TESCO

INTERIM RESULTS 2011/12

26 weeks ended 27 August 2011

GOOD PROGRESS AROUND THE WORLD – DECISIVE ACTION IN THE UK

- Group sales up 8.8% to £35.5bn*, up 7.3% exc. petrol
- 6.2% rise in underlying profit before tax to £1.9bn
- 12.1% increase in statutory profit before tax to £1.9bn
- 3.7% growth in Group trading profit to £1.8bn, after £57m increase in Bank PPI** provision; 8.2% growth before Bank PPI provision increase and Hungary sales tax
- 4.5% UK trading profit growth; 11.8% growth in Europe, 18.7% in Asia
- US losses reduced by 23.2%; on track for sharp reduction in full year
- Underlying diluted EPS growth of 6.0%***; dividend per share growth of 5.9%
- Further rise in Group return on capital employed expected this year
- On track to create net 7,000 jobs in UK this year
- Ranked highest retailer for tackling climate change in the Carbon Disclosure Project Global 500

Philip Clarke – Chief Executive

'I am pleased that excellent growth in Europe and Asia, as well as an encouraging performance in the United States, have supported further progress in the first half, despite the challenges of subdued demand in the UK, particularly in non-food categories.

We are taking decisive action in key areas to strengthen our performance going forward:

- First, we are making substantial changes to our core UK business to sharpen execution and competitiveness for customers – investing in price and promotions, ranging, service and store environment – in food, general merchandise, clothing and electronics;
- Second, we have decided to slow the final stage of Tesco Bank systems migration to ensure it is as smooth as possible for customers and staff as we prepare for growth next year;
- Third, the implementation of our plan to break-even in the US in 2012/13 is showing promising early results;
- Fourth, in line with our targets to improve investment returns, we are exiting Japan, having decided we cannot build a sufficiently scalable business there.

These actions reflect our focus on the immediate objectives I set out for the business last April and I am confident that these, combined with the strategic strength and diversity of the Group's businesses, mean we are well-positioned to make further progress during the second half.'

Continuing operations 26 weeks ended 27 August 2011 (unaudited)	**2011/12**	**Change vs. 2010/11**
Group sales (inc. VAT)*	£35,530m	8.8%
Group revenue (exc. VAT)	£31,812m	7.8%
Group trading profit	£1,773m	3.7%
Group trading profit (pre Bank PPI provision increase and Hungary sales tax)	£1,850m	8.2%
Underlying profit before tax	£1,922m	6.2%
Underlying profit before tax (pre Bank PPI provision increase and Hungary sales tax)	£1,999m	10.4%
Group profit before tax	£1,881m	12.1%
Underlying diluted earnings per share	18.30p	6.0%***
Diluted earnings per share	17.90p	13.7%
Dividend per share	4.63p	5.9%

* Group sales (inc. VAT) exclude the accounting impact of IFRIC 13.
** Payment Protection Insurance (PPI).
*** Underlying diluted EPS growth calculated on a constant tax rate basis; 7.8% at actual tax rates.

SUMMARY OF GROUP RESULTS[1]

Continuing operations[2]	Group TY £m	Group LY £m	Group Growth %	UK[3] TY £m	Asia TY £m	Europe TY £m	US TY £m	Tesco Bank TY £m
Sales (inc. VAT)	35,530	32,656	8.8%	23,429	5,602	5,673	304	522
Growth %				7.1%	11.7%	12.4%	23.1%	10.1%
UK LFL (exc. Petrol)				0.5%				
Revenue (exc. VAT)	31,812	29,510	7.8%	20,878	5,207	4,905	300	522
Growth %				5.8%	11.6%	11.8%	23.0%	10.1%
UK LFL – IFRIC 13 compliant basis (exc. Petrol)				(0.6)%				
Trading profit/loss[4]	1,773	1,710	3.7%	1,273	292	237	(73)	44
Growth %				4.5%	18.7%	11.8%	23.2%	(65.9)%
Trading profit margin	5.51%	5.73%	(22)bp	6.01%	5.59%	4.81%	(24.33)%	8.43%
Change (basis points)				(7)bp	33bp	(1)bp	1,460bp	(1,879)bp
Profit arising on property-related items	245	261	(6.1)%					
Deduct: IAS adjustments	(81)	(142)	43.0%					
Statutory/ operating profit	1,937	1,829	5.9%					
JVs and associates	41	13	215.4%					
Net finance costs	(97)	(164)	40.9%					
Statutory profit before tax	1,881	1,678	12.1%					
Add: IAS adjustments	41	132	(68.9)%					
Underlying profit before tax[5]	1,922	1,810	6.2%					
Dividend per share (pence)	4.63	4.37	5.9%					

	Group TY	Group LY	Group YOY Change	UK TY	Asia TY	Europe TY	US TY	Tesco Bank TY
Capital expenditure (£bn)	2.1	1.9	0.2	1.0	0.6	0.3	0.1	0.1
Gross space added (million sq.ft.)	3.3	2.9	0.4	0.7	1.4	1.1	0.1	n/a

	Group TY	Group LY	Group YOY Change
Retail Operating cashflow (£bn)[6]	2.3	2.2	0.1
IFRS pensions liability post-tax (£bn)	1.2	1.5	(0.3)
Net debt (£bn)	7.6	7.6	0.0

Notes:

1 For UK, ROI and US, these results are for the 26 weeks ended 27 August 2011 and the previous year comparison is made with the 26 weeks ended 28 August 2010. For Tesco Bank and India these results are for the 6 months ended 31 August 2011 and the previous year comparison is made with the 6 months ended 31 August 2010. For all other countries these results are for the 181 days ended 28 August 2011 and the previous year comparison is made with the 182 days ended 29 August 2010. All growth rates are calculated at actual exchange rates unless otherwise stated. Statutory numbers include the accounting impact of IFRIC 13 (Customer Loyalty Programmes). All other numbers are shown excluding the accounting impact of IFRIC 13, consistent with internal management reporting. More information can be found in Note 1 to the interim consolidated financial information.

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

3 The UK segment excludes Tesco Bank, which is reported separately in accordance with IFRS 8 'Operating Segments'.

4 Trading profit is an adjusted measure of operating profit, which measures performance before profit arising on property-related items, the impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and acquisition costs, adjustments for the accounting impact of IFRIC 13 and replaces the IAS 19 pension charge with the 'normal' cash contributions for pensions. More information can be found in Note 2 to the interim consolidated financial information.

5 Underlying profit excludes the impact of non-cash elements of IAS 17, 19, 32, and 39 (principally 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 accounting impact of IFRIC 13. Prior year comparatives also exclude costs relating to restructuring (USA) and closure costs (Vin Plus).

6 Cash generated from retail operations excluding the Bank.

GROUP RESULTS

Group sales, including VAT, increased by 8.8% to £35.5bn. At constant exchange rates, sales increased by 8.2% (including petrol) and 6.7% (excluding petrol).

Group trading profit was £1,773m, up 3.7% on last year. This was after a £57m increase in provisions in Tesco Bank relating to payment protection insurance (PPI). Before this increase in provision, Group trading profit increased by 7.0%. Group trading margin, at 5.5%, decreased by 22 basis points after the impact of the increase in PPI provision and Hungary sales tax. **Underlying profit before tax** rose to £1,922m, an increase of 6.2%. Before the additional PPI provision and Hungary sales tax, underlying profit before tax rose by 10.4%. On a statutory basis, **Group operating profit** rose by 5.9% to £1,937m. **Group profit before tax** increased 12.1% to £1,881m.

As a consequence of the decision to seek the sale of our business in Japan, the results of our business there, including a small first half trading loss (£15m) before store impairment (£29m) and the impact of restructuring costs (£5m), have been classified as **discontinued operations** in these results.

Net finance costs decreased to £97m (£164m last year). £35m of this reduction was the result of the revaluation of the liability relating to our obligation to purchase Samsung's minority interest in our business in Korea, which we completed in July. Before the non-cash IAS 19, 32, and 39 adjustments, actual net interest cost also fell by £35m to £134m. This reflects the lower market rates and lower outstanding net debt during the first half compared with the same period last year. Interest capitalised reduced by £7m to £68m.

Total **Group tax** has been charged at an effective rate of 23.0% (last year 24.3%). This reduction was largely driven by a fall in the UK corporation tax rate.

Cash Flow and Balance Sheet. Net debt rose to £7.6bn, principally reflecting the normal phasing of dividend payouts, a number of small acquisitions (including the Samsung Korea minority) as well as our £290m repurchase of Tesco shares to offset share scheme equity issuance. First half net debt was similar to the level a year ago and we expect a reduction by the year-end helped by cash generation in the seasonally important second half of the year. The strength of our property-backed balance sheet was again demonstrated through continued strong investor demand for our property sale and leaseback transactions.

We are targeting net debt to fall further in the years ahead. Looking at our liabilities overall, we will be focusing more going forward on fixed charge cover as our primary balance sheet metric, which we are targeting to maintain between 4 and 4.5 times. We also are targeting a ratio of 2.5 times lease-adjusted net debt to EBITDAR* which represents a similar level to where we were prior to the Homever and TPF acquisitions in 2008/9.

Group **capital expenditure** in the first half was £2.1bn (last year £1.9bn). For the 2011/12 year as a whole, we now plan to invest around £3.9bn in capital expenditure, which represents a lower level than earlier guidance. First half capital expenditure in the UK was £1.0bn, with a further £0.1bn in the Bank, principally for continued investment in the re-platforming of our systems, and £1.0bn in International. Going forward we expect annual capital expenditure to total between 5% and 5.5% of Group sales.

Dividend

The Board has approved an interim dividend of 4.63p per share, which represents an increase of 5.9% on last year and which is in line with the growth in underlying diluted earnings per share at a constant tax rate. The interim dividend will be paid on 23 December 2011 to shareholders on the Register of Members at the close of business on 14 October 2011.

