TESCO

Value travels

Annual Report and Financial Statements 2009

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Go online

Every year, more and more information is available for our shareholders, staff and customers online.

Value travels – Tesco is about creating value for customers to earn their lifetime loyalty.

We understand that this is more important than ever as our customers around the world are looking to us to help them spend less.

So whether they are looking for lighter meal options, clothing, mobile phone tariffs or savings accounts, they can trust Tesco to deliver great value.

More information is available online at www.tesco.com/annualreport09

Good financial management and leading market positions have served us well this year in the face of a challenging consumer environment. We will continue to pursue our long-term strategy which will put us in an even stronger position once our markets emerge from the economic downturn.

15.1%
Group sales (including VAT)*

10.0%
Underlying Group profit before tax*†

5.5%
Group profit before tax*

11.0%
Underlying diluted earnings per share**

2.6%
Diluted earnings per share

9.7%
Dividend per share

All growth figures reported on a 53-week basis.

	2009 53 weeks	2009 52 weeks pro-forma	2008
Group sales (£m) (including value added tax)	**59,426**	**58,588**	51,773
Group revenue (£m) (excluding value added tax)	**54,327**	**53,552**	47,298
Underlying Group profit before tax (£m)*†	**3,128**	**3,093**	2,846
Group profit before tax (£m)	**2,954**	**2,920**	2,803
Underlying diluted earnings per share (p)**	**28.92**	–	27.02
Dividend per share (p)	**11.96**	–	10.90
Group enterprise value (£m) (market capitalisation plus net debt)	**35,907**	–	37,656
Return on capital employed	**13.0%‡**	–	12.9%§

* Sales & profit growth reported on a consistent basis (12 months versus 12 months) for China.
** Growth in underlying diluted EPS has been adjusted to reflect a constant tax rate year on year. Growth was 7.0% on a statutory basis.
† Adjusted for IAS 32, IAS 39, the net difference between the IAS 19 Income Statement charge and 'normal' cash contributions for pensions, IAS 17 'Leases' (impact of annual uplifts in rent and rent-free periods, and the IFRS 3 amortisation charge on intangible assets arising on the acquisition of Tesco Personal Finance (TPF).
‡ Excluding acquisitions of TPF and Homever, India start-up costs, and after adjusting for assets held for sale.
§ Using a 'normalised' tax rate before 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 of Dobbies.

David Reid, Chairman

I am pleased to report that despite the extraordinary economic environment we find ourselves in, Tesco has once again delivered a good set of results. This demonstrates that Tesco is coping well with the downturn. Despite the challenging conditions around the globe we have remained resilient and are growing as fast as any major international retailer.

We've made several new appointments to the Tesco Board in the year, including Laurie McIlwee who takes on the role of Group Finance Director, replacing Andrew Higginson who has been appointed Chief Executive of Retailing Services whilst retaining his responsibility for Group Strategy.

Laurie has been with Tesco for nine years and has a very strong track-record in both finance and operations. In his most recent role as Distribution Director Laurie was responsible for transforming our network – a tremendous achievement. His appointment shows once again how careful management succession planning works in Tesco and I have every confidence he will do an outstanding job as our Group Finance Director.

We've also appointed three strong new Non-executive Directors in recent months – Jacqueline Tammenoms Bakker, a former Director General at the Ministry of Transport in the Netherlands who has also held senior positions at McKinsey & Co. and Shell, Patrick Cescau, former CEO of Unilever and Ken Hanna, Chairman of Inchcape plc and former CFO of Cadbury. They bring with them a wealth of international, commercial and financial experience which will further strengthen our Board and support our plans for the long-term growth of the Group.

Whilst the downturn has presented many challenges, it has also opened up some opportunities. We have made two very significant acquisitions this year.

We have acquired the remaining 50% of Tesco Personal Finance from Royal Bank of Scotland, a move which will enable us to develop an already very successful financial services offer towards our objective of becoming a full-service retail bank.

In South Korea we purchased 36 hypermarkets from E-land, mostly in Seoul, which has put us in a very strong position to challenge for market leadership in one of our most successful markets.

Most of our growth has again been organic – we've opened nine million square feet of new space this year, excluding the acquisition in South Korea. In August we announced our entry into India, with plans to establish a cash & carry operation and a franchise agreement with Trent to support their Star Bazaar hypermarkets. This complements our entries into China and the United States, giving us access to another of the world's most important economies.

