TESCO

Annual Report and Financial Statements 2011

Creating value for customers across all our businesses

US

Revenue*

£495m

Number of stores

164

Employees

4,134

Selling space (sq ft, % of Group)

1.7m sq ft

1.6%

UK

Revenue*

£40,766m

Number of stores

2,715

Employees

293,676

Selling space (sq ft, % of Group)

36.7m sq ft

35.4%

Tesco Bank

Revenue*

£919m

Employees

1,274

Employee figures represent the average number of employees during the year

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

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

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

GDP growth: Economist Intelligence Unit

Europe

Revenue*†

£9,192m

Number of stores

1,082

Employees±

89,559

Selling space (sq ft, % of Group)

30.2m sq ft

29.2%

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

India

In India, we have an exclusive franchise agreement with Trent, the retail arm of the Tata Group. We are supporting the development of their Star Bazaar format.

Asia

Revenue*†

£10,278m

Number of stores

1,419

Employees±

104,071

Selling space (sq ft, % of Group)

35.0m sq ft

33.8%

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

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* These sections form the Report of the Directors

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

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

No one tries harder for customers; and

Treat people how we like to be treated.

+8.1%
Group sales (including VAT)

+12.3%
Underlying profit before tax

+11.3%
Group profit before tax

+10.8%*
Underlying diluted earnings per share

+10.8%
Dividend per share

To read the Annual Report online:
http://ar2011.tescoplc.com/

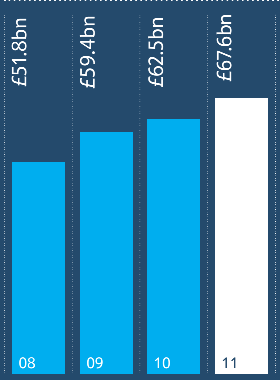
* Underlying diluted earnings per share growth calculated on constant tax rate basis; 12.8% at actual tax rates.

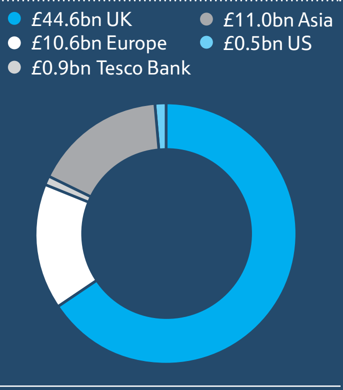
Financial highlights

Tesco in numbers

SALES

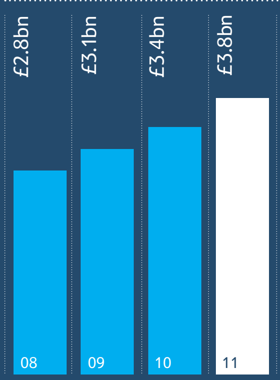
£67.6bn +8.1%





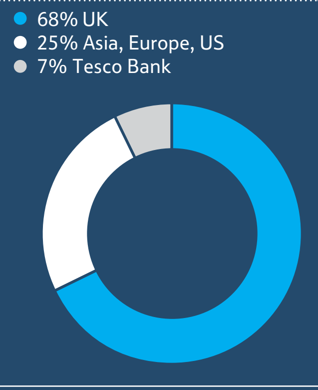
UNDERLYING PROFIT BEFORE TAX

£3.8bn



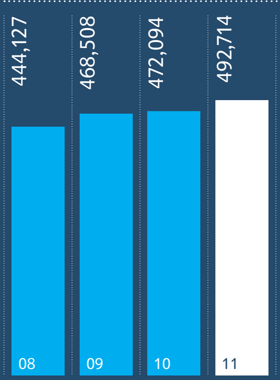
TRADING PROFIT

£3.7bn



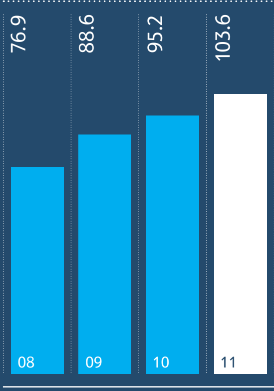
PEOPLE

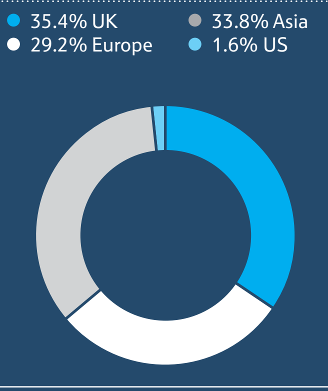
492,714



SPACE

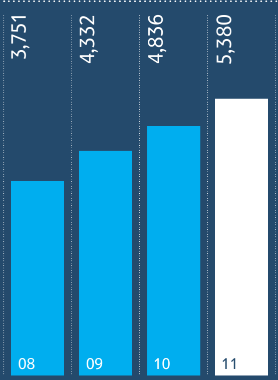
103.6m sq ft





STORES

5,380



Chairman's statement

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

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

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

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

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

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

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

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

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

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

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

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

Dividend

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

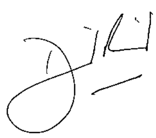
Community

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

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

Our people

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



David Reid
Chairman

Building on our success

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

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

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

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

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

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

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

Vision and strategy

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

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

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

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

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

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

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

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

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

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

Management structures

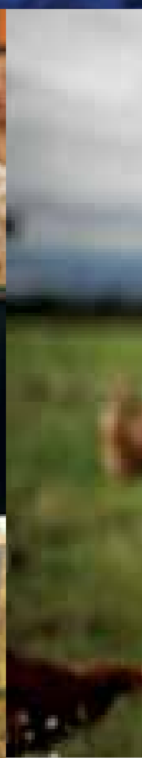
We've made some changes to our management structures in order to equip the business to deliver our strategy and vision. This means CEOs for each of our main areas of focus – the UK, Asia, Services including Tesco Bank, Europe and the US – being supported by the integrating functions such as IT and Finance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

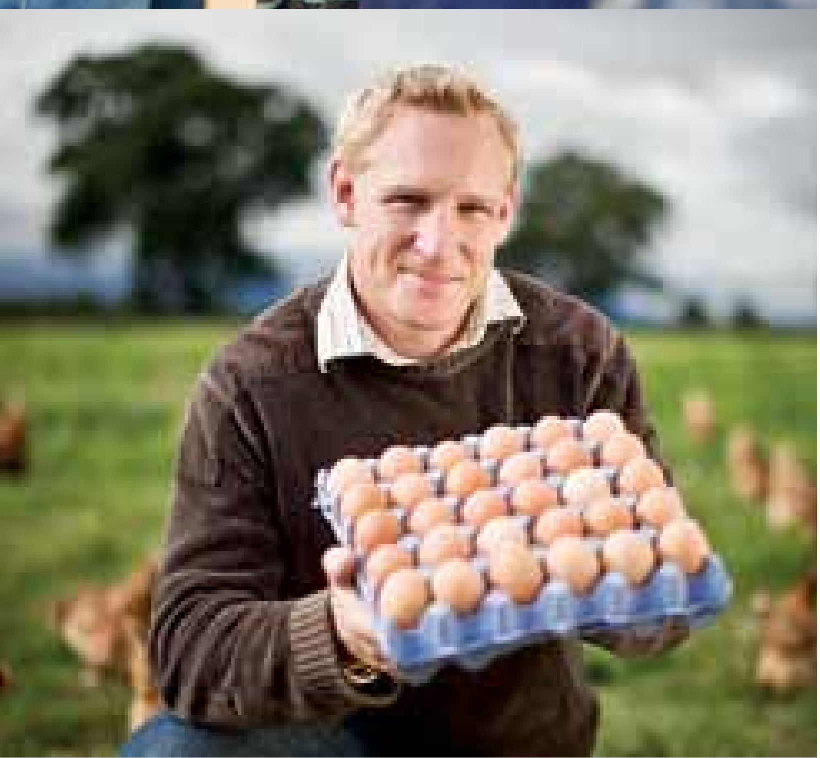
The biggest part of this change was in the UK, which now has its own CEO and management board for the first time. This will bring more focus and energy to our largest business. Of course, structures don't manage companies, people do and I'm confident that at all levels we have the very best team working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

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

Philip Clarke
Group Chief Executive

To be the most highly valued





OUR VISION

TO BE THE MOST HIGHLY VALUED BY:

The customers we serve

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

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

The communities in which we operate

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

Our loyal and committed staff

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

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

69%

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

Our shareholders

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

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

Winning locally, applying our skills globally

OUR VISION

Tesco Clubcard

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

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

F&F

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

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

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

World-class training for national talent

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

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

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

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

A modern and innovative company

OUR VISION

Online retailing

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

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

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

A leader in green retailing

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

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

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

500+

Products carbon labelled since 2008

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

A growth company

OUR VISION

UK: an outstanding business

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

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

124%

UK sales growth over the last decade

International growth

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

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

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

New services

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

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

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

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

Business review

The business review analyses the performance of the Tesco Group in the financial year ended 26 February 2011. It also explains other aspects of the Group's markets, results and operations, including strategy and risk management.

The Directors present their Annual Report to shareholders on the affairs of the Group and Company, together with the audited financial statements of the Company for the 52 weeks ended 26 February 2011.

Our strategy

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

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

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

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

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

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

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

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

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

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

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

Our seven-part strategy

To grow the UK core

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

£44.6bn
UK sales

5.5%
Sales up

£2.5bn
Trading profit

3.8%
Trading profit up

6.1%
Trading margin

Introduction and market context

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

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

Clubcard

Clubcard is our unique customer loyalty programme – our way of saying 'thank you' to our customers. It is now more popular than ever before, with active membership of over 15 million customers, compared to 13 million at the start of 2008/9. Customers who say they would prefer a Tesco to open in their area rather than a competitor store cite Clubcard as the main reason.

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

Customers have responded well to our new and up-weighted Clubcard initiatives. Three million customers participated in the Big Clubcard Voucher Exchange promotions held in August and November, which provided new ways to get more value from vouchers through category-specific deals. We have seen 60% growth in Rewards through our Partner Reward Scheme as customers recognise that Clubcard is about more than just earning money-off vouchers and that they can use points as currency in other areas of their lives.

CLUBCARD

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

No.1
reason for customers switching to Tesco

Growing the UK core

2,000

Over 2,000 new and improved products

10m

Self-service transactions per week

Stores

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

We have seen particularly strong growth in our convenience format, Tesco Express, with over 150 new stores and have achieved significant share gain in the convenience sector. This growth follows our work to tailor the range and promotions in Express to better suit the needs of our customers locally. Overall last year, we had 80 million more customer visits to our Express stores than in 2009/10.

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

Range

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

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

Many of our customers want to buy locally sourced products to support their local communities. We are always looking to expand our network of good local suppliers and to support them in building capacity to grow their businesses and supply us at a national level.

We have five dedicated regional buying offices throughout the UK and in 2010/11 we increased sales of local products to £1 billion, up from £850 million in 2009/10. Tesco is the first UK retailer to launch a website dedicated to local foods, at www.tesco.com/local.

We've also worked more closely with farmers and growers to increase the amount of British produce in-store. This year, for example, we sold over 40% more British apples and pears.

Price

We remain focused on delivering the best value to all customers. The launch of Essential Savings in May was an investment in lower prices on the everyday products which our customers buy. We have introduced more multi-buys into the promotion programme to help customers save money. We also launched our Price Check initiative this year. Price Check enables customers to check the price of individual products and the total price of their shopping online. When we compare our customers' baskets with Asda's prices, nearly 80 per cent are the same price or cheaper in Tesco than they would be in Asda. Together these initiatives have helped us to maintain our leading position in a highly competitive market and to encourage customers to switch to Tesco throughout the year.

REAL FOOD

This year, we launched the Tesco Real food magazine. The monthly publication, which is available for free in our stores, provides customers with recipes, cooking tips, information on healthy eating and updates on new Tesco products. The magazine has become Britain's largest food title with a circulation of 1.2 million.

Real food can be found online at www.tescorealfood.com. With over 1,000 recipes and a food blog, the site gets 2.2 million page views per month.

We've also launched an innovative service for customers to receive great recipes via SMS. Customers are able to send a text message including two or three key ingredients and in return receive an automatic reply with a delicious recipe suggestion.

1,000+

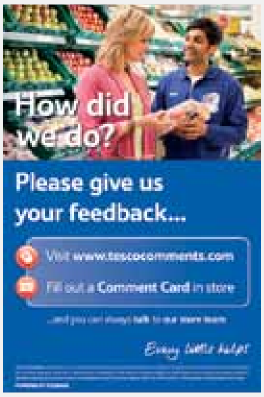
Recipes on www.tescorealfood.com

STAFF TRAINING

We have trained 80,000 staff this year in Every Little Helps skills for checkouts.

EVERY COMMENT HELPS

Our 'Every Comment Helps' initiative encourages customers to give instant feedback on their shopping trip – including both the customer service they receive and the range of products we offer. Customers are able to share their feedback via text or email.



Over 20,000 of the comments that we have received have been compliments about the service which our customers have received. This is testament to the hard work and commitment of our teams in-store.

All of the comments have helped us to understand what's important to our customers and identify where we can do better. We are putting plans into action based on the feedback we receive so that we can do even more to improve our customers' shopping experience.

Service

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

This year, we have continued to use technology to help deliver great service. Our self-service checkouts provide customers with a quick and easy option and currently account for over ten million transactions per week. Our trials of Scan as you Shop, which uses hand-held technology, have gone well too.

Availability

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

We have had great success with our automated weather forecasting technology which accurately adjusts store orders and deliveries based on customers' shopping habits in different weather conditions in 14 individual regions nationwide. We have also delivered a comprehensive plan to improve availability in our Express convenience stores, resulting in a 25% reduction in the number of out-of-stock items in the evenings.

Tesco UK: a growth business

Tesco in the UK is an outstanding business. We are clear market leader in food retail with the broadest customer appeal, widest range of formats, market-leading systems and processes and the world's leading customer loyalty programme – Clubcard.

We are the largest private employer in the UK, offering market-leading pay and rewards to our staff, and we're a leader in tackling climate change. We also generate outstanding financial performance with the highest sales densities, profit margin and return on capital of any company in the sector.

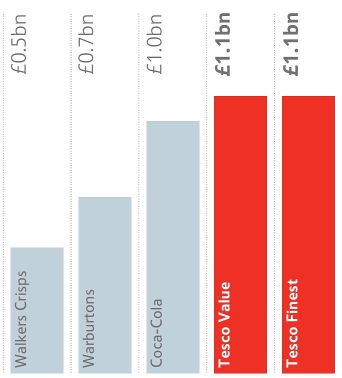
Delivering for customers

Our success begins with delivering a great shopping trip in every store. Behind our Every Little Helps philosophy lie world-class systems and processes for property, buying, distribution, ordering, store operations and marketing.

We also have the widest range of any food retailer including the leading own label range. Finest and Value are the two largest food brands in the UK – bigger than Coca-Cola – each with more than £1 billion of sales per year.

LEADING UK FOOD BRANDS

UK sales 2010



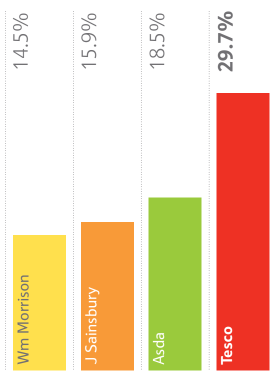
Source: Nielsen and Tesco.

Through Clubcard we are able to reward our customers' loyalty and at the same time use the insight from the data gathered to better understand our customers' needs so that we can keep improving the shopping trip.

By delivering for customers every day we have built the most loyal customer base of any of the major food retailers:

CUSTOMER LOYALTY vs COMPETITORS

Proportion of a retailer's customers who do more than 50% of their shopping with a single retailer.



Source: Competitor data; Tesco analysis.

People

Our people work incredibly hard every day to serve our customers and give them the best shopping trip. 90% of our store staff tell us that they are committed to doing their best when working at Tesco and 71% say they enjoy working for Tesco.

80% of our store staff tell us they are satisfied with the benefits they receive, which is reflective of our market-leading level of pay.

Climate change

As a retail business, we know that we can make a real difference in tackling climate change – cutting our own emissions, working with suppliers and helping customers to cut their carbon footprint.

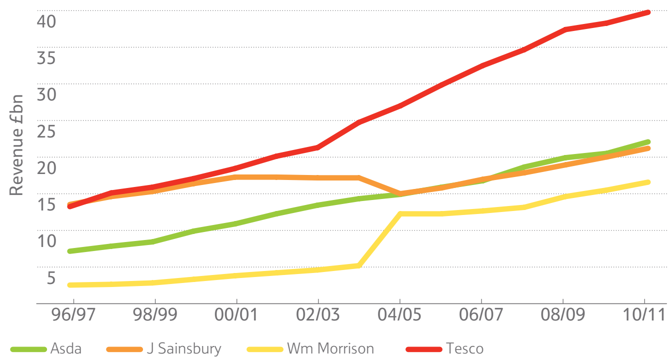
In our UK business, we have led the work on climate change and for the second year running, we have reduced our absolute emissions – this year by 5% despite space growing by 7% as well as significantly reducing emissions from our baseline portfolio of buildings.

Outstanding financial performance

We operate a balanced scorecard approach to managing the business, based on the 'Steering Wheel' segments: Customer; Community; Operations; People; and Finance. In order to achieve sustainable profitable growth over the long term we must deliver on all these priorities.

This approach means that we have delivered consistently strong financial performance each year, which has led to remarkable performance when looking over a number of years – showing the cumulative effect of consistent growth. The chart below shows the consistency and speed with which we have grown relative to our major UK peers.

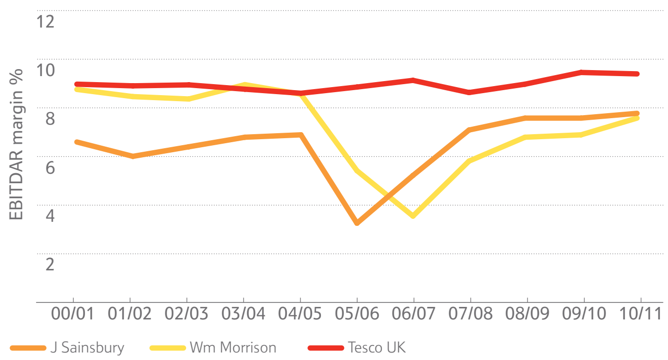
GROWTH vs COMPETITORS



Source: Tesco and Deutsche Bank Research (including estimates for 10/11).

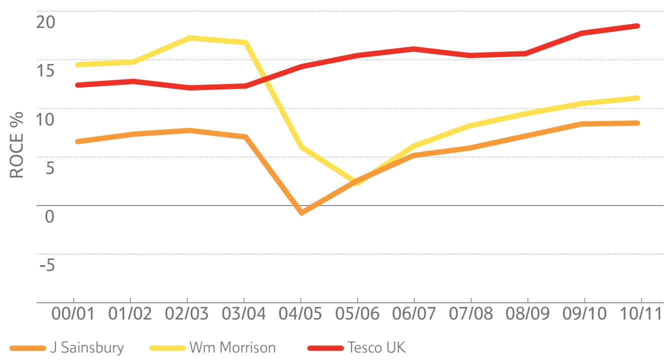
We have also consistently delivered superior financial performance to our peers in terms of profit margin and return on capital, which in turn has helped us invest in our customer offer and in further expansion – new stores, new businesses (e.g. banking and telecoms), new channels (e.g tesco.com) and new countries.

EBITDAR* vs COMPETITORS



Source: Tesco and Deutsche Bank Research (including estimates for 10/11).
* EBITDAR defined as statutory profit before interest, tax, depreciation, amortisation and rent. Tesco EBITDAR excludes property profits.

UK ROCE vs COMPETITORS



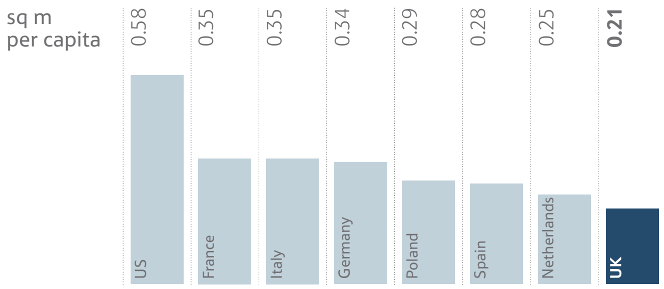
Source: Tesco and Deutsche Bank Research (including estimates for 10/11).
Tesco ROCE excludes the positive impact of the sale and leaseback programme.
NB: some versions of the printed Annual Report show an incorrect version of this chart.

Future growth

The UK offers significant opportunities for growth for Tesco – in grocery, in non-food categories and in services.

The UK grocery market is mature, but far from saturated. The UK has the lowest grocery space per capita of any country in the EU and only about a third of that of the United States.

GROCERY RETAIL SPACE PER CAPITA



Source: Verdict Research (space per capita), Economist Intelligence Unit (population data).

An important indicator of the scope for future growth of grocery space in the UK is that when new stores open the impact on existing stores is minimal. We track very closely every store opened in the UK – by Tesco and our competitors – and the impact of these new stores on Tesco's sales has remained consistently below 1% of our total sales for many years. The performance of our own mature stores opened in recent years is exceeding business plan forecasts and our profit margin and return on capital in the UK continue to strengthen.

There is significant opportunity and demand for Tesco to grow its store network – for example, only 54% of UK shoppers are able to reach a Tesco Extra within 15 minutes.

Convenience stores form another important segment of the grocery market. Traditionally a fragmented market, Tesco was the first of the major retailers to develop a convenience format on a national scale with Tesco Express. We now have 1,285 Express stores but this still represents only a small market share in the convenience segment and we have many years of future growth.

In addition to food (and other grocery items such as household and toiletries), Tesco has developed a strong offer in categories such as electricals, clothing and entertainment. In these 'new' general merchandise areas we only have around a 4% market share in a large fragmented market. With a large and loyal customer base, the leading store network and a strong online platform, we have a tremendous springboard from which to grow our market positions in these segments.

We have also followed our customers into services such as banking, insurance and telecoms, building on our brand reputation for value, simplicity and great service. We have built successful businesses, such as Tesco Bank and Tesco Mobile, which are already making a significant contribution to sales and profits. There remains enormous potential for future growth in these areas, through expanding our range of products (particularly in banking with mortgages and current accounts) and by increasing our penetration of Tesco's 15 million Clubcard customers.

To be an outstanding international retailer in stores and online

Overall, our businesses across Asia, Europe and the United States have had a strong year, with improvements in sales, profits and returns in most markets.

£11.0bn
Asia sales

£570m
Asia trading profit

£10.6bn
Europe sales

£527m
Europe trading profit

£502m
US sales

Introduction and market context

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

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

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

Asia

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

As economies in Asia recover, we are seeing improving sales trends. Our performance was helped by favourable exchange rate movements but nevertheless profits grew by almost 18% at constant currency rates.

Our businesses in **South Korea** and **Thailand** opened 56 and 119 stores respectively and delivered excellent sales and profit growth during the year as these economies rebounded sharply from recession. →

THAILAND

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

21%

Sales in Thailand up 21%

To be an outstanding international retailer

21.5%

Asia sales growth

ANSHAN

In October, we opened our fourth Lifespace mall – our largest so far – in Anshan, China. Over 600,000 customers flow through our four Lifespace malls each week. We plan to have up to ten malls open by the end of the year.

HOMEPLUS – A WORLD-CLASS BUSINESS

Homeplus in South Korea is our largest business outside the UK, with revenue of £5 billion, making the business larger than many FTSE 100 companies.

We entered South Korea through a partnership with Samsung and opened our first two hypermarkets in 1999. Today we are a sophisticated multi-format – and moving to multi-channel – retailer with 354 stores and we employ over 23,000 people. In just a decade we have grown from two shops to become the second largest retailer in the country and we're closing in on the number one position.

And there is plenty more to come with significant potential for growth. The organised modern retail trade in South Korea still represents a relatively small proportion of the total market – just 54% of total retail sales. We are already the market leader in the rapidly growing grocery home shopping sector and have recently launched our general merchandise website. We're also using our admired brand, strong store network and large customer base to develop our retail services offer.

Together with delivering outstanding financial performance, we are aiming to be the most respected corporate brand in South Korea and we've already been awarded South Korea's Most Admired Company award.

→ In **China**, we are pushing ahead with our expansion plans, opening a further 19 stores in the year, including five Express stores. Our investments in equipping the business for faster growth, combined with our store roll-out being slower than planned, meant that we made a small overall loss in the year.

After a sharp contraction in 2009 the economy in **Malaysia** has also recovered well over the past year. Our business has delivered very good sales and profit growth driven by continued investment for customers in prices, promotions and Clubcard.

In **Japan**, falling supermarket industry sales are providing a challenging background for our operations and the business continued to make modest losses. We were one of the first businesses to respond to the devastating earthquake and tsunami in Japan in March 2011 with a corporate donation of £50,000 through our partnership with the Red Cross.

Our early plans in **India** are continuing to progress well. Our local management team is helping our franchise partner, Trent, to develop its Star Bazaar hypermarket operation.

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

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

Asia results 2010/11

	£m	Actual rates % growth	Constant rates % growth
Asia sales	11,023	21.5	9.7
Asia revenue*	10,278	21.4	9.6
Asia trading profit	570	29.5	17.5
Trading margin (trading profit/revenue)	5.55%	35bp	34bp

* Revenue excludes VAT and the impact of IFRIC 13.

“We have continued to invest through the downturn to ensure that we are in an even stronger position as the economic recovery continues.”

5.6%

Europe sales growth

EXTRAS IN EUROPE

We've remodelled and converted eight Extra stores across Central and Eastern Europe with an average uplift of 16%. See page 29 for more detail.

Europe

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

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

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

In **Ireland**, like-for-like growth in the year was significantly stronger, and although it was broadly stable during the second half, the two-year trend has continued to improve. Despite a decline in consumer confidence resulting from political and economic uncertainty and the continued fall in disposable income, our business has continued its strong relative performance with impressive market share gains.

Our business in **Poland** had another good year, with good growth in sales and profits despite a period of subdued consumer sentiment following the Smolensk tragedy.

In **Hungary** economic conditions and consumer confidence remain challenging but despite this our business made solid progress.

Growth in the **Czech Republic** has been supported by the successful launch of Clubcard – with over 10% of the population already enrolled.

A particularly strong performance in **Slovakia** with double-digit like-for-like sales growth – has led to a further increase in our market share over the last year, further consolidating our market leadership.

As the economy in **Turkey** has continued to recover, we've resumed a faster rate of expansion – opening 21 new stores, including ten hypermarkets – helping to support strong sales growth.

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

Europe results 2010/11

	£m	Actual rates % growth	Constant rates % growth
Europe sales	10,558	5.6	7.4
Europe revenue*	9,192	5.4	7.1
Europe trading profit	527	11.2	13.7
Trading margin (trading profit/revenue)	5.73%	30bp	42bp

* Revenue excludes VAT and the impact of IFRIC 13.

United States

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

Although there is clearly some way to go, with these key elements moving in the right direction, we plan to accelerate the rate of new store openings to around 50 in the current year. With the improvements in our distribution centre and manufacturing campus productivity, we now expect to break-even with around 300 stores rather than the 400 we originally anticipated.

Our losses increased in the year as a consequence of the initial costs of integrating our two dedicated fresh food suppliers, 2 Sisters and Wild Rocket Foods, and exchange rate movements. These businesses have now been fully integrated with our existing kitchen operations, with substantially improved financial performance, product quality and service levels.

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

US results 2010/11

	£m	Actual rates % growth	Constant rates % growth
US sales	502	41.8	38.1
US revenue*	495	41.8	38.1
US trading profit/(loss)	(186)	(12.7)	(9.7)

* Revenue excludes VAT and the impact of IFRIC 13.

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

We've continued to grow sales and expand our offer in general merchandise, clothing and electricals and we have a great opportunity to do much more.

£10.3bn

Group sales

8.8%

Group sales growth

1st

In July, in Prague we opened our first stand-alone F&F store

Fastest

www.tesco.com/clothing: the fastest growing online retailer in volume terms in the clothing, footwear and accessories market

£5.3bn

UK sales

Introduction and market context

Our general merchandise, clothing and electrical businesses have continued to grow, despite the challenges of weak demand in some of our important markets. We have seen some strong key category and market share performances, which have helped compensate for the effects of cautious consumer spending in these more discretionary areas. In order to align with our new structures, we will going forward define non-food as general merchandise, clothing and electricals (excluding health & beauty and household). Overall Group sales in this category rose 8.8% during the year to £10.3 billion.

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

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

CLOTHING

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

9%
Clothing sales growth in Central Europe

Strong in everything we sell

23,000

Number of products available through Tesco Direct

1st

First UK supermarket to stock the Apple iPad and Amazon Kindle

TESCO TECH SUPPORT

Tesco Tech Support teams are now in over 200 of our largest UK stores providing our customers with expert advice on their electrical purchases.

INTERNATIONAL SOURCING

In order to get the best priced and highest quality products for our customers, we source many food, clothing and general merchandise goods globally and buy many products directly from producers and manufacturers.

Through our Group Sourcing operations, headquartered in Hong Kong (above), we can ensure:

- better products: confidence in where and how they are made;
- cheaper costs: the cheapest source of products for all countries;
- competitive advantage: on range and quality versus market competitors; and
- knowledge sharing: best practice in how we source, buy, make and move products.

This year, we sourced directly more than £4 billion worth of food and general merchandise products at retail value.

UK

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

- investing in making the ranges more aspirational;
- enhancing the shopping experience with specialist advice; and
- developing our multi-channel capability.

Investing in making the ranges more aspirational
We have invested in and expanded our general merchandise ranges to provide greater appeal to our customers. Our offer is already good but there is much more we can do – in particular by offering more aspirational products, not just everyday basics.

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

Enhancing the shopping experience with specialist advice
We are investing in our people so that we are able to support and advise our customers when they are making big ticket purchases such as TVs or mobile phones. For example we have 194 Phone Shops offering customers impartial advice on phone packages and accessories.

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

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

We've listened to our customers and adapted by expanding our range. We have increased the number of products available through Tesco Direct to around 23,000, but we need to do much more in order to compete with the wider ranges offered by other leading online retailers.

In 2009/10, we launched our clothing site at www.tesco.com/clothing. The website, which combines our F&F ranges alongside some other well-known brands, has been extremely popular with customers. We are currently the fastest growing online retailer in the clothing, footwear and accessories market.

> Our F&F clothing brand launched in South Korea and Thailand this year and the early response from customers has been excellent.

GOING THE EXTRA MILE IN EUROPE

This year we began the remodelling and conversion of some of our older hypermarkets across Central and Eastern Europe.

We've listened to our customers and are making a number of enhancements to our stores to improve the shopping trip. We've extended our range by introducing over 5,000 products, introduced product-specialist employees to improve service, and provided a better shopping environment through the introduction of conforming layout, fixtures and fittings.

We're also adding many of the complementary services such as Phone Shop, Opticians and Pharmacy to provide our customers with a wider range of general merchandise products. We've achieved very strong sales improvements across the eight Extras completed so far – with an average uplift of 16%. These refits are delivering particularly marked uplifts in general merchandise categories, including clothing and electricals.

Europe

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

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

In Central Europe, our trio of mid-market MY department stores showcase our general merchandise, clothing and electricals ranges including well-known brands such as Levis, FCUK and Disney. Our flagship MY Narodni store in Prague and our stores located in Liberec and Bratislava are traditional multi-floor department stores with open layouts and a full range of product categories at multiple price points. In the year, all stores made strong progress in like-for-like sales growth with our brands such as F&F and Go Cook competing well against more established luxury brands.

Asia

We have seen strong general merchandise sales growth in our Asian businesses – which are predominantly hypermarket operations. We saw particularly pleasing increases in electrical products, with double-digit growth in Thailand and over 30% in China.

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

Last year we opened our first three Sports Multishops in Homeplus stores in South Korea. These innovative sports zones are designed to meet growing customer needs for sporting goods, in a one-stop shopping environment.

Sports Multishop presents our customers with a wide range of high-quality branded sporting goods, a specialised bicycle shop, a golf shop and over ten sports and outdoor brand shops, such as Nike and Adidas, in a single 15,000 sq ft location.

Sports Multishop has increased sales of sporting goods in these stores by over 60% with high customer penetration. We will open Sports Multishop in ten more stores this year, with plans for further roll-out thereafter.

SPORTS SHOPS

Our Sports Multishops in South Korea have increased sales of sporting goods in these stores by over 60% with great customer feedback.

To grow retail services in all our markets

This year we've made progress in our retail services businesses: tesco.com, Tesco Bank, Telecoms and dunnhumby – our consumer research business. We've been investing for the customer and laying the foundations for future growth.

£4.0bn
Retail services sales

6.5m+
Tesco Bank customer accounts

15%
Online businesses sales growth

2.5m+
Tesco Mobile customers

30%
dunnhumby's sales and profits up over 30%

Introduction

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

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

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

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

Tesco Bank

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

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

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

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

TESCO TELECOMS

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

194
Phone Shops in the UK

Growing retail services

12%

12% of customer traffic to tesco.com site coming via our grocery app

£2m+

Our international calling card has generated sales of over £2 million since its launch

TESCO CREDIT CARD

In February, one in eight of all MasterCard and Visa credit card transactions in the UK were made on a Tesco credit card.

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

The Bank's bad debt position has significantly improved year-on-year, with the charge to the income statement 26% lower, despite the growth in lending, as credit card and loan defaults reduced, helped by good management of bad debt and the quality of our new business. This excellent progress on bad debt has also resulted in an increase in the release of the fair value provisions we made in the Group balance sheet on acquisition. Based on a lower than expected level of claims, we have also released some of our provisions for customer claims against payment protection insurance policies.

These strong elements of the Bank's performance mean that we have been able to offset the substantial extra provisions made in the year related to bodily injury claims in our motor insurance business – a trend affecting the whole industry – and the costs of migration, yet still deliver increased trading profit.

The baseline profitability of the Bank – before provisions movements and the adjustments required under acquisition accounting – continues to improve steadily, whilst absorbing the higher costs of migration away from RBS. We expect further improvements in the baseline profitability in 2011/12.

Our Core Tier 1 capital ratio has risen substantially – to a healthy 15.9% at the year end. The strong growth in the Bank's deposit base means that we have a significant excess of deposits over loans, as we build out balance sheet capacity ahead of the planned launch of mortgages.

tesco.com

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

We have worked consistently over the past year to innovate for customers in our online businesses so that we can provide them with a better online shopping trip. Our work on upgrading our tesco.com website has enabled us to launch an iPhone grocery app, which has been very popular – accounting for over 12% of customer traffic to the tesco.com site.

We know that our customers lead busy lives and love the convenience of our home grocery delivery service, so this year we have invested to make life even easier for customers. In the UK, we have successfully launched one hour delivery slots in London and we have been trialling a new Click and Collect service for groceries, which allows people to order online and collect their items from a store.

So that we can support our growth momentum, we have increased our UK-wide delivery capacity by adding an extra 350 vans to our fleet and we are currently trialling a new scheduling system to increase the efficiency of our vans.

Tesco Direct provides a platform to extend the reach of our general merchandise, clothing and electricals offer through the internet and catalogues. This year, Direct has achieved strong growth of 30%, including clothing online, which represents solid progress against a backdrop of continued pressure on household budgets through 2010 and early 2011.

Throughout the year, we have made significant investments in our stores to improve the multi-channel shopping offer which is available through Direct. For example, customers can order online and pick up in-store or order in-store and have their delivery dropped off at their door. We have added 30 new Direct desks and 89 Collection Points and we now have 11 Order and Collect stores.

In South Korea, we have launched a general merchandise website to complement the current grocery site. The new website launched in January. Our online business has performed well in Ireland with a 15% increase in sales and 12.5% increase in orders. In the next year, we are launching online shopping sites in the Czech Republic and Poland.

> "In South Korea, we have launched a general merchandise website to complement the current grocery site."

TESCO DIRECT

In November 2010, Tesco Direct launched a new mobile website allowing customers to easily browse for and buy general merchandise items on their smartphone.

Tesco Telecoms

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

Customers have responded positively to an increase in the number of mobile handsets we are offering, including the latest smartphones from Android to HTC models.

In 2010, we entered the international calling card market. The market has recently been investigated by OFCOM and Tesco was one of the top performing service providers praised for its value, clarity and customer service. Our international calling card has generated sales of over £2 million since launching and around 16,000 cards are sold in-store every week.

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

dunnhumby

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

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

HOMEPLUS

Homeplus is the number one grocery home shopping provider in South Korea, delivering just under 1.5 million orders last year.

DUNNHUMBY

dunnhumby was founded in 1989 by Edwina Dunn and Clive Humby with the intention of embedding customer insight into the way organisations work. By analysing data from over 340 million people in 25 countries, dunnhumby helps companies to put their customers at the centre of every business decision.

dunnhumby uses the insight generated by data they gather to allow companies to improve customers' experiences of shopping in their stores, branding and marketing. They work with companies to help them tailor their offer to the needs and wants of their customers.

dunnhumby's work with some of the world's biggest retailers and brands has demonstrated that companies which deliver value to customers through personalisation earn customers' loyalty.

This strategic approach of putting the customer first in business improves their clients' like-for-like sales and profit margins – or, put simply, creates measurable value.

Employing more than 1,500 people in 30 offices in Europe, Asia and the Americas, dunnhumby serves a prestigious list of companies including Kellogg's, The Kroger Co., Müller, Procter & Gamble, Coca-Cola and Mars. dunnhumby's work has also extended beyond the grocery sector to include partnerships with Macy's, Shell and the Panera Bread Company.

dunnhumby has worked with Tesco since the launch of Clubcard in the UK in 1995 and now works across the 12 markets where we have Clubcard.

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

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

£64m+
Donated to local charities and good causes

7.7%
Emissions reduction from our baseline portfolio of buildings

100
Community Fairs in the UK

3
Three new zero-carbon stores in the Czech Republic and the UK

100%
Nutritional labelling on eligible own-brand food lines

Introduction

Community is an essential part of our long-term strategy. We are committed to tackling the issues that matter to our communities and society at large.

We have five Community Promises which we have developed by listening closely to what our customers and staff expect from us. They are:

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

Each year, we set KPIs in each of the 13 countries where we operate stores so that we can measure our progress on projects which sit alongside each of these commitments.

Pledging to become a zero-carbon business by 2050, for example, means that we can play our part in tackling climate change. Climate change matters to our customers wherever we operate and by cutting our own emissions, we can make a real difference. We are also working with other businesses to transform the consumer goods industry by tackling carbon 'hot spots' in the global supply chain. At the same time, we are helping our customers to cut their carbon footprints by 50% by 2020.

To read our Corporate Responsibility Report online

www.tescoplc.com/corporate-responsibility/

SCHOOLS OF EXTENDED EDUCATION

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

940,000+

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

Community at the heart of what we do

£1bn

of locally sourced product sales in the UK

We want to be highly valued by our local communities and this year, we have made good progress with our Community Promises.

Buying and selling our products responsibly

In every country throughout the world, our customers want safe, affordable products. Many also want to know that what they buy is sourced to robust ethical and environmental standards. We want to provide all of our customers with what they want, whatever their needs – and we believe it is possible to do this while upholding strong standards across our business and in our supply chains.

We work in partnership with our suppliers to ensure our products are sourced responsibly. We have local technical teams across the world, working alongside our commercial teams to ensure that our standards are met in every area of our business, and dedicated ethical trade managers in key sourcing countries.

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

ZERO-CARBON STORES

We opened our second zero-carbon store in Jaroměř, Czech Republic, in February.

We are also working to strengthen the sustainability of our supply chains by assisting with export growth. In India, we held a Tesco Meet the Buyer event in Mumbai this year and have been working with the Joint Economic Trade Committee to help Indian exporters access international markets.

We have listened to our customers and know that many of them want to buy locally sourced products to support their local communities. This year in the UK, we have reached sales of £1 billion for local products. In Turkey, the large majority of our own-brand Kipa products are domestically sourced, helping many small local suppliers to compete with larger international suppliers.

Caring for the environment

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

We are reducing our direct impact on the environment, working with our suppliers to manage resources more carefully in our supply chains and empowering our customers to create a mass movement in green consumption.

We know that retail businesses can play a powerful role in tackling climate change. We are determined not only to play our part, but to play a leading role. We are working to reduce our own emissions, while also engaging with customers, other businesses, suppliers, non-governmental organisations (NGOs) and governments to bring about change.

We are making real progress in becoming a low-carbon enterprise. This year, Tesco was named the top retailer in the Carbon Disclosure Project's 2010 UK FTSE 350 and Global 500 reports for our carbon reporting and performance. Our global direct carbon footprint in 2010/11 was 5.44 million tonnes of CO_2e (carbon dioxide equivalent). This year, we continued to decouple our business growth from the growth in our carbon emissions: while our net sales area grew by 8.8%, our carbon footprint increased by only 1.7%.

We opened the world's first zero-carbon supermarket in Ramsey, Cambridgeshire, in 2009. This year, we opened our first international zero-carbon store in Jaroměř, Czech Republic, and completed two more zero-carbon stores in the UK, in Welshpool and Bourne.

Together with Unilever, Tesco co-chairs the Sustainability Steering Group of the Consumer Goods Forum, and is leading the project announced in December 2010 to achieve zero net deforestation by 2020. This work involves developing and committing to sustainable supply chains for palm oil, timber, soy, paper and beef.

Providing customers with healthy choices

We want to help our staff and customers to lead healthy lives. As a global business, we know that 'healthy lives' mean different things in our different markets. We aim to work with partners in industry, academic and technical experts and governments to understand and help tackle key public health issues – for example, food safety, obesity and alcohol misuse.

TESCO GREAT SCHOOL RUN

Over one million primary school children in the UK took part in our Great School Run.

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

We currently have 100% nutrition labelling on eligible own-brand food lines in all of our markets and we offer Healthy Eating brands in seven countries. Our Healthy Eating brands are nutritionally balanced products that have controlled amounts of fats, sugar and salt.

Last year, we encouraged over 7.2 million staff and customers to get active across the world – exceeding our targets in all markets. Our 'Get Healthy with Tesco Lotus' programme helped 4.2 million people get active in 2010 through an aerobics competition, an annual 'Tesco Lotus Walkathon' and football clinics.

In the UK, our Great School Run involved over 1 million primary school children and more than 700,000 customers and staff took part in Cancer Research UK's Race for Life and Run 10k.

> "We are committed to buying and selling our products responsibly to ensure that everyone involved is treated fairly."

Actively supporting local communities

The local communities around our stores are home to many of our customers, staff and suppliers. We want Tesco to be more than a store to them. This means being in tune with the needs and values of local communities, engaging positively on the issues that matter to them and making lasting contributions that improve local areas. By doing this, we ensure we are true to our values, and help build our customers' lifetime loyalty.

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

We are continuing to roll out our Community Champions across the Group. Community Champions are Tesco employees who spend a proportion of their week coordinating activities in their local communities. Our customers want to feel engaged in their local causes and the best people to identify these causes are living and working in the communities they support. We now have over 650 Community Champions across the Group.

