordinary	100
		COP 1.00 Type C	100	Tesco Digital Ventures Pte Ltd	49	SGD 1.00 Ordinary	100
dunnhumby Computer Information Technology and Consultancy Services LLC	18	TL 25.00 Ordinary	100	Tesco Dystribucja Sp. z o.o.	42	PLN 50.00 Ordinary	100
dunnhumby Consulting Services India Private Limited	60	INR 10.00 Ordinary	100	Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100
dunnhumby Czech s.r.o.	16	CZK 200,000 Ordinary	100	Tesco-Global Stores Privately Held Company Limited	32	HUF 10.00 Common	100
dunnhumby Denmark I/S	57	DKK 1.00 Ordinary	100	Tesco Global Employment Company Limited	34	THB 100.00 Ordinary	100
dunnhumby Finland Oy	30	100 Kovellinum Oy	100	Tesco Guangdong (HK) Co. Limited	20	US\$1.00 Ordinary	100
dunnhumby France SAS	61	€2.00 Ordinary	100	Tesco Holdings B.V.	40	€1.00 Ordinary	100
dunnhumby Germany GmbH	14	€1.00 Ordinary	100	Tesco International Clothing Brand s.r.o.	58	€1.00 Ordinary	100
dunnhumby Hungary Kft	32	Registered capital HUF 3,000,000	100	Tesco International Franchising s.r.o.	58	€1.00 Ordinary	100
dunnhumby Inc.	35	No par value	-	Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100
dunnhumby Information Technology Consulting (Shanghai) Company Limited	62	Registered capital US\$140,000	100	Tesco Ireland Holdings Limited	24	€1.25 Ordinary	100
dunnhumby Ireland Limited	67	€1.00 Ordinary	100	Tesco Ireland Limited	24	€1.25 Ordinary	100
dunnhumby IT Services India Private Limited	36	INR 10.00 Ordinary	100	Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100
dunnhumby Italia Srl	37	€1.00 Ordinary	100	Tesco Joint Buying Service (Shanghai) Co., Limited	82	US\$1.00 Ordinary	100
dunnhumby Japan K.K.	38	JPY 10,000 Ordinary	100	Tesco Mobile (Thailand) Co. Limited	34	THB 100.00 Ordinary	100
dunnhumby Mexico S. de R.L. de C.V.	69	MXN 2,970 Ordinary A	100	Tesco Mobile Ireland Limited	24	€1.00 Ordinary	100
		MXN 30.00 Ordinary B	100	Tesco Property (No. 1) Limited	28	£1.00 Ordinary	100
dunnhumby Netherlands B.V.	70	€1.00 Ordinary	100	Tesco Sourcing India Private Limited	80	INR 10.00 Ordinary	100
dunnhumby New Zealand	64	NZD 100.00 Ordinary	100	Tesco Stores (Malaysia) Sdn Bhd*	86	RM 1.00 A Ordinary	100
dunnhumby Poland Sp. z o.o.	42	PLN 50,000 Ordinary	100			RM 10.00 Non Convertible Non Cumulative Irredeemable Preference Shares	100
dunnhumby Russia LLC	79	RUB 1.00 Ordinary	100			RM 1.00 B Ordinary	100
dunnhumby Singapore Pte Ltd	19	SGD 1.00 Ordinary	100	Tesco Stores (Thailand) Limited*	34	THB 10.00 A Ordinary	100
dunnhumby SARL	61	€100.00 Ordinary	100			THB 10.00 B Preference	<0.001
dunnhumby Serviços de Promoção Digital Ltda	77	R\$1.00 Ordinary	100			THB 10.00 C Preference	100
dunnhumby Slovakia s.r.o.	58	No shares in issue	-	Tesco Stores ČR a.s.	16	CZK 250 Ordinary	100
dunnhumby Sp. z o.o.	47	PLN 50.00 Ordinary	100	Tesco Stores SR. a.s.	81	€33,193.92 Ordinary	100
dunnhumby Spain S.L.	50	€1.00 Ordinary	100	Tesco Trustee Company of Ireland Limited*	24	€1.25 Ordinary	100
dunnhumby South Africa (Pty) Ltd	43	No par value Ordinary	100	TESCO Üzleti és Technológiai Szolgáltatások Zártkörűen Működő Részvénytársaság	25	HUF 1,000.00	100
dunnhumby Ventures LLC	44	-	-	Thundridge Unlimited	24	€1.00 Ordinary	100
Edson Investments Limited	24	€2.00 Ordinary	100	Topaz Jewel sp. z o.o.	75	PLN 50 Ordinary	100
Edson Properties Limited	24	€1.00 Ordinary	100	Victoria BB Sp. z o.o.	42	PLN 800.00 Ordinary	100
Ek-Chai Distribution System Co., Ltd.*	34	THB 10.00 Ordinary	100	Wanze Properties (Dundalk) Limited	24	€1.00 Ordinary	100
ELH Insurance Limited	71	£1.00 Ordinary	100	WSC Properties Limited	24	€0.0000005 Ordinary	100
Emerald Jewel sp. z o.o.	75	PLN 50 Ordinary	100				
Genesis sp. z o.o.	42	PLN 500.00 Ordinary	100				
Jasper Sp. z o.o.	42	PLN 100.00 Ordinary	100				
Kabat Investments Tesco (Polska) Sp. z o.o. Sp.k.	42	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				
Monread Developments Limited	24	€0.001 Ordinary	100				

