INTERIM RESULTS 2012/13

26 weeks ended 25 August 2012

IMPLEMENTING THE PLAN – INVESTING IN A BETTER TESCO

Financial headlines:

- Group sales up 1.4% to £36.0bn* (up 3.2% at constant rates); Group sales exc. petrol up 1.6% (up 3.7% at constant rates)
- Statutory profit before tax down (11.6)% to £1.7bn; Underlying profit before tax down (8.5)% to £1.8bn
- Group trading profit of £1.6bn, down (10.5)% – UK down (12.4)% to £1.1bn; International down (17.1)% to £0.4bn; Tesco Bank up 114% to £94m
- Underlying diluted EPS reduction of (7.9)%**
- Interim dividend per share maintained at 4.63p
- Group capital expenditure brought down from £2.1bn to £1.6bn; on track for a full year reduction to c.£3.2bn

Business update:

- UK plan implementation underway, with improvements in UK sales performance, including like-for-like sales growth in second quarter
- Reduced new UK space programme on track; greater focus on Express, with 60 new stores in H1
- Grocery online business continues to outperform, growing by 11% in the UK; dotcom now launched in Poland and Slovakia, with Thailand and Malaysia launching soon
- Tesco Bank migration successfully completed onto new, modern platforms; mortgages launched
- Majority of businesses in Asia and Europe gained or held share, in tough external environment
- United States losses reduced slightly to £(72)m at constant rates; actions taken to reduce losses further in the second half
- Successful property transactions completed in Thailand and Korea, raising c.£700m proceeds
- Japanese market exit deal agreed with Aeon

UK Plan – Building a Better Tesco:

- Our £1bn investment programme to improve the shopping trip for customers is on schedule, with tangible improvements in all elements of the plan:
  1. **Service & Staff** – second phase now complete; total of 8,000 additional staff now in store
  2. **Stores & Formats** – over 230 stores refreshed in first half; c.40% reduction in full-year new space growth confirmed; started process of reallocating space within existing stores
  3. **Price & Value** – increased use of personalised Clubcard offers starting to deliver results
  4. **Range & Quality** – successful Everyday Value launch; over 2,000 core Tesco products also upgraded so far
  5. **Brand & Marketing** – store-specific ranging work underway; new creative agency W+K in place; new marketing campaign launching before the end of the year
  6. **Clicks & Bricks** – Click & Collect rolled out to over 1,300 locations; 200,000 non-food product lines now available online

Philip Clarke – Chief Executive

"We continue to act decisively to tackle challenges and seize opportunities across the Group. In April, I set out our plans to 'Build a Better Tesco' in the UK. We have been hard at work and I am encouraged by our customers' initial responses to the changes we have made – but there is much more to be done. I am pleased that the team is in place, highly focused and energised, and I want to thank them for everything they have done.

"The external environment continues to present challenges all over the world. Whilst our businesses in Asia and Europe have continued to do a great job for customers, our financial performance there reflects the tough economic backdrop and particularly the regulatory changes in South Korea. That we have gained or held market share in the majority of markets is a testimony to the skill of our teams across the Group.

"We have made some important strategic changes which have fundamentally altered our approach to capital allocation. First, significantly reducing space growth in the UK and focusing on improving the performance of our existing stores – and second, investing in online to enable Tesco to take a leadership role in the digital revolution: playing our part in shaping the future of retailing.

"It is in serving the changing needs of customers, as Tesco has done over many years, that we will create more value for shareholders."

*Group sales (inc. VAT) exclude the accounting impact of IFRIC 13.
**Underlying diluted EPS reduction calculated on a constant tax rate basis; (6.7)% at actual tax rates.

FINANCIAL HIGHLIGHTS

Continuing operations 26 weeks ended 25 August 2012 (unaudited)	**2012/13**	**Change vs. 2011/12**
Group sales (inc. VAT)*	£36,010m	1.4%
Group revenue (exc. VAT)	£32,311m	1.6%
Group trading profit	£1,587m	(10.5)%
Underlying profit before tax	£1,759m	(8.5)%
Group profit before tax	£1,662m	(11.6)%
Underlying diluted earnings per share	17.08p	(7.9)%**
Diluted earnings per share	16.14p	(9.8)%
Dividend per share	4.63p	0.0%

Outlook

Whilst there is a long way to go, we believe that our investment in 'Building a Better Tesco' in the UK will continue to strengthen our competitiveness by delivering further improvements in the shopping trip for customers. Consistent with our previous guidance, we expect trading margins in the UK to be similar in the second half to the first.

We are planning on the basis that the global economic environment continues to be very challenging, with customers facing real financial pressures and our businesses bearing the burden of higher costs.

In Korea, the new regulations restricting opening hours for large retailers are having an immediate, unhelpful effect on our performance and are expected to impact our profit performance by around £100m for the year, weighted towards the second half.

Financial Strategy and Returns for Shareholders

We are on track with our plans to invest a lower level of Group capital expenditure in the current financial year and now expect our full-year investment to be c.£3.2bn. This is mainly due to our reduced new space programme in the UK, which will result in an overall reduction in UK capital expenditure, even though we are stepping up our investment in existing stores and online. Our investment outside the UK will also show a reduction year-on-year, due to our decision to slow down further our new store opening programme in the United States and the application of higher hurdle rates for new capital investment around the Group, as we described at our full year results in April.

This reduction in capital expenditure demonstrates our continued commitment to the financial strategy we laid out in April: investing to support sustainable business growth while also moving towards a higher level of cash generation and improving returns for shareholders.

*Group sales (inc. VAT) exclude the accounting impact of IFRIC 13.
**Underlying diluted EPS reduction calculated on a constant tax rate basis; (6.7)% 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)[4]	**36,010**	**35,530**	**1.4%**	**23,940**	**5,906**	**5,285**	**365**	**514**
Growth %				2.2%	5.4%	(6.8)%	20.1%	(1.5)%
UK LFL (exc. Petrol)				(0.6)%				
Revenue (exc. VAT)[5]	32,311	31,812	1.6%	21,407	5,490	4,542	358	514
Growth %				2.5%	5.4%	(7.4)%	19.3%	(1.5)%
UK LFL – IFRIC 13 compliant basis (exc. Petrol)				(0.2)%				
Trading profit / (loss)[6]	**1,587**	**1,773**	**(10.5)%**	**1,115**	**281**	**171**	**(74)**	**94**
Growth %				(12.4)%	(3.8)%	(27.8)%	(1.4)%	113.6%
Trading profit margin[4]	4.87%	5.51%	(64)bp	5.15%	5.10%	3.75%	(20.50)%	18.29%
Change (basis points)				(86)bp	(49)bp	(106)bp	383bp	986bp
Profit arising on property-related items	324	245	32.2%					
Deduct: IAS adjustments	(102)	(81)	(25.9)%					
Statutory / operating profit	**1,809**	**1,937**	**(6.6)%**					
JVs and associates	25	41	(39.0)%					
Net finance costs	(172)	(97)	(77.3)%					
Statutory profit before tax	**1,662**	**1,881**	**(11.6)%**					
Add: IAS adjustments	97	41	136.6%					
Underlying profit before tax[7]	**1,759**	**1,922**	**(8.5)%**					
Dividend per share (pence)	4.63	4.63	0.0%					

	Group TY	Group LY	Group YOY Change	UK TY	Asia TY	Europe TY	US TY	Tesco Bank TY
Capital expenditure (£bn)	1.6	2.1	(0.5)	0.9	0.4	0.2	0.0	0.1
Gross space added (million sq.ft.)	2.7	3.3	(0.6)	0.6	1.1	0.9	0.1	n/a

	Group TY	Group LY	Group YOY Change
Cash flow from operating activities (£bn)	1.2	2.0	(0.8)
IFRS pensions liability post-tax (£bn)	1.8	1.2	0.6
Net debt (£bn)[8]	7.2	7.6	(0.4)

Notes:

1 For UK, ROI and US, these results are for the 26 weeks ended 25 August 2012 and the previous year comparison is made with the 26 week period ended 27 August 2011. For Tesco Bank and India these results are for the 6 months ended 31 August 2012 and the previous year comparison is made with the 6 months ended 31 August 2011. For all other countries these results are for the 179 days ended 26 August 2012 and the previous year comparison is made with the 181 days ended 28 August 2011. 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 Excludes the accounting impact of IFRIC 13. Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

5 Includes the accounting impact of IFRIC 13.

6 Trading profit excludes property profits and makes the same additional adjustments as our underlying profit measure, except for the impact of non-cash elements of IAS 32 and 39, and the interest element of IAS 19.