In Thailand, we achieved our 'one million hours' volunteering target, reinforcing our position as the retailer perceived to be most supportive of local communities. Last year in the Czech Republic, our Tesco Foundation shared £23,700 between 21 NGOs, with the donation being used for a variety of schemes from the tutoring of disadvantaged children through to equipment for disabled people.

Following on from the success of our UK Community Fairs initiative in 2009, we increased the number of Community Fairs to 100. The fairs, held up and down the UK, provided an opportunity for local charities to sign up new volunteers and for local suppliers to showcase their products. The fairs were a resounding success, with over 10,000 new volunteers signing up for local projects.

Creating good jobs and careers

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

Our Regeneration Partnership stores in the UK help long-term unemployed people get back to work and guarantee face-to-face interview training for everyone who applies. Our successful candidates have an eight-week training course on life skills and confidence building, after which they begin work in our stores. This year, we developed eight new Regeneration Partnerships – bringing the total to 35 stores, and around 4,000 jobs created for long-term unemployed people.

For more information on creating good jobs and careers, see pages 42 to 45.

To be a creator of highly valued brands

Tesco has been an industry leader in branding for many years using our broad appeal, wide product assortment and global supply chains to develop businesses that deliver reliable, innovative and great value brands for customers. The creation and spread of a number of strong brands has helped us to become a growth company, trusted by customers, valued by staff, respected by communities and profitable for shareholders.

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

Retail brands

Product brands

Pillar brands

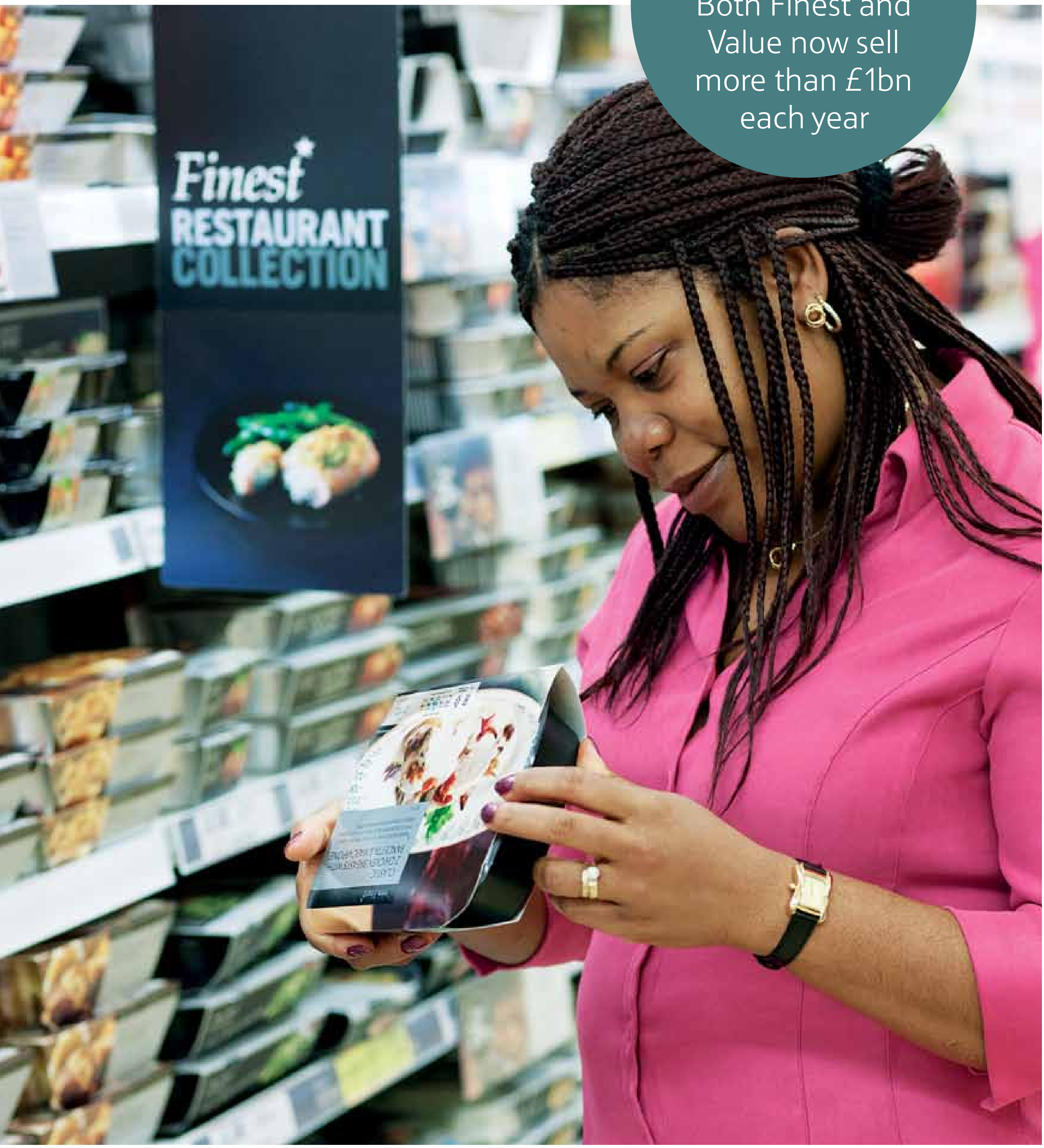
TESCO VALUE AND FINEST IN THE UK

Customers appreciate the quality and breadth of our range and we are continuing to innovate in this area, particularly with our Pillar brands.

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

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

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



Building brands

Homeplus

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

Why are we building brands?

Building brands enhances the value of our business by benefiting all of our stakeholders, including customers, staff, communities and shareholders. Being viewed positively by our stakeholders supports the creation of a successful, sustainable and profitable long-term business.

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

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

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

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

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

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

> "The increased emotional and functional loyalty from customers, staff and communities generated by our brand building has contributed to Tesco becoming a profitable, sustainable growth opportunity for shareholders."

F&F

We launched our clothing brand F&F in the UK in 2001 with the aim of offering unbeatable value for money, not compromised by quality, design or provenance. F&F is now available in over 450 stores across the UK and is also available online.

As awareness and popularity has grown in the UK, we've also extended the brand – launching F&F in nine other markets across Europe and Asia. F&F is already the market-leading clothing brand in the Czech Republic, Hungary and Slovakia. As the brand continues to develop, we opened our first stand-alone F&F store (above) – in Prague – this year.

As customers have begun to gain confidence in the F&F brand, we have also broadened our range – with sub-brands such as F&F Basics, F&F Couture (above) and F&F Petite and extended the brand into homeware with a good, better, best hierarchy under F&F Home Basics, F&F Home and F&F Home Collection.

EVOLUTION OF THE TESCO BRAND

When entering new markets across the world we have broadly followed the same model, adapting where necessary to reflect the local culture and sentiment.

BUILDING THE NETWORK

When entering a new market, building high-quality stores in great locations is a priority. Our founder, Jack Cohen, developed the first store in the UK, which culminated in the 1980s with the Tesco superstore – still a core part of Tesco today. We've since gone on to develop hypermarket format stores and smaller formats such as Metro and Express.

It's important that our stores meet customers' expectations. A multi-format store offer, from Express to Extra, provides customers with different shopping trips to suit their varied needs. In Europe, we are introducing Extras, offering customers more products and services, from Phone Shops to Pharmacies.

A crucial part of building an efficient network is the creation of centralised distribution centres to serve the store network quickly and efficiently. In Thailand this year, Tesco Lotus built its first Fresh Distribution Centre, handling over 230,000 cases of food every day. In China, we opened three distribution centres to serve our growing network.

BUILDING THE BRAND

Once a network has been built in a market, we can begin to evolve a collection of stores into a Retail brand and to develop Product and Pillar brands.

Through the introduction of Pillar brands, in food, for example, we provide customers with great choice, value and quality. We work hard to make sure that each of our brands is distinguishable and lives up to our customers' expectations. This builds the crucial element of trust in our brands. It also enables us to differentiate ourselves from other retailers, particularly in less developed markets.

Clubcard provides us with unique insight into our customers' shopping habits so that we can continuously work to meet their needs. Clubcard gives our customers a sense of belonging and says 'thank you' by rewarding them for their loyalty. As a result, customers trust in and feel committed to the Tesco brand.

EXTENDING THE BRAND

Once Retail, Product and Pillar brands are present in a market, customers have an understanding of what our brands stand for – they trust in them. This means that our customers have confidence in our ability to deliver different products and services, allowing us to extend the Tesco brand into new areas.

In many cases, the extension of our brand accompanies changes in our customers' lives. Changes such as the growth of the internet have led to the creation of new platforms for our brands with tesco.com, for example. We're also innovating for our customers, offering new innovative products, such as our successful Tesco Bank Fixed Rate Saver.

We're now beginning to extend the brand in a number of our international markets. In South Korea, we have a number of co-branded credit card offers to which 1.3 million customers have signed up, demonstrating the strength of the Homeplus brand.

To build our team so that we create more value

We are sharing operational excellence and leadership excellence across the Group so that we can successfully develop capability and nurture talent across our growing business.

492,714
Employees

70%
Increase in the number of female Directors across the Group

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

£105.5m
Value of shares awarded under Shares In Success

1,274
Employees at Tesco Bank

Introduction

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

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

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

Giving our people an opportunity to get on in their careers is very important. With the increasing breadth of the Tesco business, our people have a great opportunity to develop their skills and experience across new product areas, services and countries.

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

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

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

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

CAREER DEVELOPMENT

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

30,000
People training for their next role

Building our team

FRESH & EASY

Our US business, Fresh & Easy, created over 800 jobs this year and the opening of our first 11 stores in Northern California created a further 300 local jobs in March and April.

All Fresh & Easy employees have the opportunity to work at least 20 hours per week, which entitles them to comprehensive and affordable healthcare, with Fresh & Easy picking up the majority of the costs.

Recruitment and growth

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

Over the past year, the Tesco Bank workforce has more than tripled in size. As Tesco Bank develops, we have an increasing need for people to join the team so that we can support the expanding Tesco Bank customer base. The vast majority of the new Tesco Bank staff are customer service representatives and team leaders, following the opening of new call centres in Newcastle and Glasgow this year.

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

Talent and promotions

One of our People Promises is that we will provide 'an opportunity to get on'. We promise to support and develop our people so that they are able to advance in their careers. All of our people have discussions about their careers and performance and all of our leadership teams talk about succession plans and talent at least once a year.

We know that to be a successful international retailer we need to combine deep local knowledge with global experience. We are committed to developing local leaders in each country we're in. In South Korea, our largest international business, we have over 23,000 employees and just nine people from our UK business.

We are also keen to provide opportunities for our people to gain experience in our global markets. As the business grows, Tesco benefits from moving our people around, sharing their skills and expertise across the Group.

We want the women in our teams to achieve their full potential. Back in 1997 in the UK, we had only 31 female Store Managers, we now have almost 150. In the last four years in the UK the number of female directors has increased by nearly 70% across the Group and we have three women on our Board.

There is still work to do. Our Women's Network provides skills development, mentoring and networking opportunities for our female managers and directors, and this year we're launching our new Women in Leadership programme. Over 50 women from our UK and European businesses have been nominated based on their potential to undertake bigger and broader roles. The programme consists of seminars and courses focusing on confidence, strategic career planning and building personal authority.

Three women in Tesco are currently being coached as part of the FTSE 100 Cross-Company Mentoring Programme. The Programme, launched in 2003, involves FTSE 100 Chairmen and CEOs acting as mentors to senior women just below board level in other FTSE companies. The mentors guide and advise women in the management of their careers so that they are better positioned to be considered for board appointments. Our Chairman David Reid, will begin working with his third mentee from outside Tesco in June 2011.

Building capability

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

Our Academy is especially important to our managers and directors, supporting them in the delivery of their day-to-day roles and the development of their leadership capabilities.

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

Each and every job in Tesco has a clearly assigned training programme to accompany it. We work hard to ensure that every member of our team receives the operational training which they need for their job and the leadership skills which can support their career development.

In China, our Store Manager Programme has been created so that we can recruit and develop people to become our future Store Managers. This is especially important as we expand in this quickly developing country. The programme started in October 2010 with 22 candidates taking part. Thailand is currently in the process of recruiting candidates so that they can launch their own Store Manager Programme.

TESCO ACADEMY

Our zero-carbon Tesco Academy centre in Incheon, South Korea, will open in July.

To read the Annual Report online:
http://ar2011.tescoplc.com/

In Malaysia, we have launched our Finance Graduate Programme. Building on the knowledge gained from our UK Finance Graduate scheme, the Malaysian programme was launched to support our ambition of becoming an employer of choice for Finance in the country. By supporting and developing local graduates, we can also support the development of our Finance capability in Asia.

Rewards and benefits

Our people do a great job for our customers and we want them to feel valued and rewarded. We believe that staff rewards should be competitive, simple and sustainable to build trust and loyalty amongst our employees and assist with hiring and retention. We invest in pay and, in the UK, we have the highest basic pay rates for customer assistants of any major supermarket. All of our staff move to higher rates of pay within a year of joining our business.

Across all of our markets, we offer a wide range of competitive benefits. In the US, for example, we pay at least 75% of medical, dental, prescription and vision costs.

Our staff Clubcard launched in Thailand and Malaysia this year with a positive reception from our staff, and we are planning to introduce the staff Clubcard into two further countries later this year. The card offers a discount to staff when they shop in our stores.

In the UK we have a defined benefit pension scheme which is greatly valued by our staff and rare among FTSE 100 companies. Our UK pension provides people with an annual income at retirement as well as benefits on ill health and death based on their pay and service. Last year we invested over £270 million in our UK staff pensions.

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

OUR FIRST NATIONAL VALUES AWARDS CEREMONY

We want our people to feel valued for the work which they do. In our business, we have Values awards which are given to colleagues to say thank you when they have gone the extra mile in their work.

Last year, we had our first ever Values Awards Ceremony in the UK. The ceremony recognised the exceptional contributions made by colleagues from all levels across the business. 60 finalists attended the event from over 6,000 nominations.

The nominees were put forward by colleagues in a variety of categories from 'Snow Hero' to 'Being first for customers'. The event was a great success and will be repeated this year.

DEGREE PROGRAMMES

In a number of our markets, we provide our people with the opportunity to study for a degree while they work.

In the UK and Ireland, we provide the opportunity for employees to complete a Retail Foundation Degree. This is a two-year retail degree undertaken by staff members in association with Manchester Metropolitan University. The first pilot group of 17 employees began their courses in 2007 and graduated in 2009.

These students spend several days at university at the beginning of each term and the rest of their studying is either conducted online, by telephone or via email. This way, they earn while they learn, with Tesco paying all their fees. Given that university fees are now much higher in the UK, we expect the popularity of this scheme to increase dramatically. Over the past two years, 56 students have graduated and over 60% of this population have progressed to a higher managerial role.

Building on from the success in the UK and Ireland, in 2008 in Turkey we launched a Retail Programme in collaboration with Izmir Economic University. Whilst they are studying, students complete vocational training with Tesco Kipa, which ensures them a guaranteed job with us after their graduation. In Turkey, unemployment for young people is especially high so the guarantee of a job at the end of the programme makes a real difference.

60%

of those who have completed a Retail Foundation Degree have progressed to a higher managerial role

Property – developing and building stores for customers

Tesco's property activities have one principal objective: to ensure our customers can benefit from the best located and designed stores. As a result of this property development and management, we also create sustainable, long-term, embedded value for shareholders.

Acquiring high-quality property is an important component of being a successful retailer. Through our experience over decades in the UK – and more recently in international markets – we have market-leading property skills that help us stay ahead of our competitors.

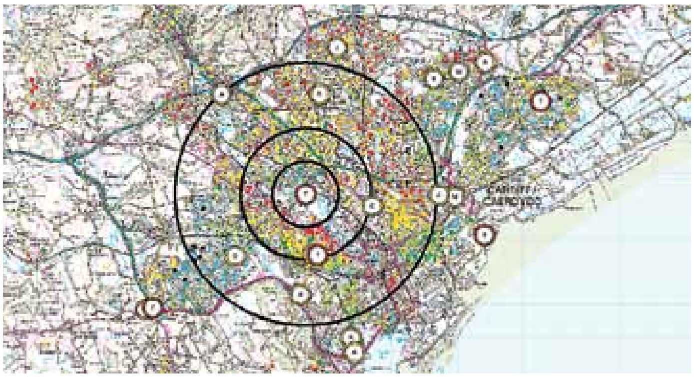
We have built up a substantial set of assets, which in total have a market value of £36 billion. By owning our property we get the benefits of appreciation in property prices – in particular in the emerging markets in which we operate.

The process for creating value in property starts with finding the right location. After acquiring a site and gaining planning consent we design and build a world-class store. We then trade from that store and increase its value as we grow our sales. And then once an asset is mature we look to crystallise the value created by selling it and leasing it back at a reasonable rent. This frees up capital which can be invested in new developments.

Finding the right location

Our Site Research departments in each country direct the property acquisition strategy by identifying optimal locations for new store developments and extensions. This work is underpinned by advanced spatial analysis and a data-led approach that considers our customers, competitors, local market shares and existing store performance.

The Site Research teams provide sales forecasts for new stores using highly accurate, in-house models built using our existing store performance, Clubcard data, demographic data, government statistics and road networks. On average we forecast the sales of new UK stores to within 3% accuracy.



Flexible, multi-format approach

Having multiple formats – from large shopping malls to Express convenience stores – allows us to fulfil the full range of shopping missions for customers and it also gives us flexibility to adapt to different local markets and planning regimes. In some cases we also develop mixed-use projects, combining new retail space with residential development on the same site. This enables us to build a store on a desirable site when otherwise it would not be economically viable.

SHOPPING MALLS

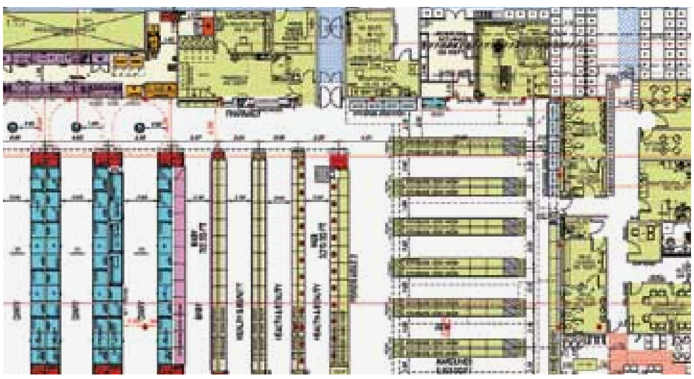
Tesco is one of the world's largest operators of shopping malls, with approximately 30m sq ft of mall space across Europe and Asia. In these markets we have found that the most successful hypermarkets are located in busy shopping malls and by owning and operating our own malls we are able to ensure we have high-quality sites from which our hypermarkets can trade.

Our mall business is a combination of owning and operating existing malls – as a landlord – and building new malls as a developer. The mall business provides a stable, profitable income stream – one that has grown throughout the recession. Our significant experience in operating malls and our many long-term tenant relationships with retailers help us to design and fill our new malls.

Our fastest expansion in new malls is currently in China where we are rolling out our new Lifespace mall concept. The blueprint is approximately 400,000 sq ft of retail and family leisure space anchored by a Tesco hypermarket. We have four malls currently trading and expect to have up to ten by the end of this year. We're also starting to redevelop some of our older malls around the world to access their full potential. In a number of markets we are starting to convert small strips of shops alongside well-located Tesco hypermarkets into large modern shopping malls, creating compelling retail destinations.

Design blueprints

Our formats are supported by design blueprints to ensure best practice is replicated across the Tesco Group. We have used our successful UK formats and experience internationally to build plans for each of our formats, as well as for our mall developments. The blueprints codify guidelines for the sales area, design standards, operating procedures, people plans and financial insight. They also allow us to build for less as we standardise building specifications and fixtures and fittings for Group scale buying.



Property Finance Strategy

Tesco releases some of the value that it has created through carefully selected divestments of some of its property, as well as taking advantage of strong market conditions offering good yields. Over the last five years we have delivered in excess of £5 billion of proceeds in line with our stated objectives in 2006 at an average net initial yield of 4.9%. We have also generated profits from property-related items of £1.3 billion over the past five years. We have used the proceeds to invest in property assets in growth economies, buy back c.£1.1 billion of our own shares and enhance dividends for shareholders.

In the future we intend to deliver £250 – £350 million per year in property profits, which is a sustainable profit stream as it is broadly equivalent to the value we create through development activities. This will require us to divest just over £1 billion of property per year. This level of divestment is sustainable as we invest around £2.5 billion per year in growth capital – so the asset base will continue to grow.

It is currently more attractive to divest UK property as yields and projected GDP growth in the UK are lower than in our overseas markets. Over time however, we expect a growing proportion of the divestments to come from our other countries as properties mature. Some of these future international divestments will be shopping malls that have been fully developed. In such cases, we will release capital for new investments by selling the mall to investors and leasing back the Tesco hypermarket. Importantly, when we do this, it will always be our objective to manage the malls after divestment to ensure they remain excellent locations from which our hypermarkets can succeed.

Key performance indicators

How did we do?

SALES AND PROFIT GROWTH

	2008	2009	2010	**2011**
Group sales growth (inc. VAT)	11.1%	15.1%	6.8%	**8.1%**
UK sales growth (inc. VAT)	6.7%	9.5%	4.2%	**5.5%**
International sales growth (inc. VAT)	25.3%	30.6%	8.8%	**13.7%**
Profit before tax	5.7%	4.1%**	8.9%	**11.3%**
Underlying profit before tax	11.8%	9.8%**	8.7%	**12.3%**

RETURN ON CAPITAL EMPLOYED (ROCE)

Definition
ROCE is defined as profit before interest after tax divided by the calculated average of net assets plus net debt plus dividend creditor less net assets held for resale. ROCE is a relative profit measurement that not only incorporates the funds shareholders have invested, but also funds invested by banks and other lenders, and therefore shows the productivity of the assets of the Group.

Performance
ROCE increased substantially to 12.9% (last year 12.1%) driven by operational improvements in the form of strong profit growth, improved working capital and greater capital efficiency as a result of our sale and leaseback programme. We have set ourselves a target of increasing ROCE to 14.6% by 2014/15.

2008	2009	2010	**2011**
12.9%‡	12.8%**	12.1%	**12.9%**

REDUCTION IN CO_2 EMISSIONS

Definition
This measure shows the overall year-on-year reduction in greenhouse gas emissions from existing stores and distribution centres built before 2006/7, adjusted to exclude emissions from acquisitions and extensions.

2008	2009	2010	**2011**
4.6%	4.8%	7.8%	**7.7%**

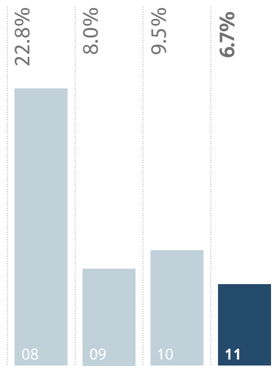
REDUCTION IN CO_2 EMISSIONS INTENSITY OF NEW STORES AND DISTRIBUTION CENTRES

Definition
Intensity is measured as greenhouse gas emissions/sq ft. The measure indicates the average reduction in emissions intensity of all new stores and distribution centres built since 2006/7 (the base year).

2008	2009	2010	**2011**
14.7%	25.3%	28.8%	**28.8%**

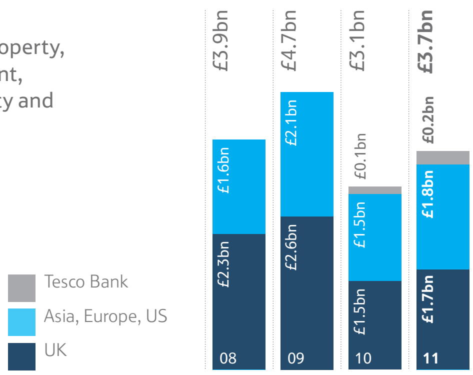
TOTAL SHAREHOLDER RETURN

Definition
Total shareholder return is the notional return from a share and is measured as the percentage change in the share price, plus the dividends paid. This is measured over the last five years.



CAPITAL EXPENDITURE

Definition
The additions to property, plant and equipment, investment property and intangible assets.



* All KPIs are for 52 weeks ended 26 February 2011, 52 weeks ended 27 February 2010, 53 weeks ended 28 February 2009 and 52 weeks ended 23 February 2008 unless otherwise stated.
** Restated for IFRS 2 and IFRIC 13.
‡ Using 'normalised' tax rate before the start-up costs in the US and Tesco Direct, and excludes the impact of foreign exchange in equity and our acquisition of a majority share in Dobbies.
† Internet sales growth defined as total tesco.com and online telecoms sales growth.

INTERNET SALES GROWTH

15.2%†

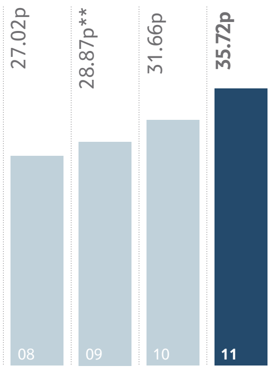
‘I FIND MY WORK INTERESTING’

Definition
The ‘I find my work interesting’ measure shows the percentage of our Group employees who completed our annual staff survey and agreed with the statement ‘I find my work interesting’.

Performance
With high levels of engagement, both the business and our customers continue to enjoy the benefits of more experienced and confident staff.

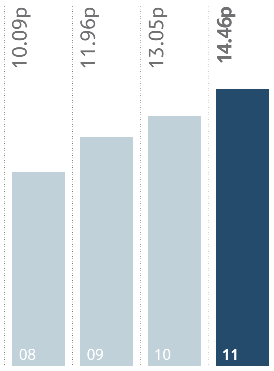
69%

UNDERLYING DILUTED EARNINGS PER SHARE



Definition
Underlying diluted earnings per share is the calculation of profit after tax and minority interest divided by the diluted weighted average number of shares in issue during the year. It is the amount which could be paid out on each share if the Company decided to distribute all its profits as dividends instead of retaining some for future expansion.

FULL YEAR DIVIDEND PER SHARE



The dividend is paid in two instalments.

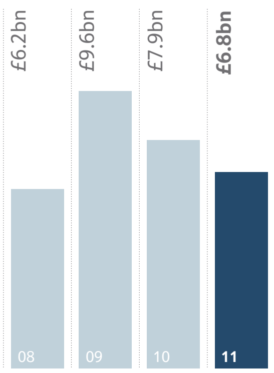
14.46p

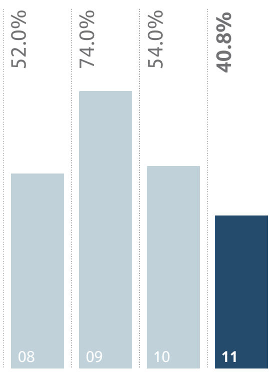
10.8% growth in 2010/11

NET DEBT AND GEARING

Definition
Net debt is our short-term and long-term debt less cash and cash equivalents, including derivative financial instruments, and other financial assets and liabilities, and excluding Tesco Bank.

Definition
Gearing is calculated as net borrowings divided by total equity.





FIXED CHARGE COVER

Definition
Fixed charge cover is the ratio of EBITDAR (EBITDAR defined as statutory operating profit before interest, tax, depreciation, amortisation and rent, adjusted for impairments (as listed in note 31) and excluding Tesco Bank EBITDAR) divided by total debt service (interest on a historical basis) and operating lease expenses.

2008	2009	2010	**2011**
5.5x	4.2x	3.7x	**3.9x**

NET INDEBTEDNESS

Definition
Net indebtedness is the ratio of adjusted net debt (including statutory net debt, pension deficit and the net present value of lease obligations) divided by EBITDAR (EBITDAR defined as statutory operating profit before interest, tax, depreciation, amortisation and rent, adjusted for impairments (as listed in note 31) and excluding Tesco Bank EBITDAR).

2008	2009	2010	**2011**
2.83x	3.58x	3.19x	**2.84x**

Group financials

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

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

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

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

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

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

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

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

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

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

Principal risks and uncertainties

Risk is an accepted part of doing business. The real challenge for any business is to identify the principal risks it faces and to develop and monitor appropriate controls.

A successful risk management process balances risks and rewards and relies on a sound judgement of their likelihood and impact. The Board has overall responsibility for ensuring that the Group has an appropriate approach to risk management and internal control within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail from page 71 of the Directors' report on corporate governance.

The table below sets out the principal risks faced by the Group and examples of relevant key controls and mitigating factors. The Board considers these to be the most significant risks. They do not comprise all risks associated with the Group and are not set out in any order of priority. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Principal risks	Key controls and mitigating factors
STRATEGY AND FINANCE	
Business strategy If our strategy follows the wrong direction or is not effectively communicated then the business may suffer	• Diversification and pursuit of growth in emerging markets under our strategy avoids reliance on limited business areas • Regular review of strategic matters by Board and Executive Committee; Board dedicates two full days a year to Group strategy • Significant resource invested to communicate strategy effectively to those delivering it • Steering Wheel balanced scorecard system helps monitor delivery • Structured stakeholder engagement programmes
Financial strategy and Group treasury risk (excluding Tesco Bank) Risks relate to an incorrect or unclear strategy, availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by counterparties to financial transactions. The principal risks associated with operating Tesco Bank are covered below in this table in the Tesco Bank/Financial Services Risks section. Further detail on the management of financial risks by the Group and Tesco Bank can be found in the Financial Review section following this table	• Regular review of strategy, risks and financial performance by Board and Executive Committee, with external advice as required • Financial risks relating to underlying business needs are mandated to our Treasury function which has clear policies and operating parameters and its activities are routinely reviewed and audited • Internal Audit programme reports on financial control systems
Pension risks Our IAS 19 deficit could increase if returns on corporate bonds are higher than the investment return on the pension scheme's assets	• Action taken to reduce risk in investment strategy • Monthly review by Pensions and Treasury directors • External advisers and pension fund trustees fully engaged to consider deficit and fund performance
Competition and consolidation Failure to compete on areas including price, product range, quality and service in increasingly competitive UK and overseas retail markets could impact our market share and adversely affect the Group's financial results	• Strategy to have broad appeal on price, range and store format to allow us to compete in different markets • Regular review of markets, trading opportunities and competitor activities • Performance tracked against relevant KPIs and measures that customers tell us are critical to their shopping experience • Constant monitoring of customer perceptions of Tesco and competitors to ensure we can respond quickly as appropriate • Monitoring of legal framework and compliance
REPUTATION, OPERATIONS AND PEOPLE	
Reputational risk Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence, a decline in customer base and affect our ability to recruit and retain good people	• Tesco Values embedded in how we do business at every level • Group Code of Business Conduct guides our behaviour in dealing with customers, employees and suppliers • Stakeholder communication and engagement to understand their views and reflect them in our strategy • Commitment to tackling societal and environmental issues through our Community Plan and activities • Governance committees, including Corporate Responsibility and Compliance Committees, guide and monitor policies

Principal risks and uncertainties

Principal risks	Key controls and mitigating factors
REPUTATION, OPERATIONS AND PEOPLE CONTINUED	
Operational threats and performance risk in the business Risk that business units fail to achieve targets and our business fails to meet the stated strategy in full, particularly since, like all retailers, the business is susceptible to economic downturn that could affect consumer spending	• Board, Executive Committee and various operational committees meet regularly to review operational threats • All business units have stretching targets based on the Steering Wheel; performance against budgets and KPIs monitored continually and reported regularly to Board • Clear goals and objectives set for subsidiary CEOs, with high level of reward based on achievement • Diversification strategy minimises impact of changes in economic climate
Property Continuing acquisition and development of property sites carries inherent risk; stretching targets to deliver new space in all our markets may not be achieved; challenges may arise in relation to finding suitable sites, obtaining planning or other consents and compliance with varying country design and construction standards	• Property Acquisition and related committees closely control all aspects of property acquisition, planning and construction processes to ensure standards are met and risks are minimised • Group and country Compliance Committees monitor legal and regulatory compliance in all property activities • China Property Company Board closely monitors property matters in China • Mall management systems in place to assist tenant management
IT systems and infrastructure Any significant failure in the IT processes of our retail operations would impact our ability to trade	• Extensive controls and reviews to maintain integrity and efficiency of IT infrastructure and data • Processes to deal with significant IT security incidents • Sharing of systems across international operations to ensure consistency of delivery • Investment in IT systems and innovations to improve business efficiency and customers' shopping experience
People Failure to attract, retain, develop and motivate the best people with the right capabilities at all levels could limit our ability to succeed	• Significant investment in training, development and incentives, including Talent Planning, Leadership Development and succession planning for future needs of the business • Clear processes to understand and respond to employees' needs through our People Matters Group, staff surveys, regular performance reviews, involvement of trade unions in relevant markets and regular communication of business developments • Pay, pension and share plan arrangements help us to attract and retain good people
REGULATION AND EXTERNAL ENVIRONMENT	
Product safety Failures could damage customer trust and confidence, impacting our customer base and therefore financial results	• Detailed, established procedures to ensure product integrity • Strict trading law and technical safety testing regime with regular reporting; Group Compliance Committee reviews compliance with laws and policies • Partnering with suppliers for mutual understanding of required standards • Monitoring of developments to respond to changing customer trends and legislation such as labelling and dietary responsibilities • Clear crisis management processes
Health and safety Failure to provide safe environments for our staff and customers could lead to injuries or loss of life	• Operation of stringent processes that reflect best practice; policies are monitored and audited regularly • KPIs across the business help prevent incidents with quarterly reporting of performance against KPIs • Group Compliance Committee and business unit Compliance Committees regularly monitor compliance with laws and internal policies
Fraud, compliance and internal controls As the business grows in size and geographical scope, the potential for fraud and dishonest activity by our suppliers, customers and employees increases	• Appropriate procedures and controls set out and audited across the business to reduce fraud risks; Internal Audit and Loss Prevention & Security undertake detailed investigations into all business areas and report their findings to the Audit Committee • Clear behavioural guidance given to employees through Tesco Values and the Group Code of Business Conduct • Compliance Committee formulates and monitors implementation of, and compliance with, relevant policies and procedures; annual governance returns completed by each business unit • External Audit rotational coverage of areas and assessment of controls • Updated policies and procedures for Bribery Act compliance

Principal risks	Key controls and mitigating factors
REGULATION AND EXTERNAL ENVIRONMENT CONTINUED	
Regulatory, economic and political risks In each country we operate in, we may be impacted by regulatory and tax changes, increased scrutiny by competition authorities, political developments and the economic environment	• External uncertainties carefully considered when developing strategy and reviewing performance • Ongoing monitoring of developments through local CEOs • We try to anticipate and contribute to important changes in public policy wherever we operate • Engagement with governmental and non-governmental organisations to represent views of our customers and employees • Business development follows thorough due diligence work
Activism and terrorism A major incident or terrorist event could impact on the Group's ability to trade	• Appropriate contingency plans • Security systems and processes that reflect best practice
Climate change The main environmental risk we face is climate change. It is essential we work to mitigate it through energy efficiency, the sustainable management of other resources and waste minimisation	• Engagement with key stakeholders and experts in developing environmental policy, including through the Sustainable Consumption Institute we endowed at Manchester University • Climate change strategy is part of our Community Plan and is reviewed regularly by our Corporate Responsibility Committee, Executive Committee and Board
TESCO BANK/FINANCIAL SERVICES RISKS	
Tesco Bank (the Bank) primarily operates in the UK retail financial services market offering savings products, unsecured consumer lending products and general insurance products as well as travel money and ATM services. In addition to the principal risks above that apply generally to the Group as a whole, the section below sets out principal risks relating specifically to the Bank.	
Funding and liquidity Liquidity risk is the risk that the Bank, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost Funding risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient	• Dedicated Treasury function responsible for management of funding and liquidity risks within the framework approved by Tesco Bank Board • Conservative Balance Sheet structure with prudent risk appetite supported by explicit targets and metrics which enable funding and liquidity to be managed in excess of regulatory requirements • Strong liquid position with a diversified stock of highly marketable liquid assets that can be used as a buffer against unforeseen impacts on cash flow or in stressed environments • Lending activities are primarily funded by retail deposits • Daily monitoring and management of key funding and liquidity ratios with monthly reporting to Assets & Liabilities Management Committee and Tesco Bank Board • Regular stress testing undertaken to assess the adequacy of funding and liquidity resources during periods of market dislocation and stress
External environment The Bank is exposed to general UK economic conditions as well as general market trends in the areas in which it operates. Economic conditions are subject to significant uncertainty with commentators split on the sustainability of the economic recovery. General economic and market conditions are likely to have an impact on the Bank's credit portfolios	• Independent Credit Risk team, reporting directly to Chief Risk Officer, responsible for the development and oversight of the credit risk framework and supporting the business in the implementation of policies and processes • Low credit risk appetite with focus on responsible lending and maintaining a risk profile better than the industry average • Whilst credit performance has remained strong and favourable to industry averages, the Bank continues to closely monitor its credit portfolios and make changes to its business acquisition and credit limit management strategies to mitigate, as far as possible, downside economic risks • The impact of extreme but plausible deterioration in economic conditions is considered as part of the Bank's stress-testing programme • Regular reporting of credit risk information and performance against risk appetite to Tesco Bank's Risk Management Committee, Board Risk Committee and Board

Principal risks and uncertainties

Principal risks	Key controls and mitigating factors
TESCO BANK/FINANCIAL SERVICES RISKS CONTINUED	
Insurance risk The Bank is exposed to insurance risks directly through its historic distribution agreement with Royal Bank of Scotland Insurance (RBSI) and indirectly through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company The key insurance risks within TU relate to underwriting risk and specifically the potential for a major weather event to generate significant Home insurance claims or, in relation to Motor insurance, the cost of settling bodily injury claims The legacy arrangement with RBSI is now in run-off and the primary risk that the Bank remains exposed to is reserving risk – the risk that reserves set aside by RBSI will be insufficient to cover the ultimate cost of insurance claims arising. This is particularly relevant to Motor insurance claims where the ultimate cost of large bodily injury claims is uncertain and the time taken to settle such claims can vary significantly depending on the severity of the injury Since October 2010 Pet, Travel and Breakdown insurance have all been distributed by the Bank on a 'white label' basis. The Bank does not carry the insurance risks associated with these products	• Independent Tesco Bank Insurance Risk team, reporting directly to Chief Risk Officer, that operates as the primary contact across all risk disciplines for the insurance business • Underwriting risks actively managed within TU with close monitoring of performance metrics. Independent oversight conducted by the Bank • Performance against insurance risk appetite is monitored closely at a senior level and reported to Tesco Bank's Risk Management Committee, Board Risk Committee and Board • Reinsurance programme to limit the Bank's exposure above predetermined levels • The impact of specific Motor and Home insurance events is considered as part of the Bank's stress-testing programme and ICAAP
Regulatory environment Regulatory risk is the risk of failure to meet the Bank's obligations under the Financial Services and Markets Act (FSMA), the Consumer Credit Act and the Data Protection Act and to meet the expectations of regulators. The Bank is subject to significant regulatory oversight, including supervision by the FSA which has substantial powers of intervention There is currently a significant amount of regulatory change including the continued evolution of capital and liquidity requirements. The regulatory landscape is changing with current FSA responsibilities due to migrate to the new Prudential Regulatory Authority and the Financial Conduct Authority. Detailed proposals for the new regulatory authorities are due to be published later this year There remains continued regulatory focus in relation to 'Conduct Risk' or 'Treating Customers Fairly' (TCF). Specifically there has been continued focus on complaints relating to the sale of Payment Protection Insurance (PPI)	• Independent Regulatory Risk team, reporting directly to Chief Risk Officer, providing oversight and support to the business to ensure that regulatory risks are identified and managed appropriately • The Bank has minimal appetite for regulatory risks and it maintains a control framework, including a suite of risk policies, to comply with regulatory requirements • Regular reporting of regulatory risks to Tesco Bank's Risk Management Committee, Board Risk Committee and Board as well as to the FSA • Significant senior management time and focus allocated to management of regulatory risks and the ongoing regulatory relationship • The Bank has established a 'TCF Board' which is responsible for monitoring and challenging the customer-related aspects of the Tesco Bank business and, where appropriate, recommending further action • PPI complaints handling brought in-house to improve the customer experience and to ensure that the outcomes are aligned with the policy introduced by the Bank • The Bank has recognised a provision for potential customer redress, including compensation that may be required in relation to PPI complaints

Principal risks	Key controls and mitigating factors
TESCO BANK/FINANCIAL SERVICES RISKS CONTINUED	
Operations Operational risk is the risk of loss caused by human error, ineffective or inadequately designed processes, system failure or improper conduct (including criminal activity) A significant amount of services and processes are provided by third-party service providers and currently a key operational risk to the business is a failure by an outsourced provider	• The Bank has low appetite for operational risk, although it accepts higher risk in the short term as a result of the transformation programme, with the operational risk framework overseen by a dedicated unit within independent Risk function • Risk registers maintained across the Bank which capture and quantify the risks arising in each of the commercial, insurance, operations and central functions areas • Third-party services are managed through a series of Commercial Services Agreements (CSAs) with effective oversight arrangements established to ensure CSAs are delivered in compliance with contractual terms • Regular reporting of operational risk information and performance, including financial crime, against risk appetite to Tesco Bank's Risk Management Committee, Board Risk Committee and Board
Transformation programme The Bank has embarked on a significant transformation programme to develop and embed its own infrastructure to allow it to migrate systems and support from the Royal Bank of Scotland Group infrastructure In addition, the Bank has well-developed plans for launching mortgages, subject to FSA approval. Vertex, a leading global Customer Management Outsourcing business, will support entry into the mortgage market by providing IT application platforms and customer sales and service for the Bank's mortgage business. Current accounts are another key element in widening the Bank's product range with the customer proposition and detailed programme plans currently being developed. The addition of new products adds further to the complexity and delivery challenge of the transformation programme	• The Transformation Delivery Group (TDG) is the key governance forum for the delivery of the programme objectives. The forum is chaired by the Bank's Chief Operating Officer with representation across all areas of the Bank including Commercial, Operations, IT, Risk and Finance • Strong programme governance in place with TDG supported by Programme Implementation Boards and Project Control Committees • Project management disciplines in place, including detailed programme plans and risk and issue management to enable effective management of the programme scope, delivery timelines and adherence to budget • Ongoing programme of audit reviews, risk profiles and 'health checks' with monthly reporting to Tesco Bank's Risk Management Committee, Audit Committee and Board

Principal risks and uncertainties

Financial review

The main financial risks faced by the Group relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by counterparties to financial transactions. The management of these risks is set out below. The Group Balance Sheet position at 26 February 2011 is representative of the position throughout the year.

Funding and liquidity The Group finances its operations by a combination of retained profits, disposals of property assets, long and medium-term debt capital market issues, short-term commercial paper, bank borrowings and leases. The objective is to ensure continuity of funding. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities and a strong credit rating so that maturing debt may be refinanced as it falls due. Tesco Group has a long-term rating of A3 with a negative outlook by Moody's, A- (stable) with Fitch and A- (stable) by Standard & Poor's. New funding of £1.7 billion was arranged during the year, including a net £1.6 billion from property disposals and £0.1 billion from long-term debt. At the year end, net debt was £6.8 billion (2010 – £7.9 billion).