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

Tesco Team Objectives

Last April we set six immediate team objectives against which we expect to be judged. They are as follows and we plan to report on these in each of our results announcements going forward: first, keeping the UK strong and growing; second, becoming outstanding internationally, not just successful; third, as the combination of stores and online becomes compelling for customers, we aim to become a multi-channel retailer wherever we trade; fourth, we will deliver on the potential of Retailing Services – of which the Bank is a big part; fifth, by applying Group skill and scale we will add more value and competitive advantage to our businesses and finally, delivering higher returns for shareholders has already begun and it will continue.

As a result of our strong focus on these immediate objectives, we are taking decisive action in key areas to strengthen our performance going forward:

- First, we are making substantial changes to our core UK business to sharpen execution and competitiveness for customers – investing in price and promotions, ranging, service and store environment – in food, general merchandise, clothing and electronics;
- Second, we have decided to slow the final stage of Tesco Bank systems migration to ensure it is as smooth as possible for customers and staff as we prepare for growth next year;
- Third, the implementation of our plan to break-even in the US in 2012/13 is showing promising early results;
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Outlook

The economic background across our markets is not uniform, with generally challenging conditions in developed countries, particularly the UK and Ireland and, in contrast, continued strong growth in emerging economies. However, all our markets remain highly competitive and levels of consumer confidence are generally low. Having set up our businesses this year to deal with this kind of environment, we have coped well through a combination of investing to improve the shopping trip for customers, strong productivity and capturing more of the benefits of Group skill and scale. We expect to continue to do so despite an uncertain outlook for economic growth in the months ahead. As a result, we are at this stage broadly comfortable with current market consensus forecasts for 2011/12, adjusting for the effects of the additional Bank PPI provision and changes to migration timing announced today.

BUSINESS PERFORMANCE

UK

	UK Results H1 2011/12	
	£m	% growth
UK sales	£23,429m	7.1%
UK revenue (exc. VAT, exc. impact of IFRIC 13)	£21,196m	5.8%
UK trading profit	£1,273m	4.5%*
Trading margin (trading profit/revenue)	6.01%	(7)bp

* 6.2% growth before rental and depreciation effects of sale and leaseback transactions

Trading conditions in the UK were difficult throughout the first half, linked in part to the continuing adverse impact of high petrol prices on customers' discretionary spending. Despite this, our business delivered a solid profit performance, with trading profit up by 4.5%, or by 6.2% before the effects of our sale and leaseback programme; principally extra rents. This represents a robust performance in the most challenging retail market we have seen for a generation.

Like-for-like sales were weak in the UK and this was not helped by subdued market demand in non-food categories, especially electronics and entertainment, which are two of our largest product groups. Whilst our performance in food was substantially better, and positive in like-for-like terms, our overall like-for-like growth was slower than planned. Nevertheless, combined with a strong contribution from net new space, our total sales growth was faster than the market as a whole.

	UK Like-For-Like Growth 2011/12		
	Q1	Q2	**H1**
LFL (inc. VAT, inc. petrol)	3.4%	3.5%	**3.5%**
LFL (inc. VAT, exc. petrol)	1.0%	(0.0)%	**0.5%**
LFL (exc. VAT, exc. petrol)	(0.1)%	(0.9)%	**(0.5)%**
LFL (exc. VAT, exc. petrol and IFRIC 13 compliant)	(0.4)%	(0.7)%	**(0.6)%**

Excluding petrol and VAT, like-for-like sales reduced by (0.5)%, with a reduction of (0.9)% in the second quarter. With net new space contributing 3.9%, total sales (excluding petrol and VAT) grew by 3.4% in the first half.

We remain focused, as always, on customers. Our strategy is to earn their loyalty by helping them to spend less through low prices, good promotions and Clubcard – and by improving the other key elements of the shopping trip for customers in availability, service, range and quality. Because many are finding it difficult to cope on very tight budgets, our customers are telling us they want more from us and we are absolutely committed to doing what we can to help them through these tough economic times.

We are investing more to increase our competitiveness for customers. Last week we made some very substantial changes, including lowering prices, introducing sharper promotions and putting much more emphasis on the great value of Tesco brand products. Specifically, we are investing over £500m in reducing more than 3,000 prices, including on 1,000 Tesco brand products, as well as simplifying and deepening our promotional discounts. Future cuts will continue to focus on products that families buy most frequently. These moves represent the most significant changes to our pricing and promotions strategy for many years.

There will be more change to come as the work we have been doing in recent months – in both food and non-food – on staffing, ranging, merchandising, space allocation and store environment, become more prominent in our stores during the second half.

These changes involve investment, some of which will be funded by returning Clubcard to single points. Clubcard will remain the best loyalty scheme in the market and of great strategic value to the business – but customers also want more help at the checkout; immediate savings now and not just later. The balance of the investment will mainly be funded by the continued strength of the productivity savings generated by our Step-change programme and other, growing benefits from applying Group skill and scale, including sharing infrastructure and common purchasing with our businesses across Europe.

These investment programmes have already begun, starting with the Price Drop campaign, which was launched last week. Although we expect customers and therefore volumes to respond, we are not assuming that this will occur immediately but build as other revenue investment takes place – and consequently we are planning for UK profit growth to be broadly flat during the second half.

ASIA, EUROPE & UNITED STATES

Our international businesses achieved an excellent overall first half performance, delivering strong growth in sales and profit, as well as an improved outlook for higher investment returns during the year as a whole. There is currently a wide variation in the economic and consumer environment across our geographies, with the markets hit hardest during the global recession and by subsequent severe austerity measures – such as Ireland and Hungary – still struggling to recover, whilst others such as Thailand rebound very strongly. In general we have achieved good progress against a background of weaker consumer confidence in most markets, even those in which economic growth remains robust.

In most markets Tesco is winning share and in some countries this is continuing at a faster rate than for many years. In Poland, a step-up in refit activity as we remodel more of our hypermarkets to the Extra format has temporarily slowed our growth and in Korea, we held share despite more intense short-term promotional activity linked to recent acquisitions by competitors.

Our second quarter sales performance was satisfactory, particularly given the more demanding comparatives relative to our first quarter in all regions and especially in Asia. Like-for-like growth in Asia was good, at 3.9% supported by strong growth in Thailand, China and Malaysia. In Europe, like-for-like slowed, but remained positive despite continued weak demand in Ireland, one of our largest markets in the region.

	Asia, Europe, US Like-For-Like* Growth 2011/12		
	Q1	Q2	**H1**
Asia**	3.6%	3.9%	**3.8%**
Europe	2.0%	0.1%	**1.0%**
United States	11.1%	12.4%	**11.7%**
International**	3.0%	2.3%	**2.7%**

Note: A full table of country LFL growth is provided in Appendix 2 on page 12.
* Exc. petrol. ** Exc. Japan

We opened 2.6m square feet of gross new space during the first half and we are on track to open a further 5.4m square feet during the current year.

Asia

	Asia Results* H1 2011/12		
	Actual rates		Constant rates
	£m	% growth	% growth
Asia sales	£5,602m	11.7%	11.9%
Asia revenue (exc. VAT, exc. impact of IFRIC 13)	£5,223m	11.6%	11.8%
Asia trading profit	£292m	18.7%	18.3%
Trading margin (trading profit/revenue)	5.59%	33bp	30bp

*Exc. Japan

Our businesses in Asia delivered another pleasing performance, with double-digit increases in sales and profits – supported by good like-for-like sales growth and an excellent contribution from new stores. Overall Asia trading profits grew by 18.7% to £292m, or by 18.3% at constant exchange rates. Trading margins improved by 33 basis points.

We have decided to exit Japan and therefore begun the process of seeking buyers for the business. Consequently we have classified its results as discontinued.

We saw strong overall sales growth in China, reflecting a rapid rate of new store growth and a like-for-like increase of 6.2%. Our expansion will continue to focus on the three regions we have targeted for our growth and on new stores in second and third tier cities in those regions. We currently have six of our Lifespace malls trading and now expect the further development of these large and complex projects to progress at a slower rate than originally planned. We have decided to increase our focus on leasehold expansion, together with some freehold hypermarkets. We opened four hypermarkets in the first half and 17 are planned during the rest of the year.

In Thailand, we saw strong overall growth, with a rise in market share, including in Bangkok, helped by the promising early performance of our first Extra format store in Asia at Rama IV, which has delivered over 30% sales growth post-refit, as well as an excellent programme of new store openings.

In line with our overall property strategy, we have recently announced our plans to launch an initial public offering (IPO) of the Tesco Lotus Property Fund. Tesco's property activities have one principal objective: to ensure we have the best properties from which to retail; and as a result we also create long-term shareholder value from property development and management. This new fund comprises 15 high quality shopping malls - with an appraised value of more than £300m - each anchored by a Tesco Lotus hypermarket. The IPO will enable value to be released to support investment in further innovation and growth in Thailand and is consistent with moving towards a sustainable level of property profits for the Group of between £250 and £350m per year from 2012/13 onwards, which we announced in April.

This year we plan to open 4.7m square feet of new selling area in Asia overall. We have also continued to make good progress in developing strong brands in our leading Asian businesses with further strong growth of Clubcard and promising early expansion of Retailing Services.

Europe

	Europe Results H1 2011/12		
	Actual rates		Constant rates
	£m	% growth	% growth
Europe sales	£5,673m	12.4%	7.8%
Europe revenue (exc. VAT, exc. impact of IFRIC 13)	£4,927m	12.0%	7.5%
Europe trading profit	£237m	11.8%	7.1%
Trading margin (trading profit/revenue)	4.81%	(1)bp	(2)bp

The strong increase in sales, profits and margins we saw last year in Europe has continued during the first half, although overall growth was constrained by the enduring economic challenges and related austerity measures introduced in Ireland and Hungary, which are important markets for Tesco. Judged against this background, our performance was very encouraging, and this strengthens our confidence in the prospect for increased investment returns during the year as a whole.

