PRELIMINARY RESULTS 2010/11

STRONG GROUP RESULTS: SALES UP 8.1%, UNDERLYING PROFIT UP 12.3%

- Group sales up 8.1% to £67.6bn*
- 12.3% rise in underlying profit before tax to £3.8bn
- Group return on capital employed (ROCE) increased to 12.9% (last year 12.1%)
- 7.8% growth in Group trading profit to £3.7bn, including 30% growth in Asia
- Underlying diluted EPS growth of 10.8%**; dividend per share growth of 10.8%
- Net debt reduced to £6.8bn by year-end, ahead of plan
- Exceeded our 2010/11 carbon targets

Philip Clarke – Chief Executive

"I am pleased with our strong overall performance in the face of some challenging conditions and we are well-positioned, with multiple opportunities to deliver long-term growth and rising returns. I want to thank the 500,000 people who work at Tesco for their contribution to this performance.

We have equipped the business for global growth with new management structures and teams – including an experienced UK Board, which is bringing more focus and energy to our largest business. Asia and Europe made excellent progress contributing nearly 70% of our profit growth in the year. The momentum in the USA is building but still has some way to go."

New management structures in place and increased focus on UK core business:

- New global Executive Committee in place, combining key business areas and support functions
- Six immediate team objectives set – around performance, growth and returns
- Dedicated, experienced UK Board appointed and operational
- Plans to align senior management remuneration with growth and ROCE improvement

We have set some immediate objectives for the Tesco team:

- 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 the 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.
- Sixth, **deliver higher return on capital employed** for shareholders.

52 weeks ended 26 February 2011 (unaudited)	2010/11	Change vs. 2009/10
Group sales (inc. VAT)*	£67,573m	8.1%
Group revenue (exc. VAT)	£60,931m	7.1%
Group trading profit	£3,679m	7.8%
Underlying profit before tax	£3,813m	12.3%
Group profit before tax	£3,535m	11.3%
Underlying diluted earnings per share	35.72p	10.8%**
Diluted earnings per share	32.94p	12.8%
Dividend per share	14.46p	10.8%
Net debt	£6.8bn	Down £1.1bn
Return on capital employed	12.9%	Up 0.8%

* Group sales (inc. VAT) exclude the accounting impact of IFRIC 13. ** Underlying diluted EPS growth calculated on a constant tax rate basis; 12.8% at actual tax rates.

SUMMARY OF GROUP RESULTS[1]

	Group TY £m	Group LY £m	Group Growth %	UK[2] TY £m	Asia TY £m	Europe TY £m	US TY £m	Tesco Bank TY £m
Sales (inc. VAT)[3]	67,573	62,537	8.1%	44,571	11,023	10,558	502	919
Growth %				5.5%	21.5%	5.6%	41.8%	6.9%
UK LFL (exc. Petrol)				1.0%				
Revenue (ex. VAT)	60,931	56,910	7.1%	40,117	10,241	9,159	495	919
Growth %				4.0%	21.4%	5.2%	41.8%	6.9%
UK LFL – IFRIC 13 compliant basis (exc. Petrol)				(0.2)%				
Trading profit[4]	3,679	3,412	7.8%	2,504	570	527	(186)	264
Growth %				3.8%	29.5%	11.2%	(12.7)%	5.6%
Growth % (before sale & leaseback impact)				6.4%				
Trading profit margin[3]	5.97%	5.93%	4bp	6.14%	5.55%	5.73%	(37.58)%	28.73%
Change (basis points)				(3)bp	35bp	30bp	970bp	(34)bp
Profit arising on property-related items	427	377	13.3%					
Deduct: IAS adjustments	(295)	(332)	11.1%					
Statutory/ operating profit	3,811	3,457	10.2%					
JVs and associates	57	33	72.7%					
Net finance costs	(333)	(314)	(6.1)%					
Statutory profit before tax	3,535	3,176	11.3%					
Add: IAS adjustments	278	219	26.9%					
Underlying profit before tax[5]	3,813	3,395	12.3%					
Dividend per share (pence)	14.46	13.05	10.8%					

	Group TY	Group LY	Group YOY Change	UK TY	Asia TY	Europe TY	US TY	Tesco Bank TY
Capital expenditure (£bn)	3.7	3.1	0.6	1.7	1.1	0.6	0.1	0.2
Gross space added (million sq.ft.)	9.3	7.1	2.2	2.8	3.5	2.6	0.4	n/a

	Group TY	Group LY	Group YOY Change
Operating cashflow (£bn)[6]	5.4	5.4	0.0
IFRS pensions liability post-tax (£bn)	1.0	1.3	(0.3)
Net debt (£bn)	6.8	7.9	(1.1)

1 For UK, ROI and US, these results are for the 52 weeks ended 26 February 2011 and the previous year comparison is made with the 52-week period ended 27 February 2010. For all other countries and Tesco Bank these results are for the year ended 28 February 2011 and the previous year comparison is made with the year ended 28 February 2010. All growth rates are calculated at actual exchange rates unless otherwise stated. Statutory numbers include the accounting impact of IFRIC 13 (Customer Loyalty Programmes). All other numbers are shown excluding the accounting impact of IFRIC 13, consistent with internal management reporting. More information can be found in Note 1 to the preliminary consolidated financial information.