Related undertakings of the Tesco Group continued

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Adsega Limited*	9	£0.0026 Ordinary	100
Booker EBT Limited	9	£1.00 Ordinary	100
Cullen's Holdings Limited	9	£0.0000000370 Ordinary	100
Cullen's Stores Limited	9	£0.00000161 Ordinary	100
Cheshunt Finance Unlimited	9	£0.000000001 Ordinary	100
Cheshunt Overseas LLP	3	Limited Liability Partnership	100
dunnhumby Advertising Limited	9	£0.001 Ordinary	100
Europa Foods Limited	9	£0.000000176 Ordinary	100
Faraday Properties Limited	10	£0.000147 Ordinary	100
Fresh Food Trader Limited	9	£1.00 Ordinary	50
		£1.00 Preference	100
Gibbs News Limited	9	£0.00001 Ordinary	100
NutriCentre Limited	9	£0.10 Ordinary	100
Wm. Low Supermarkets Limited	10	£0.0000000180 Ordinary	100
Halesworth SPV Limited	9	£1.00 Ordinary	100
Harts the Grocers (Russell Square) Limited	9	£1.00 Ordinary	100
J.E. Cohen & Company Limited	9	£1.00 Ordinary	100
J.Smylie & Sons (IOM) Limited	72	£1.00 Ordinary	100
KSS Retail Limited	9	£0.000000851	100
Linebush IV Limited	9	£0.01 A Ordinary	100
		£1.20 B Ordinary	100
		£0.01 C Ordinary	100
Linebush Limited	9	£0.01 A Ordinary	100
		£1.00 B Ordinary	100
		£0.01 C Ordinary	100
Linebush V Limited	9	£1.20 A Ordinary	100
		£1.20 B Ordinary	100
London and Home Counties Superstores Limited	9	£1.00 A Ordinary	100
M & W Limited	9	£0.0000000582261	100
Morgam News Limited	9	£1.00 Ordinary	100
Stewarts Supermarkets Limited	9	£1.00 Ordinary	100
Snowman Retail 1 Limited	9	£1.00 Ordinary	100
Tesco Treasury Services Limited*	9	£0.000001 Ordinary	100
Tesco FFC Limited	9	£0.01 Ordinary	100
Tesco International Internet Retailing Limited	9	£0.0000013543	100
Tesco Kirkby (General Partner) Limited	9	£1.00 Ordinary	100
Tesco Kirkby (LP) Limited	9	£1.00 Ordinary	100
Tesco Kirkby (Unitholder1) Limited	9	£1.00 Ordinary	100
Tesco Kirkby (Unitholder2) Limited	9	£1.00 Ordinary	100
Tesco TLB Barnstaple Limited	9	£1.00 Ordinary	100
Tesco TLB Nottingham Limited	9	£1.00 Ordinary	100
Tesco TLB Pontypridd Limited	9	£1.00 Ordinary	100
Verulam Properties Limited	9	£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
Avantil Services Company Limited	39	£1.00 Ordinary	100
Booker Cyprus Limited	21	£1.00 Ordinary	100
Cheshunt Hungary Servicing Limited Liability Company	32	HUF 100.00 Quota	100
Saneyia Limited	21	€1.00 Ordinary	100
Sociomantic Labs Private Limited	78	INR 10.00 Ordinary	100
Tesco Mauritius Holdings Limited	85	£1.00 Ordinary	100
Tesco Vin Plus S.A.	52	€1.60 Ordinary	100

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Broadfields Management Limited	12	£0.10 Ordinary	35.3
Clarepharm Limited	13	£0.10 Ordinary	26.5
Shire Park Limited	15	£1.00 Ordinary	54.5
Flora Hypermarket Limited	88	INR Rs. 10/-	49
Flora Online Limited	26	INR Rs. 10/-	36.7
		INR Rs. 10/-	49
		Redeemable Preference	
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Coral (Nominee) Limited	1	£1.00 Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Jade (GP) Limited	29	£1.00 A Ordinary	30
		£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
		£0.90 B Ordinary	100
Tesco Property (Sparta Nominees) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.3) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.4) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP No.2) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	10
Tesco Sarum (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Underwriting Limited	31	£1.00 Ordinary	49.9
The Tesco Coral Limited Partnership	1	Limited Partnership	50
The Tesco Dorney Limited Partnership	1	Limited Partnership	50
The Tesco Property (No.2) Limited Partnership	17	Limited Partnership	50
The Tesco Sarum Limited Partnership	1	Limited Partnership	50

The following associated undertakings were incorporated outside of the United Kingdom

Name of Undertaking	Registered address	Class of share held	% held by Group
Arena Unit Trust	33	-	50
Booker India Private Limited	54	INR 1.00 Ordinary	49
Booker Satnam Wholesale Private Limited	54	INR 1.00 Ordinary	49
China Wisdom dunnhumby Limited	53	RMB 264,000 Ordinary	50
China Wisdom dunnhumby (Shanghai) Limited	63	RMB 264,000.000 Registered Capital	50
dunnhumby Mitsui Bussan Customer Science Co., Ltd	55	JPY 1,000 Ordinary	50
dunnhumby Norge A.S.	56	NOK 1,000 Ordinary	50
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51.9
Retail Property Co., Limited*	83	THB 100.00 Ordinary A	100
Synergistic Property Development Co. Limited	68	THB 100.00 Ordinary	50
Tesco General Insurance Broker Limited	45	THB 100.00 Common	99.99
Tesco Life Assurance Broker Limited	45	THB 100.00 Ordinary	99.99
Tesco Lotus Money Services Ltd	45	THB 100.00 Ordinary A	100
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	81	€1.00 Ordinary	50
Trent Hypermarket Private Limited	26	INR 10.00 Equity	50

Consolidated structured entities

Name of undertaking	Registered address	Nature of business
Delamare Cards Holdco Limited	87	Securitisation entity
Delamare Cards MTN Issuer plc	87	Securitisation entity
Delamare Cards Receivables Trustee Limited	87	Securitisation entity
Delamare Cards Funding 1 Limited	87	Securitisation entity
Delamare Cards Funding 2 Limited	87	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