We are investing for customers through lower prices, sharper promotions and Clubcard, funded by strong productivity, substantial early benefits of our pan-European sourcing – in branded goods, own brand products and goods not for resale – and supply chain integration savings. These efficiencies are helping us do more for customers whilst continuing to improve our financial performance.

Sales growth inevitably varied across the region given the sharply contrasting economic backgrounds that exist across our markets today. Our performance across Central Europe was generally pleasing in both sales and profit terms – and was particularly good in the Czech Republic and Slovakia. In Ireland, like-for-like sales weakened again during the first half, after some modest recovery in 2010/11, although our second quarter saw some improvement compared with the first quarter. Growth in Turkey, including in particular a strong resumption of like-for-like sales progress, was encouraging.

Europe profits overall grew by 11.8% to £237m, an increase of 7.1% at constant exchange rates. Margins were stable at 4.81%. Profit growth would have been significantly higher – at 21.2% – but for the Hungary sales tax charge.

As planned, some 1.1m square feet of new space was opened during the first half, with a programme to add a further 1.8m square feet of new space across the region in the second half. Given the current economic conditions in Ireland and Hungary we intend to pursue a low rate of new space growth there until the outlook, and therefore the prospects for incremental returns, improve.

Customer reaction to the remodelling and conversion of some of our older hypermarkets to the Extra format has continued to be very encouraging and we have been stepping up the rate of store refit in recent months across our markets. Very strong sales improvements have been achieved in the stores – with an average sales uplift of 18% in the 16 completed and trading for more than eight weeks. These refits are delivering particularly marked uplifts in fresh food categories, health & beauty, clothing and electricals.

United States

	US Results H1 2011/12		
	Actual rates		Constant rates
	£m	% growth	% growth
US sales	£304m	23.1%	32.0%
US revenue (exc. VAT, exc. impact of IFRIC 13)	£300m	23.0%	32.0%
US trading loss	£(73)m	Improved 23.2%	Improved 16.8%

Fresh & Easy reduced its losses significantly during the first half, delivering a reduction of 23.2%. We remain on track to meet our guidance, issued in April, of sharply reduced losses in the current financial year on our way to breaking even towards the end of 2012/13. This is a promising performance, built around strong, sustained sales growth, substantial improvements to operating ratios in established stores, higher sales densities in new stores and improving supply chain efficiencies, particularly in our manufacturing facilities.

Our clear objective is to accelerate the already strong growth in customer numbers and this is being met. The first half saw our seventh consecutive quarter of strong like-for-like sales growth and our two-year increase on this measure was 28.4% during our second quarter. This continued growth is driving sales per store steadily towards the levels we require. These trends, combined with benefits of the growing scale of the store network around our Riverside distribution centre and manufacturing campus, give us increasing confidence that the components of a profitable business model are coming together well.

The further changes we have made to the stores as we adapt the offer better to the needs of local customers have been very well-received. These include introducing in-store bakeries, loose produce, additional ranges in grocery, as well as many new fresh Fresh & Easy products. We have also been trialling our 'friends' loyalty card at seven stores in Bakersfield, California in recent weeks with such success that we plan a full roll-out of the scheme next week.

GROUP GENERAL MERCHANDISE, CLOTHING & ELECTRICALS

General merchandise sales growth continued during the first half against the headwind of very subdued demand for such discretionary items in some of our larger markets – including the UK and Ireland. As a result, growth has been challenging to achieve.

Despite some pleasing key category performances – for example in computing, toys, sport and leisure in the UK - which have helped compensate for the wider effects of consumer caution, the more structural issues also faced by important categories like electronics and entertainment have impacted growth. Consequently, overall Group sales in these categories (excluding health & beauty and household) rose 2.8% at constant exchange rates during the first half to £4.8bn.

General merchandise, clothing & electricals sales in the UK were (0.9)% down year-on-year, reflecting the challenging environment. General merchandise sales growth also continued to be affected by a smaller component of extension selling space in this year's new space programme, with extensions providing just 2% of new space during the first half, compared with 7% in the same period last year.

Like-for-like growth across the whole of general merchandise, clothing & electricals was (4.8)% during the first half, compared with (3.3)% in the second half of last year, although we did see a stable performance during the second quarter, compared with the first quarter. Despite these pressures, our margins in non-food have held up very well.

Strengthening the performance of these categories in the UK remains a priority and improvements to ranging, merchandising, pricing and promotions are beginning to come through. Further, more substantial changes to product ranges, category emphasis and space allocation in stores will be implemented during the second half.

General merchandise, clothing & electrical sales in Europe were strong, despite confidence levels remaining subdued even in the better performing economies. Clothing sales, which are a substantial element of our sales mix, increased by a pleasing 11% at constant exchange rates in Central Europe, reflecting the strength of the F&F brand and also the particularly strong performance of clothing in our reformatted Extra hypermarkets.

We have also seen strong general merchandise sales growth in our Asian businesses – which are predominantly hypermarket operations. Both hardline and softline sales growth was high-single digit and we saw very good category growth in homewares, toys, children's clothing and fashion accessories.

RETAILING SERVICES

Total Retailing Services sales were £2.1bn, up 10% on last year with profit and trading margins in Services impacted by the additional PPI provisioning and the decision to extend the systems migration period in the Bank. Excluding the effect of the increased PPI provision, operating profit in Retailing Services was £268m*.

Online businesses again grew sales strongly – by 11%, including our operations in Korea and Ireland. Including online telecoms sales growth, our internet sales also grew by 11%. Our UK operations continued to grow well during the first half – with high single-digit growth in grocery and a further 12% increase at Tesco Direct. Profits advanced despite continued investment in additional capacity in grocery – for example, with the extension of Sunday deliveries – as well as rapid development of 'Click & Collect' (now available in over 500 stores) in non-food. We will launch a significant upgrade of our online Direct Shop, featuring additional range and functionality, during the first half of 2012. This will also include the first phase of our 'Marketplace', enabling customers to buy from selected sellers on tesco.com.

Telecoms saw strong first half growth in customer numbers, driven by a 36% rise in Tesco mobile contract customers. Popular promotions, including using Clubcard, allowed pre-pay to grow share in a declining market, whilst our branded contract business benefited from the launch of our targeted customer offers. Going forward, we will continue to invest substantially in customer acquisition; however, we also now have an established revenue earning base from which to further grow our profitability.

Last month we announced a significant step towards the development of an international mobile business through the creation of a joint venture between Vodafone and Tesco Hungary.

dunnhumby, our marketing services business, had another strong trading period, increasing sales and profits by over 20% with excellent growth in its UK supplier operations and from its joint venture in Canada.

Tesco Bank

	Tesco Bank Results H1 2011/12	
	£m	% growth
Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13)	£522m	10.1%
Tesco Bank trading profit	£44m	(65.9)%
Tesco Bank trading profit (exc. PPI provision increase)	£101m	(21.7)%
Tesco Bank trading margin	8.43%	(1,879)bp
Tesco Bank trading margin (exc. PPI provision increase)	19.35%	(787)bp

Tesco Bank saw good business growth during the first half. Net income increased by 9% before the additional PPI provision and baseline Bank trading profit – that is before all key provisioning movements, including PPI, and before fair value - grew by 24% to £89m.

Customer account numbers grew across the product portfolio during the half; savings by 1%, active credit card users by 4% and motor insurance by 3%. Balances have increased by 3% on credit cards and 2% on savings. Year-on-year, ATM transactions also rose strongly, by 8%. Tesco credit card retail spend is up by 14.2%, ahead of the market. Our new platforms have enabled some significant customer service improvements – for example, instant decisions are now available on loan applications and customers can now open and fund their savings account in ten minutes (previously around two weeks).

We have made further progress towards the creation of a full-service retail bank providing a comprehensive range of simple, good value financial products for Tesco customers: a strategy which we believe will be of enormous value to shareholders in the future. We are close to completing the migration of our existing products onto our new systems and call centre platforms as we prepare for the next stage of development in Tesco Bank, which will be driven by the roll-out of important new products – including mortgages and current accounts – beginning next year.

* Retailing Services profit comprises profits from Telecoms, dotcom, dunnhumby and Tesco Bank, including UK store ATM income.

Most of our established major financial products and services - including motor and household insurance, personal savings accounts and loans - have been migrated successfully onto our new systems platforms over recent months. That said, we have taken the decision to slow down the introduction of new products until we have settled in the new bank team, processes and systems, having encountered some technical issues during the summer, which resulted in some customers being unable to access online accounts for a short period.

This decision to delay the timing of the completion of migration and the launch of new products has implications for the financial performance of the Bank during the current financial year. Specifically, the focus on the completion will mean that a more active marketing campaign for existing and new products, including the launch of mortgages, will now be deferred until early 2012. It will also result in a temporary extension of the period during which the Bank is absorbing double running costs. Consequently, in combination, these will impact total trading profit during the second half of the current financial year by around £40m against our original internal target.

We have also reviewed carefully the level of provisioning which is appropriate to cover possible future claims against Tesco arising from alleged mis-selling of payment protection insurance policies through our joint venture with RBS prior to 2008. Whilst the level of claims to date has been modest (£16m), as a result of this review, we have decided to increase our current provision, which was originally set up in 2009, by a further £57m to £92m. This extra provision was made in Tesco Bank's income statement for the first half of 2011/12.

An income statement, balance sheet and cash flow statement for Tesco Bank is available in the Investor Centre section of our corporate website – (www.tescoplc.com/investors/results-and-events).

