

# A business for a new decade



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## Financial highlights

**Group sales (including VAT)\*** **+6.8%**

**Underlying profit before tax** **+10.1%**

**Group profit before tax** **+10.4%**

**Underlying diluted earnings per share\*\*** **+9.1%**

**Diluted earnings per share** **+9.8%**

**Dividend per share** **+9.1%**

All growth figures reported on a 52-week basis.

52 weeks ended 27 February 2010	2009/10	2008/9†	
		52 weeks	53 weeks
Group sales (£m) (including VAT)*	<b>62,537</b>	58,570	59,426
Group revenue (£m) (excluding VAT)	<b>56,910</b>	53,115	53,898
Group trading profit (£m)	<b>3,412</b>	3,039	3,086
Underlying profit before tax (£m)	<b>3,395</b>	3,083	3,124
Group profit before tax (£m)	<b>3,176</b>	2,876	2,917
Underlying diluted earnings per share (p)	<b>31.66</b>	28.50	28.87
Dividend per share (p)	<b>13.05</b>	–	11.96
Group enterprise value (£bn) (market capitalisation plus net debt)	<b>41.4</b>	–	35.9
Return on capital employed	<b>12.1%</b>	–	12.8%

\* Group sales (inc. VAT) excludes the accounting impact of IFRIC 13 (Customer Loyalty Programmes).

\*\* Growth in underlying diluted EPS calculated on a constant tax rate basis.

† Restated for the impact of IFRIC 13 and IFRS 2.

# Over the past decade Tesco has transformed itself into a diverse international business – and by following our consistent strategy we are well positioned for long-term growth.

**I am pleased to report that the Tesco team has once again delivered a good set of results – guided by experienced management who have steered the business through recessions before. As markets around the world are emerging from this recession each part of our business is well positioned to pursue our strategy for growth.**



We have continued to grow sales, profits and market share over the past year. We've also significantly strengthened our balance sheet.

Our acquisition in South Korea is performing well and delivering excellent results, we've opened our first three Tesco Lifespace shopping malls in China and we have made good progress building the infrastructure and developing new products for Tesco Bank.

I am also pleased to announce that we again increased our dividend – for the 26th consecutive year. This consistent track record of delivering dividend growth for shareholders is unrivalled in the FTSE 100.

The strong Group results over the last year have been achieved through a constant focus on what matters most to customers in challenging times around the world. A good example of this has been our renewed focus on rewarding loyalty – at home and abroad – which has been a great success with customers.

In the UK, we increased our Clubcard investment with Double Points – giving customers even greater reward for their loyalty.

Internationally, we launched Clubcard in three more countries during the year – in Poland, Slovakia and Thailand – and for the first time we now have more Clubcard holders internationally than in the UK.

It has been another significant year for our work on the environment and within local communities. As we grow, our customers increasingly look to Tesco to take the lead in these areas – and we are.

In January, we opened the world's first zero-carbon store at Ramsey in Cambridgeshire – the latest step in our journey to reduce the carbon footprint of our business. Over the past year we have made significant progress towards our long-term goals by reducing our emissions by 7.8% on our baseline 2006/7 store and distribution portfolio.

This year we donated over £60 million to charities – once again exceeding our target to give the equivalent of 1% of our profits to good causes.

These good results are testament to the hard work of our people. The Tesco team is now 472,000 strong – and we remain united by our goal to improve the shopping trip for our customers. I would like to thank all our people for their hard work which I know will continue in the year ahead.

A handwritten signature in black ink, appearing to read 'David Reid'.

**David Reid**  
Chairman

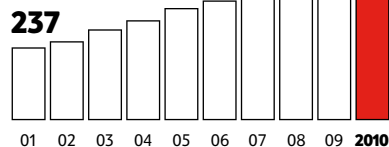


# A growth busi

## People

**472,000**

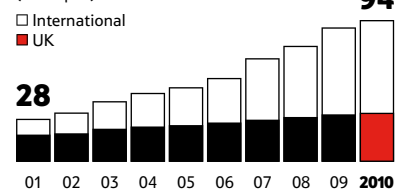
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## Sales area

**94m sq ft**

(m sq ft)

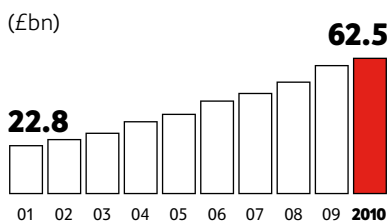


Our position amongst the leading global retailers hasn't happened by chance. For well over a decade, our long-term strategy has been delivering strong and consistent growth.

# Business...

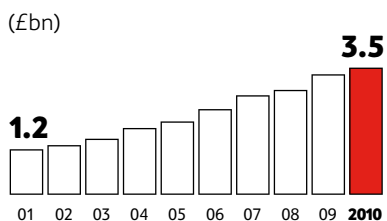
## Group sales

**£62.5bn**



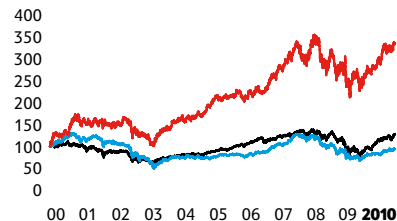
## Operating profit

**£3.5bn**



## Total shareholder return\*

— Tesco  
— FTSE 100  
— Eurofirst Food & Drug \* Index rebased to 100







Through diversification into new geographies, new product areas and new services, we're developing a business for the future – with sustainable growth for years to come.

# ...for a new de

**53%**

In 2000, Tesco was operating in markets representing 8% of global GDP; today it's **53%**.

**Zero**

We are committed to being **carbon-neutral** by **2050** and helping our customers halve their own carbon footprint by **2020**.

**65%**

Today **65%** of our selling space is outside the UK.





# cade

**48%**

**48%** of our space is less than five years old.

**No.1**

Customers expect to be able to shop where and when they want – as well as having great stores we're the **most profitable online grocery retailer in the world.**

**Multi-format**

Our **flexible range of formats** helps us to adapt our approach to local customers – wherever they are – from Extra hypermarkets to Express convenience stores.

**Global**

**We're starting to unlock the benefits of being a global Group:**

- Global sourcing volumes have grown **threefold** in six years
- Clubcard is now in **seven** countries
- F&F clothing is in **ten** countries
- Group shared services centre in Bangalore.

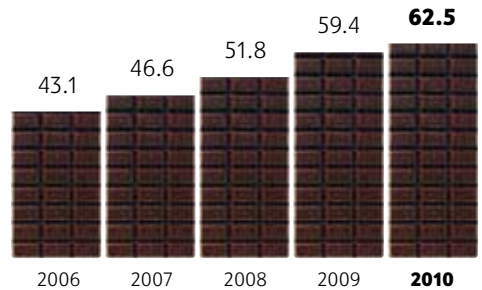
**Local**

We've learnt how to be 'local'; in South Korea, our largest international business, we have **over 22,000 employees and just six UK expats.**