2 The UK segment excludes Tesco Bank, which is reported separately in accordance with IFRS8 'Operating Segments'.

3 Excludes the accounting impact of IFRIC 13 (Customer Loyalty Programmes). Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

4 Trading profit excludes property profits and makes the same additional adjustments as our underlying profit measure, except for the impact of non-cash elements of IAS 32 and 39, and the interest element of IAS 19. More information can be found in Note 2 to the preliminary consolidated financial information.

5 Underlying profit excludes the impact of non-cash elements of IAS 17, 19, 32, and 39 (principally the impact of annual uplifts in rents and rent-free periods, pension costs, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition and acquisition costs, and the non-cash impact of IFRIC 13. It also excludes costs relating to restructuring (USA and Japan), closure costs (Vin Plus) and the impairment of goodwill in Japan.

6 Cash generated from retail and Bank operations excludes Bank working capital funding.

GROUP RESULTS

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

Group trading profit was £3,679m, up 7.8% on last year and Group trading margin, at 6.0%, increased by 4 basis points. **Underlying profit before tax** rose to £3,813m, 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 £3,811m. **Group profit before tax** increased 11.3% to £3,535m.

Net finance costs increased to £333m (£314m last year). However, before the non-cash IAS 19, 32, and 39 adjustments, actual net interest cost fell by £83m to £334m. 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 £6.8bn, ahead of our target of £7.0bn, helped by strong cash generation in the seasonally important second half of the year. During the year, we repaid £926m of our debt early and repaid £777m 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 £3.7bn (last year £3.1bn), 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 £1.7bn, with an additional £0.2bn in the Bank, principally for the re-platforming of our systems, and £1.8bn in International. For the 2011/12 year we plan to invest around £4.0bn in capital expenditure and going forward we expect annual capital expenditure to total between 5% and 5.5% of Group sales.

Return on Capital Employed

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.

Dividend

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 8th July 2011 to shareholders on the Register of Members at the close of business on 3rd May 2011.

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

Tesco Team Objectives

Tesco's strategy is, and will remain, about broadly-based, profitable growth – and we have multiple opportunities to pursue that growth – in the UK, internationally, in food and other categories and in services. We also believe growth and sustainability are aligned, for example through our commitments to the communities we serve and the low-carbon programme we are pursuing in our business and our supply chain. So the fundamental elements of our strategy won't alter but some are evolving – as, for example, our increased focus on internet retailing, demonstrates.

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

Outlook

A generally improving global economic environment provides a helpful background for Tesco in most of our markets in Asia and Europe as well as in the United States. In some specific countries – not least of course the UK – as consumers deal with higher taxes, public sector contraction and rising fuel costs, demand growth remains subdued. In these markets, we are assuming that the retail environment will remain challenging in 2011, particularly in the more discretionary product categories, but we have strong plans for growth, supported by improved productivity, which will help increase our competitiveness for customers. Overall, we believe Tesco is well-positioned to trade through these challenges successfully as is evidenced by today's results.

BUSINESS PERFORMANCE

UK

	UK Results 2010/11	
	£m	% growth
UK sales	£44,571m	5.5%
UK revenue (exc. VAT, exc. impact of IFRIC 13)	£40,766m	4.3%
UK trading profit	£2,504m	3.8%*
Trading margin (trading profit/revenue)	6.14%	(3)bp

* 6.4% growth before rental and depreciation effects of sale and leaseback transactions

Our UK business delivered a solid performance during a period of unusually subdued industry growth, linked to the impact of high petrol prices on customers' discretionary spending in our stores. Tesco grew sales faster than the market as a whole and profits grew, helped by excellent productivity, and a good performance from new stores. 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. However, we didn't achieve our planned growth in the year and this was only partly attributable to the deterioration in the consumer environment during the second half. We can do better and we are taking action in key areas – for example, to drive a faster rate of product innovation and to improve the sharpness of our communication to customers.

	UK Like-For-Like Growth 2010/11				
	H1	Q3	Q4	**H2**	**FY**
LFL (inc. VAT, inc. petrol)	**3.1%**	1.6%	1.7%	**1.6%**	**2.4%**
LFL (inc. VAT, exc. petrol)	**1.2%**	1.5%	0.2%	**0.8%**	**1.0%**
LFL (exc. VAT, exc. petrol)	**0.3%**	0.5%	(0.7)%	**(0.1)%**	**0.0%**
LFL (exc. VAT, exc. Petrol and IFRIC 13 compliant)	**(0.3)%**	0.7%	(0.7)%	**0.1%**	**(0.2)%**

Excluding petrol and VAT, like-for-like sales were flat, with an overall reduction of (0.1)% in the second half comprising 0.5% growth in the third quarter and a fall of (0.7)% in the fourth. Combined with a strong contribution in the year of 3.1% from net new space, including 3.5% in the second half, total sales (including petrol and VAT) grew by 5.5% in the year.

We have remained focused – as always – on customers. Our strategy is to earn their loyalty by helping them to spend less – through low prices, good promotions and Clubcard – and by improving the other key elements of the shopping trip for customers – in availability, service, range and quality. In food and drink categories we continued to perform ahead of the market, although in some of our other product areas growth was below our expectations, particularly during the second half (see general merchandise section below) and this is an area of significant focus for the new UK Board.