COMMUNITY, ENVIRONMENT AND CORPORATE RESPONSIBILITY

Tesco is a business that cares about customers and staff and believes in playing an active role in the communities we serve. We also recognise our responsibilities to the global community. Our achievements in the first half of the year include:

Caring for the environment. In July we opened the first freehold green logistics centre in Jiashan, Zhejiang province in China, which is expected to use 45% less energy, 40% less water and emit 35% less carbon than traditional logistics warehouses. We also became the first retailer to produce a biofuel certified under the UK's Renewables Obligation Scheme, following the successful installation of waste-to-energy systems at our stores in Dumfries and Cheetham Hill. Recognising our efforts, last month, the Carbon Disclosure Project ranked Tesco one of the top 10 global businesses and best global retailer at tackling climate change, in its Global 500 report.

Actively supporting local communities. In the United States, we're aiming to sign up more than 2,500 schools as part of our Shop for Schools programme, which is now in its fourth year and this month we are launching our first events in Izmir and Derince in Turkey. We've also provided disaster relief to help communities in crisis across the world – including £50,000 to those affected by the earthquakes and the tsunami in Japan and £25,000 to the East Africa Food Crisis Appeal.

Buying and selling products responsibly. We recently launched supplier academies in Turkey and Slovakia, where over the next six months we'll work with hundreds of suppliers to develop their capability and improve their efficiency. In Ireland we're working with local suppliers to promote export opportunities and in July we held a supplier fair where 35 new local suppliers and 20 established suppliers to our Irish business had an opportunity to showcase products with journalists, NGOs and government representatives.

Providing customers with healthy choices. Our Get Active programmes across the Group continue to help staff and customers lead healthier lives and in Thailand our 'Tesco Lotus Mother's Day Aerobic Marathon' was a record-breaking event with over 15,000 people joining in. In Korea we recently launched a new FA Skills programme and in the UK over a million children have taken part in the Tesco Great School Run.

Creating good jobs and careers. Given our continuing investment in growth across the Group, we remain on track to create a very substantial number of net new jobs, including 7,000 in the UK. In July we opened our new training Academy in Asia, a £30m investment which will support 24,000 training places each year and help deliver growth for Tesco in Asia. We're also attracting new talent and investing in future leaders – we are recruiting a record 700 people onto our graduate development schemes across the Group this year.

Supplementary Information

The following supplementary information can be found within our analyst pack, which is available via the internet at www.tescoplc.com/investors/results-and-events

- Group Income Statement
- Tesco Bank – Income Statement, Balance Sheet
- Group Cashflow Statement
- UK Sales Performance
- International Sales Performance
- Group Space Summary and Forecast
- Earnings Per Share

Appendix 1 – Segmental Sales Growth Rates*

	First Quarter 2011/12 Sales Growth**					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	**7.9%**	**6.8%**	**8.5%**	**7.4%**	**3.4%**	**2.0%**
International	**9.5%**	**9.7%**	**11.3%**	**11.6%**	**2.9%**	**3.0%**
Asia	9.3%	9.3%	12.5%	12.5%	3.6%	3.6%
Europe	9.1%	9.5%	9.1%	9.5%	1.7%	2.0%
United States	21.9%	21.9%	31.7%	31.7%	11.1%	11.1%
UK	**7.0%**	**4.9%**	**7.0%**	**4.9%**	**3.4%**	**1.0%**
Tesco Bank	**19.9%**	**19.9%**	**19.9%**	**19.9%**	**N/A**	**N/A**

	Second Quarter 2011/12 Sales Growth**					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	**10.0%**	**8.2%**	**8.2%**	**6.2%**	**3.2%**	**0.9%**
International	**16.1%**	**16.2%**	**10.5%**	**10.6%**	**2.3%**	**2.3%**
Asia	15.4%	15.4%	12.6%	12.6%	3.9%	3.9%
Europe	16.4%	16.6%	7.2%	7.4%	0.1%	0.1%
United States	23.8%	23.8%	32.3%	32.3%	12.4%	12.4%
UK	**7.3%**	**4.0%**	**7.3%**	**4.0%**	**3.5%**	**(0.0)%**
Tesco Bank	**1.9%**	**1.9%**	**1.9%**	**1.9%**	**N/A**	**N/A**

	First Half 2011/12 Sales Growth					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	**8.8%**	**7.3%**	**8.2%**	**6.7%**	**3.3%**	**1.4%**
International	**12.3%**	**12.4%**	**10.4%**	**10.6%**	**2.6%**	**2.7%**
Asia	11.7%	11.7%	11.9%	11.9%	3.8%	3.8%
Europe	12.4%	12.7%	7.8%	8.1%	0.9%	1.0%
United States	23.1%	23.1%	32.0%	32.0%	11.7%	11.7%
UK	**7.1%**	**4.4%**	**7.1%**	**4.4%**	**3.5%**	**0.5%**
Tesco Bank	**10.1%**	**10.1%**	**10.1%**	**10.1%**	**N/A**	**N/A**

* Growth rates shown on a continuing operations basis.
** Quarterly growth rates based on comparable days for the current year and the previous year comparison

Appendix 2 – Country Like-For-Like Growth Inc. VAT Exc. Petrol*

	Like-For-Like Growth 2010/11 & 2011/12					
	2010/11			2011/12		
	H1	H2	FY	Q1	Q2	H1
UK	**1.2%**	**0.8%**	**1.0%**	**1.0%**	**(0.0)%**	**0.5%**
Asia	**2.0%**	**3.6%**	**2.8%**	**3.6%**	**3.9%**	**3.8%**
China	6.2%	4.9%	**5.5%**	6.4%	6.1%	6.2%
Malaysia	(2.1)%	(0.7)%	**(1.4)%**	(3.2)%	5.4%	1.2%
South Korea	3.2%	3.1%	**3.2%**	1.2%	0.9%	1.0%
Thailand	(0.8)%	4.0%	**1.6%**	8.0%	7.5%	7.8%
Europe	**2.2%**	**3.0%**	**2.6%**	**2.0%**	**0.1%**	**1.0%**
Czech Republic	1.1%	2.9%	**2.0%**	3.7%	0.0%	1.8%
Hungary	(5.4)%	3.2%	**(1.2)%**	3.5%	1.8%	2.6%
Poland	2.0%	2.0%	**2.0%**	1.6%	(2.2)%	(0.4)%
Slovakia	8.7%	12.9%	**10.9%**	11.0%	4.9%	7.8%
Turkey	(0.7)%	0.4%	**(0.1)%**	3.4%	5.3%	4.4%
Republic of Ireland	7.9%	0.3%	**3.9%**	(3.9)%	(3.0)%	(3.4)%
United States	**9.6%**	**9.2%**	**9.4%**	**11.1%**	**12.4%**	**11.7%**

* Like-for-like growth shown on a continuing operations basis.

Contacts

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Press:	Trevor Datson	01992 644645
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This document is available via the internet at www.tescoplc.com/investors/results-and-events

A meeting for investors and analysts will be held today at 10.00am at Nomura Bank, 1 Angel Lane, London, EC4R 3AB. Access will be by invitation only. Presentations from the meeting will be available at www.tescoplc.com/investors/results-and-events

An interview with Philip Clarke, Chief Executive, discussing the Interim Results is available now to download in video, audio and transcript form at www.tescoplc.com/investors/results-and-events

Additional Disclosures

Risks and Uncertainties

As with any business, risk assessment and the implementation of mitigating actions and controls are vital to successfully achieving the Group's strategy. The Tesco Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. The principal risks and uncertainties faced by the Group include:

- Strategy and Finance
- Reputation, Operations and People
- Regulation and External Environment

Greater detail on these risks and uncertainties are set out in our 2011 Annual Report, and these are not expected to change in the second half of the year.

Statement of Directors' Responsibilities

The Directors confirm that to the best of their knowledge this interim consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The accounting policies applied are consistent with those described in the 2011 Annual Report, apart from those arising from the adoption of new International Financial Reporting Standards and Interpretations (see basis of preparation in the interim consolidated financial information). Having made appropriate enquiries, the Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the interim consolidated financial information. In preparing the interim consolidated financial information, the Directors have also made reasonable and prudent judgements and estimates and prepared the interim consolidated financial information on the going concern basis. The interim consolidated financial information and management report contained herein give a true and fair view of the assets, liabilities, financial position and profit of the Group. The Directors of Tesco PLC as at the date of this announcement are as set out below.

The Board

Directors

David Reid* - Chairman
Sir Richard Broadbent* – Chairman designate
Philip Clarke - Chief Executive
Tim Mason - Deputy Chief Executive
Richard Brasher
Andrew Higginson
Laurie McIlwee
Lucy Neville-Rolfe CMG
David Potts
Gareth Bullock*
Stuart Chambers*
Ken Hanna*
Jacqueline Tammenoms Bakker*
Patrick Cescau* - Senior Non-executive Director
Karen Cook*
Ken Hydon*

* Non-executive Directors

Company Secretary

Jonathan Lloyd

TESCO PLC
GROUP INCOME STATEMENT
26 weeks ended 27 August 2011

	Notes	2011 £m	2010* £m	Increase %
Continuing operations				
Revenue (sales excluding VAT)	2	**31,812**	**29,510**	**7.8**
Cost of sales		(29,340)	(27,179)	
Gross profit		**2,472**	**2,331**	**6.0**
Administrative expenses		(780)	(763)	
Profits/losses arising on property-related items		245	261	
Operating profit	2	**1,937**	**1,829**	**5.9**
Share of post-tax profits of joint ventures and associates		41	13	
Finance income		93	98	
Finance costs		(190)	(262)	
Profit before tax		**1,881**	**1,678**	**12.1**
Taxation	3	(433)	(407)	
Profit for the period from continuing operations		**1,448**	**1,271**	**13.9**
Discontinued operations				
Loss for the period from discontinued operations	4	(65)	(82)	
Profit for the period		**1,383**	**1,189**	
Attributable to:				
Owners of the parent		1,377	1,184	
Non-controlling interests		6	5	
		1,383	**1,189**	**16.3**
Earnings per share from continuing and discontinued operations				
Basic	6	17.15p	14.78p	16.0
Diluted	6	17.09p	14.72p	16.1
Earnings per share from continuing operations				
Basic	6	17.96p	15.81p	13.6
Diluted	6	17.90p	15.74p	13.7
Proposed interim dividend per share	5	4.63p	4.37p	5.9

Non-GAAP measure: underlying profit before tax	1	**£m**	**£m**	
Profit before tax from continuing operations		1,881	1,678	12.1
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements		(32)	(18)	
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	9	29	85	
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods		19	20	
IFRS 3 'Business Combinations' - intangible asset amortisation charges and costs arising from acquisitions		12	21	
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards		13	4	
Restructuring costs		-	20	
Underlying profit before tax from continuing operations		**1,922**	**1,810**	**6.2**
Underlying diluted earnings per share	6	18.30p	16.98p	7.8

The notes on pages 21 to 33 form part of this interim consolidated financial information.