7 Underlying profit excludes the impact of non-cash elements of IAS 17, 19, 32, and 39 (principally the impact of annual uplifts in rents and rent-free periods, pension costs, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition (Tesco Bank) and acquisition costs, and the non-cash impact of IFRIC 13.

8 Including Japan as a discontinued operation.

GROUP RESULTS

Group sales, including VAT, increased by 1.4% to £36.0bn. At constant exchange rates, sales also increased by 3.2% (including petrol) and 3.7% (excluding petrol).

Group trading profit was £1,587m, down (10.5)% on last year, reflecting the significant investment in the shopping trip for customers in the UK, as announced earlier this year. **Underlying profit before tax** declined by (8.5)% to £1,759m. **Group profit before tax** declined by (11.6)% to £1,662m.

The results of our business in Japan have been classified as **discontinued operations**, in line with our previously announced agreement with Aeon, under which we will exit the market.

Net finance costs increased to £172m, from £97m last year, driven in part by the revaluation of the liability relating to the purchase of the minority interest in our Korean business in July 2011, which reduced net finance costs by £35m in the first half last year. Underlying net interest costs also increased to £173m, mainly driven by pre-financing of debt which was retired in September and reduced capitalised interest.

Total **Group tax** has been charged at an effective rate of 22.0% (last year 23.0%). This reduction mainly reflects a fall in the UK corporation tax rate.

Cash Flow and Balance Sheet. Net debt at £7.2bn is £0.4bn lower than at the same point last year, despite a reduction in operating cash flow. This reflects an overall reduction in capital expenditure, combined with the additional proceeds generated from our property programme. Consistent with previous years, this is higher than the year end net debt of £6.8bn, reflecting the cash outflow from the final dividend payment. We expect to see an overall reduction in net debt by the year end.

In addition to the previously announced successful launch of the Tesco Lotus Property Fund Public Offering (PFPO) in Thailand in March, which realised proceeds of £379m from the sale of 17 hypermarket-anchored shopping malls, we also released value from the sale and subsequent leaseback of four stores in Korea just prior to the half-year end, raising further proceeds of more than £300m.

Pensions. The Group's net pension deficit after tax under the IAS 19 methodology of pension valuation has increased from £1,406m at the year end to £1,758m, due to a decrease in the high-quality corporate bond rate used to derive the discount rate for valuing the Fund's future liabilities, as well as lower than expected asset returns.

The triennial actuarial valuation of the UK Pension Scheme was completed in 2012, with a deficit of £0.9bn at the valuation date of 31 March 2011. The increase in deficit since the last valuation was largely due to the adoption of more prudent assumptions to target a higher level of security for members, as well as lower than assumed asset returns. As previously announced, the Company agreed with the Trustees to make an additional contribution of £180m in March 2012.

Group **capital expenditure** in the first half was £1.6bn, or 4.5% of sales – a significant reduction versus the first half last year (£2.1bn). Capital expenditure in the UK was £0.9bn, with a further £0.1bn in the Bank, and £0.6bn in International.

Dividend

The Board has approved a maintained interim dividend of 4.63p per share, demonstrating our confidence in the progress that is being made in implementing the UK Plan, notwithstanding the necessary investment in 'Building a Better Tesco'. The interim dividend will be paid on 21 December 2012 to shareholders on the Register of Members at the close of business on 12 October 2012.

BUSINESS PERFORMANCE

UK

	UK Results H1 2012/13	
	£m	% growth
UK sales	£23,940m	2.2%
UK revenue (exc. VAT, exc. impact of IFRIC 13)	£21,645m	2.1%
UK trading profit	£1,115m	(12.4)%
UK trading margin (trading profit/revenue)	£5.15%	(86)bp

Trading conditions continued to be tough across the whole of the UK market in the first half, with consumer confidence remaining at very low levels.

Our own UK like-for-like sales performance, while affected by the tough conditions in the market, improved through the first half, delivering positive growth of 0.1% in the second quarter before petrol and VAT. This was helped by stronger volumes which more than offset the effect of lower inflation and is our first positive result on this basis for over six quarters, following (1.6)% for the fourth quarter of 2011/12 and (1.5)% for the first quarter of this year.

The improved like-for-like sales performance benefits from a more competitive offer as some of the changes we are making to the customer shopping trip start to come through, including in part the stronger blend of price, promotions, coupons and Clubcard offers we described earlier in the year.

General merchandise and electrical sales continue to be a drag on our overall performance – however clothing has returned to growth – particularly in the second quarter – as our offer benefited from further investment in both price and quality.

	UK LFL Growth 2012/13		
	Q1	Q2	**H1**
LFL (inc.VAT, inc. petrol)	(1.1)%	(0.8)%	**(1.0)%**
LFL (inc.VAT, exc. petrol)	(1.4)%	0.2%	**(0.6)%**
LFL (exc.VAT, exc. petrol)	(1.5)%	0.1%	**(0.7)%**
LFL (exc.VAT, exc. petrol and IFRIC 13 compliant)	(0.7)%	0.3%	**(0.2)%**

With net new space contributing 3.3%, total sales (excluding petrol and including VAT) grew by 2.7% in the first half.

UK trading profit and margin performance reflects our previously announced and planned investment, with the trading margin of 5.2% being around 90 basis points lower than for the same period last year. We expect a similar level of trading margin in the second half.

The UK Plan – Building a Better Tesco

We are on track with the implementation of our plans to Build a Better Tesco in the UK. The additional investment we announced in January and the detailed plans we laid out in April are being implemented across the business, led by the strong, experienced UK leadership team we now have in place and supported by the hard work of our more than 300,000 staff.

In summary, our plans comprise a combined revenue and capital investment of over £1bn across six key areas to reinvigorate the UK core business:

1. Service & Staff
2. Stores & Formats
3. Price & Value
4. Range & Quality
5. Brand & Marketing
6. Clicks & Bricks

The changes we are making to improve the customer shopping trip are significant and there is much more that can be done. However, customers are already starting to respond positively to the improvements we have begun to make in each area of the plan:

- **Service & Staff.** We have completed the recruitment, training and deployment of more than 8,000 staff across our existing stores. The first phase of this work entailed slightly more than half of the additional staff being deployed primarily into our fresh food departments by the beginning of June. The second phase has put a similar amount of staff into the remaining food and grocery departments across the store. These additional hours are allocated to specific departments – helped by new, distinct uniforms – and with the 350,000 hours of specialist training we have provided, help to give our stores more of the people and training they need to serve customers well.

  In April, we referred to an uplift of 1.1% in the like-for-like sales performance following the first phase of labour investment in the pilot group of 200 stores. This level of uplift has been maintained and we saw a similar uplift as we rolled the first phase of investment out across the remainder of the store network. Our sales performance since the beginning of June – when we rolled out the second phase of investment – has improved versus the market, a testament to the efforts of all of our staff across the business. Importantly, customer perceptions of service, quality and availability have all begun to show signs of improvement.

- **Stores & Formats.** Customers have responded very enthusiastically to the changes we have already made to the look and feel of many of our stores. Over 230 stores have undergone varying degrees of refresh work in the first half, ranging from signage and colour-scheme changes, all the way through to comprehensive refits. The changes include interior design improvements featuring more use of wood and warmer colours, improved lighting, better sightlines and significantly improved counters and fresh food departments.

  We have also started the process of space reallocation in some of our larger stores, reducing the space devoted to a number of general merchandise categories and increasing that allocated to others such as clothing and in certain cases, food.

  The lower level of space growth in the first half reflects our strategic decision to reduce capital investment in the UK going forward and focus more of the remaining investment on smaller formats. We opened 60 Express stores, bringing the total number we trade from in the UK to nearly 1,500. This trend will continue into the second half and beyond, with new space for the year expected to be just less than 1.5m square feet, of which nearly a quarter will be in Express.

- **Price & Value.** With the continuing strain on household budgets, customers are increasingly seeking out even greater value for money. We have focused our efforts in the first half on providing a stronger blend of great prices, relevant and engaging promotions – including couponing – and more highly-personalised offers using Clubcard. The new Clubcard Bonus mailings have been particularly successful, helping customers get the very best, most relevant offers without them having to shop elsewhere.

