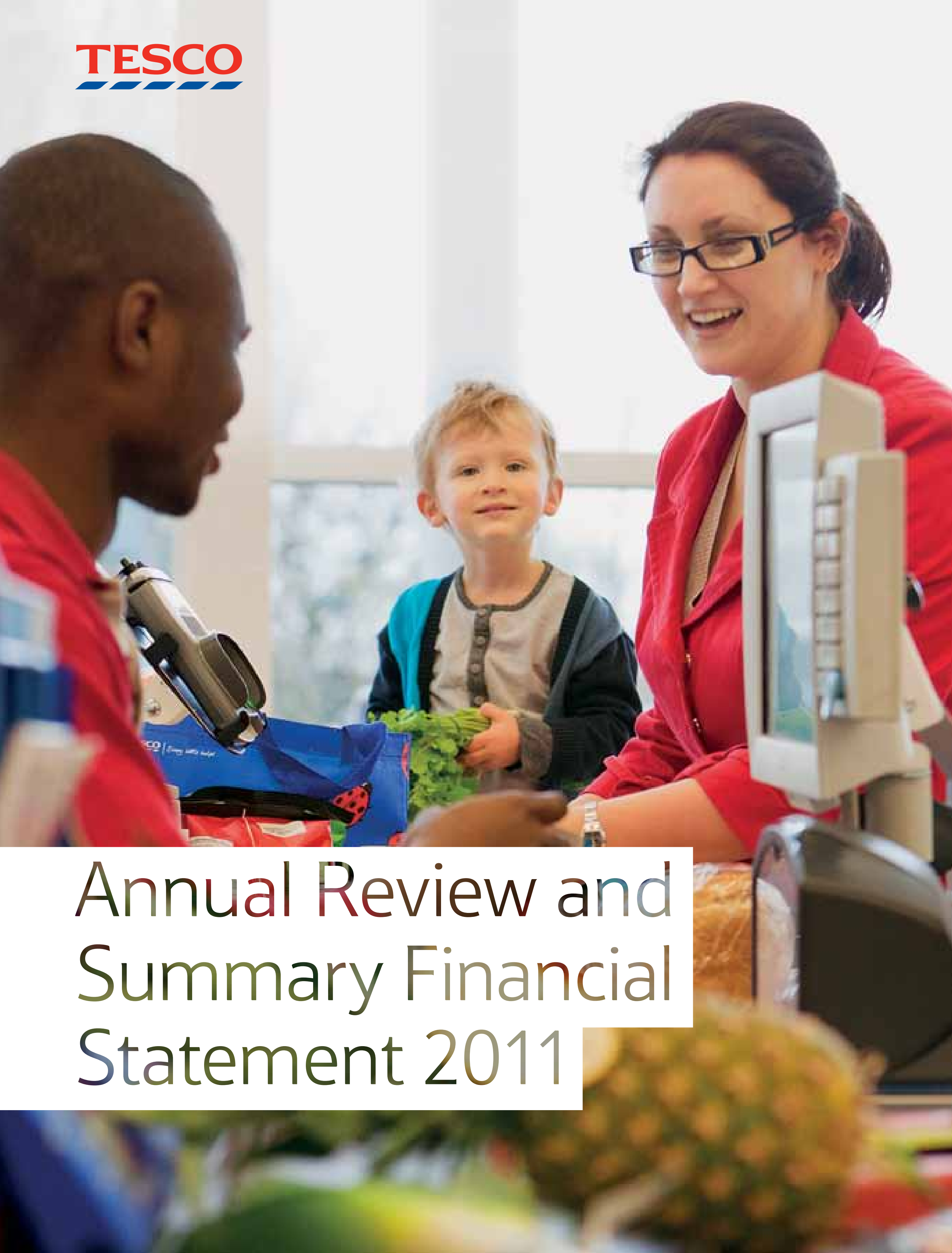


Annual Review and Summary Financial Statement 2011

CONTENTS

Our core purpose is to create value for customers to earn their lifetime loyalty.

Our Values sit at the heart of our business. They are:

No one tries harder for customers; and

Treat people how we like to be treated.

+8.1%

Group sales (including VAT): £67,573m

+12.3%

Underlying profit before tax: £3,813m

+11.3%

Group profit before tax: £3,535m

+10.8%*

Underlying diluted earnings per share: 35.72p

+10.8%

Dividend per share: 14.46p

* Underlying diluted earnings per share growth calculated on constant tax rate basis; 12.8% at actual tax rates

Chairman's statement

I am pleased to report another good set of results in what has been a challenging year in some of our markets.

After 14 years as CEO, Terry Leahy announced his retirement in June and, as part of our long-term succession plan, Philip Clarke replaced him at the helm in March 2011.

Terry is undoubtedly one of the leading businessmen of his generation. Under his leadership we have more than quadrupled our sales and profits, expanded into 13 countries outside the UK and entered new markets such as online retailing and financial services. On behalf of everyone at Tesco and all our shareholders, it is a privilege to thank Terry for his unrivalled contribution to the success of the business.

There could be no better person to lead us going forward than Philip Clarke. Philip has worked at Tesco throughout his career, spending many years in Retail and Commercial. He joined the Tesco Board in 1998 and, as part of his role as Asia, Europe and IT Director, has been at the heart of many of our most important developments and operational improvements in recent years, such as entry into China, Turkey and India and the introduction of the Tesco Hindustan Service Centre (HSC) – our global services arm.

I set the Nominations Committee the objective of delivering a seamless succession and I am delighted with the outcome. The handover process from Terry to Philip was very smooth. I have every confidence that under Philip's leadership, Tesco will go on to achieve even greater success in the future.

In order for the Tesco Board to better reflect the global nature of our business, provide more focus on key areas of performance and deliver on our immediate objectives, we made additional changes in March 2011. Tim Mason has become Deputy CEO and Chief Marketing Officer in addition to his role as President and CEO Fresh & Easy.

Richard Brasher has assumed the newly created role of CEO for the UK, as well as having responsibility for the Republic of Ireland, whilst David Potts has become the first CEO of our growing Asia business. Laurie McIlwee has taken on responsibility for Group Strategy in addition to his role as CFO.

Andrew Higginson and Lucy Neville-Rolfe will continue in their roles as CEO Retail Services and Executive Director (Corporate and Legal Affairs) respectively.

There have also been a few changes to the Non-executive members of the Board this year. Rodney Chase CBE retired from his position as Deputy Chairman and Senior Independent Director in July. Patrick Cescau, who has served on the Board since February 2009, has replaced Rodney as Senior Independent Director.

Charles Allen CBE and Dr Harald Einsmann, who had both served on the Tesco Board since February 1999, also retired in July and were replaced by Stuart Chambers and Gareth Bullock.

Stuart, formerly CEO of NSG Group and Pilkington plc, has replaced Charles as Chairman of the Remuneration Committee. Gareth, former Group Executive Director of Standard Chartered PLC, has joined the Audit Committee.

I would like to thank Charles, Harald and Rodney for their excellent advice and important contributions over a combined 30 years' service, and also formally welcome Gareth and Stuart, who bring with them a wealth of international experience and new expertise in financial services, further adding to the overall strength of the Tesco Board.

Dividend

I am delighted to report that we have again increased our dividend – for the 27th consecutive year. The Board has proposed a final dividend of 10.09p per share, taking the full-year dividend to 14.46p. This represents an increase of 10.8% on last year's full-year dividend, which is in line with the growth in underlying diluted earnings per share at constant tax rates.

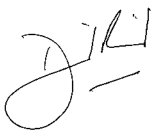
Community

This year, we donated over £64 million to charity – again meeting our target to donate the equivalent of over 1% of our profits to charities and good causes.

We've made further progress towards our goal of becoming a zero-carbon business by 2050. This year we have reduced emissions from our baseline portfolio of buildings by 7.7%.

Our people

Our growth over the past year is a direct result of the dedication, passion and hard work of our people – a team which is now over 492,000 strong. I'm delighted that our share ownership incentive schemes are helping our staff to get their own personal stake in the business. This year 216,000 employees shared a record £105.5 million through our Shares In Success scheme. On behalf of the Board, I would like to thank all of our people for their ongoing commitment to providing the best possible service for our customers.