* See Note 1 Basis of Preparation for details of reclassifications.

TESCO PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
26 weeks ended 27 August 2011

	Note	2011 £m	2010 £m
Currency translation differences		134	(497)
Actuarial loss on defined benefit pension schemes	9	(190)	(60)
Gain on cash flow hedges:			
- Net fair value gain		89	37
- Reclassified and reported in the Group Income Statement		(21)	7
Change in fair value of available-for-sale financial assets and investments		4	-
Tax relating to components of other comprehensive income		(7)	64
Total other comprehensive income / (loss) for the period		**9**	**(449)**
Profit for the period		1,383	1,189
Total comprehensive income for the period		**1,392**	**740**
Attributable to:			
Owners of the parent		1,394	739
Non-controlling interests		(2)	1
		1,392	740

The notes on pages 21 to 33 form part of this interim consolidated financial information.

TESCO PLC

GROUP BALANCE SHEET

As at 27 August 2011

	Notes	27 August 2011 £m	26 February 2011* £m	28 August 2010* £m
Non-current assets				
Goodwill and other intangible assets	7	4,536	4,338	4,223
Property, plant and equipment	7	25,495	24,398	24,251
Investment property	7	2,023	1,863	1,750
Investments in joint ventures and associates		330	316	147
Other investments		1,277	938	767
Loans and advances to customers		1,982	2,127	2,012
Derivative financial instruments		1,494	1,139	1,360
Deferred tax assets		44	48	47
		37,181	**35,167**	**34,557**
Current assets				
Inventories		3,630	3,162	2,941
Trade and other receivables		2,743	2,330	2,111
Loans and advances to customers		2,577	2,514	2,462
Derivative financial instruments		119	148	102
Current tax assets		7	4	4
Short-term investments		597	1,022	1,178
Cash and cash equivalents	8	1,950	2,428	2,459
		11,623	11,608	11,257
Non-current assets classified as held for sale and assets of the disposal group	4	489	431	52
		12,112	**12,039**	**11,309**
Current liabilities				
Trade and other payables		(11,177)	(10,484)	(9,780)
Financial liabilities				
- Borrowings		(1,321)	(1,386)	(1,665)
- Derivative financial instruments and other liabilities		(181)	(255)	(222)
Customer deposits		(5,122)	(5,074)	(4,731)
Deposits from banks		(121)	(36)	(50)
Current tax liabilities		(602)	(432)	(476)
Provisions		(117)	(64)	(11)
		(18,641)	**(17,731)**	**(16,935)**
Liabilities directly associated with the disposal group	4	(113)	-	-
		(18,754)	**(17,731)**	**(16,935)**
Net current liabilities		**(6,642)**	**(5,692)**	**(5,626)**
Non-current liabilities				
Financial liabilities				
- Borrowings		(10,149)	(9,689)	(10,510)
- Derivative financial instruments and other liabilities		(576)	(600)	(639)
Post-employment benefit obligations	9	(1,576)	(1,356)	(1,986)
Deferred tax liabilities		(1,103)	(1,094)	(808)
Provisions		(102)	(113)	(184)
		(13,506)	**(12,852)**	**(14,127)**
Net assets		**17,033**	**16,623**	**14,804**

* See Note 1 Basis of Preparation for details of reclassifications.

TESCO PLC

GROUP BALANCE SHEET (continued)

As at 27 August 2011

	27 August 2011 £m	26 February 2011 £m	28 August 2010 £m
Equity			
Share capital	401	402	401
Share premium	4,917	4,896	4,845
Other reserves	40	40	40
Retained earnings	11,663	11,197	9,440
Equity attributable to owners of the parent	**17,021**	**16,535**	**14,726**
Non–controlling interests	12	88	78
Total equity	**17,033**	**16,623**	**14,804**

The notes on pages 21 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP STATEMENT OF CHANGES IN EQUITY
26 weeks ended 27 August 2011

	Share capital	Share premium	Other reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 26 February 2011	**402**	**4,896**	**40**	**11,197**	**16,535**	**88**	**16,623**
Total comprehensive income	**-**	**-**	**-**	**1,394**	**1,394**	**(2)**	**1,392**
Transactions with owners							
Shares purchased for cancellation	(3)	-	-	(287)	(290)	-	(290)
Share-based payments	-	-	-	100	100	-	100
Issue of shares	2	21	-	-	23	-	23
Purchase of non-controlling interests	-	-	-	73	73	(71)	2
Put option liability	-	-	-	(3)	(3)	-	(3)
Dividends paid to non-controlling interests	-	-	-	-	-	(3)	(3)
Dividends authorised in the period	-	-	-	(811)	(811)	-	(811)
Total transactions with owners	**(1)**	**21**	**-**	**(928)**	**(908)**	**(74)**	**(982)**
At 27 August 2011	**401**	**4,917**	**40**	**11,663**	**17,021**	**12**	**17,033**

	Share capital	Share premium	Other reserves	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m
At 27 February 2010	**399**	**4,801**	**40**	**9,356**	**14,596**	**85**	**14,681**
Total comprehensive income							
Transactions with owners	**-**	**-**	**-**	**739**	**739**	**1**	**740**
Purchase of treasury shares	-	-	-	(43)	(43)	-	(43)
Share-based payments	-	-	-	112	112	-	112
Issue of shares	2	44	-	-	46	-	46
Purchase of non-controlling interests	-	-	-	6	6	(6)	-
Dividends paid to non-controlling interests	-	-	-	-	-	(2)	(2)
Dividends authorised in the period	-	-	-	(730)	(730)	-	(730)
Total transactions with owners	**2**	**44**	**-**	**(655)**	**(609)**	**(8)**	**(617)**
At 28 August 2010	**401**	**4,845**	**40**	**9,440**	**14,726**	**78**	**14,804**

The notes on pages 21 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP CASH FLOW STATEMENT
26 weeks ended 27 August 2011

	Notes	2011 £m	2010* £m
Cash flows from operating activities			
Cash generated from operations	10	2,430	2,399
Interest paid		(135)	(246)
Corporation tax paid		(277)	(319)
Net cash from operating activities		**2,018**	**1,834**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(139)	(86)
Proceeds from sale of property, plant and equipment and non-current assets classified as held for sale		569	1,239
Purchase of property, plant and equipment and investment property		(1,786)	(1,818)
Proceeds from sale of intangible assets		-	1
Purchase of intangible assets		(173)	(170)
Increase in loans to joint ventures		(1)	-
Decrease in loans to joint ventures		113	3
Investments in joint ventures and associates		(5)	(16)
Investments in short-term and other investments		(934)	(1,299)
Proceeds from sale of short-term and other investments		1,050	1,366
Dividends received from joint ventures and associates		27	34
Interest received		23	82
Net cash used in investing activities		**(1,256)**	**(664)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		23	46
Increase in borrowings		948	805
Repayment of borrowings		(1,081)	(1,849)
Repayment of obligations under finance leases		(23)	(20)
Dividends paid to equity holders	5	(811)	(730)
Dividends paid to non-controlling interests		(3)	(2)
Own shares purchased		(290)	(24)
Net cash used in financing activities		**(1,237)**	**(1,774)**
Net decrease in cash and cash equivalents		**(475)**	**(604)**
Cash and cash equivalents at beginning of the period		**2,428**	**3,102**
Effect of foreign exchange rate changes		7	(39)
Cash and cash equivalents including cash held in disposal group at the end of the period		**1,960**	**2,459**
Cash held in disposal group		(10)	-
Cash and cash equivalents at the end of the period		**1,950**	**2,459**

The notes on pages 21 to 33 form part of this interim consolidated financial information.

* See Note 1 Basis of Preparation for details of reclassifications.

Reconciliation of net cash flow to movement in net debt

26 weeks ended 27 August 2011

	Note	2011 £m	2010* £m
Net decrease in cash and cash equivalents		(475)	(604)
Investment in Tesco Bank		(50)	(149)
Elimination of net decrease/(increase) in Tesco Bank cash and cash equivalents		192	(204)
Debt acquired on acquisitions		(98)	(6)
Net cash outflow to repay debt and lease financing		310	1,064
Decrease in short-term investments		(425)	(136)
Net decrease in joint venture loan receivables		(112)	(11)
Other non-cash movements		(154)	348
(Increase)/decrease in net debt for the period		(812)	302
Opening net debt		(6,790)	(7,929)
Closing net debt	11	**(7,602)**	**(7,627)**

NB: The reconciliation of net cash flow to movement in net debt is not a primary statement and does not form part of the cash flow statement but forms part of the notes to this interim consolidated financial information.

The notes on pages 21 to 33 form part of this interim consolidated financial information.

* See Note 1 Basis of Preparation for details of reclassifications.

The interim consolidated financial information for the 26 weeks ended 27 August 2011 was approved by the Directors on 4 October 2011.

NOTE 1 Basis of preparation

This interim consolidated financial information for the period ended 27 August 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The accounting policies applied are consistent with those described in the Annual Report and Financial Statements 2011, apart from those arising from the adoption of new International Financial Reporting Standards (IFRS) detailed below. The interim consolidated financial information should be read in conjunction with the Annual Report and Financial Statements 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRS IC) interpretations as endorsed by the European Union.