  Seasonal and special events are especially important for customers during these tough times and we saw a very positive response to our efforts to help them celebrate during the Olympic period, especially in London.

- **Range & Quality.** Our re-launch of the Tesco Value range of 550 products as Everyday Value has proved hugely popular with customers who love the contemporary packaging and increased quality at the same low prices, helping them to manage their weekly budgets. Nearly 80% of customers have purchased Everyday Value since launch, and we have already added more than 100 new lines to the range.

  We are also part-way through a programme of renewing our entire core Tesco own label food range of over 8,000 products, which represents c.40% of our food and grocery sales. In just six months, we have already upgraded more than 2,000 products, including significant quality and packaging improvements in our Indian, Oriental, Tex-Mex and Italian ready meal ranges and a complete overhaul of our in-store bakery offer, introducing over 30 new artisanal breads and a new patisserie range. Over the coming weeks, we are re-launching our fresh meat category, including more than 150 upgraded products, across the entire business.

- **Brand & Marketing.** We have ensured that dunnhumby – and the insight that it provides using data from Clubcard – is instrumental in making sure we are focusing on the right areas as we seek to improve the shopping trip for customers. Our work to increase the level of localisation in our offer is still at an early stage, although a number of ranges – such as bottled water, wine and herbs and spices – have already been adapted to give a more relevant range for some stores based on local market demographics. Customer response to these initial changes has been positive and this work will continue to build during the second half.

  In July, we brought Wieden + Kennedy on board as our new creative agency – the first time we have fundamentally changed our creative team for over 15 years. W+K are actively engaged in helping us to develop our brand communication, which will describe Tesco for our customers and our other stakeholders in the years to come.

- **Clicks & Bricks.** Our online Grocery business has continued to outperform in the first half, with sales up by more than 11% compared to the same period last year, maintaining its very strong market share. Over 70,000 customers have already signed up to our Delivery Saver subscription service, since its launch in May. Another innovation, that is proving increasingly popular, is Grocery Click & Collect drive-through, which we have now rolled-out to over 90 locations in total. Our online General Merchandise business, Tesco Direct, has significantly expanded the range of products offered, from around 75,000 to over 200,000 in just the last six months, many of them sold by the 14 marketplace sellers who have already signed up to sell through tesco.com. Click & Collect continues to be the channel of choice for Tesco Direct, with the majority of customers choosing to pick their orders up from one of the collection points now in more than 1,300 stores across the country.

  In June, we acquired the personalised internet radio service We-7 and just last month we also acquired the e-book business MobCast. Together, these complement Blinkbox and will eventually provide a full range of digital entertainment products for our customers online, on tablets and on smartphones.

Tesco Telecoms

We are now the biggest Mobile Virtual Network Operator (MVNO) in the UK, with more than one million customers on pay monthly contracts. We opened an additional 15 phone shops within our stores in the first half and our online business has trebled in size since this time last year.

We are also currently trialling a new look and feel Phone Shop, with better product information, more modern fixtures and live handsets for customers to try in store. Initial customer response to the changes has been very positive.

ASIA, EUROPE & UNITED STATES

	International Results* H1 2012/13		
	Actual rates		Constant rates
	£m	% growth	% growth
International sales	£11,556m	(0.2)%	5.5%
International revenue (exc. VAT, exc. impact of IFRIC 13)	£10,426m	(0.2)%	5.2%
International trading profit	£378m	(17.1)%	(11.8)%
International trading margin (trading profit/revenue)	3.63%	(73)bp	(70)bp

*Exc. Japan

The performance of our international businesses has been impacted, like that of many of our competitors, by unprecedented external pressures – both economic and regulatory. In Europe, there has been a step-change in the impact of the Eurozone crisis on consumer confidence – and actual consumer demand – with rising unemployment, taxation and inflation also taking their toll in many markets. In Asia, our largest market Korea is being impacted by new opening hour restrictions which are being imposed on all large retailers and China also continues to see weakening consumer demand. Despite these significant challenges, we have gained or held share in the majority of our markets, demonstrating that we are still highly competitive, through the success of our customer offer and its ability to adapt to changing circumstances.

	Asia, Europe, US LFL* Growth 2012/13		
	Q1	Q2	**H1**
Asia	0.4%	(3.0)%	**(1.4)%**
Europe	0.4%	(0.8)%	**(0.2)%**
United States	3.6%	6.9%	**5.2%**
Total International	0.5%	(1.7)%	**(0.7)%**

*Exc. petrol, exc. Japan.
Note: A full table of quarterly country LFL growth is provided in Appendix 2 on page 15.

We opened 2.0 million square feet of net new space across our international businesses in the first half, of which nearly 50% was in smaller format stores. We are planning to open a further 3.1 million square feet in the second half, around 0.8 million square feet less than our original plan at the start of the year.

We have continued our development of the Extra format and now have 42 Extras trading in Europe and four in Asia, including our first conversion in Malaysia. Our first half conversions have seen a significant rise in customer numbers, both in Europe and Asia, as Extras are increasingly seen as destination shopping trips. Clothing departments have seen particularly good uplifts, helped by the well-received reallocation of space.

Our international businesses increasingly benefit from the application of Group skill and scale and one of the clearest examples of this is in the launch of the online grocery platform to provide home delivery services for customers overseas at a relatively low cost of deployment. In the first half, we successfully launched the service in a number of cities in Poland, following on from our earlier launch in the Czech Republic and we have continued to grow our more established businesses in Korea and the Republic of Ireland. We have just launched the service in Slovakia and are rolling it out to Thailand and Malaysia in the coming months.

Asia

	Asia Results* H1 2012/13		
	Actual rates		Constant rates
	£m	% growth	% growth
Asia sales	£5,906m	5.4%	6.0%
Asia revenue (exc. VAT, exc. impact of IFRIC 13)	£5,505m	5.4%	6.0%
Asia trading profit	£281m	(3.8)%	(1.7)%
Trading margin (trading profit/revenue)	5.10%	(49)bp	(41)bp

*Exc. Japan

Total sales (including VAT) in Asia increased by 6.0% at constant rates and by 5.4% at actual rates. We made good progress in Thailand and Malaysia but our performance in the region as a whole was held back by the unhelpful effect of new shopping hour regulation in our key Asian market, Korea. Like-for-like sales declined by (1.4)% for the region as a whole.

Our business in Thailand delivered a strong performance in the first half, with total sales up by more than 14% at both actual and constant rates, including like-for-like sales growth of 1.7% on top of a very strong performance in the first half last year. Malaysia also continued its run of improving like-for-like performance, delivering positive like-for-like sales growth in the second quarter.

The regulations introduced in Korea allow regional municipalities to impose forced closures on all large retailers. By the beginning of July, this had resulted in nearly all of our stores – hypermarkets and convenience stores – being required to close for two Sundays per month with trading hours on all other days restricted to between 8.00am and midnight. As Sunday is the peak trading day in Korea, accounting for more than 20% of weekly trade, these measures have had a substantial impact on like-for-like sales performance in the second quarter and, as a result, on trading profit. While some legal challenges have been upheld against the restrictions in recent weeks, we expect any respite to be temporary and therefore the impact on sales and trading profit to continue through the second half.

We have continued to experience challenging conditions throughout the first half in China, in line with other retailers in the market. Consumer demand continues to lag the general pace of new store development in the market, endorsing our decision to take a more cautious stance on the pace of new development. China remains a strategically important market for Tesco. Our opening programme for the year – which is skewed towards the second half – is focusing new store development in and around our existing geographic spread, which has enabled us to scale back our regional and central overhead accordingly.

The value of our property portfolio in Asia was demonstrated by the successful completion of two transactions in the first half, with a sale and leaseback programme in Korea in August following the launch of the Tesco Lotus PFPO earlier in the year. Combined, these transactions raised proceeds of more than £700m from stores representing less than 5% of our total net selling area in Asia.

We added just over 1.0 million square feet in Asia in the first half. Nearly half of this was in Thailand, including almost 150 Tesco Lotus Express stores; with a further strong Express opening programme in the second half, we will have more than 1,000 convenience stores across the country by the end of the year. We are currently expecting to open a further 2.2 million square feet of net new space across Asia as a whole in the second half.