Our investment in improving our offer for customers, including the increased cost of Clubcard Double Points, continues to be supported by our **Step-change** productivity programme, which is now in its 14th year. Step-change projects improve the way we do things – in our stores, distribution centres and offices. The aim is to make everything we do 'better for customers, simpler for staff and cheaper for Tesco' and in some cases, projects are known as far as five years ahead of expected completion. We completed a programme in the year that delivered savings of some £550m in the UK – and we invested most of these savings back into our offer for customers.

Our work on applying Group skill and scale to drive value and competitiveness across our businesses globally, is drawing on this.

ASIA, EUROPE & UNITED STATES

Our businesses have had a strong year overall, with improvements in sales, profits and returns. Most of our markets have seen steady economic improvement and in some cases – particularly in Asia – sharp improvement. Countries hardest hit in the downturn – in particular Hungary, Ireland and the western United States – have been slower to recover although, even there, we are now seeing signs of improvement. Japan remains a difficult retail environment.

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. These trends strengthened in the second half, with higher like-for-like growth compared with the first half. In the US, two year like-for-like growth was 20.1% in the fourth quarter.

	Asia, Europe, US Like-For-Like Growth Exc. Petrol 2010/11				
	H1	Q3	Q4	**H2**	**FY**
Asia	**1.4%**	4.3%	1.9%	**3.1%**	**2.3%**
Europe	**2.2%**	3.6%	2.4%	**3.0%**	**2.6%**
United States	**9.6%**	9.8%	8.6%	**9.2%**	**9.4%**
Total	**2.0%**	4.1%	2.3%	**3.1%**	**2.6%**

Note: A full table of country LFL growth is provided in Appendix 1 on page 11

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

Asia

	Asia Results 2010/11		
	Actual rates		Constant rates
	£m	% growth	% growth
Asia sales	£11,023m	21.5%	9.7%
Asia revenue (exc. VAT, exc. impact of IFRIC 13)	£10,278m	21.4%	9.6%
Asia trading profit	£570m	29.5%	17.5%
Trading margin (trading profit/revenue)	5.55%	35bp	34bp

Another good performance in Asia saw 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 Korea in 2008.

We have seen significantly improved sales growth compared to 2009/10, except for Japan, where economic as well as industry trading conditions remain difficult. Our performance in Asia was helped by favourable exchange rate movements but profits grew by almost 18% at constant currency. All countries except Japan and China made strong progress on profitability – with excellent growth coming from Thailand and Korea. China did not break-even during the second half of the year, which was a consequence of the slower consumer demand growth and our store roll-out being slower than planned.

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. Having continued to invest through the downturn, we are now in an even stronger position as economic recovery continues.

This year we plan to open 5.1m square feet 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 Retailing Services businesses.

Europe

	Europe Results 2010/11		
	Actual rates		Constant rates
	£m	% growth	% growth
Europe sales	£10,558m	5.6%	7.4%
Europe revenue (exc. VAT, exc. impact of IFRIC 13)	£9,192m	5.4%	7.1%
Europe trading profit	£527m	11.2%	13.7%
Trading margin (trading profit/revenue)	5.73%	30bp	42bp

Our operations in Europe delivered record results and the strongest growth in sales, profits and margins for several years. Recovering economies generally helped but key to this performance was the striking improvement in the competitiveness of our local businesses, which have not only adjusted well to the demands of tough market conditions, but have won market share rapidly. In Ireland and Hungary, economic conditions and consumer confidence remained subdued but despite this, our businesses there made solid progress.

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 – and 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. Our performance across Central Europe, was pleasing in both sales and profit terms – and was particularly good in the Czech Republic and Slovakia. 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.

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

We have been delighted by customer reaction to the remodelling and conversion of some of our older hypermarkets to the Extra format. Very strong sales improvements have been achieved in the stores – with an average sales uplift of 16% in the 8 completed so far. These refits are delivering particularly marked uplifts in fresh food categories, health & beauty, clothing and electricals.

United States

	US Results 2010/11		
	Actual rates		Constant rates
	£m	% growth	% growth
US sales	£502m	41.8%	38.1%
US revenue (exc. VAT, exc. impact of IFRIC 13)	£495m	41.8%	38.1%
US trading profit / (loss)	£(186)m	(12.7)%	(9.7)%

Losses in Fresh & Easy increased in the year. Whilst this did not meet our guidance issued at the beginning of the year, it was a consequence of the initial costs of integrating our acquisitions of 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 individual shop-door profitability. Despite the higher losses in 2010/11, the overall business remains on-track to break-even towards the end of the 2012/13 financial year.

Customer feedback remains excellent and our clear objective now is to accelerate the strong growth in customer numbers we are seeing, which is driving sales per store steadily towards the levels we require. These trends, combined with benefits of the growing scale of the store network around our Riverside distribution centre and manufacturing campus, give us confidence that the components of a profitable business model are coming together.

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 opening to around 50 in the current year. With the improvements in our distribution centre and manufacturing campus productivity, resulting from the acquisition of the two suppliers, we now expect to reach break-even with around 300 stores trading, rather than the 400 we originally anticipated.

GROUP GENERAL MERCHANDISE, CLOTHING & ELECTRICALS

Our general merchandise business has continued to grow, despite the challenges of weak demand in some of our important markets – not least the UK. 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 £10.3bn.

