TESCO

Annual Review and Summary Financial Statement 2012

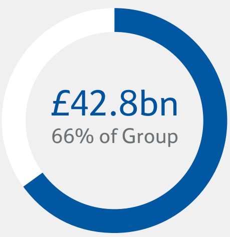
Tesco at a glance 2011/12

We are one of the world's largest retailers with operations in 14 countries,* employing almost 520,000 people and serving millions of customers every week.

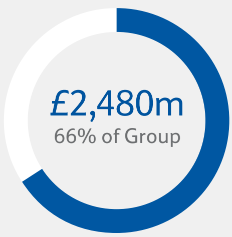
£72.0bn Group sales	**+7.4%** Group sales growth	**£3.8bn** Group profit before tax	**+5.3%** Group profit before tax growth
+1.6% Underlying profit before tax**	**+2.1%** Underlying diluted earnings per share**†	**14.76p** Full year dividend per share	

UK

Revenue±



Trading profit



Revenue growth± **+5.0%**

Trading profit growth **(1.0)%**

Employees **300,373**

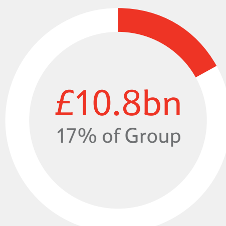
Stores **2,979**

Market position	1st
Multiple formats include	Hypermarkets, superstores, supermarkets, convenience
Loyalty scheme	Clubcard – around 16 million active members
dotcom	First grocery home shopping service 1997

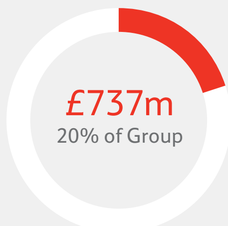
Fascia brands include:

Asia

Revenue±



Trading profit



Revenue growth± **+10.5%**

Trading profit growth **+21.8%**

Employees **117,015**

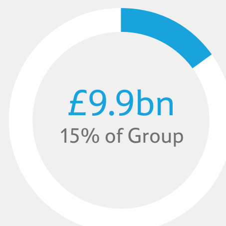
Stores **1,719**

Market position	1st or 2nd in all except China
Multiple formats include	Hypermarkets, supermarkets, convenience
Loyalty scheme	Clubcard in Malaysia and Thailand, Family Card in South Korea, Legou Tesco Membercard in China – over 20 million active members across Asia
dotcom	South Korea 2002, planned launches in at least one major city in each market in the next few years

Fascia brands include:

Europe

Revenue±



Revenue growth± **+7.3%**

Employees **94,409**

Market position	1st or
Multiple formats include	Depar super hyper
Loyalty scheme	Clubc 7 milli Europ
dotcom	Repub 2011, 2012 a in eac

Fascia brands include:

* 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. Continuing operations exclude Japan which has been treated as discontinued following our decision to sell the business.

US

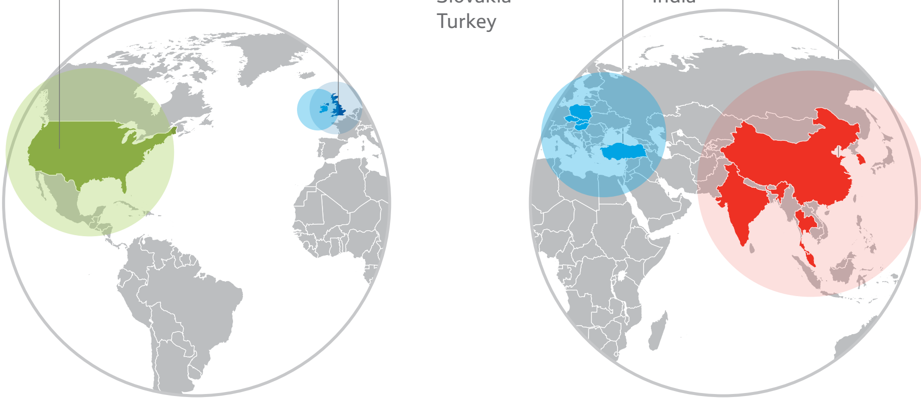
UK

Europe

Republic of Ireland
Poland
Hungary
Czech Republic
Slovakia
Turkey

Asia*

South Korea
Thailand
China
Malaysia
India



Trading profit

£529m
14% of Group

Trading profit growth
+0.4%

Stores
1,351

	2nd in all except Turkey
	tment stores, hypermarkets, markets, compact markets, convenience
	ard in all markets – over on active members across e
	blic of Ireland 2000, Prague planned launches in Warsaw and in at least one major city h market in the next few years

US

Revenue±

£0.6bn
1% of Group

Trading loss

£(153)m
(4)% of Group

Revenue growth±
+27.3%

Improvement in trading loss
+17.7%

Employees
5,056

Stores
185

Market position	A West Coast start-up business
Loyalty scheme	Friends of Fresh & Easy – two-thirds of a million active members

Fascia brand:

Tesco Bank

Revenue±

£1.0bn
2% of Group

Trading profit

£168m
4% of Group

Revenue growth±
+13.6%

Trading profit growth
(36.4)%

Employees
2,818

Baseline profit growth
+29.3%

Insurance	Car, home, pet, travel, life, over 50s, health, dental, breakdown
Savings	Fixed rate, internet, instant access, retail bonds
Cash	Loans, credit cards, ATMs, travel money
Future launches	Mortgages, current accounts
Loyalty scheme	Clubcard

** See glossary for full accounting definitions.
† Calculated on a constant tax rate basis.
± Revenue excludes the accounting impact of IFRIC 13.

www.tescoplc.com/ar2012

The easy way to get online

This year online, you can hear from our leadership team, explore our business through our interactive map and download our financial statements in Excel. Visit www.tescoplc.com/ar2012 or use your smartphone to scan the QR codes in the Report to go straight to the relevant information online.

Scan here to visit the 2011/12 Annual Report online homepage

Chairman's statement

Sir Richard Broadbent
Chairman

"There are many things that strike a newcomer to Tesco. This is a business with an unusual range and depth of core competencies; it has outstanding operational effectiveness; it understands deeply what it means to orientate a business around the customer; it is passionate, and successful, about developing talent from within; and it manages a complex operating environment with great team work."

Nearly six months after taking over from Sir David Reid, it is good to have this opportunity to share my perspective on recent developments which I will do under three headings: context; transition; and governance.

Context

There are many things that strike a newcomer to Tesco. This is a business with an unusual range and depth of core competencies; it has outstanding operational effectiveness; it understands deeply what it means to orientate a business around the customer; it is passionate, and successful, about developing talent from within; and it manages a complex operating environment with great team work.

It is also a business that is not afraid to learn and change, capacities perhaps more than any others which are essential to long-term growth. In this respect there are three areas in particular worth identifying.

First, Tesco is a business with significant strategic optionality. It has expertise and capital, human and financial, that can be leveraged in different geographies, in different sectors of retailing and through new and different channels, notably of course the internet. The development of these opportunities can make Tesco a stronger company and benefit the UK as a whole. And with such opportunity also comes responsibility – to ensure that the trade-offs between different investments are reached in a disciplined way; and that the optimum balance is struck overall between current returns and future growth.

Second, as the business grows internationally, it is important not only that we explain ourselves to the world but also that we listen and see ourselves as others do. Since arriving at Tesco last year I have visited many different parts of the business around the world, met many of our staff, talked to shareholders, suppliers, commentators, community leaders and to customers. This is the broader context of our business to which we need continuously to relate, openly, honestly and constructively for the long-term benefit of our business.

Third, I have been impressed by the skills, commitment and values held by the people who work at Tesco and all of whom not only contribute to its success but make the company what it is. They are a great team and all those with a stake in Tesco have reason to admire and be grateful for their efforts. I would like to thank them, on behalf of the whole Board, for all that they do.

Scan here to hear more from Sir Richard Broadbent, or visit www.tescoplc.com/ar2012/chairman

Chairman's statement

Transition

This has been a year of transition.

Philip Clarke took over as Chief Executive at the beginning of the year and he has been shaping both the organisation of the business and the management team which inevitably, after a long period of stability, are entering a period of change and development. This work takes time but is essential to our future as a strong and profitable company.

All successful companies go through periods of transition. Indeed, the capacity to change and develop over time is fundamental to truly world-class companies. The critical issue for those responsible is to fully acknowledge the need for and to manage change in a measured and timely fashion when it is called for.

We have moved to address performance issues in the UK. The challenge of refocusing the UK business to ensure it sustains healthy market leadership is important enough to make it worth giving up some profit in the short term to safeguard the business in the long term. We laid out in April how we intend to do this.

Elsewhere, we have continued the substantial re-orientation of the US business to give it the best possible opportunity to secure its future with all the potential for longer-term growth that would bring. We have announced our intention to exit from Japan. We are willing to invest for the long term but where we cannot see a profitable, scalable business earning good returns within an acceptable timescale, we prefer to pursue better opportunities. And we have slowed down the development of Tesco Bank to increase its focus on quality, service and risk management.

These are substantial changes, in management, organisation and business and they need to be seen as part of a continuing process of moving the company forward, making changes where necessary to ensure long-term stability and sustainable profitability.

Governance

Governance is the framework that articulates a company's values and supports its behaviours. During the year, we updated our governance framework and processes. An important aspect of these changes was the creation of the Board Corporate Responsibility Committee to ensure that the Board maintains a strategic focus on corporate responsibility in its widest sense, reflecting the importance to the Group of how it engages externally. When a company has significant economic and social scale it is essential that it reflects on the full nature of its accountability for its activities, and how it should discharge that responsibility to the communities in which it operates. This will be an important focus for the new Committee.

There have been a number of changes to the Board. In addition to Sir David Reid, David Potts retired during the year, Richard Brasher stepped down from the Board in March, and Andrew Higginson will retire in September. We thank them all for their contribution to the business over the years. We are also pleased to welcome Deanna Oppenheimer to the Board as a Non-executive Director. Deanna brings valuable international, retail, banking and digital experience to our Board.

Financial results

In the year, we delivered sales growth of 7.4%. Profit growth was modest, with a strong international performance largely offset by a reduction in UK profits. Trading profit grew by 1.3%, and profit before tax grew by 5.3%. Return on capital employed improved from 12.9% last year to 13.3%, and we continued our long record of dividend growth for shareholders, with the full year dividend up 2.1% to 14.76p.

The fact that in a year when economic headwinds have been evident in practically every part of the globe our business increased sales, profits, return on capital and dividends speaks for its overall resilience.

Looking ahead

Last year was a challenging one for the business and we are acutely aware that this was reflected for our shareholders in the share price. We will continue in 2012/13 to address long-standing business issues in the UK and elsewhere in order to secure future prosperity as well as ensuring that our financial and human resources are developed and deployed where they are able most effectively to generate future growth and returns.

If I have one overriding impression of Tesco after six months, it is that here is a truly international business, deploying its expertise across the world to drive opportunity, growth and returns, all of which ultimately benefit the UK. I look forward to being part of it.

Sir Richard Broadbent
Chairman

Chief Executive's review

Building for the future

Philip in conversation with Ellen and Jobe at the Tesco Extra store in Baldock

"My first year as Chief Executive has been a year where we have implemented important changes at Tesco, a year when we have built strength for the future."

It has been a year of significant change and one in which we took decisive action on some very important issues for Tesco: our reset of expectations for the UK for the forthcoming year, the announcement of our intention to dispose of our business in Japan, the focus on moving Fresh & Easy closer to profitability and the renewed focus on delivering a reliable Tesco Bank. As a part of this we made several key management changes during the year which have allowed some significant new appointments as we renew and reinvigorate the Tesco team.

This has very much laid the ground for the future; a future where we will make sure that our capital and our talent are put to work where it benefits most our customers and hence our shareholders. The future Tesco will demonstrate greater innovation and creativity as we address the needs of consumers around our world – both in store and online.

We regularly deliver over 75 million shopping trips a week and as a retailer are only as good as the last trips. Ensuring that Tesco is highly valued by customers on each and every one of those shopping trips will be what makes Tesco achieve sustainable success. That is what we set out to do every day.

I believe that we have faced into challenges with real determination and taken decisions for the future. I know that it has been a tough year to be a Tesco shareholder. I know too that my whole team and I are confident that the changes we are making are the right things to do – for customers, staff, the business and its shareholders – and that the long-term opportunities for Tesco remain undiminished.

Scan here to hear more from Philip Clarke, or visit www.tescoplc.com/ar2012/ceoreview

Chief Executive's review

Performance in 2011/12

We delivered modest profit growth in a challenging economic environment, with a strong international performance largely offset by a reduction in UK profits. Whilst the year gave us many things to be proud of, overall it was not the most pleasing performance. My team and I are resolved to get Tesco back to winning, particularly at home.

Group sales increased by 7.4% to £72 billion, while Group trading profit was up 1.3% on last year and underlying profit before tax rose to £3.9 billion, an increase of 1.6%. Group capital expenditure in the year was £3.8 billion. Group return on capital employed ('ROCE') increased – to 13.3% (last year 12.9%).

The Board has proposed a final dividend of 10.13p per share, taking the full year dividend to 14.76p, which is an increase of 2.1% on last year.

The decisions we have taken during the year have had an impact on our financial performance. We decided to forego some short-term profit to re-invest in the long-term health of the business, with a clear focus on improving the shopping trip for customers.

The UK business clearly did not meet our own expectations in the year and, partly as a result of this, we decided to accelerate our plan to make improvements which has meant a necessary reset to expectations for our growth in 2012/13 as well. This acceleration and reset were announced with our Christmas trading update in January.

Despite this significant re-investment programme, we remain committed to driving higher returns for shareholders. Although our investment plans in the UK make achieving our ROCE target more challenging in the short term, we still expect to deliver a ROCE of 14.6% by 2014/15, with broadly based growth from around the Group.

Strategic update
In last year's Annual Report, I set out an evolution of our strategy into seven parts:

- 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; and
- To build our team so that we create more value.

This strategy remains as relevant now as it did a year ago and I'm pleased to be able to update you on the progress we have made on each of these strategic objectives. I also set out immediate management priorities for the business last year – keeping the UK strong and growing; becoming outstanding internationally, not just successful; becoming a multi-channel retailer wherever we trade; delivering on the potential of retail services; applying Group skill and scale; and delivering higher returns. You will see how these priorities have shaped our actions through the year.

To grow the UK Core

The deli counter in our Hertford Superstore has a flat glass front, bright lighting and warmer, more engaging signage

In the UK, high petrol prices and falling real incomes affected customers' discretionary spending in the year. The combination of disappointing sales in the second half of the year and our decision to increase investment into the shopping trip meant that our UK performance was weaker than planned. Sales grew by 6.2%, supported by excellent new store performance, but trading profit declined by (1.0)%.

The issue we are addressing is that the shopping trip just hasn't been improving fast enough and our standards haven't been as consistent as our customers have come to expect. As a result, we are taking action to improve each aspect of the customer offer. This will involve significant revenue and capital investment in a comprehensive plan encompassing six key areas.