Europe

	Europe Results H1 2012/13		
	Actual rates		Constant rates
	£m	% growth	% growth
Europe sales	£5,285m	(6.8)%	4.4%
Europe revenue (exc. VAT, exc. impact of IFRIC 13)	£4,560m	(7.4)%	3.6%
Europe trading profit	£171m	(27.8)%	(21.1)%
Europe trading margin (trading profit/revenue)	3.75%	(106)bp	(115)bp

Market conditions in Europe have been significantly impacted by the effects of the continued crisis in the Eurozone and associated austerity measures in many of our markets in Central Europe. As a result, total sales grew just 4.4% at constant rates and were severely affected by weakening European currencies versus Sterling, declining by (6.8)% at actual rates. While the economic situation in Europe has been worsening for some time, the majority of the region was still performing well until the end of the first half of 2011/12, so this first half performance is being delivered against relatively strong comparatives.

General merchandise and electrical sales have been particularly affected across the region and are a significant contributor to the declining like-for-like sales performance. Our clothing performance however, continues to have robust sales growth of 5.3% at constant exchange rates following the previous year's strong growth of 11%. Our F&F clothing business now operates as a single unit across the UK, Ireland and Central Europe, which is enabling improvements in stock management, range and margin.

While the crisis tax in Hungary was already being applied in the first half last year, it has continued to impact profit performance. We are continuing to hold back new capital in the market until we are clear on the measures that will be applied once the tax reaches the end of its three-year life in early 2013.

Consumers in the Czech Republic – already one of the markets most affected by the economic crisis – faced an increase of 4% in the lower of its two VAT rates earlier in the year, which has led to significantly reduced consumer confidence and levels of demand. This in turn has led to a further decline in our like-for-like sales performance throughout the half.

The Republic of Ireland was one of the markets first and most profoundly affected by the financial crisis and subsequent recession. Our business there performed well in the first half this year, delivering two successive quarters of positive like-for-like sales growth, albeit profit performance remained subdued.

Our performance in our largest markets in Europe relative to our local peers has held up well, with particularly strong market share performances in Poland and Ireland.

We opened 0.9m square feet of net new space in the region, with over half of this new space in smaller format stores, including 32 new franchise stores in the Czech Republic. We are planning to open a similar amount of space in the second half.

United States

	US Results H1 2012/13		
	Actual rates		Constant rates
	£m	% growth	% growth
US sales	£365m	20.1%	16.4%
US revenue (exc. VAT, exc. impact of IFRIC 13)	£361m	20.3%	16.7%
US trading loss	£(74)m	Up (1.4)%	Improved 1.4%

Fresh & Easy has delivered a small reduction in losses at constant rates in the first half, with sales performance improving throughout the period. Like-for-like sales growth was 5.2% for the half, following a stronger performance in the second quarter.

The number of stores delivering a positive cash contribution (before central overheads) has continued to increase, from 30 at the start of the year to 55 by the end of the first half – nearly 30% of the portfolio. We expect an increased number of stores to cross over into positive territory in the second half.

We are focusing all of our efforts on driving forward the profitability of our existing stores and have taken further steps to reduce the new space opening programme going forward. As a result, we expect to end the year with just over 200 stores in total, rather than the 230 we had in the programme at the start of the year. This move, together with a number of other measures we have already put in place to reduce costs, will lead to a more significant reduction in losses in the second half. Notwithstanding these measures, further steps are being reviewed to accelerate the pace of improvement. In the meantime, new capital investment will be tightly constrained.

We have rolled out further innovations to the in-store offer for customers, with the most recent being the launch of our 'Kitchen-to-go' American, Asian, Italian and Mexican ready meal ranges, which provide an even more compelling selection of convenient meal solutions. We have also introduced a wider range of own label and branded grocery lines and continued to build on the successful launch of our Meal Deals range.

TESCO BANK

	Tesco Bank Results H1 2012/13	
	£m	% growth
Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13)	£514m	(1.5)%
Tesco Bank trading profit	£94m	113.6%
Tesco Bank trading margin	18.29%	986bp
Tesco Bank Baseline profit	£89m	0.0%
Tesco Bank Baseline trading margin	17.52%	7bp

Tesco Bank's performance was held back by our decision to slow down the final stages of migration, as we held off actively marketing existing products and launching new products until the process had been completed. We are pleased to report that the final transition – of our 2.8 million credit card accounts – went smoothly, with all of our six million customer accounts now successfully transferred on to our new, modern platforms. The Bank can now focus on serving the needs of our many millions of loyal Tesco customers.

Our mortgage range launched in August, including two, three and five-year fixed rate products and two-year tracker products. These come with a number of attractive features such as payment holidays, a 20% overpayment threshold and Clubcard points paid at a rate of one point for every £4 of monthly repayment.

Customer account numbers for the Bank as a whole increased by 1.0%, driven by growth in credit cards and loans, offset by a reduction in the number of active insurance policies. Loan balances increased by 6%, as we scaled up our marketing following the completion of the migration process.

Revenues fell slightly in the first half, mainly due to the effects of slowing down the final stages of migration.

We have continued to review the level of provisioning appropriate to cover possible future claims against Tesco arising from alleged mis-selling of payment protection insurance policies, primarily prior to 2008. In line with many others in the sector, we felt it appropriate to increase our current provision by a further £30m towards the end of the first half, leaving our net provision at £78m.

Separately, trading profit has benefited from a £30m one-off credit, following the settlement of a dispute with a former business partner.

Bad debts have reduced by 35%, driven by further improvements in the rate of customer defaults. The current level of default experience has also led to a bad debt provision release of £10m.

Trading profit increased by 114%, largely due to the higher £57m PPI provision increase last year. Excluding PPI, fair value and the £30m one-off credit, the Bank baseline profit was broadly stable versus last year at £89m.

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/interims2012).

COMMUNITY, ENVIRONMENT AND CORPORATE RESPONSIBILITY

This year we are refocusing on putting customers right at the heart of everything we do – this includes making sure we are a business that makes a positive contribution to society and doing more to ensure that Tesco is valued and trusted in local communities all around the world for doing the right thing. Our achievements in the first half of this year include:

Caring for the environment
We have won the 'Green Retailer of the Year' Award at the retail industry's Grocer Gold Awards 2012 and have once again been recognised as one of the top 10 UK companies in the Carbon Disclosure Project's Global 500 index. Such awards acknowledge our continued work to meet our ambitious carbon targets. This work includes investing in cutting-edge green technology, such as natural refrigeration systems, and working with suppliers to run carbon reduction projects in different product areas including tea, dairy and clothing.

Actively supporting local communities
We have been active in supporting charities across the world. In the UK, we are on track to raise over £10m for our 2012 Charity of the Year, Cancer Research UK. Fundraising activity continues with a Stand Up 2 Cancer telethon on 19th October. A number of our markets are particularly focused on supporting children, including in Malaysia, where we have launched a three-year charity partnership to fund treatment for children with leukaemia and in Poland, where we have established a new Tesco Foundation for Children.

Buying and selling products responsibly
We are committed to supporting local suppliers, including helping them export to other Tesco markets. In the UK, we have held Taste of Korea and Taste of Thailand events, the latter focused on exotic fruits, along with a Taste of Malaysia event in Beijing and a Taste of Turkey event in Poland. We also supported local suppliers in Slovakia with a 'Made in Slovakia' in-store promotion in June.

Providing customers with healthy choices
We continue to develop healthy ranges across the Group, recently launching a new 'Healthy Appetite' initiative in Poland, showing customers through a website, mobile phone app and in-store events, that healthy eating can be easy, tasty and affordable. We have also launched a new healthy kids range in Slovakia (Vitakids) and established education corners in-store where children can learn about healthy living through animations and activities.

Creating good jobs and careers
Building on the opening of our training Academy in Asia last year, we have a new Academy building in the UK and we are creating 20,000 new jobs and offering 10,000 new apprenticeships over two years. Alongside this, we are investing more in training our current staff, as part of our Building a Better Tesco plan and have also become a member of a new employers group on workplace flexibility, which is supported by the UK Government. We have launched our Tesco Academy Online, which will give our people across the world the opportunity to access training anywhere. We have also recently opened our first regeneration store in Hungary in Debrecen, offering employment to the long term unemployed.