In the UK, general merchandise, clothing & electricals sales grew by 0.4% to £5.3bn. This growth reflected the challenging environment, particularly in our important electrical and entertainment categories, and a strong prior year performance. General merchandise sales growth was also affected by a smaller component of extension selling space in this year's new space programme, with extensions providing just 10% of new space.

Toys, sports, books and magazines and gaming grew well but our performance in electrical goods was below the market and the growth in clothing was also not as strong as we had planned. Like-for-like growth across the whole of general merchandise, clothing & electricals was (3.3)% during the second half, compared with (0.3)% in the first half. Improving the performance of these categories in the UK is a priority. We have strengthened the teams and they are working on improvements to ranging, merchandising, pricing and promotions.

In Europe, General Merchandise, Clothing & Electrical sales were strong, reflecting an overall improving consumer background. Clothing sales, which are a substantial element of our sales mix, increased by a pleasing 9% at constant exchange rates in Central Europe and we are now clothing market leader in Hungary and the Czech Republic and Slovakia. Building on the success of the F&F brand we have introduced our F&F Blue and F&F Basics sub-brands in Europe and we opened our first standalone clothing store in Prague last autumn.

F&F, now in four of our Asian markets, has seen an excellent early response from customers. This is a very good example of the skill and scale of the Tesco Group being applied across our network.

We have seen strong general merchandise sales growth in our Asian businesses – which are predominantly hypermarket operations. Both hardline and softline sales growth was high-single digit, despite unseasonably warm weather during the third quarter in China and Korea which affected clothing performance. We saw particularly pleasing increases in electrical products – with double-digit growth in Thailand and over 30% in China.

RETAILING SERVICES

Total Retailing Services sales were £4.0bn, up 12% on last year and trading profit grew to £583m*. This represents creditable progress towards our target of £1bn of aggregate profit from services.

Tesco Bank

	Tesco Bank Results 2010/11	
	£m	% growth
Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13)	£919m	6.9%
Tesco Bank trading profit	£264m	5.6%
Tesco Bank trading margin	28.73%	(34)bp

Despite a challenging year in the wider banking sector, and as it completes its transition to full separation from 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 motor and home insurance business, including renewal policies sold since then have, as planned, been written on new systems. We have also launched successfully our first new product on our own banking platforms –the Fixed Rate Saver – last autumn. This has been followed by our recent innovative retail bond. Both of these initiatives exceeded plan and serve to diversify our funding base and increase the proportion of long-term funding available to the Bank.

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

Customer account numbers grew well – in active credit cards by 11%, personal loans by 17% and motor insurance by 8%. Our Fixed Rate Saver product significantly exceeded expectations and we ended the year with a balance of £397m, 40% higher than planned and 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 delivering 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.

An income statement and balance sheet for Tesco Bank is available in the Investor Centre section of our corporate website – (www.tesco.com/investorcentre).

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

Online businesses grew sales strongly – by 15%, including our operations in Korea and Ireland. Our UK operations continued to grow well – with double–digit growth in grocery and a further 30% increase at Tesco Direct. Profits overall, saw a modest advance as we chose to invest in providing one-hour delivery time slots in London as well as innovations such as 'click & collect', 'refund the difference' and 'wine by the case', which have proved very popular with customers. Our iPhone application now accounts for 12% of customer traffic.

Telecoms saw strong growth in customer numbers, driven by a 24% rise in Tesco mobile subscribers as both pre-pay and contract grew during the year. Popular promotions, including using Clubcard, allowed pre-pay to grow in a declining market, whilst our contract business benefited from the iPhone 4 launch and our broadening handset range. Profitability was impacted in the short term by the costs of investing in the expansion of our Phone Shop network and handset subsidies as we grow our contract business.

dunnhumby, our marketing services business, had a very strong year, increasing sales and profits by over 30% with excellent growth in its UK and US supplier operations and from its other overseas joint ventures. The company is now a wholly-owned subsidiary of Tesco.

PROPERTY STRATEGY

Tesco's property activities have one principal objective: to ensure Tesco can retail from the best located and designed property in its markets. At the same time, we create sustainable, long-term value for shareholders from the development and management of prime retail property and this also provides the strong asset-backing to our balance sheet with the market value of our property currently exceeding £36.0bn (compared with a net book value of £26.3bn).

Tesco releases some of this value 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 £5bn 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 £1.3bn over the past five years. We have used the proceeds to invest in property assets in growth economies, buy back c.£1.1bn of our own shares and enhance dividends for shareholders.

Future property plans

Our aim is to demonstrate the value created through Tesco's property development activities by delivering a sustainable stream of property profit, based on the following principles:

- The amount of profit will be approximately equal to the value we create annually from development activities. This is distinct from the increase in value of mature property which ultimately is reflected in shareholder value through trading profits. As long as we are creating as much property value as we are releasing, it will be sustainable;
- The level of property divestments annually will remain below the levels of new investment in growth capital spend each year, thereby ensuring that our total asset base continues to grow;
- We will increase our lease commitments from a combination of a continuing sale & leaseback programme and new leasehold acquisition, particularly in China and the US, but will broadly keep our Group property portfolio at around 70% freehold;
- We expect rent as a proportion of EBITDAR* to remain broadly constant, ensuring an appropriate balance between rental growth and cash generation.