Liquidity and funding has been a key area of focus in the banking industry and for financial services regulators. The FSA's new liquidity framework became effective on 1 June 2010 with Tesco Bank subject to additional liquidity requirements in the form of Individual Liquidity Guidance (ILG).

Tesco Bank maintains a robust and prudent liquidity risk management approach with an effective governance structure for measuring, managing and monitoring liquidity, as defined in its Liquidity Risk Management Policy, which provides the framework which enables funding and liquidity to be maintained in excess of regulatory requirements. The Bank has built up a strong liquidity position with a diversified stock of highly marketable liquid assets that can be used as a buffer against unforeseen impacts on cash flow or in stressed environments. Stress testing is regularly undertaken to simulate how events may impact its funding and liquidity capabilities and is updated where required as market conditions evolve. The Bank's first Internal Liquidity Adequacy Assessment (ILAA) was submitted to the FSA during the year with external assurance provided in relation to this report.

Some of the larger UK banks have significant funding targets for 2011 and, coupled with the expiry of the Special Liquidity Scheme, will increase the possibility of aggressive competition in both the retail and wholesale funding markets. This increase in demand could increase the cost of both retail and wholesale funding although improving market sentiment in the wholesale funding markets may generate additional supply. It is intended that the majority of the Bank's funding will continue to be raised in the retail deposit market with a product range and competitive deposit rates designed to attract a wider customer base. The Bank also accesses the wholesale funding markets, having successfully completed a £125 million Wholesale Bond from the Bank's Euro Medium Term Note programme which provides an additional source of funding from retail investors.

Interest rate risk management Our objective is to limit our profit and loss downside from rising interest rates. Forward rate agreements, interest rate swaps, caps and floors are used to achieve the desired mix of fixed and floating rate debt.

Our policy is to fix interest rates for the year on a minimum of 40% of actual and projected debt interest costs of the Group excluding Tesco Bank. At the year end, £6.2 billion of debt (2010 – £5.6 billion) was at fixed rates of interest. This equates to 91% of total debt (2010 – 72%). The remaining balance of our debt is in floating rate form. The average rate of interest paid on an historic cost basis this year, excluding joint ventures and associates, was 5.4% (2010 – 5.4%).

Interest rate risk arises where assets and liabilities in Tesco Bank's banking activities have different repricing dates. Tesco Bank policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates. Tesco Bank also uses Value at Risk (VaR) for risk management purposes with a time horizon of one trading day and a confidence interval of 95%. Interest rate risk is managed using interest rate swaps as the main hedging instrument.

Foreign currency risk management Our principal objective is to reduce the effect of exchange rate volatility on operating margins. Transactional currency exposures that could significantly impact the Group Income Statement are managed, typically using forward purchases or sales of foreign currencies and currency options. At the year end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £1.615 billion were outstanding (2010 – £1.083 billion) as detailed in note 22. We do not actively hedge our investment in our international subsidiaries other than by ensuring that each subsidiary is appropriately leveraged. During the year, currency movements decreased the net value of the Group's overseas assets by £241 million (last year increase of £477 million). We translate overseas profits at average foreign exchange rates which we do not currently further manage.

Credit risk The objective is to reduce the risk of loss arising from default by parties to financial transactions across an approved list of counterparties of good credit quality. The Group's positions with these counterparties and their credit ratings are routinely monitored.

Tesco Bank retail credit risk is managed through the credit risk policy framework, which is agreed through the Tesco Bank Risk Management Committee and defines limits and standards at all stages of the customer lifecycle, including new account sanctioning, customer management and collections and recoveries activity. Customer credit decisions are managed principally through the deployment of bespoke credit scorecard models and credit policy rules which restrict specific areas of lending, and an affordability assessment which determines a customer's ability to repay an outstanding credit amount. Wholesale counterparty credit risk limits are managed in accordance with a control framework, approved by the Tesco Bank Risk Management Committee, which sets limits based on counterparty creditworthiness and instrument type. Tesco Bank continues to use Fitch, Moody's and Standard & Poor's ratings as part of the credit assessment process.

Insurance We purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only. The risk not transferred to the insurance market is retained within the business by using our captive insurance companies, ELH Insurance Limited in Guernsey and Valiant Insurance Company Limited in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company Limited covers Combined Liability only.

Statement of compliance

This Business Review has been prepared in accordance with the requirements for a business review under the Companies Act 2006. The Business Review's intent is to provide information to shareholders and should not be relied on by any other party or for any other purpose.

Cautionary statement regarding forward-looking information

Where this review contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information.

The Group cautions investors that a number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 51 to 57 of this Annual Report.

General information

Principal activity, business review and future developments The principal activity of the Group is retailing and associated activities in the UK, China, the Czech Republic, Hungary, the Republic of Ireland, India, Japan, Malaysia, Poland, Slovakia, South Korea, Thailand, Turkey and the US. The Group also provides retail banking and insurance services through its subsidiary, Tesco Bank.

Group results Group revenue (excluding VAT) rose by £4 billion to £60.9 billion, representing an increase of 7.1%. Group profit before tax increased by £359 million to £3,535 million. Profit for the year was £2,671 million, of which £2,655 million was attributable to equity holders of the parent company.

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

Fixed assets Capital expenditure (excluding business combinations) amounted to £3.7 billion compared with £3.1 billion the previous year. In the Directors' opinion, the properties of the Group have an open market value well in excess of the book value of £26 billion which has been included in these financial statements.

Share capital and control of the Company Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in note 29 on page 140. Details of shares held by the Company's Employee Benefit Trusts are shown in note 27 on page 135. No shareholder holds securities carrying special rights with regards to control of the Company and there are no restrictions on voting rights. The Company was authorised by shareholders at the 2010 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year and the Company is seeking to renew the authority at the forthcoming AGM within the limits set out in the notice of that meeting.

Shares held by the Company's Employee Share Incentive Plan Trust, International Employee Benefit Trust and Tesco Ireland Share Bonus Scheme Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or Officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Company's shareholders The Company has been notified as at the date of this report that Blackrock, Inc. owns 5.48%, Legal & General Investment Management Limited owns 3.99% and Berkshire Hathaway Inc. owns 3.02% of the issued share capital of the Company.

Articles of Association The Company's Articles of Association may only be amended by special resolution at a General Meeting of the shareholders.

Directors and their interests The Directors who served during the year were: Charles Allen CBE; Richard Brasher; Gareth Bullock; Patrick Cescau; Stuart Chambers; Philip Clarke; Karen Cook; Rodney Chase CBE; Harald Einsmann; Ken Hanna; Andrew Higginson; Ken Hydon; Sir Terry Leahy; Tim Mason; Laurie McIlwee; Lucy Neville-Rolfe CMG; David Potts; David Reid; and Jacqueline Tammenoms Bakker. The biographical details of the present Directors are set out on pages 60 and 61 of this Annual Report. All our Directors will be seeking re-election at the 2011 AGM in accordance with the UK Corporate Governance Code.

The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 74 to 91.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries. A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors and the Company Secretary (who is also a Director of certain subsidiaries of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Employment policies The Group depends on the skills and commitment of its employees in order to achieve its objectives. Ongoing training programmes seek to ensure that employees understand the Group's customer service objectives and strive to achieve them. The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability or trade union affiliation. All decisions are based on merit. Internal communications are designed to ensure that employees are well informed about the business of the Group. Employees are encouraged to become involved in the financial performance of the Group through a variety of schemes, principally the Tesco employee profit-sharing scheme (Shares in Success), the savings-related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn).

Political and charitable donations Cash donations to charities amounted to £15,613,319 (2010 – £31,221,573). Total contributions to community projects including cash, cause-related marketing, gifts-in-kind, staff time and management costs amounted to £64,254,910 (2010 – £61,592,464). There were no political donations (2010 – £nil). During the year, the Group made contributions of £55,085 (2010 – £49,365) in the form of sponsorship for political events: Conservative Party £8,491; Labour Party £13,506; Liberal Democrat Party £7,637; Plaid Cymru £1,640; Scottish National Party £4,700; Waste Watch £1,000; trade unions £18,111.

Supplier payment policy Tesco PLC is a signatory to the Prompt Payment Code in the UK. More information about the Code can be found at www.promptpaymentcode.org.uk. Payment terms and conditions are agreed with suppliers in advance and the Group pays its creditors in accordance with those terms. Payment terms vary according to the type of product and territory in which the suppliers operate. Tesco PLC is a holding company and therefore has no trade creditors on its Balance Sheet.

Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (Code) The Code came into force in the UK on 4 February 2010 and places obligations on grocery retailers with a turnover greater than £1 billion to build a compliance programme, which includes training staff and providing information to the OFT as requested. In addition, the Code sets out a number of provisions which relate to different aspects of the retailer/supplier relationship.

We are committed to treating our suppliers fairly and work in collaboration with them wherever possible. It is in our nature to treat compliance with the Code very seriously.

Prior to the introduction of the Code, Tesco took a number of steps to ensure that it was ready to comply. We have in place a compliance training programme for our buying teams and a comprehensive training course is provided for all relevant new starters. Annual refresher training is provided via a bespoke e-learning programme.

We have appointed a Code Compliance Officer (CCO) supported by a small team including an auditor. We have developed an audit plan and our approach enables us to identify any gaps in our processes so they can be quickly fixed.

All alleged breaches of the Code raised by suppliers have been resolved internally. We had an instance of a supplier initiating the Dispute Resolution Procedure set out in the Code. This matter was escalated within the relevant commercial category and resolved.

The CCO submits reports to the Audit Committee which considers that it retains effective oversight of our compliance with the Code.

Going concern The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. As with all business forecasts, the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

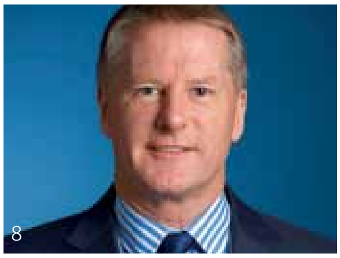
Events after the Balance Sheet date There were no material events after the Balance Sheet date.

Auditors A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company and the Group will be proposed at the 2011 AGM.

Directors' statement of disclosure of information to auditors Having made the requisite enquiries, the Directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Our Board of Directors

Our Board currently comprises seven Executive Directors, seven independent Non-executive Directors and David Reid, Non-executive Chairman. Patrick Cescau is Senior Independent Director. Biographies for each of our Directors and the Company Secretary are set out below.



1. David Reid – 64 •
Non-executive Chairman
David Reid became Non-executive Chairman on 2 April 2004. Prior to his appointment he was Deputy Chairman of Tesco PLC and has served on the Tesco Board since 1985. David is a Non-executive Director (SID) of Reed Elsevier Group PLC and Chairman of both Kwik-Fit Group and Whizz-Kidz. In November 2010 David was appointed one of Prime Minister David Cameron's Business Ambassadors.

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

- • Member of the Nominations Committee
- ◆ Member of the Audit Committee
- ■ Member of the Remuneration Committee

Directors' ages as at 26 February 2011

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

4. Richard Brasher – 49
CEO – UK and ROI
Richard Brasher was appointed to the Board on 15 March 2004. He joined Tesco in 1986. He has held a number of marketing, commercial and store operations positions, most recently Board Commercial Director, before being appointed UK and ROI CEO in March 2011.

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

6. Laurie McIlwee – 48
Chief Financial Officer
Laurie McIlwee was appointed to the Board on 27 January 2009. He joined Tesco in 2000 as UK Finance Director and became Distribution Director in 2005. Laurie is a Chartered Management Accountant.

7. Lucy Neville-Rolfe, CMG – 58
Executive Director (Corporate and Legal Affairs)
Lucy Neville-Rolfe was appointed to the Board on 14 December 2006. She joined Tesco in 1997 from the Cabinet Office. She is Deputy Chair of the British Retail Consortium, a Non-executive Director of ITV plc and the Carbon Trust and a member of the China Britain Business Council, the UK India Business Council and the Corporate Leaders Group on Climate Change.

8. David Potts – 53
CEO – Asia
David Potts was appointed to the Board on 16 November 1998. He joined Tesco in 1973. From 1997 he directed the integration of our businesses in Northern Ireland and the Republic of Ireland before returning to the UK in 2000 as Director responsible for UK Retail Operations. From 2004, David's responsibilities also included the UK Supply Chain and the Republic of Ireland, before being appointed CEO Asia in March 2011.

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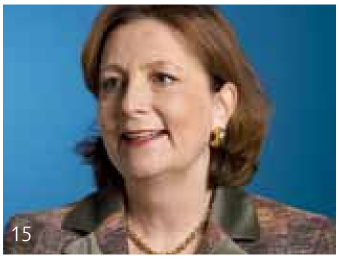
GOVERNANCE



9. Patrick Cescau – 62 •◆■
Senior Independent Director
Patrick Cescau was appointed a Non-executive Director on 1 February 2009 and became Senior Independent Director in July 2010. He was Group Chief Executive of Unilever from 2005 to 1 January 2009, and prior to this he was Chairman of Unilever plc and Vice Chairman of Unilever NV. He has also been a Non-executive Director of Pearson plc since 2002, becoming Senior Independent Director in April 2010, and IAG (International Consolidated Airlines Group) since September 2010. Patrick was appointed a Chevalier de la Légion d'honneur in 2005. In June 2009, Patrick joined the Board of INSEAD.

10. Gareth Bullock – 57 •◆
Non-executive Director
Gareth Bullock was appointed a Non-executive Director on 3 July 2010. He was Group Executive Director of Standard Chartered PLC on his retirement in April 2010. He was also responsible for the Group's risk and special asset management function. He is Senior Independent Director and Chairman of the Remuneration Committee of Spirax-Sarco Engineering Plc.

11. Stuart Chambers – 54 •■
Non-executive Director
Stuart Chambers was appointed a Non-executive Director on 3 July 2010. He was Group Chief Executive of NSG Group from 2008 to 2009. Prior to NSG's acquisition of Pilkington plc in 2006, Stuart was Group Chief Executive of Pilkington plc. Previously he held a number of senior roles at Pilkington plc and the Mars Corporation. He is a Non-executive Director of Smiths Group PLC, where he is Chairman of the Remuneration Committee, and of the Manchester Airport Group PLC.

12. Karen Cook – 57 •■
Non-executive Director
Karen Cook was appointed a Non-executive Director on 1 October 2004. She is a Managing Director of Goldman Sachs International and President of Goldman Sachs, Europe. She is also a member of the firm's European Management Committee and Partnership Committee.

13. Ken Hanna – 57 •◆■
Non-executive Director
Ken Hanna was appointed a Non-executive Director on 1 April 2009. He is Chairman of Inchcape PLC and a Non-executive Director of Aggreko plc. He was previously Chief Financial Officer of Cadbury plc until March 2009 and prior to that an Operating Partner of Compass Partners and CFO and then CEO of Dalgety PLC. He has also been CFO of United Distillers and Avis Europe plc.

14. Ken Hydon – 66 •◆
Non-executive Director
Ken Hydon was appointed a Non-executive Director on 23 February 2004 and is Chairman of the Audit Committee. He is also a Non-executive Director of Reckitt Benckiser plc, The Royal Berkshire NHS Foundation Trust and Pearson plc.

15. Jacqueline Tammenoms Bakker – 57 •■
Non-executive Director
Jacqueline Tammenoms Bakker was appointed a Non-executive Director on 1 January 2009. She was a Director General at the Ministry of Transport in the Netherlands from 2001 to 2007 and has held senior positions at Quest International, McKinsey & Co and Shell. Jacqueline is a Non-executive Director of Vivendi and was appointed a Chevalier de la Légion d'honneur in 2006.

16. Jonathan Lloyd – 44
Company Secretary
Jonathan Lloyd was appointed Company Secretary to the Board in December 2006. He joined Tesco as Deputy Company Secretary and Corporate Secretariat Director in April 2005 from Freshfields Bruckhaus Deringer. Jonathan is also Company Secretary of Tesco Bank.

Directors' report on corporate governance

David Reid
Chairman

Tesco has performed strongly during the year 2010/11, whilst maintaining our strong culture of good governance and recognising the needs of our shareholders which has helped to build our business.

Introduction from the Chairman

At Tesco PLC we are committed to the highest standards of corporate governance, as we recognise that strong governance is crucial in helping the business to deliver its strategy, generating shareholder value and safeguarding our shareholders' long-term interests. We have been active in contributing to the debate on governance, and will continue to put forward our views on what constitutes good governance. As a demonstration of our commitment to corporate governance we have chosen to report against the new UK Corporate Governance Code (New Code) before it applies to us fully.

The composition of our Board has been developed to ensure that the Company can benefit from the depth of experience, independence and knowledge of our Directors, whilst allowing the Board to discharge its duties effectively. We have rigorous director selection and evaluation processes, which include assessing their time commitments as well as their skills. During 2010 the Nominations Committee oversaw the appointment of two new Non-executive Directors and the implementation of the succession plan for a new CEO following Sir Terry Leahy's decision to retire. We welcome Stuart Chambers and Gareth Bullock as new Non-executive Directors and Philip Clarke as the new CEO; we thank Charles Allen, Rodney Chase and Harald Einsmann for their guidance and support as Non-executive Directors over a number of years, and Sir Terry Leahy for his loyal service and contribution to Tesco as CEO for the past 14 years. In addition, we were pleased to appoint Patrick Cescau as Senior Independent Director following Rodney Chase's retirement.

We have a solid and experienced leadership team, who are collectively responsible for the long-term success of the Company. We have a clear understanding of our roles and responsibilities in running the business and an honest and open environment in which both Executive and Non-executive Directors can constructively contribute to the development of the Company. We have a robust culture of good governance, including maintaining high ethical standards and strong personal integrity – this is formalised in our Group Code of Business Conduct, which has been adopted across the business and sets out clearly our expectations of how our employees will behave. All businesses within the Group are required to monitor their compliance with the Group's governance framework and this compliance is reviewed regularly.

Compliance with the UK Corporate Governance Code

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

The Board considers that Tesco PLC complied in full with the Code and New Code for the whole of the year ended 26 February 2011, with the exception of:

(i) Provision A.3.2 of the Code (Provision B.1.2 of the New Code), which requires that at least half of the Board, excluding the Chairman, should comprise Non-executive Directors determined by the Board to be independent. The Board recognises the importance of a balanced board with an appropriate level of independence. Tesco had one more Executive Director than Non-executive Directors (excluding the Chairman) between July 2010 and the end of the financial year. However, following Sir Terry Leahy's retirement and the appointment of Philip Clarke as his successor as CEO in March 2011, there is now an equal number of Executive and independent Non-executive Directors and the Board is again balanced and compliant with the relevant provisions.

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

Further information on the Code and New Code can be found at www.frc.org.uk.

We consider corporate governance critical to our business integrity and to maintaining investors' trust. I hope this report provides you with a clear understanding of our governance processes and procedures and how the Company complies with the Code and New Code.

David Reid
Chairman

Board composition and independence

As at 26 February 2011, the Board of Tesco PLC comprised eight Executive Directors, seven independent Non-executive Directors and David Reid, Non-executive Chairman. Sir Terry Leahy retired as Group CEO on 2 March 2011 and was replaced by Philip Clarke. Patrick Cescau is our Senior Independent Director. We believe that the size of the Board is appropriate given the diverse markets the Group operates in and the breadth of operations and services offered in each market.

The structure of the Board and the way that it operates, based on strong governance processes, together with the integrity of the individual Directors, ensure that no single individual or group dominates the decision-making process.

Biographies for the Directors can be found on pages 60 and 61 of this Annual Report.

Changes to the Board since 27 February 2010 are as follows:

Sir Terry Leahy	Executive Director	Retired as CEO 2 March 2011
Philip Clarke	Executive Director	Appointed CEO 2 March 2011*
Charles Allen	Non-executive Director	Resigned 2 July 2010
Rodney Chase	Non-executive Director and Senior Independent Director	Resigned 2 July 2010
Harald Einsmann	Non-executive Director	Resigned 2 July 2010
Gareth Bullock	Non-executive Director	Appointed 3 July 2010
Stuart Chambers	Non-executive Director	Appointed 3 July 2010
Patrick Cescau	Non-executive Director appointed Senior Independent Director	Appointed 3 July 2010**

* Prior to 2 March 2011 Philip Clarke was the Executive Director responsible for International and IT.
** Prior to 3 July 2010 Patrick Cescau was a Non-executive Director.

Election of Directors

The Directors will comply with the New Code requirement to submit themselves for re-election every year if they wish to continue serving and are considered by the Board to be eligible. The Company's Articles of Association require all new Directors to be submitted for election by shareholders in their first year following appointment.

Directors' report on corporate governance

The Chairman

There is a clear and effective division of accountability and responsibility between the roles of our Chairman and CEO and these are set out in writing. The Chairman has primary responsibility for leading the Board, to promote openness and effective debate, setting its agenda and ensuring sufficient time is given to strategic issues. The Chairman is also responsible for ensuring that the Board acts in the best interests of the Company's stakeholders and guiding the Company's business conduct and ethical standards. The Chairman has regular one-to-one meetings with the CEO and also separate group and individual meetings with the Non-executive Directors. The CEO has executive responsibilities for the day-to-day operations and performance of the Group, making proposals to the Board for the strategic development of the Group and ensuring effective communication to employees and shareholders.

Senior Independent Director

Rodney Chase was the Senior Independent Director until his retirement on 2 July 2010. Patrick Cescau, who has served on the Board since February 2009, was appointed Senior Independent Director from 3 July 2010. Patrick was selected for the role because of his experience and expertise, both as an Executive and a Non-executive Director. Patrick was Group Chief Executive of Unilever from 2005 to 2009. Prior to that he was Chairman of Unilever plc and Vice Chairman of Unilever NV. He joined Unilever in 1973 and became Finance Director of Unilever Indonesia in 1986, then led the business in Portugal, before returning to Indonesia as Chairman/CEO in 1991. Patrick ran the Van den Bergh Foods and Lipton beverage and foods businesses in the US from 1995 to 1998, before becoming Group Finance Director in 1999 and Foods Director in 2001. He has been a Non-executive Director of Pearson plc since 2002 and a Director of INSEAD since 2009.

In his role as Senior Independent Director (SID), Patrick Cescau is available to assist in resolving shareholder concerns should alternative channels be exhausted or inappropriate. The SID's role includes responsibility for Chairman appraisal and succession.

Non-executive Directors

Our Non-executive Directors have a wide range of skills and experience. They provide constructive challenge and help to develop our strategy. The Non-executive Directors have satisfied themselves with regard to the integrity of the Group's financial information, financial controls and risk management systems.

The independence of each Non-executive Director is assessed annually and the Board makes a careful assessment of the time commitment required from the Chairman and Non-executive Directors to discharge their roles properly. During the year the Chairman conducted a rigorous assessment of the effectiveness of each Non-executive Director's performance and independence, as well as a review of their contribution to the Board. Particular consideration was given to the independence of Karen Cook and Ken Hydon, who have both served for six years. The review concluded that each Non-executive Director continues to be independent and effective and to demonstrate commitment to the role.

Our Non-executive Directors have historically been appointed for a period of three years and have then submitted themselves for re-election on rotation if they wished to continue to serve and remain independent. Going forward, in line with the provisions of the New Code, all Non-executive Directors will be submitted for re-election on an annual basis, subject to remaining independent. The terms and conditions of appointment of our Non-executive Directors are available for inspection at the Company's registered office.

Board responsibilities

The Board held nine scheduled meetings during the year. It also holds an annual two-day off-site meeting, which considers the Group's strategy. The Board maintains a clear Schedule of Matters Reserved for Board Decision in order to ensure that it has appropriate overall control of the Group's affairs. The Matters Reserved include the approval of:

- the Company's strategic and operating plans;
- annual and interim financial statements;
- major acquisitions and disposals;
- authority levels for expenditure;
- treasury policies;
- risk management and internal control systems;
- Group governance policies; and
- succession planning for senior executives.

The Board delegates to management the detailed planning and implementation of these matters in accordance with appropriate risk parameters. The Board monitors compliance with policy and achievement against objectives by holding management accountable for its activities through regular updates. In addition, each business unit within the Group is required to update the Board on a regular basis, giving the Board the opportunity to understand and explore issues in depth as appropriate. All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. The Company provides insurance cover and indemnities for its Directors and Officers.

During the year ended 26 February 2011, the Board's scheduled activities included:

- receiving reports from key businesses within the Group;
- receiving regular reports on the financial position of the Group and the various businesses within the Group;
- approving the budget and long-term plan for the Group;
- approving interim and full-year results;
- discussing and approving Group strategy;
- considering opportunities for business development;
- discussing risk management and controls within the Group, including a detailed review of the Key Risk Register;
- receiving reports from the Remuneration Committee, Audit Committee and Nominations Committee and other key committees within the Group including the Compliance Committee and Corporate Responsibility Committee;
- receiving reports on governance issues affecting the Group; and
- conducting a review of the effectiveness of the Board.

Procedures to deal with Directors' conflicts of interest

The Company has comprehensive procedures in place to deal with any situation where a Director has an actual or potential conflict of interest. Under these procedures members of the Board are required to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the Companies Act 2006;
- keep appropriate records and Board minutes demonstrating any authorisation granted by the Board for such conflict and the scope of any approvals given; and
- regularly review conflict authorisations.

Training and development

All new Directors receive a personalised induction programme, tailored to their experience, background and particular areas of focus, which is designed to develop their knowledge and understanding of the Group's culture and operations. The programme has evolved over time to take into account feedback from new Directors and the development of best practice, and will usually include a combination of meetings with senior management from across the Group, comprehensive briefing materials and opportunities to visit the Group's operations across the world. The Chairman agrees the personalised induction plan for each new Director and ensures that it is appropriately tailored. Areas of focus for the induction process include an overview of the business model and Board processes, as well as briefings on key issues (including social, ethical and environmental (SEE) issues). Directors also receive a tailored induction in relation to those Board Committees they will serve on.

The need for Director development is regularly assessed by the Board and training sessions are arranged to upskill the Directors on a variety of areas relevant to the Group's business, including SEE issues. In the last year the Board received training focusing, inter alia, on recent corporate governance developments, including the implications of the Walker Review and the publication of the New Code. Training was also provided in relation to the business of Tesco Bank, including its ongoing migration programme and the issues involved in operating a mortgage business. It is planned to provide training on a number of key areas in the coming year.

The Board usually holds at least one meeting overseas each year, to facilitate the Directors' understanding of the Group's international operations. In February 2010 the Board visited China and Korea, and in March 2011 the Board visited our US business. Board trips allow the Directors to view first-hand the progress and direction of our businesses in these markets, as well as meeting our teams there.

Board performance evaluation

The performance of the Board is a fundamental component of the Group's success. The Board regularly reviews its own performance and during the year ended 26 February 2011 it carried out an internally led evaluation. This was the third year since a review of the Board's performance was last externally facilitated but, given the Board and senior management changes taking place this year, it was decided that it would be appropriate to carry out a further internally facilitated evaluation process this year, with an externally facilitated process next year, once those changes have had an opportunity to bed in. This year's review was coordinated and directed by the Chairman with the support of the Company Secretary. In-depth interviews were conducted with each Director and there was a wide-ranging discussion of the Board's effectiveness. The results of the review were considered in detail by the Board, and a number of next steps to improve Board effectiveness further were agreed.

The review confirmed that the Board had focused on the important issues in creating shareholder value, including the UK and key international businesses such as China and the US. The Board had performed well on governance and much effort was taken on an ongoing basis to ensure compliance with the Code and other requirements. There was a good focus on societal issues and the increasing focus on a global approach was welcomed. The review also highlighted that there was a high level of understanding of, and commitment to, the Board's strategy and the balance of skills and experience on the Board had strengthened in recent years. The Board was seen to respond openly and constructively to events and there were open channels of communication with management. The CEO succession process was praised as exemplary. The review recommended that going forward the Board should have a particular focus on the resources required to build a global business in terms of financial capacity, people development and operational capabilities.

Annual reviews of the performance of the Nominations, Remuneration and Audit Committees have been carried out, led by each Committee's Chairman. These reviews have confirmed that each Committee continues to operate effectively.

Our CEO reviews the performance of each Executive Director and our Chairman reviews the performance of the CEO and each Non-executive Director. Having completed these evaluations, the CEO and Chairman confirm that each individual whose performance they have assessed continues to be effective and committed to their role. The Senior Independent Director assessed the Chairman's performance in the year, taking into account the views of both the Non-executive and Executive Directors, and confirms that he continues to be effective and committed to his role.

During the year, the Chairman met with the Non-executive Directors, without the Executive Directors present, to discuss Board issues and how to build the best possible team.

Attendance at meetings

The Board held nine scheduled meetings in the year ended 26 February 2011, and ad hoc meetings were also arranged to deal with matters between scheduled meetings as appropriate. It is expected that all Directors attend scheduled Board and relevant Committee meetings, unless they are prevented from doing so by prior commitments, and that all Directors will attend the AGM. Where Directors are unable to attend meetings, they receive the papers scheduled for discussion in the relevant meetings, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. Following the meeting the Chairman briefs any member not present on the discussions and any decisions taken at the meeting. Directors leave the meeting where matters relating to them, or which may constitute a conflict of interest for them, are being discussed. None of the Executive Directors holds more than one FTSE 100 external non-executive directorship and Philip Clarke resigned his position as Non-executive Director of Whitbread plc effective from 1 March 2011. The other directorships held by the Non-executive Directors are set out in their biographies which can be found on pages 60 and 61.

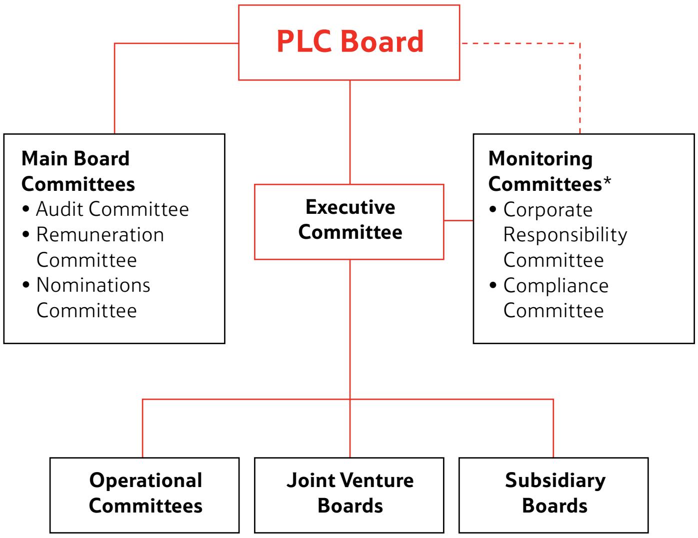
Directors' report on corporate governance

The table below shows the attendance of Directors at scheduled Board meetings during the year.

Number of meetings	Full Board meetings: Number of possible meetings attended	Full Board meetings: Actual meetings attended
Non-executive Directors		
David Reid (Chairman)	9	9
Gareth Bullock (appointed 3 July 2010)	4	4
Patrick Cescau (Senior Independent Director from 3 July 2010)	9	9
Stuart Chambers (appointed 3 July 2010)	4	4
Karen Cook	9	9
Ken Hanna	9	9
Ken Hydon	9	9
Jacqueline Tammenoms Bakker	9	9
Executive Directors		
Sir Terry Leahy (retired 2 March 2011)	9	9
Richard Brasher	9	9
Philip Clarke	9	9
Andrew Higginson	9	9
Tim Mason	9	9
Laurie McIlwee	9	9
Lucy Neville-Rolfe CMG	9	9
David Potts	9	9
Past Non-executives Directors		
Charles Allen CBE (retired 2 July 2010)	5	5
Rodney Chase CBE (retired 2 July 2010)	5	3
Harald Einsmann (retired 2 July 2010)	5	5

The Board's key activities

The Board governs through a number of key Committees – in particular the Audit, Remuneration and Nominations Committees – to which certain responsibilities and duties are delegated. These Committees are properly authorised under the constitution of the Company to take decisions and act on behalf of the Board within the parameters laid down by the Board. The Board is kept fully informed of the work of these Committees and any issues requiring resolution are referred to the full Board as appropriate. A summary of the operations of these Committees is set out below. The effectiveness of the Audit, Remuneration and Nominations Committees is underpinned by their Non-executive Director membership, which provides independent insight on governance matters. A copy of each Committee's Terms of Reference is available on our website www.tescoplc.com/boardprocess/. The Board is serviced by the Company Secretary, who reports to the Chairman in respect of his core duties to the Board.



* Reports are discussed by PLC Board on a regular basis.

Nominations Committee

David Reid
Nominations Committee Chairman

Our Nominations Committee comprises seven independent Non-executive Directors, the Non-executive Chairman and the CEO.

Members	Number of possible meetings attended	Actual meetings attended
David Reid (Chairman)	4	4
Gareth Bullock (from 3 July 2010)	1	1
Patrick Cescau	4	4
Stuart Chambers (from 3 July 2010)	1	1
Karen Cook	4	4
Ken Hanna	4	4
Ken Hydon	4	4
Jacqueline Tammenoms Bakker	4	4
Sir Terry Leahy (retired 2 March 2011)	4	4
Philip Clarke (from 2 March 2011)	1	1
Past committee members		
Charles Allen	3	3
Rodney Chase	3	2
Harald Einsmann	3	3

The Nominations Committee leads the process for Board appointments and the re-election and succession of Directors, as well as making recommendations for the membership of the Board's main committees.

The Committee is chaired by David Reid and the Company Secretary also attends meetings in his capacity as Secretary of the Committee. Where matters discussed relate to the Chairman, the Senior Independent Director chairs the meeting.

The Nominations Committee met four times formally in the year to discuss the ongoing shape and capability of the Board. There were also a number of ad hoc meetings during the year to discuss Board succession matters. As well as reviewing the performance and development of the Executive Directors and the senior executive levels below the Board, the Committee also regularly considers:

- the Board's structure, size and composition;
- the skills, experience and knowledge of the Board, and identifies candidates to fill Board vacancies and enhance its capability;
- succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the business, and what skills and expertise are therefore needed on the Board in the future;
- the time commitment required from Non-executive Directors;
- the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and
- strategic issues and commercial changes affecting the Group and the market in which it operates.

During the year consideration was given to finding an appropriate replacement for retiring CEO, Sir Terry Leahy, and for the retiring Non-executive Directors. The Nominations Committee considered the skills and experience that would be required for these positions to create detailed role descriptions. After a rigorous selection process involving a number of external candidates, which included interviews with the Executive and Non-executive Directors, Gareth Bullock and Stuart Chambers were selected for the Non-executive roles. Philip Clarke was chosen as the strongest candidate for CEO following a thorough assessment of internal and external candidates.

As part of the succession planning process the Nominations Committee considered appointing three new Non-executive Directors to replace the three Directors retiring in July 2010, but it was considered that the appointment of two new Directors would be sufficient, given the balance of skills and experience there would be among the Non-executive Directors (taking into account these appointments), and the fact that the Company's non-compliance with the board balance provisions in the Code would only be temporary. Copies of the Non-executive Directors' letters of appointment are available for inspection from the Company Secretary at the Company's registered office and also at the AGM.

The Committee's effectiveness review concluded that the Committee was provided with sufficient resources to carry out its duties.

Full terms of reference of the Tesco PLC Nominations Committee are available at:

www.tescoplc.com/boardprocess/

Remuneration Committee

Stuart Chambers
Remuneration Committee Chairman

Our Remuneration Committee comprises five independent Non-executive Directors.

Members (all independent Non-executive Directors)	Number of possible meetings attended	Actual meetings attended
Patrick Cescau	5	5
Stuart Chambers (from 3 July 2010)	3	3
Karen Cook	5	5
Ken Hanna	5	5
Jacqueline Tammenoms Bakker (from 3 July 2010)	3	3
Past Committee members		
Charles Allen	2	1
Rodney Chase	2	1
Harald Einsmann	2	2

The Remuneration Committee's role is to determine and recommend to the Board the remuneration of the Executive Directors. It also monitors the levels and structure of remuneration for senior management and seeks to ensure that the remuneration arrangements are designed to attract, retain and motivate the Executive Directors needed to run the Company successfully.

At the invitation of the Committee the Chairman of the Board normally attends meetings and the CEO and Chief Financial Officer attend as appropriate. Representatives of the Group's Personnel and Finance functions attend as appropriate to provide support and the Company Secretary also attends in his capacity as Secretary of the Committee.

The Committee met five times this year. The Committee's effectiveness review concluded that the Committee was provided with sufficient resources to carry out its duties.

Details of the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 74 to 91.

Each year the Committee conducts a review of its own effectiveness and its Terms of Reference. The responsibilities of the Remuneration Committee, and an explanation of how it applies the Directors' remuneration principles of the Code and other applicable rules and regulations governing remuneration, are set out in the Directors' Remuneration Report on pages 74 to 91.

Full terms of reference of the Tesco PLC Remuneration Committee are available at

www.tescoplc.com/boardprocess/

Audit Committee

Ken Hydon
Audit Committee Chairman

Our Audit Committee comprises four independent Non-executive Directors.

Members (all independent Non-executive Directors)	Number of possible meetings attended	Actual meetings attended
Ken Hydon (Chairman) (Fellow of CIMA, ACCA and ACT)	5	5
Gareth Bullock (from 3 July 2010) (MA Modern Languages)	2	1*
Patrick Cescau	5	5
Ken Hanna (Fellow of ICAEW)	5	4*
Past Committee members		
Rodney Chase	3	2

* Ken Hanna was not able to attend the April meeting due to the disruption created by the Icelandic ash cloud. Gareth Bullock was not able to attend the September meeting due to a pre-existing commitment made before his appointment.

Other regular attendees at the invitation of the Committee include:

- Chairman of the Board;
- Chief Financial Officer and his team (as appropriate);
- Head of Internal Audit;
- Executive Director (Corporate and Legal Affairs);
- Executive Directors as appropriate; and
- External Auditors.

The Company Secretary also attends in his capacity as Secretary of the Committee.

The Chairman of the Tesco Bank Audit Committee attends the Committee twice a year to provide an update on the work of the Bank's Audit Committee in overseeing the Bank's internal control and risk assurance processes.

The Audit Committee structure requires the inclusion of at least one member with recent and relevant financial experience. The Committee Chairman and several other members fulfil this requirement, and all other Committee members have an appropriate understanding of financial matters.

The Audit Committee's primary responsibilities are:

- to review the financial statements and announcements relating to the financial performance of the Company;
- to review the Group's internal control and risk assurance processes;
- to consider the appointment of the external auditors, their reports to the Committee and their independence, which includes an assessment of their appropriateness to conduct any non-audit work; and
- to review the programme of Internal Audit.

The Committee met five times this year and the Committee's effectiveness review concluded that the Committee was provided with sufficient resources to carry out its duties. While fulfilling the above responsibilities, during the year the Committee received detailed updates from a number of businesses within the Group, as well as discussing a number of topics including:

- fraud risks;
- business continuity and crisis management;
- whistle-blowing;
- Groceries Supply Code of Practice;
- going concern; and
- IT controls.

A Board visit is organised each year to one or more of the Group's international businesses and the Committee takes advantage of these visits to meet with local management and discuss the extent to which Group internal controls and risk management processes are embedded in those businesses.

The need for training is kept under review and the annual agenda ensures substantial time is dedicated to technical updates, which are generally provided by external experts. This year training was provided, inter alia, on accounting and reporting developments under IFRS and IAS and governance developments proposed by the FRC. With respect to Tesco Bank, training was provided on regulatory, accounting, governance and risk management requirements. Training is also provided on an ongoing basis to meet specific individual needs of Committee members.

The Committee conducted a review of its own effectiveness and its Terms of Reference during the year. The Committee also had regular private meetings with the external auditors and the Head of Internal Audit during the year at which an honest and open working relationship is maintained and developed.

Full terms of reference of the Tesco PLC Audit Committee are available at

www.tescoplc.com/boardprocess/

Management of the Group

EXECUTIVE COMMITTEE

The Board delegates responsibility for formulating and implementing the Group's strategic plan and for management of the Group to the Executive Committee, which is chaired by the CEO and comprised the eight Executive Directors during the year. A senior executive, Colin Holmes, was also a member of the Committee until he left the Group on 29 October 2010. From 1 March 2011 this Committee has been expanded to reflect the scale and scope of the business. The Committee now consists of the seven Executive Directors and the following senior executives:

1. Gordon Fryett – Property Strategy Director for the Group
2. Alison Horner – Group Personnel Director
3. Trevor Masters – responsible for operations in the Czech Republic, Hungary, Poland, Slovakia and Turkey
4. Mike McNamara – Chief Information Officer
5. Bob Robbins – Chief Operating Officer of the UK business
6. Ken Towle – Internet Retailing Director

The Committee has authority for decision-making in all areas except those set out in the Schedule of Matters Reserved for Board Decision, and meets formally on a regular basis. The Company Secretary attends in his capacity as Secretary of the Committee.

The Executive Committee is responsible for implementing Group strategy and policy and for monitoring the performance and compliance of the business, drawing on the work of relevant committees, and reporting on these matters in full to the Board.

The Committee has set up further committees, including the Compliance and Corporate Responsibility Committees, together with a number of operational groups which have responsibility for implementing the key elements of the Group's strategic plan and managing its UK and international operations, joint ventures, property acquisitions, finance, funding and people matters. These committees and groups have as members an appropriate mixture of Executive Directors and senior management from relevant functions.

COMPLIANCE COMMITTEE

Membership of the Compliance Committee includes three Executive Directors and members of senior management. The Committee is chaired by Lucy Neville-Rolfe, Executive Director (Corporate and Legal Affairs). The Committee normally meets six times a year and its remit is to ensure that the Group complies with all necessary laws, regulations and other compliance policies in all of its operations worldwide. The Committee has a schedule for the regular review of operational activities across the Group. Each business in the Group has its own compliance committee which reviews compliance with Group and local compliance policies, and each compliance committee reports to the Group Compliance Committee on a regular basis.

CORPORATE RESPONSIBILITY COMMITTEE

The Committee is chaired by Lucy Neville-Rolfe, Executive Director (Corporate and Legal Affairs), and membership comprises both Executive Directors and senior executives from across the Group. Regular support and contributions are also received from Non-executive Directors, who provide the Committee with the benefit of their experience outside Tesco. The Committee meets at least four times a year to support, develop and monitor policies on Social, Ethical and Environmental (SEE) issues, and to review threats and opportunities for the Group. Progress in developing community initiatives is monitored by the use of relevant KPIs for the businesses within the Group. The Board formally discusses the work of the Committee on a regular basis, including progress in implementing our Community Plan.

The Corporate and Legal Affairs Department and the Trading Law and Technical Department provide assurance and advice on legal compliance, health and safety, and SEE matters. These functions report on their work on a regular basis and escalate matters as appropriate.

Whistle-blowing

The Group operates a whistle blowing policy which is reviewed annually. In every business we operate a confidential telephone and email service which enables concerned employees to report, anonymously if they choose, any instances of inappropriate behaviour or malpractice within the business. Such issues include unethical or illegal behaviour such as fraud, dishonesty and any practices that endanger our staff, customers or the environment. During the year the majority of the issues related to personnel matters, which is common in most businesses, with a number of security issues also raised.

All complaints made are treated as confidential and are investigated by the relevant department. Employees are kept updated on request. Where there is a serious issue, this will be escalated to the country CEO. This policy is monitored by the compliance committees in country, by the Group Compliance Committee annually and by the Group Audit Committee annually. In addition, the whistle blowing line was internally audited during the year.