Whilst many of our customers are focused on managing their shopping budgets, it is still important to them that we behave responsibly in the communities we serve. We now have a Community Plan for each country and earlier in the year we launched our Community Promises. These are: actively supporting local communities; buying and selling our products responsibly; caring for the environment; giving customers healthy choices; and creating good jobs and careers.

We've made some great progress this year – we've opened our greenest ever store at Cheetham Hill in Manchester, with a carbon footprint that is 70% smaller than a typical store – bringing our total number of green stores across the Group to 37. This will be a blueprint for how we build stores in the future.

Our work to encourage customers to make greener decisions is going well. Through green Clubcard points we have reduced the number of single-use carrier bags in the UK by 50% and we are finding innovative ways to use green Clubcard elsewhere – for example by rewarding customers for cycling to our stores in South Korea.

I'm also pleased to announce that in the UK we have once again broken our 'Charity of the Year' record, raising a remarkable £6.2 million for Marie Curie Cancer Care.

Although it was impossible to predict the scale of the global economic slowdown, Tesco has responded well by adjusting our business to this environment. Our 470,000 strong team have done a fantastic job – staying close to customers and reacting quickly to their changing needs around the world.

I am confident that this hard work will continue as we press on with our long-term strategy which I believe will put us in an even stronger position once economies start to recover.

£59.4bn
Group sales

4,331
Stores worldwide

14
Countries

No. 3
Third largest grocery retailer in the world

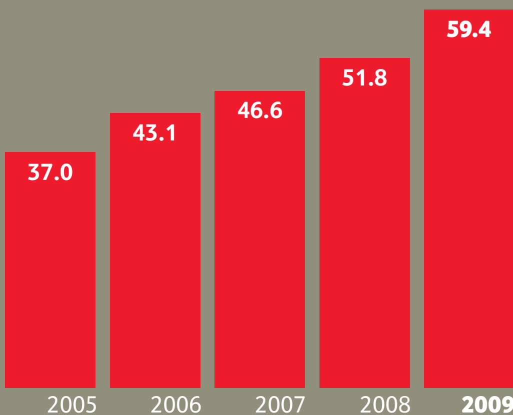
470,000
People

Geographic locations

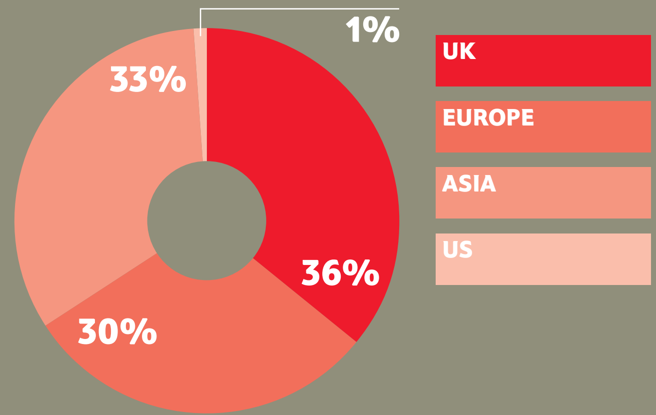
Market	Staff numbers	Store numbers
China	19,452	70
Czech Republic	12,677	113
Hungary	21,356	149
Japan	4,007	135
Malaysia	9,872	29
Poland	23,569	319
Rep. Ireland	13,764	116
Slovakia	8,286	70
South Korea	20,626	242
Thailand	38,166	571
Turkey	7,025	96
UK	286,394	2,306
US	2,583	115

In 2008/9 there were an additional 731 people working in other global locations such as international buying hubs.
Store numbers exclude one store in Calais, France.

Group sales (£bn)



Group space by region



Sir Terry Leahy, Chief Executive

At a time when customers everywhere are feeling the economic strain, we are responding to their changing needs in all our markets by lowering prices, introducing more affordable products and offering even sharper promotions.

These actions, combined with our core strengths – in selling food and everyday essentials, owning our own property and having a broad business base – are helping us to cope well with the effects of the downturn. We are also pleased with the early performance of Tesco Personal Finance under our ownership and with the converted Homever stores in South Korea. As a result, we have delivered a solid sales and profit performance, both in the UK and internationally, whilst continuing to invest in our long-term strategy for growth. We have made a good start to the new financial year and I am confident Tesco will continue to make good progress even in the current global economic environment.

Q: It has been a very tough time for the economy but the good news is it has been very sturdy growth for Tesco. How have you managed that?
A: It has been a very good year and mainly of course that is the dividend of having a long-term, consistent strategy. We've invested into this slowdown and that has given us good momentum through the recession. We are growing fast in our overseas countries, laying out networks of stores and we are still opening new space in the UK as well. In addition to that, of course, people have to eat – we're blessed in that sense, so we don't face the worst of the slowdown. We've also adjusted our business both in the UK and around the world to make sure that we offer better value and better ranges which keeps customers in the stores, and helps volume in the business.