This interim consolidated financial information has been reviewed, not audited, and does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Annual Report and Financial Statements for the 52 weeks ended 26 February 2011 were approved by the Board of Directors on 6 May 2011 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

Adoption of new International Financial Reporting Standards

The Group adopted IAS 24 (Amended) 'Related Party Disclosures' and IFRIC 14 (Amended) 'Prepayments of a minimum funding requirement' as of 27 February 2011, with no impact on this interim consolidated financial information.

Discontinued operations

During the period, the Board approved a plan to dispose of its operations in Japan which is consistent with the Group's long-term strategic priority to drive growth and improve returns by focussing on its larger businesses in the region. These operations, which are expected to be sold within twelve months of the Balance Sheet date, have been classified as a disposal group. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results for the period are presented within discontinued operations in the Group Income Statement and the assets and liabilities of the business are presented separately in the Group Balance Sheet.

Cash and cash equivalents

During the period, the Group identified certain assets held by Tesco Bank that had a maturity profile of less than three months that would be more appropriately classified as cash and cash equivalents in accordance with IAS 7 ‘Statement of Cash Flows’. The assets identified comprised loans and advances to banks, certificates of deposit (included within other investments) and other receivables. The amounts relating to these balances have accordingly been reclassified in the Group Balance Sheet and the Group Cash Flow Statement as cash and cash equivalents. The impact of these reclassifications, with no change to net assets is to:

- increase cash and cash equivalents by £558m, £482m and £283m at 26 February 2011, 28 August 2010 and 27 February 2010 respectively;
- decrease other investments by £170m, £225m and £165m at 26 February 2011, 28 August 2010 and 27 February 2010 respectively, such that other investments were £698m at 27 February 2010;
- decrease loans and advances to banks by £404m, £263m and £144m at 26 February 2011, 28 August 2010 and 27 February 2010 respectively, such that loans to advances to banks were £nil at 27 February 2010;
- increase trade and other receivables by £16m, £6m and £26m at 26 February 2011, 28 August 2010 and 27 February 2010 respectively, such that trade and other receivables were £1,914m at 27 February 2010; and
- increase cash flows from operating activities by £139m and decrease net cash used in investing activities by £60m for the 26 weeks ended 28 August 2010.

NOTE 1 Basis of preparation (continued)

Use of non-GAAP profit measures - *Underlying profit*

The Directors believe that underlying profit and underlying diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. Underlying profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit. The adjustments made to reported profits before tax are:

- IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements. Under IAS 32 and IAS 39, the Group applies hedge accounting to its various hedge relationships when allowed under IAS 39 and when practical to do so. Sometimes, the Group is unable to apply hedge accounting to the arrangements, but continues to enter into these arrangements as they provide certainty or active management of the exchange rates and interest rates applicable to the Group. The Group believes that these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting.

  Where hedge accounting is not applied to certain hedging arrangements, the reported results reflect the movement in fair value of related derivatives due to changes in foreign exchange and interest rates. In addition, at each period end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the period, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify underlying business performance.

- IAS 19 'Employee Benefits' – non-cash Income Statement charge for pensions. Under IAS 19, the cost of providing pension benefits in the future is discounted to a present value at the corporate bond yield rates applicable on the last day of the previous financial year. Corporate bond yields rates vary over time which in turn creates volatility in the Group Income Statement and Group Balance Sheet. IAS 19 also increases the charge for young pension schemes, such as Tesco's, by requiring the use of rates which do not take into account the future expected returns on the assets held in the pension scheme which will fund pension liabilities as they fall due. The sum of these two effects can make the IAS 19 charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund all future liabilities. Therefore, within underlying profit we have included the 'normal' cash contributions for pensions but excluded the volatile element of IAS 19 to represent what the Group believes to be a fairer measure of the cost of post-employment benefits.

- IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods. The amount charged to the Group Income Statement in respect of operating lease costs and incentives is expected to increase significantly as the Group expands its international business. The leases have been structured in a way to increase annual lease costs as the businesses expand. IAS 17 requires the total cost of a lease to be recognised on a straight-line basis over the term of the lease, irrespective of the actual timing of the cost. This adjustment also impacts the Group's operating profit and rental income within the share of post-tax profits of joint ventures and associates.

- IFRS 3 (Revised) 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions. Under IFRS 3 intangible assets are separately identified and recorded at fair value. The acquired intangible assets are required to be amortised on a straight-line basis over their useful economic lives. This results in a non-cash charge that does not reflect the underlying performance of the business acquired. Similarly, the standard requires all acquisition costs to be expensed in the Group Income Statement. Due to their nature, these costs have been excluded from underlying profit as they do not reflect the underlying performance of the Group.

- IFRIC 13 'Customer Loyalty Programmes' – fair value of awards. This interpretation requires the fair value of customer loyalty awards to be measured as a separate component of a sales transaction. The underlying profit measure removes this fair value allocation to present underlying business performance, and to reflect the performance of the operating segments as measured by management.

- Restructuring costs – these relate to certain costs associated with the Group's restructuring activities and have been excluded from underlying profit as they do not reflect the Group's underlying performance.

NOTE 2 Segmental reporting

The Group's reporting segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Executive Committee of the Board of Directors as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

During the period, the Group announced its decision to sell its operations in Japan (previously reported as part of the Asia segment). Accordingly, these operations have been treated as discontinued. The reporting segments do not include any amounts for these discontinued operations, which are described in more detail in notes 1 and 4. The segment results for the 26 weeks ended 28 August 2010 have been represented for comparative purposes.

The CODM now considers the principal activities of the Group to be:

- Retailing and associated activities in:
  - the UK;
  - Asia – Korea, Malaysia, China, Thailand, India;
  - Europe – Turkey, Hungary, Poland, Czech Republic, Slovakia, Republic of Ireland (ROI); and
  - the United States (US)
- Retail banking and insurance services through Tesco Bank in the UK.

The CODM uses trading profit, as reviewed at monthly Executive Committee meetings as the key measure of the segments' results as it reflects the segments' underlying trading performance for the period under evaluation. Trading profit is a consistent measure within the Group.

Segmental trading profit is an adjusted measure of operating profit, which measures the performance of each segment before goodwill impairment and restructuring charges, profit arising on property-related items, impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and costs arising from acquisitions, adjustments for the fair value of customer loyalty awards and replaces the IAS 19 pension charge with the 'normal' cash contributions for pensions.

Inter-segment turnover between the operating segments is not material.

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

26 weeks ended 27 August 2011	**UK**	**Asia**	**Europe**	**US**	**Tesco Bank**	**Total at constant exchange**	**Foreign exchange**	**Total at actual exchange**
At constant exchange rates	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Continuing operations								
Sales inc. VAT (excluding IFRIC 13)	23,431	5,613	5,441	326	522	35,333	197	35,530
Revenue (excluding IFRIC 13)	21,196	5,233	4,731	322	522	32,004	164	32,168
Effect of IFRIC 13	(318)	(17)	(20)	-	-	(355)	(1)	(356)
Revenue	20,878	5,216	4,711	322	522	31,649	163	31,812
Trading profit/(loss)	1,273	291	227	(79)	44	1,756	17	1,773
Trading margin**	6.0%	5.6%	4.8%	(24.5%)	8.4%	5.5%		5.5%

26 weeks ended 27 August 2011	**UK**	**Asia**	**Europe**	**US**	**Tesco Bank**	**Total at actual exchange**
At actual exchange rates	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Continuing operations						
Sales inc. VAT (excluding IFRIC 13)	23,429	5,602	5,673	304	522	35,530
Revenue (excluding IFRIC 13)	21,196	5,223	4,927	300	522	32,168
Effect of IFRIC 13	(318)	(16)	(22)	-	-	(356)
Revenue	20,878	5,207	4,905	300	522	31,812
Trading profit/(loss)	1,273	292	237	(73)	44	1,773
Trading margin**	6.0%	5.6%	4.8%	(24.3%)	8.4%	5.5%

** Trading margin is based on revenue excluding IFRIC 13.

NOTE 2 Segmental reporting (continued)

26 weeks ended 28 August 2010* At constant exchange rates	UK £m	Asia £m	Europe £m	US £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations								
Sales inc. VAT (excluding IFRIC 13)	21,869	4,492	5,045	240	474	32,120	536	32,656
Revenue (excluding IFRIC 13)	20,038	4,182	4,395	236	474	29,325	509	29,834
Effect of IFRIC 13	(299)	(11)	(13)	-	-	(323)	(1)	(324)
Revenue	19,739	4,171	4,382	236	474	29,002	508	29,510
Trading profit/(loss)	1,219	212	214	(92)	129	1,682	28	1,710
Trading margin**	6.1%	5.1%	4.9%	(39.0)%	27.2%	5.7%		5.7%

26 weeks ended 28 August 2010* At actual exchange rates	UK £m	Asia £m	Europe £m	US £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations						
Sales inc. VAT (excluding IFRIC 13)	21,870	5,017	5,048	247	474	32,656
Revenue (excluding IFRIC 13)	20,038	4,679	4,399	244	474	29,834
Effect of IFRIC 13	(299)	(13)	(12)	-	-	(324)
Revenue	19,739	4,666	4,387	244	474	29,510
Trading profit/(loss)	1,218	246	212	(95)	129	1,710
Trading margin**	6.1%	5.3%	4.8%	(38.9)%	27.2%	5.7%

The Group's activities are, to some extent, subject to seasonal fluctuations. Tesco generally experiences an increase in sales in the fourth quarter of the year due to holiday periods. Sales are also influenced by seasonal weather conditions which can contribute towards higher sales in the summer months.