The UK Plan – Building a Better Tesco
Our Plan for the UK business has six elements:

Service & Staff: helping our people deliver great service by investment in recruitment, training and equipment, dedicated to particular departments such as produce so that our customers notice the change.

Stores & Formats: making our stores better places in which to shop and work, with the pace of new store development moderating, and the pace of refreshing our existing stores stepping up.

Price & Value: delivering great value for money through the right blend of price, promotions, couponing and loyalty.

Range & Quality: building the right ranges of quality products, reviewing and refreshing our entire range of Tesco brand products, making our ranging more store and format-specific, and bringing dunnhumby, our marketing insight business, back into the heart of Tesco.

Brand & Marketing: making sure that we get back to having the right conversation with our customers about Tesco.

Clicks & Bricks: making this a potent combination for our customers, with the roll-out of Click & Collect and the transformation of our range and online presence.

We are clear on what we need to do, we have trialled substantial elements of the changes and we know they work. Our investment programme has already started and we expect this to deliver stronger results. The Big Price Drop in September 2011 was the first step, but the changes we are making are about much more than price. They are a combination of price, quality, range and service, including a significant investment to create an additional 20,000 jobs over the next two years. These changes will reinvigorate the shopping trip for customers, and consequently deliver improved performance for shareholders.

To be an outstanding international retailer in stores and online

Our international businesses performed strongly, with trading profits up 18%, or by 22% before the impact of a crisis tax levied in Hungary. We have seen progress in our established businesses, such as in Central Europe, South Korea and Thailand, and from our newer, rapidly growing businesses, such as Fresh & Easy in the United States and Tesco Malaysia. It is encouraging that we are winning market share in almost all of our markets and, in some countries, at a faster rate than for many years.

Asia: another strong performance
I am pleased with the performance of our businesses in Asia. Sales and profit grew well – sales by over 10%, and trading profit by over 20%. We delivered solid like-for-like sales growth and an excellent contribution from new stores.

Our business in Thailand had an extraordinary year. The worst flooding for 70 years caused us to close over 150 stores temporarily and all four of our distribution depots. The superb dedication of our team enabled us to keep supply lines open for customers and to support staff affected by the flooding, and we have come out of the crisis stronger. We grew like-for-like sales and profits in the year. South Korea had another good year, although I anticipate a modest reduction in like-for-like sales next year as restrictions on trading hours for large retailers are implemented across the country.

In China, we have continued to focus on building scale in three regions of the country. With the economic environment currently proving challenging for mainstream retailers, we have decided to take a more cautious stance on the market, at least for now. We have decided not to commit substantial new capital to freehold shopping centres, and we have also elected to hold back on the pace of new hypermarket development this year. We will only open 16 stores, instead of stepping up as we had planned. We still believe that China can be an engine of growth and we can speed up again when the outlook improves.

We took an important step this year in deciding to exit Japan. It is right to focus on our larger, profitable and growing businesses in the Asia region. It is never easy to make decisions of this kind and I would like to thank our staff in Japan for their continued hard work and professionalism through this time.

Europe: growth in a difficult environment
Following a strong performance in Europe in the first half of the year, the performance in the second half was weaker than expected. Sales for the year grew by 8% and trading profit increased marginally, by 0.4%. Trading profit growth would have been in line with sales had it not been for the impact of the crisis tax imposed in Hungary, which cost £38 million in the year.

The economic background was particularly difficult in Hungary and in the Republic of Ireland this year. Given the current conditions, we are focusing on growth primarily through our existing stores in these markets, rather than investing substantial new capital. In addition to these headwinds in two of our largest markets, profits were held back by disruption connected to the opening of our new distribution centre in Poland, but this is behind us now.

We have made good progress with the closer integration of our European businesses this year, from sharing infrastructure to buying as a single region. This means that we can leverage the skill and scale of the Tesco Group to deliver a better shopping trip for customers and higher returns for shareholders. One example of this is our recent launch of grocery dotcom in Prague, with initial sales well ahead of plan, and our dotcom business in Warsaw will be launched soon.

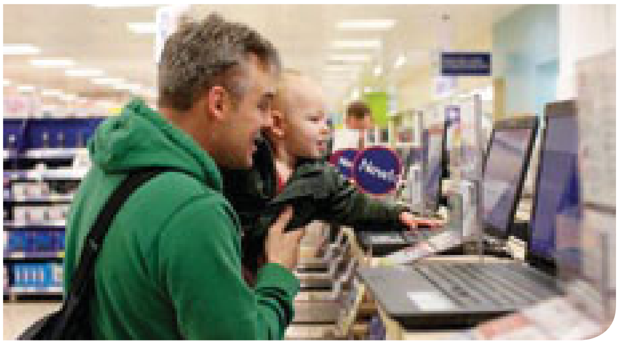
Our Extra format stores delivered an encouraging performance through the year

United States: on the path to profitability
It has been a year of encouraging progress in Fresh & Easy. Sales grew by 27%, with almost 12 percentage points coming from like-for-like stores. We have also delivered reduced trading losses for the first time, with an 18% improvement on last year. After four years of rising losses, this is a decisive change of trend, driven by further improvements to our customer offer. Features such as in-store bakeries, more loose produce, additional ranges and new Fresh & Easy products have been very popular with customers and we have seen an acceleration in our already strong growth in customer numbers.

The progress we have made gives us more confidence that we will deliver a further significant reduction in losses in the coming year. The timing of break-even will be later than we had previously expected, as we will focus on getting more of our existing stores to reach profitability before we step up the rate of new store openings. We can then reach sufficient scale to cover our substantial central overhead costs and we anticipate that we will reach the break-even point during 2013/14.

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

It has been tough to achieve growth in sales of discretionary items – not least in the UK, where we have seen a number of specialist general merchandise retailers go into administration – and our UK like-for-like growth in general merchandise, clothing and electricals has remained negative. To adjust to this, we have been allocating more space to the most popular products and improving merchandising. We are committing less capital to new space for non-food and instead focusing more resource on continuing to develop our online capability.



Baldock Extra Electricals department. We are seeing the early benefits of our changes, but much remains to be done

Europe and Asia delivered stronger performances in general merchandise, clothing and electricals, despite subdued consumer confidence even in the better performing economies. I was pleased with the performance of clothing in Central Europe, with sales growing by 12% at constant exchange rates. This is testament to the strength of the F&F brand and also to the performance of our new Extra format stores. We ended the year with 44 of the new Extras in Europe and three in Asia. These stores are introducing our customers to a different way of shopping, with stronger ranging and new services, with extremely encouraging results. Different categories of food and general merchandise have their own distinctive look and feel within the Extra store, known as 'Worlds', such as Baby World and Sports World. We are making similar changes to the look and feel within our large UK stores, partly as a result of the encouraging performances in Europe.

To grow retail services in all our markets

Customers can purchase insurance and other Tesco Bank products in store, alongside their weekly shop

Tesco Bank is a key part of the potential we see in retail services. Since we took full control of the Bank in 2008, our focus has been on developing our own systems and infrastructure and recruiting and developing a new team to run the operation. I'm delighted to say that this period of migration from The Royal Bank of Scotland ('RBS') to our own platforms is now nearing an end. Building a bank is a complex task and I took the decision during the year to slow down the migration, so as to minimise the customer impact. This final stage of migration will be completed imminently, at which point the business can put more emphasis on growth and on developing the potential we see in financial services.

We have delivered good business growth in the year with revenue up 14%, driven by a good performance in the insurance business. The Bank's profit figure includes several accounting adjustments, so we measure business performance using baseline profitability, which increased by a very encouraging 29%. The Bank's capital position has also remained strong through the year, supported by a 7% growth in savings balances.

With the migration almost completed, the Bank is well positioned for future growth. We are also on track to launch new products, starting with mortgages, to broaden into a full-service retail bank.

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

We have reinforced our commitment to be a good corporate citizen this year: as a retailer, an employer and a neighbour. We employ over half a million people worldwide, which allows us to make a real difference in the communities where we operate. Our core business involves two vital roles in the heart of the community: providing customers with safe, good quality, affordable, nutritious food and creating good jobs and careers. Beyond this, we have demonstrated that we put our responsibilities to communities at the heart of what we do in a huge variety of ways: I want to pay tribute to just some of the great achievements of the last year.

Even when their own homes were in danger or flooded, our people in Thailand went to extraordinary lengths for customers. Some even gave up their days off and travelled for hours by boat to continue to get essential supplies to our customers. There is no better example of our colleagues living true to the Tesco Values: 'No one tries harder for customers' and 'Treat people how we like to be treated'.

Our responsibility to our people is to provide them with good jobs and careers. In the last year, we have created thousands of jobs across our businesses, invested in a state-of-the-art, zero-carbon training academy in South Korea and have continued our work in the employment of young people, university graduates and the long-term unemployed.

Our customer offering is based on strong relationships with our suppliers. For example, we now have supplier academies in all of our Central European markets for suppliers to present their products to our buyers. This enables us to support the growth of our suppliers whilst sourcing the best local and regional products for our customers.

Any business on the scale of Tesco has the opportunity to make a significant difference in tackling climate change. We were proud to be recognised by the Carbon Disclosure Project again this year, with Tesco named the top retailer in the world. We will continue our work as we progress towards our ambitious target of being a zero-carbon business by 2050.

Our state-of-the-art, zero-carbon training academy in South Korea, to train staff from across the Tesco Group

To be a creator of highly valued brands

Finest sold well over £1 billion in the UK alone this year. In April 2012 we relaunched Tesco Value as Everyday Value, with quality improvements to hundreds of products

Across our markets our own-label programme encompasses a broad spectrum of ranges to appeal to diverse customer needs, giving customers the quality products they are looking for at competitive prices.

In the last year we have expanded our offering, launching new ranges such as Venture Brands in the UK and Europe – including Chokablok chocolate and ice cream and Carousel children's toys – which offer customers premium quality at great prices.

We have started to differentiate our ranges more clearly, such as our sub-brands Gourmet and Eat Well in Fresh & Easy and Goodness, which is a range of healthy and nutritious children's products now also available in the UK.

We recently relaunched our UK Tesco Value range as Everyday Value, with quality improvements to hundreds of products and new, brighter packaging. This is the first stage in a refresh of our entire range of over 8,000 Tesco brand products in the UK in the next two years, including a comprehensive update to our Tesco Standard range.

This is an area of substantial and growing strategic importance for us, as we recognise the role that our brands play in attracting customers and as we start to leverage our expertise in brand management across our markets.

To build our team so that we create more value

Strengthening our management

This time last year we were in the early days of some of our new management structures. I had just introduced a matrix structure throughout Tesco with CEOs for each of our key business areas – the UK, Asia, Europe, and the US – supported by integrating functions, such as Property, Human Resources and Marketing. I am very pleased with how this structure has bedded in and expect to see even greater value creation as a result.

The introduction of a dedicated UK Operating Board has enabled greater focus at home and given the importance of the changes we are currently making for customers, I have recently decided to assume direct responsibility for the UK business during the process of its renewal.

I have continued to strengthen both the Executive Committee and our senior management teams through the last year, drawing on our deep pool of internal talent.

We have also been fortunate to welcome our new Chairman, Sir Richard Broadbent, following Sir David Reid’s decision to retire. I want to thank David for his lasting contribution to Tesco over 26 years on our Board and, on a personal level, for all the help he has given me in settling into my role as CEO.

Building the Tesco team

We will create 20,000 more jobs in the UK over the next two years and many more around the world

Tesco’s most important asset will always be its people, who live by our Values to do their very best for customers. Many of our plans for the coming year are built on investment in our people. We employ more than half a million people across the globe and this will continue to increase, with plans to create an additional 20,000 jobs in the UK alone in the coming two years and to continue to grow our teams around the world. It is the quality, commitment and dedication of our people that gives me so much confidence that we can and will achieve our plans for the years ahead.

Delivering higher returns

In April last year we set out a target to increase our already good level of ROCE to 14.6% by 2014/15. We improved ROCE from 12.9% to 13.3% in 2011/12. Although it is likely that we will see a small reduction in 2012/13 as a result of our UK investment plans, we continue to see a number of opportunities to drive returns and we still expect to deliver our targeted increase to 14.6% by 2014/15.

Doing the right thing

I am confident that we are ready to tackle whatever challenges lie ahead. The decisive action that we have taken in the past year and the management changes which have reinvigorated the Tesco team have laid the ground for the future; a future where we will make sure that our capital and our talent are put to work where it benefits most our customers and hence our shareholders. We have and will continue to focus on doing the right thing for customers, for communities, for staff, for the business and for our shareholders.

Philip Clarke
Chief Executive

Strategy in action

IN THIS SECTION

Having given you an overview of the implementation of our strategy over the past year, this section sets out some detailed case studies showing our strategy in action.

In the next few pages, you'll read about the £1 billion commitment we're making to improve the shopping trip in the UK, our exciting innovations online, what we mean by Group skill and scale, our businesses in newer markets, the progress of Tesco Bank over the last three years and our team's extraordinary response to the flooding in Thailand.

UK: Giving our customers the best shopping trip

We always want to provide our customers with the best shopping experience and set the standard in the UK. Focusing on food first, we are making a £1 billion commitment this year to improve the shopping trip, driving a strong pace of improvement in the things that matter for customers – service, range, quality, price, availability and the store environment.

We are improving the look and feel of many of our fresh departments using more engaging signage, stronger graphics, warmer colours and better lighting

More staff, better service

One of the largest elements of our investment is in increased staffing levels, training and equipment for key departments in existing stores – such as produce and meat. We saw marked improvements in customers' perceptions and sales performance of 200 pilot stores. This success has given us the confidence to move quickly to apply these changes to all of our large stores – an investment of over £200 million.

Creating more good jobs and careers

Over the next two years, we will create 20,000 new jobs to deliver new levels of excellence in customer service. Customers will benefit from more staff on the shop floor at busy times, greater staff expertise and enhanced service across the store.

The investment goes to the heart of our promise to create good jobs and careers, with opportunities focused on young people who are currently unemployed. British Prime Minister David Cameron described the investment as "a massive confidence boost for the UK economy".

The Fruit and Veg team

Fresh food is an area where customers really appreciate having dedicated, specially trained and knowledgeable staff. With the additional investment in staffing, training and equipment, the Fruit and Veg team can focus on fresh produce, improving product availability and presentation for customers.

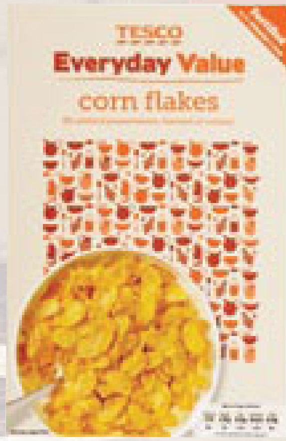
We are also increasing the number of staff across the whole of fresh food – meat, produce and chilled convenience foods.

Quality and innovation

We are reviewing and refreshing our entire range of over 8,000 Tesco brand products starting with the relaunch of Tesco Value as Everyday Value, with quality improvements to hundreds of products. Helping customers manage on tight budgets, Value was already growing at twice the rate of the market as a whole: these changes will further strengthen its position. We will also be comprehensively updating our other Tesco ranges this year.