‡ 95% held by Tesco PLC

§ 66.6% held by Tesco PLC
50% held by Tesco PLC

|| 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

¶ Incorporated on 25 March 2020

Registered office addresses

1	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	60	4th Fl, Tower B, Paras Twin Towers, DLF Golf Course Road, Sector 54, Gurgaon, Haryana-HR, 122002, India
2	Apex Road, Brownhills, Walsall, West Midlands, WS8 7HU, United Kingdom	61	48 rue Cambon, 75001, Paris, France
3	KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom	62	Room 1001, Enterprise Development Tower, No. 398, Jiangsu Road Changning District, Shanghai 200050, People's Republic of China
4	184 Shepherds Bush Road, London, W6 7NL, United Kingdom	63	Room 501-4, No.398 Jiangsu Road, Shanghai, People's Republic of China
5	C/O Morton Fraser LLP, 5th Floor, Quatermile Two, 2 Lister Square, Edinburgh, Scotland, EH3 9GL, United Kingdom	64	RSM New Zealand, Level 2, 60 Highbrook Drive, Auckland, 2013, New Zealand
6	2 South Gyle Crescent, Edinburgh, EH12 9FQ, United Kingdom	65	Level 21, 55 Collins Street, Melbourne, VIC 3000, Australia
7	35 Great St Helen's, London, EC3A 6AP, United Kingdom	66	13F WeWork Yeoksam Station 2,14, Teheran-ro 26-gil, Gangnam-gu, Seoul, 06236, Korea
8	Equity House, Irthlingborough Road, Wellingborough, Northamptonshire, NN8 1LT, United Kingdom	67	Floor 3, 2 Harbour Square, Crofton Road, Dun Laoghaire, Dublin, Ireland
9	Ernst & Young LLP, 1 More London Place, London, SE1 2AF, United Kingdom	68	999/9, 31st Floor, Rama 1 Road, Pathumwan District, Bangkok, 10330, Thailand
10	Atria One, 144 Morrison Street, Edinburgh, EH3 8EX	69	Av President Masarik No. 111, Piso 1, Colina Polance V Seccion Delegacion Miguel Hidalgo, C.P. 11560, Mexico
11	1 Bartholomew Lane, London, England, EC2N 2AX	70	Danzigerkade 13H 2hg, 1013AP Amsterdam, The Netherlands
12	2 Paris Parklands, Reilton Road, Guildford, Surrey, GU2 9JX	71	Dorey Court, Admiral Park, St. Peter Port, GY1 4AT, Guernsey
13	Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD	72	PO Box 237, Peregrine House, Peel Road, Douglas, Isle of Man, IM99 1SU
14	Ritterstraße 6, 10969 Berlin, Germany	73	No. 319 Chanchuri Square Building, 16th Fl, Unit 01, Phayathi Road Pathumwan sub District, Bangkok 10330, Thailand
15	Riverside House, 3 Place Farm, Wheathampstead, St. Albans, England, AL4 8SB	74	Calle 32 b sur #48-100, Envigado, Antioquia, Colombia
16	1527/68b, Vrsovice, Praha 10, City of Prague, 100 00, Czech Republic	75	ul. Polczyńska 121/125, 01-377 Warsaw, Poland
17	PO Box 87 22 Grenville Street, St Helier, Jersey	76	Paul-Lincke-Ufer 39/40, 10999 Berlin, Germany
18	Yeni Havaalani Caddesi, No. 40 Cigli, Izmir, 35610 Turkey	77	Av.Brigadeiro Luis Antônio, 3530, 5º Andar, 01402-001 São Paulo, Brazil
19	30 A Tanjong Pagar Road, Singapore 088453, Singapore	78	c/o Vaish Associates, 106, Peninsula Centre, Dr. S. S. Rao Road, Parel Mumbai - 400012, Maharashtra, India
20	31st Floor AIA Kowloon Tower Landmark East, 100 How Ming Street, Kowloon, Hong Kong	79	121099, Pereulok Spasopeskovskiy 7/1, Building 1, Moscow, Russian Federation
21	5 Esperidon Street, 4th floor, 2001 Strovolos, Nicosia, Cyprus	80	5th Floor, Unit 401, Tower B, The Millenia, No. 1&2 Murphy Road Ulsoor, Bangalore, 560 008, India
22	Avenida Santa Maria 5888, Piso 2 Zona A, Oficina 4, Vitacura, Santiago, 7660268, Chile	81	Einsteinova 24, Bratislava 851 01, Slovakia
23	Room 8865, B/F, 1111, Changshou Road, Jing'an District, Shanghai, People's Republic of China	82	Unit 01, 02, 06, 07, 08, 09, Floor 17, No. 610 Xujiahui Road, Huangpu District, Shanghai, People's Republic of China
24	Gresham House, Marine Road, Dun Laoghaire, Co. Dublin, Ireland	83	313 CP Tower, Silom Road, Khwaeng Silom, Khet Bangrak, Bangkok, Thailand
25	1138, Budapest, Váci út, 187, Hungary	84	Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
26	Taj Building, 2nd Floor, 210, Dr D.N. Road, Fort, Mumbai, 400001, India	85	c/o SGG Corporate Services (Mauritius) Ltd, 33 Edith Cavell Street, Port Louis, 11324, Mauritius
27	PO Box 25, Regency Court, Glatigny Esplanade, St. Peter Port, Guernsey, GY1 3AP	86	Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
28	Lime Grove House, Green Street, St Helier, Jersey, JE1 2ST	87	Asticus Building, 2nd Floor, 21 Palmer Street, London, SW1H 0AD, United Kingdom
29	20 Churchill Place, Canary Wharf, London, E14 5HJ	88	Trent House, Plot No.C 60, G-Block, Besides Citi Bank, Bandra Kurla Complex, Bandra (East), Mumbai, 400051, India
30	c/o RSM Finland Oy, Ratamestarinkatu 7 B, 00520, Helsinki, Finland		
31	Ageas House Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA		
32	H-2040 Budaörs, Kinizsi, ÚT 1-3, Hungary		
33	47 Esplanade, St Helier, Jersey, JE1 0BD		
34	629/1 Nawamintr Road, Nuanchon, Buengloom, Bangkok, 10230, Thailand		
35	c/o The Corporation Trust Company, 1209 Orange Street, Corporation Trust Center, Wilmington, DE 19801, USA		
36	S-22 Greater Kailash, Part 1, Lower Ground Floor, New Delhi 110048, India		
37	Carrera 48 no. 32B sur - 139, Envigado, Italy		
38	9th Floor, Shiroyama Trust Tower, 3-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan		
39	38/39 Fitzwilliam Square, Dublin 2, Ireland		
40	Willemsparkweg 150 hs, 1071 HS, Amsterdam, The Netherlands, Netherlands		
41	81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India		
42	56 Kapelenka St., 30-347, Krakow, Poland		
43	3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa		
44	One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202, United States		
45	87/1 Floor 10 Capital Tower, All Seasons Place, Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand		
46	1 Empire Tower, 32nd Floor, South Sathorn Road, Yannawa, Sathorn, Bangkok, 10120, Thailand		
47	Sociomantic labs Sp z o.o., ul. Pulawska 2.02 566 Warszawa, Poland		
48	Av. El Golf 40, 7th floor, Las Condes, Santiago de Chile, Chile		
49	163 Tras Street, #03-01, Lian Huat Building, Singapore, 079024, Singapore		
50	Paseo de General Martínez Campos, Campos nº 9 1º izquierda, 28010 Madrid, Spain		
51	Istiklal Caddesi Beyoglu Is Merkezi No: 187/5 Galatasaray, Istanbul, Turkey		
52	Centre de Commerces et de Loisirs, Cite Europe, 62231 Coquelles, France		
53	Suite 1106-B, 11/F., Tai Yau Building, No 181 Johnston Road, Wanchai, Hong Kong		
54	Unit 607, 6th floor, Trade Centre, Bandra Kurla Complex, Bandra East, Mumbai, 400051, Maharashtra, India		
55	1-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan		
56	Rosenkrantzgate 16, Oslo, 0160, Norway		
57	c/o TMF Denmark A/S, Købmagergade 60, 1. tv., 1150 København K, Denmark		
58	Cesta na Senec 2, Bratislava, 821 04, Slovakia		
59	1400-340 Albert St, Ottawa K1R 0A5, Canada		

Supplementary information (unaudited)

Total sales performance at actual rates (exc. VAT, exc. fuel)

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20 ^a	1H 2019/20	2H 2019/20 ^a	FY 2019/20 ^a
UK & ROI	1.2%	(0.9)%	0.2%	(0.1)%	0.2%	0.0%	0.1%
UK & ROI (comparable growth)^(b)	0.1%	(0.9)%	0.2%	(0.1)%	(0.4)%	0.0%	(0.2)%
UK	(0.4)%	(1.4)%	(0.5)%	(0.3)%	(0.9)%	(0.4)%	(0.6)%
ROI	0.8%	0.3%	(0.4)%	(3.3)%	0.5%	(1.9)%	(0.7)%
Booker	3.1%	1.6%	4.3%	2.6%	2.3%	3.5%	2.9%
Central Europe	(10.8)%	(3.3)%	(15.9)%	(18.4)%	(7.0)%	(17.2)%	(12.1)%
Asia	7.3%	9.5%	9.7%	1.0%	8.4%	5.0%	6.7%
Tesco Bank	(1.9)%	7.5%	(5.2)%	(10.9)%	2.8%	(8.1)%	(2.6)%
Group	0.4%	(0.1)%	(0.8)%	(2.2)%	0.1%	(1.5)%	(0.7)%
Group (comparable growth)^(b)	(0.5)%	(0.1)%	(0.8)%	(2.2)%	(0.3)%	(1.5)%	(0.9)%