Supplementary Information

The following supplementary information can be found within our analyst pack, which is available via the internet at www.tescoplc.com/interims2012

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

Contacts

Investor Relations:	Chris Griffith	+44 (0) 1992 644 800
Press:	Tom Curry	+44 (0) 1992 644 544
	Brunswick	+44 (0) 20 7404 5959

This document is available via the internet at www.tescoplc.com/interims2012

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/interims2012

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/interims2012

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 remain those set out in our 2012 Annual Report and include:

- Operational threats and performance risk in the business
- Reputational risk
- People
- Business and financial strategies
- Competition and consolidation
- Fraud, compliance and internal controls
- IT systems and infrastructure
- Group Treasury, finance and Tesco Bank/financial services risks
- Property
- Product safety and health and safety
- Climate change and sustainability
- Regulatory, economic and political risks, activism and terrorism
- Pension risks

Greater detail on these risks and uncertainties are set out in our 2012 Annual Report.

Statement of Directors' Responsibilities
The Directors confirm that this interim consolidated financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of Tesco PLC are listed in the Tesco PLC Annual Report and Financial Statements 2012, with the exception of the following changes: Andrew Higginson retired on 1 September 2012 and Deanna Oppenheimer was appointed on 1 March 2012. A list of current directors is maintained on the Tesco PLC website: at www.tescoplc.com

By order of the Board

Directors
Sir Richard Broadbent* – Chairman
Philip Clarke – Chief Executive
Tim Mason – Deputy Chief Executive
Laurie McIlwee – Chief Financial Officer
Dame Lucy Neville-Rolfe DBE, CMG – Executive Director (Corporate and Legal Affairs)
Gareth Bullock*
Stuart Chambers*
Ken Hanna*
Deanna Oppenheimer*
Patrick Cescau* – Senior Non-executive Director
Karen Cook*
Ken Hydon*
Jacqueline Tammenoms Bakker*

*Non-executive Directors

Company Secretary
Jonathan Lloyd
2 October 2012

Appendix 1 – Segmental Sales Growth Rates*

		Total Sales Growth – Actual Rates**					
		2011/12			2012/13		
		H1	H2	**FY**	Q1	Q2	**H1**
Inc. Petrol	Group	8.8%	6.1%	**7.4%**	2.2%	1.0%	**1.4%**
	International	12.3%	7.0%	**9.5%**	2.9%	(1.4)%	**(0.2)%**
	Asia	11.7%	9.4%	**10.5%**	9.0%	4.3%	**5.4%**
	Europe	12.4%	3.4%	**7.7%**	(3.9)%	(8.3)%	**(6.8)%**
	United States	23.1%	31.0%	**27.1%**	19.7%	20.8%	**20.1%**
	UK	7.1%	5.4%	**6.2%**	2.1%	2.3%	**2.2%**
	Tesco Bank	10.1%	17.3%	**13.6%**	(3.7)%	0.4%	**(1.5)%**
Exc. Petrol	Group	7.3%	4.6%	**5.9%**	2.2%	1.6%	**1.6%**
	International	12.4%	6.9%	**9.5%**	3.0%	(1.3)%	**(0.1)%**
	Asia	11.7%	9.4%	**10.5%**	9.0%	4.3%	**5.4%**
	Europe	12.7%	3.2%	**7.7%**	(4.0)%	(8.3)%	**(6.9)%**
	United States	23.1%	31.0%	**27.1%**	19.7%	20.8%	**20.1%**
	UK	4.4%	3.0%	**3.7%**	2.0%	3.4%	**2.7%**
	Tesco Bank	10.1%	17.3%	**13.6%**	(3.7)%	0.4%	**(1.5)%**

		Total Sales Growth – Constant Rates**					
		2011/12			2012/13		
		H1	H2	**FY**	Q1	Q2	**H1**
Inc. Petrol	Group	8.2%	6.7%	**7.4%**	3.8%	3.2%	**3.2%**
	International	10.4%	8.9%	**9.6%**	7.8%	5.1%	**5.5%**
	Asia	11.9%	9.0%	**10.4%**	9.1%	5.4%	**6.0%**
	Europe	7.8%	7.8%	**7.8%**	6.0%	4.3%	**4.4%**
	United States	32.0%	31.0%	**31.5%**	17.1%	16.1%	**16.4%**
	UK	7.1%	5.4%	**6.2%**	2.1%	2.3%	**2.2%**
	Tesco Bank	10.1%	17.3%	**13.6%**	(3.7)%	0.4%	**(1.5)%**
Exc. Petrol	Group	6.7%	5.3%	**6.0%**	3.9%	4.0%	**3.7%**
	International	10.6%	8.8%	**9.6%**	7.8%	5.2%	**5.5%**
	Asia	11.9%	9.0%	**10.4%**	9.1%	5.4%	**6.0%**
	Europe	8.1%	7.5%	**7.8%**	6.0%	4.3%	**4.4%**
	United States	32.0%	31.0%	**31.5%**	17.1%	16.1%	**16.4%**
	UK	4.4%	3.0%	**3.7%**	2.0%	3.4%	**2.7%**
	Tesco Bank	10.1%	17.3%	**13.6%**	(3.7)%	0.4%	**(1.5)%**

*Growth rates shown on a continuing operations basis.
** Quarterly growth rates based on comparable days for the current year and the previous year comparison. Half 1 growth rates based on comparable days for the current year and the previous year comparison for the UK, US and the Republic of Ireland. All other countries are for 179 days ended 26 August 2012 compared to 181 days ended 28 August 2011.

		Like-For-Like Sales Growth*					
		2011/12			2012/13		
		H1	H2	**FY**	Q1	Q2	**H1**
Inc. Petrol	Group	3.3%	1.8%	**2.4%**	(0.6)%	(1.1)%	**(0.8)%**
	International	2.6%	0.8%	**1.6%**	0.5%	(1.7)%	**(0.6)%**
	Asia	3.8%	0.2%	**1.9%**	0.4%	(3.0)%	**(1.4)%**
	Europe	0.9%	0.8%	**0.9%**	0.5%	(0.8)%	**(0.1)%**
	United States	11.7%	12.1%	**11.9%**	3.6%	6.9%	**5.2%**
	UK	3.5%	2.2%	**2.8%**	(1.1)%	(0.8)%	**(1.0)%**
	Tesco Bank	N/A	N/A	**N/A**	N/A	N/A	**N/A**
Exc. Petrol	Group	1.4%	(0.1)%	**0.6%**	(0.7)%	(0.5)%	**(0.6)%**
	International	2.7%	0.7%	**1.6%**	0.5%	(1.7)%	**(0.7)%**
	Asia	3.8%	0.2%	**1.9%**	0.4%	(3.0)%	**(1.4)%**
	Europe	1.0%	0.6%	**0.8%**	0.4%	(0.8)%	**(0.2)%**
	United States	11.7%	12.1%	**11.9%**	3.6%	6.9%	**5.2%**
	UK	0.5%	(0.5)%	**(0.0)%**	(1.4)%	0.2%	**(0.6)%**
	Tesco Bank	N/A	N/A	**N/A**	N/A	N/A	**N/A**

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

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

	Like-For-Like Sales Growth					
	2011/12			2012/13		
	H1	H2	**FY**	Q1	Q2	**H1**
UK	**0.5%**	**(0.5)%**	**0.0%**	**(1.4)%**	**0.2%**	**(0.6)%**
Asia	3.8%	0.2%	**1.9%**	**0.4%**	**(3.0)%**	**(1.4)%**
China	6.2%	2.5%	**4.1%**	0.6%	(1.0)%	**(0.3)%**
Malaysia	1.2%	(4.1)%	**(1.7)%**	(1.7)%	0.9%	**(0.2)%**
South Korea	1.0%	(1.0)%	**0.0%**	(1.1)%	(6.6)%	**(4.0)%**
Thailand	7.8%	1.9%	**4.7%**	2.5%	0.9%	**1.7%**
Europe	**1.0%**	**0.6%**	**0.8%**	**0.4%**	**(0.8)%**	**(0.2)%**
Czech Republic	1.8%	(3.0)%	**(0.8)%**	(4.5)%	(7.0)%	**(5.8)%**
Hungary	2.6%	1.8%	**2.2%**	0.1%	(0.8)%	**(0.4)%**
Poland	(0.4)%	3.4%	**1.6%**	3.3%	1.0%	**2.2%**
Slovakia	7.8%	3.3%	**5.4%**	3.4%	2.6%	**3.0%**
Turkey	4.4%	(1.3)%	**1.5%**	(2.7)%	(1.6)%	**(2.1)%**
Republic of Ireland	(3.4)%	(1.5)%	**(2.4)%**	0.4%	0.2%	**0.3%**
United States	**11.7%**	**12.1%**	**11.9%**	**3.6%**	**6.9%**	**5.2%**