Based on these principles, and current levels of investment, we intend to realise property profits in the range £250m to £350m per year. This level of profits will be generated from divestments of just over £1 billion annually.

We plan to release property profits through two types of transaction:

- **Sale & leaseback of stores**. We will conduct these transactions where pricing is best relative to the growth prospects of the underlying market; for the time being, this means the focus will remain in the UK.

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

- **Shopping malls**. We have successful mall businesses in Korea, Thailand, Malaysia and our Central European markets, as well as a newly-developing mall business in China. In future, the development value which we create through these large projects will be increasingly realised through transactions in which Tesco sells, or part-sells, the whole development and leases back the hypermarket portion of the property. We will tend to focus on divestment of mature assets.

COMMUNITY, ENVIRONMENT AND CORPORATE RESPONSIBILITY

Communities are at the heart of what we do and we have established a leadership role on climate change. Our achievements this year include:

Caring for the environment. We have exceeded our target to reduce carbon emissions from our baseline portfolio of buildings by 5.5% compared to 2009/10. In total we have footprinted over 1,000 products, and carbon labelled over 500 products in store and online in the UK. We have also continued our carbon labelling programme in South Korea.

Actively supporting local communities. We have exceeded our 2010 target of donating at least 1% of pre-tax profits to charities and good causes, donating 1.8%. We have also exceeded our target to raise £7m for charity through staff and customer fundraising: in the UK alone, we raised £7.2m for our Charity of the Year, CLIC Sargent. Since the start of our computers and sports for schools schemes, we have given £170m worth of equipment to schools in the UK alone. We work with Mary's Meals to provide daily meals to over 4,000 school children in Malawi, India, Kenya and Thailand.

Buying and selling products responsibly. Under our Trading Fairly programme we now have our own experts in China, Bangladesh and South Africa working directly with local suppliers to tackle labour issues. We have increased sales of local products in the UK to £1bn. We are co-leading a project across the consumer goods industry to achieve zero net deforestation by 2020.

Giving customers healthy choices. We have 100% nutrition labelling of eligible own-brand food lines in all our markets. In Thailand, around 4 million people participated in an aerobics competition, a Walkathon and football clinics. In the UK, around one million primary school children ran in the Great School Run and over 740,000 children have taken part in the F.A. Skills Programme.

Creating good jobs and careers. We have increased the total number of staff in the Group by 21,000. Our basic hourly rate of pay for a customer assistant in the UK is 7% higher than our three largest food retail competitors. Also in the UK, 216,000 staff shared a total of £105.5m through our Shares in Success scheme in 2010, and we opened a record eight Regeneration Partnership stores this year.

More details will be contained in our Corporate Responsibility report, published next month.

Supplementary Information

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

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

Appendix 1 – Country Like-For-Like Growth Inc. VAT Exc. Petrol

	Like-For-Like Growth 2010/11						
	Q1	Q2	**H1**	Q3	Q4	**H2**	**FY**
UK	**1.1%**	**1.3%**	**1.2%**	**1.5%**	**0.2%**	**0.8%**	**1.0%**
Asia	**(1.8)%**	**5.0%**	**1.4%**	**4.3%**	**1.9%**	**3.1%**	**2.3%**
China	3.2%	9.3%	6.2%	5.7%	4.3%	4.9%	**5.5%**
Japan	(10.7)%	(5.4)%	(8.3)%	(6.4)%	(8.9)%	(7.6)%	**(8.1)%**
Malaysia	(2.1)%	(2.0)%	(2.1)%	0.6%	(1.8)%	(0.7)%	**(1.4)%**
South Korea	0.6%	6.0%	3.2%	5.7%	0.8%	3.1%	**3.2%**
Thailand	(5.5)%	4.8%	(0.8)%	2.9%	5.0%	4.0%	**1.6%**
Europe	**0.7%**	**3.7%**	**2.2%**	**3.6%**	**2.4%**	**3.0%**	**2.6%**
Czech Republic	(2.2)%	4.4%	1.1%	2.8%	3.0%	2.9%	**2.0%**
Hungary	(8.6)%	(2.5)%	(5.4)%	3.8%	2.7%	3.2%	**(1.2)%**
Poland	0.8%	3.2%	2.0%	2.8%	1.3%	2.0%	**2.0%**
Slovakia	5.8%	11.6%	8.7%	13.7%	12.1%	12.9%	**10.9%**
Turkey	(1.5)%	0.0%	(0.7)%	2.8%	(2.0)%	0.4%	**(0.1)%**
Republic of Ireland	8.4%	7.4%	7.9%	0.9%	(0.2)%	0.3%	**3.9%**
United States	**7.5%**	**12.2%**	**9.6%**	**9.8%**	**8.6%**	**9.2%**	**9.4%**

Contacts

Investor Relations:	Steve Webb	01992 644800
	Mark George	01992 644800
Press:	Trevor Datson	01992 644645
	Angus Maitland – The Maitland Consultancy	0207 379 5151

This document is available via the internet at www.tesco.com/investorcentre

A meeting for investors and analysts will be held today at 9.00am at the Royal Bank of Scotland, 280 Bishopsgate, London EC2 4RB. Access will be by invitation only. Presentations from the meeting will be available at www.tesco.com/investorcentre

An interview with Philip Clarke, Chief Executive, discussing the Preliminary Results is available now to download in video, audio and transcript form at www.tesco.com/investorcentre

Additional Disclosures

Risks and Uncertainties

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

- Business and financial strategy, including Group Treasury
- Operational threats and performance risk in the business
- Competition and consolidation
- People capabilities
- Reputation
- Environmental and climate change
- Product safety and health and safety
- Ethical risks in the supply chain
- Fraud and compliance
- Property
- General merchandise, clothing & electricals
- IT systems and infrastructure
- Regulatory, political and economic environment, activism and terrorism
- Pensions
- Funding and liquidity, interest rate and foreign currency risk
- Credit risk, Tesco Bank and insurance

Greater detail on these risks and uncertainties will be set out in our 2011 Annual Report, the publication of which will be announced in due course.

