TESCO

Interim Results 2016/17

STRONG FIRST HALF PROGRESS; CLEAR PLAN TO CREATE LONG-TERM VALUE

Group sales[1,2]	Operating profit pre exceptionals[2,3]	Operating profit[2]	Retail operating cash flow[2,4]	Net debt[4,5]
£24.4bn up 3.3%	**£596m** up 60.2%	**£515m** up 38.4%	**£955m** up 20.7%	**£(4.4)bn** down 49.3% y-o-y down 14.8% vs year-end

Headlines

Positive like-for-like sales and volume growth in all regions across the Group

- UK like-for-like sales growth of 0.6% and Group like-for-like sales growth of 1.0%[6]
- UK volumes up 2.1%; UK transactions up 1.6%
- International volumes up 3.3%; International transactions up 0.3%

Significant progress against all three priorities

- Competitive in the UK – all key customer metrics improving relative to the market
- More secure balance sheet – net debt reduced by further £0.8bn since year-end
- Rebuilding trust – brand health returned to highest level in more than four years[7]

Customer, colleague and supplier partner measures all improving

- Most improved retailer in terms of customer recommendations[8]
- 78% of colleagues recommend us as a 'great place to work' (up from 70% in 1H 2014/15)
- Very strong improvement in UK supplier satisfaction measure at 78% (up from 51% in 2014/15)

Well-placed against our plans – on track to deliver £1.2bn Group operating profit before exceptional items for the full year

- Rebuilding profitability whilst investing in our customer offer
- Group operating profit before exceptional items up 60% in the first half
- Exclusive fresh food brands performing ahead of plan; investment part-offset by mix benefit

Sharing our ambition to deliver 3.5-4.0% Group operating margin by 2019/20

- Underpinned by six strategic drivers, we will strengthen our customer offer whilst creating long-term, sustainable value for shareholders
- Includes £1.5bn further operating cost reductions, to be realised through a more efficient and responsive distribution system, a simpler store operating model & goods not for resale savings
- Total capex will average £1.4bn per year to support this programme

Statutory results: statutory revenue £27.3bn, up 1.4%; statutory profit before tax £71m, down (28.3)%

Dave Lewis, Chief Executive:

"We have made further strong progress in the first half, with positive like-for-like sales growth across all parts of the Group as we re-invest in our customer offer whilst rebuilding profitability in a sustainable way.

The entire Tesco team is focused on serving shoppers a little better every day. We are more competitive across our offer. Prices are more than 6% lower than two years ago, availability and service have never been better and our range is more compelling. Our new fresh food brands are performing ahead of expectations, improving our value proposition and further removing reasons for customers to shop elsewhere.

Whilst the market is uncertain, we have made significant progress against the priorities we set out two years ago, stabilising the business and positioning us well for the future. Today, we are sharing the plans we have in place to become even more competitive for our customers, even simpler for colleagues and an even better partner for our suppliers, whilst creating long-term, sustainable value for our shareholders."

Like-for-like sales performance[6]:

	1H 2015/16	2H 2015/16	FY 2015/16	1Q 2016/17	2Q 2016/17	1H 2016/17
UK & ROI	**(1.3)%**	**(0.1)%**	**(0.7)%**	**0.3%**	**0.9%**	**0.6%**
UK	(1.1)%	(0.1)%	(0.6)%	0.3%	0.9%	0.6%
ROI	(3.7)%	0.0%	(1.9)%	0.3%	0.1%	0.2%
International	**0.6%**	**3.2%**	**2.0%**	**3.0%**	**2.1%**	**2.6%**
Europe	2.6%	3.6%	3.1%	2.8%	1.3%	2.0%
Asia	(1.7)%	2.9%	0.6%	3.3%	3.0%	3.2%
Group	**(0.9)%**	**0.6%**	**(0.1)%**	**0.9%**	**1.1%**	**1.0%**

Headline Group results

The Group has defined its alternative performance measures in the Glossary on page 43.

26 weeks ended 27 August 2016 On a continuing operations basis	1H 2016/17	1H 2015/16	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)[1]	**£24,402m**	**£23,684m**	**1.3%**	**3.3%**
Fuel	£2,936m	£3,282m	(10.9)%	(10.5)%
Statutory revenue (exc. VAT, inc. fuel)	**£27,338m**	**£26,966m**	**(0.4)%**	**1.4%**
Group operating profit before exceptional items[3]	**£596m**	**£372m**	**56.7%**	**60.2%**
- UK & ROI[9]	£389m	£164m	134.1%	137.2%
- International	£118m	£122m	(9.8)%	(3.3)%
- Tesco Bank	£89m	£86m	3.5%	3.5%
Include exceptional items	£(81)m	-		
Group operating profit	**£515m**	**£372m**	**34.4%**	**38.4%**
Group profit before tax before exceptional items and net pension finance costs	£410m	£183m		124.0%
Group statutory profit before tax	**£71m**	**£99m**		**(28.3)%**
Diluted EPS before exceptional items	3.16p	0.60p		426.7%
Diluted EPS before exceptional items and net pension finance costs	3.74p	1.42p		163.4%
Diluted EPS	0.42p	0.60p		(30.0)%
Capex	**£0.5bn**	**£0.4bn**		up 24.2%
Net debt[4,5]	**£(4.4)bn**	**£(8.6)bn**		down 49.3%
Cash generated from retail operations[2,4]	**£1.0bn**	**£0.8bn**		up 20.7%

Notes
1. Group sales exclude VAT and fuel. Sales growth shown on a comparable 26 week basis.
2. For continuing operations.
3. Exceptional items are excluded by virtue of their size and nature in order to better reflect management's view of the performance of the Group. Full detail of exceptional items can be found in Note 4 on page 27.
4. In order to provide further analysis of the Group cash flow statement, net debt and retail operating cash flow, which exclude the impact of Tesco Bank, are separately disclosed.
5. Includes both continuing and discontinued operations.
6. Like-for-like is the growth in sales from stores that have been open for at least a year at a constant foreign exchange rate and includes online sales.
7. As per YouGov BrandIndex, August 2016.
8. As per the periodic Customer Spotlight Tracker.
9. The elimination of intercompany transactions between continuing operations and the discontinued Turkey operation, as required by IFRS 5 and IFRS 10, has resulted in a reduction to the prior period UK & ROI operating profit of £(2)m.

Update on our priorities

The progress we have made against the three priorities first set out in October 2014 has enabled us to stabilise the Group. We are more competitive, our balance sheet is more secure and we are rebuilding trust and transparency in the Tesco brand.

1. Regaining competitiveness in core UK business:

- seventh consecutive quarter of both volume and transaction growth; outperformed the market in volume growth in all food categories
- introduced seven new, exclusive fresh food brands delivering market-leading price and quality across the range; 80% of customers making repeat purchases of these products
- all key customer metrics stronger against competitors; maintained record availability and rated as number one by customers for checkout waiting time
- clearer, lower and more stable prices – now more than 6% lower than September 2014 on a typical customer basket; number of products on multibuy promotions reduced by 27% year-on-year
- ongoing range refinement, improved product adjacencies and around 10% increase in own-label space in our larger shops; new range simplification in convenience stores
- 3,000 more customer-facing colleagues since February 2016; customer service rating most improved relative to the market
- sales of Harris + Hoole, Dobbies and Giraffe completed and sale of Euphorium agreed, supporting our greater focus on the core UK business

2. Protecting and strengthening the balance sheet:

- generated £1.0bn retail operating cash flow, including an underlying £0.1bn working capital inflow
- regained full ownership of six superstores in the half, in line with our aim to reduce exposure to inflation-linked and fixed-uplift rental agreements
- maintained focus on strong capital discipline; on track for £1.25bn capital expenditure this year
- agreed the sale of our business in Turkey, which will contribute a £110m reduction in total indebtedness and avoid incremental cash investment
- repaid two medium-term notes totalling £1.2bn at maturity following half-year end
- long-term pension deficit funding agreement with Trustee in place; IAS 19 pension deficit up £(3.2)bn to £(5.9)bn due to lower bond yields

3. Rebuilding trust and transparency:

- continued to build trusted, transparent and long-term relationships with suppliers; 78% of UK suppliers satisfied with experience of working with Tesco, an 18% year-on-year improvement
- recognised as most improved retailer in the Groceries Code Adjudicator 2016 Annual Survey
- 'BrandIndex', an external measure of brand health, at highest level for more than four years
- introduced 'Free Fruit for Kids' initiative in our large stores, helping customers live more healthily
- donated £12m to local community projects chosen by customers through 'Bags of Help' scheme
- ranked number one supermarket for reducing food waste by The Grocer
- introduced long-term 'Fair For Farmers Guarantee' on all our own-label fresh milk
- helping colleagues simplify the way we work in shops; 78% of colleagues recommend us as a 'great place to work', up from 70% two years ago

Looking ahead

Whilst we expect the market to remain challenging and uncertain, we have clear plans which will enable us to deliver more value for all of our stakeholders: customers, colleagues, suppliers and shareholders.

Today, we are sharing our ambition to deliver a Group operating margin of between 3.5% and 4.0% by our 2019/20 financial year. This ambition is underpinned by six strategic drivers including the identification of £1.5bn further operating cost reductions which we will secure over the next three years. This will enable us to further invest in our offer for customers, offset expected inflationary pressures on costs and continue to rebuild profitability. Alongside these cost reductions, we will be looking to further differentiate our brand, continue our focus on strong cash generation, maximise the margin mix from our sales, maximise the value of our property portfolio and continue to innovate both in how we operate the business and in our offer for customers.

Some of these initiatives will require investment and as a result we expect our total capital expenditure to average £1.4bn per annum over the period to 2019/20. The benefits of the initiatives should start to become evident over the coming months, however given their nature and profile, the margin improvement will likely be more weighted towards the end of the plan.

Dave Lewis, Chief Executive, will share further details of the six strategic drivers as part of our interim results presentation to investors and analysts at 9am today, which will be webcast as detailed on page 9.

Financial Results

The results of Kipa, our business in Turkey, have been classified as discontinued operations following the announcement of its sale (subject to regulatory clearances) on 10 June 2016.

Sales:

On a continuing operations basis	UK & ROI	International[1]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£18,614m**	**£5,285m**	**£503m**	**£24,402m**
Change at constant exchange rates[2] %	0.6%	3.2%	5.3%	1.3%
Change at actual exchange rates[2] %	1.2%	10.9%	5.3%	3.3%
Like-for-like sales (exc. VAT, exc. fuel)	**0.6%**	**2.6%**	**-**	**1.0%**
Statutory revenue (exc. VAT, inc. fuel)	**£21,449m**	**£5,386m**	**£503m**	**£27,338m**
Includes: Fuel	£2,835m	£101m	-	£2,936m

1. International consists of Central Europe (Czech Republic, Hungary, Poland and Slovakia), Malaysia and Thailand.
2. Sales change shown on a comparable 26 week basis; statutory Group sales change was 3.0% at actual exchange rates and 1.0% at constant exchange rates.

Group sales grew by 1.3% at constant exchange rates with positive like-for-like sales growth in all regions. At actual exchange rates, sales grew by 3.3% including a 2.0% foreign exchange translation effect principally due to the strength of European currencies relative to Sterling.

We delivered positive like-for-like sales growth in the combined UK & ROI business for the half for the first time since 2010/11, driven by sustained volume growth in both markets.

In the UK, like-for-like sales grew by 0.6% and, including a small contribution from net new store openings, total sales grew by 0.7%. Our continued investment in lowering prices and further falls in commodity prices contributed to sustained deflation throughout the half.

We have delivered continued improvement across all aspects of our customer offer in the half. In addition to further strong improvements in measures of colleague service and helpfulness, we have maintained record levels of availability, supported by the work carried out last year to ensure our product ranges were simpler and more relevant for customers. We have continued to reduce and simplify our product range in the half, grouping products around meal solutions in our larger stores and streamlining our convenience store ranges. Customers in the UK recognised the further improvements across our offer in service, availability, range and price by voting us 'Britain's Favourite Supermarket' at the Grocer Gold Awards in June 2016.

The value of our food sales in the UK grew for the first time since 2013 in the second quarter and we outperformed the market on volume growth in all food categories. The seven exclusive fresh food brands we launched in March 2016 led to a sales volume growth outperformance of the market in 'produce' and 'meat' of 6% and these brands continue to be cheaper, on average, than comparable lines in the rest of the market.

All formats – including our largest, Extra format – saw an improving trend in like-for-like sales performance throughout the half. The rate of online grocery sales growth moderated, as planned, due to the changes we have made to improve the sustainability of our offer.

In a market that remains highly competitive, like-for-like sales in the Republic of Ireland grew 0.2% as customer perceptions of our proposition improved significantly year-on-year. Whilst top-line growth in value terms was held back by our continued investment in lower prices, we retain our leading position in the market in volume terms thanks to a strong performance in fresh food.

International sales grew by 3.2% at constant exchange rates, including a net positive contribution from new store openings in Asia which offset the impact of store closures in Europe. Like-for-like sales grew by 2.6% overall with positive growth in both Europe and Asia.