To see a full video interview go to www.tesco.com/annualreport09/presentations

Q: You're very much in the front line when it comes to knowing what customers are thinking, how they are behaving. Are there any signs that we have perhaps reached the bottom of the recession? What lies in store for the economy do you think?
A: It is very fluid at the moment – changes are happening over weeks, so I don't think you can see any clear direction yet. What I would say is that it looks as if things are stabilising on the consumer front. In the UK the lower interest rates help, as do the lower fuel prices and energy prices, and coupled with the work that we have done in reducing food prices for customers – this helps rebuild confidence. In Central Europe the economies had a big decline early in the summer and the autumn of 2008 – that feels as if it has levelled out, which is encouraging. In Asia it is too early to say. Their decline came later with the destocking of the supply chain and so for them it really hit around December. These are strong economies and the destocking will end and we'll start to get restocking in the pipeline which will help.

Q: Priorities change during a recession – for business and customers alike. Is there a risk that the focus on green and corporate responsibility slips somewhat?
A: It is important that it doesn't and it's one of the reasons we lay such emphasis within Tesco on our 'Steering Wheel' – our balanced scorecard – so that whatever is going on in the outside world, we keep focused on the things that matter long term. Of course price and trading is important at the moment, but there are big long-term objectives around community and the environment that we have got to stay committed to. Tesco has to help customers change from mass consumption to green consumption. On climate change, we've got to learn how to run this business on 80% less carbon. We have got great plans and we are making great progress. Of course it helps the business too – not wasting things is a very good habit at a time like this and one of the reasons our energy bills are down £100 million this year is because of all of the green initiatives we've been working on over several years.

Q: Bearing in mind what you have seen in the US so far, are you pleased with the progress?
A: I am, yes, because there's lots to be pleased about. Clearly nobody would have chosen to open into the scale of recession that we've seen there, which is particularly stiff in the Western United States, but the customers love the stores and they appeal right across the income range and the age range, and that bodes very well for their long-term appeal. Fresh & Easy is more than just a niche retailer – it's a new and different form of retailing. Customers obviously like the fresh foods and they like the own-brand products, but also are increasingly recognising the tremendous prices that are on offer and of course that is very important at the moment. The operation is very good and it's strong. We really have created the business that we set out to create in terms of the highest, freshest quality in the market at the best prices in the local neighbourhood. We are expanding the business at a good rate and morale is high.

Q: What excites you most about the year ahead?
A: First of all we're growing – and we're serving more customers. They have needs; they are just different needs at a time like this. It's what Tesco is for – to stay close to customers and change as their needs change. That's got to take a different form in different categories or in different parts of the world. It's important you have strong, confident local leadership teams who take the responsibility to make those changes. I believe that is happening. If you look at our businesses – whether it's non-food, financial services or in our international markets – we are growing strongly and we are growing market share. There's more that we have to do from place to place, but confidence is high. People know what they have to do and have the authority to do it.

Our Steering Wheel

We operate a balanced scorecard approach to managing the business that is known within the Group as our Steering Wheel. This unites the Group's resources and in particular focuses the efforts of our staff around our customers, people, operations, finance and the community. Its purpose is to ensure Tesco puts appropriate balance into the trade-offs that need to be made all the time between the main levers of management – such as delivery of customer metrics, operations measures and financial measures. It enables the business to be operated and monitored on a balanced basis with due regard to the needs of all stakeholders. For the owners of the business, it is simply based around the philosophy that if we look after customers well and operate efficiently and effectively, shareholders' interests will always be best served by the inevitable outputs of those – growth in sales, profits and returns.

Our long-term strategy

International
Tesco is an international retailer and wherever we operate we focus on giving local customers what they want. **Page 8**

Core UK
The UK is our biggest market and the core of our business. We aim to provide all our customers with excellent value and choice. **Page 12**

Non-food
Our aim is to be as strong in non-food as in food. This means offering the same great quality, range, price and service for our customers as we do in our food business. **Page 16**

Retailing Services
Tesco has followed its customers into the growing world of retailing services, aiming to bring simplicity and value to sometimes complex markets. **Page 20**

Community
Tesco is a responsible business. We aim to take a leadership role in tackling climate change and believe in playing a positive role in all the communities we serve. **Page 24**

Business review

This Business Review analyses the performance of the Tesco Group in the financial year ended 28 February 2009. 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 53 weeks ended 28 February 2009.