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

TESCO PLC
GROUP INCOME STATEMENT
26 weeks ended 25 August 2012

	Notes	2012 £m	2011 £m	Increase %
Continuing operations				
Revenue	2	**32,311**	**31,812**	**1.6**
Cost of sales		(30,035)	(29,340)	
Gross profit		**2,276**	**2,472**	**(7.9)**
Administrative expenses		(791)	(780)	
Profits/losses arising on property-related items		324	245	
Operating profit	2	**1,809**	**1,937**	**(6.6)**
Share of post-tax profits of joint ventures and associates		25	41	
Finance income		92	93	
Finance costs		(264)	(190)	
Profit before tax		**1,662**	**1,881**	**(11.6)**
Taxation	3	(366)	(433)	
Profit for the period from continuing operations		**1,296**	**1,448**	**(10.5)**
Discontinued operations				
Loss for the period from discontinued operations	4	(13)	(65)	
Profit for the period		**1,283**	**1,383**	
Attributable to:				
Owners of the parent		1,283	1,377	
Non-controlling interests		-	6	
		1,283	**1,383**	**(7.2)**
Earnings per share from continuing and discontinued operations				
Basic	6	15.98p	17.15p	(6.8)
Diluted	6	15.98p	17.09p	(6.5)
Earnings per share from continuing operations				
Basic	6	16.14p	17.96p	(10.1)
Diluted	6	16.14p	17.90p	(9.8)
Proposed interim dividend per share	5	4.63p	4.63p	-

Non-GAAP measure: underlying profit before tax	1	**£m**	**£m**	
Profit before tax from continuing operations		1,662	1,881	(11.6)
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements		21	(32)	
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	8	8	29	
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods		15	19	
IFRS 3 'Business Combinations' - intangible asset amortisation charges and costs arising from acquisitions		9	12	
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards		6	13	
Restructuring and other one-off costs		38	-	
Underlying profit before tax from continuing operations		**1,759**	**1,922**	**(8.5)**
Underlying diluted earnings per share	6	17.08p	18.30p	(6.7)

The notes on pages 23 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
26 weeks ended 25 August 2012

	Note	2012 £m	2011 £m
Change in fair value of available-for-sale financial assets and investments		-	4
Currency translation differences		(367)	134
Actuarial losses on defined benefit pension schemes	8	(578)	(190)
Gains/(losses) on cash flow hedges:			
- Net fair value gain		7	89
- Reclassified and reported in the Group Income Statement		(36)	(21)
Tax relating to components of other comprehensive income		117	(7)
Total other comprehensive (loss)/income for the period		**(857)**	**9**
Profit for the period		1,283	1,383
Total comprehensive income for the period		**426**	**1,392**
Attributable to:			
Owners of the parent		427	1,394
Non-controlling interests		(1)	(2)
		426	**1,392**

	2012	2011
Total comprehensive income attributable to equity shareholders arises from:		
Continuing operations	439	1,457
Discontinued operations	(13)	(65)
	426	**1,392**

The notes on pages 23 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP BALANCE SHEET
As at 25 August 2012

	Notes	25 August 2012 £m	25 February 2012 £m	27 August 2011 £m
Non-current assets				
Goodwill and other intangible assets	7	4,794	4,618	4,536
Property, plant and equipment	7	25,635	25,710	25,495
Investment property	7	1,936	1,991	2,023
Investments in joint ventures and associates		466	423	330
Other investments		1,094	1,526	1,277
Loans and advances to customers		2,022	1,901	1,982
Derivative financial instruments		1,644	1,726	1,494
Deferred tax assets		27	23	44
		37,618	**37,918**	**37,181**
Current assets				
Inventories		3,592	3,598	3,630
Trade and other receivables		2,907	2,657	2,743
Loans and advances to customers		2,499	2,502	2,577
Derivative financial instruments		46	41	119
Current tax assets		8	7	7
Short-term investments		1,234	1,243	597
Cash and cash equivalents		3,267	2,305	1,950
		13,553	**12,353**	**11,623**
Assets of the disposal group and non-current assets classified as held for sale	4	322	510	489
		13,875	**12,863**	**12,112**
Current liabilities				
Trade and other payables		(11,086)	(11,234)	(11,177)
Financial liabilities				
- Borrowings		(2,542)	(1,838)	(1,321)
- Derivative financial instruments and other liabilities		(134)	(128)	(181)
- Customer deposits and deposits by banks		(5,438)	(5,465)	(5,243)
Current tax liabilities		(514)	(416)	(602)
Provisions		(105)	(99)	(117)
		(19,819)	**(19,180)**	**(18,641)**
Liabilities of the disposal group classified as held for sale	4	(98)	(69)	(113)
Net current liabilities		**(6,042)**	**(6,386)**	**(6,642)**
Non-current liabilities				
Financial liabilities				
- Borrowings		(10,051)	(9,911)	(10,149)
- Derivative financial instruments and other liabilities		(647)	(688)	(576)
Post-employment benefit obligations	8	(2,272)	(1,872)	(1,576)
Deferred tax liabilities		(1,058)	(1,160)	(1,103)
Provisions		(92)	(100)	(102)
		(14,120)	**(13,731)**	**(13,506)**
Net assets		**17,456**	**17,801**	**17,033**

TESCO PLC
GROUP BALANCE SHEET (continued)
As at 25 August 2012

	25 August 2012 £m	25 February 2012 £m	27 August 2011 £m
Equity			
Share capital	402	402	401
Share premium	4,980	4,964	4,917
Other reserves	40	40	40
Retained earnings	12,011	12,369	11,663
Equity attributable to owners of the parent	**17,433**	**17,775**	**17,021**
Non–controlling interests	23	26	12
Total equity	**17,456**	**17,801**	**17,033**

The notes on pages 23 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP STATEMENT OF CHANGES IN EQUITY
26 weeks ended 25 August 2012

	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 25 February 2012	**402**	**4,964**	**40**	**12,369**	**17,775**	**26**	**17,801**
Total comprehensive income	**-**	**-**	**-**	**427**	**427**	**(1)**	**426**
Transactions with owners							
Share-based payments	-	-	-	28	28	(1)	27
Issue of shares	-	16	-	-	16	-	16
Purchase of non-controlling interests	-	-	-	-	-	(1)	(1)
Dividends authorised in the period	-	-	-	(813)	(813)	-	(813)
Total transactions with owners	**-**	**16**	**-**	**(785)**	**(769)**	**(2)**	**(771)**
At 25 August 2012	**402**	**4,980**	**40**	**12,011**	**17,433**	**23**	**17,456**

	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							
Purchase of treasury shares	(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
Future purchase of non-controlling interests	-	-	-	(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**

The notes on pages 23 to 33 form part of this interim consolidated financial information.

TESCO PLC
GROUP CASH FLOW STATEMENT
26 weeks ended 25 August 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	9	1,660	2,430
Interest paid		(166)	(135)
Corporation tax paid		(250)	(277)
Net cash generated from operating activities		**1,244**	**2,018**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(20)	(139)
Proceeds from sale of joint ventures and associates		68	-
Proceeds from sale of property, plant and equipment, investment property and non-current assets classified as held for sale		787	569
Purchase of property, plant and equipment and investment property		(1,411)	(1,786)
Purchase of intangible assets		(213)	(173)
Net decrease in loans to joint ventures		73	112
Investments in joint ventures and associates		(115)	(5)
Investments in short-term and other investments		(1,265)	(934)
Proceeds from sale of short-term and other investments		1,705	1,050
Dividends received from joint ventures and associates		16	27
Interest received		36	23
Net cash used in investing activities		**(339)**	**(1,256)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		16	23
Increase in borrowings		995	948
Repayment of borrowings		(89)	(1,081)
Repayments of obligations under finance leases		(14)	(23)
Purchase of non-controlling interests		(1)	-
Dividends paid to equity owners	5	(813)	(811)
Dividends paid to non-controlling interests		-	(3)
Own shares purchased		-	(290)
Net cash generated / (used) in financing activities		**94**	**(1,237)**
Net increase / (decrease) in cash and cash equivalents		**999**	**(475)**
Cash and cash equivalents at beginning of the period		2,311	2,428
Effect of foreign exchange rate changes		(38)	7
Cash and cash equivalents including cash held in disposal group at the end of the period		**3,272**	**1,960**
Cash held in disposal group		(5)	(10)
Cash and cash equivalents at the end of the period		**3,267**	**1,950**

The notes on pages 23 to 33 form part of this interim consolidated financial information.