Group sales

**£62.5bn**

Group sales  
£bn



Underlying profit  
before tax

**£3.4bn**

Stores  
worldwide

**4,811**

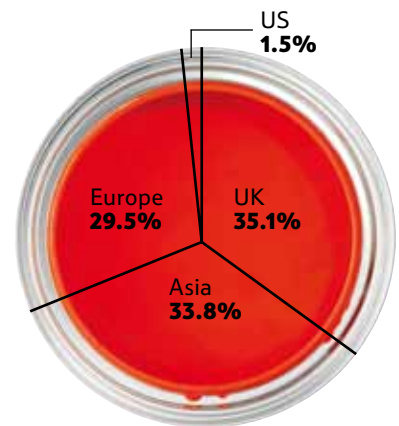
People  
worldwide

**472,000**

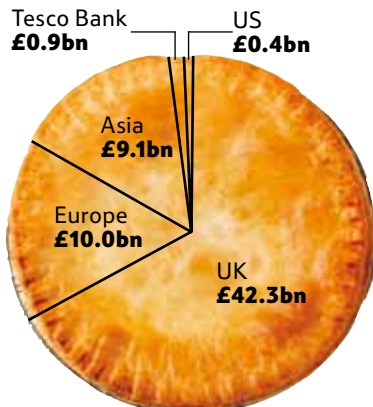
Countries

**14**

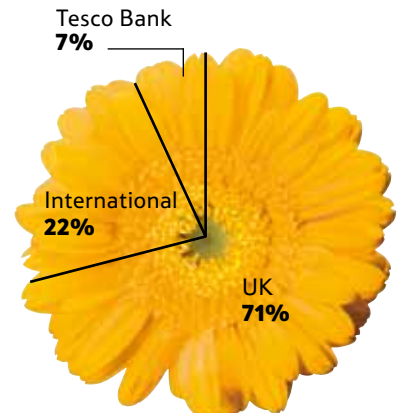
Group space  
by region



Group sales



Group profit





# Tesco around the world

## UK

	Revenue* £m	Stores	Employees
<b>Total</b>	<b>38,558</b>	<b>2,482</b>	<b>287,669</b>

## Europe

Region	Revenue* £m	Stores	Employees
<b>Republic of Ireland</b>	2,282	119	14,158
<b>Poland</b>	1,942	336	23,655
<b>Hungary</b>	1,698	176	20,079
<b>Czech Republic</b>	1,287	136	12,949
<b>Slovakia</b>	891	81	8,105
<b>Turkey</b>	595	105	7,630
<b>Total</b>	<b>8,695</b>	<b>953</b>	<b>86,576</b>

## US

	Revenue* £m	Stores	Employees
<b>Total</b>	<b>349</b>	<b>145</b>	<b>3,246</b>

## Asia

Region	Revenue* £m	Stores	Employees
<b>South Korea</b>	4,162	305	22,739
<b>Thailand</b>	2,344	663	34,775
<b>China</b>	844	88	22,668
<b>Malaysia</b>	633	32	9,423
<b>Japan</b>	449	142	4,636
<b>Total</b>	<b>8,432</b>	<b>1,230</b>	<b>94,241</b>

## India

In India, we have an exclusive franchise agreement with Trent, the retail arm of the Tata Group. We are supporting the development of their Star Bazaar format. We plan to open our first cash and carry store by the end of the year.

In 2009/10 there were an additional 362 people working in other locations such as international buying global hubs. Store numbers exclude one store in Calais, France. Total Revenue for Europe excludes France. Total Revenue for Asia excludes India.

\* Revenues are sales excluding VAT.

**Our well-established and consistent strategy for growth has given the business momentum to grow through the downturn.**



*Terry*

**Sir Terry Leahy**  
Chief Executive





**This year's results show another solid performance from across the Group. By staying focused on doing the right thing for customers we have weathered the economic storm well. And by remaining committed to our long-term strategy we are emerging from recession stronger – with good building blocks in place for future growth.**

Each element of our strategy – UK, International, Non-food, Retailing Services and Community – is stronger now than this time last year.

In **International**, our businesses have made good progress in a challenging global economic environment. Our strategy is working – we've grown sales, profits and market shares and we've continued to invest in the drivers of future growth. Our performance in Asia was particularly pleasing, our business in Europe held up well despite the obvious economic challenges and I believe the start-up losses in our US business will now begin to reduce as Fresh & Easy establishes itself.

Our **UK** business had a good year. By remaining focused on helping customers spend less and encouraging loyalty with an increased investment in Clubcard, our UK business has delivered

a solid performance. In our core grocery operations, we're growing ahead of the industry as a whole and we have been less affected by falling inflation than the market at large.

In **Non-food** we have made good progress. In the UK we achieved a particularly strong performance in electricals, entertainment and toys. Our clothing range is becoming an international success, led by our F&F range which is growing rapidly in our European markets and this year was launched in four countries in Asia.

Our **Retailing Services** have grown sales and profits once again. We've also been building the platforms for future growth, particularly in Tesco Bank, which is making good progress in developing its own systems and people capabilities as well as working on a broader product range as it moves towards becoming a full-service retail bank.

In the same way that we've stuck to our strategy in other parts of the business, we've also remained committed to our work on **Community** and the environment. In October, we set ourselves three challenging long-term targets: to become a zero-carbon business by 2050; to reduce the carbon impact of the products in our supply chain by 30% by 2020; and to help our customers halve their own carbon footprint by 2020. And we're making good progress already.

We're delivering for all stakeholders: an improved shopping trip for customers; training and good careers for our staff; growth and

innovation with our suppliers; in local communities we're supporting causes that matter to customers; and we're delivering good returns to shareholders.

### **Looking forward**

The outlook for shareholder returns is encouraging: we have a strong core UK business growing well; our international businesses offer significant upside from recovery in the short term and maturity in the longer term; our balance sheet is strengthening; and we're creating value through good property development.

Our positions in high-growth international economies and non-food meant we were always likely to face strong headwinds during the recession but it will be these parts of our business which will grow fastest in the recovery and beyond.

I am confident that with the prospect of an improving global economy and recent investments in acquisitions and new selling space making a greater contribution going forward, returns will improve significantly – starting this year.

**Sir Terry Leahy**  
Chief Executive

## Long-term strategy

**Tesco has a well-established and consistent strategy for growth. The rationale for the strategy is to broaden the scope of the business to enable it to deliver strong, sustainable long-term growth by following customers into large expanding markets at home – such as financial services, non-food and telecoms – and new markets abroad, initially in Central Europe and Asia and more recently in the United States.**

The strategy has five elements, reflecting our four established areas of focus plus Tesco's commitments on community and the environment:

- to be a successful international retailer;
- to grow the core UK business;
- to be as strong in non-food as in food;
- to develop retailing services; and
- to put community at the heart of what we do.

The strategy to diversify the business has been the foundation of Tesco's growth in recent years. It was laid down in 1997, with the fifth element – Community – being added in 2007. Many of the new businesses that have been created and developed over the last 13 years as part of this strategy are now of significant scale and highly profitable – in fact we are now market leader in many of our markets outside the UK. In 1997 our International business generated 1.8% of the Group's profits and we had only just entered the Retailing Services markets; today these parts of our business represent 22% and 16% of profits respectively.

Importantly, the strategy has given the business momentum to grow well through the economic downturn. By continuing to invest through the recession – in the customer offer, in infrastructure and in our people – we are now well placed to grow faster and improve shareholder returns as the global economic environment improves.

## International

**Our international business has delivered a strong performance despite many of our markets feeling the impact of the global recession.**

**Sales**

**£19.4bn**

**Sales up**

**8.8%**

**15**

**The first Tesco outside the UK opened just 15 years ago – in Hungary**

**New space**

**5.1m sq ft**

**New stores**

**324**

### Regional results

Asia	£m	% growth
Sales (inc. VAT)	9,072	19.7%
Trading profit	440	23.9%
Trading margin	5.2%	0.2%

Europe	£m	% growth
Sales (inc. VAT)	9,997	(0.7)%
Trading profit	474	(4.0)%
Trading margin	5.4%	(0.2)%

US	£m	% growth
Sales (inc. VAT)	354	72.7%
Trading profit	(165)	(17.9)%

## Core UK

**Our market-leading UK business has continued to grow well by helping customers to spend less during the downturn.**

**Sales**

**£42.3bn**

**Sales up**

**4.2%**

**Trading profit**

**£2.4bn**

**Trading profit up**

**6.7%**

### UK results<sup>1</sup>

	£m	% growth
Sales (inc. VAT)	42,254	4.2%*
Trading profit	2,413	6.7%
Trading margin	6.2%	0.1%

\* 5.5% sales growth ex-petrol.