Long-term strategy
Tesco has a well-established and consistent strategy for growth, which has allowed us to strengthen our core UK business and drive expansion into new markets. The rationale for the strategy is to broaden the scope of the business to enable it to deliver strong, sustainable long-term growth by following the customer into large expanding markets at home – such as financial services, non-food and telecoms – and new markets abroad, initially in Central Europe and Asia, and more recently in the United States.

The strategy to diversify the business was laid down in 1997 and has been the foundation of Tesco's success in recent years. The new businesses which have been created and developed over the last 12 years as part of this strategy now have scale, they are competitive and profitable – in fact we are now market leader in many of our markets outside the UK.

The Group has continued to make good progress with this strategy, which has five elements, reflecting our four established areas of focus, and also Tesco's long-term commitments on community and environment. Importantly, the momentum which it has given the business has allowed the Group to continue to grow well through the economic downturn.

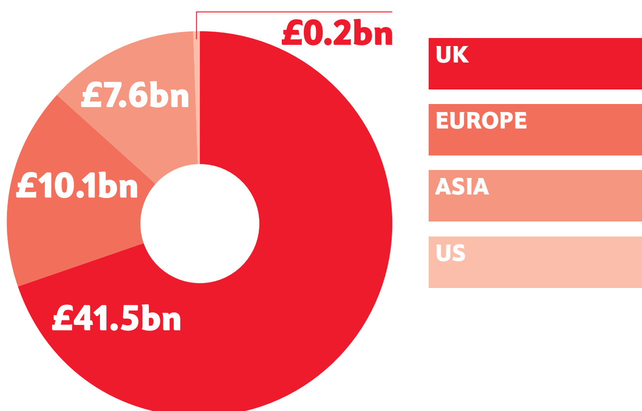
The objectives of the strategy are:

- to be a successful international retailer;
- to grow the core UK business;
- to be as strong in non-food as in food;
- to develop retailing services – such as Tesco Personal Finance, Telecoms and tesco.com; and
- to put community at the heart of what we do.

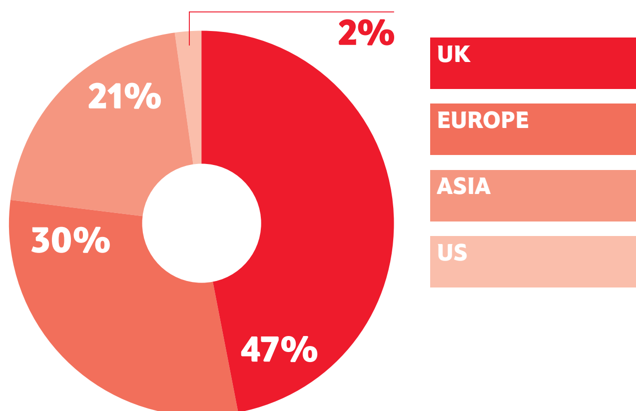
In 2008/9, Tesco has again delivered a good performance, with all parts of the strategy contributing. We have sustained solid growth in the UK and coped well with the challenges of recession and improving competitors. In our international operations we have made good progress, completing a large programme of new store openings and carefully adjusting our businesses locally to the effects of the global economic slowdown. We have also acquired 36 hypermarkets in South Korea, our largest market outside the UK, in a move which has significantly strengthened our market position there, and begun the groundwork for a wholesale cash & carry business in India.

In non-food, we continue to grow sales and market share and maintain profitability, against a background of a declining general retail market, and we have seen excellent growth from Tesco Direct, which extends our reach in selling a broad range of products on the internet and via

Sales by region



Sales growth contribution by region



a catalogue. Our retailing services have delivered another good year, with tesco.com growing strongly, Tesco Personal Finance making good progress and Telecoms continuing to build its customer base strongly and grow profits. Finally, our work on community and environment continues – we have recently opened our latest blueprint green store at Cheetham Hill, Manchester, which has a carbon footprint 70% lower than a normal store.

Markets served and business model
Tesco's growth, driven by this strategy, has been predominantly organic and we have used our skills and knowledge in understanding customers, property development, supply chain management, new product development, store formatting and adapting to local customer needs – to create strong business models in our chosen markets. Where we do not have all the required skills ourselves to be successful, we regularly partner with existing businesses – and these relationships have formed the basis of some of our most successful operations – for example with Samsung in South Korea.