Reconciliation of net cash flow to movement in net debt
26 weeks ended 25 August 2012

	Note	2012 £m	2011 £m
Net increase/(decrease) in cash and cash equivalents		999	(475)
Elimination of net (increase)/decrease in Tesco Bank cash and cash equivalents		(566)	192
Investment in Tesco Bank		(45)	(50)
Debt acquired on acquisitions		(1)	(98)
Net cash (inflow)/outflow from debt and lease financing		(524)	310
Decrease in Retail short-term investments		(9)	(425)
Decrease in Retail joint venture loan receivables		(80)	(112)
Other non-cash movements		(147)	(196)
Elimination of other Tesco Bank non-cash movements		(6)	42
Increase in net debt for the period		(379)	(812)
Opening net debt		(6,838)	(6,790)
Closing net debt	10	**(7,217)**	**(7,602)**

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 23 to 33 form part of this interim consolidated financial information.

The interim consolidated financial information for the 26 weeks ended 25 August 2012 was approved by the Directors on 2 October 2012.

NOTE 1 Basis of preparation

This interim consolidated financial information for the period ended 25 August 2012 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 2012. There are no new or amended Accounting Standards that have a material impact on this interim consolidated financial information. The interim consolidated financial information should be read in conjunction with the Annual Report and Financial Statements 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRIC) 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 25 February 2012 were approved by the Board of Directors on 4 May 2012 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.

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 judgments and estimates and prepared the interim consolidated financial information on the going concern basis.

Discontinued operations

In the prior financial year, the Board approved a plan to dispose of its operations in Japan. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of these operations 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. See note 4 for further details.

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

The Directors believe that underlying profit before tax 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 re-measurements. 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 the underlying performance of the Group.

NOTE 1 Basis of preparation (continued)

- IAS 19 'Employee Benefits' – non-cash Group 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 the Group'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 the Group has 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 providing 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 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 fair valued. The intangible assets are required to be amortised on a straight-line basis over their useful lives and as such is 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 and other one-off costs. These relate to certain costs associated with the Group's restructuring activities and certain one-off costs including costs relating to fair valuing the assets of a disposal group. These have been excluded from underlying profit as they do not reflect the underlying performance of the Group.

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.

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

- Retailing and associated activities in:
  - the UK;
  - Asia – China, India, Malaysia, South Korea, Thailand;
  - Europe – Czech Republic, Hungary, Poland, Republic of Ireland, Slovakia, Turkey and Franchising; and
  - the United States of America (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.

Segment trading profit is an adjusted measure of operating profit and measures the performance of each segment before profits/losses arising on property-related items, the impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and costs arising from acquisitions, and goodwill impairment and restructuring and other one-off costs. The IAS 19 pension charge is replaced with the 'normal' cash contributions for pensions. An adjustment is also made for the fair value of customer loyalty awards.

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

The segment results, which do not include any amounts for discontinued operations, and the reconciliation of the segment measures to the respective statutory items included in the Group Income Statement are as follows:

26 weeks ended 25 August 2012	**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)	23,940	5,937	5,923	354	514	36,668	(658)	36,010
Revenue (excluding IFRIC 13)	21,645	5,537	5,106	350	514	33,152	(567)	32,585
Effect of IFRIC 13	(238)	(15)	(20)	(3)	-	(276)	2	(274)
Revenue	21,407	5,522	5,086	347	514	32,876	(565)	32,311
Trading profit/(loss)	1,115	287	187	(72)	94	1,611	(24)	1,587
Trading margin***	5.2%	5.2%	3.7%	(20.6%)	18.3%	4.9%		4.9%

26 weeks ended 25 August 2012	**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)	23,940	5,906	5,285	365	514	36,010
Revenue (excluding IFRIC 13)	21,645	5,505	4,560	361	514	32,585
Effect of IFRIC 13	(238)	(15)	(18)	(3)	-	(274)
Revenue	21,407	5,490	4,542	358	514	32,311
Trading profit/(loss)	1,115	281	171	(74)	94	1,587
Trading margin***	5.2%	5.1%	3.8%	(20.5%)	18.3%	4.9%

* Constant exchange rates are the average actual periodic exchange rates for the previous financial period.
** Actual exchange rates are the average actual periodic exchange rates for that financial year.
*** Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

NOTE 2 Segmental reporting (continued)

26 weeks ended 27 August 2011 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)	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%

The Group's activities are, to some extent, subject to seasonal fluctuations. The Group 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 25 August 2012 £m	26 weeks ended 27 August 2011 £m
Trading profit	**1,587**	**1,773**
Adjustments:		
Profits/losses arising on property-related items	324	245
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	(30)	(33)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	(19)	(23)
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	(9)	(12)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	(6)	(13)
Restructuring and other one-off costs	(38)	-
Operating profit	**1,809**	**1,937**
Share of post-tax profit of joint ventures and associates	25	41
Finance income	92	93
Finance costs	(264)	(190)
Profit before tax	1,662	1,881
Taxation	(366)	(433)
Profit for the period from continuing operations	**1,296**	**1,448**

* Actual exchange rates are the average actual periodic exchange rates for that financial period.
** Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

NOTE 3 Taxation

	26 weeks ended 25 August 2012 £m	26 weeks ended 27 August 2011 £m
UK	280	351
Overseas	86	82
	366	**433**

A number of changes to the UK Corporation tax system were announced in both the March 2011 and March 2012 UK Budget Statements. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012 and was substantively enacted at the balance sheet date.

NOTE 3 Taxation (continued)

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 24 February 2013. 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 23%. The impact of this rate change on the Group Income Statement for the period is a reduction in the half year tax charge of £53m.

Further reductions to the main rate are proposed to reduce the rate to 22% by 1 April 2014. This further change has not been substantively enacted at the balance sheet date and, therefore, is not included in this interim consolidated financial information.

NOTE 4 Discontinued operations and assets classified as held for sale

	25 August 2012 £m	25 February 2012 £m	27 August 2011 £m
Assets of the disposal group	64	65	125
Non-current assets classified as held for sale	258	445	364
Total assets of the disposal group and non-current assets classified as held for sale	322	510	489
Total liabilities of the disposal group	(98)	(69)	(113)
Total net assets classified as held for sale	**224**	**441**	**376**

Discontinued operations

In June 2012, the Group entered into an agreement to dispose of its operation in Japan to Aeon, Japan's largest retail group. In accordance with the requirement of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operation' this operation has been classified as disposal group.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement	26 weeks ended 25 August 2012 £m	26 weeks ended 27 August 2011 £m
Revenue	206	222
Cost of sales	(210)	(258)
Administrative expenses	(9)	(15)
Net finance costs	-	(1)
Loss before tax on discontinued operations	(13)	(52)
Taxation	-	(13)
Loss for the period from discontinued operations	**(13)**	**(65)**

Loss per share impact from discontinued operations

Basic	0.16p	0.81p
Diluted	0.16p	0.81p

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

	26 weeks ended 25 August 2012 £m	26 weeks ended 27 August 2011 £m
Non-GAAP measure: underlying loss before tax		
Loss before tax on discontinued operations	(13)	(52)
Adjustments for:		
Restructuring and other one-off costs		
- Restructuring costs	4	5
- Store impairment cost relating to fair value of assets of the disposal group	-	29
Underlying loss before tax on discontinued operations	**(9)**	**(18)**

Balance Sheet	25 August 2012 £m
Assets of the disposal group	
Inventories	16
Trade and other receivables	43
Cash and cash equivalents	5
Total assets of the disposal group	**64**
Liabilities of the disposal group	
Trade and other payables	(70)
Borrowings	(28)
Total liabilities of the disposal group	**(98)**
Total net liabilities of the disposal group	**(34)**

Cash Flow Statement	26 weeks ended 25 August 2012 £m	26 weeks ended 27 August 2011 £m
Net cash flows from operating activities	(9)	(24)
Net cash flows from investing activities	(1)	(2)
Net cash flows from financing activities	11	28
Net cash flows from discontinued operations	**1**	**2**