<sup>1</sup> Tesco.com, Tesco Telecoms and dunnhumby are included in the UK segment and Tesco Bank is excluded from the UK segment under IFRS 8.

**15m**

**active Clubcard holders**





## Non-food

Our general merchandise offer is growing in sophistication with improved ranges and prices and more global sourcing.

Sales

**£13.1bn**

Sales up

**6.2%**

**1 in 4**

We sell 1 in every 4 small-screen TVs sold in the UK

**1,000+**

Tesco Tech Support advisors in UK stores

**14%**

Like-for-like clothing sales in Central Europe up 14%



**10**

F&F sold in 10 countries

## Retailing Services

We've made good progress this year in our Retailing Services businesses: Tesco Bank; tesco.com; Telecoms; and dunnhumby.

Sales

**£3.6bn**

Tesco Bank

Trading profit up

**17.6%**

**400,000**

new customer accounts over the past year

tesco.com

**1bn**

grocery items delivered last year

**26%**

Profits up

Telecoms

**2m+**

Tesco Mobile customers

**100+**

Phone Shops

dunnhumby

**26**

dunnhumby serves other retailers and manufacturers in 26 international markets

## Community

We're continuing to lead the way in caring for the environment, supporting local communities and encouraging healthy lifestyles.

Store waste in the UK diverted from going directly to landfill

**100%**

**270**

Community Champions

**6.2m**

We helped 6.2 million people get active worldwide

**100%**

100% of eligible own brand products now have nutritional labelling

**500**

Carbon-footprinted products in the UK and South Korea

working with the Carbon Trust



per 250ml serving

## Our people

As we grow our business we're developing our people to become leaders for the future.

People

**472,000**

**810**

new graduates recruited this year

**£98m**

in shares awarded under Shares In Success scheme

**17**

The first 17 students completed the Tesco Foundation Degree in July

**4m**

Improved attendance levels put an additional four million hours into UK stores and depots

**195,000**

of our people have a personal stake in Tesco

**50%**

of people on the boards of our international businesses are local to that country



## International



**In International we have delivered a resilient performance in the face of challenging economic headwinds. Our businesses have made good progress – delivering for customers today and at the same time investing in the drivers of future growth. Our strategy is working – and we ended this year stronger than we started it.**



Each of our businesses has adapted itself to the demands of its local market – with strong local management teams finding ways to lower costs and deliver great value for customers. Increasingly our international businesses are also utilising the scale and skill of the Tesco Group – with more international sourcing, Discount Brands now in seven markets, F&F clothing now in ten countries, Clubcard introduced in seven countries with more Clubcard holders internationally than in the UK – and the Tesco Operating Model sharing our global best practice to the benefit of all our businesses.

With clear signs that our international markets are starting to recover we are planning to resume a faster pace of new space opening in the coming year. In 2009/10 we opened 5.1m sq ft of new space and in 2010/11 we will open 8.5m sq ft in addition to nine shopping malls in China. The performance of our International businesses through this severe recession has provided reassurance on the quality

## Our international business has delivered a strong performance despite many of our markets feeling the impact of the global recession

### Lifespace – our unique approach in China

The size and scale of China provides unique challenges for a retailer but also offers a huge opportunity for a business prepared to show flexibility and vision.

Our strategy is to expand into less developed second and third tier cities by opening hypermarkets in leading shopping malls. We've found it hard to find locations with the right facilities in some cities – giving us an opportunity to develop our own malls, to ensure they are the right size, location and design to meet the needs of the new Chinese consumer.

During the year we opened our first three Tesco Lifespace shopping malls in Fushun (pictured), Qingdao and Qinhuangdao and we will open nine more this year. Each mall comprises

approximately 500,000 sq ft of retail space over five floors and is a one-stop destination providing shopping (including a 100,000 sq ft Tesco hypermarket), entertainment, dining and leisure.

We are partnering with investors to share the capital commitment on some of these projects, enabling us to roll out more sites faster.



and resilience of our assets and local management teams and strengthens our confidence in our international strategy and long-term growth prospects.

In Asia, we have delivered a strong performance despite challenging economic conditions in the region. We have grown sales and profits well – driven by new space and the excellent performance of the stores acquired in South Korea in 2008, which are now profitable.

Europe overall delivered a robust performance against strong economic headwinds in the form of increasing unemployment and price deflation. By reducing costs and lowering prices for customers and by continuing to invest in new space we have made market share gains across our markets.

A good example is Ireland where we have made substantial changes to our business, which

was facing the dual challenge of a severe recession and cross-border trading. By integrating more of our international brand buying with our UK business we have been able to reduce the prices of 12,500 products by an average of around 20%.

In the United States, Fresh & Easy has been making good progress, despite prolonged weakness in the California, Nevada and Arizona economies. Losses were broadly in line with guidance and reflect the fact that Fresh & Easy has been built with the infrastructure to support hundreds of stores. Although we do not expect losses to be much lower in 2010/11 we believe they have now peaked.

**There are more Clubcard holders internationally than in the UK**



A man in a blue poncho is smiling and standing in front of a white backdrop. In the background, a Tesco store is visible with its red and white signage. Two other people are walking down the steps of the store entrance. The man is holding a white shopping bag.

# “...I get special offers with my Member card”

**Ji**  
**Tesco customer**  
Shanghai, China

**Tesco  
works  
for me...**



**Watch the video:**  
[www.tesco.com/tescoworksforme](http://www.tesco.com/tescoworksforme)

# “...Tesco Express – it’s the easiest thing at lunchtime”

**Kevin and Allan**  
**Tesco customers**  
East Ham and  
Islington

**Tesco  
works  
for us...**



Watch the video:  
[www.tesco.com/tescoworksforme](http://www.tesco.com/tescoworksforme)



## Core UK

**Our market-leading UK business has continued to grow well by helping customers to spend less during the downturn**



**Our strategy of earning customers' loyalty by helping them to spend less – with low prices and affordable new products such as the Discount Brands – deflated sales growth initially but it was the right thing to do for customers.**

By encouraging and rewarding loyalty – through an increased investment in Clubcard – we have maintained steadier sales growth during the year than the industry as a whole, which has seen significant slowdown with the steep decline in inflation.



Whilst focusing on lowering prices and offering great promotions has been a real priority during the recession, delivering for customers is also about providing an 'Every little helps' shopping trip. That's why we have continued to invest in availability, service, range and quality.

We understand how important it is to our customers that their favourite items are available every time they shop. Over the past year we have introduced a number of new initiatives to improve stock management and reduce further the number of gaps on our shelves. By developing more efficient ordering systems, introducing better in-store monitoring processes and changing the way we store our stock we have reduced evening gaps in fresh food by 18%.

We've also stayed ahead of our competitors on key customer service measures. Our one-in-front initiative – where if there is more than one customer queuing at a single checkout we open another – and increased investment in self-service checkouts, which now account for a quarter of all

## Clubcard – 15 years of loyalty

Clubcard is our unique way of saying thank you to our customers for shopping with us. Launched in 1995, Clubcard now has 15 million active members in the UK. Clubcard not only rewards our customers for their loyalty, but it also provides us with valuable insight into changing shopping patterns. By monitoring this data and spotting trends early we're able to respond quickly and ensure that we're always providing customers with what they want, when and where they want it.