We have already stepped up the pace of innovation with our new Venture Brand exclusive products – such as Chokablok ice cream, Parioli authentic Italian ranges and the Latham's range of premium pet food.

With such a strong variety of ranges to appeal to the needs of different customers, we will also be applying more personalisation and localisation in stores to help them tailor their ranges much more for their local area.



The Big Price Drop

In September 2011, we launched The Big Price Drop, investing more than £500 million to reduce the prices of over 3,000 everyday products. Big Price Drops target the products that customers buy week in, week out. The progress is encouraging and we're now more competitive. It's an important step in the journey but there's more to do to get the blend right on price, promotions, couponing and loyalty.

Over the page

UK: Refreshing our stores for customers and staff

The way stores look and feel is an important part of the shopping trip. Customers wanted a warmer, friendlier look and feel, so we have accelerated our Refresh programme to improve the environment in all our stores.

Investing over £200 million of additional capital, we will refresh 430 stores in the coming year, representing about 25% of our UK space. Bringing in a warmer, friendlier look and feel will go hand in hand with our work on quality and range, so that we offer customers great products displayed in an attractive, inviting store environment.

Listening to our staff
Most of our changes are visible to customers but we are making some equally important changes behind the scenes. We ran a programme this year for staff to email or text in comments about what they felt needed to be fixed in their stores. With 40,000 comments received, we've responded by rolling out new and better equipment, like checkout chairs and handheld printers. This has helped deliver the best staff Viewpoint feedback survey results for five years.

The Extra format
Customers are noticing the changes we are making in stores across all of our formats – Extra, Superstores, Metro and Express – but we're also making some changes that particularly affect our larger stores. We're drawing on the great success of our new Extra format in Europe to make sure that our UK Extras continue to meet our customers' changing needs, as they increasingly combine shopping in store and online.

Future investment
In the last few years, both convenience and online shopping have been growing rapidly. While our existing large stores in the UK perform very well, recognising the current economic climate and the growing importance of online shopping, we are not planning to open many more of the very biggest. Instead, more of our investment is going into refreshing our existing stores. New investment will be channelled into Express stores and our online offer.

Scan here to see some of the improvements we're making in store, or visit www.tescoplc.com/ar2012/ukvideo

Bakery

Customers love being able to choose from freshly baked breads and cakes and see our bakers at work in the background. Displaying the goods in baskets, not on standard shelves, also helps to make our bakeries much more appealing.

Fixtures and fittings, lighting and space

We are refreshing our stores, inside and out, to make them more inviting. Wooden cladding and brighter signage welcome customers into the store. Inside, different areas are being given a more distinctive look and feel, such as wooden fixtures in Bakery, or sleek shelving and lighting in Health & Beauty. Our produce aisles are more spacious, and our counters have less functional, more engaging signage, flat glass fronts and better lighting, to show off our meat, fish, cheese and deli products at their best.

Click & Collect

As the option of ordering online and picking up in store continues to grow in popularity, our stores are ideal collection points. We will add 700 new collection points for Tesco Direct orders in the next year – customers can already collect from over 770 stores, including 70 Express stores. We will also continue to increase the number of stores with collection points for grocery, as well as trialling convenient joint collection points.

Retail services

The services we offer in store – like an optician, pharmacy, phone shop or customer restaurant – all help customers to get more out of their everyday shopping trip. We ended the year with over 180 opticians and are planning to increase the number of our phone shops to over 260 in the coming year.

Clothing

The UK clothing market, worth £33 billion, is one of the few areas of discretionary spend that continues to grow and is a category where the internet has so far had a limited impact. Our Central European Extras have shown us that Clothing tends to benefit from more space and better lighting on the shop floor, as customers love seeing more of our range. As well as giving Clothing more space in store, we will be improving the ranges and quality we offer to ensure broad appeal.

Online: Making ‘Clicks & Bricks’ a reality for customers

Growing our online businesses in all our markets is a strategic priority for us and it shows how we are adapting to our customers’ changing needs. Stores continue to sit at the heart of our business, but we are aiming to become a multi-channel retailer wherever we trade.

Customers increasingly expect to be able to shop where, when and how they want: the boundary between stores and online is blurring. In developing our online offer, we are drawing on our convenient store network and our expertise to meet our customers’ needs and help make their lives easier, progressing towards an offering where customers can shop with us ‘anywhere, any time, any how’.

We’ve taken online far beyond everyday grocery shopping. Digital technology allows us to meet the ‘on the go’ needs of our customers – with **blinkbox** you can stream entertainment on the move and with our virtual stores in South Korea you can even shop during your commute to work.

We want to offer our customers convenient options to shop with us using those access points – stores, computers and mobile devices – which are part of their daily lives. Whether customers want to shop on the move using their smartphones, or take their time at home, we are innovating to help them shop however they want, with quick and easy apps and improved platforms.

Online grocery

When we first launched a grocery home shopping service in 1997 we were viewed as pioneers, and we have grown to be the world’s largest and most profitable online grocery retailer with sales of well over £2 billion.

As technology moves forward so do we. We use it to help make shopping easier for customers with a mobile web platform for shopping on the go, features like ‘Favourites’ and tailored online offers developed for Tesco via analysis from dunnhumby, our marketing insight business.

Where customer demand is very high we have complemented our in-store picking model with a number of specialised dotcom-only stores. In January, we opened our fourth in Enfield. We currently fulfil over 80% of London orders from our dotcom-only stores, providing our customers with our total food range – more than can be offered from any one store.

Tesco Direct

We have upgraded our Tesco Direct website to better showcase our great quality range and offer customers improved functionality and ease of use. For the first time it is now configured for mobile devices. We will be moving our other UK Clothing and Entertainment websites onto the same platform later in the year.

By Christmas we will have increased our Direct range to 200,000 items, thanks in part to third-party Sellers. Having introduced our first Sellers at Tesco Direct recently, we are offering our customers additional ranges teamed with Clubcard points and convenient store collection points, while our Seller Partners benefit from our volume of online traffic and expertise.

Scan here to see how we’re developing our online offer, or visit www.tescoplc.com/ar2012/onlinevideo

Click & Collect

Click & Collect is a key component of our multi-channel offering. Our store and distribution networks mean we can give customers the opportunity to pick up products whenever it suits them from over 770 stores, close to where they live or work. 70% of online **general merchandise** orders are handled in this way.

Click & Collect is becoming increasingly relevant for all product groups. We currently have 45 stores that offer **grocery** Click & Collect and we expect this number to increase quickly. Our customers appreciate this innovative, quick and convenient service which fits well into their busy schedules.

Social media

As our customers spend an increasing amount of time online we are able to use social media to build trust and understanding of our business. This in turn helps to drive loyalty.

We have built our business on listening to our customers and acting on their feedback. Social media allows us to have conversations with them on any issue at any time – in the UK, we now have more than 680,000 'likes' on our Facebook page.

In 2011 we acquired BzzAgent – a unique business combining word-of-mouth marketing with a commercial application of social media, helping to drive consumer advocacy and broaden our capability and innovation in product marketing.

Social media also helps us to be more effective and innovative in existing tasks such as recruitment and staff communication. For example, our staff use Yammer – a private social network for businesses – to share best practice and celebrate success, often by posting photos, and we use it operationally for sharing messages and asking for feedback.

BzzAgent

International growth

We already have profitable online grocery businesses in South Korea and the Republic of Ireland, launched dotcom in the Czech Republic this year and are planning to begin soon in Warsaw. In the next few years, we are planning to launch online grocery shopping in at least one major city in each of our markets, using our operating model to roll this out quickly and cost-effectively.

In Asia, we're innovating to access the biggest opportunities – for example, in addition to our online grocery service, our virtual stores in South Korea enable busy customers to shop on their way to work. The Homeplus app has been downloaded over a million times.

International: Moving into the next phase of growth

Since the mid-1990s, we have built an international business of more than 3,200 stores, which delivered more than £1 billion trading profit for the first time this year. As we strive to become an outstanding international retailer, we are drawing on Tesco's skill and scale to move into the next phase of growth.

Retailing is a local business. Customers love local and regional products; we pride ourselves on having local people running our operations; and we use local knowledge to source and to allocate space to the most popular products. However, lots of what we do – especially behind the scenes – is best done in the same way across our markets. We are increasingly realising our vision to win locally by applying our skills globally.

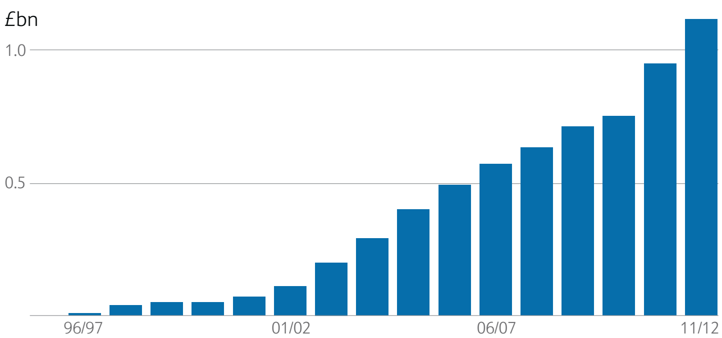
'Group skill and scale' describes this step in our evolution to becoming a global business. By Group skill, we mean applying expertise from individual countries to all of our markets: Clubcard is a great example. Having invested millions of pounds to develop the UK scheme in the late 1990s, we have been able to introduce a loyalty scheme to each of our markets for a fraction of the cost.

By Group scale, we mean using the size of the Tesco business to benefit our customers by lowering prices, improving quality, and sourcing new and different products from the best suppliers around the world. Globally sourcing food, general merchandise, and the goods that we use in store is one way that we are doing this. We buy some products from the same source for all our markets, such as bananas, and we buy others for a whole region, such as F&F clothing for Central Europe. Buying on a larger scale means that we can achieve a better cost price and create headroom to invest in improving the shopping trip for customers.

Scan here to find out more about our international businesses, or visit www.tescoplc.com/ar2012/asiaandeurope

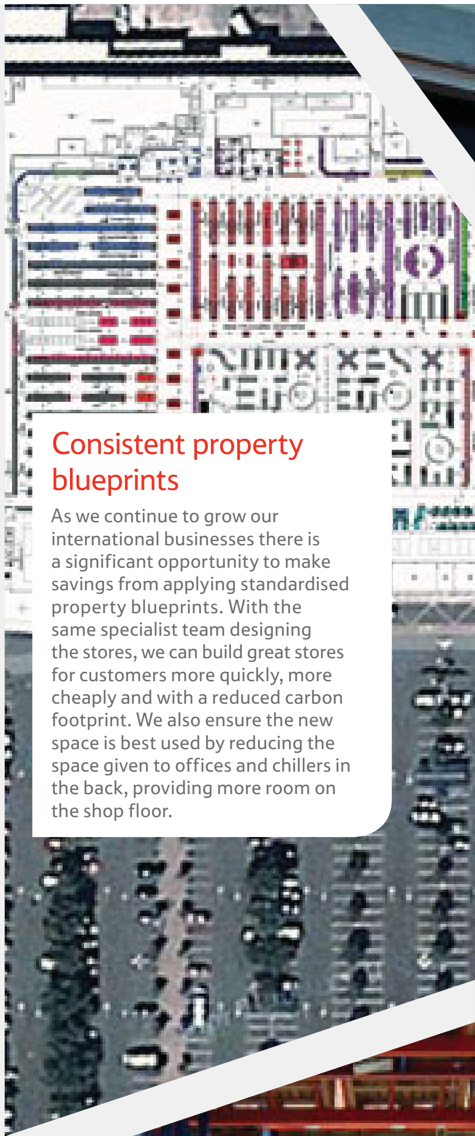
Our evolution to becoming a global business

International trading profit of over £1 billion*



Since the mid-1990s, we have built an international business with more stores than we have in the UK, which has delivered more than £1 billion trading profit for the first time – larger than any of our UK competitors. With strong market positions, we are well positioned to move into the next phase of growth.

* 11/12 trading profit excludes Japan, which has been treated as discontinued following our decision to sell the business. 10/11 has been re-presented to be consistent. The data up to and including 05/06 is statutory operating profit; from 06/07 it is trading profit.



Consistent property blueprints

As we continue to grow our international businesses there is a significant opportunity to make savings from applying standardised property blueprints. With the same specialist team designing the stores, we can build great stores for customers more quickly, more cheaply and with a reduced carbon footprint. We also ensure the new space is best used by reducing the space given to offices and chillers in the back, providing more room on the shop floor.

Smaller format stores

Smaller format stores complement our established store networks to meet growing demands for convenience. These formats are not only great for customers but are also cost-effective, utilising our existing distribution networks and requiring less capital.

One platform, many markets – the best everywhere

Rolling out the same processes and systems across the Group delivers a better shopping trip for lower cost. Shelf-ready packaging and best practice replenishment processes support great availability for customers in store, while warehouse processes minimise stock loss and wastage. We increase back-office efficiency through our shared service centre in India with the same team designing common features, such as self-service checkouts, for all our markets.

Reaping the benefits of centralised distribution

As we buy more and more products on a regional or global scale, it becomes easier and more effective to organise our distribution across borders. We have opened new depots in Poland and China this year, building them to a Group blueprint and implementing best practice processes, equipment and systems.

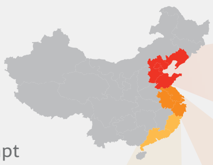
Rolling out services

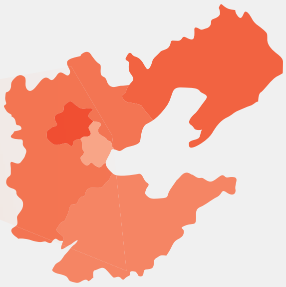
At year end, we had 47 of our Extra format stores internationally. These stores offer customers a whole range of services, such as photo shops, opticians and phone shops, for relatively low investment as they use existing hypermarket space and customer footfall. Retail financial services are well established in Thailand and South Korea, where Tesco partners with leading financial services providers, and in an earlier stage of development in another seven of our markets.

International: Footholds in newer markets

China: three regions the size of countries

A large, rapidly growing market, China offers real long-term potential for growth, despite a currently challenging consumer environment.





North region

Hymall opened here in 2001 and 11 years later we have 39 stores trading. Our first Extra opened in Shenyang in December. Freezing cold in winter, our clothing and food ranges are very different to the East and South

South region

Present in this region for only four years, we continue to adapt our offer to meet consumer needs in this warmer part of China

East region

The 'home' of Tesco in China is Shanghai and here we are trading our first Express convenience stores

Our strategy in China is to focus on building scale in three regions which together have a population of over 600 million.

Diversity and complexity

A market of China's scale brings not only significant opportunities but also huge diversity and complexity. To be successful, we need a deep understanding of regional, provincial and city-level differences, as well as an ability to leverage our global expertise and systems in order to build scale. Our vision of winning locally by applying our skills globally is key to our ambition to drive long-term, sustainable growth in China.

The importance of being local...

Even within a single region temperatures, tastes and preferred brands can all vary, so our operation is 'local' in many ways. For example, our buying teams are based in different regions and even in specific provinces and cities to be close to our customers and suppliers. We have appointed more local Directors this year to strengthen our China Board and have ongoing plans to recruit and develop local talent.