David Reid
Chairman

Tesco around the world

Creating value for customers across all our businesses

US

Revenue*

£495m

Number of stores

164

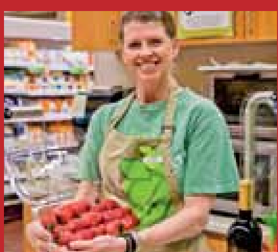
Employees

4,134

Selling space (sq ft, % of Group)

1.7m sq ft

1.6%



UK

Revenue*

£40,766m

Number of stores

2,715

Employees

293,676

Selling space (sq ft, % of Group)

36.7m sq ft

35.4%

Tesco Bank

Revenue*

£919m

Employees

1,274

Employee figures represent the average number of employees during the year

± 230 employees across Asia and Europe work in locations other than those listed

* Revenues are sales excluding VAT and exclude the impact of IFRIC 13 (customer loyalty schemes)

† Revenue for Europe includes France; revenue for Asia includes India

GDP growth: Economist Intelligence Unit

Europe

Revenue*†

£9,192m

Number of stores

1,082

Employees‡

89,559

Selling space (sq ft, % of Group)

30.2m sq ft

29.2%

	Revenue* (£m)	Stores	Employees	GDP growth (% real change pa)
Republic of Ireland	2,332	130	13,344	-0.8
Poland	2,156	371	24,932	3.8
Hungary	1,649	205	21,157	1.2
Czech Republic	1,355	158	12,812	2.3
Slovakia	996	97	9,105	4.0
Turkey	700	121	8,038	8.1

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.

Asia

Revenue*†

£10,278m

Number of stores

1,419

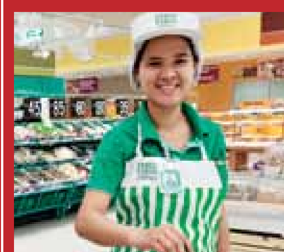
Employees‡

104,071

Selling space (sq ft, % of Group)

35.0m sq ft

33.8%



	Revenue* (£m)	Stores	Employees	GDP growth (% real change pa)
South Korea	4,984	354	23,131	6.1
Thailand	2,844	782	38,395	7.9
China	1,141	105	27,096	10.3
Malaysia	794	38	11,023	7.2
Japan	476	140	4,367	4.0

Chief Executive's review

Building on our success

"I have inherited a great legacy and I am really excited about the future. In the end of course, we know it's all about performance; that's what matters and that's what we aim to deliver."

I'm pleased to report that Tesco has once again achieved a good set of results with good sales, profit and earnings per share growth, despite challenging conditions in some of our markets.

I am particularly pleased with our progress on return on capital, where we have seen ROCE grow strongly to 12.9%, representing an important first step towards our 2014/15 target of 14.6%, with further increases to come.

In the UK, we have an outstanding core business. It made progress in the year but some aspects of our performance can improve. Stronger sales momentum here is a key priority and I am confident that the focus and energy our new UK leadership team is bringing to the business will see a return to form in the months ahead as Tesco tries to do its bit to help customers who face pressure on their household budgets.

The increasing scale and competitiveness of our international businesses are now driving strong growth in sales, market share, profits and returns, supported by the generally improving global economic environment. We have built some excellent springboards for future growth, and whilst there is still work to do, particularly in the United States, I am delighted with our performance in Europe and Asia, where I expect further strong growth this year and beyond.

We have set six immediate team objectives against which we intend to be judged. First, keeping the UK strong and growing; second, we want to be outstanding internationally, not just successful; third, as the combination of stores and online becomes compelling for customers, we aim to become a multi-channel retailer wherever we trade; fourth, we will deliver on the potential of retailing services – of which Tesco Bank is a big part; fifth, by applying Group skill and scale we will give our customers even more value and increase the competitive advantage to our businesses; and finally, to deliver higher returns on capital employed for shareholders.

Also, as part of our commitment to communities, we want to widen our contribution from tackling climate change to broader aspects of sustainability.

Vision and strategy

Tesco is a business built around customers and staff, high-quality assets around the world and multiple opportunities for growth. My job is to build on this legacy – for all our stakeholders. Going forward, there will mostly be continuity. We have a sound strategy, a strong team and the period of highest risk with the diversification of the business is now behind us. However, there will also be some changes, because we know that we can do some things better and because, as customers change, so must Tesco.

Importantly, there will be no change to the foundations of our business: our core purpose – ***to create value for customers to earn their lifetime loyalty*** – and our Values – ***no one tries harder for customers*** and ***treat people how we like to be treated.***

I have set out a new vision for the future of the business. I would like Tesco to be seen as the **most highly valued** business in the world. Valued not only by our customers, but also by the communities we serve, our staff and our shareholders.

We will **win locally by applying our skills globally**. The key word here is 'locally'. Seven years of running our businesses in Asia and Europe has taught me that all retailing is local. But increasingly we are utilising the skill and scale of the Group to

benefit the performance and competitiveness of each of our businesses around the world.

We will be **a modern and innovative company**. We'll stay ahead of the curve, anticipating changes and adapting for the sake of our customers and staff.

We are, and we will remain **a growth company**. We will continue to pursue growth in all parts of the business – in the UK, internationally, in services and across general merchandise, clothing and electricals.

More detail on our new vision can be found on pages 6 to 13.

To put this vision into practice, our strategy is evolving – with a slight change in emphasis which builds on the success of our previous five-part strategy that has served us so well over the past 14 years. So our strategy will now have seven parts. Much of it will be familiar but with some important new additions around being a multi-channel retailer, creating highly valued brands and building our team:

- To grow the UK core
- To be an outstanding international retailer in stores and online
- To be as strong in everything we sell as we are in food
- To grow retail services in all our markets
- To put our responsibilities to the communities we serve at the heart of what we do
- To be a creator of highly valued brands
- To build our team so that we create more value

More details on our strategy can be found on page 14.

Management structures

We've made some changes to our management structures in order to equip the business to deliver our strategy and vision. This means CEOs for each of our main areas of focus – the UK, Asia, Services including Tesco Bank, Europe and the US – being supported by the integrating functions such as IT and Finance to leverage the skill and scale of the Group.

The biggest part of this change was in the UK, which now has its own CEO and management board for the first time. This will bring more focus and energy to our largest business. Of course, structures don't manage companies, people do and I'm confident that at all levels we have the very best team working hard to deliver the best shopping trip for our customers.

I have inherited a great legacy and I am really excited about the future. In the end of course, we know it's all about performance; that's what matters and that's what we aim to deliver.

Philip Clarke

Philip Clarke
Group Chief Executive

To be the most highly valued

OUR VISION

TO BE THE MOST HIGHLY VALUED BY:

The customers we serve

Our core purpose is to create value for customers to earn their lifetime loyalty. This objective sits right at the heart of our business as one part of our Values – 'No one tries harder for customers'.

We know that we are already valued by our customers across our markets. In the UK, for example, we have the most loyal customer base of the major grocery retailers and in South Korea, Homeplus was awarded South Korea's Most Admired Company award in October 2010.

The communities in which we operate

For Tesco to be considered a force for good, we must be a good neighbour and a responsible member of society. This is why Community is part of our balanced scorecard approach to running our business – and why each market has its own Community Plan, with promises relating to the environment, communities, responsible sourcing, healthy living and jobs and careers.

Our loyal and committed staff

We know that if we look after our staff, they will look after our customers. Work can be a large part of our lives so our people deserve an employer who cares. That's why one of our Values is 'Treat people how we like to be treated'.

We are committed to providing opportunities for our people to get on and turn their jobs into careers, and across all of our markets we offer a wide range of competitive benefits. In the US, for example, we pay at least 75% of medical, dental, prescription and vision costs. 69% of employees across the Group who completed our annual staff survey said that they find their work interesting.

69%

of employees across the Group who completed our annual staff survey said that they find their work interesting

Our shareholders

As the owners of the business, it's crucial that our shareholders value Tesco highly. Shareholders want a good return on their investment and that's what we will continue to deliver for them. We have over 200,000 shareholders, including a large number of pension funds. We offer sustainable, profitable growth from a combination of a strong core UK business and exposure to rapidly growing emerging markets. Over the past decade our total shareholder return (TSR) has outperformed the FTSE 100 by 53.2% and we've delivered dividend growth for the past 27 years – the longest record of consecutive increase by any FTSE 100 company.

To learn more about our vision and strategy:
http://ar2011.tescoplc.com/businessreview/ourstrategy

Winning locally, applying our skills globally

Tesco Clubcard

All retailing is local. And Clubcard is one of the ways in which we can be responsive to local customer needs. In addition to rewarding customers for their loyalty, Clubcard provides us with insight from millions of customer transactions. From this we can develop tailored ranges, promotions and marketing by country or region – in fact right down to the individual customer via their Clubcard mailing.