This year Clubcard became even more rewarding. By increasing our investment with Double Points, customers earned £550 million in total in vouchers. Double Points has encouraged more customers to sign up, a Clubcard is now used with a higher proportion of transactions than before and

18% more UK households are redeeming vouchers than a year ago.

The knowledge and expertise of operating Clubcard – combined with insight and analysis from dunnhumby – is now being adopted across our international businesses. We now have Clubcard in seven of our international markets – in fact we now have more Clubcard holders overseas than in the UK.



transactions, continue to keep us ahead of the industry on customer measures of checkout service. We trained more than 200,000 staff to help them respond better to customer needs and our 'Every Comment Helps' initiative, which encourages customers to give instant feedback via text or email, has given us the benefit of 60,000 customer comments to help us improve our offer and service.

Tesco's diverse and adaptable range allows us to offer a wide choice for every customer whatever their budget. Through the recession we have helped customers with lower-priced ranges such as Discount Brands and Market Value and we have also offered them affordable treats such as the Finest Restaurant Collection ready meals, which have been very popular. We continue to innovate our range with over 2,600 new or improved own-label food lines launched this year.

Quality – particularly in fresh food – remains important to customers even in tough times and as we emerge from recession this will become even more important. That's why we have been investing in our fresh food offer with a wide-ranging change programme. Improved technical standards, additional specialist staff training, closer relationships with our suppliers and significant changes to the way we merchandise some key products are helping us deliver a stronger range and better shopping experience for customers. These and other initiatives helped Tesco win the 'Fresh Produce Retailer of the Year' Award in 2009.

**Customers earned  
£550m in Clubcard  
vouchers**





## Non-food



**By remaining focused on providing customers with excellent quality and value, our non-food business has been resilient through the downturn. In some key categories we have made significant market share gains as more customers have been encouraged to try our non-food range in the search for great value and as some competitors have felt the strain.**



With our growing range in-store, customers are recognising the convenience of buying non-food items with their weekly groceries, rather than making a special trip to the high street. Our sales in toys, for example, continue to grow rapidly – up 25% this year.

In entertainment products, we're reducing prices and differentiating our range by signing deals directly with film studios. This year we signed a groundbreaking deal with DreamWorks for the exclusive rights to the short animated film *Merry Madagascar*, which sold over one million copies over Christmas.

In some areas, such as electricals, customers are looking for specialist, impartial advice. That's why we now employ over 1,000 specially trained Tesco Tech Support advisors in our largest stores in the UK. This team has helped Tesco double turnover in electricals in the last four years; we now sell one in every six microwaves in the UK and one in four small-screen TVs.

## Our general merchandise offer is growing in sophistication with improved ranges and prices, more global sourcing and a stronger online presence

### F&F – a global brand

Our ambition is to make F&F a leading global fashion brand, offering unbeatable value for money, not compromised by quality, design or provenance.

F&F launched in the UK in 2001 and has expanded rapidly since then with sales last year of £540 million in the UK – supported by the launch of our online clothing site in October.

F&F launched in Central Europe in 2008 and we're already making excellent progress. F&F is rapidly becoming established in the region with customer awareness of the brand growing from 34% to 61% in the last year.

Across our markets in Central Europe, Tesco is already one of the largest clothing retailers. In fact during the year we sold more F&F items – 68 million – than the combined

populations of our four countries in the region: Poland; Hungary; Czech Republic; and Slovakia.

We're now building on the success in the UK and Central Europe to launch F&F across our Asian markets. This year we launched in China, Malaysia, South Korea and Thailand.

As with any brand, F&F can't afford to stand still, which is why we're broadening the brand's appeal with new ranges – F&F Couture and F&F Jewellery.



We are also bringing global scale and skill to our non-food business. For example, in Europe, the use of joint buying for clothing – whereby 95% of the supplier base in Central Europe is the same as Ireland and the UK – enables us to reduce supply chain costs, helping us to maximise quality whilst minimising prices for customers.

Shopping habits are changing – customers want to buy online as well as from stores and catalogues – and many will use a combination of these to research before buying. With an integrated multichannel approach we're making it easy for customers, whichever way they want to shop. In addition to the 15,500 products available online through Tesco Direct, we now have two new specialist websites launched in October:

- **[www.tesco.com/clothing](http://www.tesco.com/clothing)** combines familiar Tesco labels – such as Cherokee and F&F – with new Tesco lines offered exclusively online, plus a number of other brands. It became one of the top ten most visited clothing websites within a few weeks of its launch;
- **[www.tesco.com/entertainment](http://www.tesco.com/entertainment)** has brought together, for the first time, our entire physical and digital entertainment offer, in a new and easy to use one-stop site. Customers can buy a CD, DVD or game and a film or album download, all in one transaction. From the outset the new site has proved popular with customers.

**Tesco  
works  
for me...**

**Sasha with Schmoo**  
**Tesco customer**  
Friern Barnet

**“...everything is in one  
location – I just bought  
a washing line”**



“...I have my cat insured with Tesco – they were very reasonable”



Tesco works for me...

**Sue with Lexi**  
**Tesco customer**  
Muswell Hill







## Retailing Services

## We've made good progress this year in our Retailing Services businesses



**Following the announcement in July 2008 of our intention to take full ownership of Tesco Bank, we set a target to grow the profitability of our Retailing Services businesses from a little under £400 million in 2007/8 to £1 billion. This year we made good progress in attracting new customers and growing sales and profits while at the same time laying the foundations for further growth.**



### Tesco Bank

Overall, Tesco Bank has delivered a good performance in a challenging retail banking market growing profits by 13% to £250 million. Bad debt levels rose during the year but have now stabilised and throughout have remained below industry averages. We grew the number of customer accounts by more than 400,000 in the last year – to a total of more than 6.2 million across all products.

We've made good progress in developing the systems we'll need to operate Tesco Bank on a stand-alone basis, selecting partners for both our banking and insurance platforms. Subject to regulatory approval, we anticipate launching new savings products and mortgages by the end of financial year 2010/11, with current accounts to follow by the second half of 2011.

### tesco.com

Our online businesses – including dotcom grocery and Direct – delivered another strong performance, achieving a 14% increase in sales with profits rising 26% to £136 million.

The number of active customers in our online grocery business has grown to over one million and basket size has increased. Tesco Direct also had another good

### tesco.com – a leading online retailer

Including both our grocery and non-food offer, tesco.com is one of the largest online retailers in the UK, with sales of more than £2 billion. Just as in our stores, our success comes from listening to customers and a constant drive to ensure that we provide an online 'Every little helps' shopping experience.

With more than a million active customers, our online grocery business is the market leader and the most profitable business of its kind in the world. It continues to grow strongly – last year we delivered over one billion items. We have put ease of use at the heart of our online shopping trip – for example, our 'favourites' feature, which makes shopping online easier by using Clubcard to remember a customer's favourite in-store and online purchases. We also continue to innovate with our 'price match' on any substituted products and our 'shorter than we'd like' code life guarantee.

Tesco Direct extends the reach of our non-food offer with over 15,500 products available to customers via the internet and catalogues. Customers can choose to have goods delivered to their home or they can pick them up at one of our 261 in-store Direct desks. This year we relaunched our online entertainment site, enabling customers to buy downloads alongside the physical product, and we launched our online clothing website with a range of 2,500 fashionable items, of which 1,000 were exclusively online.



year making good progress on its customer service offer, growing sales by 28% and continuing on its path towards profitability.

### Tesco Telecoms

Profit from our telecoms business grew, driven primarily by Tesco Mobile, which achieved a 14% increase in customer numbers – to more than two million – in a declining pre-pay phone market. Tesco Mobile also successfully entered the 'pay monthly' market this year and in December broadened its appeal further by becoming only the third UK operator to offer the iPhone, for which sales have been encouraging.