... and operating responsibly

Our stores are active in their local communities, for example through 'Care for the Needy', where we donate daily essentials to elderly and infirm people. Drawing on our Group expertise and technologies, our new distribution centre in Jiashan uses 45% less energy than a traditional depot. These are just two examples of how we operate responsibly through a combination of being local and applying our skills globally.

Group skill and scale

Tesco's skill and scale are crucial to differentiating our business in China. Our new distribution centre was an important first step to streamlining our supply chain, allowing us to buy on a greater scale and giving us more control over the storage and transportation of fresh produce. Drawing on our brand capabilities, we have recently relaunched the packaging for 250 of our own-brand products, with hundreds more to follow in the coming year. Our Shenyang Extra store has benefited from the success of our new format in Europe, with the senior team trained in our Extra store in Bratislava, Slovakia.

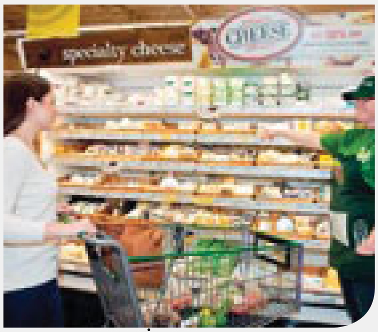
Scan here to hear more from our Fresh & Easy colleagues, or visit www.tescoplc.com/ar2012/freshandeasyvideo

Fresh & Easy: progress in the United States

The changes we have made to stores this year are building real momentum in Fresh & Easy, driving growing customer numbers and sales and delivering reduced losses for the first time.

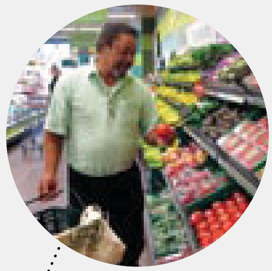
The Fresh & Easy shopping trip
Our Fresh & Easy business is about wholesome, fresh, high-quality food in the heart of the neighbourhood, with great staff giving the best customer service. We have made changes this year to bring out these features and give them more prominence in our stores. With a friendlier store environment and atmosphere, the quality of our fresh and prepared produce more apparent and the launch of our Friends card to thank our loyal customers, we have driven 12% like-for-like sales growth this year and total sales growth of 27%.

The journey to profitability
The results of these changes mean that we are more confident about the outlook for the business, although clearly much remains to be done. We have reduced trading losses by 18% and are on track for another significant reduction in 2012/13, even if the timing of break-even will now be later than our earlier expectation. This is because we will focus on more stores reaching profitability first, before pushing on faster with the expansion we need to create sufficient scale to cover our overheads. We ended the year with 185 stores and will have approaching 230 stores by the end of the coming year.



Doors on our fridges and freezers, wooden floors and brighter walls all make our stores more inviting for customers

New prepared ranges from the Fresh & Easy Kitchen, offering wholesome, natural and tasty meals



Customers can see and feel the quality of our loose fresh produce

Fresh & Easy superstars go the extra mile for customers and help create a culture of personal service

Welcoming customers with new fresh ranges: flowers, fresh bread and coffee to go

Friends loyalty card thanks our customers for shopping with Fresh & Easy

Retail services: A Tesco Bank for Tesco customers

Tesco Bank brings Tesco's Values, customer focus and trusted brand name to a big market and is differentiated by being a bank that has Tesco at its centre. We offer simple, convenient, value for money products in what can be a highly complex market.

Since we took full ownership of Tesco Bank in 2008 we have been in a period of transition. In just over three years we have developed a completely new infrastructure for the business, built up a new team and brought in new expertise – effectively building a new bank from scratch. We are now completing the very final stages of this huge project, as we move towards offering a full-service retail bank.

At its core, Tesco Bank is underpinned by the Tesco brand and Clubcard, and its operations are effective because of our people, systems and IT.

Being part of Tesco delivers benefits for customers and Tesco Bank. For example, the insight we gain from Clubcard allows us to understand our customers' needs well, helping us to provide them with the most relevant offers in a clear and simple way and at a great price.

Tesco Clubcard credit card rewards customers with Clubcard points whenever they use their card. Clubcard customers can also receive preferential deals when buying Tesco Bank products – including discounts on car, home, pet and travel insurance – and can use Clubcard points to buy Tesco Bank insurance. This year, Tesco Bank gave customers around £70 million of Clubcard points to spend in store or on Clubcard rewards.

The Tesco Values sit at the heart of Tesco Bank. Our core purpose is 'To create value for customers to earn their lifetime loyalty', so our people focus on providing great customer service. At our Glasgow and Newcastle customer service centres, staff are not incentivised to sell, which means that discussions with customers can focus solely on meeting their banking and insurance needs. Over the last three years, we have built a strong team with experience and expertise, growing dramatically from 300 to 2,800 people.

In terms of systems and IT, our new platforms have enabled some significant customer service improvements. Instant decisions are now available on loan applications, and customers can open and fund savings accounts in just ten minutes, which had previously taken around two weeks.

While we have completed the majority of the transition from The Royal Bank of Scotland's ('RBS') systems and platforms to our own, we did encounter some technical issues during the summer of 2011. We pride ourselves on being a bank that customers can rely on and trust, and to ensure that the continuing process was as smooth as possible for customers and staff, we decided to slow the remaining transition of our 2.8 million credit card accounts. This is now nearing completion.

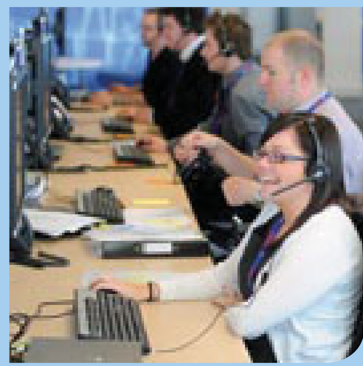
Even with all this work going on, we have grown the business during 2011/12. The savings book was up 7% versus a market of 3%, and the underlying performance of the Bank remained good, with strong growth in baseline profit (which excludes key non-trading provisioning movements).

In the last three years, we have seen significant growth across key Bank products. We have laid our foundations for growth and, with the transition from RBS almost complete, we are now in a position to grow the business faster.

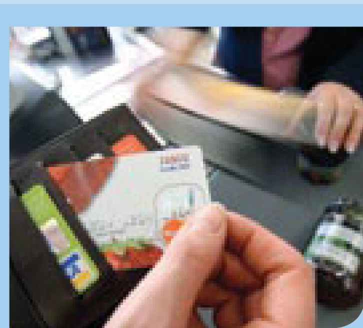
Scan here to watch our video about Tesco Bank, or visit www.tescoplc.com/ar2012/tescobankvideo

Savings and loans:
Our savings book continues to grow well, with retail savings deposits increasing by around £330 million this year. Clubcard insight supports our competitive customer offering and high quality loan book. Even though loan balances have been temporarily reduced this year as we have undergone migration, customer accounts in loans and savings have increased by 30% since 2008. We are continuing to attract new customers who know that the Bank is reliable, trustworthy and good value.

Transaction services:
Our transaction services – ATMs and travel bureaux – offer customers convenience while they are on the go. Both saw strong growth in the year, with ATM transactions up 9% and travel money transactions up 12%. We ended the year with 3,265 ATMs, up from 2,600 three years ago, and we have close to 200 travel bureaux across our store network.



Insurance:
Our products help support customers in their daily lives, giving them peace of mind wherever they are. Simple to understand, our range of products continues to prove popular with customers. Around 1.5 million people now insure their cars and homes with Tesco Bank. Since 2008, our car insurance gross written premiums have increased by 39% and pet insurance gross written premiums are up by 44%.



New products:
Tesco Bank has been growing well even without new product launches, but the products we've launched on our own systems have enjoyed huge success. Our Fixed Rate Saver, launched in October 2010, has grown to £1.5 billion and our retail bonds have attracted investments of £185 million. These initiatives diversify our funding base and increase the long-term funding available to the Bank.

We always want to give our customers the best products and the best experience, so we believe getting it right at launch is more important than rushing the process. Once we have completed the final stage of migration, we can push on faster with more substantial new products, starting with mortgages.

Current accounts are planned to follow and we welcome the recommendation of the Independent Commission on Banking to make it easier for customers to switch between banks.

Credit cards:
We are increasing our share of the market, with 57% growth in credit card transactions since 2008. Three years ago, Tesco Bank credit cards made up 9% of all MasterCard and Visa credit card transactions in the UK – that figure is now 12%. Customers benefit from the added 'Tesco' extras that come with their credit card, such as collecting one Clubcard point for every £4 spent.

Rates are subject to change and are correct as at April 2012. Fixed rate saver: one-off payment and money cannot be withdrawn until the end of the term.

Our dedication to the community: Thailand

Our stores are important parts of local communities. We are committed to being a good neighbour and making a difference to the communities we live and work in, including supporting the causes that matter to our customers and our people.

In 2011, Thailand suffered its worst floods in 70 years. At Tesco Lotus our staff went to incredible lengths through immensely difficult conditions to get essential supplies into our stores for customers.

Events such as the floods are a reminder of the strength of local communities and how people turn to them in times of need. They are also a reminder of the importance of providing customers with good quality, safe, affordable food, whenever they need it.

Like all Thai retailers, we faced a major challenge with the flood crisis but at Tesco Lotus the team worked incredibly hard to find ways to get products into store and support local people.

Our people came into work even when their own homes were flooded. We used trains and planes to bring products in and worked together across the Group to secure deliveries. Tesco in Malaysia provided three million litres of water and eight million packets of noodles and our global suppliers helped to secure canned fish, eggs and UHT milk.

We used our stores as donation centres for customers who wanted to support flood victims and contributed almost £500,000 of essential products. For our staff affected, we provided financial support as well as relief bags, food, temporary accommodation and transport.

Through teamwork at Tesco Lotus and the support of the Group, we were able to help the people of Thailand during this difficult time – a recovery effort that is still continuing. I would like to thank the whole team again for their extraordinary dedication.

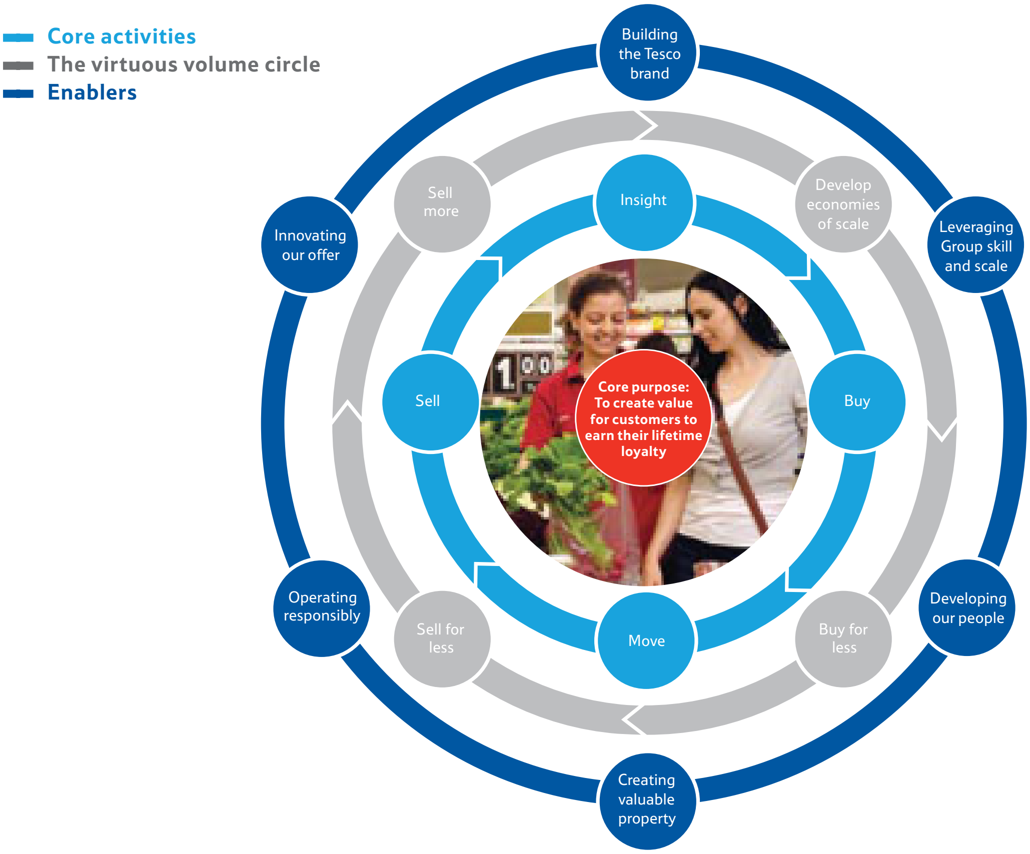
Chris Bush
CEO Tesco Lotus at the time of the floods, now COO Tesco UK

Scan here to see our Thai team in action or visit www.tescoplc.com/ar2012/thailandvideo

Business model

Our strategy is put into action through our business model. At its heart is our core purpose: 'To create value for customers to earn their lifetime loyalty'.

Business model



Core activities

Our core business model is simple: we buy, move and sell products and services to our customers and use customer insight to do this slightly better each time.

Insight:

Improving the customer offer

Listening to customers in a wide variety of ways is key to what we do. We engage with customers through a range of focus groups and ongoing research trackers, and actively seek feedback on what is good or not so good, such as through our Every Comment Helps scheme in the UK. Online and social media make it easier to listen and respond to large numbers of customers in real time, through webchats, Facebook and Twitter. The insight from all of these conversations increasingly feeds into the customer offer so that we can continually drive incremental improvements for customers.

Our loyalty schemes, such as Clubcard or Legou Tesco Membercard in China, are not only great for our customers but also provide data insight to enable us to continually improve the shopping trip. With a loyalty scheme in all of our markets and around 44 million active customers in total, we are in a unique position to understand customers' shopping patterns. Our marketing insight business, dunnhumby, provides analysis which we feed back into our business model, shaping our product and range development and enabling us to offer customers the best products and promotions for their particular needs.

Buy:

A great range of products

In food, general merchandise and services, we work with our suppliers and develop our brands to bring a great range to our customers.

The relationship with our suppliers is the foundation of our customer offer. We work with a broad range of suppliers, from global produce suppliers and international FMCG companies to local suppliers who provide products for a single region in one of our markets. We sell over £1 billion of local products annually in the UK and, across Europe, our series of 'meet the buyer' events helped us to stock hundreds of new local products this year.

With our established private label programme, we produce great quality Tesco brands at a range of price points, from Everyday Value up to Finest. Our product brands also have established market positions. For example, F&F, which is the market leader in clothing in the Czech Republic, Slovakia and Hungary, is itself diversified into distinct sub-brands for different clothing styles.

In services, we often work with specialist partners to source the best product offerings. For example, we created a joint venture between Vodafone and Tesco Hungary this year, and Tesco Bank insurance underwriting is primarily provided in partnership with Ageas Insurance Limited.