Total sales performance at constant rates (exc. VAT, exc. fuel)

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20 ^a	1H 2019/20	2H 2019/20 ^a	FY 2019/20 ^a
UK & ROI	1.3%	(1.0)%	0.2%	0.1%	0.2%	0.2%	0.2%
UK & ROI (comparable growth)^(b)	0.2%	(1.0)%	0.2%	0.1%	(0.4)%	0.2%	(0.1)%
UK	(0.4)%	(1.4)%	(0.5)%	(0.3)%	(0.9)%	(0.4)%	(0.6)%
ROI	2.7%	(1.4)%	0.7%	1.3%	0.6%	1.0%	0.8%
Booker	3.1%	1.6%	4.3%	2.6%	2.3%	3.5%	2.9%
Central Europe	(7.9)%	(4.7)%	(14.4)%	(13.7)%	(6.3)%	(14.0)%	(10.1)%
Asia	2.6%	(0.5)%	(0.1)%	(1.6)%	1.0%	(0.9)%	0.1%
Tesco Bank	(1.9)%	7.5%	(5.2)%	(10.9)%	2.8%	(8.1)%	(2.6)%
Group	0.4%	(1.2)%	(1.4)%	(1.7)%	(0.4)%	(1.6)%	(1.0)%
Group (comparable growth)^(b)	(0.5)%	(1.2)%	(1.4)%	(1.7)%	(0.8)%	(1.6)%	(1.2)%

^a 4Q on a 13 weeks basis. 2H on a 26/52-week basis and FY on a 52-week basis.

^(b) Comparable growth presents growth with Booker sales included in the prior year base using a comparable number of weeks. Booker sales growth was 12.4% for Q1 2019/20, 6.5% for 1H 2019/20 and 5.0% for FY 2019/20, reflecting nine additional days of Booker sales in the current year.

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

	1Q 2019/20	2Q 2019/20	3Q 2019/20	4Q 2019/20	1H 2019/20	2H 2019/20	FY 2019/20
UK & ROI	0.8%	(0.6)%	0.4%	0.3%	0.1%	0.4%	0.2%
UK	0.4%	(1.0)%	(0.4)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%
ROI	1.3%	(1.0)%	2.0%	2.4%	0.1%	2.2%	1.2%
Booker	3.1%	1.9%	5.0%	3.5%	2.4%	4.2%	3.3%
Central Europe	(4.9)%	(1.4)%	(11.0)%	(8.7)%	(3.1)%	(9.8)%	(6.4)%
Asia	0.1%	(2.7)%	(1.6)%	(3.1)%	(1.3)%	(2.4)%	(1.9)%
Tesco Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Group	0.2%	(0.9)%	(0.9)%	(0.9)%	(0.4)%	(0.9)%	(0.6)%

Country detail – Retail

	Revenue (exc. VAT, inc. fuel) [*]		Average exchange rate	Closing exchange rate
	Local currency (m)	£m		
UK	44,302	44,302	1.0	1.0
ROI	2,746	2,392	1.1	1.2
Booker	6,204	6,204	1.0	1.0
Czech Republic	42,201	1,437	29.4	29.6
Hungary	557,052	1,479	376.6	393.8
Poland	7,144	1,451	4.9	5.0
Slovakia	1,381	1,203	1.1	1.2
Malaysia	4,593	867	5.3	5.4
Thailand	172,163	4,351	39.6	40.4

^{*} Excludes franchising revenue within Central Europe of £6m, which is not allocated to individual countries

UK sales area by size of store

Store size (sq. ft.)	29 February 2020			23 February 2019		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0-3,000	2,508	5.4	14.0%	2,518	5.4	13.9%
3,001-20,000	284	3.0	7.8%	276	3.0	7.9%
20,001-40,000	284	8.2	21.3%	284	8.2	21.2%
40,001-60,000	182	8.8	22.9%	182	8.8	22.9%
60,001-80,000	120	8.4	21.8%	120	8.5	22.1%
80,001-100,000	45	3.7	9.6%	50	3.7	9.7%
Over 100,000	8	1.0	2.6%	8	0.9	2.3%
Total[*]	3,431	38.5	100.0%	3,438	38.5	100.0%

^{*} Excludes Booker and franchise stores.

Supplementary information (unaudited) continued

Group space summary

Actual Group space – store numbers^(a)

	2018/19 year end	Openings	Closures/ disposals	Net gain/ (reduction) ^(c)	2019/20 year end	Repurposing/ extensions ^(b)
Large	797	2	(3)	(1)	796	-
Small ^(d)	1,855	72	(7)	65	1,920	-
Dotcom only	6	-	-	-	6	-
Total Tesco	2,658	74	(10)	64	2,722	-
One Stop ^(e)	772	7	(82)	(75)	697	-
Booker	197	-	(1)	(1)	196	-
Jack's	8	5	(1)	4	12	-
UK^(e)	3,635	86	(94)	(8)	3,627	-
ROI	152	-	(2)	(2)	150	-
UK & ROI^(e)	3,787	86	(96)	(10)	3,777	-
Czech Republic ^(e)	188	-	(2)	(2)	186	10
Hungary	204	-	(2)	(2)	202	13
Poland	353	-	(24)	(24)	329	59
Slovakia	150	-	-	-	150	10
Central Europe^(e)	895	-	(28)	(28)	867	92
Malaysia	73	2	-	2	75	5
Thailand	1,965	54	(31)	23	1,988	158
Asia	2,038	56	(31)	25	2,063	163
Group^(e)	6,720	142	(155)	(13)	6,707	255
UK (One Stop)	174	35	(18)	17	191	-
Czech Republic	99	8	-	8	107	-
Franchise stores	273	43	(18)	25	298	-

Actual Group space – '000 sq. ft.^(a)

	2018/19 year end	Openings	Closures/ disposals	Repurposing/ extensions ^(b)	Net gain/ (reduction) ^(c)	2019/20 year end
Large	31,368	34	(66)	-	(32)	31,336
Convenience ^(a)	5,097	149	(42)	-	107	5,204
Dotcom only	716	-	-	-	-	716
Total Tesco	37,181	183	(108)	-	75	37,256
One Stop ^(e)	1,261	13	(135)	-	(122)	1,139
Booker	8,436	-	(60)	-	(60)	8,376
Jack's	81	74	(36)	-	38	119
UK^(e)	46,959	270	(339)	-	(69)	46,890
ROI	3,335	-	(61)	-	(61)	3,274
UK & ROI^(e)	50,294	270	(400)	-	(130)	50,164
Czech Republic ^(e)	4,602	-	(64)	(249)	(313)	4,289
Hungary	6,281	-	(6)	(275)	(281)	6,000
Poland	7,804	-	(977)	(1,154)	(2,131)	5,673
Slovakia	3,438	-	-	(258)	(258)	3,180
Central Europe^(e)	22,125	-	(1,047)	(1,936)	(2,983)	19,142
Malaysia	3,533	50	-	(133)	(83)	3,450
Thailand	15,024	145	(67)	(644)	(566)	14,458
Asia	18,557	195	(67)	(777)	(649)	17,908
Group^(e)	90,976	465	(1,514)	(2,713)	(3,762)	87,214
UK (One Stop)	227	34	(24)	-	10	237
Czech Republic	95	6	-	-	6	101
Franchise stores	322	40	(24)	-	16	338

^(a) Continuing operations.