The knowledge and expertise of operating Clubcard was developed in the UK but has now been rolled out to a further 11 countries across the Group, with more members in Asia and Europe than at home in the UK.

F&F

F&F

We've been successful at exporting a number of our brands internationally, tailoring them to local trends, needs and price ranges.

F&F is a good example of how one of our brands has spread globally and won locally. We're bringing the benefits of our Group skill and scale to our buying and sourcing operations, helping to reduce costs and improve quality. In Central Europe for example, 95% of our clothing supplier base is the same as Ireland and the UK, even though to win in each market, we adapt our range to local trends, tastes and climates.

F&F is now in ten of our markets and is the market-leading clothing brand in the Czech Republic, Hungary and Slovakia. We also opened our first stand-alone F&F store in Prague this year.

World-class training for national talent

We know that to be a successful international retailer we need to combine deep local knowledge with global experience – this is why all of our international management teams are a mixture of nationals and people from our UK business.

In addition, the experience of working internationally helps us attract, retain and develop our people – over a fifth of our directors are currently working outside their home country.

Our Academy supports the development of both operational expertise and leadership excellence. Management courses are developed based on global best practice and then used to train teams in each local market. Our first dedicated Academy centre will open in Seoul – serving Asia – in July.

To learn more about our vision and strategy:
http://ar2011.tescoplc.com/businessreview/ourstrategy

A modern and innovative company

Online retailing

Customers expect to be able to shop where and when they want – as shopping habits have changed over the years we've changed too. As we've grown from a UK supermarket chain towards becoming an international multi-channel retailer we've continued to innovate every step of the way.

We were viewed as pioneers when we first launched an online grocery business 11 years ago. It's now the largest most profitable business of its kind in the world.

Using their smartphones, our customers can now scan the barcode of grocery items, order online and have their shopping delivered to their home.

A leader in green retailing

As a global business we know that we can make a real difference in tackling climate change – cutting our own emissions, working with suppliers and helping customers to cut their carbon footprint. We also understand that successful businesses need to be green to grow.

Our 2050 target to be a zero-carbon business will be achieved through improved efficiency and by generating our energy from renewable sources. We're making good progress – over the past year we have reduced emissions from our baseline portfolio of buildings by 7.7%.

We have pledged to help customers cut their carbon footprints by 50% by 2020. We have worked with the Carbon Trust and other stakeholders to develop a universal carbon footprint label which describes the emissions associated with each product. Since January 2008, we have carbon labelled more than 500 everyday products in the UK and have started to label products in South Korea, helping our customers to make greener choices.

500+

Products carbon labelled since 2008

To learn more about our vision and strategy:
http://ar2011.tescoplc.com/businessreview/ourstrategy

A growth company

OUR VISION

UK: an outstanding business

We have more than doubled sales and profit in our UK business over the last decade, cementing our position as clear market leader. Yet there remain significant opportunities for further growth. The UK has the lowest grocery retail space per capita of any country in the EU; only 54% of shoppers are able to reach a Tesco Extra within 15 minutes and we have only a small share of the convenience sector.

Beyond grocery we've developed a strong position in many other categories such as clothing, electricals and entertainment. But with a market share of around 4% in the non-food sector there is still plenty more to come.

International growth

More than two-thirds of our profit growth now comes from markets outside the UK. We opened our first international Tesco store in 1995; today we're in 13 markets across Europe, Asia and North America. 65% of our floorspace is now outside the UK, and our businesses in Asia and Europe are collectively the same size as the whole of Tesco was 11 years ago. We've built successful, diverse businesses across the world, yet the journey is only just beginning.

We've already developed market-leading, highly profitable businesses in a number of countries. In South Korea, our largest international business, Homeplus, already generates £5 billion revenue. Yet, if Homeplus were to grow to have the same proportion of the total retail market that Tesco has achieved in the UK, the business would be more than three times as large as it is today.

During our first decade of international expansion we've proved that we are able to develop profitable and market-leading businesses in many of our markets. Over the next decade, in addition to further expanding our established overseas businesses, we are focused on delivering growth in three of the world's largest economies: China, India and the United States, which between them offer decades of future growth.

New services

Customers trust Tesco and appreciate that we provide value, simplicity and good service. This is our approach with everything we sell and is the key to our success in following the customer into new areas such as banking and telecoms.

Tesco Bank in the UK now has over 6.5 million customer accounts and generates annual profits of £264 million. We've made particularly good progress in credit cards. In February, one in eight of all MasterCard and Visa credit card transactions in the UK were made on a Tesco credit card. As we broaden our offer – with mortgages launching this year – we aim to become the best choice for all our customers' banking needs.

We have also established a successful Telecoms business. Tesco Mobile now has over 2.5 million customers. By focusing on value and good service and through our 194 Phone Shops we are changing the way that customers buy phones, services and accessories.

To learn more about our vision and strategy:
http://ar2011.tescoplc.com/businessreview/ourstrategy

Business review

Our strategy

In 1997, Tesco set out a strategy to grow the core business and diversify with new products and services in existing and new markets. This strategy enabled us to deliver strong, sustained growth over the past 14 years. We've followed customers into large expanding markets in the UK – such as financial services, general merchandise and telecoms – and new markets abroad, initially in Europe and Asia and more recently in the United States.

In order to reflect changing consumer needs and the increasingly global nature of our business we've evolved our strategy. The strategy now has seven parts and applies to our five business segments – the UK, Asia, Europe, the United States and Tesco Bank.

Some elements of the strategy remain unchanged. The goal 'to grow the core UK business' is as relevant today as it was in 1997. The UK is the largest business in the Group and a key driver of sales and profit. There are many opportunities for further growth and so we will continue **to grow the UK core**.

Another of our original goals was to be a 'successful international retailer'. In 1997, our international businesses generated 1.8% of the Group's profits. Today they represent 25% and we're now either number one or number two in eight of our 13 markets outside the UK. So we're already 'successful'. Our next step is **to be an outstanding international retailer in stores and online**.

In 1997, we were largely a food retailer so we set ourselves the challenge of becoming 'as strong in non-food as in food'. As our business has grown and we offer an ever wider variety of products to customers, the term non-food no longer does justice to all the products and services we sell. We now aim **to be as strong in everything we sell as we are in food**.

Our services businesses have come a long way since we first included in our strategy the desire 'to develop retailing services'. Today these parts of Tesco generate £583 million profit, representing 16% of the Group total. To date this has been largely UK-focused, but as many of our international businesses have now established well-known brands in their local market, it is time to expand our ambitions and aim **to grow retail services in all our markets**.

In 2007, we added a fifth element to our strategy to underpin our commitment to communities and the environment. We've updated this objective slightly by emphasising our responsibilities in these areas. Our goal is **to put our responsibilities to the communities we serve at the heart of what we do**.

There are two new strategic goals, both of which reflect the way that Tesco has developed over the last decade and our areas of emphasis for the future.

The first is **to be a creator of highly valued brands**. Our brand has evolved from a logo above a few stores in the UK to a multitude of store, product and service brands across the world. Building brands gives our business more meaning with our customers. On one level, this relates to our Retail brands such as the Tesco brand itself, but it also refers to our Product brands such as F&F and Technika and our Pillar brands such as Finest and Value.

Our final goal is **to build our team so that we create more value**. As our business continues to grow and diversify we need more leaders to run the many substantial business and support functions within the Group. Our leaders not only have an important role today, but also have a responsibility to help build a bigger and better team for the future.

Our progress in these areas is reviewed over the following pages.

Our seven-part strategy

To grow the UK core

£44.6bn

UK sales

£2.5bn

Trading profit

In our market-leading UK business, we have delivered a solid performance by keeping our focus on the customer, providing them with great value, choice and service.

The UK economy is in recovery but consumers have been under pressure this year due to a combination of high petrol prices, food and utility inflation and, more recently, the VAT increase. As a result, we're experiencing a period of unusually subdued industry growth. Excluding petrol, like-for-like growth in the industry has been significantly lower than last year.

Against this backdrop, our UK business has delivered a solid performance. Total UK sales were £44.6 billion, growing by 5.5%, which was ahead of the market. UK trading profit increased by 3.8% or by 6.4% before the effects of our sale and leaseback programme; principally the additional rents incurred.