Our business in Thailand delivered a strong performance, driven principally by improvements in our fresh food offer. Sales are growing across all store formats and we are maintaining our strong market share position.

In Europe, we harmonised more of our product offering and promotions across each of the countries we operate in and inspired customers with new events and improvements in our fresh food offer. We continued to invest in reducing prices for customers, contributing to ongoing deflation. In Hungary, we responded effectively to the repeal of the legislation which had previously enforced Sunday closures.

Group statutory revenue of £27.3bn includes sales of fuel, which declined by around (10)% year-on-year, principally due to retail price deflation. Further information on sales performance is included in Appendices 1 to 3 starting on page 46 of this statement.

Operating profit before exceptional items:

On a continuing operations basis	UK & ROI	International	Tesco Bank	Group
Operating profit before exceptional items	**£389m**	**£118m**	**£89m**	**£596m**
Change at constant exchange rates %	134.1%	(9.8)%	3.5%	56.7%
Change at actual exchange rates %	137.2%	(3.3)%	3.5%	60.2%
Operating profit margin before exceptional items	**1.81%**	**2.19%**	**17.69%**	**2.18%**
Change at constant exchange rates (bp)	104bp	(29)bp	(30)bp	79bp
Change at actual exchange rates (bp)	105bp	(30)bp	(30)bp	80bp
Operating profit	**£365m**	**£128m**	**£22m**	**£515m**

Group operating profit before exceptional items was £596m, up 56.7% at constant exchange rates, as we continue to rebuild profitability whilst investing in the customer offer. Statutory operating profit of £515m includes the impact of exceptional items, which are described in more detail in Note 4 on page 27.

UK & ROI operating profit before exceptional items was £389m, with a margin improvement of 23 basis points on the second half of 2015/16, despite a significant net investment in the quality and price of our new exclusive fresh food brands. In addition to the benefit of a strong volume performance across the new brands, our overall profitability also benefited from a favourable product mix. As a result, our first half profitability was ahead of our initial plan.

Our long-term sustainable partnerships with suppliers are supporting us to innovate and add value to the customer offer whilst helping us to identify initiatives to leverage our scale and reduce costs. For example, we have been able to work with our fresh fruit and vegetable growers to ensure that we can change our trading strategy at a market-leading pace following unexpected crop surpluses, enabling us to offer great seasonal deals for customers and utilise a much greater proportion of the growers' output, reducing waste.

We are continuing to optimise our store operating model, improving the customer experience with the introduction of new customer service desks, changing replenishment hours and revising trading hours. To support a greater focus on our core business, the sales of Giraffe, Dobbies and Harris + Hoole were completed in the half and the sale of Euphorium was agreed.

International operating profit before exceptional items decreased by (9.8)% at constant exchange rates to £118m, largely driven by continuing investments in our customer offer and an intensely competitive environment, particularly in Poland and the Czech Republic. We are continuing to make operational changes across both Europe and Asia in order to further improve the shopping trip for customers, simplify the way we work and generate cost savings.

Whilst we note the European Commission's investigation into the introduction of a new retail tax in Poland from September, we remain cautious about further legislative changes in our European markets.

Further information on operating profit performance is included in Note 2 on page 20 of this statement.

Exceptional items in operating profit:

	This year	Last year
Restructuring and redundancy	£(95)m	-
Tesco Bank customer redress	£(45)m	-
Property transactions	£59m	-
Total exceptional items in operating profit	**£(81)m**	**-**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature, in order to better reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £(81)m.

The majority (£(73)m) of the restructuring and redundancy charge relates to changes to store colleague structures and working practices in the UK & ROI business. The remaining £(22)m relates to simplification and head office relocation costs for Tesco Bank.

The £(45)m charge for customer redress principally relates to a provision for settlement of claims in Tesco Bank relating to prior years, following the updated guidance published by the Financial Conduct Authority.

Finally, the property profit of £59m relates to the sale of a number of properties and a development site in the UK & ROI business, in addition to the Liberec Forum shopping centre in the Czech Republic, for combined proceeds of £240m.

Further detail can be found in Note 4 on page 27 of this statement.

Joint ventures and associates:

	This year	Last year
Share of post-tax profits from JVs and associates	**£2m**	**£13m**

Our share of post-tax profits from joint ventures and associates was £2m, a decline of £(11)m year-on-year due to lower profits recognised from UK property joint ventures and a higher level of losses in our partnership with China Resources (Holdings) Company Ltd.

Finance income and finance costs:

	This year	Last year
Interest receivable and similar income	£26m	£10m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	£57m	£34m
Finance income	**£83m**	**£44m**
Interest payable	£(274)m	£(252)m
Capitalised interest	£3m	£6m
IAS 19 net pension finance costs	£(58)m	£(84)m
Finance costs	**£(329)m**	**£(330)m**
Exceptional charge: Translation of Korea proceeds	£(200)m	-
Statutory finance costs	£(529)m	£(330)m

Finance income increased to £83m, principally due to a favourable impact from the mark-to-market of financial instruments.

Interest payable rose to £(274)m due to the debt acquired as part of our February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. Following the end of the half-year, we repaid two medium term notes at maturity in September 2016 at a cost of £1.2bn, which will result in a net annualised cash interest saving of £36m.

Net pension finance costs are calculated, as required by IAS 19, with reference to the pension deficit at the start of the year. As such, the reduction of £26m to £(58)m is the result of the lower IAS 19 pension deficit in February 2016 vs February 2015.

A further exceptional non-cash loss of £(200)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea which are held in GBP money market funds in a non-Sterling denominated subsidiary. This does not represent any economic cost to the Group.

Further detail can be found in Note 5 on page 28 of this statement.

Group tax:

On a continuing operations basis	This year	Last year
Tax on profit before exceptional items	£(98)m	£(52)m
Tax on profit	**£(40)m**	**£(52)m**

Tax on profit before exceptional items was £(98)m with an effective rate of tax for the Group of 28%. This tax rate is higher than the UK statutory rate mainly due to the higher effective tax rates in overseas jurisdictions and the impact of the banking surcharge tax, which was introduced in January 2016 and imposes an additional 8% levy on the profits of banking companies.

Following enactment of the Finance Act 2016 after the end of the half-year in September, reducing the UK corporation tax rate from 18% to 17% in 2020, the effective underlying tax rate for the full year is now expected to be in the region of 25%.

Earnings per share:

On a continuing operations basis	This year	Last year
Diluted earnings per share before exceptional items	3.16p	0.60p
Diluted earnings per share before exceptional items and net pension finance costs	3.74p	1.42p
Diluted earnings per share	0.42p	0.60p

Diluted earnings per share before exceptional items were 3.16p, significantly higher than last year due to improved underlying profitability. Diluted earnings per share before exceptional items and net pension finance costs were 3.74p and were also significantly higher than last year. Statutory diluted earnings per share were 0.42p, down (30.0)% on last year, due to a higher level of exceptional items this year.

Summary of total indebtedness[1]:

	Aug 2016	Feb 2016	Movement
Net debt (excludes Tesco Bank)	£(4,352)m	£(5,110)m	£758m
Discounted operating lease commitments	£(7,771)m	£(7,787)m	£16m
Pension deficit, IAS 19 basis (post-tax)	£(5,853)m	£(2,612)m	£(3,241)m
Total indebtedness	**£(17,976)m**	**£(15,509)m**	**£(2,467)m**

1. Total indebtedness is defined in the glossary on page 43. Discounted operating lease commitments exclude Turkey.

Total indebtedness was £(18.0)bn, an increase of £(2.5)bn since February 2016 due to a rise in the pension deficit, as measured by IAS19. Net debt reduced by £0.8bn as the cash we generated from operations and business disposals, more than offset capital and other expenditure.

We aim to increase the proportion of owned property and reduce exposure to index-linked and fixed-uplift rent inflation over the long-term. Following the re-acquisition of 70 stores and two distribution centres last year, we regained ownership of a further six stores, increasing freehold assets by another £112m. Excluding Turkey, discounted operating lease commitments were slightly down on last year, despite the extension of a number of leases.

In November 2015, we replaced our UK defined benefit pension scheme with a defined contribution pension scheme, significantly reducing future pension risk and giving greater certainty on future cash requirements. To calculate the pension deficit for accounting purposes, we are required to use corporate bond yields as the basis for the discount rate of our long-term liabilities, irrespective of the mix of our assets and their expected returns. The sharp decrease in corporate bond yields since the year-end – the biggest six-monthly fall recorded since the iBoxx corporate bond index was first introduced in 2000 – has therefore driven a rise of more than 50% in the accounting valuation of our liabilities, increasing our reported accounting net deficit from £(2.6)bn to £(5.9)bn. Our defined benefit pension scheme assets have performed well and we are progressing with our asset de-risking strategy, which aims to reduce risks from changes in interest rates and inflation.

In accordance with last year's long-term deficit funding agreement with the Trustee of £270m per annum, a cash contribution of £126m was made to the scheme. The next triennial actuarial valuation will be conducted as at March 2017 and is due to be reported in 2018. Further detail can be found in Note 15 on page 38 of this statement.

As announced in June 2016, the sale of our business in Turkey, which is subject to usual local regulatory approvals, is expected to further reduce total indebtedness by £110m.

Summary retail cash flow:

	This year	Last year
Cash flow from continuing operations excluding working capital	**£850m**	**£1,048m**
(Increase)/decrease in working capital		
- impact from exceptional items	£(26)m	£(388)m
- cash impact of new approach to supplier payments	-	£(231)m
- underlying decrease in working capital	£131m	£362m
Cash generated from operations – continuing operations	**£955m**	**£791m**
Cash generated from operations – discontinued operations	£9m	£214m
Cash generated from operations	**£964m**	**£1,005m**
Interest paid	£(203)m	£(173)m
Corporation tax paid	£(17)m	£(53)m
Net cash generated from retail operating activities	**£744m**	**£779m**
Cash capital expenditure	£(541)m	£(498)m
Free cash flow	**£203m**	**£281m**
Other investing activities	£(404)m	£507m
Net cash from/(used in) financing activities and intra-Group funding and intercompany transactions	£264m	£(560)m
Net increase in cash and cash equivalents	**£63m**	**£228m**
Include cash movements in debt items	£867m	£448m
Fair value and other non-cash movements	£(172)m	£(783)m
Movement in net debt	**£758m**	**£(107)m**

Excluding working capital, we generated £0.9bn cash from continuing retail operations, £(0.2)bn lower than last year, principally due to providing colleagues with the option of receiving the 2015/16 Turnaround Bonus in cash rather than shares, reducing the dilutive impact of new share issuance. On an underlying basis, the benefit of stock flow initiatives and trading term standardisation, combined with offsetting seasonal timing impacts, has contributed to a net working capital inflow of £131m. Including working capital, cash generated from continuing retail operations was £955m, up 21% on last year.

Interest paid rose by £(30)m due to the debt acquired as part of our February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. As mentioned above, following the end of the half year, we repaid two medium term notes at maturity in September 2016 at a cost of £1.2bn, which will reduce cash interest costs by a net annualised saving of £36m.

Cash tax paid of £(17)m is net of refunds received of taxes previously paid, as we continue to reach settlement of historic enquiries into tax returns in a number of jurisdictions.

A reconciliation between the Retail and Group cash flows can be found in Note 2 on page 24.

Capital expenditure and space:

	Group			UK & ROI		International		Tesco Bank	
	This year	Last year	YOY Change	This year	Last year	This year	Last year	This year	Last year
Capital expenditure (£bn)	0.5	0.4	0.1	0.3	0.3	0.1	0.1	0.0	0.0
Gross space added (m sq ft)[1,2]	0.3	0.3	-	0.1	0.0	0.2	0.2	n/a	n/a
Net space added (m sq ft)[1]	(1.8)	(1.0)	(0.8)	(1.6)	(0.9)	(0.2)	(0.1)	n/a	n/a

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

In line with our increased focus on capital discipline, capital expenditure was £0.5bn in the half, similar to last year, and planned expenditure for the full year remains at around £1.25bn. We expect to refresh more than 200 stores in the UK this year, the vast majority of which will be completed in the second half.

Overall, net space reduced by (1.8)m square feet, principally due to the disposal of (1.7)m square feet from the sale of Dobbies garden centres. We opened 0.3m square feet of selling space, mainly in Thailand. In the year, we intend to repurpose around 1.0m square feet across the Group as we create compelling shopping destinations for customers which are simpler to operate.

Further details of current and forecast space can be found in Appendix 5, starting on page 48.

Tesco Bank

	This year	Last year	YOY Change
Revenue	**£503m**	**£478m**	**5.2%**
Operating profit before exceptional items	**£89m**	**£86m**	**3.5%**
Statutory operating profit	£22m	£86m	(74.4)%
Lending to customers	£9,262m	£8,297m	11.6%
Customer deposits	£8,107m	£6,581m	23.2%
Net interest margin	3.9%	4.2%	(0.3)%
Risk asset ratio	19.9%	19.1%	0.8%

Tesco Bank continues to develop its suite of products and services to best meet the needs of Tesco customers. In the half, these innovations included the launch of a premium credit card, the introduction of digital signatures to simplify the loans process and the further roll out of PayQwiq, an app which allows customers to pay with their phones in our shops.