We have made good progress in rolling out our in-store Phone Shops with 105 open at year end and a further 100 planned by the end of this year. Phone Shops are transforming our ability to

sell products that require an assisted sale, particularly contract mobile phones.

Also in 2009 we signed a wholesale broadband agreement with Cable & Wireless, which will enable us to relaunch our broadband offer to customers in 2010 with higher bandwidth speeds and lower prices.

### dunnhumby

This year marks dunnhumby's 20th anniversary. In addition to supporting Tesco's Clubcard in seven countries around the world, dunnhumby serves other retailers and manufacturers in 26 international markets; in fact Tesco now represents only around 15% of its sales. dunnhumby is growing fast – with profits up 28% in the year. dunnhumby now touches the lives of over 350 million consumers through its client relationships.



## Community



**We are committed to being a responsible neighbour within our local communities and taking a leadership role on the environment. This is something our customers expect and we believe is increasingly important for our growth.**

### Caring for the environment

Over the past few years we have played a leadership role amongst large businesses in tackling climate change, through our own actions and in collaboration with our customers, suppliers, NGOs and governments around the world. We have made great progress this year in reducing CO<sub>2</sub> emissions across our business globally. Emissions from our baseline 2007 store and distribution centre portfolio have fallen by 7.8% over the past year and new stores and distribution centres built since 2006/7 are on average emitting 28.8% less CO<sub>2</sub> than their equivalents in 2006/7.

We have delivered on our promise to divert 100% of store waste in the UK from going directly to landfill.

We opened the world's first zero-carbon supermarket in Ramsey, Cambridgeshire, in January this year, deploying a range of energy-efficiency measures, natural refrigeration and renewable energy technology.

In 2007 Tesco invested £25 million to create a new Sustainable Consumption Institute (SCI) at the University of Manchester. The SCI aims to answer some of the fundamental questions about how to make a consumer society sustainable.

In October, the SCI held a conference to launch its first major report 'Consumers:

## We're continuing to lead the way in caring for the environment, supporting local communities and encouraging healthy lifestyles

The Key to a Low-Carbon World'. At that conference, we committed ourselves to a new set of challenging long-term targets: to become a zero-carbon business by 2050; to reduce the carbon impact of products in our supply chain by 30% by 2020; and to help our customers halve their own footprints by 2020.

### Actively supporting local communities

Throughout the year, we gave over £60 million in donations to charities and contributions to community projects including cause-related marketing, gifts-in-kind, staff time and management costs. Once again we have donated the equivalent of more than 1% of our profits to good causes. Additionally, including our Charity of the Year partnerships, which go from strength to strength, this year our staff raised over £7 million for charity across the Group.

We have continued to roll out Community Champions right across the Group. Community Champions are staff members who dedicate paid hours to coordinate store activities in their local communities. The Champions support local charities, organisations, schools and causes that local people really care about. We now have Champions in seven countries.

### Buying and selling products responsibly

In 2009, over 3,300 suppliers covering all our markets responded to our Group-wide anonymous supplier survey – Supplier Viewpoint. At least 90% agreed that we pay on time, we are professional, we treat them with respect and we are committed to meeting customer requirements.

**Throughout the year we gave over £60m in donations to charities**

We have launched our Trading Fairly programme and recruited our first ethical action managers in South Africa and Bangladesh, who work with our local suppliers to improve conditions across the supply chain. We have also introduced 'Trading Fairly' Awards for our produce and clothing suppliers, which reward suppliers making particularly strong efforts to improve conditions for their employees.

### Giving customers healthy choices

Across the Group we have exceeded our target of nutritional labelling on own-brand products – we now label 100% of eligible products – giving customers the tools they need to make healthy choices.

As part of our strategy to encourage customers to lead more active lives, we run a range of programmes around the world from aerobic competitions in Thailand to charity 'Runs for life' in Slovakia and the Czech Republic. This year we succeeded in getting 6.2 million people active across the world.

### Creating good jobs and careers

We are dedicated to creating good jobs wherever we are. We will create 16,000 new jobs this year, including 9,000 in the UK and 380 for the long-term unemployed.

# “..Tesco is environmentally friendly”

Tesco works for me...

**Julia with  
Krystian**  
Tesco customer  
Krakow, Poland



**Watch the video:**  
[www.tesco.com/tescoworksforme](http://www.tesco.com/tescoworksforme)





**Watch the video:**

[www.tesco.com/tescoworksforsme](http://www.tesco.com/tescoworksforsme)

**Tesco  
works  
for me...**

**Marcia**  
**Tesco employee**  
Cheshunt

**“...you are given  
the opportunity to  
go as far as you want”**



## Our people



**Our Values are ‘No-one tries harder for customers’ and ‘We treat people how we like to be treated’. These values are interlinked and underpin everything we do at Tesco. We know that by managing our people well – in a culture of trust and respect – they will in turn try their hardest for customers.**



By offering competitive pay and benefits and an opportunity to develop a long-term varied career with good training, we are able to keep our people motivated, committed and excited about working at Tesco. In the UK, for example, in our internal ‘Viewpoint’ staff survey this year, we improved on 24 out of the 25 measures and attendance levels improved again, putting an additional four million hours into our stores and depots.

Our people are crucial to our success and it is essential that they feel rewarded for the work they do and supported in their development. We offer good pay across all our businesses, as well as benefits in each market that reflect employees’ priorities.

**‘We treat people how we like to be treated’**

## As we grow our business we’re developing our people to become leaders for the future

Despite the tough global market in 2009 we continued to invest in pay at the annual review. We focused on our core rates and in a tough financial year our pay competitiveness improved in most markets.

In many developing markets, employees place most value on good basic pay and being paid fairly for overtime and these are our priorities. In Malaysia, for example, where there is no legal minimum wage, the minimum a Tesco employee will receive is 30% more than the Poverty Line Index. In Thailand this year we introduced a staff discount linked to Clubcard.

In the UK, our reward package leads the market on pay and benefits. We are one of the few FTSE businesses to still have an open defined benefit pension scheme, which is greatly valued by staff.

We are committed to providing opportunities for our people to get on and turn their jobs into careers. Last year we had more people on development programmes than ever before.

The first 17 students to complete the Tesco Foundation Degree graduated in July. The Foundation Degree in Retail – delivered and awarded by Manchester Metropolitan University – is a two-year development programme aimed at providing work-focused retail training to managers at Tesco. We have now have 60 people on the scheme and are working on ways to make it grow.

**‘No-one tries harder for customers’**

We believe that even in difficult times it is essential to invest in future talent. That’s why this year, while many other businesses were cutting their graduate schemes, we increased our graduate intake to 810, including 535 in Asia.

We now have 480 people at Director level in the business. Of these, 50% work in our International business – a combination of local hires and people moving from the UK business.

We also understand the importance of increasing mobility. As a global business we’re developing leaders with a global perspective and now have 34% of our Directors with at least one year of experience outside their home country.

Over the coming year we will be investing nearly £30 million in a purpose-built training facility in South Korea, set to become our Tesco Academy hub for Asia. The new Academy will help ensure that the development of our people in Asia keeps pace with the rapidly growing business.

We strive to provide an inclusive environment where all difference is valued, people are able to be themselves, enjoy coming to work and realise their full potential, regardless of their gender, marital status, race, age, sexual orientation, creed, ethnic origin, religion or belief, or disability.

# Summary report of the Directors

## Principal activity and business review

The principal activity of the Group is retailing and associated activities in the UK, China, the Czech Republic, Hungary, the Republic of Ireland, India, Japan, Malaysia, Poland, Slovakia, South Korea, Thailand, Turkey and the US. The Group also provides retail banking and insurance services through its subsidiary Tesco Bank. The summary of the Group financials is on pages 26 to 28.