^(b) The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.

^(c) Repurposing of retail selling space.

^(d) Included within openings and closures/disposals are 54 stores (113,065 sq. ft.) which were converted from One Stop stores into Tesco Express stores.

^(e) Excludes franchise stores.

Group space forecast to 27 February 2021 – '000 sq. ft.^(a)

	2019/20 year end	Openings	Closures/ disposals	Repurposing/ extensions	Net gain/ (reduction)	2020/21 year end
Large	31,336	12	–	–	12	31,348
Small	5,204	69	(29)	–	40	5,244
Dotcom only	716	–	–	–	–	716
Total Tesco	37,256	81	(29)	–	52	37,308
One Stop [†]	1,139	–	–	–	–	1,139
Booker	8,376	–	–	–	–	8,376
Jack's	119	96	–	–	96	215
UK^(b)	46,890	177	(29)	–	148	47,038
ROI	3,274	59	–	6	65	3,339
UK & ROI^(b)	50,164	236	(29)	6	213	50,377
Czech Republic ^(c)	4,289	14	(4)	(99)	(89)	4,200
Hungary	6,000	–	–	(147)	(147)	5,853
Poland	5,673	–	(715)	(418)	(1,133)	4,540
Slovakia	3,180	54	–	(78)	(24)	3,156
Central Europe^(b)	19,142	68	(719)	(742)	(1,393)	17,749
Malaysia	3,450	94	–	–	94	3,544
Thailand	14,458	378	(48)	(464)	(134)	14,324
Asia	17,908	472	(48)	(464)	(40)	17,868
Group^(b)	87,214	776	(796)	(1,200)	(1,220)	85,994
UK (One Stop)	237	–	–	–	–	237
Czech Republic	101	20	–	–	20	121
Franchise stores	338	20	–	–	20	358

[†] Continuing operations

^(c) Excludes franchise stores.

Tesco Bank income statement

	2020 ^a £m	2019 ^a (restated) £m
Revenue		
Interest receivable and similar income	733	729
Fees and commissions receivable	335	368
	1,068	1,097
Direct costs		
Interest payable	(166)	(175)
Fees and commissions payable	(25)	(27)
	(191)	(202)
Gross profit	877	895
Other expenses		
Staff costs	(164)	(170)
Premises and equipment	(72)	(80)
Other administrative expenses	(191)	(197)
Depreciation and amortisation	(78)	(85)
Impairment loss on financial assets	(179)	(164)
Operating profit before exceptional items	193	199
Exceptional items ^(c)	(119)	(30)
Operating profit	74	169
Net finance costs: movements on derivatives and hedge accounting	(11)	(4)
Net finance costs: interest	23	(6)
Share of profit/(loss) of joint venture	10	8
Profit for the year	96	167

^a These results are for the 12 months ended 29 February 2020 and the previous period represents the 12 months ended 28 February 2019

^b Restated for the adoption of IFRS 16 as explained in Note 1 and Note 37 to the Group financial statements.

^c Exceptional items in 2020 comprise of a PPI provision charge of £(45)m (2019: £(16)m), a restructuring charge of £(13)m (2019: credit of £2m), accelerated amortisation and costs related to the sale of the mortgage book and PCA £(61)m (2019: £nil), and a regulatory provision of £nil (2019: £(16)m)

Glossary – Alternative performance measures

Introduction

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

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

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

Purpose

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

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

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

Details of 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	Definition and purpose
Income statement			
Revenue measures			
Group sales	Revenue	- Exclude sales made at petrol filling stations	- Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	- Consistent with accounting policy	- Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	- Consistent with accounting policy	- Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.
Profit measures			
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	- Exceptional items - Amortisation of acquired intangibles	- Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance, and is based on operating profit from continuing operations before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain cost or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group. This is a key management incentive metric.
Retail operating profit	Operating profit*	- Tesco Bank operating profit - Retail exceptional items - Retail amortisation of acquired intangibles	- Retail operating profit is a measure of the Group's operating profit from continuing operations from the Retail business excluding Tesco Bank. It is based on Retail operating profit before exceptional items and amortisation of acquired intangibles.
Operating margin	No direct equivalent	- Consistent with accounting policy	- Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Retail earnings before exceptional items, interest, tax, depreciation and amortisation (Retail EBITDA)	Operating profit*	- Exceptional items - Depreciation and amortisation - Tesco Bank earnings before exceptional items, interest, tax, depreciation and amortisation - Discontinued operations	- This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation and amortisation and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Profit measures continued			
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Profit before tax	<ul style="list-style-type: none"> – Exceptional items – Amortisation of acquired intangibles – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – This measure excludes exceptional items and amortisation of acquired intangibles, net finance costs of the defined benefit pension deficit and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments	Finance costs	<ul style="list-style-type: none"> – Exceptional items – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments is the net finance costs adjusted for non-recurring one-off items, net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Diluted earnings per share	<ul style="list-style-type: none"> – Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options. – It excludes net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Tax measures			
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	<ul style="list-style-type: none"> – Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact 	<ul style="list-style-type: none"> – 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 of financial instruments	Effective tax rate	<ul style="list-style-type: none"> – Exceptional items and their tax impact – Amortisation of acquired intangibles and their tax impact – Net pension finance costs and their tax impact – Fair value remeasurements of financial instruments and their tax impact 	<ul style="list-style-type: none"> – Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles items, net pension finance costs and fair value remeasurements divided by the profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements.
Balance sheet measures			
Net debt	Borrowings less cash and related hedges	<ul style="list-style-type: none"> – Net debt from Tesco Bank 	<ul style="list-style-type: none"> – Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.