Active customer account numbers in Tesco Bank rose by 2%, with continued strong growth in both customer lending and deposits. Operating profit before exceptional items increased year-on-year as the impact of the European Commission cap on interchange income was more than offset by an improved underlying trading performance and proceeds from the sale of non-performing debt. Exceptional items relating to Tesco Bank are detailed in Note 4 on page 27 and included an increase in the provision for customer redress and a restructuring charge. Statutory operating profit, as shown above, is after these exceptional items.

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

An income statement for Tesco Bank can be found in Appendix 6 on page 51 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 21 of this statement. Tesco Bank's Interim results are also published today and are available at www.corporate.tescobank.com

Contacts

Investor Relations:	Chris Griffith	01707 912 900
Media:	Ed Young	01707 918 701
	Philip Gawith, Teneo Blue Rubicon	0207 420 3143

This document is available at www.tescoplc.com/interims2016.

A meeting for investors and analysts will be held today at 9.00am at London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Access will be by invitation only. For those unable to attend, there will be a live webcast available on our website at www.tescoplc.com/interims2016. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

An interview with Dave Lewis, Chief Executive, and Alan Stewart, Chief Financial Officer, discussing the Interim results is available now to download in video, audio and transcript form at www.tescoplc.com/interims2016.

ADDITIONAL DISCLOSURES

Risks and Uncertainties

As with any business, risk assessment and the implementation of mitigating actions and controls are critical to successfully achieving the Group's strategy. The Tesco Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. At the Group level each principal risk has an Executive Owner. The CEO has overall accountability for the control and management of risk. The principal risks and uncertainties faced by the Group remain those set out in our 2016 Annual Report and Financial Statements: people; customer proposition; transformation of the economic model; liquidity; competition and markets; brand, reputation and trust; technology; data security and data privacy; regulatory and compliance; and safety.

The Group also faces risks and uncertainties as a result of the Serious Fraud Office and other investigations, and the litigation risk associated with the matters under investigation as described in Note 18 of this release (Contingent Liabilities) and in our 2016 Annual Report and Financial Statements.

On 23 June 2016, the United Kingdom (UK) voted to leave the European Union (EU). The exact nature, process and timing of the UK's exit from the EU are unknown. This has to date created business uncertainty: The UK's future approach to EU freedom of movement; market volatility; fluctuations in foreign exchange rates; changes to commodity prices; and interest rates, all of which may impact the Group. Adjustments to the long-term outlook for UK interest rates might also affect UK Pension IAS 19 liabilities and related charges.

The risks and uncertainties associated with exiting from the EU have been considered by the Board and plans are in place. The Board continues to monitor the impact of the referendum but does not currently believe there will be a material adverse impact on the Group's results or financial position in the current financial year.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 27 August 2016 in accordance with applicable law, regulations and accounting standards. The Directors confirm that to the best of their knowledge the condensed consolidated interim financial statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

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

The Directors of Tesco PLC are listed in the Tesco PLC 2016 Annual Report and Financial Statements, with the exception of Steve Golsby who was appointed a Non-executive Director of the Company on 1 October 2016. A list of current directors is maintained on the Tesco PLC website at: www.tescoplc.com.

By order of the Board

Directors

John Allan* - Chairman

Dave Lewis - Chief Executive

Alan Stewart - Chief Financial Officer

Mark Armour*

Richard Cousins* - Senior Independent Director

Steve Golsby*

Byron Grote*

Mikael Olsson*

Deanna Oppenheimer*

Simon Patterson*

Alison Platt*

Lindsey Pownall*

*Non-executive Directors

Company Secretary

Robert Welch

4 October 2016

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation which came into effect on 3 July 2016.

Group income statement

	Notes	26 weeks ended 27 August 2016 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	26 weeks ended 29 August 2015 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Continuing operations							
Revenue	2	**27,338**	**-**	**27,338**	**26,966**	-	**26,966**
Cost of sales		(25,877)	(118)	(25,995)	(25,687)	-	(25,687)
Gross profit/ (loss)		**1,461**	**(118)**	**1,343**	**1,279**	-	**1,279**
Administrative expenses		(865)	(17)	(882)	(916)	-	(916)
Profits arising on property-related items		-	54	54	9	-	9
Operating profit/ (loss)	2	**596**	**(81)**	**515**	**372**	**-**	**372**
Share of post-tax profits/ (losses) of joint ventures and associates		2	-	2	13	-	13
Finance income	5	83	-	83	44	-	44
Finance costs	5	(329)	(200)	(529)	(330)	-	(330)
Profit/ (loss) before tax		**352**	**(281)**	**71**	**99**	**-**	**99**
Taxation	6	(98)	58	(40)	(52)	-	(52)
Profit/ (loss) for the period from continuing operations		**254**	**(223)**	**31**	**47**	**-**	**47**
Discontinued operations							
Profit/ (loss) for the period from discontinued operations	7	(18)	(113)	(131)	4	(419)	(415)
Profit/ (loss) for the period		**236**	**(336)**	**(100)**	**51**	**(419)**	**(368)**
Attributable to:							
Owners of the parent		240	(331)	(91)	54	(419)	(365)
Non-controlling interests		(4)	(5)	(9)	(3)	-	(3)
		236	**(336)**	**(100)**	**51**	**(419)**	**(368)**
Earnings/ (losses) per share from continuing and discontinued operations							
Basic	9	2.95p		(1.12)p	0.66p		(4.49)p
Diluted	9	2.95p		(1.12)p	0.66p		(4.47)p
Earnings/ (losses) per share from continuing operations							
Basic	9	3.16p		0.42p	0.60p		0.60p
Diluted	9	3.16p		0.42p	0.60p		0.60p

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

Group statement of comprehensive income/ (loss)

26 weeks ended 27 August 2016	Note	26 weeks 2016 £m	26 weeks 2015 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	15	(3,983)	(308)
Tax on items that will not be reclassified		716	66
		(3,267)	**(242)**
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		75	-
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries		648	(434)
Gains/ (losses) on cash flow hedges:			
Net fair value gains/ (losses)		330	(4)
Reclassified and reported in the Group income statement		(300)	(59)
Tax on items that may be reclassified		(34)	27
		719	**(470)**
Total other comprehensive income/ (loss) for the period		**(2,548)**	**(712)**
Profit/ (loss) for the period		(100)	(368)
Total comprehensive income/ (loss) for the period		**(2,648)**	**(1,080)**
Attributable to:			
Owners of the parent		(2,639)	(1,075)
Non-controlling interests		(9)	(5)
Total comprehensive income/ (loss) for the period		**(2,648)**	**(1,080)**
Total comprehensive income/ (loss) attributable to owners of the parent arises from:			
Continuing operations		(2,517)	(428)
Discontinued operations		(122)	(647)
		(2,639)	**(1,075)**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

TESCO PLC
Group balance sheet

	Notes	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Non-current assets				
Goodwill and other intangible assets	10	2,818	2,874	3,122
Property, plant and equipment	11	17,613	17,900	16,421
Investment property		68	78	77
Investments in joint ventures and associates		864	785	852
Other investments		1,099	1,135	879
Loans and advances to customers		5,278	4,723	4,376
Derivative financial instruments		1,929	1,532	1,252
Deferred tax assets		686	49	671
		30,355	**29,076**	**27,650**
Current assets				
Inventories		2,505	2,430	2,620
Trade and other receivables		1,713	1,607	1,605
Loans and advances to customers		3,984	3,819	3,917
Derivative financial instruments		312	176	79
Current tax assets		41	15	16
Short-term investments		4,435	3,463	300
Cash and cash equivalents		3,355	3,082	2,186
		16,345	**14,592**	**10,723**
Assets of the disposal groups and non-current assets classified as held for sale	7	472	236	5,154
		16,817	**14,828**	**15,877**
Current liabilities				
Trade and other payables		(8,799)	(8,568)	(8,483)
Borrowings	12	(3,025)	(2,826)	(1,219)
Derivative financial instruments and other liabilities		(94)	(62)	(70)
Customer deposits and deposits from banks		(8,281)	(7,479)	(7,026)
Current tax liabilities		(492)	(419)	(181)
Provisions		(376)	(360)	(324)
		(21,067)	**(19,714)**	**(17,303)**
Liabilities of the disposal groups classified as held for sale	7	(201)	-	(1,528)
Net current liabilities		**(4,451)**	**(4,886)**	**(2,954)**
Non-current liabilities				
Borrowings	12	(11,130)	(10,711)	(11,385)
Derivative financial instruments and other liabilities		(994)	(889)	(905)
Post-employment benefit obligations	15	(7,123)	(3,175)	(5,196)
Deferred tax liabilities		(80)	(135)	(472)
Provisions		(666)	(664)	(580)
		(19,993)	**(15,574)**	**(18,538)**
Net assets		**5,911**	**8,616**	**6,158**
Equity				
Share capital		409	407	406
Share premium		5,095	5,095	5,095
All other reserves		501	(141)	(878)
Retained earnings		(75)	3,265	1,540
Equity attributable to owners of the parent		**5,930**	**8,626**	**6,163**
Non-controlling interests		(19)	(10)	(5)
Total equity		**5,911**	**8,616**	**6,158**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements

Group statement of changes in equity

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital Redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 27 February 2016	**407**	**5,095**	**40**	**16**	**211**	**(401)**	**(7)**	**3,265**	**8,626**	**(10)**	**8,616**
Profit/ (loss) for the period	-	-	-	-	-	-	-	(91)	(91)	(9)	(100)
Other comprehensive income/ (loss)											
Change in fair value of available-for-sale financial assets and investments	-	-	-	-	-	-	-	75	75	-	75
Currency translation differences	-	-	-	-	-	648	-	-	648	-	648
Remeasurements on defined benefit pension schemes	-	-	-	-	-	-	-	(3,983)	(3,983)	-	(3,983)
Gains/ (losses) on cash flow hedges	-	-	-	-	30	-	-	-	30	-	30
Tax relating to components of other comprehensive income	-	-	-	-	(5)	(14)	-	701	682	-	682
Total other comprehensive income/ (loss)	-	-	-	-	**25**	**634**	-	**(3,207)**	**(2,548)**	-	**(2,548)**
Total comprehensive income/ (loss)	-	-	-	-	**25**	**634**	-	**(3,298)**	**(2,639)**	**(9)**	**(2,648)**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(23)	-	(23)	-	(23)
Share-based payments	-	-	-	-	-	-	6	(42)	(36)	-	(36)
Issue of shares	2	-	-	-	-	-	-	-	2	-	2
Dividends	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**2**	-	-	-	-	-	**(17)**	**(42)**	**(57)**	-	**(57)**
At 27 August 2016	**409**	**5,095**	**40**	**16**	**236**	**233**	**(24)**	**(75)**	**5,930**	**(19)**	**5,911**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

	Share capital £m	Share premium £m	All other reserves: Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**-**	**7,071**
Profit/ (loss) for the period	-	-	-	-	-	-	-	(365)	(365)	(3)	**(368)**
Other comprehensive income/ (loss)											
Change in fair value of available-for-sale financial assets and investments	-	-	-	-	-	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	(432)	-	-	(432)	(2)	(434)
Remeasurements on defined benefit pension schemes	-	-	-	-		-	-	(308)	(308)	-	(308)
Gains/ (losses) on cash flow hedges	-	-	-	-	(63)	-	-	-	(63)	-	(63)
Tax relating to components of other comprehensive income	-	-	-	-	12	15	-	66	93	-	93
Total other comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**(51)**	**(417)**	**-**	**(242)**	**(710)**	**(2)**	**(712)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**(51)**	**(417)**	**-**	**(607)**	**(1,075)**	**(5)**	**(1,080)**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(4)	-	(4)	-	(4)
Share-based payments	-	-	-	-	-	-	8	162	170	-	170
Issue of shares	-	1	-	-	-	-	-	-	1	-	1
Dividends	-	-	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**	**1**	**-**	**-**	**-**	**-**	**4**	**162**	**167**	**-**	**167**
At 29 August 2015	**406**	**5,095**	**40**	**16**	**(16)**	**(905)**	**(13)**	**1,540**	**6,163**	**(5)**	**6,158**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