Risk management and internal controls

Accountabilities

Accepting that risk is an inherent part of doing business, our risk management systems are designed both to encourage entrepreneurial spirit and also provide assurance that risk is fully understood and managed. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. Executive management is responsible for implementing and maintaining the necessary control systems. The role of Internal Audit is to monitor the overall internal control systems and report on their effectiveness to executive management, as well as to the Audit Committee, in order to facilitate its review of the systems.

Background

The Group has a five-year rolling business plan to support the delivery of its strategy. Every business unit and support function derives its objectives from the five-year plan and these are cascaded to managers and staff by way of personal objectives.

Key to delivering effective risk management is ensuring our people have a good understanding of the Group's strategy and our policies, procedures, values and expected performance. We have a structured internal communications programme that provides employees with a clear definition of the Group's purpose and goals, accountabilities and the scope of permitted activities for each business unit, as well as individual line managers and other employees. This ensures that all our people understand what is expected of them and that decision-making takes place at the appropriate level. We recognise that our people may face ethical dilemmas in the normal course of business so we provide clear guidance based on the Tesco Values. The Values set out the standards that we wish to uphold in how we treat people. These are supported by the Group Code of Business Conduct which offers guidance on relationships between the Group and its employees, suppliers and contractors.

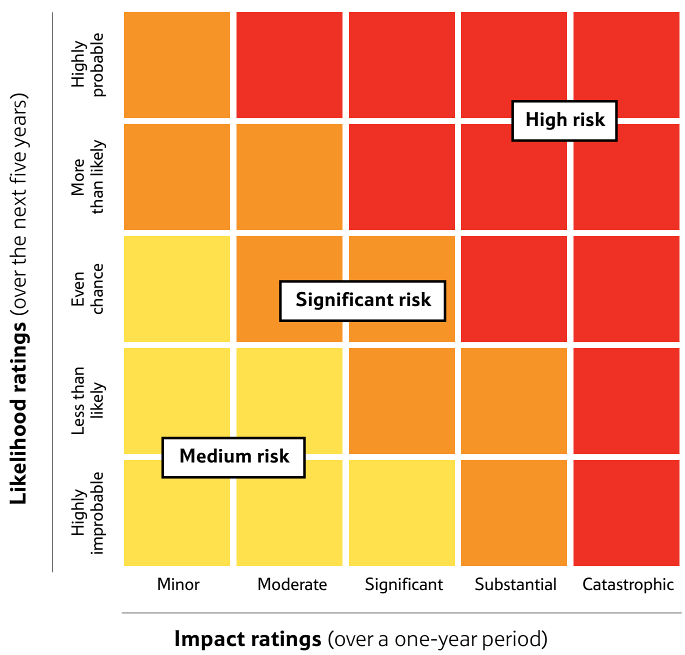
Risk management

The Group maintains a Key Risk Register. The Register contains the key risks faced by the Group, including their likelihood and impact, as well as the controls and procedures implemented to mitigate these risks (see table below). The content of the Register is determined through regular discussions with senior management and review by the Executive Committee and the full Board. A balanced approach allows the degree of controllability to be taken into account when we consider the effectiveness of mitigation, recognising that some necessary activities carry inherent risk which may be outside the Group's control. Our key risks are summarised on pages 51 to 57 of the Business Review section of this Annual Report.

The risk management process is cascaded through the Group, with operating subsidiary boards maintaining their own risk registers and assessing their control systems. The same process also applies functionally in those parts of the Group requiring greater overview. For example, the Audit Committee's Terms of Reference require it to oversee the Finance Risk Register. The Board assesses significant SEE risks to the Group's short-term and long-term value, and incorporates SEE risks on the Key Risk Register where they are considered material or appropriate. During the year the Board regularly reviewed the Key Risk Register and undertook deep dive assessments of property and fraud risks.

We recognise the value of the ABI Guidelines on Responsible Investment Disclosure and confirm that, as part of its regular risk assessment procedures, the Board takes account of the significance of SEE matters to the business of the Group. We recognise that a number of investors and other stakeholders take a keen interest in how companies manage SEE matters and so we report more detail on our SEE policies and approach to managing material risks arising from SEE matters and the KPIs we use both on our website (http://www.tescoplc.com/corporate-responsibility/) and in our Corporate Responsibility Report 2011. To provide further assurance, the Group's Corporate Responsibility KPIs are audited on a regular basis by Internal Audit.

RISK MATRIX (LIKELIHOOD TO IMPACT)



Controllability factors

- The Company can totally control this risk
- The Company can largely control this risk or influence the environment
- The Company is one of a number of entities that can control the risk or influence the environment
- The Company can only marginally influence or effect control in this risk environment
- The Company has no effective influence over the control of this risk

Internal controls

The Board is responsible for the Company's system of internal controls and for reviewing the effectiveness of such a system. We have a Group-wide process for clearly establishing the risks and responsibilities assigned to each level of management and the controls which are required to be operated and monitored.

The CEO of each subsidiary business is required to certify by way of an annual governance return that the Group's governance and compliance policies and processes have been adopted. The returns received from across the Group are reviewed and discussed by the Compliance Committee and the results of that review are included in the Compliance Committee's annual report to the Board. For certain joint ventures, the Board places reliance upon the internal control systems operating within our partners' infrastructure and the obligations upon partners' boards relating to the effectiveness of their own systems.

Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

In respect of Group financial reporting, Group Finance is responsible for preparing the Group financial statements, incorporating the consolidation process. Group Finance contains a consolidation team and technical accounting team, which reviews external technical accounting developments, financial reporting and accounting policy issues. It is also responsible for the maintenance of the Group's accounting policy manual, which is in accordance with International Financial Reporting Standards. Group Finance also maintains its own risk register and assesses its own controls systems. This incorporates risks such as wrong or unclear accounting policies, ineffective financial close processes, inaccurate or incomplete Group financial and management accounts, reputational risk, IT risks, fraud and people risks. Internal Audit also reviews the effectiveness of controls operating in the Group Finance function. The results of Group Finance's risk register review and Internal Audit's findings are reported to the Audit Committee on an annual basis.

The Board has conducted a review of the effectiveness of internal controls and is satisfied that the controls in place remain appropriate.

Monitoring

The Board oversees the monitoring system and has set specific responsibilities for itself and the various committees as set out below. Both Internal Audit and our external auditors play key roles in the monitoring process, as do several committees including the Compliance Committee and the Corporate Responsibility Committee. The minutes of the Audit Committee and the other committees are distributed to the Board and each committee submits a report for formal discussion at least once a year. These processes provide assurance that the Group is operating legally, ethically and in accordance with approved financial and operational policies.

Audit Committee

The Audit Committee reports to the Board each year on its review of the effectiveness of the internal control systems for the financial year and the period to the date of approval of the financial statements. Throughout the year the Committee receives regular reports from the external auditors covering topics such as quality of earnings and technical accounting developments. The Committee also receives updates from Internal Audit and has dialogue with senior managers on their control responsibilities. It should be understood that such systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal Audit

The Internal Audit department is independent of business operations and has a Group-wide mandate. It undertakes a programme to address internal control and risk management processes with particular reference to the Turnbull Guidance. It operates a risk-based methodology, ensuring that the Group's key risks receive appropriate regular examination. Its responsibilities include maintaining the Key Risk Register, reviewing and reporting on the effectiveness of risk management systems and internal control with the Executive Committee, the Audit Committee and ultimately to the Board. Internal Audit facilitates oversight of risk and control systems across the Group through risk committees in Asia and Europe and audit committees in a number of our businesses and joint ventures. The Head of Internal Audit also attends all Audit Committee meetings.

External audit

PricewaterhouseCoopers LLP, the Company's external auditor, contributes a further independent perspective on certain aspects of our internal financial control systems arising from its work, and reports to both the Board and the Audit Committee. The engagement and independence of external auditors is considered annually by the Audit Committee before it recommends its selection to the Board.

The Company has a non-audit services policy for work carried out by PricewaterhouseCoopers LLP. This is split into three categories as explained below:

(a) pre-approved for the external auditors – is predominantly the review of subsidiary undertakings' statutory accounts and is Audit-related in nature;

(b) work for which Audit Committee approval is specifically required – transaction work and corporate tax services, and certain advisory services; and

(c) work from which the external auditors are prohibited.

The Audit Committee concluded that it was in the best interests of the Company for the external auditors to provide a number of non-audit services during the year due to their experience, expertise and knowledge of the Group's operations.

Auditor objectivity and independence was achieved by ensuring that personnel involved in the non-audit work were not involved in the audit, and by ensuring that management took responsibility for all decisions made.

The fees paid to the auditors in the year are disclosed in note 3 to the Group Financial Statements.

PricewaterhouseCoopers LLP also follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised.

Tesco Bank

Tesco Bank monitors the risks it faces through its governance structures, assessing any potential impact and action required to manage them. The work of the Tesco Bank Risk Committee focuses on systematic risks such as funding, credit risk and risks in the insurance business, while the Tesco Bank Audit Committee considers internal controls and assurance. The Bank's Board has overall responsibility for ensuring that it has an appropriate approach to risk management and internal control within the context of achieving its objectives. Executive management is responsible for implementing and maintaining the necessary control systems with the independent risk function providing oversight and assurance in relation to risk profiles. The role of Tesco Bank Internal Audit is to monitor the overall internal control systems and report on their effectiveness.

The Bank has established a risk management framework to manage the risks arising across the business. The framework is driven at a strategic level by the Bank's Risk Appetite, which is approved by its Board. The Internal Capital Adequacy Assessment Process (ICAAP) is the Bank's internal assessment of capital adequacy designed to address the requirements under Pillar 2 of the Basel II framework. The ICAAP process considers all of the risks faced by the Bank, how these risks are mitigated and the amount of capital that requires to be held both currently and in the future. The Bank performs a full ICAAP at least annually with approval provided by its Board.

The Bank maintains a Key Risk Register, which is subject to regular review to enable management to determine additional mitigating actions in cases where the residual risk is outside its Risk Appetite. The content of the Register is determined through regular discussions with senior management and reviewed by the Bank's Board Risk Committee, its Board and the Tesco PLC Board on a regular basis.

Relations with stakeholders

We are committed to having a constructive dialogue with stakeholders to ensure we understand what is important to them and allow ourselves the opportunity to present our position. Every year we carry out a survey of a cross section of shareholders in order to assess shareholder perceptions of the Company. The results of this survey are reviewed by the Board. Engagement helps us identify new risks and opportunities to ensure that our long-term strategy is sustainable. In some instances we find that working with stakeholders in partnership can help deliver shared goals. We might not be able to satisfy all stakeholder concerns all the time but through engagement we can do our best to balance competing demands. We know that customers need to be able to trust our business and they will only trust us if they believe that we are engaging on an appropriate basis with our stakeholders.

Our programme of engaging with stakeholders including customers, staff, suppliers, investors, government, regulators, non-governmental organisations and others, is set out in more detail in our Corporate Responsibility Report 2011 and on our website.

Shareholder engagement

We maintain a good dialogue with shareholders through proactively organising meetings and presentations as well as responding to a wide range of enquiries. We seek shareholder views on a range of issues from strategy to corporate governance and SEE issues. We recognise the importance of communicating appropriately any significant Company developments.

During the year, the Chairman, CEO and Chief Financial Officer met with a number of our leading shareholders to discuss issues relating to the performance of the Group and its strategy, as well as new developments within the business and a range of governance matters. The Chairman's meetings with major shareholders took place independently from the Executive team's meetings. This year the Remuneration Committee Chairman also met with a number of major shareholders to discuss proposed changes to the remuneration structure for Executive Directors. In addition to this, Investor Relations engage with shareholders on a regular basis, and on a wide range of issues. Lucy Neville-Rolfe leads the Company's contact with socially responsible investors (SRIs) and has regular meetings, on both a one-to-one and group basis, to discuss the work the Group is doing on corporate responsibility and governance-related issues. Following these meetings the matters raised are discussed with the Board as a whole.

An Investor Relations report is produced for the Board periodically. This report summarises feedback from shareholders particularly in terms of our management and strategy, and ensures the Board has a balanced perspective on the views of our major shareholders.

It is normal that institutional shareholders may be in more regular contact with the Group than other shareholders, but care is exercised to ensure that any price-sensitive information is released to all shareholders, institutions and private, at the same time in accordance with applicable legal and regulatory requirements. All major presentations to institutional shareholders are made available to private shareholders through the Tesco PLC website.

Every shareholder may choose to receive a full Annual Report and Financial Statements or the Annual Review and Summary Financial Statement, either in paper or electronic form. These reports, together with publicly made trading statements, are available on the Group's website, www.tescoplc.com

The Tesco PLC AGM

The Annual General Meeting offers the opportunity for the Board to communicate the Company's progress directly to shareholders. Our last Annual General Meeting in July 2010 was held in London. The 2011 AGM will be held in Nottingham at 11am on Friday 1 July. The choice of location is based on our policy of widening the opportunity for our shareholders to attend the AGM, by moving to different locations in the UK each year.

The whole Board attends the AGM and is available to answer questions from shareholders present. To encourage shareholder participation, we offer electronic proxy voting and voting through the CREST electronic proxy appointment service. At our last Annual General Meeting, all resolutions were voted by way of electronic poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting. The Chairman announces the provisional voting results at the meeting, and the final results are announced the same day through the Regulatory News Services and the Tesco PLC website.

By Order of the Board
Jonathan Lloyd
Company Secretary
6 May 2011

Tesco PLC
Registered Number: 445790
Registered in England and Wales
Registered Office: Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL

VAT Registration Number: GB 220 4302 3

Directors' remuneration report

Stuart Chambers
Remuneration Committee Chairman

As the new Remuneration Committee Chairman I am pleased to present Tesco PLC's 2010/11 Directors' Remuneration Report to you.

This report sets out the remuneration policy for the Executive and Non-executive Directors of Tesco PLC and describes the individual remuneration of the Directors for the year ended 26 February 2011.

Following my appointment as Chairman of the Remuneration Committee, I took the opportunity to meet with our largest shareholders in November 2010 to understand their views and concerns in relation to remuneration arrangements. The Remuneration Committee has since reviewed all our executive remuneration arrangements in the light of our strategy, our operational goals and the feedback from shareholders. Whilst we believe that our remuneration arrangements are broadly competitive and operate well, the Committee has found opportunities to simplify, and rebalance where appropriate.

In carrying out this review, we have followed four guiding principles. These principles as well as the key outcomes of the review are as follows:

1 **Simplification** – We will remove share options and operate only one long-term incentive plan (currently four plans) with two performance measures (currently five measures). We will also reduce the annual bonus metrics to seven key measures (currently more than 20 individual measures are considered).

2 **A collegiate approach** – The focus for our long-term incentives will be on Group results only for both the CEO and Executive Directors and there will be no separate long-term incentives for Executive Directors in relation to the US or other businesses. Going forward, the US CEO will participate in the same incentive arrangements as other executives and will no longer participate in the US LTIP.

3 **Strategic alignment** – We will emphasise earnings growth in the long-term plan as well as delivering sustainable return on capital. We are also increasing our executive shareholding guidelines to four times base salary for the CEO and three times base salary for the Executive Directors to enhance the alignment of interests between executives and our shareholders.

4 **Appropriate pay levels** – The simplified remuneration arrangements are of broadly the same expected value as the current executive remuneration arrangements.

We are asking shareholders at this year's AGM to approve the renewal of the Performance Share Plan for a further ten years on broadly its existing terms. In order to allow for the replacement of share options with a performance share award and to allow for the Committee to structure the reward of the CEO so that it is more focused on performance related elements, our current intention is for the maximum award under the long-term incentive plan (PSP) to be 225% of base salary for Executive Directors and 275% of base salary for the CEO. To ensure that we have sufficient headroom to grant awards in exceptional circumstances, in line with usual practice, we are seeking shareholder approval to increase the maximum award opportunity under the PSP to 350% of base salary. In the event that this award policy changes we would expect to consult our largest shareholders in advance.

Further details of the proposed remuneration arrangements are set out on pages 76 to 79.

I believe that the remuneration arrangements we are proposing are appropriate and will help incentivise executives to create future growth in shareholder value. I very much hope that shareholders will support our remuneration arrangements at our forthcoming AGM.

Last year's remuneration
2010/11 was another strong performance year for Tesco in challenging markets. Remuneration payouts for the year were based on the existing reward framework and average payouts for the year were lower than for 2009/10. Further details of this are provided on pages 80 to 83.

Stuart Chambers
Chairman of the Remuneration Committee

REMUNERATION COMMITTEE

Membership of the Remuneration Committee	Stuart Chambers (Committee Chairman) (joined the Committee on 3 July 2010) Patrick Cescau Karen Cook Ken Hanna Jacqueline Tammenoms Bakker (joined the Committee on 3 July 2010) • The Directors' biographies can be found on pages 60 and 61 of this Annual Report. • Members' attendance at Committee meetings is listed in the Corporate Governance section on page 68 of this Annual Report. • No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco. • Charles Allen, Rodney Chase and Harald Einsmann were also members of the Committee until their retirement from the Board at the 2010 AGM on 2 July. Mr Allen chaired the Committee until this date.
Role of the Remuneration Committee and activities during the year	The Committee's responsibilities are to: • determine and recommend to the Board the remuneration policy for the Chairman and Executive Directors; • ensure the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors needed to run the Company; • review and approve awards made under our share schemes; • agree performance frameworks and targets for annual and long-term awards, and review performance against these; • monitor the level and structure of remuneration for senior management ensuring that it is aligned with shareholders' interests; • ensure the remuneration relationship between the Executive Directors and the wider workforce is appropriate; • review compliance with director shareholding guidelines; • approve the annual Directors' Remuneration Report for presentation to shareholders; • consider developments in best practice and updated guidelines on executive compensation from shareholder advisory bodies; and • review the Chairman's pay and benefits. In addition to carrying out these responsibilities, during the year the Committee undertook a detailed review of remuneration arrangements and proposed changes to both policy and structures. The Committee also set a reward framework for our new CEO. As it does every year, the Committee undertook a review of its own performance and agreed steps to enhance its effectiveness. As required by the FSA, Tesco Bank has a separate independent remuneration committee. The Group Remuneration Committee is consulted on, and makes recommendations in relation to the remuneration arrangements for Tesco Bank employees, with the aim of encouraging consistency with Group remuneration policy, but it does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.
Number of meetings	• Normally four meetings per year • In the year ending 26 February 2011 the Committee met formally five times
External advisors	Deloitte LLP Deloitte also provided advisory services in respect of corporate tax planning, share schemes, international taxation, corporate finance and treasury to the Group during the year.
Internal advisors	• Jonathan Lloyd, the Company Secretary, is Secretary to the Committee. • David Reid, Non-executive Chairman, Philip Clarke, Chief Executive of the Group and Laurie McIlwee, Group CFO, all attend meetings at the invitation of the Committee. They are not present when their own remuneration is being discussed. • The Committee is supported by the Group Personnel and Finance functions.
Terms of reference	Available from the Company Secretary upon request or can be viewed at www.tescoplc.com/boardprocess/

Governance Oversight Committee (GOC)

Membership of the Committee	Senior Independent Director – Patrick Cescau (Committee Chairman) Chairman of the Audit Committee – Ken Hydon Chairman of the Remuneration Committee – Stuart Chambers The Chairman attends meetings and the Company Secretary serves as its secretary.
Role of the Governance Oversight Committee	The Committee's purpose is to review and report to the Remuneration Committee at the end of each financial year on the allocation of Group capital. The Remuneration Committee takes account of the GOC's report together with the view of the Audit Committee to ensure that financial performance against targets is indicative of strong and robust business performance. If appropriate, vesting under long-term incentive plans may be adjusted by the Remuneration Committee. Any such adjustments to vesting for Executive Directors will be reported to shareholders in the Remuneration Report at the relevant time.

REMUNERATION STRATEGY AND POLICY FROM 2011/12 ONWARDS

Executive Directors' remuneration strategy

Tesco has a long-standing strategy of rewarding talent and experience. We seek to provide incentives for delivering strong, sustainable and profitable growth, thereby creating substantial additional value for shareholders. We operate in a keenly competitive and rapidly changing retail environment. Business success depends on the talents of the key team, but outstanding business performance comes from teamwork. Tesco has a stable and successful management team, and motivating and incentivising that team at senior levels to deliver yet higher levels of performance is vital to our ongoing success. We believe our incentives should support the continued growth and the strengthening of our returns from across the Group, as well as the creation and development of significant new businesses.

Total remuneration levels of Executive Directors are reviewed annually by the Committee, taking into account their contribution in terms of continuing strong performance, their potential and competitive market practice. When setting the remuneration of Executive Directors, the Committee considers the Group's performance against a mixture of corporate objectives and financial measures. Consideration is also given to reward levels at the next tier of management below the Board and across the Group in order to sustain a common sense of purpose and sharing of success.

Remuneration policy for 2011/12

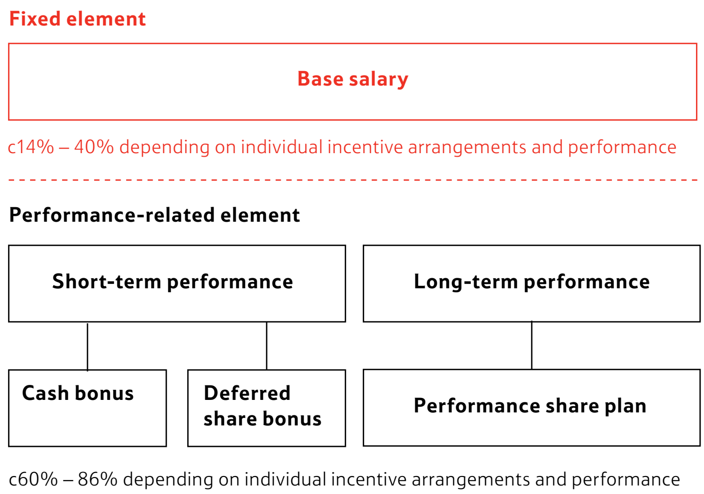
The Remuneration Committee has undertaken a detailed review of executive remuneration arrangements in the past few months. As outlined in the Chairman's introduction, the objectives of this review were to simplify arrangements and return to using measures relevant to group performance for all Executive Directors. In addition, the review focused on ensuring that executive arrangements are aligned with strategy and shareholder value creation, while offering the right pay for the right level of performance. In carrying out its review of Tesco's remuneration approach, the Committee considered total remuneration levels and decided that there should be no overall increase in incentive opportunity. The Committee believes that this package is appropriate for the scope and responsibility of the Executive Director roles.

When reviewing remuneration and determining the revised level and structure of reward, the Remuneration Committee has also been conscious of the economic background and wider concerns around executive pay and has sought to ensure reward outcomes are proportionate to the performance outcome.

The key features of the revised arrangements are:

- **Common remuneration arrangements with a Group focus –** There will be a return to a common set of incentive arrangements with a focus on Group performance for short-term and long-term reward. All executives, including the CEO and the US CEO, will participate in the same plans going forward.
- **Retain focus on performance related reward and delivery in shares –** The Remuneration Committee continues to believe that the majority of total remuneration should be performance related and delivered largely in shares, to closely align the interests of shareholders and Executive Directors. This remains a feature of the revised arrangements. To further enhance alignment with shareholder interests, the Committee has decided to increase the executive shareholding guideline from one times base salary to four times base salary for the CEO and three times base salary for the other executives.
- **Removal of share options –** Executive share options will no longer be granted and will be replaced by a performance share award of comparable expected value.
- **Reduction in measures –** The number of performance measures will be reduced going forward, with a focus on delivery of ongoing earnings growth and sustainable return on capital for long-term elements of reward.
- **Rebalancing of the CEO package –** The CEO's package has been rebalanced compared to his previous package as an Executive Director, to focus it more on performance-related rather than fixed elements of reward.
- **Introduction of 'clawback' –** To reflect best practice, we have also introduced 'clawback' for deferred share awards under the annual bonus plan and long-term incentive (PSP) awards to allow the Committee to scale back awards in the event that results are materially misstated.

The following chart shows the make-up of remuneration:



Fixed remuneration from 2011/12

	CEO[1]	Executive Directors	Commentary
Base salary	• £1,100,000 (from 2 March 2011) • Next review 1 July 2012	• Operational executives – £832,000 • Executive Director (Corporate and Legal Affairs) £624,000 • Next review 1 July 2011	• For the last few years executive salary increases have normally been limited to around inflation and have generally been at a similar level to increases throughout the Group.
Pension	• Current pension provision of defined benefit with a 10% contribution and pension of two-thirds base pay at retirement. This is provided through registered arrangements and secured unfunded arrangements.		• Pension arrangements are currently being reviewed in the context of changes in pension and tax legislation.
Other benefits	• The Executive Directors will continue to be eligible for car benefits, life assurance, disability and health insurance and staff discount. • They will continue to be eligible to participate in the Company's all employee share schemes on the same terms as UK employees, details of which are set out in the tables at the end of this report. • In line with our policy for senior executives working abroad, the US CEO will receive a net expatriate allowance of £282,000 per annum to cover costs incurred in relation to his US assignment.		

1 Sir Terry Leahy's base salary with effect from 1 July 2010 to his retirement on 1 March 2011 was £1,444,000.

Base salary

Policy	• Base pay is designed to attract and retain talented individuals. • It needs to reflect individual capability and any changes in responsibilities as the Group faces new opportunities and challenges.
Benchmarking group	• The Committee examines salary levels at the major retailers, the leading FTSE companies and ensures consideration is also given to international competitors.
Relationship to all employee pay	• The Committee also takes into account pay conditions throughout the Group in deciding executive annual salary increases. • The average increase for established Executive Directors last year was 2.46%. The average increase for senior management below Board level last year was 2.4%, and for other employees the average increase was typically around 2.3%. • Pay levels Group-wide are determined with consideration to a number of factors, including the prevailing economic environment, discussions with employee representative groups, and current market practice.
Review date	• Base salaries are typically reviewed with effect from 1 July each year. • The next salary review will be 1 July 2011 (other than for the CEO) and Executive Director salaries following this review will be disclosed in next year's report.

Pension
Pension provision is central to our ability to foster loyalty and retain experience, which is why Tesco wants to ensure that the Tesco PLC Pension Scheme is a highly valued benefit. All Executive Directors are members of the Tesco PLC Pension Scheme, which provides a pension of up to two-thirds of base salary on retirement, normally at age 60, dependent on service. Pension drawn before age 60 will be actuarially reduced to reflect early retirement. The Final Salary Scheme is now closed to new entrants but has been replaced throughout the organisation by a defined-benefit pension scheme based on career average earnings. Our defined benefit pension is a key incentive and retention tool throughout the organisation and remains an important part of our reward package. Since April 2006, following implementation of the regulations contained within the Finance Act 2004, Executive Directors have been eligible to receive the maximum pension that can be provided from the registered pension scheme before the Finance Act 2004 changes apply. The balance of any pension entitlement for all Executive Directors is delivered through an unapproved retirement benefits scheme (SURBS). Except for Tim Mason, the SURBS is 'secured' by using a fixed charge over a cash deposit in a designated account.

Over the last few years employee pension contributions by our Executive Directors have been increasing progressively. In 2010/11 the level of employee contribution was 9% of salary, which is in line with contribution levels by senior management below Board level. Contributions will rise to 10% in 2011/12. Further details of the pension benefits earned by the Directors can be found on page 85.

The pension arrangements are currently being reviewed in light of the recent changes to pension tax relief and other tax legislation.

Performance related remuneration from 2011/12

The Committee has considered the performance conditions for each of the incentive arrangements against the Group's business strategy, its growing global leadership, its position as one of the rising companies at the top of the FTSE 100 and the intensely competitive sector in which it operates, and has concluded that they provide a set of comprehensive and robust measures of management's effort and success in creating shareholder value.

	Performance measures	CEO	Other Executive Directors	Commentary
Short-term performance measures (one year performance)	• 70% of bonus based on underlying profit performance • 30% of bonus based on performance against six key strategic performance measures	Maximum of 250% of base salary • Delivered half in cash; and • half in shares which are deferred for three years • 'Clawback' introduced for deferred shares to allow the Committee to scale back deferred share awards in the event that results are materially misstated	Maximum of 200% of base salary	• These bonus measures have been selected as they are considered to be closely aligned to long-term shareholder value creation. • Strategic performance measures include specific measures based on environmental, social and governance (ESG) factors, an integral part of the corporate strategy. Inclusion of these specific measures will help reinforce positive and responsible behaviour by senior management.
Long-term performance measures (three year performance)	Matrix of ROCE/EPS performance	Maximum of 275% of base salary	Maximum of 225% of base salary	• Share options will no longer form part of the package for Executive Directors (other than in exceptional circumstances). • The new PSP awards have been set to be of broadly equivalent expected value to the current PSP and option awards for Executive Directors. The Committee considered the relative expected values of the PSP and share option awards and determined that a PSP award of 75% of salary is broadly equivalent to the current share option award of 200% of salary resulting in an increase in PSP from 150% to 225% of base salary. • The CEO will receive an additional opportunity of 50% of base salary. • 'Clawback' introduced to allow the Committee to scale back PSP awards in the event that results are materially misstated.

If performance is lower than the maximum targets, incentive payments will reduce accordingly and will be zero if threshold levels of performance are not attained.

US reward from 2011/12

Since 2007, Tim Mason, the US CEO, has participated in remuneration arrangements which were focused on the performance of the US business as well as that of the Group. In light of the renewed focus on a collegiate approach to remuneration, together with Mr Mason's appointment to the roles of Deputy CEO and Chief Marketing Officer, it has been agreed that Mr Mason will no longer be eligible for awards under the US annual or long-term incentive programmes. Mr Mason will therefore no longer participate in the US LTIP and the two million shares granted to him in 2007 will lapse.

From 2011/12, Mr Mason will participate in the same collegiate (Group-focused) remuneration arrangements as other Executive Directors. In line with our policy for senior executives working abroad, Mr Mason will receive a net expatriate allowance of £282,000 per annum to cover costs incurred in relation to his US assignment.

The Committee believes that it is appropriate for Executive Directors to participate in the same arrangements and to be rewarded based on the achievement of measures that are key to Group performance. Moving Mr Mason's remuneration package entirely to the same structure as other Executive Directors will further support the collegiate approach to working which is considered essential to the delivery of our long-term business strategy.

Short-term performance targets for 2011/12

Following the remuneration review, the following short-term performance measures will be adopted for the 2011/12 annual bonus arrangements for all Executive Directors:

Short-term bonus opportunity
- Maximum of 250% of salary for the CEO
- Maximum of 200% of salary for the other Executive Directors
- Half payable in cash and half payable in shares which are deferred for three years

Profitability (70% of short-term performance)	Strategic (30% of short-term performance)
Measured in relation to underlying profit	Based on performance against key metrics. For 2011/12 these metrics will be: 1. UK like-for-like sales growth 2. UK return on capital employed 3. Group new space expansion 4. Group internet sales 5. Group employee engagement 6. Group CO_2 reduction
This measure incentivises the delivery of annual shareholder value through improved bottom-line financial results.	These measures contain a mix of financial, strategic and corporate responsibility targets and were selected to incentivise sustainable improvements in the underlying drivers of performance.

About 85% of annual bonus entitlement is based directly or indirectly on financial metrics. These measures are considered to be important for laying the foundations for future performance growth.

The balance of measures is illustrated in the pie chart below:

The targets will be clearly measurable and appropriately stretching. The intention is that when payouts are made, the Committee will include a description of the extent to which targets have been met, as well as the rationale for why the Committee believes that the level of payouts is appropriate. Naturally for reasons of commercial sensitivity we will not be able to publish specific target figures in advance.

Long-term performance targets from 2011/12

Long-term plan opportunity
- Maximum of 275% of salary for the CEO
- Maximum of 225% of salary for the other Executive Directors
- Shares vest in three years' time subject to performance targets being met

Tesco believes that the best way to enhance shareholder value is to grow earnings over the long term while maintaining a sustainable level of return on capital – in other words to keep growing the size of the business in an efficient way.

For awards granted from 2011 onwards, the Committee intends that performance targets will be set as a matrix of stretching earnings growth targets and sustainable return on capital employed performance. The Committee believes that this combination of EPS growth and ROCE performance is strongly aligned with our strategic objectives and also reflects the drivers of long-term shareholder value. In order for full vesting to occur, cumulative earnings have to grow by at least 12% per annum over the next three years and ROCE for 2013/14 must have increased to at least 14.6%. No payout at all will be made unless ROCE is increased from last year's actual ROCE of 12.9% to above 13.6% (a 70 basis point increase). For maximum vesting therefore management is not only required to increase earnings significantly over the three-year period but also to increase the efficiency of the use of Group capital.

The Committee also believes that these targets are appropriately stretching and if they are achieved will have generated significant value for our shareholders. The vesting matrix and targets are illustrated below:

		% of initial award vesting		
			EPS	
	Targets	Threshold	Target	EPS
		7%	10%	12%
ROCE	14.6%	45%	75%	100%
ROCE	13.6%	20%	60%	85%

In previous years, under the existing plan, ROCE performance outcomes were adjusted to take into account acquisitions which were not envisaged when the targets were set. The Remuneration Committee reserves the right to make such adjustments under the new plan but will only do so when the impact is material.

Share ownership guidelines

Shareholding guidelines

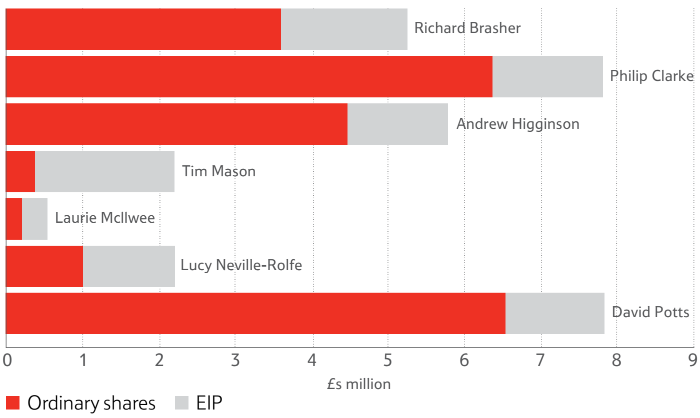
4 x base salary for the CEO 3 x base salary for other Executive Directors	• The purpose is to create alignment with interests of shareholders • This requirement is at the upper end of typical market practice for similar sized companies • Increased from current guideline of 1 x base salary to demonstrate the ongoing commitment of our executives to acquiring and holding shares in Tesco

The Remuneration Committee believes that a significant shareholding by Executive Directors aligns their interests with shareholders and demonstrates their ongoing commitment to the business. Given this, the Committee has increased the shareholding guideline from one times base salary to four times base salary for the CEO and to three times base salary for the other Executive Directors.

Shares held in plans which are not subject to forfeiture will be included (on a net basis) for the purposes of calculating Executive Directors' shareholdings, as will be shares held by an Executive's spouse. New appointees will typically be expected to achieve this minimum level of shareholding within five years. Full participation in the long-term Performance Share Plan will be conditional upon maintaining the minimum shareholding. Most Executives already meet this enhanced requirement but those who do not will be required to hold and not dispose of at least 50% of the net number of shares which vest under incentive arrangements until they meet this requirement.

Shares held by Executive Directors as at 26 February 2011

The chart below illustrates the value of Executive Directors' shareholdings, based on a share price at 26 February 2011 of £4.0605.



Includes ordinary shares, and awards of shares and nil cost options made to Directors which remain subject only to a holding period. Excludes unexercised vested executive share options.

Service agreements

The Executive Directors all have rolling service agreements with no fixed expiry date. These existing contracts may be terminated on 12 months' notice by the Company and six months' notice by the Executive. If an Executive Director's employment is terminated (other than pursuant to the notice provisions in the service agreement or by reason of resignation or unacceptable performance or conduct) the Company will pay a sum calculated on the basis of basic salary and the average annual bonus paid for the last two years. No account will be taken of pension. Termination payments will be subject to mitigation and therefore paid in instalments to facilitate this. If the termination occurs within one year of retirement, the termination payment will be reduced accordingly.

New appointments of Executive Directors will normally provide for termination on 12 months' notice by the Executive. However, the Committee reserves the right to vary this period to 24 months for the initial period of appointment and for the notice period to then revert to 12 months. The service agreements are available to shareholders to view on request from the Company Secretary.

New CEO contract
The Committee has taken into account the feedback received from shareholders and shareholder representative bodies regarding best practice in relation to the inclusion of bonus in directors' termination arrangements. To ensure full alignment with best practice, the Committee has agreed with Mr Clarke that under his new contract as CEO any termination payment in lieu of notice will be based on salary and benefits only. This will also be the policy going forward for new executives joining the Board.

CURRENT REMUNERATION ARRANGEMENTS AND PAYOUTS FOR 2010/11

Tesco's core objective is to create value for customers to earn their lifetime loyalty and through this to create value for our shareholders. 2010/11 has been another solid year despite ongoing challenging market conditions. Returns have grown strongly over the past year representing a significant step towards our long-term goals. Our core UK business remains robust and the increasing scale and competitiveness of our international business is driving strong performance in these markets. Against this performance background, the main aspects of executive remuneration practice for the 2010/11 year are as follows:

Salaries 2010/11

The base salaries of the Executive Directors following review in July 2010 were:

Director	Basic salary 1 July 2010 £000
Richard Brasher	832
Philip Clarke	832
Andrew Higginson	832
Tim Mason	832
Laurie McIlwee*	832
Lucy Neville-Rolfe	624
David Potts	832

* Laurie McIlwee was appointed to the role of CFO in January 2009. At this time, his base salary was set behind that of the other Executive Directors to reflect the fact that he was new to the role. The intention was to move his base salary to the level of the other Directors over time. The Committee reviewed Mr McIlwee's performance and base salary in July 2010 and concluded that Mr McIlwee's performance was that of an experienced CFO and therefore it was appropriate to increase his base salary to £832,000, the same level as the other Executives.

The average increase for established Executive Directors last year was 2.46%, which was broadly the same as the increase for other senior executives and employees throughout the Group.

Short-term performance 2010/11

The table below sets out a summary of the **maximum** opportunity under the short-term remuneration arrangements for 2010/11:

Former CEO	Executive Directors	US CEO
• Maximum of 250% of base salary • 200% of salary based on Group performance; 50% of salary based on US performance • 100% of salary in cash; 150% of salary in shares	• Maximum of 200% of salary • All based on Group performance • 100% of salary in cash; 100% of salary in shares	• Maximum of 300% of base salary • 100% of salary based on Group performance; 200% of salary based on US performance • 150% of salary in cash; 150% of salary in shares

Group short-term objectives

The table below is a summary of the **actual** performance delivered in 2010/2011:

Performance measures	Maximum award opportunity	Performance against targets
Earnings per share	75% of cash element and 50% of share element	The reported underlying diluted Group EPS for 2010/11 was 35.72p, an increase of 10.8% on last year.
Corporate objectives	25% of cash element and 30% of share element	The corporate objectives are based on our balanced scorecard, known as the Steering Wheel. Corporate objectives for the awards made in respect of the financial year 2010/11 were: • increasing sales from new space; specific profit targets for international businesses and for retailing services; • like-for-like sales growth and the development of the non-food business; • focus on productivity improvements and developing trading models internationally; • enhancing talent management and capability; • embedding the new international Community Plans and Community Promises; and • reducing our environmental impact. Two-thirds of targets were fully met at the stretch level and a solid performance was delivered against the remainder.
Total shareholder return	20% of share element	The target to outperform against the FTSE 100 and a comparator group of international retailers that includes Ahold, Carrefour, J Sainsbury, Metro, Wm Morrison, Safeway Inc, Target and Walmart was not met over the short term although long-term TSR performance remained strong.

The balance of Group performance measures is illustrated in the charts below:

Cash

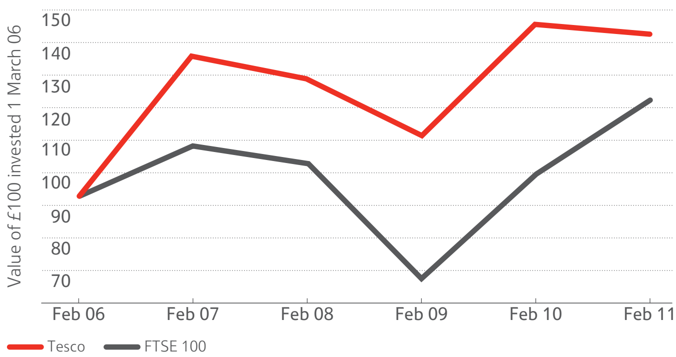
- 75% EPS
- 25% Corporate objectives

Shares deferred for three years

- 50% EPS
- 30% Corporate objectives
- 20% TSR

Total shareholder return (TSR) is the notional return from a share or index based on share price movements and declared dividends.

The graph below highlights the Group's TSR performance over the last five financial years, relative to the FTSE 100 index of companies. This index has been selected to provide an established and broad-based comparator group of retail and non-retail companies of similar scale to Tesco. As illustrated below, Tesco has outperformed the FTSE 100 throughout the period.



Payout levels

Following the Remuneration Committee's consideration of the extent to which the various performance measures in respect of the 2010/11 annual bonus award were achieved, the Executive Directors have been awarded 92% of the potential maximum for the cash element and 76% of the potential maximum for the deferred shares element. The Committee considers this level of reward appropriate.

EPS, on a like-for-like basis, achieved the maximum award level, reflecting strong improvements in underlying profit growth as well as sound financial management. In respect of corporate objectives, performance against most measures was strong, resulting in delivery at the upper end of the target range. Performance against financial metrics was excellent with retail profit growth and UK new space addition targets being exceeded. Performance against operational targets, such as availability, was weakened by the severe weather situation in Q4, but remained good. The business continues to make strong progress in developing and deploying talent and targets in this area have been achieved. Performance against corporate responsibility metrics has also been excellent, with CO_2 emissions reduced and with the continued development of our community programmes. Long-term TSR performance remains strong, but has been behind the market over the past year.

US short-term objectives

The US business continues to make solid progress, with strong like-for-like sales growth and improved store operating ratios, as well as steady improvements against a number of other key milestone measures. Customer feedback remains excellent and our clear objective now is to accelerate the strong growth in customer numbers we are seeing. The overall business remains on track to break even towards the end of the 2012/13 financial year.

Despite the good progress and the achievement of a number of strategic goals, losses in the US business increased in the year, as a consequence of the initial costs of integrating our acquisitions of two dedicated fresh food suppliers and adverse exchange rate movements.

The Committee has therefore decided, having reviewed performance against both financial and strategic targets, to award 40% of the potential maximum opportunity to Tim Mason and Sir Terry Leahy for that part of their respective annual bonuses which is measured by reference to US-specific targets (compared with 65% in 2009/10). This means that Tim Mason will receive an annual US bonus award of 80% of base salary (compared with a possible maximum 200% of salary) and Sir Terry will receive an award of 20% of base salary (compared with a possible maximum 50% of salary).