Clubcard

Clubcard is our unique customer loyalty programme – our way of saying 'thank you' to our customers. It is now more popular than ever before, with active membership of over 15 million customers, compared to 13 million at the start of 2008/9.

Clubcard continues to be a significant driver of growth for our business and ensures that our customer base continues to demonstrate considerably higher levels of loyalty than our competitors. For most of 2010, Clubcard was the number one reason behind customers switching to us for their weekly shop.

Stores

New space has continued to drive sales growth. We've opened over 200 new stores in 2010/11 and have a strong opening programme for the coming year.

We have also refreshed or extended over 400 stores this year, receiving a great response from customers. For example, we have added 7,000 sq ft to Wembley Extra, expanding our World Foods offer to meet better the needs of customers in the local area and the store is outperforming by 16%.

Range

Our customers tell us that quality is increasingly important to them, it is not simply about finding the cheapest product. We have stepped up our emphasis on quality, with accelerated product development, leading to the introduction of over 2,000 new and improved food products.

The increasing importance of quality for customers is also supported by the strong performance of our Finest range, which has outpaced the growth of other areas of our food range, with a 6.3% increase in sales this year.

Many of our customers want to buy locally sourced products to support their local communities. We have five dedicated regional buying offices throughout the UK and in 2010/11 we increased sales of local products to £1 billion, up from £850 million in 2009/10.

Price

We remain focused on delivering the best value to all customers. The launch of Essential Savings in May was an investment in lower prices on the everyday products which our customers buy. We have introduced more multi-buys into the promotion programme to help customers save money. Together these initiatives have helped us to maintain our leading position in a highly competitive market and to encourage customers to switch to Tesco throughout the year.

Availability

We have maintained high levels of availability this year through a number of programmes, from better promotional forecasting through to improved processes for monitoring availability in our stores. Our customers are benefiting from this work and have noticed the improvements – customer satisfaction with availability is at a record high – up 7% from last year and 13% from the year before.

Service

We work continually to improve service for our customers. We have trained over 80,000 staff this year in Every Little Helps skills for checkouts, supporting them to deliver helpful, friendly and efficient service. We also know how important it is for our customers to be able to choose the checkout that is right for them, so we are working to create the ideal checkout configuration in each of our stores based on the local customer profile.

CLUBCARD

Clubcard continues to play an important role in earning customers' loyalty. We've continued to invest in Double Points, we have introduced the Big Clubcard Voucher Exchange and we have expanded our Partner Reward Scheme.

No.1
reason for customers switching to Tesco

THAILAND

Tesco Lotus, our business in Thailand, is one of our most successful international businesses with strong profitability and the highest return on capital of all our overseas markets. We now operate 782 stores with 11m sq ft of space, having added a further 119 stores in the year.

21%

Sales in Thailand up 21%

To be an outstanding international retailer in stores and online

£11.0bn

Asia sales

£10.6bn

Europe sales

Most of our markets have seen steady economic improvement over the past year and in some cases – particularly in Asia – sharp improvement. Countries hardest hit in the downturn – in particular Hungary, Ireland and the United States – have been slower to recover, although even there we are now seeing signs of improvement.

A particularly encouraging feature of our performance in Asia and Europe has been excellent market share growth, with many of our businesses seeing strong growth in both customer numbers and like-for-like sales.

We have resumed a faster pace of new space opening now that economic conditions are generally improving. We opened 6.5m sq ft of gross new space in 2010/11, compared with 5.1m sq ft in 2009/10 and plan to open a further 8.4m sq ft during the current year.

Asia

Our businesses in Asia have delivered another good performance leading to increases in sales and profits – supported by improving like-for-like sales growth, a useful contribution from new stores and further benefits from our acquisition in South Korea in 2008.

As economies in Asia recover, we are seeing improving sales trends. Our performance was helped by favourable exchange rate movements but nevertheless profits grew by almost 18% at constant currency rates – with excellent growth coming from South Korea and Thailand.

Our Asian markets offer an exciting long-term growth opportunity and will be a key focus for our future international expansion, both in our established markets and in China. We have continued to invest through the downturn to ensure that we are in an even stronger position as the economic recovery continues.

This year we plan to open 5.1m sq ft of new selling area. We have also continued to make good progress in developing strong brands in our leading Asian businesses with further expansion of Clubcard and our retail services businesses.

Europe

Our operations in Europe have delivered record results and strong growth in sales, profits and margins. Recovering economies generally helped but key to this performance was the striking improvement in the competitiveness of our local businesses, which won increased market share rapidly.

We have invested for customers through lower prices, sharper promotions and Clubcard, funded by strong productivity and substantial early benefits of our pan-European sourcing. The resulting strong sales growth has driven an improvement in profitability and margins.

Sales growth varied across the region but all markets saw sharply improved like-for-like sales growth compared with 2009/10, with a good contribution also coming from new space.

With the improving economic outlook we are stepping up the rate of new store opening. Some 2.6m sq ft of new space was opened in the year, with a programme to add a further 2.9m sq ft of new space across the region in 2011/12.

We have been delighted by customer reaction to the remodelling and conversion of some of our older hypermarkets to the Extra format. Very strong sales improvements have been achieved in the stores – with an average sales uplift of 16% in the eight completed so far. These refits are delivering particularly marked uplifts in fresh food categories, health & beauty, clothing and electricals.

United States

Customer feedback at Fresh & Easy remains excellent and strong growth in customer numbers is driving steady sales improvement in each store.

We expect losses to reduce sharply in the current year as strong growth in like-for-like sales continues and improved store operating ratios start to deliver shop-door profitability. We have a strong plan for the business to break-even towards the end of the 2012/13 financial year.

To be as strong in everything we sell as we are in food

£10.3bn

Group sales

8.8%

Group sales growth

Our general merchandise, clothing and electrical businesses have continued to grow, despite the challenges of weak demand in some of our important markets.

In the UK, high petrol prices and increases in VAT have had a significant impact on discretionary consumer spending. Many high street retailers have suffered from declining sales and have issued profit warnings. Tesco has fared better – and maintained market share – but we haven't been spared the impact of subdued demand. In the UK, general merchandise, clothing and electricals sales grew by 0.4% to £5.3 billion. General merchandise sales growth was affected by a smaller component of extension selling space in this year's new space programme, with extensions providing just 10% of new space.

In our international markets the picture varies considerably by country. Most of our markets in Europe and Asia saw strong growth in general merchandise as the economic recovery took hold during the year, although a number of markets – such as Ireland and Hungary – remain challenging.

UK

Improving the performance of general merchandise in the UK is one of our key priorities. Our aim is to offer our customers the same great quality, price and range in our general merchandise offer as they would find with their Tesco grocery shop. The focus is on delivering in three key areas with the aim of improving the general merchandise shopping trip for our customers:

Investing in making the ranges more aspirational
In electricals, we were the first UK supermarket to stock the Apple iPad and the Amazon Kindle – two of the most sought-after technology products on the market. Keeping in tune with changes in technology and responding quickly to offer our customers the latest electrical innovations is central to our strategy and to building our reputation as a leading retailer in everything we sell.

Enhancing the shopping experience with specialist advice
In over 200 of our largest stores, we have Tesco Tech Support teams, made up of staff specifically trained to help customers with technical queries on electrical items from TVs to cameras and satellite navigation systems. The additional advice helps customers get the right product for their individual needs, supporting a reduction in product returns. Alongside our in-store teams, we have a free electrical helpline for our customers, manned by fully trained engineers, and a dedicated Tech Support website.

Developing our multi-channel capability
Our multi-channel approach makes it easy for our customers to shop in a way that suits them – online, in-store or from catalogues. Customers can browse in a catalogue, order online and then collect in-store or they can order in-store and have the goods delivered to their home. This year, over 40% of Tesco Direct electrical purchases have been made online and picked up in-store through our Click and Collect service.

Europe

In Europe, general merchandise, clothing and electricals sales were strong, reflecting an overall improving consumer background and a strengthening offer in our stores.

Clothing in Central Europe had a successful year with a 9% year-on-year growth in total sales. We are now the clothing market leader in the Czech Republic, Hungary and Slovakia. Building on the success of the F&F brand, we have introduced our F&F Blue and F&F Basics sub-brands to provide our customers with a greater range to choose from. Our first stand-alone F&F store also opened successfully in Prague last year, highlighting the appeal of the brand in the Czech Republic.

Asia

Our F&F clothing brand launched in South Korea and Thailand this year and the early response from customers has been excellent – a very good example of the skill and scale of the Tesco Group being applied across our global network.