## Dividends

The Directors recommend the payment of a final dividend of 9.16 pence per ordinary share to be paid on 9 July 2010 to members on the Register at the close of business on 30 April 2010. Together with the interim dividend of 3.89 pence per ordinary share paid in December 2009, the total dividend for the year will be 13.05 pence, compared with 11.96 pence for the previous year, an increase of 9.1%.

## Directors

Details of the current members of the Board are shown on the inside back cover.

David Reid, Lucy Neville-Rolfe, David Potts, Ken Hydon and Tim Mason retire from the Board and, being eligible, offer themselves for re-election at the Annual General Meeting (AGM). Ken Hanna joined the Board on 1 April 2009.

## Corporate governance

Tesco PLC is committed to the highest standards of corporate governance.

The Board considers that Tesco PLC complied in all respects with the Combined Code on Corporate Governance for the year ended 27 February 2010 with the exception of provision A.3.2, in respect of which the company was not in compliance for part of the year.

Provision A.3.2 requires that at least half of the Board, excluding the Chairman, should comprise Non-executive directors determined by the Board to be independent. The Board recognises the importance of a balanced board with an appropriate level of independence. Due to unexpected changes to the Board in the previous year, with the resignation of Carolyn McCall and Mervyn Davies as Non-executive Directors, the Board was not in balance at the beginning of the year.

At this stage, Ken Hanna's impending appointment to the Board had already been announced, and he joined the Board with effect from 1 April 2009, at which point the Board became balanced and once again fully compliant with provision A.3.2.

A full corporate governance statement is contained in the Annual Report and Financial Statements 2010.

## Summary report of the Directors on remuneration

### Remuneration policy

It is the role of the Remuneration Committee to determine and recommend to the Board the remuneration policy for the Chairman and Executive Directors. Tesco has a long-standing policy of valuing talent and experience and seeks to provide incentives for delivering high, sustainable and profitable growth which leads to a strong increase in value for shareholders. The remuneration strategy is tailored to reward the delivery of strong year-on-year earnings growth as well as sustained performance in the longer term.

### Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice. The Committee was constituted and operated throughout the year in accordance with the principles outlined in the Listing Rules of the Financial Services Authority derived from the Combined Code on Corporate Governance. The Remuneration Report complies with the disclosures required by the Directors' Remuneration Report Regulations 2002.

A summary of Directors' emoluments and interests is set out on page 25. The full Remuneration Report is provided in the Annual Report and Financial Statements 2010.

### Independent auditors' statement to the members of Tesco PLC

We have examined the summary financial statement which comprises the Summary Consolidated Income Statement, Summary Consolidated Balance Sheet, Summary Consolidated Statement of Comprehensive Income, Summary Consolidated Cash Flow Statement and the Summary Directors' Remuneration Report set out on pages 24 to 28.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the summarised Annual Review and Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the summarised Annual Review with the full annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the summarised Annual Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement. The other information comprises only the other items listed on the contents page.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 428 of the Companies Act 2006 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our reports on the company's full annual financial statements describes the basis of our audit opinions on those financial statements, the Directors' report and the Directors' Remuneration Report.

### Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Financial Statements, the Directors' Report and the Directors' Remuneration Report of Tesco plc for the year ended 27 February 2010 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London 5 May 2010

### Notes:

- The maintenance and integrity of the Tesco plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the full annual financial statements or the summary financial statement since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## Directors' emoluments

	Fixed emoluments			Performance-related emoluments			Total 2009/10 £000	Total 2008/9 £000
	Salary £000	Allowances £000	Benefits <sup>2</sup> £000	Short-term cash £000	Short-term deferred shares £000	Long-term <sup>3</sup> £000		
Executive Directors								
Richard Brasher	805	–	63	771	763	–	2,402	2,267
Philip Clarke	805	–	38	771	763	324	2,701	2,720
Andrew Higginson	805	–	56	771	763	329	2,724	2,754
Sir Terry Leahy	1,398	–	115	1,340	1,784	583	5,220	5,102
Tim Mason – base salary <sup>1</sup>	816	305	343	914	909	329	3,616	3,225
Tim Mason – supplement <sup>1</sup>	200	–	–	225	224	–	649	560
Tim Mason – total	1,016	305	343	1,139	1,133	329	4,265	3,785
Laurie McIlwee	588	–	50	579	572	–	1,789	91
Lucy Neville-Rolfe	589	–	69	579	572	–	1,809	1,606
David Potts	805	–	45	771	763	324	2,708	2,719
Non-executive Directors								
Charles Allen	95	–	–	–	–	–	95	91
Patrick Cescau	89	–	–	–	–	–	89	5
Rodney Chase	135	–	–	–	–	–	135	129
Karen Cook	77	–	–	–	–	–	77	73
Harald Einsmann	77	–	–	–	–	–	77	73
Ken Hanna <sup>4</sup>	79	–	–	–	–	–	79	–
Ken Hydon	95	–	–	–	–	–	95	91
David Reid (Chairman)	610	–	67	–	–	–	677	657
Jacqueline Tammenoms Bakker	65	–	–	–	–	–	65	9
Total	8,133	305	846	6,721	7,113	1,889	25,007	22,172

1 Tim Mason's salary is made up of a base salary and a non-pensionable salary supplement (shown separately). Allowances are made up of compensation payments for additional tax due on equity awards made prior to his move to the US. Tim Mason's benefits are made up of car, travel, medical, tax related costs and services and free shares awarded under the all employee Share Incentive Plan.

2 With the exception of Tim Mason, benefits are made up of car benefits, chauffeurs, disability and health insurance, staff discount, gym/leisure club membership and free shares awarded under the all employee Share Incentive Plan.

3 The long-term bonus figures relate to the additional 12.5% enhancements allocated in April 2009 and February 2010 on long-term awards under the old bonus scheme.

4 Ken Hanna was appointed during the year. The figure shown is from his date of appointment.

## Disclosable interests of the Directors, including family interests

	Options held at 28 February 2009 <sup>1</sup> (or on appointment if later)	Granted	Exercised	Lapsed/ exchanged <sup>4</sup>	Options held at 27 February 2010 <sup>1,3</sup>	Value realised during 2009/10 £000	Ordinary shares at 27 February 2010 <sup>2</sup>
<b>Executive Directors</b>							
Richard Brasher	3,684,552	859,323	1,977,885	521,854	2,044,136	<b>4,782</b>	1,186,704
Philip Clarke	3,331,548	863,034	1,012,704	332,773	2,849,105	<b>4,059</b>	1,811,821
Andrew Higginson	3,765,901	857,817	1,441,840	332,773	2,849,105	<b>4,205</b>	1,586,895
Sir Terry Leahy	12,558,542	1,608,375	2,419,408	1,108,084	10,639,425	<b>8,300</b>	7,806,736
Tim Mason	2,641,390	477,969	1,959,870	0	1,159,489	<b>3,668</b>	4,134,570
Laurie McIlwee	384,824	573,043	214,401	0	743,466	<b>232</b>	237,241
Lucy Neville-Rolfe	1,226,627	597,937	225,607	181,599	1,417,358	<b>260</b>	443,091
David Potts	3,331,548	864,851	1,014,521	332,773	2,849,105	<b>4,260</b>	2,559,979
<b>Non-executive Directors</b>							
Charles Allen	–	–	–	–	–	–	–
Patrick Cescau	–	–	–	–	–	–	–
Rodney Chase	–	–	–	–	–	–	–
Karen Cook	–	–	–	–	–	–	–
Harald Einsmann	–	–	–	–	–	–	355,984
Ken Hanna	–	–	–	–	–	–	–
Ken Hydon	–	–	–	–	–	–	30,093
David Reid (Chairman)	–	–	–	–	–	–	194,080
Jacqueline Tammenoms Bakker	–	–	–	–	–	–	–
<b>Total</b>	<b>30,924,932</b>	<b>6,702,349</b>	<b>10,266,236</b>	<b>2,809,856</b>	<b>24,551,189</b>	<b>29,766</b>	<b>20,347,194</b>

1 Options to acquire Ordinary shares shown above comprise options held under the Executive Share Option Scheme, Discretionary Share Option Plan, Save As You Earn scheme and nil cost options under the Performance Share Plan (PSP), Executive Incentive Plan (EIP) and Group New Business Incentive Plan.