Long-term performance 2008/9 to 2010/11

Performance measures	Award size	Performance conditions
Earnings per share	• Options over shares with a face value of 200% of salary at the date of grant • Granted in 2008/09 • Performance period ended 2010/11	• Vesting of the awards is subject to EPS performance. • First 100% subject to the achievement of underlying diluted EPS growth of at least RPI plus 9% over three years with the balance vesting for achieving growth of at least RPI plus 15% over three years. • The increase in underlying diluted EPS relative to RPI over the three years from 2008/09 to 2010/11 was 32% and therefore significantly exceeded 15% over three years – these options will therefore vest in full on the third anniversary of their grant. • This reflects Tesco's strong sustained earnings performance during the period.
Return on capital employed – Group and International	• Shares with a face value of 150% of salary for Executive Directors (other than Tim Mason whose award was 100% of base salary) • Granted in 2008/09 • Performance period ended 2010/11	**Group ROCE performance** • The Committee considered the level of performance against the target for the first 75% of the PSP award of achieving post-tax Group ROCE of 14.2% by the end of FY 2010/11. • Post-tax ROCE (calculated on a like-for-like basis with the target ROCE originally set) at the end of FY 2010/11 was 14.8% so all of the first 75% of the award will vest. This represents exceptional performance against this target, particularly in light of the challenging market, and the award related to Group performance will therefore vest in full. • Reported ROCE for 2010/11 is 12.9%. During the performance period the Group has made a number of significant acquisitions (including Tesco Bank). In order to ensure that performance for remuneration purposes is measured in a fair way compared to the target set and that management is not disincentivised to invest, the Committee excludes significant unplanned investments from the calculation of ROCE for remuneration purposes. However, when assessing performance against targets the Committee also considers the progress of any new investments to ensure that these investments are in line with the key objective of generating long-term shareholder value. • The Committee also exercised its judgement as to the extent to which the remaining 25% of the PSP award should vest by reference to the overall quality of ROCE performance to ensure a fair outcome, taking into account factors including the level of ROCE achieved, the expected ROCE for additional and existing capital investment, whether capital spend was in line with strategic objectives and balanced short-term and long-term investment needs, the level of sales and underlying profit growth and whether this reflected other developments in the marketplace. The Committee also considered the report from the GOC. • Having considered these factors the Committee concluded that ROCE performance was exceptional in challenging markets and that it was therefore appropriate that, in line with the vesting level for the first 75% of the award, all of the remaining 25% of the award should vest.
		International ROCE performance • The Committee considered the level of performance against the target for the first 75% of the PSP award of achieving post-tax International ROCE of 9.0% by the end of FY 2010/11. • Post-tax ROCE (calculated on a like-for-like basis with the target ROCE originally set) at the end of FY 2010/11 was 7.0%. This represented achievement of threshold performance so 25% of the maximum opportunity for the first 75% of the award will vest (equal to 9.4% of salary). • As with Group ROCE, the Committee excludes significant unplanned investments from the calculation (including the acquisition of the Homever stores in South Korea) to ensure that performance is measured in a fair way compared to the targets. The Committee does, however, consider the early stage performance of these investments when determining vesting. • The Committee also exercised its judgement as to the extent to which the remaining 25% of the PSP award should vest by reference to the overall quality of ROCE performance, taking into account factors outlined above. • Having considered these factors in detail the Committee concluded that, in line with the vesting level for the first 75% of the award, 25% of the maximum opportunity for the remaining part of the award should vest (equal to 3.1% of salary). • In total therefore 12.5% of salary (out of a maximum of 50% of salary) will vest in relation to International ROCE performance.

US long-term objectives

The first 25% of the awards made in 2007 under the US LTIP to the US CEO and under the Group New Business Incentive Plan to the former CEO was subject to testing against US ROCE and EBIT targets in 2010/11. The performance targets for 2010/11 have not been met and no portion of this first tranche will vest. The next assessment of performance will be in respect of 2011/12. As mentioned above, in order to refocus his reward on Group performance, the US CEO will no longer participate in the US LTIP and his award will lapse. No other Executive Directors participate in the US LTIP or Group New Business Incentive Plan. Senior members of the US management team will however continue to participate in the plan.

Long-term performance awards made in 2010

The long-term performance awards granted in 2010 were made under the 2010/11 executive remuneration policy and were subject to the performance measures described in the table below. The performance period for these awards is 2010/11 to 2012/13 and the portion of the award that vests will be disclosed in the 2012/13 Remuneration Report.

Long-term performance awards made in 2010

Performance measures	Award size	Performance conditions
Earnings per share	• Options over shares with a value of 200% of salary • Exercise price equal to the market value at the date of grant • Any gain is therefore dependent on increasing the share price between the date of grant and exercise	• Vesting of the awards is subject to the achievement of EPS performance conditions. • The first 100% is subject to the achievement of underlying diluted EPS growth of at least RPI plus 9% over three years. • The balance vests for achieving growth of at least RPI plus 15%. • Performance against this target will be measured at the end of 2012/13 to determine the level of vesting.
Return on capital employed – Group and International	• Current plan maximum of performance share award of 150% of base salary • In October 2010 awards were made to all the Executive Directors except Tim Mason over Tesco PLC shares equal to 150% of salary • An award was made to Tim Mason over Tesco PLC shares equal to 100% of salary	• For all the Executive Directors, awards over 100% of salary will vest subject to Group ROCE performance. • The awards over a further 50% of salary (other than Tim Mason), will vest subject to International ROCE performance. The rationale for this is to incentivise and reward delivery of higher returns from invested capital outside the UK (but excluding the US). • Awards vest over a three-year performance period from 2010/11 to 2012/13. • The first 75% of each element of the PSP award is subject to a target of 13.6% for Group ROCE and 7.5% for International ROCE. 25% will vest for baseline performance and the full 75% will vest for maximum performance against target. • The remaining 25% of each element of the award will vest by reference to the overall quality of ROCE performance. • The purpose of this element of the ROCE award is to allow the Committee to recognise the right behaviours by the Executive Directors – in particular, where they have made substantial capital investments in the Group (especially in developing markets) with the purpose of growing the long-term returns of the Group but where those investments have led to a reduction in ROCE growth in the short-term. • The Remuneration Committee will take into account a number of factors, including the level of ROCE achieved, the expected ROCE for additional and existing capital investment, whether capital spend was in line with strategic objectives and balanced short-term and long-term investment needs, the level of sales and underlying profit growth and whether this reflected other developments in the marketplace. • If the Remuneration Committee exercises its judgement to allow some, or all, of the remaining 25% of the PSP awards to vest, we will describe in the Directors' Remuneration Report in the relevant year those factors taken into account in determining the level of the award which would vest. • There is no retesting of performance in respect of any targets. • Participants are entitled to receive reinvested dividends on the value of the award that vests.

Retirement arrangements for Sir Terry Leahy

Sir Terry retired from Tesco on 2 March 2011 after 14 years as CEO. To reflect his length of service with Tesco and the early age of his appointment as CEO, Sir Terry Leahy's service agreement provides for his full pension entitlement to become available on retirement on or after his 57th birthday. The retirement arrangements for Sir Terry are in line with the terms of his contract and the pension plan as disclosed in the Directors' Remuneration Reports – he will receive no additional enhancements beyond these terms.

Under the terms of the scheme rules unvested performance share plan awards, share options and the Group New Business Incentive Plan award will continue in line with the agreed terms set out at the time of grant until their normal date and will only vest if the performance targets attached to these awards are met.

OTHER INFORMATION

Outside appointments

Tesco recognises that its Executive Directors may be invited to become Non-executive Directors of other companies. Such non-executive duties can broaden experience and knowledge which can benefit Tesco.

Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest.

Executive Directors' biographies, which include details of any outside appointments, can be found on pages 60 to 61 of this Annual Report.

Fees retained for any non-executive directorships are set out below.

Director	Company in which non-executive directorship held	Fee retained in 2010/11 £000
Philip Clarke*	Whitbread PLC	65
Andrew Higginson	BSkyB PLC	96
Lucy Neville-Rolfe	The Carbon Trust	18
	ITV PLC	28

* Philip Clarke stepped down from his position at Whitbread plc on 1 March 2011.

Funding of equity awards

Executive incentive arrangements are funded by a mix of newly issued shares and shares purchased in the market. Where shares are newly issued the Company complies with ABI dilution guidelines on their issue. The current dilution usage of executive plans is c.4% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees Share Schemes Trustees Limited, in which case the voting rights relating to the shares are exercisable by the trustees in accordance with their fiduciary duties.

Change of control

Long-term term incentive awards may vest or become exercisable before their normal vesting date in the event of a change of control of Tesco PLC.

Non-executive Directors

Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. The letters are available to shareholders to view from the Company Secretary upon request. The Chairman meets with each Non-executive Director separately to review individual performance. In line with the UK Corporate Governance Code, all Non-executive Directors will submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Director appointments can be terminated by either party without notice. The remuneration of the Non-executive Directors is determined by the Chairman and the Executive Committee after considering external market research and individual contribution.

The current fees are as follows:

Basic fees	£70,000 per annum
Additional fees	
Senior Independent Director	£26,000
Chairs of Audit and Remuneration Committees	£30,000
Membership of Audit and Remuneration Committees	£12,000 per annum for each Committee

Chairman

The Remuneration Committee determines the Chairman's remuneration, having regard to time commitment and packages awarded to chairmen of other companies of a similar size and complexity. David Reid, Non-executive Chairman, receives an annual fee of £640,000 and has the benefit of a company car and chauffeur.

Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Services Authority derived from the Combined Code on Corporate Governance. The auditors' Report, set out on page 93, covers the disclosures referred to in this report that are specified for audit by the Financial Services Authority. The Report has been drawn up in accordance with the Combined Code on Corporate Governance, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Financial Services Authority Listing Rules.

This Report also complies with disclosures required by the Director Remuneration Report Regulations 2002. Details of Directors' emoluments and interests are set out on pages 85 to 91 of this Annual Report.

Stuart Chambers
Chairman of the Remuneration Committee

Tables 1-11 are audited information

Table 1 – Directors' emoluments

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

1 Tim Mason's salary is made up of a base salary and a non-pensionable salary supplement (shown separately). Tim Mason's benefits are made up of travel, medical, tax-related costs and services and free shares awarded under the all employee Share Incentive Plan (SIP). Payments in relation to tax equalisation on equity awards granted prior to his appointment as US CEO totalling £768,000 are not included in table 1.
2 Gareth Bullock and Stuart Chambers were appointed during the year. The figures in table 1 are from their dates of appointment. Charles Allen, Rodney Chase and Harald Einsmann retired during the year.
3 With the exception of Tim Mason, benefits are made up of car benefits, chauffeurs, disability and health insurance, staff discount, gym/leisure club membership and free shares awarded under the all employee SIP. Under the SIP, shares in the Company are allocated to participants in the scheme up to HMRC approved limits (currently £3,000 per annum). The amount of profit allocated to the scheme is determined by the Board taking into account Company performance.

Table 2 – Directors' pension details

	Age at 26 February 2011	Years of Company service	Total accrued pension at 26 February 2011[1,2] £000	Increase in accrued pension during the year £000	(a) Increase in accrued pension (net of inflation)[4] £000	Transfer value of (a) at 26 February 2011 (less Director's contributions) £000	Transfer value of total accrued pension at 27 February 2010 £000	**Transfer value of total accrued pension at 26 February 2011 £000**	Increase in transfer value (less Director's contributions) £000
Richard Brasher	49	24	384	25	14	202	4,842	**5,482**	640
Philip Clarke	50	36	415	25	13	190	5,579	**6,269**	690
Andrew Higginson	53	13	364	35	26	427	5,202	**6,097**	895
Sir Terry Leahy[3]	54	32	887	55	29	1,043	15,924	**18,367**	2,443
Tim Mason	53	29	450	26	13	217	6,662	**7,478**	816
Laurie McIlwee	48	10	238	60	54	740	2,306	**3,253**	947
Lucy Neville-Rolfe	58	14	277	33	25	481	4,452	**5,334**	882
David Potts	53	38	454	26	13	224	6,891	**7,735**	844

1 The accrued pension is that which would be paid annually on retirement at 60 based on service to 26 February 2011.
2 Some of the Executive Directors' benefits are payable from an unapproved pension arrangement. This is secured by a fixed and floating charge on a cash deposit.
3 Sir Terry Leahy is entitled to retire at any age from 57 to 60 inclusive with an immediate pension of two-thirds of base salary.
4 Inflation over the year has been allowed for using the September 2010 statutory revaluation order.

Table 3 – Gains made on executive share options

	Date of grant	Date exercisable	Date of exercise	Number of options exercised	Option price (pence)	Market price at exercise (pence)	Value realisable[1,3] 2010/11 £000	2009/10 £000
Richard Brasher	–	–	–	–	–	–	–	2,127
Philip Clarke	–	–	–	–	–	–	–	–
Andrew Higginson	–	–	–	–	–	–	–	503
Sir Terry Leahy[2]	26.04.01	26.04.04	23.02.11	647,773	247.00	408.34	1,045	2,327
	15.04.02	15.04.05	23.02.11	642,471	259.00	408.34	959	
	14.04.03	14.04.06	23.02.11	939,747	197.50	408.34	1,981	
	30.04.04	30.04.07	23.02.11	766,041	253.25	408.34	1,188	
Tim Mason	–	–	–	–	–	–	–	2,220
Laurie McIlwee	–	–	–	–	–	–	–	231
Lucy Neville-Rolfe	–	–	–	–	–	–	–	257
David Potts	22.04.05	22.04.08	22.04.10	379,856	312.75	440.00	483	–
	08.05.06	08.05.09	22.04.10	404,896	318.60	440.00	492	
Total				3,780,784			6,148	7,665

1 The value realisable from shares acquired on exercise is the difference between the market value at exercise and the exercise price of the option, although the shares may have been retained.
2 These options were granted prior to 2005 and were therefore required to be exercised before Sir Terry Leahy’s retirement.
3 Gains made on nil cost options awarded under the Performance Share Plan and the Executive Incentive Plan and gains made on Save As You Earn share options are not included above. These are detailed in tables 6, 9 and 5 respectively.

Table 4 – Share options held by Directors and not exercised at 26 February 2011

Executive Share Option Scheme (1994) and (1996) and Discretionary Share Option Plan (2004)

	Date of grant	Options as at 27 February 2010	Options granted in year[1]	Options exercised in year[2]	As at 26 February 2011	Exercise price (pence)	Date from which exercisable	Expiry date
Richard Brasher	08.05.2007	278,627	–	–	278,627	473.75	08.05.2010	08.05.2017
	12.05.2008	353,114	–	–	353,114	427.00	12.05.2011	12.05.2018
	06.05.2009	467,848	–	–	467,848	338.40	06.05.2012	06.05.2019
	07.05.2010	–	386,850	–	386,850	419.80	07.05.2013	07.05.2020
Total		1,099,589	386,850	–	1,486,439			
Philip Clarke	22.04.2005	379,856	–	–	379,856	312.75	22.04.2008	22.04.2015
	08.05.2006	404,896	–	–	404,896	318.60	08.05.2009	08.05.2016
	08.05.2007	298,844	–	–	298,844	473.75	08.05.2010	08.05.2017
	12.05.2008	353,114	–	–	353,114	427.00	12.05.2011	12.05.2018
	06.05.2009	467,848	–	–	467,848	338.40	06.05.2012	06.05.2019
	07.05.2010	–	386,850	–	386,850	419.80	07.05.2013	07.05.2020
Total		1,904,558	386,850	–	2,291,408			
Andrew Higginson	22.04.2005	379,856	–	–	379,856	312.75	22.04.2008	22.04.2015
	08.05.2006	404,896	–	–	404,896	318.60	08.05.2009	08.05.2016
	08.05.2007	298,844	–	–	298,844	473.75	08.05.2010	08.05.2017
	12.05.2008	353,114	–	–	353,114	427.00	12.05.2011	12.05.2018
	06.05.2009	467,848	–	–	467,848	338.40	06.05.2012	06.05.2019
	07.05.2010	–	386,850	–	386,850	419.80	07.05.2013	07.05.2020
Total		1,904,558	386,850	–	2,291,408			

Table 4 – Share options held by Directors and not exercised at 26 February 2011 continued

Executive Share Option Scheme (1994) and (1996) and Discretionary Share Option Plan (2004)

	Date of grant	Options as at 27 February 2010	Options granted in year[1]	Options exercised in year[2]	As at 26 February 2011	Exercise price (pence)	Date from which exercisable	Expiry date
Sir Terry Leahy	26.04.2001	647,773	–	647,773	–	247.00	26.04.2004	–
	15.04.2002	642,471	–	642,471	–	259.00	15.04.2005	–
	14.04.2003	939,747	–	939,747	–	197.50	14.04.2006	–
	30.04.2004	766,041	–	766,041	–	253.25	30.04.2007	–
	22.04.2005	658,673	–	–	658,673	312.75	22.04.2008	22.04.2015
	08.05.2006	709,353	–	–	709,353	318.60	08.05.2009	08.05.2016
	08.05.2007	523,556	–	–	523,556	473.75	08.05.2010	08.05.2017
	12.05.2008	618,548	–	–	618,548	427.00	12.05.2011	12.05.2018
	06.05.2009	812,647	–	–	812,647	338.40	06.05.2012	06.05.2019
	07.05.2010	–	671,748	–	671,748	419.80	07.05.2013	07.05.2020
Total		6,318,809	671,748	2,996,032	3,994,525			
Tim Mason	10.08.2007	333,319	–	–	333,319	424.75	10.08.2010	10.08.2017
	12.05.2008	353,114	–	–	353,114	427.00	12.05.2011	12.05.2018
	06.05.2009	467,848	–	–	467,848	338.40	06.05.2012	06.05.2019
	07.05.2010	–	386,850	–	386,850	419.80	07.05.2013	07.05.2020
Total		1,154,281	386,850	–	1,541,131			
Laurie McIlwee	08.05.2007	77,192	–	–	77,192	473.75	08.05.2010	08.05.2017
	12.05.2008	91,335	–	–	91,335	427.00	12.05.2011	12.05.2018
	06.05.2009	325,059	–	–	325,059	338.40	06.05.2012	06.05.2019
	07.05.2010	–	290,138	–	290,138	419.80	07.05.2013	07.05.2020
Total		493,586	290,138	–	783,724			
Lucy Neville-Rolfe	08.05.2007	189,973	–	–	189,973	473.75	08.05.2010	08.05.2017
	12.05.2008	231,850	–	–	231,850	427.00	12.05.2011	12.05.2018
	06.05.2009	327,494	–	–	327,494	338.40	06.05.2012	06.05.2019
	07.05.2010	–	290,138	–	290,138	419.80	07.05.2013	07.05.2020
Total		749,317	290,138	–	1,039,455			
David Potts	22.04.2005	379,856	–	379,856	–	312.75	22.04.2008	–
	08.05.2006	404,896	–	404,896	–	318.60	08.05.2009	–
	08.05.2007	298,844	–	–	298,844	473.75	08.05.2010	08.05.2017
	12.05.2008	353,114	–	–	353,114	427.00	12.05.2011	12.05.2018
	06.05.2009	467,848	–	–	467,848	338.40	06.05.2012	06.05.2019
	07.05.2010	–	386,850	–	386,850	419.80	07.05.2013	07.05.2020
Total		1,904,558	386,850	784,752	1,506,656			
Total		15,529,256	3,186,274	3,780,784	14,934,746			

1 Executive share options are subject to performance conditions measured over three years as set out on page 83. EPS growth for the period 2008/9 to 2010/11 exceeded RPI by 32%, therefore share options awarded in 2008 will vest in full on 12 May 2011. Executives have until the tenth anniversary of the date of grant to exercise their options.
2 The market price at exercise is shown in table 3. The share price as at 26 February 2011 was 406.5p. The share price during the 52 weeks to 26 February 2011 ranged from 377.5p to 454.4p.

Table 5 – Share options held by Directors and not exercised at 26 February 2011

Savings-related share option scheme (1981)

	Date of grant	As at 27 February 2010	Options granted in year	Options exercised in year[1]	As at 26 February 2011	Exercise price (pence)	Value realisable 2010/11 £000	Value realisable 2009/10 £000
Richard Brasher	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
Philip Clarke	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
Andrew Higginson	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
Sir Terry Leahy	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
		5,208	–	1,298	3,910		2	3
Tim Mason	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
Laurie McIlwee	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		2,844	788	–	3,632		–	1
Lucy Neville-Rolfe	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
David Potts	02.11.2005	1,298	–	1,298	–	248.0	2	–
	08.11.2006	1,066	–	–	1,066	307.0	–	–
	07.11.2007	819	–	–	819	410.0	–	–
	05.11.2008	1,077	–	–	1,077	311.0	–	–
	11.11.2009	948	–	–	948	328.0	–	–
	10.11.2010	–	788	–	788	386.0	–	–
		5,208	788	1,298	4,698		2	3
Total		39,300	5,516	9,086	35,730			

1 Save As You Earn is an HMRC approved all employee savings-related share option scheme under which employees save up to a limit of £250 on a four-weekly basis via a bank/building society with an option to buy shares in Tesco PLC at the end of a three-year or five-year period at a discount of up to 20% of the market value. Options are not subject to performance conditions. All options are exercisable from 1 February in the year which is six years from the year of grant. All options expire six months from their exercise date (i.e. on 1 August of the relevant year). All Directors exercised their 2005 options on 1 February 2011 when the market price was 403p. No options lapsed in the year.

Table 6 – Long-Term Performance Share Plan[1]

	Date of award/ grant	Share price on award date (pence)	As at 27 February 2010	Shares awarded options granted in year[1]	Shares exercised/ released in year	Shares lapsed[3]	As at 26 February 2011	Date of exercise/ release	Share price on exercise/ release	Value realisable £000	Date of release/date from which exercisable	Expiry date
Richard Brasher	20.07.2006	346.25	189,889	4,465	194,354	–	–	20.07.10	394.03	766	20.07.2010	–
	14.11.2007	471.10	257,341	8,490	–	45,567	220,264	–	–	–	14.07.2010	14.11.2017
	08.07.2008	353.76	352,616	12,331	–	–	364,947	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	329,382	11,519	–	–	340,901	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	290,844	–	–	290,844	–	–	–	14.07.2013	14.10.2020
Total			1,129,228	327,649	194,354	45,567	1,216,956					
Philip Clarke	20.07.2006	346.25	120,164	2,825	122,989	–	–	20.07.10	394.03	485	20.07.2010	–
	14.11.2007	471.10	257,341	6,051	217,825	45,567	–	16.08.10	398.88	869	14.07.2010	–
	08.07.2008	353.76	352,616	12,331	–	–	364,947	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	329,382	11,519	–	–	340,901	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	290,844	–	–	290,844	–	–	–	14.07.2013	14.10.2020
Total			1,059,503	323,570	340,814	45,567	996,692					
Andrew Higginson	20.07.2006	346.25	120,164	2,825	122,989	–	–	20.07.10	394.03	485	20.07.2010	–
	14.11.2007	471.10	257,341	6,051	217,825	45,567	–	05.10.10	434.88	947	14.07.2010	–
	08.07.2008	353.76	352,616	12,331	–	–	364,947	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	329,382	11,519	–	–	340,901	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	290,844	–	–	290,844	–	–	–	14.07.2013	14.10.2020
Total			1,059,503	323,570	340,814	45,567	996,692					
Sir Terry Leahy	20.07.2006	346.25	356,813	8,390	365,203	–	–	20.07.10	394.03	1,439	20.07.2010	–
	14.11.2007	471.10	450,784	14,872	–	79,819	385,837	–	–	–	14.07.2010	14.11.2017
	08.07.2008	353.76	612,494	21,422	–	–	633,916	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	571,958	20,004	–	–	591,962	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	504,784	–	–	504,784	–	–	–	14.07.2013	14.10.2020
Total			1,992,049	569,472	365,203	79,819	2,116,499					
Tim Mason[2]	25.08.2006	346.25	203,667	4,789	208,456	–	–	20.07.10	394.03	821	20.07.2010	–
	14.11.2007	471.10	171,561	4,034	175,595	–	–	20.07.10	394.03	692	14.07.2010	–
	08.07.2008	353.76	235,078	8,221	–	–	243,299	–	–	–	08.07.2011	–
	15.10.2009	374.00	219,588	7,680	–	–	227,268	–	–	–	15.07.2012	–
	14.10.2010	433.90	–	193,896	–	–	193,896	–	–	–	14.07.2013	–
Total			829,894	218,620	384,051	–	664,463					
Laurie McIlwee[2]	10.10.2007	465.50	43,244	992	44,236	–	–	20.07.10	394.03	174	10.07.2010	–
	08.07.2008	353.76	64,233	2,010	–	–	66,243	–	–	–	08.07.2011	–
	15.10.2009	374.00	247,036	8,640	–	–	255,676	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	290,844	–	–	290,844	–	–	–	14.07.2013	14.10.2020
Total			354,513	302,486	44,236	–	612,763					
Lucy Neville-Rolfe	14.11.2007	471.10	168,965	5,573	–	29,919	144,619	–	–	–	14.07.2010	14.11.2017
	08.07.2008	353.76	246,832	8,632	–	–	255,464	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	247,036	8,640	–	–	255,676	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	218,133	–	–	218,133	–	–	–	14.07.2013	14.10.2020
Total			662,833	240,978	–	29,919	873,892					
David Potts	20.07.2006	346.25	120,164	2,825	122,989	–	–	20.07.10	394.03	485	20.07.2010	–
	14.11.2007	471.10	257,341	8,490	–	45,567	220,264	–	–	–	14.07.2010	14.11.2017
	08.07.2008	353.76	352,616	12,331	–	–	364,947	–	–	–	08.07.2011	08.07.2018
	15.10.2009	374.00	329,382	11,519	–	–	340,901	–	–	–	15.07.2012	15.10.2019
	14.10.2010	433.90	–	290,844	–	–	290,844	–	–	–	14.07.2013	14.10.2020
Total			1,059,503	326,009	122,989	45,567	1,216,956					
Total			8,147,026	2,632,354	1,792,461	292,006	8,694,913					

1 All awards except those described in note 2 have been made in the form of nil cost options. All awards are increased to reflect dividend equivalents as each dividend is paid.
2 Tim Mason's awards since 2006 have been made in the form of unfunded promises to deliver shares. Laurie McIlwee was appointed to the Board on 27 January 2009. His 2007 and 2008 awards were made in the form of conditional shares under the senior management Performance Share Plan.
3 The awards are subject to performance conditions based on Return on Capital Employed targets. The Group ROCE for 2009/10 on a like-for-like basis was 14.2%, therefore Group targets for PSP awards granted on 14 November 2007 were met and these awards vested in full. The International ROCE for 2009/10 on a like-for-like basis was 6.9%, therefore International targets were partially met and 48.1% of these awards vested. The balance of the awards lapsed.

Table 7 – Group New Business Incentive Plan

	Date of award/ grant	As at 27 February 2010	Shares awarded in year	Options exercised/ shares released in year	As at 26 February 2011	Date from which exercisable	Expiry date
Sir Terry Leahy[1,2]	14.11.2007	2,680,172	93,747	–	2,773,919	Four tranches 2011-2014	14.11.2017

1 The awards made under this plan will normally vest in four tranches, four, five, six and seven years after the date of award for nil consideration. The award is in the form of nil cost options. Awards may be adjusted to take account of any dividends paid or that are payable in respect of the number of shares earned. Sir Terry Leahy retired on 2 March 2011 and his interest in these awards will continue until their normal vesting date.
2 The vesting of the award made to the Group CEO under this plan will be conditional upon achievement against Group and International performance conditions. Once performance against the Group and International targets has been determined, the extent to which the award made to the Group CEO under this plan is capable of vesting will be conditional on the financial performance of the specified new business venture, as determined by the Remuneration Committee.

Table 8 – US Long Term Incentive Plan

	Date of award/ grant	As at 27 February 2010	Shares awarded in year	Shares released in year	As at 26 February 2011	Date of release
Tim Mason[1]	14.11.2007	2,144,136	74,997	–	2,219,133	Four tranches 2011-2014

1 Subject to performance, the award made under this plan will normally vest in four tranches, four, five, six and seven years after the date of award for nil consideration. Awards may be adjusted to take account of any dividends paid or that are payable in respect of the number of shares earned. Vesting of the award will be conditional upon achievement of the financial performance targets, as determined by the Remuneration Committee.

Table 9 – Executive Incentive Plan

	Date of award/grant	Share price on award (pence)	As at 27 February 2010	Shares awarded/ options granted[1]	Shares released/ options exercised[3]	As at 26 February 2011	Date of release/date from which exercisable
Richard Brasher	24.05.2007	456.75	156,084	3,670	159,754	–	–
	02.05.2008	424.05	155,020	5,422	–	160,442	02.05.2011
	19.05.2009	351.16	124,955	4,370	–	129,325	19.05.2012
	22.06.2010	388.05	–	198,899	–	198,899	22.05.2013
Total			436,059	212,361	159,754	488,666	
Philip Clarke	24.05.2007	456.75	98,773	2,322	101,095	–	–
	02.05.2008	424.05	91,461	3,198	–	94,659	02.05.2011
	19.05.2009	351.16	124,955	4,370	–	129,325	19.05.2012
	22.06.2010	388.05	–	198,899	–	198,899	22.05.2013
Total			315,189	208,789	101,095	422,883	
Andrew Higginson	24.05.2007	456.75	98,773	2,322	101,095	–	–
	02.05.2008	424.05	91,461	3,198	–	94,659	02.05.2011
	19.05.2009	351.16	124,955	4,370	–	129,325	19.05.2012
	22.06.2010	388.05	–	198,899	–	198,899	22.05.2013
Total			315,189	208,789	101,095	422,883	
Sir Terry Leahy	24.05.2007	456.75	293,296	6,896	300,192	–	–
	02.05.2008	424.05	418,776	14,647	–	433,423	02.05.2011
	19.05.2009	351.16	271,309	9,489	–	280,798	19.05.2012
	22.06.2010	388.05	–	464,792	–	464,792	22.05.2013
Total			983,381	495,824	300,192	1,179,013	
Tim Mason[2]	24.05.2007	456.75	190,259	4,473	194,732	–	–
	02.05.2008	424.05	310,763	10,869	–	321,632	02.05.2011
	19.05.2009	351.16	257,040	8,990	–	266,030	19.05.2012
	22.06.2010	388.05	–	295,356	–	295,356	22.05.2013
Total			758,062	319,688	194,732	883,018	
Laurie McIlwee	22.06.2010	388.05	–	149,174	–	149,174	22.05.2013
Total			–	149,174	–	149,174	
Lucy Neville-Rolfe	24.05.2007	456.75	79,815	1,876	81,691	–	–
	02.05.2008	424.05	101,784	3,559	–	105,343	02.05.2011
	19.05.2009	351.16	87,468	3,058	–	90,526	19.05.2012
	22.06.2010	388.05	–	149,174	–	149,174	22.05.2013
Total			269,067	157,667	81,691	345,043	
David Potts	24.05.2007	456.75	98,773	2,322	101,095	–	–
	02.05.2008	424.05	91,461	3,198	–	94,659	02.05.2011
	19.05.2009	351.16	124,955	4,370	–	129,325	19.05.2012
	22.06.2010	388.05	–	198,899	–	198,899	22.05.2013
Total			315,189	208,789	101,095	422,883	
Total			3,392,136	1,961,081	1,039,654	4,313,563	

Table 9 – Executive Incentive Plan continued

1 The awards are subject to performance conditions based on earnings per share, TSR and corporate objectives. Awards are increased to reflect dividend equivalents as each dividend is paid.
2 Tim Mason's awards have been made in the form of an unfunded promise.
3 No options lapsed in the year under the Executive Incentive Plan. Directors exercised EIP awards as follows:

Director	Date	Price (pence)	Options exercised	Value realisable
Richard Brasher	24.05.10	399.975	156,084	624
	20.07.10	394.025	3,670	14
Philip Clarke	24.05.10	399.975	98,773	395
	20.07.10	394.025	2,322	9
Andrew Higginson	24.05.10	399.975	98,773	395
	20.07.10	394.025	2,322	9
Sir Terry Leahy	24.05.10	399.975	293,296	1,173
	20.07.10	394.025	6,896	27

Director	Date	Price (pence)	Options exercised	Value realisable
Tim Mason	24.05.10	399.975	190,259	761
	20.07.10	394.025	4,473	18
Lucy Neville-Rolfe	24.05.10	399.975	79,815	319
	20.07.10	394.025	1,876	7
David Potts	24.05.10	399.975	98,773	395
	20.07.10	394.025	2,322	9

Table 10 – Directors' interests in the Long-Term Incentive Plan

	Award date	Price on award (pence)	Number of shares as at 27 February 2010	Shares awarded	Shares released	**Number of shares as at 26 February 2011**	Share price on release (pence)	Value realisable £000	Release date
Laurie McIlwee[1]	24.05.07	456º.63	35,851	730	36,581	–	399.975	146	24.05.10
	21.05.08	415.45	38,107	1,192	–	39,299	–	–	21.05.11
	20.05.09	356.05	47,336	1,481	–	48,817	–	–	20.05.12
Total			121,294	3,403	36,581	88,116		146	

1 Bonus shares shown for Laurie McIlwee were awarded under the senior management bonus scheme before he joined the Board.

Table 11 – Disclosable interests of the Directors, including family interests

	26 February 2011 (or last date of employment if earlier)		27 February 2010 (or on appointment if later)	
	Ordinary shares[1]	Options to acquire ordinary shares[2]	Ordinary shares[1]	Options to acquire ordinary shares[2]
Executive Directors				
Richard Brasher	1,220,793	2,906,992	1,186,704	2,044,136
Philip Clarke	1,824,638	3,491,697	1,811,821	2,849,105
Andrew Higginson	1,349,712	3,491,697	1,586,895	2,849,105
Sir Terry Leahy	7,075,849	9,353,645	7,806,736	10,639,425
Tim Mason	3,876,520	1,545,829	4,134,570	1,159,489
Laurie McIlwee	222,301	1,483,050	237,241	743,466
Lucy Neville-Rolfe	452,886	2,067,219	443,091	1,417,358
David Potts	1,851,253	2,927,209	2,559,979	2,849,105
Non-executive Directors				
Charles Allen[3]	–	–	–	–
Gareth Bullock[4]	–	–	–	–
Patrick Cescau	–	–	–	–
Stuart Chambers[4]	5,500	–	5,500	–
Rodney Chase[3]	–	–	–	–
Karen Cook	–	–	–	–
Harald Einsmann[3]	355,984	–	355,984	–
Ken Hanna	–	–		–
Ken Hydon	30,093	–	30,093	–
David Reid	194,337	–	194,080	–
Jacqueline Tammenoms Bakker	–	–	–	–
Total	18,459,866	27,267,338	20,352,694	24,551,189

1 Ordinary shares shown in this table include restricted shares held by Laurie McIlwee under the Performance Share Plan and Long Term Incentive plan shown in table 6 and table 10, shares held under a promise by Tim Mason under the Performance Share Plan shown in table 6, the US Long Term Incentive Plan shown in table 8 and the Executive Incentive Plan shown in table 9 and shares held under the all employee Share Incentive Plan.
2 Options to acquire ordinary shares shown in this table comprise options held under the Executive Share Option schemes and Discretionary Share Option Plan shown in table 4, Save As You Earn scheme shown in table 5 and nil cost options held under the Performance Share Plan, Executive Incentive Plan and Group New Business Incentive Plan shown in tables 6, 9 and 7 respectively.
3 Charles Allen, Rodney Chase and Harald Einsmann retired from the Board on 2 July 2010.
4 Gareth Bullock and Stuart Chambers were appointed to the Board on 3 July 2010.
5 Between 26 February 2011 and 28 April 2011, 330 shares were purchased by Executive Directors as part of the Buy As You Earn scheme. Buy As You Earn is an HMRC approved share purchase scheme under which employees invest up to a limit of £110 on a four-weekly basis to buy shares in Tesco PLC at the market value. There have been no other changes in Directors' interests at the date of the publication of this Report.

Statement of Directors' responsibilities

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (EU) and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make reasonable and prudent judgements and estimates;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS, as endorsed by the EU;
- for the Company financial statements state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Company and the Group, and which enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006, and as regards the Group financial statements, Article 4 of the IAS Regulation.

The Business Review includes a fair review of the business and important events impacting it, as well as a description of the principal risks and uncertainties of the business.

The Directors are responsible for the maintenance and integrity of the Annual Review and Summary Financial Statement and Annual Report and Financial Statements published on the Group's corporate website. Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Tesco PLC

We have audited the Group financial statements of Tesco PLC for the 52 weeks ended 26 February 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 92, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 26 February 2011 and of its profit and cash flows for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the 52 weeks ended 26 February 2011 for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 45, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' renumeration.

Other matter

We have reported separately on the Parent Company financial statements of Tesco PLC for the 52 weeks ended 26 February 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Richard Winter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 May 2011

Group income statement

Year ended 26 February 2011	notes	52 weeks 2011 £m	52 weeks 2010 £m
Continuing operations			
Revenue (sales excluding VAT)	2	**60,931**	56,910
Cost of sales		**(55,871)**	(52,303)
Gross profit		**5,060**	4,607
Administrative expenses		**(1,676)**	(1,527)
Profit arising on property-related items	3	**427**	377
Operating profit		**3,811**	3,457
Share of post-tax profits of joint ventures and associates	13	**57**	33
Finance income	5	**150**	265
Finance costs	5	**(483)**	(579)
Profit before tax	3	**3,535**	3,176
Taxation	6	**(864)**	(840)
Profit for the year		**2,671**	2,336
Attributable to:			
Owners of the parent		**2,655**	2,327
Non-controlling interests		**16**	9
		2,671	2,336
Earnings per share			
Basic	9	**33.10p**	29.33p
Diluted	9	**32.94p**	29.19p

Non-GAAP measure: underlying profit before tax

	notes	52 weeks 2011 £m	52 weeks 2010 £m
Profit before tax		**3,535**	3,176
Adjustments for:			
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	1/5	**(19)**	(151)
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	1/28	**113**	24
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	1	**50**	41
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	1	**42**	127
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	1	**8**	14
IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions	1	**55**	131
Restructuring costs	1	**29**	33
Underlying profit before tax	1	**3,813**	3,395

The notes on pages 99 to 145 form part of these financial statements.

Group statement of comprehensive income

Year ended 26 February 2011	notes	52 weeks 2011 £m	52 weeks 2010 £m
Change in fair value of available-for-sale financial assets and investments		2	1
Currency translation differences		(344)	343
Actuarial gains/(losses) on defined benefit pension schemes	28	595	(322)
(Losses)/gains on cash flow hedges:			
Net fair value losses		(22)	(168)
Reclassified and reported in the Group Income Statement		8	5
Tax relating to components of other comprehensive income for the year	6	(153)	54
Total other comprehensive income for the year		86	(87)
Profit for the year		2,671	2,336
Total comprehensive income for the year		2,757	2,249
Attributable to:			
Owners of the parent		2,746	2,222
Non-controlling interests		11	27
		2,757	2,249

The notes on pages 99 to 145 form part of these financial statements.

Group balance sheet

	notes	26 February 2011 £m	27 February 2010 £m
Non-current assets			
Goodwill and other intangible assets	10	4,338	4,177
Property, plant and equipment	11	24,398	24,203
Investment property	12	1,863	1,731
Investments in joint ventures and associates	13	316	152
Other investments	14	1,108	863
Loans and advances to customers	17	2,127	1,844
Derivative financial instruments	22	1,139	1,250
Deferred tax assets	6	48	38
		35,337	34,258
Current assets			
Inventories	15	3,162	2,729
Trade and other receivables	16	2,314	1,888
Loans and advances to customers	17	2,514	2,268
Loans and advances to banks and other financial assets	18	404	144
Derivative financial instruments	22	148	224
Current tax assets		4	6
Short-term investments		1,022	1,314
Cash and cash equivalents	19	1,870	2,819
		11,438	11,392
Non-current assets classified as held for sale	7	431	373
		11,869	11,765
Current liabilities			
Trade and other payables	20	(10,484)	(9,442)
Financial liabilities:			
Borrowings	21	(1,386)	(1,529)
Derivative financial instruments and other liabilities	22	(255)	(146)
Customer deposits	24	(5,074)	(4,357)
Deposits by banks	25	(36)	(30)
Current tax liabilities		(432)	(472)
Provisions	26	(64)	(39)
		(17,731)	(16,015)
Net current liabilities		(5,862)	(4,250)
Non-current liabilities			
Financial liabilities:			
Borrowings	21	(9,689)	(11,744)
Derivative financial instruments and other liabilities	22	(600)	(776)
Post-employment benefit obligations	28	(1,356)	(1,840)
Deferred tax liabilities	6	(1,094)	(795)
Provisions	26	(113)	(172)
		(12,852)	(15,327)
Net assets		16,623	14,681
Equity			
Share capital	29	402	399
Share premium account		4,896	4,801
Other reserves		40	40
Retained earnings		11,197	9,356
Equity attributable to owners of the parent		16,535	14,596
Non-controlling interests		88	85
Total equity		16,623	14,681

The notes on pages 99 to 145 form part of these financial statements.

Philip Clarke
Laurie McIlwee

Directors
The financial statements on pages 94 to 145 were authorised for issue by the Directors on 6 May 2011 and are subject to the approval of the shareholders at the Annual General Meeting on 1 July 2011.

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Group statement of changes in equity

				Attributable to owners of the parent							
	Issued share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 27 February 2010	399	4,801	40	13	12	463	(180)	9,048	14,596	85	14,681
Profit for the year	–	–	–	–	–	–	–	2,655	2,655	16	2,671
Other comprehensive income											
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	2	2	–	2
Currency translation differences	–	–	–	–	–	(339)	–	–	(339)	(5)	(344)
Actuarial gains on defined benefit pension schemes	–	–	–	–	–	–	–	595	595	–	595
Losses on cash flow hedges	–	–	–	–	(14)	–	–	–	(14)	–	(14)
Tax relating to components of other comprehensive income	–	–	–	–	1	31	–	(185)	(153)	–	(153)
Total other comprehensive income	–	–	–	–	(13)	(308)	–	412	91	(5)	86
Total comprehensive income	–	–	–	–	(13)	(308)	–	3,067	2,746	11	2,757
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(50)	–	(50)	–	(50)
Share-based payments	–	–	–	–	–	–	89	131	220	–	220
Issue of shares	3	95	–	–	–	–	–	–	98	–	98
Purchase of non-controlling interests	–	–	–	–	–	–	–	6	6	(6)	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Dividends authorised in the year	–	–	–	–	–	–	–	(1,081)	(1,081)	–	(1,081)
Total transactions with owners	3	95	–	–	–	–	39	(944)	(807)	(8)	(815)
At 26 February 2011	402	4,896	40	13	(1)	155	(141)	11,171	16,535	88	16,623

				Attributable to owners of the parent							
	Issued share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 28 February 2009	395	4,638	40	13	175	173	(229)	7,644	12,849	57	12,906
Profit for the year	–	–	–	–	–	–	–	2,327	2,327	9	2,336
Other comprehensive income											
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	1	1	–	1
Currency translation differences	–	–	–	–	–	325	–	–	325	18	343
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(2)		(320)	(322)	–	(322)
Losses on cash flow hedges	–	–	–	–	(163)	–	–	–	(163)	–	(163)
Tax relating to components of other comprehensive income	–	–	–	–	–	(33)	–	87	54	–	54
Total other comprehensive income	–	–	–	–	(163)	290	–	(232)	(105)	18	(87)
Total comprehensive income	–	–	–	–	(163)	290	–	2,095	2,222	27	2,249
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(24)	–	(24)	–	(24)
Share-based payments	–	–	–	–	–	–	73	168	241	–	241
Issue of shares	4	163	–	–	–	–	–	–	167	–	167
Purchase of non-controlling interests	–	–	–	–	–	–	–	91	91	3	94
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(2)	(2)
Dividends authorised in the year	–	–	–	–	–	–	–	(968)	(968)	–	(968)
Tax on items charged to equity	–	–	–	–	–	–	–	18	18	–	18
Total transactions with owners	4	163	–	–	–	–	49	(691)	(475)	1	(474)
At 27 February 2010	399	4,801	40	13	12	463	(180)	9,048	14,596	85	14,681

The notes on pages 99 to 145 form part of these financial statements.