26 weeks ended 27 August 2016	Note	26 weeks 2016 £m	26 weeks 2015 £m
Cash flows from operating activities			
Operating profit of continuing operations	2	**515**	**372**
Operating profit/ (loss) of discontinued operations		(118)	51
Depreciation and amortisation	2	630	724
(Profit)/ loss arising on sale of property, plant and equipment and intangible assets		(18)	4
Profit arising on sale of joint ventures and associates		(5)	(6)
Net reversal of impairment of other investments		(5)	(7)
Impairment of loans/ investments in joint ventures and associates		-	2
Net impairment charge of property, plant and equipment and intangible assets		110	38
Adjustment for non-cash element of pensions charge		4	104
Additional contribution into pension schemes		(111)	(93)
Share-based payments		(57)	166
Tesco Bank non-cash items included in operating profit		28	22
(Increase)/ decrease in inventories		(69)	107
Decrease/ (increase) in development stock		4	(6)
(Increase)/ decrease in trade and other receivables		(116)	50
Increase in trade and other payables		353	36
Decrease in provisions		(57)	(381)
Tesco Bank increase in loans and advances to customers		(744)	(605)
Tesco Bank increase in trade and other receivables		(29)	(128)
Tesco Bank increase in customer and bank deposits, trade and other payables		764	131
Tesco Bank increase/ (decrease) in provisions		41	(11)
Decrease/ (increase) in working capital		147	(807)
Cash generated from operations		**1,120**	**570**
Interest paid		(205)	(175)
Corporation tax paid		(15)	(48)
Net cash generated from operating activities		**900**	**347**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

26 weeks ended 27 August 2016	Note	26 weeks 2016 £m	26 weeks 2015 £m
Net cash generated from operating activities		**900**	**347**
Cash flows from investing activities			
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(486)	(433)
Purchase of intangible assets		(76)	(80)
Disposal of subsidiaries, net of cash disposed		211	-
Acquisition of subsidiaries, net of cash acquired		(12)	(23)
Proceeds from sale of joint ventures and associates		-	129
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		239	147
Net decrease in loans to joint ventures and associates		16	3
Investments in joint ventures and associates		-	(77)
Net (investments in)/ proceeds from sale of short-term investments		(970)	293
Net proceeds from sale of other investments		157	110
Dividends received from joint ventures and associates		11	18
Interest received		9	1
Net cash (used in)/ from investing activities		**(901)**	**88**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		-	1
Increase in borrowings		213	418
Repayment of borrowings		(31)	(869)
Net cash flows from derivative financial instruments		104	186
Repayments of obligations under finance leases		(5)	(7)
Net cash from/ (used in) financing activities		**281**	**(271)**
Net increase in cash and cash equivalents		**280**	**164**
Cash and cash equivalents at beginning of the period		3,082	2,174
Effect of foreign exchange rate changes		4	(31)
Cash and cash equivalents including cash held in disposal groups at the end of the period		**3,366**	**2,307**
Cash held in disposal groups	7	(11)	(121)
Cash and cash equivalents at the end of the period		**3,355**	**2,186**

The notes on pages 19 to 41 form part of these condensed consolidated interim financial statements.

The unaudited condensed consolidated interim financial statements for the 26 weeks ended 27 August 2016 were approved by the Directors on 4 October 2016.

Note 1 Basis of preparation

These condensed consolidated interim financial statements for the 26 weeks ended 27 August 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34, 'Interim Financial Reporting', as adopted by the European Union. The accounting policies applied are consistent with those described in the Annual Report and Group financial statements 2016. There are no new or amended standards effective in the period which have had a material impact on the condensed consolidated interim financial statements. The financial period represents the 26 weeks ended 27 August 2016 (prior period 26 weeks ended 29 August 2015, prior financial year 52 weeks ended 27 February 2016).

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

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Discontinued operations

In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of the Group's Kipa business in Turkey ('Turkey' or 'Turkish operations') and the Group's Homeplus business in Korea ('Korea' or 'Korean operations') are presented within discontinued operations in the Group income statement (for which the comparatives have been restated for Turkey) and the assets and liabilities of these businesses are presented separately in the Group balance sheet. Refer to Note 7 for further details.

Use of alternative performance measures

The Directors have adopted various alternative performance measures to provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

Diluted earnings per share from continuing operations before exceptional items
This relates to profit after tax before exceptional items attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

Diluted earnings per share from continuing operations before exceptional items and net pension finance costs
This relates to profit after tax before exceptional items and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

Exceptional items
Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's alternative performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group. The tax impact on exceptional items is included within the Group income statement.

The Group exercises judgement in assessing whether items should be classified as exceptional. 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.

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

Net debt
Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/ payables, offset by cash and cash equivalents and short-term investments.

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

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

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

Profit/ (losses) arising on property-related items
These relate to the Group's property activities including gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post closure costs; and income/ (charges) associated with impairment of non-trading property and related onerous contracts.

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

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

Note 2 Segmental reporting

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

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

- Retailing and associated activities ('Retail') in:
    - UK & ROI – the United Kingdom and Republic of Ireland; and
    - International – Czech Republic, Hungary, Poland, Slovakia, 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.

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

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

Income statement

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

26 weeks ended 27 August 2016 **At constant exchange rates[(a)]**	UK & ROI £m	International £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Revenue excl. fuel	18,508	4,918	503	23,929	473	24,402
Revenue	21,339	5,011	503	26,853	485	27,338
Operating profit before exceptional items[(b)]	**384**	**110**	**89**	**583**	**13**	**596**
Exceptional items	(24)	8	(67)	(83)	2	(81)
Operating profit	360	118	22	500	15	515
Operating margin[(c)]	1.8%	2.2%	17.7%	2.2%		2.2%

26 weeks ended 27 August 2016 **At actual exchange rates[(d)]**	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue excl. fuel	18,614	5,285	503	24,402
Revenue	21,449	5,386	503	27,338
Operating profit before exceptional items[(b)]	**389**	**118**	**89**	**596**
Exceptional items	(24)	10	(67)	(81)
Operating profit	365	128	22	515
Operating margin[(c)]	1.8%	2.2%	17.7%	2.2%
Share of post-tax profits/ (losses) of joint ventures and associates				2
Finance income				83
Finance costs				(529)
Profit/ (loss) before tax				**71**

(a) Constant exchange rates are the average actual periodic exchange rates for the previous financial period.
(b) Intercompany recharges totalling £1m between continuing operations and the Turkey discontinued operations have been eliminated.
(c) Operating margin is based on operating profit before exceptional items and on revenue.
(d) Actual exchange rates are the average actual periodic exchange rates for that financial period.

Note 2 Segmental reporting continued

Income statement continued

26 weeks ended 29 August 2015 At actual exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue excl. fuel	18,394	4,812	478	23,684
Revenue	21,581	4,907	478	26,966
Operating profit before exceptional items**	**164**	**122**	**86**	**372**
Exceptional items	-	-	-	-
Operating profit	164	122	86	372
Operating margin***	0.8%	2.5%	18.0%	1.4%
Share of post-tax profits/ (losses) of joint ventures and associates				13
Finance income				44
Finance costs				(330)
Profit/ (loss) before tax				**99**

* Actual exchange rates are the average actual periodic exchange rates for that financial period.
** Intercompany recharges totalling £2m between continuing operations and the Turkey discontinued operations have been eliminated.
*** Operating margin is based on operating profit before exceptional items and on revenue.

Balance sheet

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal groups). Net debt balances have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated, other than intercompany transactions with Tesco Bank in net debt.

At 27 August 2016	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,363	320	1,135	-	2,818
Property, plant and equipment and investment property	12,527	5,080	74	-	17,681
Investments in joint ventures and associates	5	766	93	-	864
Other investments	-	-	956	143	1,099
Loans and advances to customers - non-current	-	-	5,278	-	5,278
Deferred tax assets	625	61	-	-	686
Non-current assets[(a)]	**14,520**	**6,227**	**7,536**	**143**	**28,426**
Inventories and trade and other receivables[(b)]	2,619	1,119	343	-	4,081
Trade and other payables	(6,686)	(1,904)	(209)	-	(8,799)
Loans and advances to customers - current	-	-	3,984	-	3,984
Customer deposits and deposits from banks	-	-	(8,281)	-	(8,281)
Total provisions	(806)	(137)	(99)	-	(1,042)
Deferred tax liabilities	-	(51)	(29)	-	(80)
Net current tax	(463)	(8)	20	-	(451)
Post-employment benefit obligations	(7,102)	(21)	-	-	(7,123)
Assets held for sale and of the disposal groups[(c)]	88	136	-	237	461
Liabilities of the disposal groups[(c)]	-	-	-	(126)	(126)
Net debt[(d)]	-	-	(787)	(4,352)	(5,139)
Net assets	**2,170**	**5,361**	**2,478**	**(4,098)**	**5,911**

(a) Excludes derivative financial instrument non-current assets of £1,929m (27 February 2016: £1,532m, 29 August 2015: £1,252m).
(b) Excludes loans to joint ventures of £136m (27 February 2016: £149m, 29 August 2015: £149m) and interest and other receivables of £1m (27 February 2016: £1m, 29 August 2015: £nil).
(c) Excludes net debt of the disposal groups of £64m (27 February 2016: £nil, 29 August 2015: £121m). Refer to Note 7.
(d) Refer to Note 16.

Note 2 Segmental reporting continued

Balance sheet continued

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

Refer to previous table for footnotes.

At 29 August 2015	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,633	297	1,192	-	3,122
Property, plant and equipment and investment property	11,681	4,738	79	-	16,498
Investments in joint ventures and associates	15	759	78	-	852
Other investments	-	-	738	141	879
Loans and advances to customers - non-current	-	-	4,376	-	4,376
Deferred tax assets	585	86	-	-	671
Non-current assets[(a)]	**13,914**	**5,880**	**6,463**	**141**	**26,398**
Inventories and trade and other receivables[(b)]	2,689	1,025	362	-	4,076
Trade and other payables	(6,499)	(1,615)	(369)	-	(8,483)
Loans and advances to customers - current	-	-	3,917	-	3,917
Customer deposits and deposits from banks	-	-	(7,026)	-	(7,026)
Total provisions	(739)	(86)	(79)	-	(904)
Deferred tax liabilities	(408)	(26)	(38)	-	(472)
Net current tax	(137)	(6)	(22)	-	(165)
Post-employment benefit obligations	(5,179)	(17)	-	-	(5,196)
Assets held for sale and of the disposal groups[(c)]	182	10	-	4,841	5,033
Liabilities of the disposal groups[(c)]	-	-	-	(1,528)	(1,528)
Net debt[(d)]	-	-	(904)	(8,588)	(9,492)
Net assets	**3,823**	**5,165**	**2,304**	**(5,134)**	**6,158**

Refer to previous table for footnotes.

Note 2 Segmental reporting continued

Other segment information

26 weeks ended 27 August 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	289	90	4	383	2	385
Investment property	-	-	-	-	-	-
Goodwill, software and other intangible assets	49	7	12	68	-	68
Depreciation:						
Property, plant and equipment	(333)	(168)	(7)	(508)	(5)	(513)
Investment property	(1)	-	-	(1)	-	(1)
Amortisation of intangible assets	(55)	(12)	(48)	(115)	(1)	(116)
Impairment of intangible assets	-	-	-	-	-	-
Impairment of goodwill	-	-	-	-	-	-
Impairment of property, plant and equipment and investment properties	(39)	(1)	-	(40)	(106)	(146)
Reversal of impairment of property, plant and equipment and investment properties	35	1	-	36	-	36

* Includes £nil (2015: £490m) of property, plant and equipment acquired through business combinations.

26 weeks ended 29 August 2015	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	691	82	2	775	56	831
Investment property	-	-	-	-	-	-
Goodwill, software and other intangible assets	83	5	11	99	3	102
Depreciation:						
Property, plant and equipment	(351)	(150)	(7)	(508)	(90)	(598)
Investment property	-	-	-	-	-	-
Amortisation of intangible assets	(71)	(11)	(38)	(120)	(6)	(126)
Impairment of intangible assets	(18)	-	-	(18)	-	(18)
Impairment of goodwill	-	-	-	-	-	-
Impairment of property, plant and equipment and investment properties	(22)	(17)	-	(39)	(1)	(40)
Reversal of impairment of property, plant and equipment and investment properties	19	1	-	20	-	20

Refer to previous table for footnotes.

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 as well as continuing operations and discontinued operations.