2 Ordinary shares shown in this table include shares held as part of incentive plans and shares held under a promise as part of the PSP.

3 The exercise price of outstanding options ranges from 0p to 473.75p.

4 During the year a number of awards were reclassified from nil cost options to restricted shares after Executive Directors agreed to exchange awards already earned under incentive plans to crystallise the tax due. Full details can be found in the Annual Report and Financial Statements 2010.

## Group financials

These results are for the 52 weeks ended 27 February 2010. In the last full financial year, we reported a 53-week period for the UK, Republic of Ireland and the United States (US) and a 52-week period for the rest of the Group. Growth rates in these results are expressed for the UK, Republic of Ireland and US to coincide with the comparable 52 weeks last year.

Statutory numbers include the adoption of IFRIC 13 (Customer Loyalty Programmes). All other numbers are shown excluding IFRIC 13, consistent with internal management reporting. More information can be found in note 1 to the Group financial statements in the Annual Report and Financial Statements.

Group sales, including VAT, increased by 6.8% to £62.5 billion. At constant exchange rates, sales increased by 6.1% (including petrol) and 7.7% (excluding petrol).

Underlying profit before tax rose to £3,395 million, an increase of 10.1%. Group trading profit was £3,412 million, up 12.3% on last year and Group trading margin, at 5.9%, rose 25 basis points. These were helped by the fact that Tesco Bank was fully consolidated in 2010 and accounted for as a joint venture for most of 2009.

Group operating profit rose by 10.7% to £3,457 million. Group profit before tax increased 10.4% to £3,176 million.

On a statutory 52-week basis (compared to 53 weeks last year), Group operating profit rose by 9.1% to £3,457 million and Group profit before tax rose by 8.9% to £3,176m.

**Cash flow and balance sheet** Tesco liquidity has improved significantly during the year through strong cash generation, tight control of capex and working capital improvements arising from better inventory management. Net debt has consequently reduced by £1.7 billion to £7.9 billion.

Excluding the effects of currency fluctuations, we expect to reduce net debt to £7.5 billion by the end of the 2010/11 financial year.

The strength of our property backed balance sheet was further demonstrated with profitable market leading sale and leaseback transactions.

Group capital expenditure was £3.1 billion (last year £4.7 billion). This reduced level of spend was achieved whilst still delivering 8% growth in Group selling space. This year we plan to invest around £3.5 billion in capital expenditure.

Excluding Tesco Bank, cash flow from operating activities totalled £5.4 billion (£5.1 billion in 2009), including a £0.6 billion improvement in working capital.

**Finance costs and tax** Net finance costs, after net favourable IFRS adjustments of £103 million\*, reduced to £314 million (£356 million last year on a consistent 52-week basis). A reduction in the underlying interest charge is expected next year. Total Group tax has been charged at an effective rate of 26.4% (last year 26.7%). We expect the tax rate in 2010/11 to be around 26%.

**Dividend** Underlying diluted earnings per share increased by 9.2% to 16.62p in the second half, calculated using a constant tax rate. The Board has approved a final dividend of 9.16p per share, taking the full-year dividend to 13.05p. This represents an increase of 9.1% on last year's full-year dividend which is in line with the growth in underlying diluted earnings per share at constant exchange rates. The final dividend will be paid on 9 July 2010 to shareholders on the Register of Members at the close of business on 30 April 2010.

**Property** We are continuing to release value created through the long-term development of our property portfolio. In the year we completed deals with total proceeds of £1.8bn and we expect to divest a similar amount this year. The strong demand for these assets and the good yields achieved (initial yields between 5.0% and 5.2% for stores) demonstrate the strong underlying value of our property and the strength of the Tesco covenant. Profits from property in the year were £377m. Our property mix remains strong – over 70% of our property is freehold – supported by substantial new capital investment in freehold assets each year. Our latest property assets valuation of £34.6bn reflects recent firming yields across the market and confirms that our assets are worth well in excess of their book value.

**Pension** Our award-winning defined-benefit career-average pension scheme is an important part of our competitive benefits package, which helps Tesco recruit and retain the best people. In the UK we have 160,000 employees in the scheme. As at February 2010, under the IAS 19 methodology of pension liability valuation, the scheme had a deficit on a post-tax basis of £1.3bn, compared to £1.4bn at the half year. The last actuarial valuation of the scheme's assets and liabilities showed a small and manageable deficit.

**Return on capital employed** We have continued to invest during the recession, which has put pressure on returns in the short term but is enabling us to make good progress in all our markets. During the financial year 2010 our post-tax return on capital employed (ROCE) fell from 12.8%\*\* to 12.1%.

Having raised ROCE from 10.2% in 2003 to 12.6% in 2006, we committed in April 2006 to increase ROCE a further 200 basis points to 14.6%. We are reaffirming this commitment with confidence that with the prospect of an improving global economy and recent significant investments in acquisitions and new space making a greater contribution going forward, returns will improve in the coming few years, starting in 2010/11.

The Summary Financial Statement on pages 27 and 28 and the Summary Report of the Directors on pages 24 and 25 are a summary of information in the Annual Report and Financial Statements 2010. This Summary Financial Statement does not contain sufficient information to allow as full an understanding of the results of the Group and state of affairs of the Group and of its policies and arrangements concerning Directors' remuneration as is provided by the Annual Report and Financial Statements 2010.

The Directors' Report, the financial statements and auditors' report on those financial statements, which is unqualified, are contained in a separate publication entitled Annual Report and Financial Statements 2010. Copies may be obtained free of charge by writing to:

The Company Secretary, Tesco PLC, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL

Shareholders wishing to receive the Annual Report and Financial Statements as well as the Annual Review and Summary Financial Statement in future years should write to this address. The Summary Financial Statement was approved by the Board on 5 May 2010.

**Sir Terry Leahy**      **Laurie McLlwee**  
Directors

\* £151 million benefit from IAS 32 and IAS 39 (Fair value of derivatives) partially offset by £48 million cost as a result of IAS 19 (Pensions).

\*\* In 2008/9, ROCE on a 52-week comparable basis was 12.7%. On a 53-week basis it was 12.8% (restated for the impact of IFRIC 13, IFRS 2 and goodwill adjustments).