Move:

The right products at the right time

Our network of distribution centres ('DCs') and advanced technology support a modern, efficient and cost-effective supply chain.

An efficient distribution system starts with understanding which products our stores need. We do this in two ways. First, we forecast what customers will buy, using sophisticated, detailed models to consider variables such as seasonality, weather forecasts and likely response to promotions. Second, our ordering systems automatically update in real time based on what customers do actually buy, so that we can quickly and accurately supply stores with the right products at the right time.

We plan our distribution processes, systems and network of DCs to maximise efficiency. Labour scheduling and transport planning systems enable our pickers and drivers to operate highly effectively, and we develop our distribution networks to minimise the mileage needed to get products to store in perfect condition. We also use transport other than lorries such as our four train services in the UK, which save 15,000 tonnes of CO_2 per year.

Continually striving to make every part of the process productive, through primary distribution, we use our network to pick products up from some of our suppliers and transport them to our depots, which can be more cost-effective than individual suppliers delivering to us. We also use return journeys from stores to depots to pick up waste materials which we sell for recycling.

Sell:

The best shopping trip

Whether in store, online or a combination of both, we pride ourselves on delivering a great shopping trip for our customers, week in, week out.

One of Tesco's Values is 'No one tries harder for customers', and this can be seen in how we strive to improve the shopping trip. This represents every element of the customer shopping experience, including price, range, quality, availability and service. Our loyalty schemes are key to the customer offering, thanking customers each time they shop at Tesco.

We take a multi-format approach to our store network, to be able to meet our customers' needs for different types of shopping trip, from large Extra stores that offer a full range of food, general merchandise and services, to Metro and Express convenience stores.

'Selling' refers to a broader and broader range of activities as we develop our multi-channel offer. We launched a grocery home shopping service in the UK in 1997. Since then, we have grown this business to over £2 billion of annual sales, launched grocery home shopping in South Korea, the Republic of Ireland and the Czech Republic, and launched further online businesses, such as Direct, Clothing and Entertainment. We are increasingly offering customers the option of combining stores and online with Click & Collect, which makes the most of our convenient store locations, giving customers an easy way to pick up products ordered online.

We also offer a wide range of services to our customers. With opticians, pharmacies and phone shops available in our larger stores, and Tesco Bank products available to buy in store, over the phone or online, we are deepening our customers' relationship with Tesco, bringing our values of convenience, simplicity, reliability and great customer service into what can be complex markets.

We don't always sell our products ourselves. In South Korea and the Czech Republic, we operate franchise chains alongside our own stores, and we have also recently announced a new franchise model for our F&F clothing brand in Saudi Arabia.

The virtuous volume circle

By keeping our customer focus central to our business model, we are able to provide a leading customer offer: a broad range of products and services at great prices, sold in shops in convenient locations and, increasingly, available online. A great customer offer drives the virtuous volume circle, which means that we can continuously improve our offer. By selling more products, we are able to work with our suppliers to drive mutually beneficial economies of scale, creating headroom to invest and to offer lower prices to customers. An important element of our Plan to improve business performance in the UK is centred on investing in the shopping trip so that customers will reward us by buying more from Tesco.

Enablers

Our core business model is supported by enablers which maximise the potential of our core activities to give our customers the best shopping trip and ensure that our activities are carried out in a sustainable way.

Leveraging Group skill and scale:

Making our business Better, Simpler, Cheaper, Faster

Sharing best practice systems, processes and approaches across all of our markets takes our business model to the next level. By identifying best practice in each market, we can improve our offering around the Group. For example, some of the very popular brands we have developed in Fresh & Easy in the US have recently been introduced into the UK and South Korea. As our international experience grows, we are increasingly benefitting from sharing best practice – with our UK Operating Board all having spent some of their careers in our international businesses.

Group skill and scale supports each of our core activities: utilising Insight, Buying, Moving and Selling. Utilising Insight as a Group, with a loyalty scheme in all of our markets, means we can continually innovate the customer offer. Our Turkish business launched Clubcard this year, which would not normally be possible for a business of its size. Buying as a Group is cost-effective, creating headroom to invest in the customer shopping trip, such as by sourcing consumables in Central Europe as a Group. Moving as a Group, with distribution centre blueprints, systems, and the early stages of borderless distribution, makes our deliveries simpler and faster, with new distribution centres opened in both Poland and China this year. Selling as a Group, with our Extra format already in eight international markets, including the Czech Republic, Thailand and China, offers customers a better shopping experience.

Of course we don't believe in 'one size fits all'. There are many things that are best done locally because customer tastes and lifestyles are not uniform. Our businesses are run predominantly by local teams, not by expats, so that our operations can be close to the customers we serve, and our local ranges both support our smaller suppliers and give customers a tailored product offering.

Developing our people:

Our most important asset

Great service can make a customer's day, and we achieve this when our people live the Tesco Values: 'No one tries harder for customers' and 'Treat people how we like to be treated'. Our business is built on the commitment of more than half a million people across the world and, in return for their commitment, we offer them good jobs and careers with Tesco. Developing our people takes many forms, from training in our state-of-the-art training academy in Asia, to offering jobs to the long-term unemployed through Regeneration Partnerships and supporting the development of women to management positions.

Creating valuable property:

The best located and best designed stores

Our site research and property capabilities enable us to identify and develop the best sites for our stores. Tesco has great depth of experience in property development all around the world.

Optimal sites for new store developments and extensions are identified by our site research departments. We have a flexible approach to property acquisition, considering both freehold and leasehold sites and assessing each opportunity on its merits. Using a range of data, such as demographics and competitor activity, we forecast sales for a new store to a high degree of accuracy, so that we can develop the stores with the greatest potential.

Once a site has been identified, approved and secured, our property development and construction teams design and develop the site. Years of experience have fed into Group-wide blueprints and specifications so that all of our development takes place to the highest standard.

In many of our international markets, Tesco owns or leases whole malls, which are anchored by a Tesco hypermarket. Operating the mall and renting out the space to other retailers, cafés and cinemas creates a great destination shopping centre for customers, as well as bringing in significant rental income, which makes Tesco one of the largest mall operators in the world.

Operating responsibly:

Ensuring that growth is sustainable

By operating responsibly, we not only benefit and secure the future of our business but we can bring real benefits to the communities in which we operate.

At the heart of our commitment to operating responsibly is providing our customers with good quality, safe and affordable food. This is easily taken for granted in developed economies, but can be a real challenge in economies with low penetration of modern retail and under-developed supply chains.

We can only achieve this by working with our suppliers to ensure our supply chain is both resilient and efficient. Strong, fair, mutually beneficial, long-term partnerships with suppliers, from local to global, are at the heart of this. The strength of our supply network was evident during the Thai floods this year, enabling us to secure essential supplies from Malaysia and other markets.

We are committed to the responsible sourcing of raw materials, ensuring the resilience of our supply chain and managing our impact on the environment. We work with the wider industry on core issues, such as water scarcity, and co-chair the Sustainability Steering Group of the Consumer Goods Forum, which has pledged to help end deforestation by 2020. We aim to be a zero-carbon business by 2050 and are mapping the biggest opportunities to cut carbon in our supply chain, as well as continually exploring new energy efficiency measures to be introduced across the Group.

Innovating our offer:

Constantly improving our customer offer

To continue to meet customers' changing needs, we are constantly innovating our offer in a whole variety of ways. Innovation can bring greater convenience to an existing way of shopping, as with self-service checkouts. It can offer customers a new way of shopping, as with Click & Collect grocery or our virtual stores in South Korea. It can combine our presence in shops and online into a compelling customer proposition: for example, a customer registered with Blinkbox can automatically receive a digital copy of most new Hollywood releases when they buy the DVD with a Clubcard in store. By drawing on the breadth of our expertise and by always putting the customer first, we continue to serve customers how they want to be served in a changing and increasingly joined-up world.

Building the Tesco Brand:

To be seen as the most highly valued business in the world

Through everything we do, we strive towards our vision of being 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. Protecting and developing our brand reputation is the foundation of customer loyalty and of how we are seen by our many stakeholders and enables our business model to operate effectively. For example, our diversification into services such as Tesco Bank is built on customers' trust in the Tesco brand to offer good value, simple solutions and great customer service; and our recruitment and retention of great staff depends on our reputation for customer service and offering good jobs and careers.

Performance review

IN THIS SECTION

This section provides detailed information on our financial and non-financial performance over the past year.

In Key performance indicators, you will find sections covering Group performance, Group financial ratios and all seven parts of our strategy. Our Financial review section then takes you through the financial performance of each of our business segments in the year.

More detailed definitions for our Group performance and Group financial KPIs can be found in the glossary on page 48.

Key performance indicators

Our KPIs measure how we are doing across the Group in terms of both operational and financial performance in the context of the key elements of our strategy.

More detailed definitions for our Group performance and Group financial KPIs can be found in the glossary on page 48.

All KPIs exclude the results from our operation in Japan for 2011/12 unless stated otherwise.

Group performance

Growth in underlying profit before tax

1.6%

08/09	09/10	10/11	**11/12**
9.8%*	8.7%	12.3%	**1.6%**

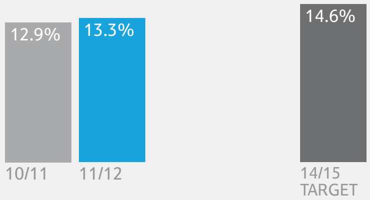
Definition
Our underlying profit provides information on the underlying trend and performance of the business. It is adjusted for a number of (non-cash) accounting adjustments and one-off costs.

Performance
We saw modest progress in the year, with the rate of improvement impacted by two events: the Hungary crisis tax (£38 million) and the increase in provision for Payment Protection Insurance ('PPI') in Tesco Bank (£57 million). Growth before these impacts was 5.4%.

* Restated for IFRS 2 and IFRIC 13.

Return on Capital Employed ('ROCE')

13.3%



Definition
ROCE is a relative profit measurement that demonstrates the return the business is generating from its gross assets.

Performance
Although our UK performance was weaker than planned, ROCE improved by 40 basis points, benefiting from Japan now being classified as a discontinued operation.

Growth in underlying diluted earnings per share (at a constant tax rate)

2.1%

08/09	09/10	10/11	**11/12**
11.0%	7.7%	10.8%	**2.1%**

Definition
Underlying diluted earnings per share ('EPS') is the amount of underlying profit, adjusted for the number of shares in issue.

Performance
The growth in underlying diluted EPS reflects modest progress in earnings in the year. The proposed full year dividend per share grew by 2.1%, in line with this, to 14.76p, continuing our unrivalled record of consecutive years of dividend growth in the FTSE 100.

Group financial ratios

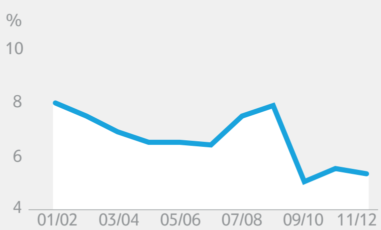
Total shareholder return ('TSR')

08/09	09/10	10/11	**11/12**
8.0%	9.5%	6.7%	**(3.0)%**

Definition
TSR is the notional annualised return from a share: the percentage change in the share price, plus the dividends paid and reinvested, over the last five years. For example, five-year TSR for 11/12 is the annualised growth in the share price from 06/07 and dividends paid and reinvested in Tesco shares, as a percentage of the 06/07 share price.

Performance
Returns reduced reflecting the effect on our share price of our decision to invest significantly in the customer offer in the UK.

Capital expenditure ('capex') % of sales



Definition
Capex is the investment in property, plant and equipment, investment property and intangible assets. This is divided by Group sales (inc. VAT, inc. petrol) to show a relative investment to sales.

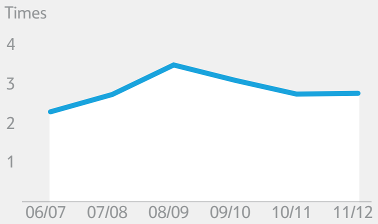
Performance
This year we reduced our rate of capital investment to reflect the challenging trading environment and increased our focus on lower capital-intensive investments with high returns, such as online and convenience.

Last year we set a target of 5% to 5.5% of sales. We will reduce capex to £3.3 billion in 12/13 and, beyond that, comfortably less than 5.0% of sales.

Key performance indicators

Group financial ratios continued

Net indebtedness



Definition
Net indebtedness shows debt in relation to operating cashflow ('EBITDAR'). Debt is adjusted net debt, calculated as net debt, the pension deficit and the net present value of lease obligations.

Performance
Net indebtedness remained broadly flat, reflecting a slower than expected working capital improvement and higher pension deficit, offset by cash generated from retail operations (excluding working capital). Our target for net indebtedness is 2.5 times.

Gearing

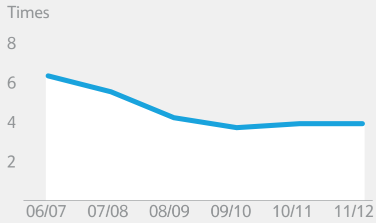
08/09	09/10	10/11	**11/12**
74.4%*	54.0%	40.8%	**38.4%†**

Definition
The proportion of net assets financed through debt rather than equity, calculated as net debt divided by total equity.

Performance
Our gearing continued to decrease, reflecting our stable debt position despite our investment in assets growing.

* Restated for IFRS 2 and IFRIC 13.
† Includes Japan.

Fixed charge cover



Definition
The number of times that our operating cashflow ('EBITDAR') covers our debt obligations (largely rent and interest payments).

Performance
Our fixed charge cover remained broadly flat due to increased rent offsetting our reduced interest and increase in operating cashflow ('EBITDAR'). Our target is a level of cover in the band of 4 to 4.5 times.

Group strategy: To grow the UK core

UK like-for-like (inc. VAT, exc. petrol)

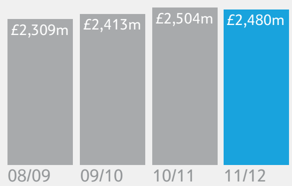
08/09	09/10	10/11	**11/12**
3.0%	2.6%	1.0%	**0.0%**

Definition
The growth in sales from stores that have been open for at least a year.

FOCUS FOR 2012/13

Performance
Having delivered a disappointing performance, particularly during the second half, our UK Plan aims to drive stronger like-for-like sales.

UK trading profit



Definition
The profit generated from the UK business in its retail operations.

Performance
Having delivered a solid first half profit outcome, profits weakened in the second half, reflecting a disappointing sales performance and the initial investment in improving the shopping trip for customers which we began during the second half of the year.

Customer rating of overall shopping experience as excellent or good

76%

FOCUS FOR 2012/13

Source: Marketing Sciences.

Definition
Percentage of customer ratings, measured in exit interviews.

Performance
Three quarters of customers find their shopping experience good or excellent, and 98% find it reasonable, good or excellent. With our UK Plan, we aim to improve customers' shopping experiences from reasonable to good and from good to excellent.

Growth in UK online sales

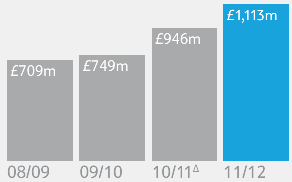
+10%

Definition
The year-on-year sales growth from total tesco.com and online telecoms.