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit of continuing operations*	**493**	**286**	**22**	**86**	**515**	**372**
Operating profit/ (loss) of discontinued operations	(118)	51	-	-	(118)	51
Depreciation and amortisation	575	679	55	45	630	724
ATM net income	(22)	(20)	22	20	-	-
(Profit)/ loss arising on sale of property, plant and equipment and intangible assets	(20)	5	2	(1)	(18)	4
Loss/ (profit) arising on sale of subsidiaries and other investments	4	-	(4)	-	-	-
Profit arising on sale of joint ventures and associates	(5)	(6)	-	-	(5)	(6)
Net reversal of impairment of other investments	(5)	(7)	-	-	(5)	(7)
Impairment of loans/ investments in joint ventures and associates	-	2	-	-	-	2
Net impairment charge of property, plant and equipment and intangible assets	110	38	-	-	110	38
Adjustment for non-cash element of pensions charge	4	104	-	-	4	104
Additional contribution into pension schemes	(111)	(93)	-	-	(111)	(93)
Share-based payments	(56)	160	(1)	6	(57)	166
Tesco Bank non-cash items included in operating profit	-	-	28	22	28	22
Cash flow from operations excluding working capital	**849**	**1,199**	**124**	**178**	**973**	**1,377**
Decrease/ (increase) in working capital	115	(194)	32	(613)	147	(807)
Cash generated from/ (used in) operations	**964**	**1,005**	**156**	**(435)**	**1,120**	**570**
Interest paid	(203)	(173)	(2)	(2)	(205)	(175)
Corporation tax (paid)/ received	(17)	(53)	2	5	(15)	(48)
Net cash generated from/ (used in) operating activities	**744**	**779**	**156**	**(432)**	**900**	**347**

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

Note 2 Segmental reporting continued

Cash flow statement continued

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Net cash generated from/ (used in) operating activities	**744**	**779**	**156**	**(432)**	**900**	**347**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(484)	(427)	(2)	(6)	(486)	(433)
Purchase of intangible assets	(57)	(71)	(19)	(9)	(76)	(80)
Alternative performance measure: Free cash flow	**203**	**281**	**135**	**(447)**	**338**	**(166)**
Disposal of subsidiaries, net of cash disposed	211	-	-	-	211	-
Acquisition of subsidiaries, net of cash acquired	(12)	(23)	-	-	(12)	(23)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	236	147	3	-	239	147
Proceeds from sale of joint ventures and associates	-	129	-	-	-	129
Net decrease in loans to joint ventures and associates	16	3	-	-	16	3
Investments in joint ventures and associates	-	(77)	-	-	-	(77)
Net (investments in)/ proceeds from sale of short-term investments	(970)	293	-	-	(970)	293
Net proceeds from sale of other investments	95	16	62	94	157	110
Dividends received from joint ventures and associates	11	18	-	-	11	18
Interest received	9	1	-	-	9	1
Net cash (used in)/ from investing activities	**(945)**	**9**	**44**	**79**	**(901)**	**88**
Proceeds from issue of ordinary share capital	-	1	-	-	-	1
Increase in borrowings	213	118	-	300	213	418
Repayment of borrowings	(31)	(869)	-	-	(31)	(869)
Net cash flows from derivative financial instruments	104	186	-	-	104	186
Repayments of obligations under finance leases	(5)	(7)	-	-	(5)	(7)
Net cash from/ (used in) financing activities	**281**	**(571)**	**-**	**300**	**281**	**(271)**
Intra-Group funding and intercompany transactions	**(17)**	**11**	**17**	**(11)**	**-**	**-**
Net increase/ (decrease) in cash and cash equivalents	**63**	**228**	**217**	**(64)**	**280**	**164**
Cash and cash equivalents at the beginning of the period	2,528	1,558	554	616	3,082	2,174
Effect of foreign exchange rate changes	4	(31)	-	-	4	(31)
Cash and cash equivalents including cash held in disposal groups at the end of the period	**2,595**	**1,755**	**771**	**552**	**3,366**	**2,307**
Cash held in disposal groups*	(11)	(121)	-	-	(11)	(121)
Cash and cash equivalents at the end of the period	**2,584**	**1,634**	**771**	**552**	**3,355**	**2,186**

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

Note 2 Segmental reporting continued

Cash flow statement continued

	Continuing operations		Discontinued operations		Retail	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss)	**493**	**286**	**(118)**	**51**	**375**	**337**
Depreciation and amortisation	569	583	6	96	575	679
ATM net income	(22)	(20)	-	-	(22)	(20)
(Profit)/ loss arising on sale of property, plant and equipment and intangible assets	(24)	5	4	-	(20)	5
Loss arising on sale of subsidiaries & other investments	4	-	-	-	4	-
Profit arising on sale of joint ventures and associates	(5)	(6)	-	-	(5)	(6)
Net reversal of impairment of other investments	(5)	(7)	-	-	(5)	(7)
Impairment of loans/ investments in joint ventures and associates	-	2	-	-	-	2
Net impairment charge of property, plant and equipment and intangible assets	4	37	106	1	110	38
Adjustment for non-cash element of pensions charge	4	104	-	-	4	104
Additional contribution into pension schemes	(111)	(93)	-	-	(111)	(93)
Share-based payments	(57)	157	1	3	(56)	160
Cash flow from operations excluding working capital	**850**	**1,048**	**(1)**	**151**	**849**	**1,199**
Decrease/ (increase) in working capital	105	(257)	10	63	115	(194)
Cash generated from operations	**955**	**791**	**9**	**214**	**964**	**1,005**
Interest paid	(195)	(149)	(8)	(24)	(203)	(173)
Corporation tax paid	(17)	(44)	-	(9)	(17)	(53)
Net cash generated from operating activities	**743**	**598**	**1**		**744**	**779**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(480)	(390)	(4)	(37)	(484)	(427)
Purchase of intangible assets	(57)	(68)	-	(3)	(57)	(71)
Alternative performance measure: Free cash flow	**206**	**140**	**(3)**	**141**	**203**	**281**

Note 3 Income and expenses

Continuing operations	2016 £m	2015 £m
Profit/ (loss) before tax is stated after charging/ (crediting) the following:		
Property rental income, of which £17m (2015: £20m) relates to investment properties	(169)	(159)
Other rental income	(28)	(27)
Direct operating expenses arising on rental earning investment properties	9	11
Costs of inventories recognised as an expense	20,098	19,802
Inventory losses and provisions	570	549
Depreciation and amortisation	624	628
Operating lease expenses, of which £42m (2015: £52m) relates to hire of plant and machinery	514	557
Net impairment losses on property, plant and equipment and investment property	4	19
Impairment of goodwill, software and other intangibles	-	18
Impairment of investment in and loans to joint ventures and associates	-	2

Note 4 Exceptional items

Income statement

26 weeks ended 27 August 2016

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

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Net restructuring and redundancy costs[a]	(73)	(17)	(5)	(95)	-	21	-
Provision for customer redress[b]	(45)	-	-	(45)	-	-	-
Property transactions[c]	-	-	59	59	-	37	-
Foreign exchange losses on GBP short-term investments held in overseas entities[d]	-	-	-	-	(200)	-	-
Exceptional items relating to discontinued operations[e]	-	-	-	-	-	-	(113)
Total	**(118)**	**(17)**	**54**	**(81)**	**(200)**	**58**	**(113)**

(a) This includes £73m relating to ongoing UK & ROI changes to store colleague structures and working practices and £22m relating to Tesco Bank business simplification and head office relocation costs.
(b) Updated guidance from the Financial Conduct Authority ('FCA') proposing an extension to the expected Payment Protection Insurance ('PPI') settlement deadline, inclusion of items that had previously been out of scope for settlement and higher operational costs and claim rates than previously estimated, have resulted in a provision of £45m.
(c) In the period, the Group has continued with its strategy of strengthening its balance sheet through the disposal of some properties and a development site in UK & ROI, and a mall in Central Europe, resulting in profit of £59m. There is a tax credit of £37m on these property disposals primarily due to a lower book value than tax value of assets disposed. Refer to item ** below for cash proceeds.
(d) The group holds £2.5bn of proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. The £200m loss represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.
(e) On 10 June 2016, the Group announced the proposed sale of its Turkish operations. This includes an impairment of £106m following a re-measurement of the assets and liabilities of the Turkish operations to fair value less costs to sell, £2m of costs to sell the Turkish operations and £5m loss due to foreign exchange movements on provisions held on previous disposals. Refer to Note 7 for further details.

Income statement

26 weeks ended 29 August 2015

Loss for the period includes the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property - related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Deferred tax and costs to sell – Korea	-	-	-	-	-	-	(419)

At 27 February 2016, in assessing whether income and expense items met the Group's criteria as exceptional for the full year, items totalling £4m reflected in operating profit as non-exceptional cost in the first half of the year were subsequently reclassified to exceptional. This is as a result of restructuring activities extended beyond the original scope in the prior year, as well as two further property transactions where the Group regained sole ownership of stores and distribution centres.

Cash flow statement

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

	Cash flows from operating activities		Cash flows from investing activities	
Exceptional items included in:	2016 £m	2015 £m	2016 £m	2015 £m
Restructuring costs and other exceptional costs including trading store redundancies*	(66)	(278)	-	-
Utilisation of onerous lease provisions	(48)	(123)	-	-
Property transactions**	13	-	227	-
Provision for customer redress***	(15)	(11)	-	-
Total	**(116)**	**(412)**	**227**	**-**

* Cash outflows on settlement of restructuring and redundancy costs.
** The proceeds from property transactions totalled £240m comprising, £227m net proceeds from the sale of a mall in Central Europe and other properties in the UK & ROI, and £13m for a development site in UK & ROI. Refer to item (c) above.
*** Settlement of claims for customer redress in Tesco Bank.

Note 5 Finance income and costs

Continuing operations	2016 £m	2015 £m
Finance income		
Interest receivable and similar income	26	10
Financial instruments - fair value remeasurements	57	34
Total finance income	**83**	**44**
Finance costs		
GBP MTNs and Loans	(114)	(86)
EUR MTNs	(67)	(61)
USD Bonds	(46)	(43)
Finance charges payable under finance leases and hire purchase contracts	(4)	(5)
Other interest payable	(43)	(57)
Capitalised interest*	3	6
Total finance costs before exceptional items and net pension finance costs	**(271)**	**(246)**
Net pension finance costs (Note 15)	(58)	(84)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(200)	-
Total finance costs	**(529)**	**(330)**
Net finance cost	**(446)**	**(286)**

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

GBP MTNs and Loans

Interest payable on the 4% RPI GBP MTN 2016 includes £nil (2015: £(1)m) of Retail Price Index ('RPI') related accretion.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £2m (2015: £3m) of RPI-related accretion.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £1m (2015: £nil) of RPI-related accretion.

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	2016 £m	2015 £m
UK	(3)	31
Overseas	43	21
Taxation charge/ (credit)	**40**	**52**

The tax charge in the Group income statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 25 February 2017.

The Finance Bill 2016 includes legislation to reduce the main rate of corporation tax to 17% from 1 April 2020. This rate reduction had not been substantively enacted at the balance sheet date and has therefore not been reflected in this condensed consolidated interim financial statements.

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

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Assets of the disposal group - Turkey	248	-	-
Assets of the disposal groups - Korea and US	-	-	4,962
Non-current assets classified as held for sale	224	236	192
Total assets of the disposal groups and non-current assets classified as held for sale	**472**	**236**	**5,154**
Total liabilities of the disposal group - Turkey	(201)	-	-
Total liabilities of the disposal groups - Korea and US	-	-	(1,528)
Total net assets of the disposal groups and non-current assets classified as held for sale	**271**	**236**	**3,626**

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

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

Discontinued operations

On 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (referred to as 'Turkish operations' or Turkey') to Migros Ticaret A.Ş ('Migros'). In accordance with IFRS 5 'Non-current Assets Held for sale and Discontinued Operations', the assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale within the period. The sale is subject to local regulatory approvals with completion expected in the financial year.

An impairment of £106m was recognised in property, plant and equipment, based on the expected realisable value on sale, immediately prior to reclassification of the business as a disposal group held for sale. These impairments have been included as exceptional items within discontinued operations. The gain/(loss) on disposal at completion will also reflect the impact of recycling of the Turkey currency translation reserve; at the period end the recycling would have reduced the profit/increased the loss on sale by £113m.

The tables below show the results of the discontinued operations which are included in the Group income statement, Group balance sheet and Group cash flow statement respectively.

Income statement

	2016	2015		
	Total* £m	Turkey £m	Korea £m	Total £m
Revenue	270	261	2,635	2,896
Expenses**	(288)	(286)	(2,564)	(2,850)
Profit/ (loss) before tax before exceptional items	**(18)**	**(25)**	**71**	**46**
Taxation	-	-	(42)	(42)
Profit/ (loss) after tax before exceptional items	**(18)**	**(25)**	**29**	**4**
Impairment losses - Turkey	(106)	-	-	-
Costs to sell and other provisions - Turkey	(2)	-	-	-
Deferred tax charge - Korea	-	-	(408)	(408)
Costs to sell and other items - Korea	-	-	(11)	(11)
Foreign exchange gain/ (loss) on tax liabilities on past disposals	(5)	-	-	-
Total profit/ (loss) after tax of discontinued operations* **	**(131)**	**(25)**	**(390)**	**(415)**

* These figures represent the results of Turkey for the current period and the foreign exchange gain/ (loss) of £(5)m on the Group's tax liabilities relating to businesses previously disposed.

** Intercompany recharges totalling £1m (2015: £2m) between continuing operations and the Turkey discontinued operation have been eliminated, and intercompany recharges and intercompany loan interest totalling £39m between continuing operations and the Korea discontinued operation have been eliminated in 2015. These eliminations impact the performance of continuing and discontinued operations, reducing the profit/ (loss) before tax of continuing operations by £1m (2015: £41m), whilst increasing the profit/ (loss) before tax of Turkey and Korea discontinued operations by the same respective amounts.

*** Total profit/ (loss) after tax of discontinued operations includes losses of £6m attributable to non-controlling interests (2015: loss of £1m).