Last year we opened our first three Sports Multishops in Homeplus stores in South Korea. These innovative sports zones are designed to meet growing customer needs for sporting goods, in a one-stop shopping environment. Sports Multishop has increased sales of sporting goods in these stores by over 60% with high customer penetration.

CLOTHING

Clothing is a key element of our customer offer in Central Europe and we have had another pleasing year with 9% sales growth. We are now clothing market leader in the Czech Republic, Hungary and Slovakia.

9%

Clothing sales growth in Central Europe

TESCO TELECOMS

We now have 194 Phone Shops in stores across the UK and this year, we have begun to open Phone Shops in our refreshed Extra stores in Central Europe. Our Phone Shops provide our customers with support and advice so that they can choose the best option for them.

194
Phone Shops in the UK

Growing retail services

To grow retail services in all our markets

£4.0bn
Retail services sales

15%
Online business sales growth

In July 2008 when we announced our intention to take full ownership of Tesco Bank, we set a target to grow the profitability of our retail services businesses from just under £400 million in 2007/8 to £1 billion.

This year, we have made creditable progress in moving towards this target. We have attracted new customers, grown sales and profit and continued to invest – particularly in infrastructure – to equip the business for further growth.

We want all of our customers, across all of our markets, to have access to our financial, telecoms and online services. We can do this by applying Group skill and scale and building on the knowledge which we have acquired from our retail services experience in the UK, Ireland and South Korea.

In 2010/11, total retail services sales were £4.0 billion, up 12% on 2009/10 and trading profit grew to £583 million.*

Tesco Bank

Despite a challenging year in the wider banking sector, and as it completes its transition to full separation from The Royal Bank of Scotland (RBS), Tesco Bank continues to perform well.

The business has made good progress with its systems re-platforming, which will complete as planned in 2011. We opened our new banking and insurance service centres in Glasgow and Newcastle in October 2010. All new motor and home insurance business, including renewal policies sold since then have, as planned, been written on new systems. We also launched successfully our first new product on our own banking platforms –the Fixed Rate Saver – last autumn. This has been followed by our recent innovative retail bond. Both of these initiatives exceeded plan and serve to diversify our funding base and increase the proportion of long-term funding available to the Bank.

The Bank has made progress in key areas – with savings strongly up, good growth in the loan book with improved margins and an excellent year in credit cards, with the transaction value up 20% on 2009/10. The car insurance book has also resumed growth, having plateaued before the change of control, despite the inevitable challenges of migration.

Customer account numbers grew well – in active credit cards by 11%, personal loans by 17% and motor insurance by 8%. Our Fixed Rate Saver product significantly exceeded expectations and we ended the year with a balance of £397 million, 40% higher than planned and we now have one, two and three-year options available for customers. The range of products available for customers will be broadened further this year with the planned launch of mortgages.

tesco.com

Our online businesses, including online grocery and Tesco Direct, had another strong year. Taking into account our operations in South Korea and Ireland, total sales grew by 15%. Our UK operations continued to grow well, with double-digit growth in grocery and a further 30% increase at Tesco Direct.

Tesco Telecoms

Our Telecoms business grew well during the year, maintaining strong market share, driven primarily by the growth of Tesco Mobile. In 2010 Tesco Mobile was one of the fastest growing UK mobile networks, growing its customer base by 24% to over 2.5 million.

Our Tesco Mobile joint ventures with O2 in Ireland and Slovakia are performing well. Both businesses are growing strongly and moved into profit for the first time this year.

dunnhumby

dunnhumby has had a very strong year, increasing sales and profits by over 30% with excellent growth in the UK supplier business and from its overseas joint ventures with retailers.

Following the acquisition of the final 10% of the business in the first half of the year, dunnhumby is now a wholly owned subsidiary of Tesco.

* Retail services profit comprises profit from Telecoms, tesco.com, dunnhumby and Tesco Bank, including UK store ATM income.

Community at the heart of what we do

To put our responsibilities to the communities we serve at the heart of what we do

7.7%

Emissions reduction from our baseline portfolio of buildings

£64m+

Donated to local charities and good causes

We work hard to be a good neighbour in the communities around our stores and provide a leadership role on the environment. Building a long-term sustainable business is crucial to our future success.

We want to be highly valued by our local communities and this year, we have made good progress with our community promises:

- Buying and selling our products responsibly;
- Caring for the environment;
- Providing customers with healthy choices;
- Actively supporting local communities; and
- Creating good jobs and careers.

Buying and selling our products responsibly

We work in partnership with our suppliers to ensure our products are sourced responsibly.

We continue to engage with our suppliers through our Trading Fairly programme. In Bangladesh, China and South Africa, we help suppliers and stakeholders address local and national challenges.

We have listened to our customers and know that many of them want to buy locally sourced products. This year in the UK, we have reached sales of £1 billion for local products.

Caring for the environment

As one of the world's largest retailers, we have a clear responsibility – and a significant opportunity – to protect the environment. Our aim is to create more sustainable ways of doing business.

Our global direct carbon footprint in 2010/11 was 5.44 million tonnes of CO_2e (carbon dioxide equivalent). This year, we continued to decouple our business growth from the growth in our carbon emissions: while our net sales area grew by 8.8%, our carbon footprint increased by only 1.7%.

This year, we opened our first international zero-carbon store in Jaroměř, Czech Republic, and completed two more zero-carbon stores in the UK, in Welshpool and Bourne.

Providing customers with healthy choices

We want to help our staff and customers to lead healthy lives. As a global business, we know that 'healthy lives' mean different things in our different markets.

We have a clear role to play in making high-quality foods affordable to everyone, and in giving customers the information they need to make healthy food choices. We can also use our trusted brand to encourage our staff and customers across the world to adopt healthy, active lifestyles.

We currently have 100% nutrition labelling on eligible own-brand food lines in all of our markets. Last year, we encouraged over 7.2 million staff and customers to get active across the world – exceeding our targets in all our markets.

Actively supporting local communities

We want Tesco to be more than a store to the staff and customers who live in the communities around our stores.

We have exceeded our target of donating at least 1% of pre-tax profits to charities and good causes. In total, this means that we have donated over £64 million this year. We have also raised £7.2 million for our UK Charity of the Year, CLIC Sargent.

We are continuing to roll out our Community Champions – Tesco employees who spend a proportion of their week coordinating activities in their local communities. We now have over 650 Community Champions across the Group.

Creating good jobs and careers

We have over 290,000 employees across the UK, making us the biggest private-sector employer in this market, and over 492,000 worldwide. We are dedicated to providing diverse career opportunities for all our staff worldwide – from positions in stores, to roles for store managers, buyers, accountants and lawyers. This year, we increased the total number of staff in the Group by 21,000.

This year, we developed eight new Regeneration Partnerships – bringing the total to 35 stores and around 4,000 jobs for long-term unemployed people.

SCHOOLS OF EXTENDED EDUCATION

In South Korea, we celebrated the opening of our 100th School of Extended Education and took our total to 107 in the year. Our South Korean Schools provide people with a place to get involved in a variety of activities from dance classes to cooking.

940,000+

Places at our Schools of Extended Education in South Korea this year

TESCO VALUE AND FINEST IN THE UK

The popularity of our Pillar brands with customers has meant that Tesco Value has become the second largest food brand in the UK – ahead of Coca-Cola – with sales of more than £1 billion a year.

Tesco Value is only pushed into second place by Tesco Finest. More than half of our customers buy from the Finest range on a regular basis, from Finest spectacles to Finest Restaurant Collection ready meals.

£1bn

Both Finest and Value now sell more than £1bn each year

Building brands

To be a creator of highly valued brands

Homeplus

received South Korea's Most Admired Company award in October 2010

What's the benefit to both our stakeholders and our Company of building brands?

By building strong brands through our own products, we offer customers increased value, choice and quality. Customers trust our brands. They are loyal to our brands because they know what to expect from them and what they stand for. With wines, for example, the Finest logo helps customers to pick out a good quality option without having to be a connoisseur.

Strong Product and Pillar brands give us a key point of differentiation from our competitors and enable us to continue to meet the changing needs of our customers. Once customers understand the values that our brands stand for, they are more likely to trust in our ability to diversify into new service areas. In financial services, for example, with Tesco Bank we've brought straightforward and good-quality banking solutions based on the needs of our customers to a market characterised by complexity and poor customer service.