Glossary – Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Balance sheet measures continued			
Total indebtedness	Borrowings less cash and related hedges	<ul style="list-style-type: none"> Consistent with accounting policy 	Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	<ul style="list-style-type: none"> Consistent with accounting policy 	Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month Retail EBITDA. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Fixed charge cover	No direct equivalent	<ul style="list-style-type: none"> Consistent with accounting policy 	Fixed charge cover is calculated as the rolling 12-month Retail EBITDA divided by the sum of net finance costs (excluding net pension finance costs, finance charges payable on lease liabilities, exceptional items, capitalised interest and fair value remeasurements) and all lease liability payments. 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	<ul style="list-style-type: none"> Tesco Bank operating cash flow Discontinued operations 	Retail operating cash flow is the cash generated from continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency 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	<ul style="list-style-type: none"> Net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes Repayment of obligations under leases Investing cash flows that increase/decrease items within Group net debt Cash flows from major corporate acquisitions and disposals 	Free cash flow includes all cash flows from operating and investing activities, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.
Retail free cash flow	Cash generated from operating activities	<ul style="list-style-type: none"> Tesco Bank operating cash flow Retail net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes Repayment of obligations under leases Investing cash flows that increase/decrease items within Net debt Cash flows from major corporate acquisitions and disposals 	Retail free cash flow includes all cash flows from operating and investing activities for the Retail business, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and the repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

As detailed in the basis of consolidation, refer to Note 1, for the UK & ROI, the results are for the 53 weeks ended 29 February 2020 (prior financial year 52 weeks ended 23 February 2019). For all other operations, the results are for the calendar year ended 29 February 2020 (prior calendar year ended 28 February 2019).

In order to provide comparability with the prior year results for the 52 weeks ended 23 February 2019, the tables below present the Group's statutory results on a 53-week basis to 29 February 2020, adjusted to remove the results of week 53 for the UK & ROI to also separately present the APMs on a 52-week basis to 22 February 2020. In determining the week 53 adjustment for the UK & ROI, revenue, sales and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53 based on the reported results for the 53 weeks to 29 February 2020. No week 53 adjustments are required with respect to the Group's operations in Central Europe, Asia or Tesco Bank, which report on a calendar year basis.

APMs: Reconciliation of income statement measures

UK & ROI	Notes	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m	APM 2019 (restated) £m
Continuing operations					
Group sales	2	45,752	(843)	44,909	44,883
Revenue	2	52,898	(983)	51,915	51,643
Operating profit before exceptional items and amortisation of acquired intangibles	2	2,230	(46)	2,184	1,868
Operating margin	2	4.2%	-	4.2%	3.6%
Growth in sales at actual rates		2.0%	(1.9)%	0.1%	16.1%
Growth in sales at constant rates		2.1%	(1.9)%	0.2%	16.1%

Total Group	Notes	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m	APM 2019 (restated) £m
Continuing operations					
Group sales	2	57,370	(843)	56,527	56,883
Revenue	2	64,760	(983)	63,777	63,911
Operating profit before exceptional items and amortisation of acquired intangibles	2	3,005	(46)	2,959	2,607
Operating margin	2	4.6%	-	4.6%	4.1%
Growth in sales at actual rates		1.1%	(1.8)%	(0.7)%	11.5%
Growth in sales at constant rates		0.8%	(1.8)%	(1.0)%	11.3%

Glossary – Alternative performance measures continued

APMs: Reconciliation of income statement measures continued

	Notes	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis	APM 2019 (restated)
Operating profit before exceptional items and amortisation of acquired intangibles (£m)	2	3,005	(46)	2,959	2,607
Share of post-tax profits/(losses) of joint ventures and associates before exceptional items and amortisation of acquired intangibles (£m)		26	–	26	21
Net finance costs before exceptional items and amortisation of acquired intangibles (£m)	5	(1,070)	27	(1,043)	(1,064)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		1,961	(19)	1,942	1,564
Add: Net pension finance costs (£m)	5	71	–	71	89
Add/(less): Fair value remeasurements of financial instruments (£m)	5	244	(18)	226	153
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)		2,276	(37)	2,239	1,806
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)	9	(491)	7	(484)	(441)
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (%)		21.6%	–	21.6%	24.4%
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	2,273	(37)	2,236	1,806
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	(490)	7	(483)	(439)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)		1,783	(30)	1,753	1,367
Basic weighted average number of shares (millions)	9	9,716	–	9,716	9,686
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)		18.35	(0.31)	18.04	14.11
Diluted weighted average number of shares (millions)	9	9,783	–	9,783	9,758
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)		18.23	(0.31)	17.92	14.01

Retail EBITDA

	Notes	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m	APM 2019 (restated) £m
Operating profit before exceptional items and amortisation of acquired intangibles	2	3,005	(46)	2,959	2,607
Less: Tesco Bank operating profit before exceptional items	2	(193)	–	(193)	(199)
Retail operating profit	2	2,812	(46)	2,766	2,408
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	2	2,078	(29)	2,049	1,972
Less: Tesco Bank depreciation and amortisation	2	(141)	–	(141)	(85)
Retail EBITDA		4,749	(75)	4,674	4,295

APMs: Reconciliation of balance sheet measures

Total indebtedness ratio

	Notes	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis	APM 2019 (restated)
Net debt (£m)^(a)	32	12,298	(197)	12,101	13,204
Add: Defined benefit pension deficit, net of deferred tax (£m) ^(a)	29	2,573	–	2,573	2,338
Total indebtedness (£m)^(a)		14,871	(197)	14,674	15,542
Retail EBITDA (£m)		4,749	(75)	4,674	4,295
Total indebtedness ratio		3.1	–	3.1	3.6

^(a) Net debt, Total indebtedness and the defined benefit pension deficit, net of deferred tax on a 52-week basis are as at 22 February 2020.

^(c) Free cash outflow in week 53 of £197m has been deducted from Net debt as at 29 February 2020 to determine the Group's 52 week Total indebtedness ratio.

Fixed charge cover

	Notes	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis	APM 2019 (restated)
Net finance costs (£m)	5	1,221	(27)	1,194	1,064
Less: Net pension finance costs (£m)	5	(71)	-	(71)	(89)
Less: Exceptional fair value remeasurement loss on derivative restructuring (£m)	5	(180)	-	(180)	-
Add: Exceptional fair value remeasurement gain on Tesco Bank mortgage book disposal (£m)	5	29	-	29	-
Add: Fair value remeasurements of financial instruments (£m)	5	(244)	18	(226)	(153)
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)		755	(9)	746	822
Add: Capitalised interest (£m)	5	-	-	-	1
Less: Finance charges payable on lease liabilities (£m)	12	(541)	6	(535)	(561)
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities (£m)		214	(3)	211	262
Add: Retail total lease liability payments (£m)	12	1,170	-	1,170	1,163
		1,384	(3)	1,381	1,425
Retail EBITDA (£m)		4,749	(75)	4,674	4,295
Fixed charge cover		3.4	-	3.4	3.0

APMs: Reconciliation of cash flow measures

	Notes	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m	APM 2019 (restated) £m
Retail cash flows generated from operations excluding working capital	2	4,365	(63)	4,302	4,027
Retail (increase)/decrease in working capital	2	(124)	240	116	(390)
Retail operating cash flow	2	4,241	177	4,418	3,637
Retail interest and corporation tax paid*	2	(1,066)	27	(1,039)	(1,153)
Retail cash generated from/(used in) operating activities	2	3,175	204	3,379	2,484
Retail cash generated from/(used in) investing activities	2	(1,215)	(7)	(1,222)	(952)
Retail proceeds from issue of ordinary share capital	2	-	-	-	60
Retail own shares purchased	2	(149)	-	(149)	(206)
Retail repayments of obligations under leases	2	(632)	-	(632)	(605)
Add: Retail cash outflow from major acquisition	2	-	-	-	747
Less: Retail net investments in/(proceeds from sale of) short-term investments	2	687	-	687	(639)
Retail free cash flow	2	1,866	197	2,063	889
Tesco Bank free cash flow	2	476	-	476	(126)
Free cash flow		2,342	197	2,539	763

* Retail interest paid in week 53 amounted to £27m

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.