NOTE 5 Dividends

	26 weeks ended 25 August 2012		26 weeks ended 27 August 2011	
	Pence / Share	£m	Pence / share	£m
Amounts recognised as distributions to owners in the period:				
Final dividend for the prior financial year	10.13	813	10.09	811
Proposed interim dividend for the current financial year	4.63	372	4.63	371

The proposed interim dividend was approved by the Board on 2 October 2012 but has not been included as a liability as at 25 August 2012, 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 25 August 2012			26 weeks ended 27 August 2011	
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit (£m)						
- continuing operations	1,296	-	1,296	1,442	-	1,442
- discontinued operations	(13)	-	(13)	(65)	-	(65)
Total	**1,283**	**-**	**1,283**	**1,377**	**-**	**1,377**
Weighted average number of shares (millions)	8,028	3	8,031	8,029	27	8,056
Earnings per share (pence)						
- continuing operations	16.14	-	16.14	17.96	(0.06)	17.90
- discontinued operations	(0.16)	-	(0.16)	(0.81)	-	(0.81)
Total	**15.98**	-	**15.98**	**17.15**	**(0.06)**	**17.09**

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 25 August 2012		26 weeks ended 27 August 2011	
	£m	**pence/ share**	**£m**	**pence/ share**
Profit from continuing operations (Diluted)	1,296	16.14	1,442	17.90
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' - fair value remeasurements	21	0.26	(32)	(0.40)
IAS 19 'Employee Benefits' - non-cash Group Income Statement charge for pensions	8	0.10	29	0.36
IAS17 'Leases' – impact of annual uplifts in rent and rent-free periods	15	0.19	19	0.24
IFRS 3 'Business Combinations' - intangible asset amortisation charges and costs arising from acquisitions	9	0.11	12	0.15
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	6	0.07	13	0.16
Restructuring and other one-off costs	38	0.47	-	-
Tax effect of adjustments at the effective rate of tax*	(21)	(0.26)	(9)	(0.11)
Underlying earnings from continuing operations	**1,372**	17.08	**1,474**	18.30

* The effective tax rate of 22% (2011: 23%) excludes certain permanent differences on which tax relief is not available.

NOTE 7 Capital expenditure and other commitments

In the 26 weeks ended 25 August 2012 there were additions to property, plant and equipment, investment property and other intangible assets of £1,624m (27 August 2011: £2,097m). There were disposals of property, plant and equipment, investment property and other intangible assets of £371m (27 August 2011: £330m). Commitments for capital expenditure contracted for, but not provided, at 25 August 2012 were £1,698m (25 February 2012: £1,599m).

Tesco Bank

At 25 August 2012 Tesco Bank has commitments of formal standby facilities, credit lines, mortgage offers made but not drawn down and other commitments to lend, totalling £7.7bn (25 February 2012: £7.4bn). 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 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, Thailand and South Korea.

Principal assumptions

The valuations used for IAS 19 have been based on the most recent actuarial valuations and updated by Towers Watson Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 25 August 2012. The major assumptions, on a weighted average basis, used by the actuaries were as detailed below.

	25 August 2012 %	25 February 2012 %	27 August 2011 %
Discount rate	4.7	5.2	5.9
Price inflation*	2.7	3.1	3.3
Rate of increase in salaries	2.8	3.2	3.4
Rate of increase in pensions in payment	2.5	2.9	3.1
Rate of increase in deferred pensions**	1.7	2.1	2.6
Rate of increase in career average benefits	2.7	3.1	3.3

Movement in the deficit during the period

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

	26 weeks ended 25 August 2012 £m	52 weeks ended 25 February 2012 £m	26 weeks ended 27 August 2011 £m
Deficit in schemes at the beginning of the year	**(1,872)**	**(1,356)**	**(1,356)**
Current service cost	(251)	(495)	(242)
Past service income	-	3	-
Other finance income	22	18	4
Contributions by employer	221	457	209
Additional contribution by employer***	180	-	-
Foreign currency translation differences	6	(1)	(1)
Actuarial loss	(578)	(498)	(190)
Deficit in schemes at the end of the period	**(2,272)**	**(1,872)**	**(1,576)**

*Based on the Retail Prices Index. Benefits accrued from 1 June 2012 are based on the Consumer Prices Index.

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

***As part of the 2011 triennial valuation, the Company agreed with the Trustees to increase security and, on top of the normal contributions, made an additional contribution of £180m to the UK Pension Scheme on 30 March 2012.

NOTE 9 Reconciliation of profit before tax to net cash generated from operations

	26 weeks ended 25 August 2012 £m	26 weeks ended 27 August 2011 £m
Profit before tax	1,662	1,881
Net finance costs	172	97
Share of post-tax profits of joint ventures and associates	(25)	(41)
Operating profit	1,809	1,937
Operating loss of discontinued operations	(13)	(51)
Depreciation and amortisation	781	735
Profits/losses arising on property-related items from continuing operations	(324)	(245)
(Loss)/profit arising on sale of non property-related items	(7)	4
Net (reversal)/charge of impairment of property, plant and equipment and intangible assets	(2)	27
Additional contribution to pension scheme	(180)	-
Adjustment for non-cash element of pension charges	30	33
Share-based payments	27	100
Tesco Bank non-cash items included in profit before tax	56	112
Increase in inventories	(60)	(460)
Increase in trade and other receivables	(313)	(289)
Increase in trade and other payables and provisions	36	547
Tesco Bank (increase)/decrease in loans and advances to customers	(146)	43
Tesco Bank increase in trade and other receivables	(5)	(248)
Tesco Bank (decrease)/increase in customer and bank deposits and trade and other payables	(29)	185
Increase in working capital	(517)	(222)
Cash generated from operations	**1,660**	**2,430**

NOTE 10 Analysis of changes in net debt

	At 25 February 2012* £m	Tesco Bank At 25 February 2012 £m	Cash flow £m	Business combinations £m	Other non-cash movements £m	Movement in net debt of disposal group £m	Elimination of Tesco Bank £m	At 25 August 2012* £m
Cash and cash equivalents	1,725	580	998	1	(38)	1	(1,146)	2,121
Short-term investments	1,243	-	(9)	-	-	-	-	1,234
Joint venture loan and other receivables	359	34	(56)	-	20	-	(42)	315
Bank and other borrowings	(11,007)	(576)	(855)	(1)	(31)	27	786	(11,657)
Finance lease payables	(166)	-	14	-	3	-	-	(149)
Net derivative financial instruments	1,003	(52)	59	-	(101)	-	33	942
Net debt of the disposal group	5	-	-	-	-	(28)	-	(23)
	(6,838)	**(14)**	**151**	**-**	**(147)**	**-**	**(369)**	**(7,217)**

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

NOTE 11 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.

i) Transactions between the Group and its joint ventures and associates

During the period the Group purchased £2.0bn (27 August 2011: £1.8bn) of fuel (including related duty) from Greenergy International Limited.

In March 2012 the Group subscribed for 25% of the available units of Tesco Lotus Retail Growth Freehold and Leasehold Property Fund. Additionally, the Group sold and leased back properties to the fund for proceeds of £379m.

In August 2012 the Group sold its 50% interest in Tesco Jade Limited Partnership, its 34.4% interest in Greenergy International Limited and certain other properties to the Tesco Pension Trustees for proceeds totalling £169m. The profit realised from these transactions is included within profits / losses arising on property related items.

ii) Transactions with key management personnel

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

Other than as described above, no additional related parties transactions have taken place that have materially affected the financial position or the performance of the Group during the 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 this interim period.

NOTE 12 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 initial borrowings from HM Treasury are on an interest only basis and, as from 1 April 2012, this has increased from 12 month LIBOR plus 30 basis points to 12 month LIBOR plus 100 basis points. The FSCS meets its obligations by raising management expense levies which will be capped based on limits advised by the FSA. 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. As at 25 August 2012 the Group has accrued £3m (25 February 2012: £5m) in respect of its current obligation to meet expenses levies, based on indicative costs published by the FSCS.

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, which could be significant, has been made in these financial statements so this element is treated as a contingent liability.

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 25 August 2012, 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 25 August 2012 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
2 October 2012
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	
	2012
Interim dividend: ex-dividend date	10 October
Interim dividend: record date	12 October
Interim dividend: payment date	21 December
	2013
Financial year-end	23 February
Results announced	17 April