Group cash flow statement

Year ended 26 February 2011	notes	52 weeks 2011 £m	52 weeks 2010 £m
Cash flows from operating activities			
Cash generated from operations	31	5,366	5,947
Interest paid		(614)	(690)
Corporation tax paid		(760)	(512)
Net cash from operating activities		3,992	4,745
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(89)	(65)
Proceeds from sale of property, plant and equipment		1,906	1,820
Purchase of property, plant and equipment and investment property		(3,178)	(2,855)
Proceeds from sale of intangible assets		3	4
Purchase of intangible assets		(373)	(163)
Increase in loans to joint ventures		(219)	(45)
Decrease in loans to joint ventures		25	–
Investments in joint ventures and associates		(174)	(4)
Investments in short-term and other investments		(1,264)	(1,918)
Proceeds from sale of short-term investments		1,314	1,233
Dividends received		62	35
Interest received		128	81
Net cash used in investing activities		(1,859)	(1,877)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		98	167
Increase in borrowings		2,175	862
Repayment of borrowings		(4,153)	(3,601)
Repayment of obligations under finance leases		(42)	(41)
Dividends paid to equity owners		(1,081)	(968)
Dividends paid to non-controlling interests		(2)	(2)
Own shares purchased		(31)	(24)
Net cash from refinancing activities		(3,036)	(3,607)
Net decrease in cash and cash equivalents		(903)	(739)
Cash and cash equivalents at beginning of year		2,819	3,509
Effect of foreign exchange rate changes		(46)	49
Cash and cash equivalents at end of year	19	1,870	2,819

Reconciliation of net cash flow to movement in net debt note

Year ended 26 February 2011	note	52 weeks 2011 £m	52 weeks 2010 £m
Net decrease in cash and cash equivalents		(903)	(739)
Investment in Tesco Bank		(446)	(230)
Elimination of net increase in Tesco Bank cash and cash equivalents		56	(167)
Debt acquired on acquisition		(17)	–
Net cash outflow to repay debt and lease financing		2,870	2,780
Dividend received from Tesco Bank		150	150
(Decrease)/increase in short-term investments		(292)	81
Increase in joint venture loan receivables		159	45
Other non-cash movements		(438)	(249)
Decrease in net debt in the year		1,139	1,671
Opening net debt	32	(7,929)	(9,600)
Closing net debt	32	(6,790)	(7,929)

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

The notes on pages 99 to 145 form part of these financial statements.

NOTE 1 ACCOUNTING POLICIES

General information
Tesco PLC is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 445790). The address of the registered office is Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL, UK.

The financial year represents the 52 weeks ended 26 February 2011 (prior financial year 52 weeks ended 27 February 2010). For the UK, the Republic of Ireland and the US, the results are for the 52 weeks ended 26 February 2011 (prior financial year 52 weeks ended 27 February 2010). For all other operations, the results are for the calender year ended 28 February 2011 (year ended 28 February 2010).

As described in the Report of the Directors, the main activity of the Group is that of retailing and retailing services.

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments, customer loyalty programmes and pensions that have been measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The Group financial statements consist of the financial statements of the ultimate Parent Company (Tesco PLC), all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used in line with those of the Group.

Subsidiaries
A subsidiary is an entity whose operating and financing policies are controlled, directly or indirectly, by Tesco PLC.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Joint ventures and associates
A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

An associate is an undertaking, not being a subsidiary or joint venture, over which the Group has significant influence and can participate in the financial and operating policy decisions of the entity.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

Use of assumptions and estimates
The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Critical estimates and assumptions that are applied in the preperation of the consolidated financial statements include:

Depreciation and amortisation
The Group exercises judgement to determine useful lives and residual values of intangibles, property, plant and equipment and investment property. The assets are depreciated down to their residual values over their estimated useful lives.

Impairment
i) Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy as set out below. The recoverable amount of the cash-generating units has been determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and country specific risks.

ii) Impairment of assets
The Group has determined each store as a separate cash-generating unit. Where there are indicators for impairment, the Group performs an impairment test.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. Value in use is calculated from cash flow projections for five years using data from the Group's latest internal forecasts. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and country specific risks.

iii) Impairment of loans and advances to customers
The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate.

The Group's loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates. These portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

NOTE 1 ACCOUNTING POLICIES CONTINUED

Provisions
Provisions have been made for onerous leases, dilapidations, restructuring, pensions, customer redress and claims. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

The Group has a provision for potential customer redress. During the year, the FSA formally issued Policy Statement 10/12 (PS 10/12), which introduces new guidance in respect of PPI customer redress and evidential provisions to the FSA Handbook with an implementation date of 1 December 2010. We will continue to handle complaints and redress customers in accordance with PS 10/12. This will include ongoing analysis of historical claims experience in accordance with the guidance.

The calculation of this provision involves estimating a number of variables, principally the level of customer complaints which may be received and the level of any compensation which may be payable to customers. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision.

Insurance reserves
The Group recognises insurance commission arising from the sale of general insurance policies sold under the Tesco brand. The level of commission is dependent upon the profitability of the underlying insurance policies, which is in turn dependent on the level of reserves held by the insurance trading partner to underwrite the policies in place. Calculation of the required level of insurance claims reserves is dependent on a detailed actuarial review. Management also undertakes an assessment of other risks which are outside the scope of this review but that are inherent in assessing potential claims liabilities. A change in the estimate of any of the key variables in this calculation could have the potential to significantly impact the reserve balance recognised which would therefore also impact the insurance commission revenue recognised in the income statement.

Post-employment benefit obligations
The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-employment benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment benefit obligation. Other key assumptions for post-employment benefit obligations are based in part on current market conditions. Additional information is disclosed in note 28.

Changes in accounting policy and disclosure
The Group has adopted the following new and amended standards and interpretations as of 28 February 2010:

- IFRS 3 (Revised) ‘Business Combinations’ is effective for periods beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, but with certain significant changes. All payments to purchase a business will be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through the Group Income Statement. Goodwill and non-controlling interests may be calculated on a gross or net basis. All transaction costs will be expensed.
- IAS 27 (Revised) ‘Consolidated and Separate Financial Statements’ is effective for periods beginning on or after 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. As such, transactions with non-controlling interests with no change in control will no longer result in recognition of goodwill in the Group Balance Sheet or gains and losses recognised in the Group Income Statement. The revised standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in the Group Income Statement.
- IAS 39 (Amended) ‘Financial Instruments: Recognition and Measurement’ is effective for periods beginning on or after 1 July 2009. The amendment requires that inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendment also permits an entity to designate purchased options as a hedging instrument in a hedge of a financial or non-financial item.

The Group has adopted all amendments published in ‘Improvements to IFRSs’ issued in April 2009. The adoption of these amendments has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

Revenue
Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities.

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably.

Revenue is recorded net of returns, discounts/offers and value added taxes. Offers include: money-off coupons, conditional spend vouchers and offers such as buy one get one free (BOGOF) and 3 for 2.

Provision of services
Revenue from the provision of services is recognised when the service is provided and the revenue can be measured reliably, based on the terms of the contract.

Where the Group acts as an agent selling goods or services, only the commission income is included within revenue.

Financial services
Revenue consists of interest, fees and income from the provision of insurance.

Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method. This is the method of calculating the amortised cost of a financial asset or for a group of assets, and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that discounts the estimated future cash flows to the instrument’s initial carrying amount.

Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument’s yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

Fees in respect of services (such as credit card interchange, late payment and balance transfer fees and ATM revenue) are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

The Group generates commission from the sale and service of Motor and Home Insurance policies underwritten by Tesco Underwriting Limited. This is based on pre-determined commission rates at the point of sale. Similar commission income is also generated from the sale of white label insurance products underwritten by other third party providers.

NOTE 1 ACCOUNTING POLICIES CONTINUED

The Group continues to receive insurance commission arising from the sale of insurance policies sold under the Tesco brand through the legacy arrangement with the Royal Bank of Scotland (RBS). This commission income is variable and dependent upon the profitability of the underlying insurance policies.

Clubcard, loyalty and other initiatives
The cost of Clubcard and loyalty initiatives is treated as a deduction from sales and part of the fair value of the consideration received is deferred and subsequently recognised over the period that the awards are redeemed.

The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as redemption via Clubcard deals versus money-off-in-store and redemption rate.

Computers for Schools, Sport for Schools and Club vouchers are issued by Tesco for redemption by participating schools/clubs and are part of our overall Community Plan. The cost of the redemption (i.e meeting the obligation attached to the vouchers) is treated as a cost rather than a deduction from sales.

Rental income
Rental income is recognised in the period in which it is earned, in accordance with the terms of the lease.

Finance income
Finance income, excluding income arising from financial services, is recognised in the period to which it relates using the effective interest rate method.

Dividend income
Dividends are recognised when a legal entitlement to receive payment arises.

Finance costs
Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognised in the Group Income Statement in finance costs, excluding those arising from financial services, in the period in which they occur. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Business combinations and goodwill
The Group accounts for all business combinations by applying the purchase method. All acquisition-related costs are expensed.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair value. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The Group recognises intangible assets as part of business combinations at fair value on the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. The useful lives of intangible assets are estimated and amortisation is charged on a straight-line basis.

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets/net liabilities of the acquired subsidiary, joint venture or associate at the date of acquisition. If the cost of acquisition is less than the fair value of the Group's share of the net assets/net liabilities of the acquired entity (i.e a discount on acquisition), the difference is credited to the Group Income Statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill. Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 29 February 2004 (the date of transition to IFRS) was retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been restated and will not be included in determining any subsequent profit or loss on disposal.

Intangible assets
Acquired intangible assets
Acquired intangible assets, such as software, pharmacy licences, customer relationships, contracts and brands, are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives, at 2%-100% of cost per annum.

Internally-generated intangible assets – Research and development expenditure
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is capitalised only if all the criteria set out in IAS 38 'Intangible Assets' are met, principally:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the project's estimated useful life, usually at 14%-25% of cost per annum.

Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value.

Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life.

The following depreciation rates are applied for the Group:

- freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost;
- leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease; and
- plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 9% to 50%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, over the term of the relevant lease.

Impairment of non-financial assets
Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell, and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the Group Income Statement and is not subsequently reversed.

NOTE 1 ACCOUNTING POLICIES CONTINUED

For all other non-financial assets (including intangible assets and property, plant and equipment) the Group performs impairment testing where there are indicators of impairment. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the Group Income Statement.

Investment property
Investment property is property held to earn rental income and/or for capital appreciation rather than for the purpose of Group operating activities. Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Other investments
Other investments in the Group Balance Sheet comprise loan receivables and available-for-sale financial assets.

Loan receivables are recognised at amortised cost and available-for-sale financial assets are recognised at fair value.

Refer to the financial instruments accounting policy for further detail.

Inventories
Inventories comprise goods held for resale and properties held for, or in the course of, development and are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis.

Short-term investments
Short-term investments in the Group Balance Sheet consist of deposits with money market funds.

Cash and cash equivalents
Cash and cash equivalents in the Group Balance Sheet consist of cash at bank, in hand and demand deposits with banks together with short-term deposits with an original maturity of three months or less.

Non-current assets held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

The Group as a lessee
Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Group Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Group Income Statement.

Rentals payable under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the lease.

Sale and leaseback
A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group Income Statement.

Post-employment and similar obligations
The Group accounts for pensions and other post-employment benefits (principally private healthcare) under IAS 19 'Employee Benefits'.

For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised separately in the Group Income Statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group Statement of Comprehensive Income.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Share-based payments
Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares, rights over shares (equity-settled transactions) or in exchange for cash.

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is charged to the Group Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation
The tax expense included in the Group Income Statement consists of current and deferred tax.

NOTE 1 ACCOUNTING POLICIES CONTINUED

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Group Income Statement except to the extent that it relates to items recognised in the Group Statement of Other Comprehensive Income or directly in the Group Statement of Changes in Equity, in which case it is recognised in the Group Statement of Other Comprehensive Income or directly in the Group Statement of Changes in Equity, respectively.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group Income Statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Foreign currencies
Transactions in foreign currencies are translated at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Group Income Statement.

The financial statements of foreign subsidiaries are translated into Pounds Sterling. Since the majority of consolidated companies operate as independent entities within their local economic environment, their respective local currency is the functional currency. Therefore, assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated at exchange rates prevailing at the date of the Group Balance Sheet; profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group Statement of Comprehensive Income and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Investments
Investments are recognised at trade date. Investments are classified as either held for trading or available-for-sale, and are recognised at fair value. There are no investments classified as held for trading.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the period. Interest calculated using the effective interest rate method is recognised in the Group Income Statement. Dividends on an available-for-sale equity instrument are recognised in the Group Income Statement when the entity's right to receive payment is established.

Loans and advances to customers and banks
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include amounts due from customers and amounts due from banks. The Group has no intention of trading these loans and advances and consequently they are not classified as held for trading or designated as fair value through profit and loss. Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any impairment losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the Group Income Statement.

Impairment of loans and advances to customers and banks
At each balance sheet date the Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss has been incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing the provisions are the expected loss rates and the related average life. The portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ

NOTE 1 ACCOUNTING POLICIES CONTINUED

materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Group Income Statement over the period of the borrowings on an effective interest basis.

Trade payables
Trade payables are non interest-bearing and are stated at amortised cost.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes, however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps and cross currency swaps.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is reclassified from the Group Statement of Changes in Equity and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. The classification of the effective portion when recognised in the Group Income Statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

Derivative instruments qualifying for cash flow hedging are principally forward foreign exchange transactions and interest rate swaps.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Group Statement of Changes in Equity until the forecasted transaction occurs or the original hedged item affects the Group Income Statement. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Group Statement of Changes in Equity is reclassified to the Group Income Statement.

Net investment hedging
Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in the Group Statement of Changes in Equity. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in the Group Statement of Changes in Equity are included in the Group Income Statement when the foreign operation is disposed of.

Derivative instruments designated as net investment hedges are principally forward foreign exchange transactions.

Treatment of agreements to acquire non-controlling interests
The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with non-controlling interests.

Under IAS 32 'Financial Instruments: Presentation', the net present value of the expected future payments are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the Group Income Statement within finance income or costs. Where the liability is in a currency other than Pounds Sterling, the liability has been designated as a net investment hedge. Any change in the value of the liability resulting from changes in exchange rates is recognised directly in equity.

Provisions
Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. Where material, these leases are discounted to their present value. Provisions for dilapidation costs are recognised on a lease by lease basis.

Other recent accounting developments
The following standards, amendments and interpretations became effective for the first time for the financial year beginning 28 February 2010 but either have no material impact on the result or net assets of the Group or are not applicable.

NOTE 1 ACCOUNTING POLICIES CONTINUED

- IFRIC 17 'Distributions of Non-cash Assets to Owners' is effective from periods commencing on or after 1 July 2009. It provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
- IFRIC 18 'Transfers of Assets from Customers' is effective from periods commencing on or after 1 July 2009. It concludes that when an item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the accordance with IAS 18 'Revenue'.

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective. The Group has not applied these standards in the preparation of the financial statements:

- IFRS 9 'Financial Instruments' is effective from periods commencing on or after 1 January 2013. It adds guidance on the classification and measurement of financial assets and liabilities. It only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.
- IAS 24 (Amended) 'Related party disclosures' is effective from periods commencing on or after 1 January 2011. It clarifies and simplifies the definition of a related party and will require certain entities to make additional disclosures.
- IFRIC 14 (Amended) 'Prepayments of a minimum funding requirement' is effective from periods commencing on or after 1 January 2011. It corrects an unintended consequence where in some circumstances entities are not entitled to recognise as an asset some voluntary prepayments for minimum funding contributions.
- IFRIC 19 'Extinguishing financial liabilities and equity instruments' is effective from periods commencing on or after 1 July 2010. It requires that where a debtor issues equity instruments to a creditor to settle all or part of a financial liability, these instruments should be deemed fully paid and measured at the fair value of the liability extinguished.

The impact on the Group's financial statements of the future adoption of these standards is still under review. Other than IFRS 9, where the Group is continuing to assess the materiality of the impact of this new standard, the Group does not expect any of the changes to have material effect on the result or net assets of the Group.

Use of non-GAAP profit measures – underlying profit before tax
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 profit before tax are:

- IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements. Under IAS 32 and IAS 39, the Group applies hedge accounting to its various hedge relationships when allowed under the rules of 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 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 year end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the financial year, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify underlying business performance.
- IAS 19 'Employee Benefits' – non-cash Income Statement charge for pensions. Under IAS 19 the cost of providing pension benefits in the future is discounted to a present value at the corporate bond yield rates applicable on the last day of the previous financial year. Corporate bond yield rates vary over time which in turn creates volatility in the Group Income Statement and Group Balance Sheet. IAS 19 also increases the charge for young pension schemes, such as Tesco's, by requiring the use of rates which do not take into account the future expected returns on the assets held in the pension scheme which will fund pension liabilities as they fall due. The sum of these two effects can make the IAS 19 charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund all future liabilities. Therefore, within underlying profit we have included the 'normal' cash contributions for pensions but excluded the volatile element of IAS 19 to represent what the Group believes to be a fairer measure of the cost of 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 also impacts the Group's operating profit and rental income within the share of post-tax profits of joint ventures and associates.
- IFRS 3 (Revised) 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions. Under IFRS 3 intangible assets are separately identified and fair valued. The intangible assets are required to be amortised on a straight-line basis over their useful economic 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. The 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.
- IAS 36 'Impairment of Intangibles' – impairment of goodwill arising on acquisitions. The remaining carrying value of goodwill relating to Japan was not fully recoverable and was fully impaired during the year. The resulting non-cash charge does not reflect the underlying performance of the business.
- Restructuring costs. These relate to certain costs associated with the Group's restructuring activities and have been excluded from underlying profit as they do not reflect the Group's underlying performance.

NOTE 2 SEGMENTAL REPORTING

The Group's reporting segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Executive Committee of the Board of Directors as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. 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 financial year under evaluation. Trading profit is a consistent measure within the Group.

Segmental trading profit is an adjusted measure of operating profit, which measures the performance of each segment before goodwill impairment and restructuring charges, profit arising on property-related items, impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and costs arising from acquisitions, adjustments for the fair value of customer loyalty awards and replaces the IAS 19 pension charge with the 'normal' cash contributions for pensions. Segment assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated is comprised mainly of derivative financial instruments and deferred tax assets.

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

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

Year ended 26 February 2011 At constant exchange rates	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations								
Sales inc. VAT (excluding IFRIC 13)	44,570	9,952	10,741	489	919	66,671	902	67,573
Revenue (excluding IFRIC 13)	40,765	9,277	9,347	482	919	60,790	860	61,650
Effect of IFRIC 13	(649)	(34)	(34)	–	–	(717)	(2)	(719)
Revenue	40,116	9,243	9,313	482	919	60,073	858	60,931
Trading profit/(loss)	2,505	517	539	(181)	264	3,644	35	3,679
Trading margin*	6.1%	5.6%	5.8%	(37.6%)	28.7%	6.0%		6.0%

Year ended 26 February 2011 At actual exchange rates	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations						
Sales inc. VAT (excluding IFRIC 13)	44,571	11,023	10,558	502	919	67,573
Revenue (excluding IFRIC 13)	40,766	10,278	9,192	495	919	61,650
Effect of IFRIC 13	(649)	(37)	(33)	–	–	(719)
Revenue	40,117	10,241	9,159	495	919	60,931
Trading profit/(loss)	2,504	570	527	(186)	264	3,679
Trading margin*	6.1%	5.5%	5.7%	(37.6%)	28.7%	6.0%

Year ended 27 February 2010 At constant exchange rates	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations								
Sales inc. VAT (excluding IFRIC 13)	42,254	8,737	9,979	324	860	62,154	383	62,537
Revenue (excluding IFRIC 13)	39,104	8,148	8,704	319	860	57,135	367	57,502
Effect of IFRIC 13	(546)	(25)	(19)	–	–	(590)	(2)	(592)
Revenue	38,558	8,123	8,685	319	860	56,545	365	56,910
Trading profit/(loss)	2,413	422	466	(151)	250	3,400	12	3,412
Trading margin*	6.2%	5.2%	5.4%	(47.3%)	29.1%	5.9%		5.9%

Year ended 27 February 2010 At actual exchange rates	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations						
Sales inc. VAT (excluding IFRIC 13)	42,254	9,072	9,997	354	860	62,537
Revenue (excluding IFRIC 13)	39,104	8,465	8,724	349	860	57,502
Effect of IFRIC 13	(546)	(26)	(20)	–	–	(592)
Revenue	38,558	8,439	8,704	349	860	56,910
Trading profit/(loss)	2,413	440	474	(165)	250	3,412
Trading margin*	6.2%	5.2%	5.4%	(47.3%)	29.1%	5.9%

* Trading margin is based on revenue excluding IFRIC 13.

NOTE 2 SEGMENTAL REPORTING CONTINUED

Reconciliation of trading profit to profit before tax

	2011 £m	2010 £m
Trading profit	3,679	3,412
Adjustments:		
Profit arising on property-related items	427	377
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	(95)	24
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	(66)	(51)
IFRS 3 'Business Combinations' – intangibles asset amortisation charges and costs arising from acquisitions	(42)	(127)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	(8)	(14)
IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions	(55)	(131)
Restructuring costs	(29)	(33)
Operating profit	3,811	3,457
Share of post-tax profit from joint ventures and associates	57	33
Finance income	150	265
Finance costs	(483)	(579)
Profit before tax	3,535	3,176
Taxation	(864)	(840)
Profit for the year	2,671	2,336

Segment assets

At 26 February 2011	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Other/ unallocated £m	Total at actual exchange £m
Total segment non-current assets	14,456	7,638	6,601	945	4,510	1,187	35,337
Total segment non-current assets includes:							
Investments in joint ventures and associates	79	173	–	–	64	–	316

At 27 February 2010	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Other/ unallocated £m	Total at actual exchange £m
Total segment non-current assets	14,741	7,115	6,588	790	3,738	1,286	34,258
Total segment non-current assets includes:							
Investments in joint ventures and associates	55	95	–	–	2	–	152

NOTE 2 SEGMENTAL REPORTING CONTINUED

Other segment information

Year ended 26 February 2011	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at actual exchange £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment	1,486	977	603	192	62	3,320
Investment property	–	17	7	–	–	24
Goodwill and other intangible assets	159	28	23	82	163	455
Depreciation:						
Property, plant and equipment	(607)	(273)	(263)	(40)	(11)	(1,194)
Investment property	–	(17)	(14)	–	–	(31)
Amortisation of intangible assets	(109)	(17)	(22)	–	(47)	(195)
Goodwill impairment losses recognised in the Group Income Statement	–	(55)	–	–	–	(55)
Impairment losses recognised in the Group Income Statement	(14)	–	(3)	(8)	–	(25)
Reversal of prior year impairment losses through the Group Income Statement	14	13	11	–	–	38

Year ended 27 February 2010	UK £m	Asia £m	Rest of Europe £m	US £m	Tesco Bank £m	Total at actual exchange £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment	1,485	736	518	141	44	2,924
Investment property	–	8	8	–	–	16
Goodwill and other intangible assets	124	91	21	–	25	261
Depreciation:						
Property, plant and equipment	(570)	(226)	(260)	(29)	(6)	(1,091)
Investment property	–	(8)	(8)	–	–	(16)
Amortisation of intangible assets	(116)	(14)	(20)	–	(127)	(277)
Goodwill impairment losses recognised in the Group Income Statement	–	(131)	–	–	–	(131)
Impairment losses recognised in the Group Income Statement	(27)	(6)	(18)	–	–	(51)
Reversal of prior year impairment losses through the Group Income Statement	27	10	40	–	–	77

NOTE 3 INCOME AND EXPENSES

From continuing operations	2011 £m	2010 £m
Profit before tax is stated after charging/(crediting) the following:		
Profit arising on property-related items	(427)	(377)
Rental income, of which £417m (2010 – £351m) relates to investment properties	(541)	(461)
Direct operating expenses arising on rental earning investment properties	122	103
Costs of inventories recognised as an expense	45,942	42,504
Stock losses	1,025	1,000
Depreciation of property, plant and equipment and investment property	1,225	1,107
Impairment of property, plant and equipment and impairment of investment property	25	51
Reversal of prior year impairment losses through the Group Income Statement	(38)	(77)
Amortisation of internally-generated development intangible assets	100	103
Amortisation of other intangibles	95	174
Operating lease expenses*	1,064	927

* Operating lease expenses include £53m (2010 – £83m) for hire of plant and machinery.

NOTE 3 INCOME AND EXPENSES CONTINUED

During the financial year the Group obtained the following services from the Group's auditor, PricewaterhouseCoopers LLP, and network firms:

	2011 £m	2010 £m
Audit services		
Fees payable to the Company's auditor for the audit of the Parent Company and Group financial statements	0.6	0.6
The audit of the accounts of the Company's subsidiaries pursuant to legislation	3.7	3.5
	4.3	4.1
Non-audit services		
Fees payable to the Company's auditor and network firms for other services:		
Other services pursuant to legislation	0.1	0.1
Other services relating to taxation	0.7	0.4
Other services relating to information technology	0.3	–
Other services relating to corporate finance transactions	–	0.1
All other services	0.6	0.6
Total auditor remuneration	6.0	5.3

In addition to the amounts shown above, the auditors received fees of £0.1m (2010 – £0.1m) for the audit of the main Group pension scheme.

A description of the work of the Audit Committee is set out in the Corporate Governance Report on page 62 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided by PricewaterhouseCoopers LLP.

NOTE 4 EMPLOYMENT COSTS, INCLUDING DIRECTORS' REMUNERATION

	2011 £m	2010 £m
Wages and salaries	5,467	5,057
Social security costs	470	435
Post-employment defined benefits (note 28)	528	391
Post-employment defined contributions (note 28)	14	12
Share-based payments expense (note 27)	289	300
	6,768	6,195

The average number of employees by operating segment during the financial year was:

	Average number of employees		Average number of full-time equivalents	
	2011	2010	2011	2010
UK	293,676	287,266	200,966	196,604
Asia	104,071	94,536	96,481	89,310
Rest of Europe	89,559	86,642	82,270	77,847
US	4,134	3,246	3,448	2,259
Tesco Bank	1,274	404	1,224	393
Total	492,714	472,094	384,389	366,413

NOTE 5 FINANCE INCOME AND COSTS

	2011 £m	2010 £m
Finance income		
Bank interest receivable and similar income on cash and cash equivalents	131	114
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	19	151
Total finance income	150	265
Finance costs		
Interest payable on short-term bank loans and overdrafts repayable within five years	(101)	(135)
Finance charges payable under finance leases and hire purchase contracts	(10)	(9)
GBP MTN	(233)	(240)
EUR MTN	(194)	(232)
USD MTN	(57)	(57)
Other MTNs	(17)	(13)
Capitalised interest (note 11)	147	155
Total finance costs (on historical cost basis)	(465)	(531)
Net pension finance cost (note 28)	(18)	(48)
Total finance costs	(483)	(579)

GBP MTNs
Interest payable on the 4% RPI GBP MTN 2016 includes £12m (2010 – £1m) of Retail Price Index (RPI) related amortisation.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £10m (2010 – £2m) of RPI related amortisation.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £11m (2010 – £1m) of RPI related amortisation.
During the financial year the Group redeemed £126m of the 5% GBP MTN maturing 2023.
During the financial year the Group redeemed £127m of the 5% GBP MTN maturing 2042.
During the financial year the Group redeemed £221m of the 5.2% GBP MTN maturing 2057.
EUR MTNs
During the financial year the Group redeemed €111m of the 3.875% EUR MTN maturing 2011.
During the financial year the Group redeemed €461m of the 5.875% EUR MTN maturing 2016.

NOTE 6 TAXATION

Recognised in the Group Income Statement

	2011 £m	2010 £m
Current tax expense		
UK corporation tax	694	566
Foreign tax	181	128
Adjustments in respect of prior years	(114)	(91)
	761	603
Deferred tax expense		
Origination and reversal of temporary differences	148	110
Adjustments in respect of prior years	12	124
Change in tax rate	(57)	3
	103	237
Total income tax expense	864	840

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. The Finance (No.2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. The proposed reduction from 28% to 27% was substantively enacted at the balance sheet date and has therefore been reflected in these Group financial statements.

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not reflected in these Group financial statements.

The effect of the changes enacted by Parliament on 29 March 2011 to reduce the corporation tax rate to 26%, with effect from 1 April 2011, is to reduce the deferred tax liability provided at the balance sheet date by £32m (£46m increase in profit and £14m decrease in the Group Statement of Comprehensive Income).

The effect of the changes expected to be enacted in the Finance Act 2011 to reduce the corporation tax rate from 26% to 25%, with effect from 1 April 2012, would be to reduce the deferred tax liability provided at the balance sheet date by a further £32m (£46m increase in profit and £14m decrease in the Group Statement of Comprehensive Income).

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £66m (being £33m recognised in 2013 and £33m recognised in 2014).

NOTE 6 TAXATION CONTINUED

Reconciliation of effective tax charge

	2011 £m	2010 £m
Profit before tax	3,535	3,176
Tax charge at 28% (2010 – 28%)	(990)	(889)
Effect of:		
Non-deductible expenses	(136)	(13)
Differences in overseas taxation rates	99	93
Adjustments in respect of prior years	102	(33)
Share of profits of joint ventures and associates	4	5
Change in tax rate	57	(3)
Total income tax charge for the year	(864)	(840)
Effective tax rate	24.4%	26.4%

Tax on items credited directly to the Group Statement of Changes in Equity

	2011 £m	2010 £m
Current tax credit on:		
Share-based payments	7	15
Deferred tax (charge)/credit on:		
Share-based payments	(7)	3
Total tax on items credited to Group Statement of Changes in Equity	–	18

Tax relating to components of the Group Statement of Comprehensive Income

	2011 £m	2010 £m
Current tax credit/(charge) on:		
Foreign exchange movements	31	(33)
Fair value of movement on available-for-sale investments	(1)	–
Deferred tax (charge)/credit on:		
Pensions	(184)	87
Fair value movements on cash flow hedges	1	–
Total tax on items (charged)/credited to Group Statement of Comprehensive Income	(153)	54

Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years:

	Property-related items* £m	Retirement benefit obligation £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial Instruments £m	Other pre/post tax temporary differences £m	Total £m
At 28 February 2009	(1,247)	417	44	90	16	47	6	(627)
(Charge)/credit to the Group Income Statement	(257)	7	9	(7)	21	(11)	1	(237)
Credit to Group Statement of Changes in Equity	–	–	3	–	–	–	–	3
Credit to Group Statement of Comprehensive Income	–	87	–	–	–	–	–	87
Acquisition of subsidiaries	–	–	–	–	2	–	–	2
Foreign exchange and other movements	8	–	–	8	2	–	(3)	15
At 27 February 2010	(1,496)	511	56	91	41	36	4	(757)
(Charge)/credit to the Group Income Statement	(101)	35	(2)	5	(10)	(33)	3	(103)
Charge to Group Statement of Changes in Equity	–	–	(7)	–	–	–	–	(7)
Charge to Group Statement of Comprehensive Income	–	(184)	–	–	–	1	–	(183)
Foreign exchange and other movements	5	–	–	(2)	1	–	–	4
At 26 February 2011	(1,592)	362	47	94	32	4	7	(1,046)

* Property-related items include deferred tax liability on rolled over gains of £335m (2010 – £294m) and deferred tax assets of £70m (2010 – £nil) on capital losses of £260m (2010 – £342m). The remaining balance relates to accelerated tax depreciation.

Notes to the Group financial statements

NOTE 6 TAXATION CONTINUED

Certain deferred tax assets and liabilities have been offset and analysed as follows:

	2011 £m	2010 £m
Deferred tax assets	48	38
Deferred tax liabilities	(1,094)	(795)
	(1,046)	(757)

The deferred tax balance is considered to be non-current.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures, because the earnings are continually reinvested by the Group and no tax is expected to be payable on them in the foreseeable future. The temporary difference unrecognised at the year end amounted to £3.0bn (2010 – £2.7bn). The deferred tax on unremitted earnings at 26 February 2011 is estimated to be £90m (2010 – £50m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Unrecognised deferred tax assets
Deferred tax assets have not been recognised in respect of the following items (because it is not probable that future taxable profits will be available against which the Group can utilise the benefits):

	2011 £m	2010 £m
Deductible temporary differences	19	1
Tax losses	403	286
	422	287

As at 26 February 2011 the Group has unused trading tax losses of £1,309m (2010 – £1,019m) available for offset against future profits. A deferred tax asset has been recognised in respect of £109m (2010 – £142m) of such losses. No deferred tax asset has been recognised in respect of the remaining £1,200m (2010 – £877m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £390m that will expire in 2015 (2010 – £297m in 2014) and £744m that will expire between 2016 and 2031 (2010 – £550m between 2015 and 2030). Other losses will be carried forward indefinitely.

NOTE 7 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2011 £m	2010 £m
Non-current assets classified as held for sale	431	373

The non-current assets classified as held for sale consist mainly of properties in the UK due to be sold within one year.

NOTE 8 DIVIDENDS

	2011		2010	
	pence/share	£m	pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Final dividend for the prior financial year	9.16	730	8.39	660
Interim dividend for the current financial year	4.37	351	3.89	308
	13.53	1,081	12.28	968
Proposed final dividend for the current financial year	10.09	812	9.16	731

The proposed final dividend was approved by the Board of Directors on 18 April 2011 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 26 February 2011, in accordance with IAS 10 'Events After the Balance Sheet Date'. It will be paid on 8 July 2011 to shareholders who are on the register of members at close of business on 3 May 2011.

NOTE 9 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 financial year.

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 financial year 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.

			2011			2010
From continuing operations	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit (£m)	2,655	–	2,655	2,327	–	2,327
Weighted average number of shares (millions)	8,020	41	8,061	7,933	39	7,972
Earnings per share (pence)	33.10	(0.16)	32.94	29.33	(0.14)	29.19

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

Reconciliation of non-GAAP underlying diluted earnings per share

		2011		2010
	£m	pence/share	£m	pence/share
Profit	2,655	32.94	2,327	29.19
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	(19)	(0.23)	(151)	(1.90)
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	113	1.40	24	0.30
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	50	0.62	41	0.52
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	42	0.52	127	1.59
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	8	0.10	14	0.18
IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions	55	0.68	131	1.64
Restructuring costs	29	0.36	33	0.41
Tax effect of adjustments at the effective rate of tax (2011 – 24.1%*; 2010 – 25.4%)	(54)	(0.67)	(22)	(0.27)
Underlying earnings from operations	2,879	35.72	2,524	31.66

* The effective tax rate of 24.1% (2010 – 25.4%) excludes certain permanent differences on which tax relief is not available.

NOTE 10 GOODWILL AND OTHER INTANGIBLE ASSETS

	Internally generated development costs £m	Pharmacy and software licences £m	Other intangible assets £m	Goodwill £m	Total £m
Cost					
At 27 February 2010	1,133	368	335	3,566	5,402
Foreign currency translation	–	(5)	(2)	(48)	(55)
Additions	243	128	2	82	455
Reclassification	(74)	74	7	–	7
Disposals	(2)	(2)	–	–	(4)
At 26 February 2011	1,300	563	342	3,600	5,805
Accumulated amortisation and impairment losses					
At 27 February 2010	574	242	180	229	1,225
Foreign currency translation	–	(5)	–	–	(5)
Amortisation for the year	100	52	43	–	195
Impairment losses for the year	–	–	–	55	55
Disposals	(2)	(1)	–	–	(3)
At 26 February 2011	672	288	223	284	1,467
Net carrying value					
At 26 February 2011	628	275	119	3,316	4,338
At 27 February 2010	559	126	155	3,337	4,177

	Internally generated development costs £m	Pharmacy and software licences £m	Other intangible assets £m	Goodwill £m	Total £m
Cost					
At 28 February 2009	879	310	318	3,332	4,839
Foreign currency translation	9	11	14	136	170
Additions	111	50	2	98	261
Reclassification	136	(1)	1	1	137
Disposals	(2)	(2)	–	(1)	(5)
At 27 February 2010	1,133	368	335	3,566	5,402
Accumulated amortisation and impairment losses					
At 28 February 2009	426	197	42	98	763
Foreign currency translation	3	6	3	1	13
Amortisation for the year	103	43	131	–	277
Reclassification	42	(3)	4	(1)	42
Impairment losses for the year	–	–	–	131	131
Disposals	–	(1)	–	–	(1)
At 27 February 2010	574	242	180	229	1,225
Net carrying value					
At 27 February 2010	559	126	155	3,337	4,177
At 28 February 2009	453	113	276	3,234	4,076

There are no intangible assets, other than goodwill, with indefinite useful lives.

NOTE 10 GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

Impairment of goodwill
Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. Value in use is calculated from cash flow projections for generally five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. Given the current economic climate, a sensitivity analysis has been performed in assessing the recoverable amounts of goodwill.

During the financial year, the remaining carrying amount of goodwill for Japan was reduced to nil through the recognition of an impairment loss of £55m (2010 – £131m). This has been included in cost of sales in the Group Income Statement.

The pre-tax discount rates used to calculate value in use range from 8% to 14% (2010 – 6% to 14%). On a post-tax basis, the discount rates ranged from 6% to 12% (2010 – 4% to 13%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region.

The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of 2% to 5% (2010 – 1% to 4%).

In February 2011 and 2010 impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated.

The components of goodwill are as follows:

	2011 £m	2010 £m
UK	645	645
Tesco Bank	802	802
Thailand	161	157
South Korea	468	489
Japan	–	55
China	582	594
Malaysia	83	77
Poland	401	424
Czech Republic	34	35
Turkey	50	54
US	78	–
Other	12	5
	3,316	3,337

NOTE 11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Other[(a)] £m	Total £m
Cost			
At 27 February 2010	23,385	8,398	31,783
Foreign currency translation	(257)	(153)	(410)
Additions[(b)]	2,577	697	3,274
Acquisitions through business combinations	22	24	46
Reclassification	(673)	301	(372)
Classified as held for sale	(110)	–	(110)
Disposals	(1,465)	(176)	(1,641)
At 26 February 2011	23,479	9,091	32,570
Accumulated depreciation and impairment losses			
At 27 February 2010	2,700	4,880	7,580
Foreign currency translation	(21)	(55)	(76)
Charge for the year	412	782	1,194
Impairment losses for the year	20	3	23
Reversal of impairment losses for the year	(38)	–	(38)
Reclassification	(199)	3	(196)
Classified as held for sale	(29)	–	(29)
Disposals	(140)	(146)	(286)
At 26 February 2011	2,705	5,467	8,172
Net carrying value[(c)(d)(e)]			
At 26 February 2011	20,774	3,624	24,398
At 27 February 2010	20,685	3,518	24,203
Construction in progress included above[(f)]			
At 26 February 2011	1,267	196	1,463

(a) Other assets consist of plant, equipment, fixtures and fittings and motor vehicles.
(b) Includes £147m (2010 – £155m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 5.1% (2010 – 5.1%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.
(c) Net carrying value includes:
(i) Capitalised interest at 26 February 2011 of £1,084m (2010 – £1,012m (restated)).
(ii) Assets held under finance leases which are analysed below:

	2011		2010	
	Land and buildings £m	Other[(a)] £m	Land and buildings £m	Other[(a)] £m
Cost	139	580	139	582
Accumulated depreciation and impairment losses	(24)	(462)	(36)	(430)
Net carrying value	115	118	103	152

These assets are pledged as security for the finance lease liabilities.

(d) The net carrying value of land and buildings comprises:

	2011 £m	2010 £m
Freehold	18,094	17,855
Long leasehold – 50 years or more	677	971
Short leasehold – less than 50 years	2,003	1,859
Net carrying value	20,774	20,685

(e) Carrying value of land and buildings includes £2m (2010 – £3m) relating to the prepayment of lease premiums.
(f) Construction in progress does not include land.

NOTE 11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 28 February 2009	22,349	7,495	29,844
Foreign currency translation	793	234	1,027
Additions[b]	2,189	735	2,924
Reclassification	(279)	71	(208)
Classified as held for sale	2	4	6
Disposals	(1,669)	(141)	(1,810)
At 27 February 2010	23,385	8,398	31,783
Accumulated depreciation and impairment losses			
At 28 February 2009	2,540	4,152	6,692
Foreign currency translation	80	121	201
Charge for the year	354	737	1,091
Impairment losses for the year	51	–	51
Reversal of impairment losses for the year	(74)	–	(74)
Reclassification	(34)	(48)	(82)
Classified as held for sale	(39)	1	(38)
Disposals	(178)	(83)	(261)
At 27 February 2010	2,700	4,880	7,580
Net carrying value[c][d][e]			
At 27 February 2010	20,685	3,518	24,203
At 28 February 2009	19,809	3,343	23,152
Construction in progress included above[f]			
At 27 February 2010	1,652	193	1,845

Impairment of property, plant and equipment
The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indications of impairment at the balance sheet date.

Recoverable amounts for cash-generating units are mainly based on value in use, which is generally calculated from cash flow projections for five to 20 years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

The forecasts are extrapolated beyond five years based on estimated long-term growth rates of 2% to 5% (2010 – 1% to 4%).

The pre-tax discount rates used to calculate value in use range from 6% to 14% (2010 – 6% to 14%) depending on the specific conditions in which each store operates. These discount rates are derived from the Group's post-tax weighted average cost of capital.

NOTE 11 PROPERTY, PLANT AND EQUIPMENT CONTINUED

The following amounts have been credited/(charged) to cost of sales in the Group Income Statement:

	2011 £m	2010 £m
Impairment losses		
UK	(14)	(27)
Asia	–	(6)
Rest of Europe	(1)	(18)
US	(8)	–
	(23)	(51)
Reversal of impairment losses		
UK	14	27
Asia	13	10
Rest of Europe	11	37
	38	74
Net reversal of impairment losses	15	23

The impairment losses relate to stores whose recoverable amounts do not exceed the asset carrying values. In all cases, impairment losses arose due to stores performing below forecasted trading levels.

The reversal of previous impairment losses arose principally due to improvements in stores' performances over the last year, which increased the net present value of future cash flows.