EURIBOR

Euro Interbank Offered Rate.

ESG

Environmental, social and governance.

FTE

FTE refers to full-time equivalents.

LIBOR

London Inter-Bank Offered Rate.

LPI

LPI refers to limited price inflation.

Market capitalisation

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

MTN

MTN refers to medium term note.

MREL

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

Net promoter score (NPS)

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

Return on capital employed (ROCE)

Return divided by the average of opening and closing capital employed.

Return

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

RPI

RPI refers to the retail price index.

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

The statistics below reflect the latest published information. For financial years prior to 2020, these figures represent the comparatives from the following years' financial statements, except figures for 2019 and 2018 which have been restated for IFRS 16 'Leases' and IFRS 15 'Revenue from contracts with customers' respectively (see below). 2018 figures have not been restated for IFRS 16. Korea was first classified as a discontinued operation during the 2016 financial year, and Turkey during 2017. In respect of the discontinued operation in Turkey, 2016 statistics have been re-presented to be consistent with 2017.

During the 2018 financial year, the Group reassessed its reportable segments and determined that the retailing and associated activities previously disclosed within the International segment should be disaggregated into the Central Europe and Asia segments. Refer to Note 2. The Group redefined profit APMs during 2019 to exclude the amortisation of acquired intangibles. Historical data for the redefined measures have not been restated as the impact is not considered material. The Group adopted IFRS 9 'Financial instruments' and IFRS 15 during the 2019 financial year, neither of which had a material impact on the Group's performance. The financial data for the 2018 financial year has been restated for IFRS 15.

The Group adopted IFRS 16 during the 2020 financial year. Refer to Notes 1 and 37 for details. Figures for 2019 have been restated but prior historical data has not. Refer to Note 1 and the Glossary for a full list of APMs and their definitions, as well as changes to APMs.

	2016	2017	2018 (restated) ^a	2019 (restated) ^b	2020 ^c
Financial statistics (£m)					
Sales^d					
UK & ROI	37,189	37,692	38,656	44,883	45,752
Central Europe	5,268	5,977	6,343	6,030	5,332
Asia	4,447	5,186	4,947	4,873	5,218
Tesco Bank	955	1,012	1,047	1,097	1,068
Group sales^(e)	47,859	49,867	50,993	56,883	57,370
Revenue					
UK & ROI	43,080	43,524	44,914	51,643	52,898
Central Europe	5,451	6,195	6,585	6,298	5,576
Asia	4,447	5,186	4,947	4,873	5,218
Tesco Bank	955	1,012	1,047	1,097	1,068
Group revenue	53,933	55,917	57,493	63,911	64,760
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles^(e)					
UK & ROI	503	803	1,059	1,868	2,230
Central Europe	102	58	119	221	156
Asia	218	262	299	319	426
Tesco Bank	162	157	169	199	193
Group operating profit/(loss) before exceptional items and amortisation of acquired intangibles^(e)	985	1,280	1,646	2,607	3,005
Operating profit margin before exceptional items and amortisation of acquired intangibles^d	1.8%	2.3%	2.9%	4.1%	4.6%
Operating profit/(loss)					
UK & ROI	597	519	1,205	1,949	1,944
Central Europe	111	190	212	279	85
Asia	203	231	277	252	415
Tesco Bank	161	77	145	169	74
Group operating profit/(loss)	1,072	1,017	1,839	2,649	2,518
Share of post-tax profits/(losses) of joint ventures and associates	(21)	(107)	(6)	32	18
Net finance costs	(849)	(765)	(533)	(1,064)	(1,221)
Profit/(loss) before tax	202	145	1,300	1,617	1,315
Taxation	54	(87)	(306)	(347)	(380)
Profit/(loss) for the year from continuing operations	256	58	994	1,270	935
Discontinued operations	(127)	(112)	216	-	38
Profit/(loss) for the year	129	(54)	1,210	1,270	973
Attributable to:					
Owners of the parent	138	(40)	1,208	1,272	971
Non-controlling interests	(9)	(14)	2	(2)	2
Profit before tax, exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments^(e)	509	781	1,284	1,806	2,276
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations	3.22p	0.81p	12.11p	13.04p	9.54p
Diluted earnings per share – continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments ^(e)	5.79p	7.30p	11.90p	14.01p	18.23p
Dividend per share ^(d)	-	-	3.00p	5.77p	9.15p
Cash generated from retail operating activities (£m) ^f	2,581	2,278	2,773	3,637	4,241
Free cash flow (£m) ^f	1,482	1,288	1,388	889	1,866
Return on capital employed (ROCE) ^(g)	6.2%	8.1%	11.0%	7.9%	9.1%
Total shareholder return ^h	(11.8)%	(7.5)%	8.7%	10.2%	5.2%
Net debt (£m) ⁽ⁱ⁾	5,110	3,729	2,625	13,204	12,298
Discounted operating lease commitments – continuing operations	7,814	7,440	6,931	-	-
Pension deficit, net of deferred tax – Group (£m)	2,612	5,504	2,728	2,338	2,573
Total indebtedness (£m)^(e)	15,536	16,673	12,284	15,542	14,871
Enterprise value (£m) ^(j)	20,101	19,262	19,452	35,024	34,676
Group retail statistics					
Number of stores ^k	6,733	6,809	7,033	6,993	7,005
Total sales area ('000 sq. ft.) ^l	91,195	89,041	92,983	91,298	87,552
Average employees	475,399	464,520	448,988	464,505	423,092
Average full-time equivalent employees (FTE)	351,289	342,770	327,916	321,490	293,963
UK & ROI retail statistics					
Number of stores ^k	3,743	3,739	3,952	3,961	3,968
Total sales area ('000 sq. ft.) ^l	45,253	43,610	42,032	50,521	50,401
Average full-time equivalent employees (FTE)	225,378	218,522	210,312	223,542	210,768
Revenue (exc. fuel) (per FTE ~ £)	165,007	172,486	183,804	200,781	217,073
Weekly revenue (exc. fuel) (per sq. ft. ~ £)	15.68	16.31	17.36	18.65	17.11

^a 2020 APM reconciliations in Glossary section on pages 164 to 169. ^b Restated for IFRS 15, excludes Booker. ^c Restated for IFRS 16. ^d 53 weeks. ^e Dividend per share relating to the interim and proposed final dividend. ^f See Glossary for definitions. ^g Including franchise stores.

Shareholder information

Managing your shares and shareholder communication.

The Company's share register is maintained by our Registrar, Equiniti.