Reconciliation of trading profit to profit before tax from continuing operations

	26 weeks ended 27 August 2011 £m	26 weeks ended 28 August 2010* £m
Trading profit	**1,773**	**1,710**
Adjustments:		
Profits/losses arising on property-related items	245	261
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	(33)	(72)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	(23)	(25)
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	(12)	(21)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	(13)	(4)
Restructuring costs	-	(20)
Operating profit	**1,937**	**1,829**
Share of post-tax profit of joint ventures and associates	41	13
Finance income	93	98
Finance costs	(190)	(262)
Profit before tax	1,881	1,678
Taxation	(433)	(407)
Profit for the period from continuing operations	**1,448**	**1,271**

* See Note 1 Basis of Preparation.
** Trading margin is based on revenue excluding IFRIC 13.

NOTE 3 Taxation

	26 weeks ended 27 August 2011 £m	26 weeks ended 28 August 2010 £m
UK	351	336
Overseas	82	71
	433	**407**

A number of changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. The Finance Act 2011 included legislation to reduce the main rate of corporation tax from 27% to 26% from 1 April 2011 and to 25% from 1 April 2012. The proposed reduction from 27% to 25% was substantively enacted at the balance sheet date.

The tax charge in the Group Income Statement is based on management's best estimate of the full year effective tax rate based on expected full year profits to 25 February 2012. The full year effective tax rate includes the impact to the Group Income Statement of calculating UK deferred tax balances at the reduced UK tax rate of 25%. The impact of this rate change on the Group Income Statement for the period is a reduction in the half year tax charge of £46m.

Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in this interim consolidated financial information.

NOTE 4 Discontinued operations and assets classified as held for sale

	27 August 2011 £m	26 February 2011 £m	28 August 2010 £m
Assets of the disposal group	125	-	-
Non-current assets classified as held for sale	364	431	52
Total non-current assets classified as held for sale and assets of the disposal group	489	431	52
Total liabilities directly associated with the disposal group	(113)	-	-
Total net assets classified as held for sale	**376**	**431**	**52**

Discontinued operations

The tables below show the results of the discontinued operations in relation to the Group's decision to sell its operations in Japan which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement	26 weeks ended 27 August 2011 £m	26 weeks ended 28 August 2010 £m
Revenue	222	245
Cost of sales	(258)	(306)
Administrative expenses	(15)	(21)
Net finance costs	(1)	-
Loss before tax on discontinued operations	(52)	(82)
Taxation	(13)	-
Loss for the period from discontinued operations	**(65)**	**(82)**

Loss per share impact from discontinued operations		
Basic	0.81p	1.03p
Dilute	0.81p	1.02p

NOTE 4 Discontinued operations and assets classified as held for sale (continued)

	26 weeks ended 27 August 2011 £m	26 weeks ended 28 August 2010 £m
Non-GAAP measure: underlying loss before tax		
Loss before tax on discontinued operations	(52)	(82)
Adjustments for:		
Restructuring costs	5	9
Non-cash store impairment	29	-
Non-cash goodwill impairment	-	55
Underlying loss before tax on discontinued operations	**(18)**	**(18)**

In the second half of the year the Group expects to incur further one-off restructuring costs of approximately £16m following the announcement in early September 2011 to close 12 stores in Japan.

Balance Sheet	**27 August 2011 £m**
Assets of the disposal group	
Property, plant and equipment	28
Intangible assets	19
Inventories	19
Trade and other receivables	49
Cash and cash equivalents	10
Total assets of the disposal group	**125**
Liabilities of the disposal group	
Trade and other payables	(68)
Borrowings	(42)
Other current liabilities	(3)
Total liabilities of the disposal group	**(113)**
Total net assets of the disposal group	**12**

Cash Flow Statement	**26 weeks ended 27 August 2011 £m**	**26 weeks ended 28 August 2010 £m**
Net cash flows from operating activities	(24)	(47)
Net cash flows from investing activities	(2)	(15)
Net cash flows from financing activities	28	29
Net cash flows from discontinued operations	**2**	**(33)**

NOTE 5 Dividends

	26 weeks ended 27 August 2011		26 weeks ended 28 August 2010	
	Pence / Share	**£m**	**Pence / share**	**£m**
Amounts recognised as distributions to owners in the period:				
Final dividend for the prior financial year	10.09	811	9.16	730
Proposed interim dividend for the current financial year	4.63	371	4.37	351

The proposed interim dividend was approved by the Board on 4 October 2011 but has not been included as a liability as at 27 August 2011, in accordance with IAS 10 'Events after the reporting period'.

NOTE 6 Earnings per share and diluted earnings per share

Basic earnings per share amounts are calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the period.

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

The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

	26 weeks ended 27 August 2011			26 weeks ended 28 August 2010		
	Basic	**Potentially dilutive share options**	**Diluted**	**Basic**	**Potentially dilutive share options**	**Diluted**
Profit (£m)						
- Continuing operations	1,442	-	1,442	1,266	-	1,266
- Discontinued operations	(65)	-	(65)	(82)	-	(82)
Total	**1,377**	**-**	**1,377**	**1,184**	**-**	**1,184**
Weighted average number of shares (millions)	8,029	27	8,056	8,009	34	8,043
Earnings per share (pence)						
- Continuing operations	17.96	(0.06)	17.90	15.81	(0.07)	15.74
- Discontinued operations	(0.81)	-	(0.81)	(1.03)	0.01	(1.02)
Total	**17.15**	**(0.06)**	**17.09**	**14.78**	**(0.06)**	**14.72**

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

NOTE 6 Earnings per share and diluted earnings per share (continued)

Reconciliation of non-GAAP underlying diluted earnings per share

	26 weeks ended 27 August 2011		26 weeks ended 28 August 2010*	
	£m	pence/ share	£m	pence/ share
Profit from continuing operations	1,442	17.90	1,266	15.74
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' - fair value remeasurements	(32)	(0.40)	(18)	(0.22)
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	29	0.36	85	1.06
IAS17 'Leases' – impact of annual uplifts in rent and rent-free periods	19	0.24	20	0.25
IFRS 3 'Business Combinations' - intangible asset amortisation charges and costs arising from acquisitions	12	0.15	21	0.25
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	13	0.16	4	0.05
Restructuring costs	-	-	20	0.25
Tax effect of adjustments at the effective rate of tax (2011 – 23.0%; 2010 – 24.3%)	(9)	(0.11)	(32)	(0.40)
Underlying earnings from continuing operations	**1,474**	18.30	**1,366**	16.98

Underlying diluted earnings per share reconciliation

	26 weeks ended 27 August 2011		26 weeks ended 28 August 2010*	
	%	£m	%	£m
Underlying profit before tax from continuing operations		**1,922**		1,810
Effective tax rate	23.0%	(442)	24.3%	(439)
Non-controlling interests		(6)		(5)
Total		1,474		1,366
Underlying diluted earnings per share (pence)		**18.30**		**16.98**

* See Note 1 Basis of Preparation.

NOTE 7 Capital expenditure and other commitments

In the 26 weeks ended 27 August 2011 there were additions to property, plant and equipment, investment property and other intangible assets of £2,097m (28 August 2010: £1,947m). There were disposals of property, plant and equipment, investment property and other intangible assets of £330m (28 August 2010: £676m). Commitments for capital expenditure contracted for, but not provided, at 27 August 2011 were £1,694m (26 February 2011: £1,521m).

Tesco Bank

At 27 August 2011 Tesco Bank has commitments of formal standby facilities, credit lines and other commitments to lend, totalling £6.6bn (26 February 2011: £7.1bn). The amount is intended to provide an indication of the volume of business transacted and not for the underlying credit or other risks.

NOTE 8 Cash and cash equivalents

	27 August 2011 £m	26 February 2011* £m	28 August 2010* £m	27 February 2010* £m
Cash at bank and in hand	1,371	1,649	1,464	1,857
Short-term deposits	66	85	304	757
Cash with central banks	393	120	203	179
Other investments – certificates of deposits	120	170	225	165
Loans and advances to banks	-	404	263	144
Cash and cash equivalents	**1,950**	**2,428**	**2,459**	**3,102**

* See Note 1 Basis of Preparation for details of reclassifications.

NOTE 9 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements covering funded defined contribution and both funded and unfunded defined benefit schemes. The most significant of these are funded defined benefit pension schemes for the Group's employees in the UK, the Republic of Ireland and South Korea.

Principal assumptions

The valuations used for IAS 19 have been based on the most recent actuarial valuations as at 31 March 2008 and updated by Tower Watson Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 27 August 2011. The major assumptions, on a weighted average basis, used by the actuaries were as detailed below.

	27 August 2011 %	26 February 2011 %	28 August 2010 %
Discount rate	5.9	5.9	5.4
Price inflation	3.3	3.5	3.1
Rate of increase in salaries	3.4	3.6	3.1
Rate of increase in pensions in payment**	3.1	3.3	2.9
Rate of increase in deferred pensions**	2.6	2.8	2.9
Rate of increase in career average benefits	3.3	3.5	3.1

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

Movement in the deficit during the period

The movement in the deficit during the period was as follows:

	26 weeks ended 27 August 2011 £m	52 weeks ended 26 February 2011 £m	26 weeks ended 28 August 2010 £m
Deficit in schemes at the beginning of the period	**(1,356)**	**(1,840)**	**(1,840)**
Current service cost	(242)	(499)	(270)
Past service cost	-	(29)	-
Other finance income/(cost)	4	(18)	(13)
Contributions by employer	209	433	198
Foreign currency translation	(1)	2	(1)
Actuarial (loss)/gain	(190)	595	(60)
Deficit in schemes at the end of the period	**(1,576)**	**(1,356)**	**(1,986)**

NOTE 10 Reconciliation of profit before tax to net cash generated from operations

	26 weeks ended 27 August 2011 £m	26 weeks ended 28 August 2010* £m
Profit before tax	1,881	1,678
Net finance costs	97	164
Share of post-tax profits of joint ventures and associates	(41)	(13)
Operating profit	1,937	1,829
Operating loss of discontinued operations	(51)	(82)
Depreciation and amortisation	735	702
Profits/losses arising on property-related items	(245)	(261)
Loss arising on sale of non property-related items	4	1
Impairment of goodwill	-	55
Net impairment of property, plant and equipment	27	-
Adjustment for non-cash element of pension charges	33	72
Share-based payments	100	112
Tesco Bank non-cash movements	112	44
Increase in inventories	(460)	(270)
Increase in trade and other receivables	(289)	(126)
Increase in trade and other payables and provisions	547	283
Tesco Bank decrease/(increase) in loans and advances to customers	43	(408)
Tesco Bank increase in trade and other receivables	(248)	(19)
Tesco Bank net increase in customer and bank deposits, trade and other payables, provisions and other financial liabilities including borrowings	185	467
Decrease in working capital	(222)	(73)
Cash generated from operations	**2,430**	**2,399**

* See Note 1 Basis of Preparation for details of reclassifications.