Wherever we operate we support local communities, their causes and the environment. Through initiatives such as our Community Champions programme, Get Healthy with Tesco Lotus in Thailand and the UK Tesco Great School Run, we're known to be a good neighbour. By benefiting local communities, our brand has taken on new meaning among stakeholders – that of a responsible retailer.

By developing a brand reputation for offering great value and service to customers and being a responsible member of the community, we can attract great people to work for us. As a responsible and flexible employer with a track record of developing talent within the business, Tesco is also seen as a great place to build a career.

The increased emotional and functional loyalty from customers, staff and communities generated by our brand building has contributed to Tesco becoming a profitable, sustainable growth opportunity for shareholders to invest in. Investment provides us with further opportunities to build and develop our brands across the Group, in turn allowing us to diversify to the benefit of customers, staff, communities and shareholders.

A brand is a promise, a set of fundamental principles that define a product or business. It is an intangible representation of what a company stands for in the minds of its customers and other stakeholders.

Retail brands

Product brands

Pillar brands

Building our team

To build our team so that we create more value

£105.5m

Value of shares awarded under Shares In Success

75%

We pay at least 75% of employee medical, dental, prescription and vision costs in the US

We treat people how we like to be treated. We want our people to enjoy working at Tesco. Our people do a great job each and every day by giving our customers the best possible shopping trip.

By creating an open environment of trust and respect, our people feel supported, they share their knowledge and experience and work hard to give our customers great service.

We support our people, trusting in their ability to deliver while helping them to reach their full potential. We encourage our people to learn on the job and take responsibility from day one.

Every year, we build our plans for the year around our People Promises. We want all of our people across all of our markets to:

- be treated with respect;
- have an opportunity to get on;
- have a manager who helps them; and
- have an interesting job.

It's through our People Promises and our benefits package that we are proud to say that our people stay with us for a long time. Around half of our Director population has at least 12 years' service.

In recognition of the importance of people across our business, our Group Personnel Director, Alison Horner, is now part of our Executive Committee. Alison is a great example of talent developed in Tesco, with 12 years of experience across the business in both Personnel and Operations.

Recruitment and growth

As Tesco grows and diversifies, we are able to offer more jobs to people in the communities around our stores, depots and offices. This year we have recruited 21,000 people worldwide.

Our graduate programmes fast track graduate trainees with high potential into leadership positions. This year we have recruited around 140 Commercial graduates into UK and Central European buying and general merchandise roles – the largest number of Commercial graduates that we have employed since the programme began. This is part of our ongoing commitment to invest in future leaders.

Talent and promotions

One of our People Promises is 'an opportunity to get on'. We promise to support and develop our people throughout their careers.

We want the women in our teams to achieve their full potential. In the last four years the number of female directors has increased by nearly 70% across the Group, and we have three women on our Board.

Building capability

As part of our ongoing commitment to building capability, we are investing in the Tesco Academy. Our Academy supports the development of our people through training courses, networking opportunities and mentoring.

In July, we will open our zero-carbon Academy centre in Incheon, South Korea. Asia is a rapidly growing region for Tesco and the Academy will help us to build capability in the area.

In China, our Store Manager Programme has been created so that we can recruit and develop people to become our future Store Managers. The programme started in October 2010 with 22 candidates taking part.

Rewards and benefits

Our people do a great job for our customers and we want them to feel valued and rewarded. We invest in pay and, in the UK, we have the highest pay rates for customer assistants of any major supermarket.

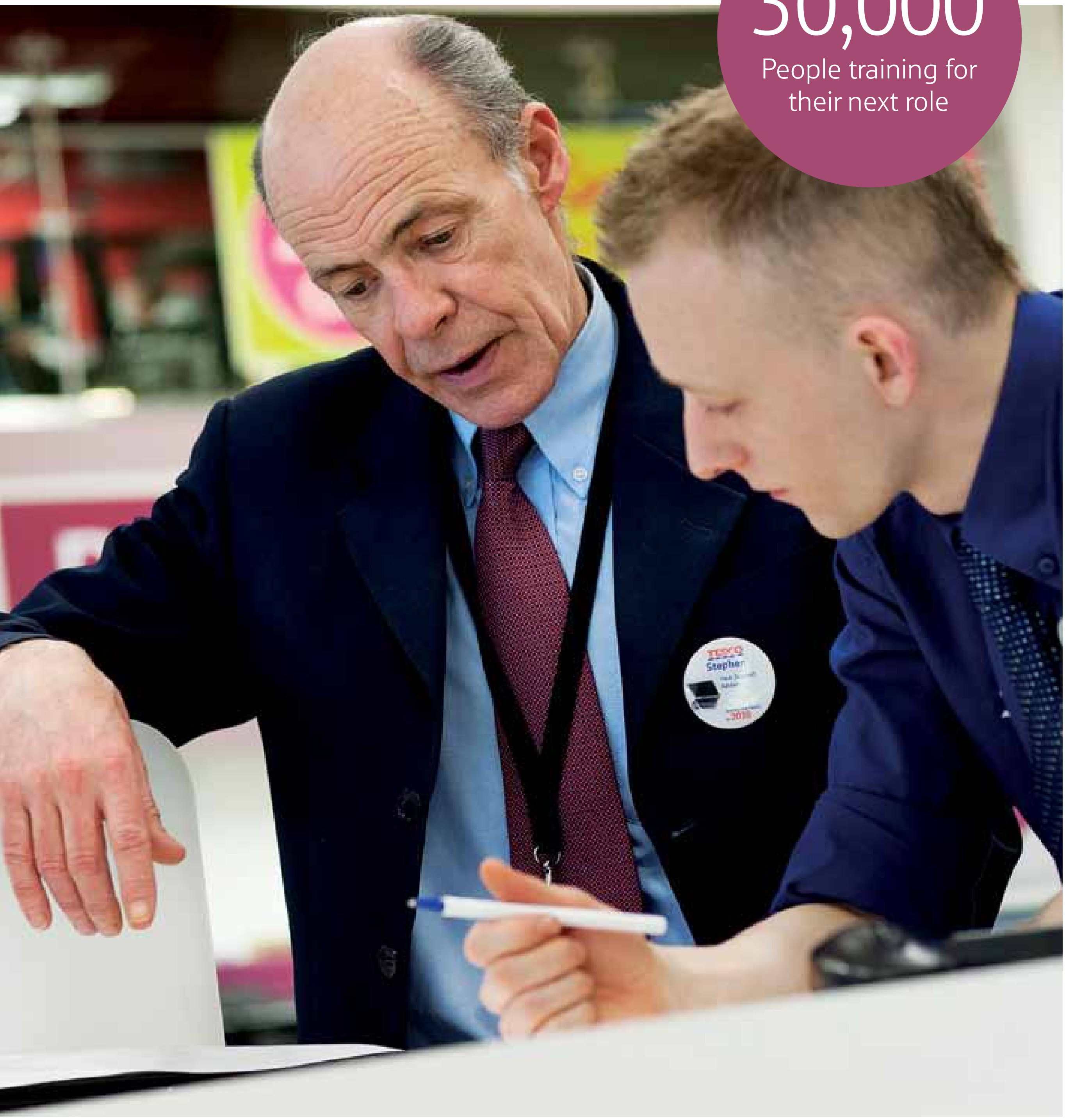
Across all of our markets, we offer a wide range of competitive benefits. In the US, we pay at least 75% of medical, dental, prescription and vision costs. In the UK we have an open defined benefit pension scheme which is greatly valued by our staff and rare among FTSE 100 companies.

Share ownership incentive schemes help our staff to get their own personal stake in Tesco. 216,000 staff shared a total of £105.5 million when the Shares In Success scheme matured in 2010.

CAREER DEVELOPMENT

We believe that home-grown managers make valuable business leaders because they understand our culture and approach. Our new CEO, Philip Clarke, is an example of this, having started work at Tesco part-time as a schoolboy. Across the business, we currently have almost 30,000 people on development programmes, gaining the knowledge, leadership skills and qualifications for their next role.

30,000
People training for their next role



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 33 to 35.

Dividends
The Directors recommend the payment of a final dividend of 10.09p per ordinary share, to be paid on 8 July 2011 to members on the Register at the close of business on 3 May 2011. Together with the interim dividend of 4.37p per ordinary share paid in December 2010, the total dividend for the year will be 14.46p compared with 13.05p for the previous year, an increase of 10.8%.

Directors
Details of the current members of the Board are shown on page 36.