NOTE 12 INVESTMENT PROPERTY

	2011 £m	2010 £m
Cost		
At beginning of year	1,919	1,660
Foreign currency translation	(35)	172
Additions	24	16
Reclassification	197	71
Classified as held for sale	(2)	–
Disposals	(11)	–
At end of year	2,092	1,919
Accumulated depreciation and impairment losses		
At beginning of year	188	121
Foreign currency translation	(3)	14
Charge for the year	31	16
Impairment losses for the year	2	–
Reversal of impairment losses for the year	–	(3)
Reclassification	11	40
At end of year	229	188
Net carrying value	1,863	1,731

NOTE 12 INVESTMENT PROPERTY CONTINUED

The following amounts have been (charged)/credited to cost of sales in the Group Income Statement:

	2011 £m	2010 £m
Impairment losses		
Rest of Europe	(2)	–
	(2)	–
Reversal of impairment losses		
Rest of Europe	–	3
	–	3
Net (impairment charge)/reversal of impairment losses	(2)	3

The impairment losses relate to malls whose recoverable amounts do not exceed the asset carrying values. In all cases, impairment losses arose due to the malls performing below forecasted trading levels.

The reversal of previous impairment losses arose principally due to improvements in the performance of malls over the last year, which increased the net present value of cash flows.

The estimated fair value of the Group's investment property is £4.4bn (2010 – £2.8bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

NOTE 13 GROUP ENTITIES

Principal subsidiaries
The Group consolidates its subsidiary undertakings and its principal subsidiaries are:

	Business activity	Share of issued ordinary share capital and voting rights	Country of incorporation and principal country of operation
Tesco Stores Limited	Retail	100%	England
One Stop Stores Limited[(a)]	Retail	100%	England
Tesco Ireland Limited	Retail	100%	Republic of Ireland
Tesco-Global Stores Privately Held Co. Limited	Retail	100%	Hungary
Tesco Polska Sp. z o.o.	Retail	100%	Poland
Tesco Stores C R a.s.	Retail	100%	Czech Republic
Tesco Stores S R a.s.	Retail	100%	Slovakia
Tesco Kipa Kitle Paza rlama Ticaret ve Gide Sanai A.Ş.[(a)]	Retail	93%	Turkey
Homeplus Co., Limited (formerly Samsung Tesco Co. Limited)	Retail	97%	South Korea
Homeplus Tesco Co., Limited (formerly Homever Tesco Co. Limited)	Retail	100%	South Korea
Ek-Chai Distribution System Co. Limited	Retail	86%[(b)]	Thailand
Tesco Stores (Malaysia) Sdn Bhd	Retail	70%	Malaysia
Tesco Japan Co., Limited	Retail	100%	Japan
Tesco Management (Shanghai) Corporation Limited	Retail	100%	People's Republic of China
Dobbies Garden Centres PLC	Retail	100%	Scotland
Fresh & Easy Neighborhood Market Inc	Retail	100%	US
Tesco Personal Finance Group Limited[(a)] (trading as Tesco Bank)	Financial Services	100%	Scotland
Tesco Distribution Limited	Distribution	100%	England
Tesco Property Holdings Limited	Property	100%	England
Tesco International Sourcing Limited	Purchasing	100%	Hong Kong
dunnhumby Limited	Data Analysis	100%	England
ELH Insurance Limited	Self-insurance	100%	Guernsey
Valiant Insurance Company Limited	Self-insurance	100%	Republic of Ireland

(a) Held by the Parent Company (all other principal subsidiaries are held by an intermediate subsidiary).
(b) The Group has 86% of voting rights and 39% of issued ordinary share capital in Ek-Chai Distribution System Co. Limited.

The accounting period ends of the subsidiary undertakings consolidated in these financial statements are on or around 26 February 2011. A full list of the Group's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House. There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

NOTE 13 GROUP ENTITIES CONTINUED

Interests in joint ventures and associates

The Group uses the equity method of accounting for its interest in joint ventures and associates. The following table shows the aggregate movement in the Group's investment in joint ventures and associates:

	Joint ventures £m	Associates £m	Total £m
At 28 February 2009	49	13	62
Additions	83	–	83
Foreign currency translation	9	–	9
Share of post-tax profits of joint ventures and associates	29	4	33
Income received from joint ventures and associates	(34)	(1)	(35)
At 27 February 2010	136	16	152
Additions	88	86	174
Foreign currency translation	(5)	–	(5)
Share of post-tax profits/(losses) of joint ventures and associates	65	(8)	57
Income received from joint ventures and associates	(60)	(2)	(62)
At 26 February 2011	224	92	316

Significant joint ventures

The Group's principal joint ventures are:

	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation and principal country of operation
Shopping Centres Limited*	Property Investment	50%	England
BLT Properties Limited*	Property Investment	50%	England
Tesco British Land Property Partnership	Property Investment	50%	England
Tesco Red Limited Partnership	Property Investment	50%	England
Tesco Aqua Limited Partnership	Property Investment	50%	England
Tesco Jade Limited Partnership	Property Investment	50%	England
Tesco Coral Limited Partnership	Property Investment	50%	England
Tesco Blue Limited Partnership	Property Investment	50%	England
Tesco Atrato Limited Partnership	Property Investment	50%	England
Fushun Jinxiu Real Estate Development Co Limited	Property Investment	50%	People's Republic of China
Anshan Real Estate Development Co Limited	Property Investment	50%	People's Republic of China
Tesco Qinhuangdo Property Limited	Property Investment	50%	People's Republic of China
Arena (Jersey) Management Limited	Property Investment	50%	Jersey
The Tesco Property Limited Partnership	Property Investment	50%	England
The Tesco Property (No. 2) Limited Partnership	Property Investment	50%	Jersey
The Tesco Passaic Limited Partnership	Property Investment	50%	England
The Tesco Navona Limited Partnership	Property Investment	50%	England
Tesco Mobile Limited	Telecommunications	50%	England

* Held by the Parent Company (all other principal subsidiaries are held by an intermediate subsidiary).

The accounting period ends of the joint ventures consolidated in these financial statements range from 31 December 2010 to 28 February 2011. Accounting period end dates differ from those of the Group arise for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group.

There are no significant restrictions on the ability of joint ventures to transfer funds to the parent, other than those imposed by the Companies Act 2006.

NOTE 13 GROUP ENTITIES CONTINUED

The share of the assets, liabilities, revenue and profit of the joint ventures, which are included in the Group financial statements, are as follows:

	2011 £m	2010 £m
Non-current assets	2,720	2,216
Current assets	577	359
Current liabilities	(1,957)	(411)
Non-current liabilities	(1,123)	(2,041)
Goodwill	7	1
Cumulative unrecognised losses	–	12
	224	136
Revenue	369	355
Expenses	(304)	(326)
Profit for the year	65	29

The unrecognised share of losses made by joint ventures during the financial year was £7m (2010 – £3m).

Associates

The Group's principal associates are:

	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation and principal country of operation
Greenergy International Limited*	Fuel Supplier	34%	England
Tesco Underwriting Limited*	Insurance	49.9%	England

* Held by an intermediate subsidiary.

On 18 May 2010 the Group acquired an additional 13% of the ordinary share capital of Greenergy International Limited for a cash consideration of £16m, taking the Group's holding to 34%.

The share of the assets, liabilities, revenue and profit of the Group's associates, which are included in the Group financial statements, are as follows:

	2011 £m	2010 £m
Assets	535	156
Liabilities	(452)	(142)
Goodwill	9	2
	92	16
Revenue	1,551	473
(Loss)/profit for the year	(8)	4

The accounting period ends of the associates consolidated in these financial statements range from 31 December 2010 to 28 February 2011. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

NOTE 14 OTHER INVESTMENTS

	2011 £m	2010 £m
Loan receivable	259	259
Available-for-sale financial assets	849	604
	1,108	863

The loan receivable comprises an interest-free subordinated loan made by Tesco Bank to Royal Bank of Scotland Insurance Group Limited. This loan has no interest receivable and no fixed repayment date.

Available-for-sale financial assets comprise investments in bonds and certificates of deposit with varied maturities of which £202m (2010 – £224m) is current.

NOTE 14 OTHER INVESTMENTS CONTINUED

The following table shows the aggregate movement in the Group's other investments during the year:

	2011 £m	2010 £m
At beginning of year	863	259
Additions	999	603
Disposals and maturities	(735)	–
Foreign currency translation	(10)	–
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	(9)	1
At end of year	1,108	863

NOTE 15 INVENTORIES

	2011 £m	2010 £m
Goods held for resale	3,142	2,726
Development properties	20	3
	3,162	2,729

NOTE 16 TRADE AND OTHER RECEIVABLES

	2011 £m	2010 £m
Prepayments and accrued income	387	337
Other receivables	1,400	1,236
Amounts owed by joint ventures and associates (note 30)	527	315
	2,314	1,888

Included within trade and other receivables are the following amounts receivable after more than one year:

	2011 £m	2010 £m
Prepayments and accrued income	31	31
Other receivables	378	346
Amounts owed by joint ventures and associates	432	309
	841	686

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from seven to 60 days.

Trade receivables are recorded at amortised cost, less provision for impairment.

Provision for impairment of receivables

	£m
At 28 February 2009	(44)
Foreign currency translation	(5)
Charge for the year	(3)
Uncollectible amounts written off	–
Recoveries of amounts previously written off	5
At 27 February 2010	(47)
Foreign currency translation	2
Charge for the year	(5)
Uncollectible amounts written off	6
Recoveries of amounts previously written off	–
At 26 February 2011	(44)

NOTE 16 TRADE AND OTHER RECEIVABLES CONTINUED

As at 26 February 2011 trade and other receivables of £37m (2010 – £49m) were past due and impaired. The amount of the provision was £44m (2010 – £47m). The ageing analysis of these receivables is as follows:

	2011 £m	2010 £m
Up to three months past due	4	8
Three to six months past due	3	4
Over six months past due	30	37
	37	49

As at 26 February 2011 trade and other receivables of £144m (2010 – £115m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2011 £m	2010 £m
Up to three months past due	114	97
Three to six months past due	13	10
Over six months past due	17	8
	144	115

No receivables have been renegotiated in the current or prior financial years.

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS

Tesco Bank has loans and advances to customers.

	2011 £m	2010 £m
Current	2,514	2,268
Non-current	2,127	1,844
	4,641	4,112

The maturity of these loans and advances is as follows:

	2011 £m	2010 £m
Repayable on demand or at short notice	1	1
Within three months	2,572	2,370
Greater than three months but less than one year	47	70
Greater than one year but less than five years	1,700	1,504
After five years	503	481
	4,823	4,426
Provision for impairment of loans and advances	(182)	(314)
	4,641	4,112

Loans and advances include amounts subject to securitisation of £1,356m (2010 – £1,459m). During 2008 the Group entered into a securitisation transaction and issued debt securities which the Group subsequently purchased. The purpose of the transaction was to allow the Group to enter into the Special Liquidity Scheme whereby it would enter into a sale and repurchase agreement acquiring Treasury Bills issued by the UK Government and using the debt securities as security. As at 26 February 2011 the Group held £296m (2010 – £500m) in respect of this transaction. The Treasury Bills do not meet the recognition criteria of IAS 39 and are not recognised on the Group Balance Sheet.

Provision for impairment of loans and advances

	£m
At 28 February 2009	(250)
Charge for the year	(177)
Uncollectible amounts written off	119
Recoveries of amounts previously written off	(10)
Unwind of discount	4
At 27 February 2010	(314)
Charge for the year	(131)
Uncollectible amounts written off	268
Recoveries of amounts previously written off	(9)
Unwind of discount	4
At 26 February 2011	(182)

NOTE 17 LOANS AND ADVANCES TO CUSTOMERS CONTINUED

At 26 February 2011 Tesco Bank's non-accrual loans were £212m (2010 – £373m). Loan impairment provisions of £182m (2010 – £314m) were held against these loans. During the year ended 26 February 2011 the gross income not recognised but which would have been recognised under the original terms of non-accrual loans was £8m (2010 – £29m).

At 26 February 2011 loans and advances to customers of £73m (2010 – £75m) were past due but not impaired. The ageing analysis of these loans and advances is as follows:

	2011 £m	2010 £m
Up to one month past due	54	55
Up to two months past due	13	13
Two to three months past due	6	7
	73	75

NOTE 18 LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL ASSETS

Tesco Bank has loans and advances to banks and other financial assets with the following maturity:

	2011 £m	2010 £m
Within three months	404	144

There are no loans and advances to banks and other financial assets which are past due and impaired.

NOTE 19 CASH AND CASH EQUIVALENTS

	2011 £m	2010 £m
Cash at bank and in hand	1,785	2,062
Short-term deposits	85	757
	1,870	2,819

Cash of £1,022m (2010 – £1,314m) held on money market funds is classed as short-term investments.

NOTE 20 TRADE AND OTHER PAYABLES

	2011 £m	2010 £m
Trade payables	5,782	5,084
Other taxation and social security	514	487
Other payables	2,274	2,014
Amounts payable to joint ventures and associates (note 30)	4	42
Accruals and deferred income	1,910	1,815
	10,484	9,442

Included in other payables are amounts of £181m (2010 – £160m) which are non-current.

NOTE 21 BORROWINGS

Current

	Par value	Maturity year	2011 £m	2010 £m
Bank loans and overdrafts	–	–	437	575
Loan from joint ventures (note 30)	–	–	26	23
6.625% MTN	£150m	2010	–	158
4.75% MTN	€750m	2010	–	704
3.875% MTN	€389m	2011	346	–
LIBOR + 1.33% Bond – Tesco Bank	£225m	2012	224	–
Other MTNs	–	–	303	24
Finance leases (note 36)	–	–	50	45
			1,386	1,529

Non-current

	Par value	Maturity year	2011 £m	2010 £m
3.875% MTN(a)	€500m	2011	–	479
LIBOR + 1.33% Bond – Tesco Bank	£225m	2012	–	224
5.625% MTN	€1,500m	2012	1,317	1,375
5% MTN	£600m	2014	606	604
5.125% MTN	€600m	2015	510	539
4% RPI MTN(b)	£263m	2016	276	270
5.875% MTN(c)	€1,500m	2016	997	1,520
5.5% USD Bond	$850m	2017	600	621
5.2% Tesco Bank Retail Bond	£125m	2018	126	–
5.5% MTN	£350m	2019	351	351
6.125% MTN	£900m	2022	891	890
5% MTN(d)	£515m	2023	390	520
3.322% LPI MTN(e)	£265m	2025	279	269
6% MTN	£200m	2029	218	212
5.5% MTN	£200m	2033	215	210
1.982% RPI MTN(f)	£221m	2036	231	222
6.15% USD Bond	$1,150m	2037	804	834
5% MTN(g)	£300m	2042	174	306
5.125% MTN	€600m	2047	577	587
5.2% MTN(h)	£500m	2057	274	500
Other MTNs	–	–	169	267
Other loans	–	–	536	780
Finance leases (note 36)	–	–	148	164
			9,689	11,744

(a) During the financial year the Group redeemed €111m of the 3.875% MTN maturing 2011.
(b) The 4% RPI MTN is redeemable at par, indexed for increases in the Retail Price Index (RPI) over the life of the MTN.
(c) During the financial year the Group redeemed €461m of the 5.875% MTN maturing 2016.
(d) During the financial year the Group redeemed £126m of the 5% MTN maturing 2023.
(e) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
(f) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.
(g) During the financial year the Group redeemed £127m of the 5% GBP MTN maturing 2042.
(h) During the financial year the Group redeemed £221m of the 5.2% GBP MTN maturing 2057.

Borrowing facilities

The Group has the following undrawn committed facilities available at 26 February 2011, in respect of which all conditions precedent had been met as at that date:

	2011 £m	2010 £m
Expiring between one and two years	–	1,000
Expiring in more than two years	2,825	1,600
	2,825	2,600

All facilities incur commitment fees at market rates and would provide funding at floating rates.

NOTE 22 FINANCIAL INSTRUMENTS

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes and the Group's hedging policies are further described below.

Finance income of £27m (2010 – £20m) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group Income Statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group Income Statement under the effective interest rate method.

A loss of £369m on hedging instruments was recognised during the year, offset by a gain of £396m on hedged items (2010 – a loss of £65m on hedging instruments was offset by a gain of £85m on hedged items).

Cash flow hedges

The Group uses forward foreign currency contracts to hedge the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, mark-to-market gains and losses are deferred in equity. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur and will affect the Group Income Statement within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross currency swaps to hedge intercompany loan cash flows denominated in South Korean Won (KRW).

Net investment hedges

The Group uses forward foreign currency contracts, currency denominated borrowings and currency swaps to hedge the exposure of a proportion of its non-Sterling denominated assets against changes in value due to changes in foreign exchange rates.

The Group has a KRW denominated liability relating to the future purchase of the minority shareholding of its subsidiary, Homeplus Co. Limited (formerly Samsung Tesco Co. Limited). This liability has been designated as a net investment hedge of a proportion of the assets of Homeplus Co. Limited.

Gains and losses accumulated in equity are included in the Group Income Statement on disposal of the overseas operation.

Financial instruments not qualifying for hedge accounting

The Group's policy is not to use derivatives for trading purposes, however, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group Income Statement.

These instruments include caps, interest rate swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group Income Statement within finance income or costs.

The Group had a liability relating to the future purchases of the minority shareholding of its subsidiary, dunnhumby Limited, which has been purchased during the financial year. Changes in the value of that liability were recognised immediately in the Group Income Statement within finance income or costs.

The fair value of derivative financial instruments have been disclosed in the Group Balance Sheet as follows:

	2011		2010	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	148	(255)	224	(146)
Non-current	1,139	(600)	1,250	(776)
	1,287	(855)	1,474	(922)

NOTE 22 FINANCIAL INSTRUMENTS CONTINUED

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2011				2010			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	27	1,410	(57)	1,844	10	685	(88)	2,304
Cross currency swaps	717	2,674	(28)	714	1,130	4,513	(45)	259
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(54)	455	–	–	(40)	555
Cross currency swaps	126	298	(151)	784	129	315	(205)	1,064
Index-linked swaps	–	–	(8)	772	–	–	–	–
Forward foreign currency contracts	8	346	(12)	1,269	19	483	(15)	600
Net investment hedges								
Cross currency swaps	–	–	–	–	–	–	(30)	124
Forward foreign currency contracts	19	383	(97)	952	19	244	(172)	1,037
Future purchases of non-controlling interests	–	–	(106)	–	–	–	(105)	–
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	1	25	(1)	25	1	145	(5)	355
Cross currency swaps	2	84	(10)	65	2	204	(25)	533
Index-linked swaps	376	2,639	(311)	2,639	139	995	(109)	995
Forward foreign currency contracts	11	523	(20)	720	25	635	(42)	1,254
Future purchases of non-controlling interests	–	–	–	–	–	–	(41)	–
Total	1,287	8,382	(855)	10,239	1,474	8,219	(922)	9,080

The carrying value and fair value of financial assets and liabilities are as follows:

	2011		2010	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	1,870	1,870	2,819	2,819
Loans and advances to customers – Tesco Bank	4,641	4,636	4,112	4,325
Loans and advances to banks and other financial assets – Tesco Bank	404	404	144	144
Short-term investments	1,022	1,022	1,314	1,314
Other investments – Tesco Bank	1,108	1,093	863	848
Joint venture and associates loan receivables (note 30)	503	514	309	309
Other receivables	25	25	–	–
Derivative financial assets:				
Interest rate swaps and similar instruments	28	28	11	11
Cross currency swaps	845	845	1,261	1,261
Index-linked swaps	376	376	139	139
Forward foreign currency contracts	38	38	63	63
Total financial assets	10,860	10,851	11,035	11,233
Liabilities				
Short-term borrowings:				
Amortised cost	(708)	(707)	(771)	(770)
Bonds in fair value hedge relationships	(628)	(614)	(713)	(683)
Long-term borrowings:				
Amortised cost	(4,584)	(4,678)	(5,513)	(5,617)
Bonds in fair value hedge relationships	(4,957)	(4,915)	(6,067)	(5,992)
Finance leases (Group as lessee – note 36)	(198)	(198)	(209)	(209)
Customer deposits – Tesco Bank	(5,074)	(5,081)	(4,357)	(4,357)
Deposits by banks – Tesco Bank	(36)	(36)	(30)	(30)
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	(112)	(112)	59	59
Cross currency swaps	(189)	(189)	(305)	(305)
Index-linked swaps	(319)	(319)	(301)	(301)
Forward foreign currency contracts	(129)	(129)	(229)	(229)
Future purchases of non-controlling interests	(106)	(106)	(146)	(146)
Total financial liabilities	(17,040)	(17,084)	(18,582)	(18,580)
Total	(6,180)	(6,233)	(7,547)	(7,347)

NOTE 22 FINANCIAL INSTRUMENTS CONTINUED

The fair values of financial instruments have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The fair value of cash and cash equivalents and short-term investments is the same as their carrying value.

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities as at 26 February 2011 and 27 February 2010 are as follows:

At 26 February 2011	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	1,870	–	1,870
Loans and advances to customers – Tesco Bank	–	4,641	–	4,641
Loans and advances to banks and other financial assets – Tesco Bank	–	404	–	404
Short-term investments	–	1,022	–	1,022
Other investments – Tesco Bank	849	259	–	1,108
Joint venture and associates loan receivables (note 30)	–	503	–	503
Other receivables	–	25	–	25
Customer deposits – Tesco Bank	–	(5,074)	–	(5,074)
Deposits by banks – Tesco Bank	–	(36)	–	(36)
Short-term borrowings	–	(1,336)	–	(1,336)
Long-term borrowings	–	(9,541)	–	(9,541)
Finance leases (note 36)	–	(198)	–	(198)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(84)	(84)
Cross currency swaps	–	–	656	656
Index-linked swaps	–	–	57	57
Forward foreign currency contracts	–	–	(91)	(91)
Future purchases of non-controlling interests	–	–	(106)	(106)
	849	(7,461)	432	(6,180)

At 27 February 2010	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,819	–	2,819
Loans and advances to customers – Tesco Bank	–	4,112	–	4,112
Loans and advances to banks and other financial assets – Tesco Bank	–	144	–	144
Short-term investments	–	1,314	–	1,314
Other investments – Tesco Bank	604	259	–	863
Joint venture loan receivables (note 30)	–	309	–	309
Customer deposits – Tesco Bank	–	(4,357)	–	(4,357)
Deposits by banks – Tesco Bank	–	(30)	–	(30)
Short-term borrowings	–	(1,484)	–	(1,484)
Long-term borrowings	–	(11,580)	–	(11,580)
Finance leases (note 36)	–	(209)	–	(209)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(123)	(123)
Cross currency swaps	–	–	956	956
Index-linked swaps	–	–	31	31
Forward foreign currency contracts	–	–	(166)	(166)
Future purchases of non-controlling interests	–	–	(146)	(146)
	604	(8,703)	552	(7,547)

NOTE 22 FINANCIAL INSTRUMENTS CONTINUED

The following table presents the Group's financial assets and liabilities that are measured at fair value at 26 February 2011, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	188	661	–	849
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	28	–	28
Cross currency swaps	–	845	–	845
Index-linked swaps	–	376	–	376
Forward foreign currency contracts	–	38	–	38
Total assets	188	1,948	–	2,136
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(112)	–	(112)
Cross currency swaps	–	(189)	–	(189)
Index-linked swaps	–	(319)	–	(319)
Forward foreign currency contracts	–	(129)	–	(129)
Future purchases of non-controlling interests	–	–	(106)	(106)
Total liabilities	–	(749)	(106)	(855)
Total	188	1,200	(106)	1,282

The following table presents the changes in Level 3 instruments:

	2011 £m	2010 £m
At beginning of year	(146)	(200)
Losses recognised in finance costs in the Group Income Statement	(6)	(26)
Gains/(losses) recognised in the Group Statement of Changes in Equity	2	(11)
Cash flow	44	91
At end of year	(106)	(146)

During the financial year there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. A reasonably possible change in assumptions is unlikely to result in a significant change in the fair value of Level 3 instruments.

NOTE 23 FINANCIAL RISK FACTORS

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below. The Group Balance Sheet position at 26 February 2011 is representative of the position throughout the financial year.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The Board provides written principles for risk management, as described in the Business Review on pages 51 to 57.

Interest rate risk
Interest rate risk arises from long-term borrowings. Debt issued at variable rates exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk. Our interest rate management policy is explained on page 56.

The Group has Retail Price Index (RPI) debt where the principal is indexed to increases in the RPI index. RPI debt is treated as floating rate debt. The Group also has Limited Price Inflation (LPI) debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt.

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors below.

NOTE 23 FINANCIAL RISK FACTORS CONTINUED

During 2011 and 2010, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2011			2010		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	1,870	1,870	–	2,819	2,819
Loans and advances to customers – Tesco Bank	2,161	2,480	4,641	1,827	2,285	4,112
Loans and advances to banks and other financial assets – Tesco Bank	404	–	404	144	–	144
Short-term investments	–	1,022	1,022	–	1,314	1,314
Other investments – Tesco Bank	925	183	1,108	581	282	863
Joint venture and associate, loan receivables (note 30)	–	503	503	–	309	309
Other receivables	–	25	25	–	–	–
Finance leases (note 36)	(92)	(106)	(198)	(83)	(126)	(209)
Bank and other borrowings	(9,697)	(1,180)	(10,877)	(11,806)	(1,258)	(13,064)
Customer deposits – Tesco Bank	(398)	(4,676)	(5,074)	–	(4,357)	(4,357)
Deposits by banks – Tesco Bank	(36)	–	(36)	(30)	–	(30)
Future purchases of non-controlling interests	(106)	–	(106)	(146)	–	(146)
Derivative effect:						
Interest rate swaps	(1,218)	1,218	–	(2,215)	2,215	–
Cross currency swaps	3,459	(3,459)	–	6,677	(6,677)	–
Index-linked swaps	(498)	498	–	–	–	–
Caps and collars	–	–	–	120	(120)	–
Total	(5,096)	(1,622)	(6,718)	(4,931)	(3,314)	(8,245)

Credit risk
Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits with banks and financial institutions. The Group policy on credit risk is described on page 57.

The counterparty exposure under derivative contracts is £1,287m (2010 – £1,474m). The Group policy is to transact derivatives only with counterparties rated at least A1 by Moody's.

The Group considers its maximum credit risk to be £10.9bn (2010 – £11.0bn), being the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors below.

Liquidity risk
Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £2.8bn (2010 – £2.6bn), which mature between 2014 and 2015.

The Group has a European Medium Term Note programme of £15.0bn, of which £8.5bn was in issue at 26 February 2011 (2010 – £10.6bn), plus a Euro Commercial Paper programme of £2.0bn, none of which was in issue at 26 February 2011 (2010 – £nil), and a US Commercial Paper programme of $4.0bn, none of which was in issue at 26 February 2011 (2010 – $nil).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors below.

NOTE 23 FINANCIAL RISK FACTORS CONTINUED

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives. The potential cash outflow of £17.1bn is considered acceptable as it is offset by financial assets and trade receivables of £13.2bn (2010 – £15.6bn offset by financial assets and trade receivables of £12.9bn).

The undiscounted cash flows will differ from both the carrying values and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 4% for the life of the liability.

At 26 February 2011	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,278)	(1,587)	(876)	(622)	–	(6,647)
Interest payments on borrowings	(518)	(495)	(395)	(355)	(326)	(3,828)
Customer deposits – Tesco Bank	(4,898)	(173)	(3)	–	–	–
Deposits by banks – Tesco Bank	(36)	–	–	–	–	–
Finance leases	(56)	(36)	(15)	(15)	(16)	(205)
Trade and other payables	(10,303)	(84)	(14)	(7)	(3)	(73)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	74	68	68	37	14	31
Net settled derivative contracts – payments	(176)	(109)	(88)	(76)	(57)	(697)
Gross settled derivative contracts – receipts	1,619	641	468	672	132	3,368
Gross settled derivative contracts – payments	(1,404)	(652)	(341)	(610)	(60)	(2,631)
Future purchases of non-controlling interests	(85)	(24)	–	–	–	–
Total	(17,061)	(2,451)	(1,196)	(976)	(316)	(10,682)

At 27 February 2010	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,484)	(1,078)	(1,615)	(845)	(637)	(7,267)
Interest payments on borrowings	(554)	(518)	(491)	(405)	(370)	(4,605)
Customer deposits – Tesco Bank	(4,357)	–	–	–	–	–
Deposits by banks – Tesco Bank	(30)	–	–	–	–	–
Finance leases	(49)	(47)	(33)	(11)	(10)	(178)
Trade and other payables	(9,282)	(56)	(26)	(4)	(7)	(67)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	71	50	50	48	21	19
Net settled derivative contracts – payments	(164)	(119)	(59)	(35)	(56)	(695)
Gross settled derivative contracts – receipts	1,966	1,747	757	867	759	5,273
Gross settled derivative contracts – payments	(1,703)	(1,362)	(689)	(866)	(653)	(3,792)
Future purchases of non-controlling interests	–	(131)	(25)	–	–	–
Total	(15,586)	(1,514)	(2,131)	(1,251)	(953)	(11,312)

Foreign exchange risk
The Group is exposed to foreign exchange risk principally via:

- Transactional exposure, from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional exposures that could significantly impact the Group Income Statement are hedged. These exposures are hedged via forward foreign currency contracts which are designated as cash flow hedges. The notional and fair value of these contracts is shown in note 22.
- Net investment exposure, from the value of net investments outside the UK. The Group hedges a proportion of its investments in its international subsidiaries via foreign currency transactions and borrowings in matching currencies, which are formally designated as net investment hedges.
- Loans to non-UK subsidiaries. These are hedged via foreign currency transactions and borrowings in matching currencies, which are not formally designated as hedges, as gains and losses on hedges and hedged loans will naturally offset.

NOTE 23 FINANCIAL RISK FACTORS CONTINUED

The impact on Group financial statements from foreign currency volatility is shown in the sensitivity analysis below.

Sensitivity analysis
The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from all local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 26 February 2011. It should be noted that the sensitivity analysis reflects the impact on income and equity due to all financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group Income Statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group Statement of Comprehensive Income;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group Income Statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group Income Statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the illustrative effect on the Group Income Statement and the Group Statement of Comprehensive Income that would result from changes in UK interest rates and in exchange rates:

	2011		2010	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in GBP interest rates (2010 – 1%)	(14)	–	(38)	–
5% appreciation of the Euro (2010 – 15%)	2	(46)	(13)	(43)
5% appreciation of the South Korean Won (2010 – 10%)	(1)	1	–	(82)
5% appreciation of the US Dollar (2010 – 25%)	8	35	(1)	(8)
10% appreciation of the Thai Baht (2010 – 25%)	–	–	–	(1)
5% appreciation of the Czech Koruna (2010 – 10%)	–	(6)	–	(31)

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

The impact on the Group Statement of Comprehensive Income from changing exchange rates results principally from foreign currency deals used as net investment hedges. The impact on the Group Statement of Comprehensive Income will largely be offset by the revaluation in equity of the hedged assets. For changes in the USD/GBP exchange rate, the impact on the Group Statement of Comprehensive Income results principally from forward purchases of US Dollars as cash flow hedges.

Capital risk
The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while maintaining a strong credit rating and headroom whilst optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares. In April 2006 the Group outlined its plan to release cash from its property assets, via a sequence of property joint ventures and other transactions, and return significant value to shareholders, either through enhanced dividends or share buy-backs. The target for the value of share buy-backs was increased from £1.5bn to £3.0bn over a five-year period from April 2007. Whilst the Group continued with the policy at the beginning of 2009, it subsequently used the proceeds from property divestment to pay down debt, following the two major acquisitions in 2009 (Homever and Tesco Bank). During 2009 the Group purchased and cancelled £100m ordinary shares. In the financial years 2010 and 2011 the Group continued to use the proceeds from the sale of property to pay down debt.

The policy for debt is to ensure a smooth debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the current financial year with bonds redeemed of £1,861m (2010 – £390m) and new bonds issued totalling £125m (2010 – £nil). The Group borrows centrally and locally, using a variety of capital market issues and borrowing facilities to meet the requirements of each local business.

NOTE 23 FINANCIAL RISK FACTORS CONTINUED

Tesco Bank

Interest rate risk

Interest rate risk arises where assets and liabilities in Tesco Bank's banking activities have different repricing dates. Tesco Bank policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates. Tesco Bank also use value at risk (VaR) for risk management purposes with a time horizon of one trading day and a confidence interval of 95%. Interest rate risk is managed using interest rate swaps as the main hedging instrument.

Liquidity risk

Liquidity risk is the risk that Tesco Bank is unable to meet its payment obligations as they fall due. Liquidity risk is managed within Tesco Bank's banking activities and adheres to the liquidity requirements set by the Financial Services Authority (FSA). Tesco Bank's Board has set a defined liquidity risk policy and contingency funding which is prudent and in excess of the minimum requirements as set out by the FSA. A diversified portfolio of high-quality liquid and marketable assets is maintained. Cash flow commitments and marketable asset holdings are measured and managed on a daily basis. Tesco Bank has sufficient liquidity to meet all foreseeable outflow requirements as they fall due and its liquidity risk is further mitigated by its well diversified retail deposit base and a pool of surplus cash resources that are invested in a range of marketable assets.

Credit risk

Credit risk is the probability of customers and counterparties failing to meet their obligations to Tesco Bank and arises principally from Tesco Bank's lending activities, but also from other transactions involving on and off-balance sheet instruments.

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default.

Limits have been established for all counterparties based on their respective credit ratings. The limits and proposed counterparties are reviewed and approved by the Risk Management Committee (RMC) of Tesco Bank.

Expressed as an annual probability of default, the upper and lower boundaries and the midpoint for each of the asset quality grades are as follows:

At 26 February 2011 and 27 February 2010

	Annual probability of default			
Asset quality grade	Minimum %	Midpoint %	Maximum %	S&P equivalent
AQ1	0.00	0.10	0.20	AAA to BBB-
AQ2	0.21	0.40	0.60	BB+ to BB
AQ3	0.61	1.05	1.50	BB- to B+
AQ4	1.51	3.25	5.00	B+ to B
AQ5	5.01	52.50	100.00	B and below

At 26 February 2011	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Accruing past due £m	Non-accrual £m	Impairment provision £m	Total £m
Assets:									
Other investments	1,108	–	–	–	–	–	–	–	1,108
Loans and advances to customers	599	466	924	1,663	886	73	212	(182)	4,641
Loans and advances to banks and other financial assets	404	–	–	–	–	–	–	–	404
Total assets	2,111	466	924	1,663	886	73	212	(182)	6,153
Commitments (note 34)	4,254	1,601	645	444	183	–	–	–	7,127
Total off-balance sheet	4,254	1,601	645	444	183	–	–	–	7,127

At 27 February 2010	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Accruing past due £m	Non-accrual £m	Impairment provision £m	Total £m
Assets:									
Other investments	863	–	–	–	–	–	–	–	863
Loans and advances to customers	501	381	762	1,495	838	76	373	(314)	4,112
Loans and advances to banks and other financial assets	144	–	–	–	–	–	–	–	144
Total assets	1,508	381	762	1,495	838	76	373	(314)	5,119
Commitments (note 34)	3,926	1,329	573	452	184	–	–	–	6,464
Total off-balance sheet	3,926	1,329	573	452	184	–	–	–	6,464

NOTE 23 FINANCIAL RISK FACTORS CONTINUED

Insurance risk

Tesco Bank is exposed to insurance risks directly through its historic distribution arrangement with RBS Insurance and indirectly through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company.

Since October 2010 the majority of new business policies for Home and Motor Insurance product sold by Tesco Bank have been underwritten by TU. Customers renewing their Tesco Motor or Home Insurance policy insurance have been underwritten by TU since November 2010. The key insurance risks within TU relate to Underwriting Risk and specifically the potential for a major weather event to generate significant claims on Home insurance or on Motor insurance the cost of settling bodily injury claims. Exposure to this risk is actively managed within TU with close monitoring of performance metrics and the use of reinsurance to limit TU's exposure above predetermined limits.

The legacy arrangement with RBS Insurance is now in run off and the primary risk that Tesco Bank remains exposed to is Reserving Risk – the risk that reserves set by RBS Insurance will be insufficient to cover the ultimate cost of insurance claims arising from this activity. This is particularly relevant to Motor Insurance claims where the ultimate cost of large bodily injury claims is uncertain and the time taken to settle such claims can vary significantly depending on the severity of the injury. This risk is, in part, mitigated by the use of reinsurance to limit Tesco Bank's exposure to the cost of individual claims above certain predetermined limits. However, the nature of this is exposure results in the process of estimating the ultimate cost of these claims carrying a degree of uncertainty.

Since October 2010 Pet, Travel and Breakdown insurance have all been distributed by Tesco Bank on a 'white label' basis. Tesco Bank does not carry the insurance risk associated with these products.

NOTE 24 CUSTOMER DEPOSITS

	2011 £m	2010 £m
Customer deposits	5,074	4,357

Customer deposits are recorded at amortised cost. Included within customer deposits is £177m (2010 – £nil) that is non-current.

NOTE 25 DEPOSITS BY BANKS

The Group has deposits by banks with the following maturity:

	2011 £m	2010 £m
Within three months	26	30
Three to six months	10	–
	36	30

Deposits by banks are recorded at amortised cost.

NOTE 26 PROVISIONS

	Property provisions £m	Other provision £m	Total £m
At 28 February 2009	111	99	210
Foreign currency translation	12	–	12
Amount provided in the year	–	1	1
Amount utilised in the year	(12)	–	(12)
At 27 February 2010	111	100	211
Foreign currency translation	(3)	–	(3)
Amount released in the year	(18)	(50)	(68)
Amount provided in the year	48	–	48
Amount utilised in the year	–	(11)	(11)
At 26 February 2011	138	39	177

Property provisions comprise obligation for future rents payable net of rents receivable on onerous and vacant property leases, terminal dilapidations and future rents above market value on unprofitable stores. The majority of these provisions are expected to be utilised over the period to 2020.

The other provision balance relates to a provision for customer redress in respect of potential customer complaints arising from historic sales of Personal Protection Insurance (PPI). The provision is likely to be utilised over several years, although the timing of utilisation is uncertain.

The provision as at 27 February 2010 was established based on a forecast of the level of complaints expected to be received. The number of complaints actually settled during the year has been lower than was expected, resulting in a reduction to the provision held at 26 February 2011 of £50m. We will continue to handle claims and redress customers in accordance with PS 10/12 (see note 1). This will include ongoing analysis of historical claims experience in accordance with the guidance.

The calculation of this provision involves estimating a number of variables, principally the level of customer complaints which may be received and the level of any compensation which may be payable to customers. Uncertainty associated with these factors may result in the ultimate liability being different from the reported provision.

On 9 October 2010, the British Bankers Association (BBA) applied to the courts for a judicial review in which they sought to overturn Policy Statement 10/12 issued by the FSA during the year in respect of PPI. On the 20 April 2011, the BBA lost their challenge on all grounds. The BBA have not yet publicly announced whether they intend to appeal the decision. The provision at 26 February 2011 did not assume a favourable outcome for the BBA.

NOTE 26 PROVISIONS CONTINUED

The balances are analysed as follows:

	2011 £m	2010 £m
Current	64	39
Non-current	113	172
	177	211

NOTE 27 SHARE-BASED PAYMENTS

The Group Income Statement charge for the year recognised in respect of share-based payments is £289m (2010 – £300m), which is made up of share option schemes and share bonus payments. Of this amount, £220m (2010 – £241m) will be settled in equity and £69m (2010 – £59m) in cash.

Share option schemes
The Company had nine share option schemes in operation during the financial year, all of which are equity-settled schemes:

i) The Savings-related Share Option Scheme (1981) permits the grant to employees of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from employees of an amount between £5 and £250 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

ii) The Irish Savings-related Share Option Scheme (2000) permits the grant to Irish employees of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from employees of an amount between €12 and €320 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

iii) The Approved Executive Share Option Scheme (1994) was adopted on 17 October 1994. The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

iv) The Unapproved Executive Share Option Scheme (1996) was adopted on 7 June 1996. The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

v) The International Executive Share Option Scheme (1994) was adopted on 20 May 1994. This scheme permits the grant to selected non-UK executives of options to acquire ordinary shares on substantially the same basis as their UK counterparts. The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

vi) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant for nil consideration.

vii) The Performance Share Plan (2004) was adopted on 5 July 2004 and amended on 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options granted before 29 June 2007 are normally exercisable between four and ten years from the date of grant for nil consideration. Options granted after 29 June 2007 are normally exercisable between three and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets related to the return on capital employed over a three-year period.

viii) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There will be no discounted options granted under this scheme.

ix) The Group New Business Incentive Plan (2007) was adopted on 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options will normally vest in four tranches: four, five, six and seven years after the date of grant and will be exercisable for up to two years from the vesting dates for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets related to the return on capital employed over the seven-year plan.

NOTE 27 SHARE-BASED PAYMENTS CONTINUED

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

For the year ended 26 February 2011

	Savings-related share option scheme		Irish savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		International executive share option scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2010	138,234,520	323.37	5,455,068	326.70	14,550,891	361.57	85,907,622	351.46	54,880,748	363.64	9,185,455	0.00
Granted	29,920,166	386.00	1,470,162	386.00	3,793,684	419.85	21,447,502	419.81	17,065,475	420.00	4,148,918	0.00
Forfeited	(7,971,500)	328.09	(666,990)	320.21	(1,030,137)	395.79	(3,915,038)	401.52	(3,192,794)	382.05	(499,596)	0.00
Exercised	(18,957,476)	256.02	(537,638)	261.38	(2,466,841)	270.56	(10,927,268)	274.37	(3,687,375)	283.46	(435,650)	0.00
Outstanding at 26 February 2011	141,225,710	345.41	5,720,602	348.84	14,847,597	389.21	92,512,818	374.29	65,066,054	382.06	12,399,127	0.00
Exercisable as at 26 February 2011	15,506,889	366.48	668,423	381.98	6,090,853	375.33	32,577,023	348.13	19,138,101	364.16	3,744,903	0.00
Exercise price range (pence)		248.00 to 410.00		248.00 to 410.00		197.50 to 473.75		197.50 to 473.75		197.50 to 473.75		0.00
Weighted average remaining contractual life (years)		0.43		0.43		4.92		4.61		4.98		6.74

For the year ended 27 February 2010

	Savings-related share option scheme		Irish savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		International executive share option scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2009	142,810,097	306.21	5,418,903	315.67	15,868,920	350.56	81,299,884	339.97	43,898,205	366.61	14,323,708	0.00
Granted	38,117,516	328.00	1,752,363	328.00	2,844,857	338.40	26,542,534	338.42	19,097,981	338.82	3,093,147	0.00
Forfeited	(9,476,452)	315.43	(873,617)	314.96	(581,769)	409.75	(3,213,394)	409.29	(2,147,644)	403.74	(2,299,256)	0.00
Exercised	(33,216,641)	257.20	(842,581)	270.60	(3,581,117)	286.54	(18,721,402)	273.16	(5,967,794)	291.66	(5,932,144)	0.00
Outstanding at 27 February 2010	138,234,520	323.37	5,455,068	326.70	14,550,891	361.57	85,907,622	351.46	54,880,748	363.64	9,185,455	0.00
Exercisable as at 27 February 2010	6,287,764	266.10	369,370	282.75	5,868,560	282.29	32,430,807	280.29	15,277,598	289.05	–	–
Exercise price range (pence)		195.00 to 307.00		195.00 to 307.00		197.50 to 388.75		197.50 to 415.50		197.50 to 318.60		–
Weighted average remaining contractual life (years)		0.18		0.15		4.26		4.53		4.75		–

Share options were exercised on a regular basis throughout the financial year. The average share price during the year ended 26 February 2011 was 417.80p (2010 – 380.05p).