## Summary Group income statement

52 weeks ended 27 February 2010

	2010 £m	2009 Restated* £m
Continuing operations		
Revenue (sales excluding VAT)	56,910	53,898
Cost of sales	(52,303)	(49,713)
Gross profit	4,607	4,185
Administrative expenses	(1,527)	(1,252)
Profit arising on property-related items	377	236
Operating profit	3,457	3,169
Share of post-tax profits of joint ventures and associates	33	110
Finance income	265	116
Finance costs	(579)	(478)
Profit before tax	3,176	2,917
Taxation	(840)	(779)
Profit for the year	2,336	2,138
Attributable to:		
Owners of the parent	2,327	2,133
Minority interests	9	5
	2,336	2,138
Earnings per share		
Basic	29.33p	27.14p
Diluted	29.19p	26.96p

	2010 £m	2009 Restated* £m
Non-GAAP measure: underlying profit before tax		
Profit before tax	3,176	2,917
Adjustments for:		
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	(151)	88
IAS 19 Non-cash Group Income Statement charge for pensions	24	27
IAS 17 'Leases' – Impact of annual uplifts in rent and rent-free periods	41	27
IFRS 3 Amortisation charge from intangibles arising on acquisition	127	32
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	14	33
Exceptional items:		
IAS 36 Impairment of goodwill arising on acquisitions	131	–
Restructuring costs	33	–
Underlying profit before tax	3,395	3,124

\* See note 1 Accounting policies of the Group financial statements in the Annual Report and Financial Statements.



## Group financials continued

### Summary Group balance sheet

27 February 2010

	2010 £m	2009 Restated* £m
Non-current assets	<b>34,258</b>	32,085
Current assets (including non-current assets held for sale)	<b>11,765</b>	13,479
Current liabilities	<b>(16,015)</b>	(17,595)
Net current liabilities	<b>(4,250)</b>	(4,116)
Total assets less current liabilities	<b>30,008</b>	27,969
Non-current liabilities	<b>(15,327)</b>	(15,063)
Net assets	<b>14,681</b>	12,906
Equity attributable to owners of the parent	<b>14,596</b>	12,849
Minority interests	<b>85</b>	57
Total equity	<b>14,681</b>	12,906

\* See note 1 Accounting policies of the Group financial statements in the Annual Report and Financial Statements.

**Balance sheet** Net assets have increased by £1,775 million to £14,681 million. Non-current assets increased by £2,173 million, after charging depreciation and amortisation of £1,384 million.

Group capital expenditure was £3.1 billion. UK capital expenditure was £1.5 billion. Tesco Bank capital expenditure was £0.1 billion. Total international capital expenditure rose to £1.5 billion, £0.8 billion in Asia, £0.6 billion in Europe and £0.1 billion in the US. In the year ahead we forecast Group capital expenditure to be around £3.5 billion.

### Summary Group cash flow statement

52 weeks ended 27 February 2010

	2010 £m	2009 Restated* £m
Cash generated from operations	<b>5,947</b>	4,978
Interest paid	<b>(690)</b>	(562)
Corporation tax paid	<b>(512)</b>	(456)
Net cash from operating activities	<b>4,745</b>	3,960
Net cash used in investing activities	<b>(1,877)</b>	(5,974)
Cash flows from financing activities		
Dividends paid	<b>(968)</b>	(883)
Other net cash flows from financing activities	<b>(2,639)</b>	4,498
Net cash from financing activities	<b>(3,607)</b>	3,615

\* See note 1 Accounting policies of the Group financial statements in the Annual Report and Financial Statements.

### Reconciliation of net cash flow to movement in net debt

52 weeks ended 27 February 2010

	2010 £m	2009 £m
Net (decrease)/increase in cash and cash equivalents	<b>(739)</b>	1,601
Investment in Tesco Bank	<b>(230)</b>	–
Elimination of net increase in Tesco Bank cash and cash equivalents	<b>(167)</b>	(37)
Debt acquired on acquisition of Homever	<b>–</b>	(611)
Transfer of joint venture loan receivable on acquisition of Tesco Bank	<b>–</b>	(91)
Net cash inflow/(outflow) from debt and lease financing	<b>2,780</b>	(4,636)
Dividend received from Tesco Bank	<b>150</b>	–
Increase in short-term investments	<b>81</b>	873
Increase in joint venture loan receivables	<b>45</b>	242
Other non-cash movements	<b>(249)</b>	(759)
Decrease/(increase) in net debt in the year	<b>1,671</b>	(3,418)
Opening net debt	<b>(9,600)</b>	(6,182)
Closing net debt	<b>(7,929)</b>	(9,600)

NB. The reconciliation of net cash flow to movement in net debt note is not a primary statement and does not form part of the cash flow statement and forms part of the notes to the Group financial statements.

## Our Board of Directors

### 1 David Reid

Non-executive Chairman, 63  
David Reid became Non-executive Chairman on 2 April 2004. Prior to his appointment he was Deputy Chairman of Tesco PLC and has served on the Tesco Board since 1985. David is a Non-executive Director of Reed Elsevier Group PLC and Chairman of both Kwik-Fit Group and Whizz-Kidz.

### 2 Rodney Chase CBE

Deputy Chairman and Senior Non-executive Director, 66  
Rodney Chase was appointed a Non-executive Director on 1 July 2002. He is Non-executive Chairman of Petrofac Limited and a Non-executive Director of Computer Sciences Corporation in Los Angeles, Nalco Company in Chicago and Tesoro Corporation in San Antonio.

### 3 Sir Terry Leahy

Chief Executive, 53  
Terry Leahy became Chief Executive in 1997. Joining Tesco in 1979, he held a number of marketing and commercial positions prior to being appointed to the Board of Tesco PLC on 5 October 1992.

### 4 Richard Brasher

Commercial and Marketing Director, 48  
Richard Brasher was appointed to the Board on 15 March 2004. He joined Tesco in 1986. He has held a number of marketing, commercial and store operations positions, most recently Non-food Commercial Director.

### 5 Philip Clarke

International and IT Director, 49  
Philip Clarke was appointed to the Board on 16 November 1998. Prior to his appointment he held a number of roles in store operations, commercial and marketing. He is a Non-executive Director of Whitbread PLC.

### 6 Andrew Higginson

Chief Executive of Retailing Services and Group Strategy Director, 52  
Andrew Higginson was appointed to the Board on 17 November 1997. He is now Chief Executive of Retailing Services, retaining his responsibilities for Tesco Group strategy. He is Chairman of Tesco Bank and a Non-executive Director of BSkyB plc.

### 7 Tim Mason

President and Chief Executive Officer, Fresh & Easy, 52  
Tim Mason has been President and Chief Executive Officer, Fresh & Easy Neighborhood Market since January 2006. He was appointed to the Board on 16 February 1995. He joined Tesco in 1982.

### 8 Laurie McIlwee

Group Finance Director, 47  
Laurie McIlwee was appointed to the Board on 27 January 2009. He joined Tesco in 2000 as UK Finance Director and became Distribution Director in 2005. Laurie is a Chartered Management Accountant.

### 9 Lucy Neville-Rolfe, CMG

Corporate & Legal Affairs Director, 57  
Lucy Neville-Rolfe was appointed to the Board on 14 December 2006. She joined Tesco in 1997 from the Cabinet Office. She is Deputy Chair of the British Retail Consortium, a Non-executive Director of The Carbon Trust, and a member of the China Britain Business Council, the UK India Business Council and the Corporate Leaders Group on Climate Change.

### 10 David Potts

Retail and Logistics Director, 52  
David Potts was appointed to the Board on 16 November 1998. He joined Tesco in 1973. From 1997 he directed the integration of our businesses in Northern Ireland and the Republic of Ireland before returning to the UK in 2000 as Director responsible for UK Retail Operations. From 2004 David's responsibilities have included the UK Supply Chain and the Republic of Ireland.

## Non-executive Directors

### 11 Charles Allen CBE

Non-executive Director, 53

### 12 Patrick Cescau

Non-executive Director, 61

### 13 Karen Cook

Non-executive Director, 56

### 14 Dr Harald Einsmann

Non-executive Director, 76

### 15 Ken Hanna

Non-executive Director, 56

### 16 Ken Hydon

Non-executive Director, 65

### 17 Jacqueline Tammenoms Bakker

Non-executive Director, 56

### 18 Jonathan Lloyd

Company Secretary, 43



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