Loss per share impact from discontinued operations	2016 Pence/share	2015 Pence/share
Basic	(1.54)p	(5.09)p
Diluted	(1.54)p	(5.07)p

Balance Sheet	Total Turkey 2016 £m
Assets of the disposal group	
Goodwill and other intangible assets	10
Property, plant and equipment	135
Investment property	-
Inventories	55
Trade and other receivables	37
Cash and cash equivalents	11
Total assets of the disposal group	**248**
Trade and other payables	(115)
Borrowings	(75)
Other liabilities	(11)
Total liabilities of the disposal group	**(201)**
Total net assets of the disposal group	**47**

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

Cash flow statement	Total Turkey 2016 £m	Total Turkey, Korea & US 2015 £m
Net cash flows from operating activities	1	181
Net cash flows from investing activities	(3)	14
Net cash flows from financing activities	12	(91)
Net cash flows from discontinued operations	**10**	**104**
Intra-Group funding and intercompany transactions	(3)	(60)
Net cash flows from discontinued operations, net of intercompany	**7**	**44**

Note 8 Dividends

	2016		2015	
	Pence/ share	£m	Pence/ share	£m
Amounts recognised as distributions to owners in the financial period:				
Prior financial period final dividend	-	-	-	-
Current financial period interim dividend	-	-	-	-
Dividends paid to equity owners in the financial period	-	-	-	-

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 period.

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

As at the 27 August 2016 there were 3m (2015: 45m) potentially dilutive share options. As the Group has recognised a profit for the period from its continuing operations dilutive effects have been considered in calculating diluted earnings per share.

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	34	-	34	49	-	49
Discontinued operations**	(125)	-	(125)	(414)	-	(414)
Total	**(91)**	-	**(91)**	**(365)**	-	**(365)**
Weighted average number of shares (millions)	**8,142**	**3**	**8,145**	**8,122**	**45**	**8,167**
Earnings/ (losses) per share						
Continuing operations	0.42p	-	0.42p	0.60p	-	0.60p
Discontinued operations	(1.54)p	-	(1.54)p	(5.09)p	0.02p	(5.07)p
Total	**(1.12)p**	-	**(1.12)p**	**(4.49)p**	**0.02p**	**(4.47)p**

* Excludes losses from non-controlling interests of £3m (2015: £2m).
** Excludes losses from non-controlling interests of £6m (2015: £1m).

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

Alternative performance measure: Earnings/ (losses) and diluted earnings/ (losses) per share from continuing operations before exceptional items

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	257	-	257	49	-	49
Discontinued operations**	(17)	-	(17)	5	-	5
Total	**240**	**-**	**240**	**54**	**-**	**54**
Weighted average number of shares (millions)	**8,142**	**3**	**8,145**	**8,122**	**45**	**8,167**
Earnings/ (losses) per share						
Continuing operations	3.16p	-	3.16p	0.60p	-	0.60p
Discontinued operations	(0.21)p	-	(0.21)p	0.06p	-	0.06p
Total	**2.95p**	**-**	**2.95p**	**0.66p**	**-**	**0.66p**

* Excludes losses from non-controlling interests before exceptional items of £3m (2015: £2m).
** Excludes losses from non-controlling interests before exceptional items of £1m (2015: £1m).

Alternative performance measure: Diluted earnings/ (losses) per share from continuing operations before exceptional items and net pension finance costs

	2016	2015
Profit before tax from continuing operations before exceptional items (£m)	352	99
Add: Net pension finance costs (£m) (Note 15)	58	84
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	410	183
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	413	185
Taxation on profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(108)	(69)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	**305**	**116**
Diluted weighted average number of shares (millions)	**8,145**	**8,167**
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs	**3.74p**	**1.42p**

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

Note 10 Goodwill and other intangible assets

Goodwill and other intangible assets of £2,818m (27 February 2016: £2,874m, 29 August 2015: £3,122m) comprise £1,832m goodwill (27 February 2016: £1,827m, 29 August 2015: £1,768m), £925m software (27 February 2016: £975m, 29 August 2015: £1,268m) and other intangible assets £61m (27 February 2016: £72m, 29 August 2015: £86m).

Goodwill

The impairment review methodology for goodwill is unchanged from that described in the 2016 Annual Report and Group financial statements. There were no indicators of goodwill impairment in the period; the annual goodwill impairment review will occur in the second half of the year.

The components of goodwill are as follows:	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Malaysia	77	70	63
Tesco Bank	802	802	802
Thailand	174	159	143
UK	750	767	731
Other	29	29	29
	1,832	**1,827**	**1,768**

Note 11 Property, plant and equipment

Cost	Land and buildings £m	Other* £m	Total £m
At 27 February 2016	22,557	10,468	33,025
Foreign currency translation	704	305	1,009
Additions**	241	144	385
Acquired through business combinations	-	-	-
Reclassification	(21)	17	(4)
Classified as held for sale	(149)	(5)	(154)
Disposals	(497)	(262)	(759)
Transfer to disposal group classified as held for sale	(317)	(151)	(468)
At 27 August 2016	**22,518**	**10,516**	**33,034**
Accumulated depreciation and impairment losses			
At 27 February 2016	7,198	7,927	15,125
Foreign currency translation	259	229	488
Charge for the period	195	318	513
Impairment losses	145	1	146
Reversal of impairment losses	(36)	-	(36)
Reclassification	(1)	(1)	(2)
Classified as held for sale	(43)	(3)	(46)
Disposals	(207)	(226)	(433)
Transfer to disposal group classified as held for sale	(232)	(102)	(334)
At 27 August 2016	**7,278**	**8,143**	**15,421**
Net carrying value			
At 27 August 2016	**15,240**	**2,373**	**17,613**
At 29 August 2015	13,928	2,493	16,421
Construction in progress included above* **			
At 27 August 2016	**103**	**64**	**167**
At 29 August 2015	197	75	272

* Other assets consist of fixtures and fittings with a net carrying value of £1,985m (29 August 2015: £2,123m), office equipment with a net carrying value of £124m (29 August 2015: £166m) and motor vehicles with a net carrying value of £264m (29 August 2015: £204m).

** Includes £3m (29 August 2015: £7m) 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 period was 4.9% (29 August 2015: 4.4%). Interest capitalised is deducted in determining taxable profit in the financial period in which it is incurred.

*** Construction in progress does not include land.

The impairment review methodology for property, plant and equipment is unchanged from that described in the 2016 Annual Report and Group financial statements. The United Kingdom's electorate decision to leave the European Union (Brexit) has resulted in increased uncertainty, including uncertainty over property fair values. Consequently, the Group assessed changes to the key factors affecting impairment, covering discount rates, trading performance, and a review of the impact of Brexit on property fair values, in conjunction with independent professional valuers. The review concluded that there were no indicators of impairment. The Group continues to monitor for any potential impacts of Brexit on property fair values and impairment.

As a result of the Group's decision to sell its Turkish operations an impairment charge has been recognised upon reclassification of these assets to assets of the disposal group. This impairment has been classified as an exceptional item; refer to Note 4 and Note 7 for further details.

Note 11 Property, plant and equipment continued

Cost	Land and buildings £m	Other* £m	Total £m
At 28 February 2015	25,298	11,493	36,791
Foreign currency translation	(544)	(234)	(778)
Additions**	128	213	341
Acquired through business combinations	477	13	490
Reclassification	(30)	(8)	(38)
Classified as held for sale	(379)	(19)	(398)
Disposals	(295)	(60)	(355)
Transfer to disposal group classified as held for sale	(3,584)	(1,202)	(4,786)
At 29 August 2015	**21,071**	**10,196**	**31,267**
Accumulated depreciation and impairment losses			
At 28 February 2015	8,021	8,330	16,351
Foreign currency translation	(120)	(147)	(267)
Charge for the period	214	384	598
Impairment losses	32	7	39
Reversal of impairment losses	(14)	(1)	(15)
Reclassification	(18)	(8)	(26)
Classified as held for sale	(279)	(16)	(295)
Disposals	(214)	(38)	(252)
Transfer to disposal group classified as held for sale	(479)	(808)	(1,287)
At 29 August 2015	**7,143**	**7,703**	**14,846**

Refer to previous table for footnotes.

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

Commitments for capital expenditure contracted for, but not incurred, at 27 August 2016 were £271m (27 February 2016: £215m, 29 August 2015: £290m), principally relating to store development. This excludes balances associated with the discontinued operations in Korea and Turkey of £nil (27 February 2016: £nil, 29 August 2015: £11m).

Note 12 Borrowings

Current	Par value	Maturity	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Commercial paper, bank loans and overdrafts	-	-	971	845	1,203
Loans from joint ventures	-	-	6	6	6
4% RPI MTN[(a)]	£310m	Sep 2016	317	316	-
5.875% MTN	€1,039m	Sep 2016	940	877	-
2.7% USD Bond	$500m	Jan 2017	381	361	-
5.4478% Term Loan	£382m	Jan 2017	389	396	-
5.5457% Secured Bond[(d)(e)]	£373m	Feb 2029	15	14	-
Finance leases	-	-	6	11	10
			3,025	**2,826**	**1,219**

Refer to the next table for footnotes.

Non-current	Par value	Maturity	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
4% RPI MTN[(a)]	£310m	Sep 2016	-	-	312
5.875% MTN	€1,039m	Sep 2016	-	-	869
2.7% USD Bond	$500m	Jan 2017	-	-	326
LIBOR +0.5% Term Loan	£488m	Oct 2017	481	478	476
1.250% MTN	€500m	Nov 2017	430	394	368
5.5% USD Bond	$850m	Nov 2017	687	666	621
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	131	132	134
3.375% MTN	€750m	Nov 2018	656	595	562
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	150	150
1.375% MTN	€1,250m	Jul 2019	1,066	990	913
5.5% MTN	£350m	Dec 2019	363	353	363
1% RPI Tesco Bank Retail Bond	£66m	Dec 2019	66	66	65
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	299	299
2.125% MTN	€500m	Nov 2020	432	394	370
5% Tesco Bank Retail Bond	£200m	Nov 2020	213	211	203
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349	349
6.125% MTN	£900m	Feb 2022	923	896	923
5% MTN	£389m	Mar 2023	403	411	397
2.5% MTN	€750m	Jul 2024	637	595	545
3.322% LPI MTN[(b)]	£319m	Nov 2025	322	320	318
5.5457% Secured Bond[(d)(e)]	£373m	Feb 2029	347	353	-
6.067% Secured Bond[(d)]	£200m	Feb 2029	189	189	-
LIBOR + 1.2% Secured Bond[(d)]	£50m	Feb 2029	30	30	-
6% MTN	£200m	Dec 2029	261	257	265
5.5% MTN	£200m	Jan 2033	263	259	266
1.982% RPI MTN[(c)]	£264m	Mar 2036	266	265	263
6.15% USD Bond	$1,150m	Nov 2037	1,106	1,035	902
4.875% MTN	£173m	Mar 2042	171	175	171
5.125% MTN[(f)]	€600m	Apr 2047	515	486	559
5.2% MTN	£279m	Mar 2057	275	275	275
Finance leases	–	–	99	88	121
			11,130	**10,711**	**11,385**

(a) The 4% RPI MTN is redeemable at par, including indexation for increases in the Retail Price Index (RPI) over the life of the MTN.
(b) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
(c) The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.
(d) The bonds are secured by a charge over the property, plant and equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC.
(e) This is an amortising bond which matures in Feb 2029. £15m is the principal repayment due within the next 12 months, and is payable quarterly. The remainder is payable in quarterly instalments until maturity in Feb 2029.
(f) The decrease in carrying value of the bond from 29 August 2015 to 27 February 2016 was due to a change of the hedge relationship from a fair value to a cash flow hedge, which was recognised in the statement of comprehensive income in the prior year.

Note 12 Borrowings continued

Borrowing facilities

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Expiring in less than one year	-	100	100
Expiring between one and two years	600	2,200	-
Expiring in more than two years	4,428	2,700	4,916
	5,028	**5,000**	**5,016**

The current year undrawn committed facilities include £2.4bn (27 February 2016: £2.4bn, 29 August 2015: £2.4bn) of bilateral facilities and a £2.6bn (27 February 2016: £2.6bn, 29 August 2015: £2.6bn) revolving credit facility. During the period £1.8bn equivalent of bilateral facilities were refinanced in a tenor of three years to a final maturity of August 2019.

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

Note 13 Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 27 August 2016, 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 (from prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (from unobservable inputs) (Level 3).