Gareth Bullock and Stuart Chambers joined the Board on 3 July 2010. They will offer themselves for election and the other Directors will offer themselves for re-election at the Annual General Meeting on 1 July 2011.

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 26 February 2011 with the exception of provision A.3.2, in respect of which the Company was not in compliance for part of the year, and complied with the new UK Corporate Governance Code in all respects with the exception of provisions B.1.2 and B.6.2.

Provisions A.3.2 and B.1.2 require 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. The Board had one more Executive than Non-executive Directors (excluding the Chairman) between July 2010 and the end of the financial year. Following Sir Terry Leahy's retirement and the appointment of Philip Clarke as his successor as CEO in March 2011, there is now an equal number of Executive and independent Non-executive Directors and the Board is again balanced and compliant with this provision.

Provision B.6.2 of the new UK Corporate Governance Code requires that every three years there should be an externally led evaluation of the Board's performance. The Board usually carries out an external Board evaluation every three years, with internal evaluations in the intervening years. The last external evaluation took place in 2007 and an externally facilitated evaluation would normally have taken place this year. Given the extensive Board and senior management changes taking place it was decided that it would be more appropriate to conduct an internal evaluation process and to carry out an externally facilitated process next year once these changes have had an opportunity to bed in.

A full corporate governance statement is contained in the Annual Report and Financial Statements 2011.

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. The Remuneration Committee has reviewed our executive remuneration arrangements in light of our strategy, our operational goals and the feedback from shareholders. Whilst we believe that our remuneration arrangements are broadly competitive and operate well, the Committee has found opportunities to simplify and re-balance where appropriate. Full details are contained in the Annual Report and Financial Statements 2011.

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 has been drawn up in accordance with the Combined Code on Corporate Governance, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Financial Services Authority Listing Rules. The Remuneration Report also complies with the disclosures required by the Directors' Remuneration Report Regulations 2002.

A summary of Directors' emoluments and interests is set out on pages 31 and 32. The full Remuneration Report is provided in the Annual Report and Financial Statements 2011.

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 Group Cash Flow Statement, Summary report of the Directors and Summary report of the Directors on remuneration set out on pages 30 to 35.

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 Report of the Directors 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 Chairman's statement, the Chief Executive's review and 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 describe the basis of our audit opinions on those financial statements, the Report of the Directors and the Directors' Remuneration Report.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the Report of the Directors and the Directors' Remuneration Report of Tesco PLC for the 52 weeks ended 26 February 2011 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
Embankment Place
6 May 2011

Notes:

(a) The maintenance and integrity of 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.

(b) 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			
	Salary £000	Benefits[3] £000	Short-term cash £000	Short-term deferred shares £000	**Total 2010/11 £000**	Total 2009/10 £000
Executive Directors						
Richard Brasher	825	40	765	632	**2,262**	2,402
Philip Clarke	825	38	765	632	**2,260**	2,701
Andrew Higginson	825	65	765	632	**2,287**	2,724
Sir Terry Leahy	1,432	77	1,328	1,386	**4,223**	5,220
Tim Mason – base salary[1]	825	376	716	649	**2,566**	3,616
Tim Mason – supplement[1]	200	–	172	156	**528**	649
Tim Mason – total	1,025	376	888	805	**3,094**	4,265
Laurie McIlwee	752	57	765	632	**2,206**	1,789
Lucy Neville-Rolfe	625	83	574	474	**1,756**	1,809
David Potts	825	86	765	632	**2,308**	2,708
Non-executive Directors						
Charles Allen[2]	35	–	–	–	**35**	95
Gareth Bullock[2]	52	–	–	–	**52**	–
Patrick Cescau	109	–	–	–	**109**	89
Stuart Chambers[2]	64	–	–	–	**64**	–
Rodney Chase[2]	49	–	–	–	**49**	135
Karen Cook	80	–	–	–	**80**	77
Harald Einsmann[2]	28	–	–	–	**28**	77
Ken Hanna	92	–	–	–	**92**	79
Ken Hydon	98	–	–	–	**98**	95
David Reid (Chairman)	629	64	–	–	**693**	677
Jacqueline Tammenoms Bakker	76	–	–	–	**76**	65
Total	8,446	886	6,615	5,825	**21,772**	25,007

1 Tim Mason's salary is made up of a base salary and a non-pensionable salary supplement (shown separately). Tim Mason's benefits are made up of travel, medical, tax-related costs and services and free shares awarded under the all employee Share Incentive Plan (SIP). Payments in relation to tax equalisation on equity awards granted prior to his appointment as US CEO totalling £768,000 are not included in the table above.

2 Gareth Bullock and Stuart Chambers were appointed during the year. The figures in the table above are from their dates of appointment. Charles Allen, Rodney Chase and Harald Einsmann retired during the year.

3 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 SIP. Under the SIP, shares in the Company are allocated to participants in the scheme up to HMRC approved limits (currently £3,000 per annum). The amount of profit allocated to the scheme is determined by the Board taking into account Company performance.

Summary report of the Directors

Disclosable interests of the Directors, including family interests

	Options held at 27 February 2010[1] (or on appointment if later)	Granted	Exercised	Lapsed	Value realised during 2010/11 £000	**Options held at 26 February 2011[1,3]**	Ordinary shares at 26 February 2011[2]
Executive Directors							
Richard Brasher	2,044,136	909,721	1,298	45,567	2	**2,906,992**	1,220,793
Philip Clarke	2,849,105	907,282	219,123	45,567	871	**3,491,697**	1,824,638
Andrew Higginson	2,849,105	907,282	219,123	45,567	949	**3,491,697**	1,349,712
Sir Terry Leahy	10,639,425	1,791,369	2,997,330	79,819	5,175	**9,353,645**	7,075,849
Tim Mason	1,159,489	387,638	1,298	0	2	**1,545,829**	3,876,520
Laurie McIlwee	743,466	739,584	0	0	0	**1,483,050**	222,301
Lucy Neville-Rolfe	1,417,358	681,078	1,298	29,919	2	**2,067,219**	452,886
David Potts	2,849,105	909,721	786,050	45,567	977	**2,927,209**	1,851,253
Non-executive Directors							
Charles Allen[4]	–	–	–		–	**–**	–
Gareth Bullock[4]	–	–	–		–	**–**	–
Patrick Cescau	–	–	–		–	**–**	–
Stuart Chambers[4]	–	–	–		–	**–**	5,500
Rodney Chase[4]	–	–	–		–	**–**	–
Karen Cook	–	–	–		–	**–**	–
Harald Einsmann[4]	–	–	–		–	**–**	355,984
Ken Hanna	–	–	–		–	**–**	–
Ken Hydon	–	–	–		–	**–**	30,093
David Reid	–	–	–		–	**–**	194,337
Jacqueline Tammenoms Bakker	–	–	–		–	**–**	–
Total	24,551,189	7,233,675	4,225,520	292,006	7,978	27,267,338	18,459,866

1 Options to acquire ordinary shares shown above comprise options held under the Executive Share Option schemes, 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 under the Share Incentive Plan and shares held under a promise awarded under the PSP, EIP and US Long Term Incentive Plan.
3 The exercise price of outstanding options ranges from 0p to 473.75p.
4 Charles Allen, Rodney Chase and Harald Einsmann retired from the Board on 2 July 2010. Gareth Bullock and Stuart Chambers were appointed on 3 July 2010.

Group financials

Group sales, including VAT, increased by 8.1% to £67.6 billion. At constant exchange rates, sales increased by 6.6% (including petrol) and 6.0% (excluding petrol).

Group trading profit was £3,679 million, up 7.8% on last year and Group trading margin, at 6.0%, increased by 4 basis points. **Underlying profit before tax** rose to £3,813 million, an increase of 12.3%. Before property, underlying profit before tax grew by 12.2%. On a statutory basis, **Group operating profit** rose by 10.2% to £3,811 million. **Group profit before tax** increased 11.3% to £3,535 million.

Net finance costs increased to £333 million (£314 million last year). However, before the non-cash IAS 19, 32, and 39 adjustments, actual net interest cost fell by £83 million to £334 million. This reflects the continued reduction in net debt.

Total **Group tax** has been charged at an effective rate of 24.4% (last year 26.4%). This reduction was largely driven by a reduction in the rate of UK corporation tax, and a lower Japan impairment than last year. We expect the tax rate for 2011/12 to be broadly unchanged.