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

NOTE 27 SHARE-BASED PAYMENTS CONTINUED

	2011			2010		
	Savings-related share option schemes	Executive share option schemes	Nil cost option schemes	Savings-related share option schemes	Executive share option schemes	Nil cost option schemes
Expected dividend yield (%)	3.5%	3.5%	0.0%	3.6%	3.6-3.9%	0.0%
Expected volatility (%)	26-30%	25%	25%	26-31%	25%	25%
Risk-free interest rate (%)	1.6-2.2%	2.3-3.2%	2.7%	2.0-2.8%	2.8-3.3%	2.9%
Expected life of option (years)	3 or 5	6	6	3 or 5	6	6
Weighted average fair value of options granted (pence)	93.41	77.86	414.06	86.74	64.24	374.00
Probability of forfeiture (%)	14-16%	10%	0%	14-16%	10%	0%
Share price (pence)	436.00	419.89	414.06	378.00	345.23	374.00
Weighted average exercise price (pence)	386.00	419.89	0.00	328.00	338.58	0.00

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus schemes

Eligible UK employees are able to participate in Shares in Success, an all-employee profit-sharing scheme. Each year, shares are awarded as a percentage of earnings up to a statutory maximum of £3,000. Eligible Republic of Ireland employees are able to participate in a Share Bonus Scheme, an all-employee profit-sharing scheme. Each year, employees receive a percentage of their earnings as either cash or shares.

Senior management also participate in performance-related bonus schemes. The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to eligible employees who have completed a required service period and depend on the achievement of corporate targets. The accrued cash element of the bonus at the balance sheet date is £38m (2010 – £52m).

Selected senior management participate in the senior management Performance Share Plan. Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three-year performance period.

Senior management in the US business also participate in the US Long-Term Incentive Plan (2007) which was adopted on 29 June 2007. The awards made under this plan will normally vest in four tranches: four, five, six and seven years after the date of award, for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed in the US business over the seven-year plan.

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' Remuneration Report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value except for awards under the US Long-Term Incentive Plan.

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year were:

	2011		2010	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	25,360,677	416.23	28,661,004	349.66
Irish Share Bonus Scheme	141,970	397.70	166,972	359.70
Executive Incentive Scheme	12,765,004	398.68	13,564,595	355.46
Performance Share Plan	2,405,730	399.78	2,120,058	375.37
US Long-Term Incentive Plan	192,078	433.05	80,622	482.00

NOTE 28 POST-EMPLOYMENT BENEFITS

Pensions

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

Defined contribution plans

The contributions payable for defined contribution schemes of £14m (2010 – £12m) have been recognised in the Group Income Statement.

Defined benefit plans

UK

The principal plan within the Group is the Tesco PLC Pension Scheme, which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by trustees. Towers Watson Limited, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2008, using the projected unit method.

At the date of the last actuarial valuation, the actuarial deficit was £275m. The market value of the schemes' assets was £3,987m and these assets represented 94% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

During the financial year, the Dobbies Pension Scheme was merged into the Tesco PLC Pension Scheme. As the Dobbies Scheme was already part of the Group, there has been no impact on the overall disclosures. The Dobbies Scheme had a net liability of £0.6m at 26 February 2011 which was merged into the Tesco PLC Pension Scheme.

NOTE 28 POST-EMPLOYMENT BENEFITS CONTINUED

Overseas
The most significant overseas schemes are the funded defined benefit pension schemes which operate in the Republic of Ireland and South Korea. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the Republic of Ireland scheme as at 1 April 2010.

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 26 February 2011. The schemes' assets are stated at their market values as at 26 February 2011. Towers Watson Limited have updated the most recent Republic of Ireland and South Korea valuations. The liabilities relating to retirement healthcare benefits have also been determined in accordance with IAS 19 and are incorporated in the following tables.

Principal assumptions
During the year the government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) should be used as the basis of the calculation of inflation for the statutory index-linked features of retirement benefits Accordingly the value of liabilities due to the past service cost of deferred members has been reduced by £270m with the corresponding credit to actuarial gains in the Statement of Comprehensive Income.

The major assumptions, on a weighted average basis, used by the actuaries were as detailed below:

	2011 %	2010 %
Discount rate	5.9	5.9
Price inflation	3.5	3.6
Rate of increase in salaries	3.6	3.6
Rate of increase in pensions in payment*	3.3	3.4
Rate of increase in deferred pensions*	2.8	3.6
Rate of increase in career average benefits	3.5	3.6

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

The main financial assumption is the real discount rate (the excess of the discount rate over the rate of price inflation). If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £150m and the annual UK current service cost would decrease/increase by approximately £14m.

UK mortality assumptions
The Company conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2008 the following assumptions were adopted for funding purposes:

Base tables:
PMA92C00 for male members with cohort improvements to 2000 and members taken to be one year younger than actual age.
PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

These assumptions were used for the calculation of the pension liability as at 26 February 2011 for the main UK scheme.

The mortality assumptions used are based on tables that have been updated in line with medium cohort projections with a minimum improvement of 1% per annum from 31 March 2008 to 26 February 2011. In addition, the allowance for future mortality improvements incorporates medium cohort projections with a minimum improvement of 1% per annum.

The following table illustrates the expectation of life of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 at the same date +25 years:

		2011 years	2010 years
Retiring at reporting date at age 65:	Male	21.7	21.6
	Female	23.5	23.4
Retiring at reporting date +25 years at age 65:	Male	24.1	24.0
	Female	26.0	25.9

Rates of return on scheme assets
The assets in the defined benefit pension schemes and the expected nominal rates of return were:

	2011		2010	
	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m
Equities	8.5	3,032	8.7	2,521
Bonds	5.0	1,116	5.1	1,233
Property	6.8	511	7.0	343
Other (alternative assets)	8.5	564	8.7	484
Cash	4.0	385	4.1	115
Total market value of assets		5,608		4,696

The expected rate of return on assets is a weighted average based on the actual plan assets held and the respective returns expected on the separate asset classes. The expected rate of return on equities and cash have both been set having regard to expected returns over the medium term, as calculated by the Company's independent actuary. The expected rate of return on bonds was measured directly from actual yields for gilts and corporate bond stocks. The above rate takes into account the actual mix of UK gilts, UK corporate bonds and overseas bonds held at the balance sheet date.

NOTE 28 POST-EMPLOYMENT BENEFITS CONTINUED

Movement in pension deficit during the year
Changes in the fair value of defined benefit pension plan assets are as follows:

	2011 £m	2010 £m
Opening fair value of plan assets	4,696	3,420
Expected return	363	265
Actuarial gains	278	733
Contributions by employer	433	415
Actual member contributions	10	9
Foreign currency translation	(9)	(2)
Benefits paid	(163)	(144)
Closing fair value of plan assets	5,608	4,696

Changes in the present value of defined benefit obligations are as follows:

	2011 £m	2010 £m
Opening defined benefit obligation	(6,536)	(4,914)
Current service cost	(499)	(391)
Past service cost	(29)	–
Interest cost	(381)	(313)
Gain/(loss) on change of assumptions	342	(1,052)
Experience losses	(25)	(1)
Foreign currency translation	11	–
Benefits paid	163	144
Actual member contributions	(10)	(9)
Closing defined benefit obligation	(6,964)	(6,536)

The amounts that have been charged to the Group Income Statement and Group Statement of Comprehensive Income are set out below:

	2011 £m	2010 £m
Analysis of the amount charged to operating profit:		
Current service cost	(499)	(391)
Past service cost	(29)	–
Total charge to operating profit	(528)	(391)
Analysis of the amount (charged)/credited to finance (cost)/income:		
Expected return on pension schemes' assets	363	265
Interest on pension schemes' liabilities	(381)	(313)
Net pension finance cost (note 5)	(18)	(48)
Total charge to the Group Income Statement	(546)	(439)
Analysis of the amount recognised in the Group Statement of Comprehensive Income:		
Actual return less expected return on pension schemes' assets	278	733
Experience losses arising on the schemes' liabilities	(25)	(1)
Foreign currency translation	2	(2)
Changes in assumptions underlying the present value of the schemes' liabilities	342	(1,052)
Total loss recognised in the Group Statement of Comprehensive Income	597	(322)

The cumulative losses recognised through the Group Statement of Comprehensive Income since the date of transition to IFRS are £539m (2010 – £1,136m).

Summary of movements in deficit during the year

	2011 £m	2010 £m
Deficit in schemes at beginning of the year	(1,840)	(1,494)
Current service cost	(499)	(391)
Past service cost	(29)	–
Other finance cost	(18)	(48)
Contributions by employer	433	415
Foreign currency translation	2	(2)
Actuarial gain/(loss)	595	(320)
Deficit in schemes at end of the year	(1,356)	(1,840)

NOTE 28 POST-EMPLOYMENT BENEFITS CONTINUED

History of movements
The historical movement in defined benefit pension schemes' assets and liabilities and history of experience gains and losses are as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Total market value of assets	5,608	4,696	3,420	4,089	4,007
Present value of liabilities relating to unfunded schemes	(65)	(54)	(39)	(34)	(27)
Present value of liabilities relating to partially funded schemes	(6,899)	(6,482)	(4,875)	(4,893)	(4,930)
Pension deficit	(1,356)	(1,840)	(1,494)	(838)	(950)
Experience gains/(losses) on scheme assets	278	733	(1,270)	(465)	82
Experience losses on plan liabilities	(25)	(1)	(117)	(20)	(41)

Post-employment benefits other than pensions
The Company operates a scheme offering post-employment healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 26 February 2011 of £12m (2010 – £12m) was determined in accordance with the advice of independent actuaries. During the financial year, £0.8m (2010 – £0.7m) has been charged to the Group Income Statement and £0.6m (2010 – £0.5m) of benefits were paid.

A change of 1% in assumed healthcare cost trend rates would have the following effect:

	2011 £m	2010 £m
Effect of a 1% increase in assumed healthcare cost trend rate on:		
Service and interest cost	–	–
Defined benefit obligation	2	2
Effect of a 1% decrease in assumed healthcare cost trend rate on:		
Service and interest cost	–	–
Defined benefit obligation	(1)	(2)

Expected contributions
The Company expects to make cash contributions of approximately £440m to defined schemes in the financial year ending 25 February 2012.

NOTE 29 CALLED UP SHARE CAPITAL

	2011		2010	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of year	7,985,044,057	399	7,895,344,018	395
Share options	36,535,102	2	62,329,535	3
Share bonus awards	24,888,933	1	27,370,504	1
At end of year	8,046,468,092	402	7,985,044,057	399

During the financial year, 37 million (2010 – 62 million) shares of 5p each were issued in relation to share options for aggregate consideration of £97m (2010 – £166m).

During the financial year, 25 million (2010 – 27 million) shares of 5p each were issued in relation to share bonus awards for consideration of £1m (2010 – £1m).

Between 27 February 2011 and 15 April 2011 options over 2,137,647 ordinary shares have been exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 27 February 2011 and 15 April 2011, options over 1,020,924 ordinary shares have been exercised under the terms of the Executive Share Option Schemes (1994 and 1996) and the Discretionary Share Option Plan (2004).

As at 26 February 2011, the Directors were authorised to purchase up to a maximum in aggregate of 802.1 million (2010 – 790.1 million) ordinary shares.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

Capital redemption reserve
Upon cancellation of the shares purchased as part of the share buy-back, a capital redemption reserve is created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

NOTE 30 RELATED PARTY TRANSACTIONS

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

Trading transactions

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Joint ventures	**281**	154	**449**	360	**18**	6	**4**	18
Associates	**3**	–	**1,104**	886	**6**	–	**–**	24

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

Purchases from related parties include £306m (2010 – £226m) of rentals payable to the Group's joint ventures, including those joint ventures formed as part of the sale and leaseback programme.

Purchases from associates include £1,104m (2010 – £886m) of fuel purchased from Greenergy International Limited.

Non-trading transactions

	Sale and leaseback of assets		Loans to related parties		Loans from related parties		Injection of equity funding	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Joint ventures	**1,652**	933	**502**	309	**26**	23	**94**	83
Associates	**–**	–	**1**	–	**–**	–	**69**	–

Transactions between the Group and the Group's pension plans are disclosed in note 28.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 ('Regulations') apply. The accounts for those partnerships have been consolidated into these accounts pursuant to Regulation 7 of the Regulations.

On 7 July 2010, the Group formed a limited partnership with Tesco Pension Trustees. The limited partnership contains 41 stores which have been sold from and leased back to the Group. The Group sold assets for proceeds of £958m to the limited partnership. The Group's share of the profit realised from this transaction is included within profit arising on property-related items.

On 9 February 2011, the Group formed a limited partnership with Tesco Pension Trustees. The limited partnership contains 21 stores and one mall under development which have been sold from and leased back to the Group. The Group sold assets for proceeds of £685m to the limited partnership. The Group's share of the profit realised from this transaction is included within profit arising on property-related items.

Transactions with key management personnel
Only members of the Board of Directors of Tesco PLC are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group. Key management personnel compensation is disclosed in the audited section of the Directors' Remuneration Report.

Transactions on an arm's length basis with Tesco Bank during the financial year were as follows:

	Credit card and personal loan balances		Saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 26 February 2011	7	–	10	1
At 27 February 2010	–	–	4	1

During the current and prior financial years, there were no other material transactions or balances between the Group and its key management personnel or their close family members.

NOTE 31 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	2011 £m	2010 £m
Profit before tax	3,535	3,176
Net finance costs (note 5)	333	314
Share of post-tax profits of joint ventures and associates (note 13)	(57)	(33)
Operating profit	3,811	3,457
Depreciation and amortisation	1,420	1,384
Profit arising on property-related items (note 3)	(427)	(377)
Loss arising on sale of non property-related items	3	5
Impairment of goodwill (note 10)	55	131
Net reversal of impairment of property, plant and equipment (note 11) and investment property (note 12)	(13)	(26)
Adjustment for non-cash element of pensions charge	95	(24)
Share-based payments (note 27)	220	241
(Increase)/decrease in inventories	(467)	34
(Increase)/decrease in trade and other receivables	(152)	124
Increase in trade and other payables	976	453
Tesco Bank increase in loans and advances to customers (note 17)	(529)	(724)
Tesco Bank (increase)/decrease in loans and advances to banks, other financial assets and trade and other receivables	(356)	1,369
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables and other financial liabilities including borrowings	730	(100)
Increase in working capital	202	1,156
Cash generated from operations	5,366	5,947

The increase in working capital includes the impact of translating foreign currency working capital movements at average exchange rates rather than year end exchange rates.

NOTE 32 ANALYSIS OF CHANGES IN NET DEBT

	At 27 February 2010 £m*	Tesco Bank at 27 February 2010 £m	Cash flow £m	Business combinations £m	Other non-cash movements £m	Elimination of Tesco Bank £m	At 26 February 2011 £m*
Cash and cash equivalents	2,615	204	(903)	–	(46)	(148)	1,722
Short-term investments	1,314	–	(292)	–	–	–	1,022
Joint venture loan and other receivables	320	–	189	–	18	(34)	493
Bank and other borrowings	(12,584)	(480)	2,456	–	(269)	595	(10,282)
Finance lease payables	(209)	–	42	(17)	(14)	–	(198)
Net derivative financial instruments	615	(63)	7	–	(127)	21	453
	(7,929)	(339)	1,499	(17)	(438)	434	(6,790)

* These amounts relate to the net debt excluding Tesco Bank.

NOTE 33 BUSINESS COMBINATIONS AND OTHER ACQUISITIONS

Business combinations
On 18 June 2010 the Group acquired the trade and certain assets and liabilities of 2 Sisters Food Group, Inc. for consideration of £52m. On 19 July 2010 the Group acquired 100% of the ordinary share capital of Wild Rocket Foods, LLC for consideration of £64m. The table below sets out the provisional analysis of the net assets acquired and the fair value to the Group in respect of these two acquisitions.

	Pre-acquisition carrying values £m	Fair value adjustment £m	Provisional fair values on acquisition £m
Non-current assets	45	7	52
Current assets	9	(1)	8
Current liabilities	(6)	(1)	(7)
Non-current liabilities	(8)	(11)	(19)
Net assets acquired	40	(6)	34
Goodwill arising on acquisition			82
			116
Consideration:			
Cash			45
Non-cash			71
Total consideration			116

The goodwill represents the benefit of supply chain efficiencies, production economies, the ability to develop new and innovative products and further third-party revenue potential.

Other acquisitions
On 18 May 2010 the Group acquired an additional 13% of the ordinary share capital of Greenergy International Limited for a cash consideration of £16m, taking the Group's holding to 34%.

On 21 June 2010 the Group completed the acquisition of the remaining 10% of the ordinary share capital of dunnhumby Limited for a cash consideration of £44m, with a further contingent consideration of £16m.

NOTE 34 COMMITMENTS AND CONTINGENCIES

Capital commitments
At 26 February 2011 there were commitments for capital expenditure contracted for, but not provided for, £1,719m (2010 – £1,835m), principally relating to the store development programme.

Contingent liabilities
The Company has irrevocably guaranteed the liabilities, as defined in Section 5(c) of the Republic of Ireland (Amendment Act) 1986, of various subsidiary undertakings incorporated in the Republic of Ireland.

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, see note 11.

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 a settlement will be required and the value of such a payment can be reliably estimated.

On 30 April 2010 the Office of Fair Trading announced that it had decided to drop allegations against the Group in relation to alleged collusion between certain supermarkets and dairy processors in relation to milk and butter. The only investigation that remains open is in relation to certain cheese products. The Group continues to defend its position vigorously and no provision has been recognised in the Group's financial statements.

Tesco Bank
At 26 February 2011 Tesco Bank has commitments of formal standby facilities, credit lines and other commitments to lend, totalling £7.1bn (2010 – £6.5bn). The amount is intended to provide an indication of the potential volume of business and not of the underlying credit or other risks.

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

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

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

NOTE 35 CAPITAL RESOURCES

The following table shows the composition of regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity, at the balance sheet date:

	2011 £m	2010 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests	761	576
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	18	21
Supervisory deductions	(365)	(263)
Total regulatory capital	649	569

The movement of tier 1 capital during the financial year is analysed as follows:

	2011 £m	2010 £m
At beginning of year	576	521
Share capital and share premium	446	230
Profit attributable to shareholders	57	37
Ordinary dividends	(162)	(153)
Increase in intangible assets	(156)	(59)
At end of year	761	576

It is Tesco Personal Finance PLC's (TPF) policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, TPF has regard to the supervisory requirements of the Financial Services Authority (FSA). TPF has carried regulatory capital reserves in excess of its capital requirements during the financial year.

NOTE 36 LEASING COMMITMENTS

Finance lease commitments – Group as lessee
The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings which are held under finance leases. The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2011 £m	2010 £m	2011 £m	2010 £m
Within one year	56	49	50	45
Greater than one year but less than five years	81	101	44	90
After five years	206	178	104	74
Total minimum lease payments	343	328	198	209
Less future finance charges	(145)	(119)		
Present value of minimum lease payments	198	209		
Analysed as:				
Current finance lease payables	50	45		
Non-current finance lease payables	148	164		
	198	209		

NOTE 36 LEASING COMMITMENTS CONTINUED

Operating lease commitments – Group as lessee
Future minimum rentals payable under non-cancellable operating leases are as follows:

	2011 £m	2010 £m
Within one year	1,138	1,043
Greater than one year but less than five years	4,246	3,702
After five years	10,631	10,004
Total minimum lease payments	16,015	14,749

Future minimum rentals payable under non-cancellable operating leases after five years are analysed further as follows:

	2011 £m	2010 £m
Greater than five years but less than ten years	4,203	3,610
Greater than ten years but less than fifteen years	3,023	2,894
After fifteen years	3,405	3,500
Total minimum lease payments – after five years	10,631	10,004

Operating lease payments represent rentals payable by the Group for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights.

The Group has lease break options on certain sale and leaseback transactions, which are exercisable if an existing option to buy back leased assets at market value at a specified date is also exercised, no commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date.

Operating lease commitments with joint ventures
Since 1988 the Group has entered into several joint ventures and sold and leased back properties to and from these joint ventures. The terms of these sale and leasebacks vary, however, common factors include: the sale of the properties to the joint venture at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance; all of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor
The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease payments are contractually receivable from tenants:

	2011 £m	2010 £m
Within one year	286	259
Greater than one year but less than five years	537	566
After five years	306	348
Total minimum lease payments	1,129	1,173

Five year record

	2007	2008	2009	2010	2011
Financial statistics					
Group sales (including VAT) (£m)	46,611	51,773	59,426	62,537	**67,573**
Revenue (excluding VAT) (£m)					
UK	32,665	34,858[5]	37,650[2]	38,558	**40,117**
Rest of Europe	5,559	6,872	8,831[4]	8,704	**9,159**
Asia	4,417	5,552	7,048[2]	8,439	**10,241**
US	–	16[5]	206	349	**495**
Tesco Bank	–	–	163[5]	860	**919**
Total Group	42,641	47,298	53,898	56,910	**60,931**
Group operating profit[1] (£m)	2,648	2,791	3,169[2]	3,457	**3,811**
Group operating profit margin[1]	6.2%	5.9%	5.9%	6.1%	**6.3%**
Share of post-tax profits of joint ventures and associates (£m)	106	75	110	33	**57**
Profit on sale of investment in associates (£m)	25	–	–	–	**–**
Net finance costs (£m)	(126)	(63)	(362)	(314)	**(333)**
Profit before tax (£m)	2,653	2,803	2,917[2]	3,176	**3,535**
Taxation (£m)	(772)	(673)	(779)	(840)	**(864)**
Non-controlling interests (£m)	(7)	(6)	(5)	(9)	**(16)**
Profit for the period from discontinued operation[3,4] (£m)	18	–	–	–	**–**
Profit for the financial year attributable to owners of the parent (£m)	1,892	2,124	2,133[2]	2,327	**2,655**
Underlying profit before tax[4] (£m)	2,545	2,846	3,124	3,395	**3,813**
Enterprise value[6] (£m)	40,469	37,656	35,907	41,442	**39,462**
Basic earnings per share[7]	23.61p	26.95p	27.14p[2]	29.33p	**33.10p**
Diluted earnings per share[7]	23.31p	26.61p	26.96p[2]	29.19p	**32.94p**
Dividend per share[8]	9.64p	10.90p	11.96p	13.05p	**14.46p**
Return on shareholders' funds[9]	26.7%	25.1%	23.5%[2]	23.0%	**22.6%**
Return on capital employed[10]	12.6%[15]	12.7%[16]	12.8%[18]	12.1%	**12.9%**
Group statistics					
Number of stores	3,263	3,751	4,332	4,836[19]	**5,380**
Total sales area – 000 sq ft[11]	68,189	76,867[19]	88,556[19]	95,231[20]	**103,616**
Average employees	413,061	444,127	468,508	472,094	**492,714**
Average full-time equivalent employees	318,283	345,737	364,015	366,413	**384,389**
UK retail statistics					
Number of stores	1,988	2,137[19]	2,306[19]	2,507[19]	**2,715**
Total sales area – 000 sq ft[11]	27,785	30,457[19]	32,389[19]	34,237[20]	**36,722**
Average store size (sales area – sq ft)[12]	34,209	35,055	35,215	35,485	**35,970**
Average full-time equivalent employees	184,461	193,917	194,420	196,604	**200,966**
UK retail productivity (£)					
Revenue per employee[13]	177,084	179,840	196,436[2]	196,120	**199,621**
Profit per employee[13]	11,292	10,814[17]	13,065[2]	14,303	**15,098**
Weekly sales per sq ft[14]	25.48	25.43	25.34	25.22	**24.95**

1 Operating profit includes integration costs and profit arising on sale of fixed assets. Operating margin is based upon revenue excluding VAT.
2 The Group adopted IFRIC 13 'Customer Loyalty Programmes' and the amendments to IFRS 2 'Share-Based Payment' from 24 February 2008. Periods before this date have not been restated.
3 Consists of the net result of the Taiwanese business which was sold during 2007.
4 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 period, pension cost, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition, acquisition costs and the non-cash impact of IFRIC 13. It also exclude costs relating to restructuring (US and Japan), closure costs, (Vin Plus) and the impairment of goodwill in Japan.
For further details of this measure, see page 105.
5 Results have been restated to reflect the US and Tesco Bank as separate segments.
6 Market capitalisation plus net debt.
7 Basic and diluted earnings per share are on a continuing operations basis.
8 Dividend per share relating to the interim and proposed final dividend.
9 Profit before tax divided by average shareholders' funds.
10 The numerator is profit before interest, less tax. The denominator is the calculated average of net assets plus net debt plus dividend creditor less net assets held for sale.
11 Store sizes exclude lobby and restaurant areas.
12 Average store size excludes Express, One Stop and Dobbies stores.
13 Based on average number of full-time equivalent employees in the UK, revenue exclusive of VAT and operating profit.
14 Based on weighted average sales area and average weekly sales, excluding Dobbies stores.
15 Excludes one-off gain from 'Pensions A-Day'. With this one-off gain, ROCE was 13.6%.
16 Using a 'normalised' tax rate before start-up costs in the US and Tesco Direct and excluding the impact of foreign exchange in equity and our acquisition of a majority share of Dobbies.
17 Excluding start-up costs in the US and Tesco Direct and adjusting average number of full-time equivalent employees in the UK to exclude US and Tesco Direct employees – profit per employee would be £11,317.
18 Excluding acquisition of Tesco Bank and Homever, India start-up costs, and after adjusting for assets held for sale. Calculated on a 52-week basis, ROCE for 2009 is 12.8%.
19 Restated to include Dobbies stores.
20 Restated to include Dobbies stores and account for a space restatement of 109,000 sq ft driven by a comprehensive remeasurement of One Stop stores.

Tesco PLC – Parent Company balance sheet

	notes	26 February 2011 £m	27 February 2010 £m
Non-current assets			
Investments	5	12,710	11,716
Derivative financial instruments	10	1,131	1,250
		13,841	12,966
Current assets			
Derivative financial instruments	10	142	208
Debtors	6	8,717	14,184
Current asset investments	7	1,022	1,997
		9,881	16,389
Creditors – amounts falling due within one year			
Borrowings	9	(699)	(932)
Derivative financial instruments	10	(138)	(116)
Other creditors	8	(5,397)	(8,950)
		(6,234)	(9,998)
Net current assets		3,647	6,391
Total assets less current liabilities		17,488	19,357
Creditors – amounts falling due after more than one year			
Borrowings	9	(9,002)	(10,805)
Derivative financial instruments	10	(567)	(621)
		(9,569)	(11,426)
Net assets		7,919	7,931
Capital and reserves			
Called up share capital	13	402	399
Share premium account	14	4,896	4,801
Profit and loss reserve	14	2,621	2,731
Total equity		7,919	7,931

The notes on pages 148 to 155 form part of these financial statements.

Philip Clarke
Laurie McIlwee

Directors
The Parent Company financial statements on pages 148 to 155 were authorised for issue by the Directors on 6 May 2011 and are subject to the approval of the shareholders at the Annual General Meeting on 1 July 2011.

Tesco PLC
Registered number 00445790

Notes to the Parent Company financial statements

NOTE 1 ACCOUNTING POLICIES

Basis of preparation
The Company financial statements have been prepared under UK GAAP using the historical cost convention modified for the revaluation of certain financial instruments, in accordance with applicable accounting standards and the Companies Act 2006.

The financial year represents the 52 weeks ended 26 February 2011 (prior financial year 52 weeks ended 27 February 2010).

A summary of the Company's significant accounting policies is set out below.

Exemptions
The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented a Profit and Loss Account for the Company alone.

The Company has taken advantage of the FRS 29 'Financial Instruments: Disclosures' exemption and not provided derivative financial instrument disclosures of the Company alone.

The Company has also taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statement'. The cash flows of the Company are included in the Tesco PLC Group financial statements.

The Company is also exempt under the terms of FRS 8 'Related Party Disclosure' from disclosing related party transactions with entities that are part of the Tesco PLC Group.

Changes in accounting policy and disclosure
Standards, amendments and interpretations adopted, following new amendments to FRS interpretations. These have not had a significant impact on the results or net assets of the Company:

- Amendment to FRS 25 'Financial Instruments: Presentation' on 'Puttable Financial Instruments and Obligations Arising on Liquidation', effective for annual periods beginning on or after 1 January 2010.
- Amendment to FRS 25 'Financial Instruments: Presentation' – Presentation on Classification of Rights Issues, effective for annual periods beginning on or after 1 February 2010.
- Amendment to FRS 26 'Financial Instruments: Recognition and Measurement' on Eligible Hedged Items, effective for annual periods beginning on or after 1 July 2009.
- Amendment to FRS 20 'Share Based Payment', effective for annual periods beginning on or after 1 January 2010.
- UITF 48 Abstract 'Accounting implications of the replacement of RPI with CPI', effective for annual periods beginning on or after 1 January 2010.

Standards, amendments and interpretations not yet effective, but not expected to have a significant impact on the Company:

- UITF Abstract 47 'Extinguishing liabilities with equity instruments', effective for annual periods beginning on or after 1 July 2010.
- Improvements to FRSs, effective for annual periods beginning on or after 1 January 2011.
- FRS 30 'Heritage Assets', effective for annual periods beginning on or after 1 April 2010.

Current asset investments
Current asset investments relate to money market deposits which are stated at cost. All income from these investments is included in the Parent Company Profit and Loss Account as interest receivable and similar income.

Investments in subsidiaries and joint ventures
Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies
Assets and liabilities that are denominated in foreign currencies are translated into Pounds Sterling at the exchange rates prevailing at the balance sheet date of the financial year.

Share-based payments
Employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares, rights over shares (equity-settled transactions) or in exchange for cash.

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. In accordance with FRS 20 'Share-Based Payment' the resulting cost is charged to the Parent Company Profit and Loss Account over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Where the Company awards options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments
Financial assets and financial liabilities are recognised on the Parent Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Debtors
Debtors are non interest-bearing and are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recognised at the value of the amount received, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the Parent Company Profit and Loss Account over the period of the borrowings on an effective interest basis.

Other creditors
Other creditors, except for intercompany creditors, are non interest-bearing and stated at amortised cost. Intercompany creditors are either interest-bearing or non interest-bearing depending on the type and duration of creditor relationship.

NOTE 1 ACCOUNTING POLICIES CONTINUED

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes, however if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, discounted cash flows or use of option valuation models. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Parent Company Profit and Loss Account. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the items being hedged.

In order to qualify for hedge accounting, the Company is required to document, from inception, the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as falling due after more than one year.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Parent Company Profit and Loss Account, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps and cross currency swaps.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is removed from equity and recognised in the Parent Company Profit and Loss Account in the same period during which the hedged transaction affects the Parent Company Profit and Loss Account. The classification of the effective portion when recognised in the Parent Company Profit and Loss Account is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Parent Company Profit and Loss Account.

Derivative financial instruments qualifying for cash flow hedging are principally forward foreign exchange transactions and interest rate swaps.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Parent Company Profit and Loss Account. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Parent Company Profit and Loss Account.

Net investment hedging
Derivative financial instruments are classified as net investment hedges when they hedge the Company's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in equity. Any ineffective element is recognised immediately in the Parent Company Profit and Loss Account. Gains and losses accumulated in equity are included in the Parent Company Profit and Loss Account when the foreign operation is disposed of.

Derivative instruments qualifying for net investment hedging are principally forward exchange transactions and interest rate swaps.

Pensions
The Company participates in the Tesco PLC Pension Scheme which is a multi-employer scheme within the Tesco Group and cannot identify its share of the underlying assets and liabilities of the scheme. Accordingly, as permitted by FRS 17 'Retirement Benefits', the Company has accounted for the scheme as a defined contribution scheme, and the charge for the period is based upon the cash contributions payable.

Taxation
Corporation tax payable is provided on the taxable profit for the year, using the tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and would give rise to an obligation to pay more or less taxation in the future.

Deferred tax assets are recognised to the extent that they are recoverable. They are regarded as recoverable to the extent that on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discontinued basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws that have been substantively enacted by the balance sheet date.

Notes to the Parent Company financial statements

NOTE 2 AUDITOR REMUNERATION

	2011 £m	2010 £m
Fees payable to the Company's auditor for the audit of the Parent Company and Group financial statements	0.6	0.6

NOTE 3 EMPLOYMENT COSTS, INCLUDING DIRECTORS' REMUNERATION

	2011 £m	2010 £m
Wages and salaries	14	18
Social security costs	2	2
Pension costs	1	1
Share-based payment expense	26	30
	43	51

The average number of employees (all Directors of the Company) during the year was 16 (2010 – 17).

The Schedule VI requirements for Directors' remuneration are included within the Directors' Remuneration Report on pages 80 to 91.

NOTE 4 DIVIDENDS

For details of dividends see note 8 in the Group financial statements.

NOTE 5 INVESTMENTS

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 27 February 2010	12,304	16	12,320
Additions	1,966	–	1,966
Disposals	(1,041)	–	(1,041)
At 26 February 2011	13,229	16	13,245
Impairment			
At 27 February 2010	604	–	604
Reversal of impairment losses	(69)	–	(69)
At 26 February 2011	535	–	535
Net carrying value			
At 26 February 2011	12,694	16	12,710
At 27 February 2010	11,700	16	11,716

For a list of the Company's principal operating subsidiary undertakings and joint ventures see note 13 in the Group financial statements.

The impairment provision reversal relates to an impairment charge in the prior year. This charge related to a subsidiary whose net assets had been reduced below its carrying amount in the Parent Company Balance Sheet resulting from a dividend payment.

NOTE 6 DEBTORS

	2011 £m	2010 £m
Amounts owed by Group undertakings	8,520	13,948
Amounts owed by joint ventures and associates[a]	178	128
Other debtors	13	100
Deferred tax asset[b]	6	8
	8,717	14,184

(a) The amounts due from joint ventures and associates of £178m (2010 – £128m) are due after more than one year.
(b) The deferred tax asset recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 27 February 2010	10	(2)	8
Charge to profit and loss account for the year	(2)	–	(2)
At 26 February 2011	8	(2)	6

NOTE 7 CURRENT ASSET INVESTMENTS

	2011 £m	2010 £m
Bonds and deposits	1,022	1,997

NOTE 8 OTHER CREDITORS

	2011 £m	2010 £m
Amounts falling due within one year:		
Other tax and social security	2	1
Amounts owed to Group undertakings	5,217	8,639
Other liabilities	178	310
	5,397	8,950

NOTE 9 BORROWINGS

	Par value	Maturity year	2011 £m	2010 £m
Bank loans and overdrafts	–	–	101	27
Loans from joint ventures	–	–	20	17
6.625% MTN	£150m	2010	–	158
4.75% MTN	€750m	2010	–	704
3.875% MTN[(a)]	€389m	2011	346	479
5.625% MTN	€1,500m	2012	1,317	1,375
5% MTN	£600m	2014	606	604
5.125% MTN	€600m	2015	510	539
4% RPI MTN[(b)]	£263m	2016	276	270
5.875% MTN[(c)]	€1,500m	2016	997	1,520
5.5% USD Bond	$850m	2017	600	621
5.5% MTN	£350m	2019	351	351
6.125% MTN	£900m	2022	891	890
5% MTN[(d)]	£515m	2023	390	520
3.322% LPI MTN[(e)]	£265m	2025	279	269
6% MTN	£200m	2029	218	212
5.5% MTN	£200m	2033	215	210
1.982% RPI MTN[(f)]	£221m	2036	231	222
6.15% USD Bond	$1,150m	2037	804	834
5% MTN	£300m	2042	174	306
5.125% MTN	€600m	2047	577	587
5.2% MTN	£500m	2057	274	500
Other MTNs	–	–	281	291
Other loans	–	–	243	231
			9,701	11,737

(a) During the financial year the Group redeemed €111m of the 3.875% MTN maturing 2011.
(b) The 4% RPI MTN is redeemable at par, indexed for increases in the Retail Price Index (RPI) over the life of the MTN.
(c) During the financial year the Group redeemed €461m of the 5.875% MTN maturing 2016.
(d) During the financial year the Group redeemed £126m of the 5% MTN maturing 2023.
(e) The 3.322% LPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
(f) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

	2011 £m	2010 £m
Repayment analysis:		
Amounts falling due within one year	699	932
	699	932
Amounts falling due after more than one year:		
Amounts falling due between one and two years	1,321	699
Amounts falling due between two and five years	1,401	2,795
Amounts falling due after more than five years	6,280	7,311
	9,002	10,805
	9,701	11,737

NOTE 10 DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments has been disclosed in the Company's Balance Sheet as:

	2011		2010	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	142	(138)	208	(116)
Non-current	1,131	(567)	1,250	(621)
Total	1,273	(705)	1,458	(737)

	2011				2010			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	13	665	(21)	400	10	665	(32)	400
Cross currency swaps	728	2,674	(39)	714	1,131	4,513	(44)	258
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(62)	1,172	–	–	(39)	400
Cross currency swaps	126	298	(151)	784	129	315	(206)	1,042
Forward foreign currency contracts	–	–	(1)	145	9	218	–	1
Net investment hedges								
Cross currency swaps	–	–	–	–	–	–	(30)	124
Forward foreign currency contracts	19	383	(97)	952	19	244	(172)	1,037
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	377	2,639	(310)	2,639	140	1,115	(112)	1,025
Cross currency swaps	–	–	–	–	1	173	(22)	457
Future purchases of minority interests	–	–	–	–	–	–	(41)	–
Forward foreign currency contracts	10	400	(24)	550	19	376	(39)	1,070
Total	1,273	7,059	(705)	7,356	1,458	7,619	(737)	5,814

NOTE 11 SHARE-BASED PAYMENTS

Tesco PLC's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, see note 27 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to Tesco PLC employees are:

	Savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		Nil cost share options	
For the year ended 26 February 2011	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2010	36,106	315.87	53,381	280.99	14,549,529	347.65	9,185,455	0.00
Granted	5,516	386.00	35,730	419.80	3,150,544	419.80	4,148,918	0.00
Forfeited	–	–	–	–	–	–	(499,596)	0.00
Exercised	(7,788)	248.00	(24,781)	242.11	(3,331,503)	252.23	(435,650)	0.00
Outstanding at 26 February 2011	33,834	342.93	64,330	373.06	14,368,570	385.59	12,399,127	0.00
Exercisable as at 26 February 2011	–	–	28,600	314.68	4,797,618	377.97	3,744,903	0.00
Exercise price range (pence)	–	–	–	312.75 to 318.60	–	312.75 to 473.75	–	0.00
Weighted average remaining contractual life (years)	–	–	–	4.51	–	5.30	–	6.74

Notes to the Parent Company financial statements

NOTE 11 SHARE-BASED PAYMENTS CONTINUED

For the year ended 27 February 2010	Savings-related share option scheme Options	WAEP	Approved share option scheme Options	WAEP	Unapproved share option scheme Options	WAEP	Nil cost share options Options	WAEP
Outstanding at 28 February 2009	37,066	294.06	53,381	280.99	14,681,115	326.92	14,430,093	0.00
Granted	7,584	328.00	–	–	3,804,440	338.40	3,093,147	0.00
Forfeited	–	–	–	–	–	–	(2,299,256)	0.00
Exercised	(8,544)	232.00	–	–	(3,936,026)	261.41	(6,038,529)	0.00
Outstanding at 27 February 2010	36,106	315.87	53,381	280.99	14,549,529	347.65	9,185,455	0.00
Exercisable as at 27 February 2010	–	–	53,381	280.99	6,240,433	281.85	–	–
Exercise price range (pence)		–		197.50 to 318.60		197.50 to 318.60		–
Weighted average remaining contractual life (years)		–		4.77		4.40		–

Share bonus schemes

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year relating to Tesco PLC employees are:

	2011 Shares number	2011 WAFV pence	2010 Shares number	2010 WAFV pence
Shares in Success	5,766	416.23	6,684	349.66
Executive Incentive Scheme	292,085	388.05	1,660,771	351.16
Performance Share Plan	218,620	433.79	243,129	374.00
US Long-Term Incentive Plan	74,997	433.06	80,622	482.00

NOTE 12 PENSIONS

The total cost of the pension scheme to the Group was £546m (2010 – £439m). Further disclosure relating to the Tesco PLC Pension Scheme can be found in note 28 of the Group financial statements.

NOTE 13 CALLED UP SHARE CAPITAL

	2011 Ordinary shares of 5p each Number	2011 £m	2010 Ordinary shares of 5p each Number	2010 £m
Allotted, called up and fully paid:				
At beginning of year	7,985,044,057	399	7,895,344,018	395
Share options	36,535,102	2	62,329,535	3
Share bonus awards	24,888,933	1	27,370,504	1
At end of year	8,046,468,092	402	7,985,044,057	399

During the financial year, 37 million (2010 – 62 million) shares of 5p each were issued in relation to share options for aggregate consideration of £97m (2010 – £166m).

During the financial year, 25 million (2010 – 27 million) shares of 5p each were issued in relation to share bonus awards for consideration of £1m (2010 – £1m).

NOTE 13 CALLED UP SHARE CAPITAL CONTINUED

Between 27 February 2011 and 15 April 2011, options over 2,137,647 ordinary shares have been exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 27 February 2011 and 15 April 2011, options over 1,020,924 ordinary shares have been exercised under the terms of the Executive Share Option Schemes (1994 and 1996) and the Discretionary Share Option Plan (2004).

As at 26 February 2011, the Directors were authorised to purchase up to a maximum in aggregate of 802.1 million (2010 – 790.1 million) ordinary shares.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

Capital redemption reserve
Upon cancellation of the shares purchased as part of the share buy-back, a capital redemption reserve is created representing the nominal value of the shares cancelled. This is a non-distributable reserve. Details of the capital redemption reserve are out in the Group Statement of Changes in Equity.

NOTE 14 RESERVES

	2011 £m	2010 £m
Share premium account		
At beginning of year	4,801	4,638
Premium on issue of shares less costs	95	163
At end of year	4,896	4,801
Profit and loss reserve		
At beginning of year	2,731	2,624
Share-based payments	161	234
Dividend	(1,081)	(968)
Losses on cash flow hedges	(6)	(82)
Profit after tax for the year	816	923
At end of year	2,621	2,731

NOTE 15 CONTINGENT LIABILITIES

The Company has irrevocably guaranteed the liabilities, as defined by Section 5(c) of the Republic of Ireland (Amendment Act) 1986, of various subsidiary undertakings incorporated in the Republic of Ireland.

Independent auditors' report to the members of Tesco PLC

We have audited the Parent Company financial statements of Tesco PLC for the 52 weeks ended 26 February 2011 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 92, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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 the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 February 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the 52 weeks ended 26 February 2011 for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Tesco PLC for the 52 weeks ended 26 February 2011.

Richard Winter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 May 2011

Financial calendar

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

Please note that dates are provisional and subject to change.

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