27 August 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	954	-	123	1,077
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	36	-	36
- Cross currency swaps	-	1,272	-	1,272
- Index-linked swaps	-	797	-	797
- Forward contracts	-	136	-	136
Total assets	**954**	**2,241**	**123**	**3,318**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	(484)	-	(484)
- Cross currency swaps	-	(7)	-	(7)
- Index-linked swaps	-	(520)	-	(520)
- Forward contracts	-	(77)	-	(77)
Total liabilities	**-**	**(1,088)**	**-**	**(1,088)**
Total	**954**	**1,153**	**123**	**2,230**

27 February 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	980	-	125	1,105
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	35	-	35
- Cross currency swaps	-	935	-	935
- Index-linked swaps	-	637	-	637
- Forward contracts	-	101	-	101
Total assets	**980**	**1,708**	**125**	**2,813**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	(406)	-	(406)
- Cross currency swaps	-	(67)	-	(67)
- Index-linked swaps	-	(421)	-	(421)
- Forward contracts	-	(57)	-	(57)
Total liabilities	**-**	**(951)**	**-**	**(951)**
Total	**980**	**757**	**125**	**1,862**

29 August 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	739	-	113	852
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	25	-	25
- Cross currency swaps	-	549	-	549
- Index-linked swaps	-	680	-	680
- Forward contracts	-	77	-	77
Total assets	**739**	**1,331**	**113**	**2,183**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	-	(330)	-	(330)
- Cross currency swaps	-	(151)	-	(151)
- Index-linked swaps	-	(443)	-	(443)
- Forward contracts	-	(51)	-	(51)
Total liabilities	**-**	**(975)**	**-**	**(975)**
Total	**739**	**356**	**113**	**1,208**

There were no transfers between Levels 1 and 2 during the period (27 February 2016: no transfers, 29 August 2015: no transfers) and no transfers into or out of Level 3 fair value measurements (27 February 2016: no transfers, 29 August 2015: no transfers).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Carrying amounts versus fair values

The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value: cash and cash equivalents, short-term and other investments, other receivables, derivative financial assets/liabilities and deposits from banks (Tesco Bank).

Note 13 Financial instruments continued

The carrying value and fair value of the remaining financial assets and liabilities are as follows:

	27 August 2016		27 February 2016		29 August 2015	
	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m
Assets						
Loans and advances to customers - Tesco Bank	9,262	9,437	8,542	8,822	8,293	8,338
Joint venture and associate loan receivables	137	164	149	163	148	153
Liabilities						
Short-term borrowings:						
- Amortised cost	(2,079)	(2,083)	(1,938)	(1,936)	(1,209)	(1,209)
- Bonds in fair value hedge relationships	(940)	(940)	(877)	(865)	-	-
Long-term borrowings:						
- Amortised cost	(9,873)	(10,361)	(9,512)	(9,136)	(8,510)	(8,420)
- Bonds in fair value hedge relationships	(1,158)	(900)	(1,111)	(800)	(2,754)	(2,415)
Customer deposits - Tesco Bank	(8,107)	(8,138)	(7,397)	(7,405)	(6,580)	(6,566)
Finance lease liabilities	(105)	(115)	(99)	(101)	(131)	(131)

Note 14 Commercial income

Commercial income relates to volume-related allowances, promotional and marketing allowances and various other fees and discounts received in connection with the purchase of goods for resale from suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Accounting for the amount and timing of recognition of commercial income may require the exercise of judgement, as detailed in the 2016 Annual Report and Group financial statements.

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

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Current assets			
Inventories	(53)	(75)	(71)
Trade and other receivables			
- Other receivables	188	201	83
- Accrued income	93	100	95
Current liabilities			
Trade and other payables			
- Trade payables	186	305	178
- Accruals and deferred income	(27)	(43)	(39)

The 27 February 2016 accruals and deferred income disclosure in this note included amounts that were unrelated to commercial income, and has therefore been amended accordingly.

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

Note 15 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK (now closed to future accrual) and the Republic of Ireland, and the funded defined contribution pension scheme for employees in the UK. Of these schemes, the UK defined benefit pension deficit represents 96% of the Group deficit (2015: 96%).

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

The Career Average section of the Scheme ('Pension Builder') was closed to new members and future accrual on 21 November 2015. The Final Salary section of the Scheme, which was closed to new entrants in 2001, was also closed to future accrual on 21 November 2015. In their place, a defined contribution scheme, Tesco Retirement Savings Plan, was opened on 22 November 2015 and is open to all Tesco colleagues in the UK.

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

UK Principal assumptions

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

	27 August 2016 %	27 February 2016 %	29 August 2015 %
Discount rate	2.1	3.8	3.8
Price inflation	2.8	2.9	3.2
Rate of increase in deferred pensions*	1.8	1.9	2.2
Rate of increase in salaries	N/A	N/A	3.3
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	2.6	2.7	3.0
Benefits accrued after 1 June 2012	1.8	1.9	2.2
Rate of increase in career average benefits			
Benefits accrued before 1 June 2012	N/A	N/A	3.2
Benefits accrued after 1 June 2012	N/A	N/A	2.2

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

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

The main financial assumption is the discount rate. If the discount rate increased by 0.1% or 1.0%, the UK defined benefit obligation would decrease by approximately £533m or £4,620m respectively. If this assumption decreased by 0.1% or 1.0%, the UK defined benefit obligation would increase by approximately £533m or £6,673m respectively.

Summary of movements in Group deficit during the financial period

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Deficit in schemes at beginning of the period	(3,175)	(4,842)	(4,842)
Current service cost	(22)	(570)	(386)
Past service credit	-	535	-
Net pension finance cost	(58)	(155)	(84)
Contributions by employer	128	656	374
Foreign currency translation	(18)	(8)	5
Remeasurements	(3,983)	1,164	(308)
Transfer to disposal group classified as held for sale*	5	45	45
Deficit in schemes at the end of the period	**(7,123)**	**(3,175)**	**(5,196)**
Deferred tax asset **	1,270	563	1,029
Deficit in schemes at the end of the period, net of deferred tax	**(5,853)**	**(2,612)**	**(4,167)**

* Value after deferred tax is £5m (29 August 2015: £34m).

** The deferred tax assets in relation to the retirement benefit obligation has been partly offset with group deferred tax liabilities in the balance sheet.

Note 16 Analysis of changes in net debt

	At 27 February 2016 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Reclassifications of movements in net debt of the disposal group £m	At 27 August 2016 £m
Total Group							
Cash and cash equivalents	3,082	280	4	-	-	(11)	3,355
Short-term investments	3,463	970	2	-	-	-	4,435
Joint ventures loans	149	(16)	-	-	3	-	136
Interest and other receivables	1	(16)	-	16	-	-	1
Bank and other borrowings	(13,253)	(182)	(442)	(5)	-	75	(13,807)
Interest payables	(185)	205	(11)	(252)	-	-	(243)
Finance lease payables	(99)	5	(8)	-	(3)	-	(105)
Net derivative financial instruments	698	(104)	494	3	-	-	1,091
Net derivative interest	59	7	-	(4)	-	-	62
Net debt of the disposal group	-	-	-	-	-	(64)	(64)
Total Group	**(6,085)**	**1,149**	**39**	**(242)**	-	-	**(5,139)**
Tesco Bank							
Cash and cash equivalents	554	217	-	-	-	-	771
Joint ventures loans	34	-	-	-	-	-	34
Bank and other borrowings	(1,441)	-	(3)	-	-	-	(1,444)
Interest payables	(1)	2	-	(2)	-	-	(1)
Net derivative financial instruments	(121)	-	(26)	-	-	-	(147)
Tesco Bank	**(975)**	**219**	**(29)**	**(2)**	-	-	**(787)**
Retail							
Cash and cash equivalents	2,528	63	4	-	-	(11)	2,584
Short-term investments	3,463	970	2	-	-	-	4,435
Joint ventures loans	115	(16)	-	-	3	-	102
Interest and other receivables	1	(16)	-	16	-	-	1
Bank and other borrowings	(11,812)	(182)	(439)	(5)	-	75	(12,363)
Interest payables	(184)	203	(11)	(250)	-	-	(242)
Finance lease payables	(99)	5	(8)	-	(3)	-	(105)
Net derivative financial instruments	819	(104)	520	3	-	-	1,238
Net derivative interest	59	7	-	(4)	-	-	62
Net debt of the disposal group	-	-	-	-	-	(64)	(64)
Net debt	**(5,110)**	**930**	**68**	**(240)**	**-**	-	**(4,352)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group balance sheet and the Group cash flow statement.

Note 16 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in net debt	27 August 2016 £m	29 August 2015 £m
Net increase in cash and cash equivalents	280	164
Elimination of Tesco Bank movement in cash and cash equivalents	(217)	64
Retail cash movement in other net debt items		
Net increase/ (decrease) in short-term investments	970	(293)
Net decrease in joint venture loans	(16)	(3)
Net (increase)/ decrease in borrowings and lease financing	(177)	758
Net cash flows from derivative financial instruments	(104)	(186)
Net interest paid on components of net debt	194	172
Change in net debt resulting from cash flow	930	676
Retail net interest charge on components of net debt	(240)	(221)
Retail fair value and foreign exchange movements	68	31
Debt acquired on business combinations	-	(561)
Retail other non-cash movements	-	(32)
Decrease/ (increase) in net debt for the period	758	(107)
Opening net debt	**(5,110)**	**(8,481)**
Closing net debt	**(4,352)**	**(8,588)**

Note 17 Disposals

On 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in its Turkish operations to Migros. The assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale within the period. The sale is subject to local regulatory approvals with completion expected in the financial year. Refer to Note 7 for further information.

During the period, the Group sold its interests in Dobbies Garden Centres, Giraffe and Harris + Hoole and closed its Nutricentre business, further enhancing the focus of the UK retail business on its core strengths. The Group received £213m in cash net of costs incurred and cash disposed, of which £198m related to Dobbies, and recognised £1m in deferred consideration. The Group disposed of net assets of £243m and incurred costs to sell of £12m. In addition, the Group disposed of a 6.9% interest (on a fully diluted basis) in Lazada Group S.A. ('Lazada') for net cash consideration of US$115m (£81m), retaining an 8.8% shareholding. The total loss of £4m from these transactions has been included within the Group’s underlying results.

Note 18 Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

On 22 September 2014, the Group announced that it had identified an overstatement of its expected profit for the first half of the year, as contained in guidance it had issued in August 2014, relating to the recognition of commercial income and the deferral of costs. The Serious Fraud Office ('SFO') commenced an investigation into accounting practices at the Group on 29 October 2014.

On 9 September 2016, the SFO announced its decision to prosecute three former Group employees for fraud and false accounting, while the Group's position is still under consideration. The timing and outcome of the SFO investigation in relation to the Group remains unclear and there is the possibility of fines and/or other consequences. The Group is co-operating with the SFO.

The Group has reached agreements to settle both a class action and an opt out action brought by US investors who dealt through the American Depository Receipts ('ADRs') programme which represented approximately 2.46% of issued share capital. 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, and purport to have secured third party funding for such litigation. In this regard, the Group has received two letters before action from two law firms. No such litigation has yet been formally commenced and the Group is consequently unable to make any assessment of the likely outcome.

Prior to the disposal of its Korean operations ('Homeplus'), Tesco PLC provided guarantees in respect of thirteen Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus’s default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC’s release from these guarantees following the disposal of Homeplus, which currently remains outstanding. The maximum potential liability as at 27 February 2016 under these guarantees was approximately KRW627bn (£427m). This liability decreases over time with all relevant leases expiring in the period between 2026 and 2033. Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made under such guarantees.

Note 19 Lease commitments

Operating lease commitments – Group as lessee

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Within one year	1,266	1,296	1,163
Greater than one year but less than five years	3,890	3,918	4,172
After five years	7,751	7,831	8,669
Total minimum lease payments	**12,907**	**13,045**	**14,004**

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Greater than five years but less than ten years	3,310	3,272	3,669
Greater than ten years but less than fifteen years	2,335	2,303	2,586
After fifteen years	2,106	2,256	2,414
Total minimum lease payments – after five years	**7,751**	**7,831**	**8,669**

The Group has used operating lease commitments from continuing operations discounted at 7% (27 February 2016: 7%, 29 August 2015: 7%) of £7,771m (27 February 2016: £7,814m, 29 August 2015: £9,091m) in its calculation of total indebtedness. Total operating lease commitments included for Turkey were £27m at 27 February 2016 and £41m at 29 August 2015.

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

The Group has lease break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased assets or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date. The current market value of these properties is £3.0bn (27 February 2016: £3.2bn, 29 August 2015: £4.0bn) and the total lease rentals, if they were to be incurred following the option exercise date, would be £2.5bn (27 February 2016: £2.6bn, 29 August 2015: £3.1bn) using current rent values. These lease break options are between 2016 and 2023.

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

	27 August 2016 £m	27 February 2016 £m	29 August 2015 £m
Within one year	36	45	10
Greater than one period but less than five years	82	72	189
Greater than five years but less than ten years	667	686	819
Greater than ten years but less than fifteen years	661	718	810
After fifteen years	1,054	1,115	1,245
Total contingent additional lease rentals	**2,500**	**2,636**	**3,073**

Operating lease commitments with joint ventures and associates

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

Independent review report to Tesco PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 August 2016 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and related Notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 27 August 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
4 October 2016

Alternative performance measures

The Directors use alternative performance measures as they believe these measures provide additional useful information on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The alternative performance measures are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements.

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

Diluted earnings per share from continuing operations before exceptional items and net pension finance costs
Profit after tax before exceptional items and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period 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.

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

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers 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.

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

Growth in sales
The year on year percentage movement in revenue excl. fuel for continuing operations excluding fuel for 26 weeks at a constant foreign exchange rate.