Statement of Directors' Responsibilities

The Directors confirm that to the best of their knowledge this consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards (IFRS) and IFRS Interpretation Commit tee (IFRIC) interpretations, as endorsed by the European Union (EU). The accounting policies applied are consistent with those described in the 2010 Annual Report, apart from those arising from the adoption of new International Financial Reporting Standards and Interpretations. In preparing the consolidated financial information, the Directors have also made reasonable and prudent judgements and estimates and prepared the consolidated financial information on the going concern basis. The consolidated financial information and management report contained herein give a true and fair view of the assets, liabilities, financial position and profit of the Group. The Directors of Tesco PLC as at the date of this announcement are as set out below.

The Board

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

* Non-executive Directors

Company Secretary
Jonathan Lloyd

TESCO PLC
GROUP INCOME STATEMENT
52 weeks ended 26 February 2011

	Notes	2011 £m	2010 £m	Increase %
Continuing operations				
Revenue (sales excluding VAT)	2	**60,931**	**56,910**	**7.1**
Cost of sales		(55,871)	(52,303)	
Gross profit		**5,060**	**4,607**	**9.8**
Administrative expenses		(1,676)	(1,527)	
Profit arising on property-related items		427	377	
Operating profit	2	**3,811**	**3,457**	**10.2**
Share of post-tax profits of joint ventures and associates		57	33	
Finance income		150	265	
Finance costs		(483)	(579)	
Profit before tax		**3,535**	**3,176**	**11.3**
Taxation	3	(864)	(840)	
Profit for the year		**2,671**	**2,336**	**14.3**
Attributable to:				
Owners of the parent		2,655	2,327	
Non-controlling interests		16	9	
		2,671	2,336	14.3
Earnings per share				
Basic	5	33.10p	29.33p	12.9
Diluted	5	32.94p	29.19p	12.8
Dividend per share (including proposed final dividend)	4	14.46p	13.05p	10.8

Non-GAAP measure: underlying profit before tax	1	**£m**	**£m**	
Profit before tax		3,535	3,176	11.3
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements		(19)	(151)	
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	6	113	24	
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods		50	41	
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions		42	127	
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards		8	14	
IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions		55	131	
Restructuring costs		29	33	
Underlying profit before tax		**3,813**	**3,395**	**12.3**
Underlying diluted earnings per share	5	35.72p	31.66p	12.8

The notes on pages 20 to 30 form part of this preliminary consolidated financial information.

TESCO PLC

GROUP STATEMENT OF COMPREHENSIVE INCOME

52 weeks ended 26 February 2011

	Note	2011 £m	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	6	595	(322)
Losses 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		(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 20 to 30 form part of this preliminary consolidated financial information.

TESCO PLC
GROUP BALANCE SHEET
26 February 2011

	Note	2011 £m	2010 £m
Non-current assets			
Goodwill and other intangible assets		4,338	4,177
Property, plant and equipment		24,398	24,203
Investment property		1,863	1,731
Investments in joint ventures and associates		316	152
Other investments		1,108	863
Loans and advances to customers		2,127	1,844
Derivative financial instruments		1,139	1,250
Deferred tax assets		48	38
		35,337	34,258
Current assets			
Inventories		3,162	2,729
Trade and other receivables		2,314	1,888
Loans and advances to customers		2,514	2,268
Loans and advances to banks and other financial assets		404	144
Derivative financial instruments		148	224
Current tax assets		4	6
Short-term investments		1,022	1,314
Cash and cash equivalents		1,870	2,819
		11,438	11,392
Non-current assets classified as held for sale		431	373
		11,869	11,765
Current liabilities			
Trade and other payables		(10,484)	(9,442)
Financial liabilities			
- Borrowings		(1,386)	(1,529)
- Derivative financial instruments and other liabilities		(255)	(146)
Customer deposits		(5,074)	(4,357)
Deposits by banks		(36)	(30)
Current tax liabilities		(432)	(472)
Provisions		(64)	(39)
		(17,731)	(16,015)
Net current liabilities		(5,862)	(4,250)
Non-current liabilities			
Financial liabilities			
- Borrowings		(9,689)	(11,744)
- Derivative financial instruments and other liabilities		(600)	(776)
Post-employment benefit obligations	6	(1,356)	(1,840)
Deferred tax liabilities		(1,094)	(795)
Provisions		(113)	(172)
		(12,852)	(15,327)
Net assets		**16,623**	**14,681**

TESCO PLC
GROUP BALANCE SHEET (continued)
26 February 2011

	2011 £m	2010 £m
Equity		
Share capital	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 20 to 30 form part of this preliminary consolidated financial information.