Performance
We are pleased with the performance of our online businesses. Our largest business, grocery, accelerated its already strong rate of growth through the year.

Group strategy: To be an outstanding international retailer in stores and online

International trading profit



Definition
The profit generated from our international businesses in their retail operations.

Performance
We delivered strong profit growth of 18% against a background of very difficult economic conditions in several of our large markets.

Δ Re-presented to exclude Japan.

Proportion of customers pleased with their shopping trip

≥95%
in 9 markets

Definition
The number of markets where at least 95% of customers asked were very or fairly satisfied with their overall shopping experience, the top two ratings.

Performance
The pleasing results reflect the improvements we have been driving internationally through different customer initiatives.

Source: Country customer satisfaction tracker.

Growth in international online sales

+40%

Definition
The year-on-year sales growth from our international online businesses.

Performance
From a low base we are starting to see accelerating growth, with our established international online operations in South Korea and the Republic of Ireland doing well.

Group strategy: To be as strong in everything we sell as we are in food

UK general merchandise, clothing and electricals range image

1st
supermarket

Source: Marketing Sciences.

Definition
Our relative position among competitors, as rated by customers.

Performance
With a leading position among our supermarket peers, we are driving substantial improvements to our range in order to increase our competitiveness among specialist retailers, with plans for 200,000 products on Tesco Direct by Christmas.

Proportion of UK customers buying general merchandise, clothing and electricals

37%
down from 39% last year

Definition
The average weekly proportion of UK Clubcard customers who bought a general merchandise, clothing or electricals item.

Performance
With the current economic conditions, we are seeing subdued demand for discretionary items.

International general merchandise, clothing and electricals range image

9
markets – 1st or 2nd place

Source: Country image tracker.

Definition
The number of international markets where we are ranked first or second by customers for our general merchandise range. This excludes the US, where we operate convenience stores.

Performance
Our position reflects the strength of the F&F brand and of our Extra stores, which are introducing our customers to different ways of shopping, with stronger ranging and a distinctive look and feel for different categories.

Proportion of general merchandise, clothing and electricals sourced as a Group

27%

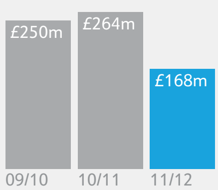
Definition
The proportion, by sales, of general merchandise, clothing and electricals we buy together, through our Group Commercial function.

Performance
From this already substantial proportion of Group sourcing, we expect to increase the amount that we buy together in the coming years as we leverage Group skill and scale.

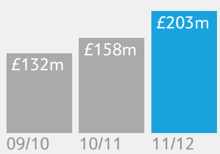
Group strategy: To grow retail services in all our markets

Bank profit

Trading profit



Baseline profit



Definition
Trading profit measures the profit generated by the business in its operations. Baseline profit is measured before key non-trading provisioning movements, including Payment Protection Insurance ('PPI'), and before fair value, and provides information on business performance.

Performance
Baseline profit rose 29% in the year, reflecting strong business growth. By contrast, trading profit fell 36%, impacted by the increase in a provision for claims from historic sales of PPI; and the unwinding of the fair value provision, an accounting adjustment made at the time of acquisition in 2008.

Key performance indicators

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

Reduction in CO_2 emissions

08/09	09/10	10/11	11/12
4.8%	7.8%	7.7%	5.0%

Definition
The year-on-year reduction in greenhouse gas emissions from existing stores and distribution centres built before 2006/07, adjusted to exclude emissions from acquisitions and extensions.

Performance
We met our target for 2011/12 to reduce our CO_2 emissions by 5%. Cumulatively, we have reduced our emissions from existing stores and distribution centres by 26% since 2006/07.

Supplier Viewpoint

74%

Definition
The percentage of positive scores from our annual survey of suppliers, Supplier Viewpoint, when we ask whether Tesco treats them with respect.

Performance
In 2011/12, we exceeded our target of 70%, representing generally strong supplier relationships.

Donation of pre-tax profits to charities and good causes

1.9%
over £74.5m in total

Definition
Our contribution to charities and good causes through direct donations, cause-related marketing, gifts in kind, staff time and management costs.

Performance
We exceeded our target of donating 1% of pre-tax profits to charities and good causes, contributing over £74.5 million.

For further Corporate Responsibility KPIs, please see our Corporate Responsibility Review 2012 at www.tescoplc.com/crreview.

Group strategy: To be a creator of highly valued brands

Customer loyalty

9
markets – 1st or 2nd place

Definition
The number of markets where we are placed 1st or 2nd for the proportion of customers who do over 50% of their shopping with a single retailer.

Performance
We are particularly pleased that we lead on loyalty in four of our markets and are second in a further five. This is an important indicator of our customers' satisfaction with the shopping trip and the Tesco brand and is supported by a loyalty scheme in each of our markets.

Source: Market research (GFK, Ipsos, Kantar).

Group-wide own-label participation

38%

● Tesco own-label brands

Definition
Own-label sales as a proportion of total Group sales. Own-label sales include Tesco brands (such as F&F, Finest or Venture brands) and unbranded products, such as produce. Tesco Bank and Tesco Mobile are not included.

Performance
Group own-label participation was stable in the year. Range & Quality is one part of our Plan for the UK, with Tesco Value now relaunched as Everyday Value and upgrades to over 8,000 Tesco standard lines planned.

Group strategy: To build our team so that we create more value

Staff retention

90%
in the UK

Definition
The proportion of staff with over a year's service who have worked for Tesco in the UK throughout the year.

Performance
Our strong retention rate in the UK reflects our focus on creating good jobs and long-term careers, providing career development and an excellent benefits package.

Staff being trained for their next role

5.9%
across the Group

Definition
The proportion of staff who are on development programmes training for their next role.

Performance
We exceeded our 5.6% target this year, demonstrating our commitment to supporting and developing our people so that they are able to advance their careers.

Financial review

Laurie McIlwee
Chief Financial Officer

"Our financial results demonstrate the breadth of the Tesco Group. Thanks to strong performances internationally – particularly in Asia – we have been able to deliver modest profit growth for the Group. Going forward, a financial strategy of increased capital discipline and restraint will support the changes we are making for customers and will drive higher cash generation and higher returns for shareholders."

Δ Group results exclude the results from our operation in Japan which have been treated as discontinued following our decision to sell the business.

Group resultsΔ

Group results 2011/12

52 weeks ended 25 February 2012	2011/12	Growth
Group sales (inc. VAT)*	£72,035m	7.4%
Group revenue (exc. VAT, inc. IFRIC 13)	£64,539m	6.8%
Group trading profit	£3,761m	1.3%
Group trading profit (pre Bank PPI** provision increase and Hungary sales tax)	£3,856m	5.2%
Underlying profit before tax	£3,915m	1.6%
Underlying profit before tax (pre Bank PPI provision increase and Hungary sales tax)	£4,010m	5.4%
Group profit before tax	£3,835m	5.3%
Underlying diluted earnings per share	37.41p	2.1%†
Dividend per share	14.76p	2.1%

* Group sales (inc. VAT) exclude the accounting impact of IFRIC 13.
** Payment Protection Insurance ('PPI').
† Underlying diluted earnings per share ('EPS') growth calculated on a constant tax rate basis; 3.2% at actual tax rates.

In a challenging year for consumers in many of our markets, as they try to manage household budgets pressured by inflation, austerity and high fuel prices, we have made modest progress at a Group level. The international businesses performed strongly, delivering an 18% increase in profits, which helped to compensate for the reduction in trading profit in the UK.

We have acted where our strategy was not delivering as we had hoped. In the United States, we reduced losses, moving towards break-even, before accelerating investment; in Japan, we announced our decision to exit the market after eight years; in China, we stepped back from the freehold shopping centre programme and have decided to hold back on the pace of new leasehold hypermarket development for the time being; at the Bank, we slowed down the migration to our own platforms to ensure it was as smooth as possible; and in the UK, we took a significant step to correct our pricing position with The Big Price Drop and, in January, acted decisively to address the underperformance in our home market. These actions will make Tesco better for our customers and are supported by a financial strategy that will also make Tesco better for shareholders.

Segmental results

UK

UK results 2011/12

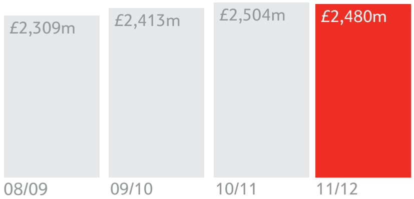
	2011/12	Growth
UK sales	£47,355m	6.2%
UK revenue (exc. VAT, exc. impact of IFRIC 13)	£42,798m	5.0%
UK trading profit	£2,480m	(1.0)%
Trading margin (trading profit/revenue)	5.79%	(35)bp*

* Basis points.

In the UK we saw strong total sales growth driven by a good new store performance, but our like-for-like growth was disappointing, particularly in the second half of the year. This was not helped by reduced inflation resulting from our Big Price Drop and a weak Christmas, which was affected by the substantial increase in competitor couponing activity. Like-for-like sales growth recovered somewhat after Christmas.

Financial review

UK trading profit



Against this background of slower than planned like-for-like growth and a further weakening in our performance relative to the wider industry, we took the decision in January to accelerate a plan – which had been developed over the course of 2011 – to make substantial changes to the UK business. The combined revenue and capital investment involved in these initiatives will exceed £1 billion, supported by a significant reset to the level of UK margins in order to give us the financial resources we need to make comprehensive improvements for customers.

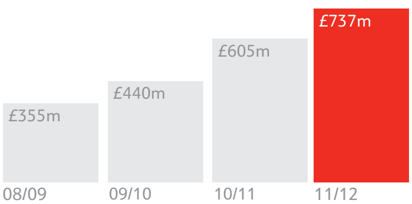
Asia†

Asia results 2011/12

	Actual rates		Constant rates
	2011/12	Growth	Growth
Asia sales	£11,627m	10.5%	10.4%
Asia revenue (exc. VAT, exc. impact of IFRIC 13)	£10,828m	10.5%	10.3%
Asia trading profit	£737m	21.8%	21.5%
Trading margin (trading profit/revenue)	6.81%	64bp	62bp

We delivered a good performance across all our markets in Asia, with solid like-for-like growth. Our performance in Thailand was obviously impacted by the devastating floods but the business has returned to strong growth as the country gets back to normal. Asia margins grew by over 60 basis points in the year, mainly due to the swift resolution of our insurance claim in Thailand, which has mitigated the profit impact of store closures during the flooding. South Korea and Malaysia both had a good year for sales and margin growth, although this was offset by increased losses in China where, in common with other businesses, we faced a challenging year.

Asia trading profit



† Asia results from 2011/12 exclude results from our operation in Japan which have been treated as discontinued following our decision to sell the business. 2010/11 results have been re-presented to be consistent.

Europe

Europe results 2011/12

	Actual rates		Constant rates
	2011/12	Growth	Growth
Europe sales	£11,371m	7.7%	7.8%
Europe revenue (exc. VAT, exc. impact of IFRIC 13)	£9,866m	7.3%	7.5%
Europe trading profit	£529m	0.4%	(0.4)%
Trading margin (trading profit/revenue)	5.36%	(37)bp	(42)bp

A resilient overall performance in Europe was impacted by two factors. Despite a strong sales performance in Poland, profits were held back by significant disruption connected to the opening of our new distribution centre and a non-food stock write-off. The crisis tax of £38 million in Hungary had a material impact on profits. Excluding this, we saw double-digit profit growth for the Central European businesses – a pleasing performance in light of the broader economic issues affecting the eurozone. Our Irish business delivered a robust performance in the context of the severity of the recession there.

The particular circumstances of the Republic of Ireland and Hungary have led us to focus on driving trade from our existing stores and we have scaled back our investment in new space. Focusing our efforts on our existing stores has driven strengthening like-for-likes and continued increases in market share in both markets.

Europe trading profit

United States

US results 2011/12

	Actual rates		Constant rates
	2011/12	Growth	Growth
US sales	£638m	27.1%	31.5%
US revenue (exc. VAT, exc. impact of IFRIC 13)	£630m	27.3%	31.7%
US trading profit/(loss)	£(153)m	Improved 17.7%	Improved 15.1%

In the US, Fresh & Easy delivered another strong sales performance and we have reduced losses by nearly 18% year-on-year – the first full-year reduction in losses since our entry into the market.

US trading loss

An increasing number of stores are reaching shop-door profitability, which means that they are operating profitably, before taking account of central costs. Thirty stores are already making a positive contribution to cashflow, and 118 more are very close to doing so. We intend to focus on delivering this store-level profitability, before pushing on faster with expansion in the number of stores. As a result of this more measured approach to new capital expenditure, we now anticipate crossing into break-even in the US during 2013/14.

Tesco Bank

Tesco Bank results 2011/12

	2011/12	Growth
Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13)	£1,044m	13.6%
Tesco Bank trading profit	£168m	(36.4)%
Tesco Bank trading margin	16.09%	(1,264)bp
Tesco Bank baseline profit	£203m	29.3%

Tesco Bank increased its baseline profitability very strongly by 29%. This measures business growth, before key non-trading provisioning movements. This performance was particularly pleasing given the need to take a conservative approach on new savings and loans business during the final stages of systems migration. As we put more than three years of transition behind us, the Bank is well placed to deliver good growth, starting in the coming year.

Trading profit was impacted by a number of factors. The unwind of the fair value provision, dating from the time of acquisition in 2008, reduced by £133 million in the year, to £22 million, and will be immaterial going forward. We increased our provision against possible claims arising from the sale of PPI by £57 million in the first half of the year. With no further adjustments in the second half, we ended the year with a net provision of £75 million. Our decision to slow down the final stages of migration also impacted profit by around £40 million which will now begin to reverse.

Bad debts reduced by 5.2% in the year due to the application of our robust credit policy. The Bank's overall capital position improved, from an already good position. Liquidity has also improved, with the retail bond issues giving us greater diversity in the Bank's funding position.

Tesco Bank trading profit

* On a 2008/09 pro-forma basis.

Group balance sheet

Net debt remained stable for the year at £6.8 billion. This is a little behind our expectations at the half-year, due to the impact of the Christmas trading result on cash flow and to lower working capital inflow, linked to higher stock levels than planned. Group capital expenditure was slightly below our half-year expectation, at £3.8 billion, due to tight control of spending. Operating cash flow from retail operations was down slightly year-on-year, at £3.8 billion, again affected by lower working capital inflow.

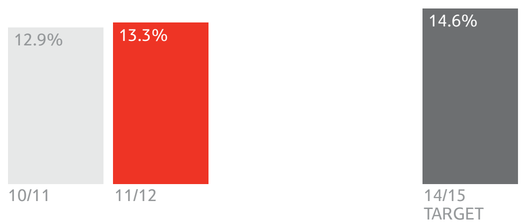
Our strategy to release value from our property portfolio has had another successful year, generating £376 million of property profits from around £1 billion of disposals. The launch of our first property fund in Asia completed successfully after the year end, raising over £379 million from 17 mature stores and malls in Thailand. With the fund seeing strong demand on launch, and since trading above its listing price, this is a strong indication of the overall value of our operations in Thailand and elsewhere in Asia. The market value of our global property currently exceeds £37 billion.