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

Net debt
Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents, and short-term investments.

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

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

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

Profit/ (losses) arising on property-related items
These relate to the Group's property activities including gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post-closure costs; and income/ (charges) associated with impairment of non-trading property and related onerous contracts.

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

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

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

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 groups and non-current assets classified as held for sale.

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

FTE
FTE refers to full time equivalents.

LPI
LPI refers to Limited Price Inflation.

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

MTN
MTN refers to Medium Term Note.

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

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

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 Retail Price Index.

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

Investor information

Registrar and shareholding enquiries
If you have any administrative enquiries about your holding of Tesco PLC shares (other than ADRs) please contact:
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0371 384 2977

Tesco PLC website
The Directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under relevant accounting standards and legislation. Tesco information, including this press release is available on our website: www.tescoplc.com.

Electronic communications
You can register for Shareview, a free online share information and dealing service operated by Equiniti. Once you have registered you can:
• check your shareholding
• access shareholder information
• elect to receive information electronically, getting quick access to these important documents and helping to save the environment by reducing the amount of paper used
• vote on the resolutions at the Annual General Meeting.
To register, log on to www.shareview.co.uk and click on 'register'. Your rights as a shareholder will not be affected in any way. If you have any questions about the service, please call 0371 384 2977.

Security reminder
Under the Companies Act 2006 we are obliged to hold the names and addresses of all shareholders on a register of members and give a copy of this list to the Registrar of Companies every year. The Registrar of Companies makes this list available to anyone who requests it and many companies use this information to market their services. We are aware that some of our shareholders have received unsolicited calls or correspondence from companies concerning investment matters. Tesco has no relationship with and does not endorse any of the services offered by these companies. Details of any facilities that we endorse are included in our communications. If you are concerned about any direct mailing or telephone calls purporting to be from Tesco, please contact us by writing to the Company Secretary, Tesco House, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1GA or by calling us on 01992 632222.

Customer services
Tesco Customer Services
Freepost SC02298
Dundee
DD1 9NF
Telephone 0800 505555

Investor relations
Investor relations department
Tesco PLC
Tesco House
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1GA
Telephone 01707 912922

Secretary and registered office
Mr Robert Welch
Tesco PLC
Tesco House
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1GA
Telephone 01992 632222

Financial Calendar	
	2017
Financial year-end	25 February
Preliminary results announced*	12 April

* Please note that this date is provisional and subject to change.

Appendix 1

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

	1H 2015/16	2H 2015/16	FY 2015/16	1Q 2016/17	2Q 2016/17	1H 2016/17
UK & ROI	**(1.2)%**	**(0.6)%**	**(0.9)%**	**0.7%**	**1.7%**	**1.2%**
UK	(0.6)%	(0.3)%	(0.4)%	0.3%	1.0%	0.7%
ROI	(13.5)%	(5.1)%	(9.3)%	8.7%	15.3%	11.9%
International	**(4.3)%**	**(3.1)%**	**(3.7)%**	**5.6%**	**16.5%**	**10.9%**
Europe	(8.8)%	(3.6)%	(6.2)%	8.2%	15.1%	11.6%
Asia	1.5%	(2.5)%	(0.5)%	2.8%	18.2%	10.1%
Tesco Bank	**(0.8)%**	**2.4%**	**0.8%**	**3.5%**	**7.2%**	**5.3%**
Group	**(1.9)%**	**(1.0)%**	**(1.4)%**	**1.8%**	**4.7%**	**3.3%**

Appendix 2

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

	1H 2015/16	2H 2015/16	FY 2015/16	1Q 2016/17	2Q 2016/17	1H 2016/17
UK & ROI	**(0.6)%**	**(0.3)%**	**(0.5)%**	**0.3%**	**1.0%**	**0.6%**
UK	(0.6)%	(0.3)%	(0.4)%	0.3%	1.0%	0.7%
ROI	(2.2)%	0.3%	(1.0)%	0.2%	(0.3)%	(0.1)%
International	**0.6%**	**3.1%**	**1.9%**	**3.6%**	**2.8%**	**3.2%**
Europe	2.4%	2.2%	2.3%	2.4%	1.2%	1.8%
Asia	(1.7)%	4.3%	1.3%	5.0%	4.8%	4.9%
Tesco Bank	**(0.8)%**	**2.4%**	**0.8%**	**3.5%**	**7.2%**	**5.3%**
Group	**(0.4)%**	**0.4%**	**0.1%**	**1.1%**	**1.5%**	**1.3%**

Note
These results have been reported on a continuing operations basis and exclude the results from our operations in Turkey. Growth rates are all based on comparable days. For example, for the UK and ROI, these results are for the 26 weeks ending 27 August 2016 and 29 August 2015 respectively.

Appendix 3

Country Detail

	Revenue (Exc. VAT, Inc. Fuel)			
	Local Currency (m)	£m	Average exchange rate	Closing exchange rate
UK	20,465	20,465	1.000	1.000
ROI	1,223	984	1.243	1.171
Czech Republic	20,748	617	33.62	31.66
Hungary	294,389	757	388.8	361.9
Poland	5,388	996	5.409	5.069
Slovakia	690	555	1.243	1.171
Malaysia	2,181	389	5.612	5.293
Thailand	100,615	2,053	49.01	45.53

Memo:

Turkey	1,098	270	4.064	3.881

Appendix 4

UK Sales Area by Size of Store

	August 2016			August 2015		
	No. of stores	Million sq ft	% of total sq ft	No. of stores	Million sq ft	% of total sq ft
0 – 3,000	2,504	5.2	13.0%	2,474	5.1	12.3%
3,001 – 20,000	283	3.4	8.6%	289	3.5	8.4%
20,001 – 40,000	277	8.1	20.4%	283	8.3	20.0%
40,001 – 60,000	181	9.2	23.1%	202	10.1	24.4%
60,001 – 80,000	130	8.7	21.9%	127	8.9	21.4%
80,001 – 100,000	45	4.2	10.6%	50	4.6	11.1%
Over 100,000	9	1.0	2.4%	9	1.0	2.4%
Total[1]	**3,429**	**39.9**	**100.0%**	**3,434**	**41.4**	**100.0%**

Note
1. Excludes franchise stores.

Appendix 5

Actual Group Space – store numbers[1]

	2015/16 year end	As at 27 Aug 2016	Net gain/ reduction[2]	Openings	Closures/ disposals	Repurposing/ extensions
Extra	252	252	-	-	-	1
Superstore	478	478	-	1	(1)	-
Metro	177	176	(1)	-	(1)	-
Express	1,732	1,734	2	8	(6)	-
Dotcom only	6	6	-	-	-	-
Total Tesco	**2,645**	**2,646**	**1**	**9**	**(8)**	**1**
One Stop[3]	779	783	4	12	(8)	-
Dobbies	36	-	(36)	-	(36)	-
UK[3]	**3,460**	**3,429**	**(31)**	**21**	**(52)**	**1**
ROI	**149**	**148**	**(1)**	**-**	**(1)**	**-**
UK & ROI[3]	**3,609**	**3,577**	**(32)**	**21**	**(53)**	**1**
Czech Republic[3]	201	200	(1)	-	(1)	1
Hungary	208	208	-	-	-	-
Poland	440	437	(3)	-	(3)	-
Slovakia	161	155	(6)	-	(6)	2
Europe[3]	**1,010**	**1,000**	**(10)**	**-**	**(10)**	**3**
Malaysia	62	65	3	3	-	1
Thailand	1,815	1,869	54	56	(2)	9
Asia	**1,877**	**1,934**	**57**	**59**	**(2)**	**10**
International[3]	**2,887**	**2,934**	**47**	**59**	**(12)**	**13**
Group[3]	**6,496**	**6,511**	**15**	**80**	**(65)**	**14**
UK (One Stop)	*134*	*146*	*12*	*16*	*(4)*	-
Czech Republic	*103*	*100*	*(3)*	-	*(3)*	-
Franchise stores	*237*	*246*	*9*	*16*	*(7)*	-

Group store numbers above exclude the 168 stores in Turkey as at 27 August 2016.

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

Actual Group Space – '000 sq ft[1]

	2015/16 year end	As at 27 Aug 2016	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,846	17,841	(5)	-	-	(5)
Superstore	14,002	14,038	36	59	(23)	-
Metro	2,005	1,993	(12)	-	(12)	-
Express	4,031	4,040	9	19	(10)	-
Dotcom only	716	716	-	-	-	-
Total Tesco	**38,600**	**38,628**	**28**	**78**	**(45)**	**(5)**
One Stop[2]	1,256	1,268	12	23	(11)	-
Dobbies	1,652	-	(1,652)	-	(1,652)	-
UK[2]	**41,508**	**39,896**	**(1,612)**	**101**	**(1,708)**	**(5)**
ROI	**3,560**	**3,543**	**(17)**	**-**	**(17)**	**-**
UK & ROI[2]	**45,068**	**43,439**	**(1,629)**	**101**	**(1,725)**	**(5)**
Czech Republic[2]	5,558	5,506	(52)	-	(1)	(51)
Hungary	6,931	6,931	-	-	-	-
Poland	9,688	9,667	(21)	-	(21)	-
Slovakia	3,969	3,870	(99)	-	(72)	(27)
Europe[2]	**26,146**	**25,974**	**(172)**	**-**	**(94)**	**(78)**
Malaysia	4,164	4,134	(30)	35	-	(65)
Thailand	15,536	15,551	15	213	(11)	(187)
Asia	**19,700**	**19,685**	**(15)**	**248**	**(11)**	**(252)**
International[2]	**45,846**	**46,659**	**(187)**	**248**	**(105)**	**(330)**
Group[2]	**90,914**	**89,098**	**(1,816)**	**349**	**(1,830)**	**(335)**
UK (One Stop)	*185*	*199*	*14*	*20*	*(6)*	-
Czech Republic	*96*	*94*	*(2)*	-	*(2)*	-
Franchise stores	*281*	*293*	*12*	*20*	*(8)*	-

Group space numbers above exclude the 3,489k sq ft in Turkey as at 27 August 2016.

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

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

	As at 27 Aug 2016	2016/17 year end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,841	17,740	(101)	-	-	(101)
Superstore	14,038	14,090	52	52	-	-
Metro	1,993	1,993	-	-	-	-
Express	4,040	4,065	25	29	(4)	-
Dotcom only	716	716	-	-	-	-
Total Tesco	**38,628**	**38,604**	**(24)**	**81**	**(4)**	**(101)**
One Stop[2]	1,268	1,264	(4)	29	(33)	-
UK[2]	**39,896**	**39,868**	**(28)**	**110**	**(37)**	**(101)**
ROI	**3,543**	**3,543**	**-**	**-**	**-**	**-**
UK & ROI[2]	**43,439**	**43,411**	**(28)**	**110**	**(37)**	**(101)**
Czech Republic[2]	5,506	5,480	(26)	-	(26)	-
Hungary	6,931	6,899	(32)	-	(2)	(30)
Poland	9,667	9,578	(89)	-	(64)	(25)
Slovakia	3,870	3,859	(11)	-	(11)	-
Europe[2]	**25,974**	**25,816**	**(158)**	**-**	**(103)**	**(55)**
Malaysia	4,134	3,952	(182)	-	-	(182)
Thailand	15,551	15,510	(41)	305	-	(346)
Asia	**19,685**	**19,462**	**(223)**	**305**	**-**	**(528)**
International[2]	**45,659**	**45,278**	**(381)**	**305**	**(103)**	**(583)**
Group[2]	**89,098**	**88,689**	**(409)**	**415**	**(140)**	**(684)**
UK (One Stop)	*199*	*264*	*65*	*65*	-	-
Czech Republic	*94*	*94*	-	-	-	-
Franchise stores	*293*	*358*	*65*	*65*	-	-

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

Appendix 6

Tesco Bank Income Statement

	1H 2016/17[1] £m	1H 2015/16[1] £m
Revenue		
Interest receivable and similar income	301	283
Fees and commissions receivable	202	195
	503	**478**
Direct Costs		
Interest payable	(89)	(81)
Fees and commissions payable	(12)	(1)
	(101)	**(82)**
Gross profit	**402**	**396**
Other expenses:		
Staff costs	(83)	(84)
Premises and equipment	(37)	(40)
Other administrative expenses	(108)	(108)
Depreciation and amortisation	(44)	(43)
Provisions for bad and doubtful debts	(41)	(35)
Operating profit before exceptional items	**89**	**86**
Restructuring and other exceptional items[2]	(67)	-
Operating profit	**22**	**86**
Net finance costs: movements on derivatives and hedge accounting	(3)	(7)
Net finance costs: interest	(2)	(2)
Share of (loss)/profit of joint ventures and associates	5	2
Profit before tax	**22**	**79**

Notes

1. These results are for the 6 months ended 31 August 2016 and the previous period comparison is made with the 6 months ended 31 August 2015.
2. Restructuring and other exceptional items in 2016/17 consist of a £45m increase in customer redress provision and £22m restructuring costs.