TESCO PLC
GROUP STATEMENT OF CHANGES IN EQUITY
52 weeks ended 26 February 2011

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 27 February 2010	**399**	**4,801**	**40**	**9,356**	**14,596**	**85**	**14,681**
Total comprehensive income	**-**	**-**	**-**	**2,746**	**2,746**	**11**	**2,757**
Transactions with owners							
Purchase of treasury shares	-	-	-	(50)	(50)	-	(50)
Share-based payments	-	-	-	220	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)
Transactions with owners	**3**	**95**	**-**	**(905)**	**(807)**	**(8)**	**(815)**
At 26 February 2011	**402**	**4,896**	**40**	**11,197**	**16,535**	**88**	**16,623**

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 28 February 2009	**395**	**4,638**	**40**	**7,776**	**12,849**	**57**	**12,906**
Total comprehensive income	**-**	**-**	**-**	**2,222**	**2,222**	**27**	**2,249**
Transactions with owners							
Purchase of treasury shares	-	-	-	(24)	(24)	-	(24)
Share-based payments	-	-	-	241	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
Transactions with owners	**4**	**163**	**-**	**(642)**	**(475)**	**1**	**(474)**
At 27 February 2010	**399**	**4,801**	**40**	**9,356**	**14,596**	**85**	**14,681**

The notes on pages 20 to 30 form part of this preliminary consolidated financial information.

TESCO PLC
GROUP CASH FLOW STATEMENT
52 weeks ended 26 February 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	7	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 from joint ventures		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)
Repayments of obligations under finance leases		(42)	(41)
Dividends paid to equity owners	4	(1,081)	(968)
Dividends paid to non-controlling interests		(2)	(2)
Own shares purchased		(31)	(24)
Net cash used in financing activities		**(3,036)**	**(3,607)**
Net decrease in cash and cash equivalents		**(903)**	**(739)**
Cash and cash equivalents at beginning of the year		**2,819**	**3,509**
Effect of foreign exchange rate changes		(46)	49
Cash and cash equivalents at the end of year		**1,870**	**2,819**

The notes on pages 20 to 30 form part of this preliminary consolidated financial information.

Reconciliation of net cash flow to movement in net debt

52 weeks ended 26 February 2011

	Note	2011 £m	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 for the year		1,139	1,671
Opening net debt		(7,929)	(9,600)
Closing net debt	8	**(6,790)**	**(7,929)**

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

The notes on pages 20 to 30 form part of this preliminary consolidated financial information.

The unaudited preliminary consolidated financial information for the 52 weeks ended 26 February 2011 was approved by the Directors on 18 April 2011.

NOTE 1 Basis of preparation

This unaudited preliminary consolidated financial information has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority, International Financial Reporting Standards (IFRS) and the IFRS Interpretation Committee (IFRIC) interpretations as endorsed by the European Union (EU). The accounting policies applied are consistent with those described in the Annual Report and Financial Statements 2010, apart from those arising from the adoption of new IFRSs detailed below, which will be described in more detail in the Annual Report and Financial Statements 2011. The auditors have confirmed that they are not aware of any matter that may give rise to a modification to their audit report.

This preliminary consolidated financial information does not constitute statutory financial statements for the 52 weeks ended 26 February 2011 or the 52 weeks ended 27 February 2010 as defined in section 434 of the Companies Act 2006. The Annual Report and Financial Statements for the 52 weeks ended 27 February 2010 were approved by the Board of Directors on 5 May 2010 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006. The Annual Report and Financial Statements for 2011 will be filed with the Registrar in due course.

Adoption of new International Financial Reporting Standards

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 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 the improvements to IFRS project issued in April 2009. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

NOTE 1 Basis of preparation (continued)

Adoption of new International Financial Reporting Standards (continued)

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 or are not applicable:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement';
- IFRIC 17 'Distributions of Non-cash Assets to Owners'; and
- IFRIC 18 'Transfers of Assets from Customers'.

Use of non-GAAP profit measures

Underlying profit

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

The adjustments made to reported 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 (principally interest rate swaps, cross currency swaps and forward exchange contracts and options) when it is 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 period end, any gain or loss accruing on open contracts is recognised in the result for the period, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify underlying business performance.

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

NOTE 1 Basis of preparation (continued)

Use of non-GAAP profit measures (continued)

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

- IFRS 3 (Revised) 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions. Under IFRS 3 intangible assets are separately identified and fair valued. The intangible assets are required to be amortised on a straight-line basis over their useful 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. This interpretation requires the fair value of customer loyalty awards to be measured as a separate component of a sales transaction. The underlying profit measure removes this fair value allocation to present underlying business performance, and to reflect the performance of the operating segments as measured by management.

- IAS 36 'Impairment of Assets' – impairment of goodwill arising on acquisitions. For the 52 weeks ended 26 February 2011, the remaining carrying value of goodwill relating to Japan was not fully recoverable and was fully impaired. The resulting non-cash charge does not reflect the underlying performance of the business. The recoverable amount for Japan was based on value-in-use, calculated from cash flow projections for five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board.

- 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 analysis

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 period under evaluation. Trading profit is a consistent measure within the Group.