Cash Flow and Balance Sheet. Net debt reduced to £6.8 billion, ahead of our target of £7.0 billion, helped by strong cash generation in the seasonally important second half of the year. During the year, we repaid £926 million of our debt early and repaid £777 million of maturing bonds. The strength of our property-backed balance sheet was again demonstrated through continued strong investor demand for our property sale and leaseback transactions during the year.

We expect net debt to fall further in the years ahead. Looking at our liabilities in the round, we will be focusing more on fixed charge cover as our primary balance sheet metric, which we are targeting to keep between 4 and 4.5 times. We also are targeting a ratio of 2.5 times lease-adjusted net debt to EBITDAR* which represents a similar level to where we were prior to the Homever and TPF acquisitions.

Group **capital expenditure** in the year was £3.7 billion (last year £3.1 billion), a little higher than our expectation at the beginning of the year, mainly as a result of exchange rate movements. Capital expenditure in the UK was £1.7 billion, with an additional £0.2 billion in the Bank, principally for the re-platforming of our systems, and £1.8 billion in International. For the 2011/12 year we plan to invest around £4.0 billion in capital expenditure and going forward we expect annual capital expenditure to total between 5% and 5.5% of Group sales.

Group **Return on Capital Employed** (ROCE) increased substantially – to 12.9% (last year 12.1%). We expect to deliver our target increase of 200 basis points, on our 2005/6 base of 12.6%, by 2014/15, taking ROCE to 14.6%. This increase will be driven predominantly by operational improvement – growth in asset turnover and margin – combined with improved capital efficiency (work in progress release and our property programme). By geography and business segment, the increases in ROCE will be broadly based, coming from Asia, Europe, the US, the UK and Tesco Bank.

The Board has proposed a **final dividend** of 10.09p per share, taking the full-year dividend to 14.46p. This represents an increase of 10.8% on last year's full-year dividend, which is in line with the growth in underlying diluted earnings per share at constant tax rates. It is also the 27th consecutive year of dividend increase. The final dividend will be paid on 8 July 2011 to shareholders on the Register of Members at the close of business on 3 May 2011.

* EBITDAR defined as statutory profit before interest, tax, depreciation, amortisation and rent.

Group financials

Summary Group income statement

Year ended 26 February 2011

	52 weeks 2011 £m	52 weeks 2010 £m
Continuing operations		
Revenue (sales excluding VAT)	60,931	56,910
Cost of sales	(55,871)	(52,303)
Gross profit	5,060	4,607
Administrative expenses	(1,676)	(1,527)
Profit arising on property-related items	427	377
Operating profit	3,811	3,457
Share of post-tax profits of joint ventures and associates	57	33
Finance income	150	265
Finance costs	(483)	(579)
Profit before tax	3,535	3,176
Taxation	(864)	(840)
Profit for the year	2,671	2,336
Attributable to:		
Owners of the parent	2,655	2,327
Non-controlling interests	16	9
	2,671	2,336
Earnings per share		
Basic	33.10p	29.33p
Diluted	32.94p	29.19p

Non-GAAP measure: underlying profit before tax	52 weeks 2011 £m	52 weeks 2010 £m
Profit before tax	3,535	3,176
Adjustments for:		
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	(19)	(151)
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	113	24
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	50	41
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	42	127
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	8	14
IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions	55	131
Restructuring costs	29	33
Underlying profit before tax	3,813	3,395

Summary Group balance sheet

	26 February 2011 £m	27 February 2010 £m
Non-current assets	35,337	34,258
Current assets (including non-current assets held for sale)	11,869	11,765
Current liabilities	(17,731)	(16,015)
Net current liabilities	(5,862)	(4,250)
Total assets less current liabilities	29,475	30,008
Non-current liabilities	(12,852)	(15,327)
Net assets	**16,623**	**14,681**
Equity attributable to owners of the parent	16,535	14,596
Non-controlling interests	88	85
Total equity	**16,623**	**14,681**

Balance sheet Net assets have increased by £1,942 million to £16,623 million. Non-current assets increased by £1,079 million, after charging depreciation and amortisation of £1,420 million.

Group capital expenditure was £3.7 billion. UK capital expenditure was £1.7 billion. Tesco Bank capital expenditure was £0.2 billion. Total international capital expenditure rose to £1.8 billion; £1.0 billion in Asia, £0.6 billion in Europe and £0.2 billion in the US. In the year ahead we forecast Group capital expenditure to be around £4.0 billion.

Summary Group cash flow statement

Year ended 26 February 2011

	52 weeks 2011 £m	52 weeks 2010 £m
Cash generated from operations	5,366	5,947
Interest paid	(614)	(690)
Corporation tax paid	(760)	(512)
Net cash from operating activities	**3,992**	**4,745**
Net cash used in investing activities	**(1,859)**	**(1,877)**
Cash flows from financing activities		
Dividends paid to equity owners	(1,081)	(968)
Other net cash flows from financing activities	(1,955)	(2,639)
Net cash from financing activities	**(3,036)**	**(3,607)**

Reconciliation of net cash flow to movement in net debt

Year ended 26 February 2011

	52 weeks 2011 £m	52 weeks 2010 £m
Net decrease in cash and cash equivalents	(903)	(739)
Investment in Tesco Bank	(446)	(230)
Elimination of net increase in Tesco Bank cash and cash equivalents	56	(167)
Debt acquired on acquisition	(17)	–
Net cash outflow to repay debt and lease financing	2,870	2,780
Dividend received from Tesco Bank	150	150
(Decrease)/increase in short-term investments	(292)	81
Increase in joint venture loan receivables	159	45
Other non-cash movements	(438)	(249)
Decrease in net debt in the year	**1,139**	**1,671**
Opening net debt	(7,929)	(9,600)
Closing net debt	(6,790)	(7,929)

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 but forms part of the notes to the financial statements.

Our Board of Directors

1. David Reid – 64
Non-executive Chairman
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 (SID) of Reed Elsevier Group PLC and Chairman of both Kwik-Fit Group and Whizz-Kidz. In November 2010 David was appointed one of Prime Minister David Cameron's Business Ambassadors.

2. Philip Clarke – 50
Group Chief Executive
Philip Clarke was appointed to the Board on 16 November 1998. Prior to his appointment as CEO in March 2011 he was Asia, Europe & IT Director and has previously held a number of roles in store operations, commercial and marketing.

3. Tim Mason – 53
Deputy Group CEO and CMO and CEO Fresh & Easy
Tim Mason has been President and Chief Executive Officer, Fresh & Easy Neighborhood Market since January 2006 and became Deputy Group CEO and Chief Marketing Officer in March 2011. He was appointed to the Board on 16 February 1995. He joined Tesco in 1982.

4. Richard Brasher – 49
CEO – UK and ROI
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 Board Commercial Director, before being appointed UK and ROI CEO in March 2011.

5. Andrew Higginson – 53
CEO – Retail Services
Andrew Higginson was appointed to the Board on 17 November 1997. Prior to his appointment as Chief Executive of Retailing Services in July 2008 he was Group Finance and Strategy Director. He is Chairman of Tesco Bank and a Non-executive Director of BSkyB plc.

6. Laurie McIlwee – 48
Chief Financial Officer
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.

7. Lucy Neville-Rolfe, CMG – 58
Executive Director (Corporate and Legal Affairs)
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 ITV plc and 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.

8. David Potts – 53
CEO – Asia
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 also included the UK Supply Chain and the Republic of Ireland, before being appointed CEO Asia in March 2011.

9. Patrick Cescau – 62
Senior Independent Director

10. Gareth Bullock – 57
Non-executive Director

11. Stuart Chambers – 55
Non-executive Director

12. Karen Cook – 57
Non-executive Director

13. Ken Hanna – 57
Non-executive Director

14. Ken Hydon – 66
Non-executive Director

15. Jacqueline Tammenoms Bakker – 57
Non-executive Director

16. Jonathan Lloyd – 44
Company Secretary

Directors' ages as at 26 February 2011.

Financial calendar

Financial year end 2010/11	26 February 2011
Final ex-dividend date	27 April 2011
Record date	3 May 2011
Q1 Interim Management Statement	June 2011
Annual General Meeting	1 July 2011
Final dividend payment date	8 July 2011
Half-year end 2011/12	27 August 2011
Interim Results	October 2011
Q3 Interim Management Statement	December 2011
Christmas and New Year Trading Statement	January 2012
Financial year ended 2011/12	25 February 2012

Please note that dates are provisional and subject to change.

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