Shareholders can manage their holdings online or elect to receive shareholder documentation in electronic form by setting up a Shareview portfolio at www.shareview.co.uk. Some benefits of having a Shareview portfolio include:

- receiving the latest shareholder communications electronically;
- voting online for the resolutions at the AGM, and any other shareholder meetings;
- view and manage all your shareholdings in one place;
- buy and sell shares instantly online with the share dealing service; and
- easily updating your contact details.

For more information and to register for this service, please visit www.shareview.co.uk. Registration can be completed in just four easy steps and you will need your Shareholder Reference Number.

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 financial results, notices of shareholder meetings and other shareholder documents.

Tesco Share Account.

The Tesco Share Account (TSA) is a free service available to Tesco shareholders which allows you to hold your Tesco shares electronically. Your shares are held in the name of Equiniti Corporate Nominees Limited and held on your behalf on a private register. Holding your shares electronically removes the need to hold paper share certificates, making dealing quicker and more secure. You will also receive preferential dealing rates through the TSA.

The TSA is a sponsored nominee service operated for Tesco by Equiniti Financial Services Limited (Equiniti Financial), authorised and regulated by the Financial Conduct Authority (FCA). When you join the TSA, 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.

For further information or to join the TSA, please contact Equiniti.

Annual General Meeting (AGM).

A copy of the Notice of Meeting can be found on our website at www.tescopl.com/investors.

Dividend.

An interim dividend of 2.65 pence per Ordinary share was paid on 22 November 2019. Shareholders will be asked to approve a final dividend of 6.50 pence per Ordinary share for the year ended 29 February 2020 at this year's AGM. If approved, this will be paid on 3 July 2020 to all shareholders on the Register of Members at the close of business on 22 May 2020.

You can save time and receive your dividends faster and securely by electing to have them paid directly into your bank or building society account. You may also choose to have your dividends reinvested in further Tesco shares through our dividend reinvestment plan (DRIP) (terms and conditions apply).

For more information or to change your dividend payment instructions contact Equiniti or register online at www.shareview.co.uk.

Share dealing service.

Equiniti offers telephone, postal and internet services for dealing in Tesco PLC shares. Dealing fees vary between brokers and you are recommended to check that you are being charged the most competitive rate. You will need your Shareholder Reference Number as shown on your share certificate.

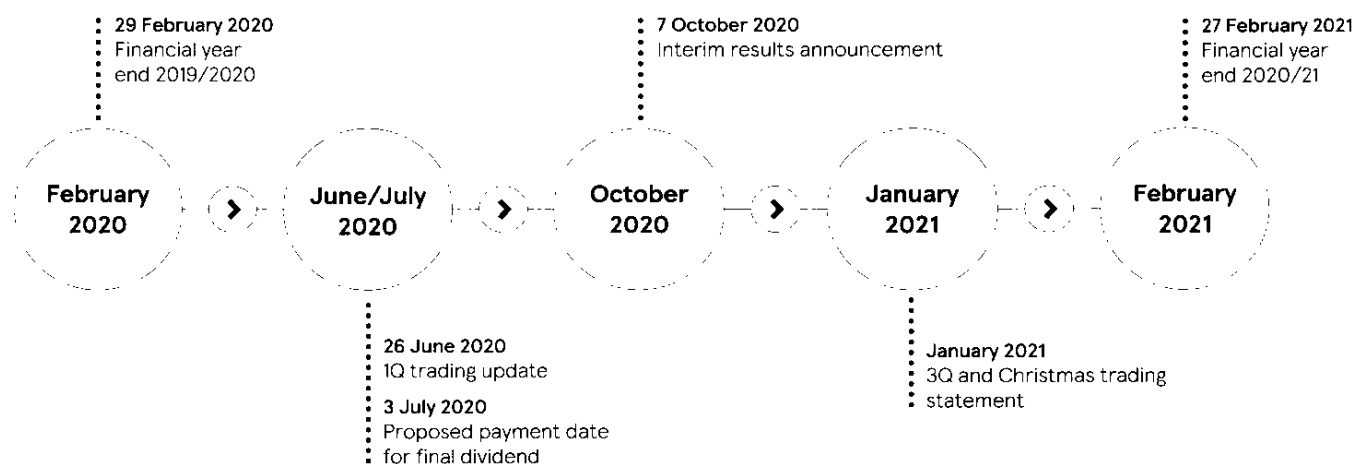
For further information please visit www.shareview.co.uk/dealing or by calling 0345 603 7037, lines open between 8.00am and 4.30pm, Monday to Friday (excluding UK public holidays).

Shareholder security.

In recent years, Tesco PLC has become aware that its shareholders (and holders of other Tesco securities) have received unsolicited phone calls or correspondence concerning investment matters. These callers can be very persistent and extremely persuasive and often have professional websites and telephone numbers to support their activities. These callers will sometimes imply connection to Tesco and provide incorrect or misleading information. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Always check that any firm contacting you about potential investment opportunities is authorised by the FCA. You can find out more about protecting yourself from investments scams by visiting the FCA's website at www.fca.org.uk/consumers, or by calling the FCA's consumer helpline on 0800 111 6768.

Financial calendar 2020/21.



Please note that these dates are provisional and subject to change

Shareholder information continued

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 J.P. Morgan Chase Bank N.A.
P.O. Box 64504
St. Paul, MN 55164-0504

Email jpmorgan.adr@eq-us.com
Telephone (US) +1 800 990 1135
Telephone (Outside US) +1 651 453 2128
Website www.adr.com

Share register analysis.

As at 29 February 2020, the Company had 9,793,496,561 shares in issue (23 February 2019: 9,793,496,561) and 239,600 registered holders of Ordinary shares (23 February 2019: 246,725). Shareholdings are analysed below.

Range of shareholding	Number of holdings	% of issued share capital
1 – 500	150,256	0.19%
501 – 1,000	22,476	0.17%
1,001 – 5,000	45,432	1.10%
over 5,001	21,436	98.54%
Total	239,600	100%

Range of shareholding	Number of holdings	% of issued share capital
5,001 – 10,000	11,249	0.81%
10,001 – 50,000	8,239	1.58%
50,001 – 100,000	617	0.43%
100,001 – 500,000	611	1.43%
500,001 – 1,000,000	185	1.34%
1,000,001 – 5,000,000	311	7.81%
5,000,001+	224	85.15%
Total	21,436	98.55%

Category of shareholders.

	Number of holdings	% of total registered holders	Number of Ordinary shares	% of issued share capital
Private	233,551	97.48%	523,920,989	5.35%
Institutional and corporate	6,049	2.52%	9,269,575,572	94.65%

Useful contacts.

Tesco PLC registered office:

Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA

Investor Relations.

Investor Relations Department
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AL7 1GA

Telephone +44 (0) 1707 912 922

Registrars.

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone (UK) 0371 384 2977

(Outside UK) +44 (0) 121 415 7053

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

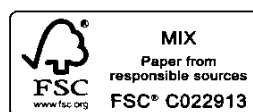
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