NOTE 11 Analysis of changes in net debt

	At 26 February 2011*/** £m	Tesco Bank At 26 February 2011* £m	Cash flow £m	Business combinations £m	Other non-cash movements £m	Net debt of disposal group £m	Elimination of Tesco Bank £m	At 27 August 2011** £m
Cash and cash equivalents	1,722	706	(475)	-	7	(10)	(514)	1,436
Short-term investments	1,022	-	(425)	-	-	-	-	597
Joint venture loan and other receivables	493	34	(122)	-	(13)	-	(34)	358
Bank and other borrowings	(10,282)	(595)	155	(98)	(507)	40	600	(10,687)
Finance lease payables	(198)	-	23	-	(10)	2	-	(183)
Net derivative financial instruments	453	(21)	55	-	369	-	53	909
Net debt of disposal group	-	-	-	-	-	(32)	-	(32)
	(6,790)	**124**	**(789)**	**(98)**	**(154)**	**-**	**105**	**(7,602)**

* See Note 1 Basis of Preparation for details of reclassifications.

** These amounts relate to the net debt excluding Tesco Bank but including the disposal group.

NOTE 12 Business combinations and other acquisitions

Business combinations

During the period, the Group completed five business combination transactions as follows:

(i) 18 March 2011 — Acquired 100% of the ordinary share capital relating to the 77 stores of Mills Group in the UK for a cash consideration of £8m;

(ii) 1 April 2011 — Acquired 100% of the ordinary share capital relating to the 87 franchised "kiosks" and 47 stores branded as Zabka and Koruna in the Czech Republic for a cash consideration of £28m;

(iii) 18 April 2011 — Acquired 80.25% of the ordinary share capital of Blinkbox Entertainment Limited in the UK for a cash consideration of £3m;

(iv) 8 June 2011 — Acquired 100% of the ordinary share capital of BzzAgent Inc and BzzAgent Limited for a cash consideration of £9m and deferred contingent consideration of £15m; and

(v) 18 August 2011 — Acquired the remaining 50% of the ordinary share capital of its joint venture Multi Veste Czech Republic 9, s.r.o not already owned by the Group for a total consideration of £22m, split equally between cash and equity.

The aggregate pre-acquisition net assets of the above business combinations were £2m. Fair value adjustments of £16m and non-controlling interests of £1m reduced these net assets to a provisional fair value of net liabilities acquired of £13m. The total consideration was £85m resulting in provisional goodwill on these business combinations of £98m. The goodwill represents synergies within the operating models and the economies of scale expected from incorporating the operations of acquired entities within the Group.

Other acquisitions

On 1 July 2011, the Group completed the acquisition of the remaining 6% of the ordinary share capital of Homeplus Co., Limited for a cash consideration of £73m.

NOTE 13 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed as follows:

i) Trading transactions and balances

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Joint ventures	**164**	96	**245**	213	**6**	7	**35**	27
Associates	**1**	-	**856**	607	**-**	-	**7**	34

Sales to related parties consist of services/management fees and loan interest.

Purchases from related parties include £186m (28 August 2010: £133m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and lease back programme) and £856m (28 August 2010: £607m) of fuel purchased from Greenergy International Limited. In addition, duty on the fuel purchases paid by the Group to Greenergy International Limited was £990m (28 August 2010: £785m).

NOTE 13 Related party transactions (continued)

ii) Non-trading transactions and balances

	Sale and leaseback of assets		Loans to related parties		Loans from related parties		Injections of equity funding	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Joint ventures	**-**	958	**355**	296	**26**	23	**5**	-
Associates	**-**	-	**34**	8	**-**	-	**-**	16

On 18 August 2011, the Group acquired the remaining 50% of the ordinary share capital of its joint venture in Multi Veste Czech Republic 9, s.r.o. The transaction was recorded as a business combination as required by IFRS 3 (Revised) 'Business Combinations' (see note 12).

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships and Unlimited Companies (accounts) Regulations 1993 ('Regulations') apply. The accounts for those partnerships have been consolidated into these accounts pursuant to Regulation 7 of the Regulations.

iii) Transactions with key management personnel

There were no material transactions of balances between the Group and its key management personnel or their close family members.

During the interim period of the current financial year, no additional related parties transactions have taken place that have materially affected the financial position of the performance of the Group during that period. In addition, there were no material changes in the related parties transactions described in the last Annual Report that could have a material effect on the financial position or performance of the Group in the interim period of the current financial year.

NOTE 14 Contingent liabilities

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

Tesco Bank
The Financial Services Compensation Scheme (FSCS) is the UK statutory fund of last resort for customers of authorised financial services firms and pays compensation if a firm is unable to pay claims against it. The FSCS has borrowed from HM Treasury to fund these compensation costs associated with institutions that failed in 2008 and will receive receipts from asset sales, surplus cash flow and other recoveries from these institutions in the future.

The FSCS meets its obligations by raising management expense levies. These include amounts to cover the interest on its borrowings and compensation levies on the industry. Each deposit-taking institution contributes in proportion to its share of total protected deposits. The levy is calculated based on deposit balances held as at 31 December in each year and as such this is seen as the 'trigger event' under accounting rules.

If the FSCS does not receive sufficient funds from the failed institutions to repay HM Treasury in full it will raise compensation levies. At this time it is not possible to estimate the amount or timing of any shortfall resulting from the cash flows received from the failed institutions and, accordingly, no provision for compensation levies has been made in these financial statements.

NOTE 15 Events after the reporting period

On 21 September 2011, the Group announced plans to launch a property fund for Tesco Lotus in Thailand, with a value of more than £300m. The fund will be listed on the Thai Stock Exchange once approval has been granted by the Securities and Exchange Commission of Thailand.

Independent review report to Tesco PLC

Introduction

We have been engaged by the company to review the interim consolidated financial information in the half-yearly financial report for the 26 weeks ended 27 August 2011, which comprises the group income statement, the group statement of comprehensive income, the group balance sheet, the group statement of changes in equity, the group cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim consolidated financial information.

Directors' responsibilities

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

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

Our responsibility

Our responsibility is to express to the company a conclusion on the interim consolidated financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial information in the half-yearly financial report for the 26 weeks ended 27 August 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
4 October 2011
London

Note:

a) The maintenance and integrity of the Tesco PLC website 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 financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Investor information

Registrar and shareholding enquiries

If you have any administrative enquiries about your holding of Tesco PLC shares (other than ADRs) please contact:
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0871 384 2977

Consolidated tax vouchers

If your dividend is paid directly into your bank or building society account you will receive one tax voucher each year. The consolidated tax voucher will be sent to you in December at the time that the interim dividend is paid and will cover both dividend payments in the tax year. This will help you to complete your tax return. This does not affect your dividends or the tax that you pay in any way. If you would prefer to receive a tax voucher with each dividend payment rather than one consolidated tax voucher each tax year, please call our shareholder helpline on 0871 384 2977. If your dividend is not currently paid directly to your bank or building society account and you would like to benefit from this service please contact Equiniti on 0871 384 2977 and they will be pleased to arrange this for you. By choosing to receive your dividends in this way you can avoid the risk of cheques getting lost in the post and ensure you receive your dividends on the payment day. Note: Consolidated Tax Vouchers are not available to institutional shareholders.

Tesco website

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

Electronic communications

You can register for Shareview, a free online share information and dealing service operated by Equiniti. Once you have registered you can:

- check your shareholding
- access shareholder information
- elect to receive information electronically, getting quick access to these important documents and helping to save the environment by reducing the amount of paper used
- vote on the resolutions at the Annual General Meeting.

To register, log on to www.shareview.co.uk and click on 'register'. Your rights as a shareholder will not be affected in any way. If you have any questions about the service, please call 0871 384 2977.

Security reminder

Under the Companies Act 2006 we are obliged to hold the names and addresses of all shareholders on a register of members and give a copy of this list to the Registrar of Companies every year. The Registrar of Companies makes this list available to anyone who requests it and many companies use this information to market their services. We are aware that some of our shareholders have received unsolicited calls or correspondence from companies concerning investment matters. Tesco has no relationship with and does not endorse any of the services offered by these companies. Details of any facilities that we endorse are included in our communications. If you are concerned about any direct mailing or telephone calls purporting to be from Tesco, please contact us by writing to the Company Secretary, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL or by calling us on 01992 632222.

Customer services

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

Investor relations

Investor Relations Department
Tesco PLC
Tesco House
Delamare Road
Cheshunt
Hertfordshire EN8 9SL
Telephone 01992 646484

Secretary and registered office

Mr Jonathan Lloyd
Tesco PLC
Tesco House
Delamare Road
Cheshunt
Hertfordshire
EN8 9SL
Telephone 01992 632222

Financial Calendar	
	2011
Interim dividend: ex-dividend date	12 October
Interim dividend: record date	14 October
Interim dividend: payment date	23 December
	2012
Financial year-end	25 February
Results announced	April