Finally, our IAS 19, or accounting, pension deficit increased to £1.4 billion after tax, largely as a consequence of market conditions. We announced proposed changes to the terms of our defined benefits scheme in March, in order to make it more sustainable over the long term. We also made a one-off cash contribution of £180 million to the scheme after the year end, in anticipation of the forthcoming outcome of the triennial actuarial valuation, which we believe gives a more accurate indication of the likely costs of future funding of the scheme.

Group financial metrics

A year ago I set out four key financial metrics or measures to help investors monitor our capital returns performance, debt and overall balance sheet. Taking each in turn, we have improved return on capital employed ('ROCE') from 12.9% last year to 13.3%. This improvement benefits from Japan now being classified as discontinued as a result of our decision to exit the market.

Target return on capital employed



We held our two debt metrics, fixed charge cover and net indebtedness, broadly flat this year. Both measures will of course be directly affected by the UK investment plan we have announced for the coming year. Our target for fixed charge cover is between 4 and 4.5 times and, for net indebtedness, is 2.5 times.

On our fourth key metric, capital expenditure as a proportion of sales, we were exactly in the middle of our target range of 5 to 5.5%.

"Our financial strategy of capital discipline and restraint supports a more sustainable level of growth, which focuses on getting more out of the businesses we currently have, benefits from less capital-intensive forms of investment and applies higher hurdle rates to new opportunities."

Looking forward

Capital expenditure

Our future plans include a reduced level of Group capital expenditure: down to £3.3 billion in 2012/13 and, beyond that, comfortably less than 5% of sales. This reflects our movement into a new phase of growth for the Group, moving beyond the diversification and expansion phase, to a phase where the allocation of capital is based on the balance of growth and returns that each investment can deliver.

Capital allocation

Our plans lead to further significant changes in our capital allocation for the Group. Having already started some of this work in the UK, we are seeing higher returns on the new space that we have opened as a result.

Across the Group more of our capital is going into smaller, higher-returning store formats.

We will be investing less overall capital in our UK business, as we reduce the net new space opening programme by 38% in the coming year, and focus store openings on smaller stores, and on food more than non-food.

Within the overall UK spend, we will be spending much more on the refresh of our existing stores, increasing our investment to over £200 million, in addition to an increase in our online investment to around £150 million.

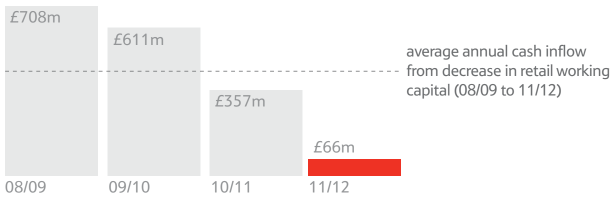
Capital work-in-progress

The level of capital work-in-progress ('WIP') on the UK balance sheet now stands at around £2 billion. Building out stores faster than we acquire new sites will be a key contributor to UK space growth over the next few years, and will reduce this level of WIP. The completion of mixed use schemes within the WIP balance will also play a significant role in bringing it down to a more appropriate level, although the construction phase on these schemes will add to the WIP balance in 2012/13, followed by a rapid reduction thereafter. In some instances, we may also dispose of standalone sites that do not meet our new, more rigorous returns hurdles.

Cash

This financial strategy means an increasingly cash generative outlook for Tesco in the next few years, with an overall reduction in Group capital expenditure, a return to growth in the cash contribution from the UK business, the international businesses making an increasingly positive contribution and a return to strong cash inflows from working capital.

Cash inflows from decrease in retail working capital



In line with our financial strategy, working capital management will result in a return to strong cash inflows from working capital in the coming years.

Returns

Capital restraint and improved cash generation both result in an improving ROCE. Last year, we laid out our commitment to improve ROCE to 14.6% by 2014/15. Our investment plans in the UK make it likely that we will see a small reduction in 2012/13. However, we described a number of significant opportunities to increase returns last year, such as driving growth in the Bank, benefiting from regional scale in Central Europe and moving the US to profitability, as well as the structural benefit of maturing international businesses. These opportunities still exist and indeed our decision to divest the Japanese business has already made a contribution.

Our financial strategy of capital discipline and restraint supports a more sustainable level of growth, which focuses on getting more out of the businesses we currently have, benefits from less capital-intensive forms of investment and applies higher hurdle rates to new opportunities. This in turn drives higher returns and a higher level of cash generation. In supporting the plans that make Tesco better for customers, I believe this financial strategy is also better for shareholders.

Summary Financial Statement

IN THIS SECTION

This section starts with our Board of Directors and contains the Summary report of the Directors, the Independent auditors' statement to the members of Tesco PLC, the summary of our Group financials, our financial calendar and a glossary of KPI definitions.

Board of Directors

Our Board currently comprises the Chairman, Sir Richard Broadbent, five Executive Directors and eight independent Non-executive Directors. Biographies for each of our Directors and our Company Secretary are set out below.

1. Sir Richard Broadbent – 58 ▲ ✚

Non-executive Chairman

Sir Richard Broadbent joined the Board of Tesco PLC on 2 July 2011 and was appointed Chairman on 30 November 2011. He started his career at HM Treasury before joining Schroders in 1986. In 2000, Sir Richard was appointed Executive Chairman of HM Customs and Excise. He also joined the Management Board of the UK Civil Service, serving in both roles until 2003. In 2003 he was appointed to the Board of Barclays plc, becoming Senior Independent Director in September 2004 and Deputy Chairman in 2010. He stepped down from the Board of Barclays on 30 September 2011. Sir Richard joined the Board of Arriva plc in July 2004 and served as Chairman from November 2004 until 2010. He is also a trustee of the charity Relate.

2. Philip Clarke – 51

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. Philip began his career with Tesco in store during 1974 and continued to work part-time through school and university. After graduating with a degree in Economic History, he joined the Tesco Management Training Programme and then spent nine years in store management before holding a number of roles in commercial and marketing. In 1994 he was appointed Stores Director and a year later promoted to Regional Managing Director, before joining the Tesco PLC Board as Supply Chain Director and a year later adding Information Technology to his responsibilities.

3. Tim Mason – 54

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. Andrew Higginson – 54

CEO – Retail Services

Andrew Higginson was appointed to the Board on 17 November 1997. Prior to his appointment as Chief Executive of Retail Services in July 2008 he was Group Finance and Strategy Director. He was Chairman of Tesco Bank until 26 February 2012 and will retire from Tesco PLC on 1 September 2012. He is a Non-executive Director of BSkyB plc.

5. Laurie McIlwee – 49

Chief Financial Officer

Laurie McIlwee was appointed to the Board on 27 January 2009 as Chief Financial Officer. He began his career with Tesco in 2000 as UK Finance Director and after four years, became Distribution Director. Prior to Tesco, Laurie worked for Pepsico in a variety of Finance and General Management roles in the UK, USA, Central Europe and the Middle East. Laurie is a Fellow of the Chartered Institute of Management Accountants and a member of The Hundred Group of Finance Directors.

6. Lucy Neville-Rolfe, CMG – 59

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 of the Carbon Trust. She is also a member of the London Business School's Governing Body, the China Britain Business Council, the UK India Business Council and the Corporate Leaders Group on Climate Change.

7. Patrick Cescau – 63 ▲ ■ ✚

Senior Independent Director

Patrick Cescau was appointed a Non-executive Director on 1 February 2009 and became Senior Independent Director in July 2010. He was Group Chief Executive of Unilever from 2005 to 1 January 2009, and prior to this he was Chairman of Unilever plc and Vice Chairman of Unilever NV. He has also been a Non-executive Director of Pearson plc since 2002, becoming Senior Independent Director in April 2010, and IAG (International Airlines Group) since September 2010. Patrick was appointed a Chevalier de la Légion d'honneur in 2005. In June 2009, Patrick joined the Board of INSEAD.

Committee membership (from 26 February 2012)

▲ = Nominations Committee
■ = Audit Committee
● = Remuneration Committee
✚ = CR Committee

10 7 4 8 13 11 2

8. Gareth Bullock – 58 ■
Non-executive Director
Gareth Bullock was appointed a Non-executive Director on 3 July 2010 and will (subject to approval by the FSA) be appointed to the Board of Tesco Bank as a Non-executive Director. He was Group Executive Director of Standard Chartered PLC until his retirement in April 2010. He was also responsible for the Group's risk and special asset management function. He is Senior Independent Director and Chairman of the Remuneration Committee of Spirax-Sarco Engineering Plc.

9. Stuart Chambers – 55 ▲ ●
Non-executive Director
Stuart Chambers was appointed a Non-executive Director on 3 July 2010 and will (subject to approval by the FSA) be appointed to the Board of Tesco Bank as a Non-executive Director. He was Group Chief Executive of NSG Group from 2008 to 2009. Prior to NSG's acquisition of Pilkington plc in 2006, Stuart was Group Chief Executive of Pilkington plc. Previously he held a number of senior roles at Pilkington plc and the Mars Corporation. He is a Non-executive Director of Smiths Group PLC, where he is Chairman of the Remuneration Committee, and of Manchester Airport Group PLC. Stuart was appointed Non-executive Director of Rexam PLC on 1 February 2012 and Non-executive Chairman effective from 22 February 2012.

10. Karen Cook – 58 ●
Non-executive Director
Karen Cook was appointed a Non-executive Director on 1 October 2004. She is a Managing Director of Goldman Sachs International and President of Goldman Sachs, Europe. She is also a member of the firm's European Management Committee and Partnership Committee.

11. Ken Hanna – 58 ▲ ● ■
Non-executive Director
Ken Hanna was appointed a Non-executive Director on 1 April 2009. He is Chairman of Inchcape PLC and a Non-executive Director of Aggreko plc. He was previously Chief Financial Officer of Cadbury plc until March 2009 and prior to that an Operating Partner of Compass Partners and CFO and then CEO of Dalgety PLC. He has also been CFO of United Distillers and Avis Europe plc.

12. Ken Hydon – 67 ■
Non-executive Director
Ken Hydon was appointed a Non-executive Director on 23 February 2004 and is Chairman of the Audit Committee. He retired from the position of Finance Director of Vodafone Group Plc in 2005. He is also a Non-executive Director of Reckitt Benckiser plc and Pearson plc, and was a Non-executive Director at The Royal Berkshire NHS Foundation Trust from 2005 until 2012.

13. Deanna Oppenheimer – 53 ✚
Non-executive Director
Deanna Oppenheimer was appointed a Non-executive Director on 1 March 2012 and will (subject to approval by the FSA) be appointed to the Board of Tesco Bank as a Non-executive Director. Deanna held various senior roles between 2005 and 2011 at Barclays, initially as Chief Executive of UK Retail and Business Banking, Vice Chair of Global Retail Banking and also as Chief Executive of Europe Retail and Business Banking. Prior to Barclays, she was Marketing Director and later President of Consumer Banking of Washington Mutual. She has also served as a Non-executive Director of Catellus and Plum Creek Timber.

14. Jacqueline Tammenoms Bakker – 58 ● ✚
Non-executive Director
Jacqueline Tammenoms Bakker was appointed a Non-executive Director on 1 January 2009. She was a Director General at the Ministry of Transport in the Netherlands from 2001 to 2007 and has held senior positions at Quest International, McKinsey & Co and Shell. Jacqueline is a Non-executive Director of Vivendi and was appointed a Chevalier de la Légion d'honneur in 2006.

15. Jonathan Lloyd – 45
Company Secretary
Jonathan Lloyd was appointed Company Secretary to the Board in December 2006. He joined Tesco as Deputy Company Secretary and Corporate Secretariat Director in April 2005 from Freshfields Bruckhaus Deringer. Jonathan is also Company Secretary of Tesco Bank.

Ages as at 25 February 2012.

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, 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 Group is currently in the process of disposing of its Japan operations. The summary of the Group financials is on pages 45 and 46.

Dividends

The Directors recommend the payment of a final dividend of 10.13p per ordinary share, to be paid on 6 July 2012 to members on the Register at the close of business on 27 April 2012. Together with the interim dividend of 4.63p per ordinary share paid in December 2011, the full year dividend will be 14.76p compared with 14.46p for the previous year, an increase of 2.1%.

Directors

Details of current members of the Board are shown on pages 38 and 39. Sir Richard Broadbent joined the Board on 2 July 2011 and became Chairman on 30 November 2011. Deanna Oppenheimer joined the Board on 1 March 2012. Sir Terry Leahy and Sir David Reid retired from the Board on 2 March 2011 and 30 November 2011 respectively. David Potts and Richard Brasher stepped down from the Board on 7 December 2011 and 15 March 2012 respectively.

Corporate governance

Our approach to governance begins with the recognition that it is not a set of rules but the framework supporting the core values which define what is and what is not acceptable. It is an expression of the way we want to conduct ourselves which informs actions and decisions whether or not there is a specific rule for the situation, and which supports the culture and behaviours that we wish to foster.

We are introducing a number of changes to our governance framework from the beginning of 2012/13 to keep it aligned with this vision and relevant to our growing business. The main features of the new arrangements, are:

- a revised definition of matters reserved to the Board;
- an updated delineation of the roles of Chairman and Chief Executive;
- updated and expanded terms of reference for Board Committees;
- the elimination of a number of existing Committees and the creation of one new Committee to oversee Corporate Responsibility; and
- clarification of the role and structure of the independent Board of Tesco Bank and its relationship with the PLC Board.

A governance framework requires appropriate processes to support it, which achieve a balance between prompting thoughtful judgement when required and not stifling commercial behaviour through delay, risk aversion or rigidity. The new governance framework has given us the opportunity also to review the processes which support and underlie it and we are introducing a number of improvements in 2012/13.

Governance also requires the active and committed engagement of Board and management. The development of the Board, to ensure that its skills, balance and experience are optimum, is a continuous process. The Executive Committee and its supporting governance framework and processes have also been developed during the year by the Chief Executive, Philip Clarke.

We believe that these changes will enhance the way that the Group operates. Our aim is to ensure that the Group continues to benefit from structures and processes which support effective strategic debate and questioning; appropriate monitoring of performance; the capacity to formulate the right questions; and the strength to hold difficult questions on behalf of shareholders.

The UK Corporate Governance Code (the 'Code') sets out the main principles and specific provisions on how companies should be directed and controlled to follow good governance practice. The rules of the Financial Services Authority ('FSA') require companies listed in the UK to disclose, in relation to the Code, how they have applied those principles and whether they have complied with the provisions throughout the financial year. Where the provisions have not been complied with, companies must provide an explanation for this.

The Board considers that Tesco PLC complied in all material respects with the Code for the whole of the year ended 25 February 2012, please refer to page 51 of the Annual Report 2012. Further information on the Code can be found at www.frc.org.uk.

A full corporate governance statement is contained in the Annual Report and Financial Statements 2012.

Remuneration

We introduced new remuneration arrangements for the 2011/12 financial year following detailed discussions with shareholders. The new arrangements provide simpler, more strategically aligned incentives that are consistent with our shareholders' expectations.