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

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

The segment results for the 52 weeks ended 26 February 2011, for the 52 weeks ended 27 February 2010 and the reconciliation of the segment measures to the respective statutory items included in the preliminary consolidated financial information are as follows:

52 weeks ended 26 February 2011

Continuing operations	At constant exchange rates UK	Asia	ROE	US	Tesco Bank	Total at constant exchange	Foreign exchange	Total at actual exchange
	£m	£m	£m	£m	£m	£m	£m	£m
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%

	At actual exchange rates UK	Asia	ROE	US	Tesco Bank	Total at actual exchange
	£m	£m	£m	£m	£m	£m
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%

* Trading margin is based on revenue excluding IFRIC 13.

NOTE 2 Segmental analysis (continued)

52 weeks ended 27 February 2010								
	At constant exchange rates							
Continuing operations	UK	Asia	ROE	US	Tesco Bank	Total at constant exchange	Foreign exchange	Total at actual exchange
	£m	£m	£m	£m	£m	£m	£m	£m
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%

	At actual exchange rates					
	UK	Asia	ROE	US	Tesco Bank	Total at actual exchange
	£m	£m	£m	£m	£m	£m
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.

Reconciliation of trading profit to profit before tax

	52 weeks ended 26 February 2011 £m	52 weeks ended 27 February 2010 £m
Trading profit	**3,679**	**3,412**
Adjustments:		
Profit arising on property-related items	427	377
IAS 19 'Employee Benefits' – non-cash 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' – intangible asset amortisation charges and costs arising from acquisitions	(42)	(127)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	(8)	(14)
IAS 36 'Impairment of Assets' – impairment of goodwill arising from acquisitions	(55)	(131)
Restructuring costs	(29)	(33)
Operating profit	**3,811**	**3,457**
Share of post-tax profit of joint ventures and associates	57	33
Finance income	150	265
Finance costs	(483)	(579)
Profit before tax	3,535	3,176
Taxation	(864)	(840)
Profit for the year	**2,671**	**2,336**

NOTE 3 Taxation

	52 weeks ended 26 February 2011 £m	52 weeks ended 27 February 2010 £m
UK	693	710
Overseas	171	130
	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 this preliminary consolidated financial information.

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 included in this preliminary consolidated financial information.

NOTE 4 Dividends

	52 weeks ended 26 February 2011		52 weeks ended 27 February 2010	
	Pence/share	**£m**	**Pence/share**	**£m**
Amounts recognised as distributions to owners in the 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 on 18 April 2011, but has not been included as a liability as at 26 February 2011, in accordance with IAS 10 'Events after the balance sheet date'.

NOTE 5 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 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 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.

All operations are continuing for the years presented.

	52 weeks ended 26 February 2011			52 weeks ended 27 February 2010		
	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 this preliminary consolidated financial information which would significantly change the earnings per share calculations shown above.

NOTE 5 Earnings per share and diluted earnings per share (continued)

Reconciliation of non-GAAP underlying diluted earnings per share

	52 weeks ended 26 February 2011		52 weeks ended 27 February 2010	
	£m	**pence/ share**	**£m**	**pence/ share**
Profit				
Earnings from operations	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 Income Statement charge for pensions	113	1.40	24	0.30
IAS17 '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.

Underlying diluted earnings per share reconciliation

	52 weeks ended 26 February 2011		52 weeks ended 27 February 2010	
	%	**£m**	**%**	**£m**
Underlying profit before tax		3,813		3,395
Effective tax rate	24.1%	(918)	25.4%	(862)
Non-controlling interests		(16)		(9)
Total		2,879		2,524
Underlying diluted earnings per share (pence)		**35.72**		**31.66**

NOTE 6 Post-employment benefits

Pensions

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

Principal assumptions

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 Group Statement of Comprehensive Income.

The valuations used for IAS 19 have been based on the most recent actuarial valuations as at 31 March 2008 and updated by Tower Watson Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 26 February 2011. The major assumptions, on a weighted average basis, used by the actuaries were as detailed below.

	26 February 2011 %	27 February 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 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 reporting date and a member reaching age 65 at the reporting date +25 years.

		At 26 February 2011 in years	At 27 February 2010 in 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

Movement in the deficit during the year

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

	2011 £m	2010 £m
Deficit in schemes at the 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 differences	2	(2)
Actuarial gain/(loss)	595	(320)
Deficit in schemes at the end of the year	**(1,356)**	**(1,840)**

NOTE 7 Reconciliation of profit before tax to net cash generated from operations

	52 weeks ended 26 February 2011 £m	52 weeks ended 27 February 2010 £m
Profit before tax	3,535	3,176
Net finance costs	333	314
Share of post-tax profits of joint ventures and associates	(57)	(33)
Operating profit	3,811	3,457
Depreciation and amortisation	1,420	1,384
Profit arising on property-related items	(427)	(377)
Loss arising on sale of non property-related items	3	5
Impairment of goodwill	55	131
Net reversal of impairment of property, plant and equipment	(13)	(26)
Adjustment for non-cash element of pension charges	95	(24)
Share-based payments	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	(529)	(724)
Tesco Bank (increase)/decrease in loans and advances to banks and 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**

NOTE 8 Analysis of changes in net debt

	At 27 February 2010* £m	Tesco Bank At 27 February 2010 £m	Cash flow £m	Business combinations	Other non-cash movements £m	Elimination of Tesco Bank working capital £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 9 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 £16 million.