We simplified pay by reducing the number of incentive plans in which Executives participate (to an annual bonus and a performance share plan) and reducing the number of performance measures. Executives are now incentivised to achieve underlying profit growth and strategic objectives over an annual period and to deliver sustained earnings and return on capital performance in the long term.

We have also returned to a collegiate remuneration approach with all Executives participating in the same plans and being paid in relation to delivery of the same performance. This philosophy applies throughout the organisation at Group as well as business and country level, with over 5,000 of our senior managers globally participating in reward arrangements linked to local business performance but consistent in structure with those of the Executive Directors.

At the heart of Tesco's remuneration arrangements is a performance focused culture. For many years the business has delivered strong underlying profit growth and improved returns for shareholders. Underlying profit between 2007 and 2011 improved 50% and despite a period of increased investment, return on capital has shown an improving trend. Remuneration paid during this period reflected this performance.

Although sales and profits increased in 2011/12 over the previous year to a record level for the Group, the threshold profitability for the annual bonus (representing 70% of the annual bonus opportunity) was not achieved and therefore no bonus will be paid in respect of the financial part of the bonus. A number of the strategic targets were delivered and a payout of 13.54% of the maximum was approved in respect of this performance. The overall payout is significantly lower than for 2010/11. Half the bonus will be paid in cash and half will be deferred into shares for a further three years. The CEO has, however, elected to not take any bonus for 2011/12.

Our long-term rewards are assessed based on earnings and return on capital employed delivered over a three year period. Despite the challenges in 2011/12, the three year performance shows progress with underlying diluted earnings per share growth of 29% and reported ROCE performance improving by 50 basis points. The Remuneration Committee therefore determined that 46.5% of the Performance Share award and 100% of the share options granted in 2009 would vest, reflecting this progress made over the longer term.

As announced in January 2012, our plan for 2012/13 is to substantially increase investment in the shopping trip – particularly in the UK. Consequently we anticipate minimal Group trading profit growth for the year. The objective is that this investment in customer experience will strengthen our underlying business and generate long-term sustainable growth. We will also reduce levels of capital expenditure as we modify our approach to UK expansion. In this context, the Remuneration Committee has set performance targets for 2012/13 awards that remain motivational for management while still ensuring that significant rewards can only be earned if there has been exceptional value delivered for shareholders. No bonus will be paid to executives unless performance is greater than budget, representing year-on-year growth in profit. For the performance share plan we have repositioned our earnings targets for initial vesting but earnings growth required for maximum vesting and our ROCE goals remain the same.

We are not proposing any other changes to Executive Director remuneration arrangements in 2012/13. However, we will continue to monitor our approach to pay against the backdrop of evolving regulation and the wider climate on executive pay, to ensure that remuneration remains simple, aligned with our strategy and fair to Executives and shareholders.

In carrying out its duties, the Remuneration Committee gives full consideration to best practice. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Services Authority derived from the UK Corporate Governance Code.

A summary of Directors' emoluments and interests is set out on pages 42 and 43. Further details can be found in the full Directors' Remuneration Report in the Annual Report and Financial Statements 2012.

Summary report of the Directors

Directors' Emoluments

	Fixed emoluments		Performance related emoluments			
	Salary £000	Benefits[2] £000	Short-term cash £000	Short-term deferred shares £000	**Total 2011/12 £000**	Total 2010/11 £000
Executive Directors						
Richard Brasher	845	63	115	115	**1,138**	2,262
Philip Clarke	1,093	62	–	–	**1,155**	2,260
Andrew Higginson	845	74	115	115	**1,149**	2,287
Tim Mason	845	559	115	115	**1,634**	3,094
Laurie McIlwee	845	62	115	115	**1,137**	2,206
Lucy Neville-Rolfe	640	81	87	87	**895**	1,756
David Potts[1]	584	32	86	86	**788**	2,308
Non-executive Directors						
Sir Richard Broadbent[1]	266	15	–	–	**281**	–
Gareth Bullock	82	–	–	–	**82**	52
Patrick Cescau	120	–	–	–	**120**	109
Stuart Chambers	100	–	–	–	**100**	64
Karen Cook	82	–	–	–	**82**	80
Ken Hanna	94	–	–	–	**94**	92
Ken Hydon	100	–	–	–	**100**	98
Sir David Reid[1]	501	52	–	–	**553**	693
Jacqueline Tammenoms Bakker	82	–	–	–	**82**	76
Total	7,124	1,000	633	633	**9,390**	17,437

Appointments and retirements

1 Sir Richard Broadbent was appointed as a Non-executive Director on 2 July 2011 and became Chairman on 30 November 2011. The figures in this table are from 2 July 2011.

Sir David Reid retired on 30 November 2011. The figures in this table include all remuneration paid or earned in the period up to 30 November. Sir Terry Leahy retired on 2 March 2011 after 14 years as CEO. He was paid £80,531 in the 2011/12 year including accrued holiday pay. He did not receive any payments or benefits outside of his normal contractual arrangements.

David Potts stepped down from the Board on 7 December 2011 but will remain employed by the Company until 30 June 2012. The figures in this table include all remuneration paid or earned in the period up to 7 December 2011. In the period between 7 December 2011 and 25 February 2012 he was paid £261,000 and received benefits with a value of £9,000. Mr Potts also received a bonus of £58,000 in respect of the period between December 2011 and February 2012 in line with other directors. He did not receive any payments outside of his normal contractual arrangements.

Benefits

2 Benefits are made up of car benefits, chauffeurs, disability and health insurance, staff discount, membership at gyms and leisure clubs and Free Shares awarded under the all employee Share Incentive Plan ('SIP'). Under the SIP, shares in the Company are allocated up to HMRC approved limits (currently £3,000 p.a.) and the amount allocated is determined by the Board. The majority of UK based employees are eligible to participate in the SIP.

Tim Mason's benefits comprise the benefits above and a net expatriate allowance of £282,000 for the year, the gross value of which is £555,000.

Disclosable interests of the Directors, including family interests

	25 February 2012 (or at date of retirement/resignation if earlier)		26 February 2011 (or on appointment if later)	
	Ordinary shares[1]	Options to acquire ordinary shares[2]	Ordinary shares[1]	Options to acquire ordinary shares[2]
Executive Directors				
Richard Brasher	1,258,585	3,501,665	1,220,793	2,906,992
Philip Clarke	1,832,007	4,352,977	1,824,638	3,491,697
Andrew Higginson	707,081	4,076,589	1,349,712	3,491,697
Tim Mason	1,975,704	1,545,587	3,876,520	1,545,829
Laurie McIlwee	75,506	2,144,448	222,301	1,483,050
Lucy Neville-Rolfe	458,036	2,516,326	452,886	2,067,219
David Potts	1,708,622	3,005,260	1,851,253	2,927,209
Non-executive Directors				
Sir Richard Broadbent	53,996	–	23,847	–
Gareth Bullock	–	–	–	–
Patrick Cescau	18,340	–	–	–
Stuart Chambers	5,500	–	5,500	–
Karen Cook	–	–	–	–
Ken Hanna	25,000	–	–	–
Ken Hydon	60,093	–	30,093	–
Sir David Reid	194,554	–	194,337	–
Jacqueline Tammenoms Bakker	16,472	–	–	–
Total	8,389,496	21,142,852	11,051,880	17,913,693

Ordinary Shares

1 Ordinary shares shown in this table include conditional shares held by Laurie McIlwee and shares held under a promise by Tim Mason under the Performance Share Plan which are subject to future performance conditions, shares held by Tim Mason under the Executive Incentive Plan which are subject to a holding period, shares held by Laurie McIlwee under the Long-Term Incentive Plan which are subject to a holding period and shares held under the all-employee Share Incentive Plan which are subject to a holding period.

Between 25 February 2012 and 1 May 2012, 445 shares were purchased by Executive Directors as part of the Buy As You Earn scheme. Buy As You Earn is an HMRC approved share purchase scheme under which employees invest up to a limit of £110 on a four-weekly basis to buy shares in Tesco PLC at the market value. In addition, Stuart Chambers purchased 19,500 ordinary shares on 24 April 2012 at a price of 321.35 pence per share. There have been no other changes in Directors' interests in Tesco PLC shares at the date of the publication of this report.

Options over Shares

2 Options to acquire ordinary shares shown in this table comprise options held under the Executive Share Option schemes and Discretionary Share Option Plan, Save As You Earn scheme and nil cost options held under the Performance Share Plan and Executive Incentive Plan.

Retired Directors

- Sir Terry Leahy retired on 2 March 2011. At this date he held 7,075,849 ordinary shares and options over 9,353,645 shares.
- David Potts stepped down from the Board on 7 December 2011 but will remain employed by the Company until 30 June 2012. The figures for David Potts in this table are at 7 December 2011.

Independent auditors' statement to the members of Tesco PLC

We have examined the summary financial statement which comprises the summary Group income statement, summary Group balance sheet, summary Group cash flow statement, Summary report of the Directors and Summary report of the Directors on remunerations set out on pages 40 to 46.

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 25 February 2012 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
4 May 2012

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.

Group financials

Summary Group income statement

Year ended 25 February 2012	52 weeks 2012 £m	52 weeks 2011* £m
Continuing operations		
Revenue	64,539	60,455
Cost of sales	(59,278)	(55,330)
Gross profit	5,261	5,125
Administrative expenses	(1,652)	(1,640)
Profits/losses arising on property-related items	376	432
Operating profit	3,985	3,917
Share of post-tax profits of joint ventures and associates	91	57
Finance income	176	150
Finance costs	(417)	(483)
Profit before tax	3,835	3,641
Taxation	(879)	(864)
Profit for the year from continuing operations	2,956	2,777
Discontinued operations		
Loss for the year from discontinued operations	(142)	(106)
Profit for the year	2,814	2,671
Attributable to:		
Owners of the parent	2,806	2,655
Non-controlling interests	8	16
	2,814	2,671
Earnings per share from continuing and discontinued operations		
Basic	34.98p	33.10p
Diluted	34.88p	32.94p
Earnings per share from continuing operations		
Basic	36.75p	34.43p
Diluted	36.64p	34.25p

Non-GAAP measure: underlying profit before tax	52 weeks 2012 £m	52 weeks 2011* £m
Profit before tax from continuing operations	3,835	3,641
Adjustments for:		
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	(44)	(19)
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	17	113
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	38	48
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	22	42
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	17	8
Restructuring costs and other one-off costs	30	20
Underlying profit before tax from continuing operations	3,915	3,853

* See Note 1 Accounting policies of the Group financial statements in the Annual Report and Financial Statements for details of reclassifications.

Group financials

Summary Group balance sheet

	25 February 2012 £m	26 February 2011* £m
Non-current assets	37,918	35,167
Current assets (including assets of the disposal group and non-current assets held for sale)	12,863	12,039
Current liabilities (including liabilities of the disposal group)	(19,249)	(17,731)
Net current liabilities	(6,386)	(5,692)
Total assets less current liabilities	31,532	29,475
Non-current liabilities	(13,731)	(12,852)
Net assets	17,801	16,623
Equity attributable to owners of the parent	17,775	16,535
Non-controlling interests	26	88
Total equity	17,801	16,623

Summary Group cash flow statement

Year ended 25 February 2012	52 weeks 2012 £m	52 weeks 2011* £m
Cash generated from operations	5,688	5,613
Interest paid	(531)	(614)
Corporation tax paid	(749)	(760)
Net cash generated from operating activities	4,408	4,239
Net cash used in investing activities	(3,183)	(1,873)
Net cash used in financing activities	(1,366)	(2,994)
Net decrease in cash and cash equivalents	(141)	(628)
Cash and cash equivalents at beginning of the year	2,428	3,102
Effect of foreign exchange rate changes	24	(46)
Cash and cash equivalents including cash held in disposal group at the end of the year	2,311	2,428
Cash held in disposal group	(6)	–
Cash and cash equivalents at the end of the year	2,305	2,428

Reconciliation of net cash flow to movement in net debt

Year ended 25 February 2012	52 weeks 2012 £m	52 weeks 2011* £m
Net decrease in cash and cash equivalents	(141)	(628)
Other movements in net debt	93	1,767
(Increase)/decrease in net debt for the year	(48)	1,139
Opening net debt	(6,790)	(7,929)
Closing net debt	(6,838)	(6,790)

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 Group financial statements in the Annual Report and Financial Statements.

Dividend

	2012		2011	
	pence/share	£m	pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Final dividend for the prior financial year	10.09	811	9.16	730
Interim dividend for the current financial year	4.63	369	4.37	351
	14.72	1,180	13.53	1,081
Proposed final dividend for the current financial year	10.13	815	10.09	812

* See Note 1 Accounting policies of the Group financial statements in the Annual Report and Financial Statements for details of reclassifications.

Financial calendar

Financial year end 2011/12	25 February 2012
Final ex-dividend date	25 April 2012
Record date	27 April 2012
Q1 Interim Management Statement	11 June 2012
Annual General Meeting	29 June 2012
Final dividend payment date	6 July 2012
Half-year end 2012/13	25 August 2012
Interim Results	October 2012
Q3 Interim Management Statement	December 2012
Financial year ended 2012/13	23 February 2013

Please note that dates are provisional and subject to change.

Glossary

Capital expenditure: the additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

Capex % of sales: capital expenditure as defined above, divided by Group sales including VAT and excluding IFRIC 13.

Constant tax rate: using the prior year's effective tax rate.

EBITDAR: operating profit before depreciation, amortisation, rent and movements in impairments of property, plant and equipment, investment property and intangible assets.

Fixed charge cover: the ratio of EBITDAR (excluding Tesco Bank EBITDAR) divided by financing costs (net interest excluding IAS 32 and 39 impacts and pension finance costs) plus operating lease expenses.

Gearing: net debt divided by total equity.

Net indebtedness: the ratio of adjusted net debt (net debt plus pension deficit and the present value of lease obligations) divided by EBITDAR (excluding Tesco Bank EBITDAR).

Return on capital employed: profit before interest and tax less tax at the effective rate of tax divided by the calculated average of opening and closing net assets plus net debt plus dividend creditor less net assets held for resale.

Total shareholder return: the notional return from a share, measured as the percentage change in the share price, plus the dividends paid with the gross dividends reinvested in Tesco shares. This is measured over a five-year period.

Underlying diluted earnings per share: underlying profit less tax at the effective tax rate and minority interest divided by the diluted weighted average number of shares in issue during the year.

Underlying profit before tax: underlying profit before tax excludes the impact of non-cash elements of IAS 17, 19, 32 and 39 (principally the impact of annual uplifts in rents and rent-free periods, pension costs, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition and acquisition costs, and the non-cash impact of IFRIC 13. It also excludes restructuring and other one-off costs.

The 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 Company or of the Group and of their policies and arrangements concerning directors' remuneration as would be provided by the Tesco PLC Annual Report and Financial Statements.

Members can obtain online, free of charge, the Tesco PLC Annual Report and Financial Statements 2012. The Annual Reports and Financial Statements for future financial years will also be made available online, at www.tescoplc.com.

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