The UK grocery retail market remains our largest source of revenue, representing some 50% of last year's £59.4 billion of sales. International retail sales – from our 12 markets in Europe, Asia and the United States, comprise a further 30% of Group revenues and non-food (in a variety of categories from health and beauty to electronics) accounts for most of the remainder. Our services businesses have comparatively small revenue streams, but they are increasingly material to our earnings base. We have given them a renewed focus this year – deploying more capital and management resources. A first key step in making these already successful businesses much larger and more significant to the Group was the acquisition of Royal Bank of Scotland's share of Tesco Personal Finance – and we expect these businesses, including our online shopping channels, Telecoms and dunnhumby (our consumer research business) to deliver £1 billion a year of profit for the Group within the next few years.

At the core of Tesco's business model is a focus on trying to improve what we do for customers. We aim to make their shopping experience as easy as possible, lower prices where we can to help them spend less, give them more choice about how they shop – in small stores, large stores or online – and seek to bring simplicity and value to sometimes complicated markets. We aim to be a good neighbour in the communities we serve, be responsible, fair and honest in our dealings and give customers the information and products they need to make greener choices. We are also an inclusive business – everyone is welcome at Tesco.

Underpinning this approach is a relentless attitude to being the lowest cost provider of goods and services in our chosen sectors – and this combination of qualities is the reason we have been successful in some of the world's most competitive markets. We have recognised skills and proprietary systems in key areas which help us deliver a low cost model – particularly in customer relationship management, just-in-time supply chain and distribution, property development and store formatting.

Laurie McIlwee Group Finance Director

As Group Finance Director, what are your priorities at the moment?

My main challenge is to maintain the balance between staying on strategy while living within our means. For a growth company like Tesco it is vital of course that we meet the challenges posed by the economic downturn – and the priorities there are the same as for any finance director in the current environment – in helping the business to find the resources to invest for customers, by keeping a good grip on costs and cash.

At the same time though, I need to do what I can to help sustain Tesco's investment in future growth. By investing in the right opportunities, protecting ourselves from unpredictable capital markets and trading in a sustainable way we should exit this recession as an even stronger company. That's how Tesco emerged as a winner from the last recession. Exciting opportunities are there to be grasped – for example, land and property are already significantly cheaper, our online businesses are not capital intensive and, given the loss of confidence in the banking sector, our very conservative, straightforward approach in Tesco Personal Finance may be exactly what customers are looking for.

In some of our newer markets – such as telecoms or financial services, our willingness to partner with established businesses has given us access to their existing investment in systems and infrastructure and enabled Tesco to develop competitive, profitable business models quickly and, at the same time, limit our own investment and risk in the early years. In the case of financial services, having successfully partnered with Royal Bank of Scotland for a decade we now have the experience to take sole ownership in order to pursue our aim of becoming a full-service retail bank and give Tesco Personal Finance the focus that this will require.

International sales up
31%

Philip Clarke International and IT Director

How do you run successful businesses in so many countries?

We've long understood that retailing is local. Each team on the ground is able to adjust our offer to each market because customers in China, for example, aren't the same as those in Poland or South Korea.

So we've never tried to run the international business from our office in the UK. In fact, we have very few expats working outside the UK – in South Korea just six out of a team of over 20,000 people. As we face into some strong economic headwinds, it's more important than ever to stay close to customers and be able to adapt quickly locally as their needs change.

We have people in each of our markets who have a wealth of experience and are able to make the decisions that really matter.

A big part of my job is about making sure we've got the right people in each country, sharing experience around the business and empowering people to do the right things for their customers.

International

It's been another good year for our international business which now spans 13 countries across Asia, Europe and the United States. As customers around the world are feeling the effects of the global economic slowdown we are successfully adjusting our offer in all our markets to help customers who are feeling the pinch.

Across our markets customers are changing their shopping habits as they are affected to varying degrees by the global economic downturn. In this kind of environment, it is more important than ever to listen to customers and adapt quickly to their changing needs.

Each of our markets is different so it's up to the individual businesses to adjust their offer locally. Using customer insight allows our experienced teams on the ground to make decisions based on real customer data.

We have spent many years developing our customer insight skills, particularly through dunnhumby, the consumer research company behind our loyalty scheme, Clubcard. Through careful analysis of sales and loyalty card data we can better understand what is important to our customers. This year we have been using this unique insight across most parts of our business so we don't have to guess what our customers want, we know.

In all our markets it's helping us select the most important items for price-sensitive or cost-conscious shoppers so we can invest in lowering prices on the most important items to help customers through tough economic times. For example, in Malaysia, we have reviewed our range of staple foods and groceries and as a result we have introduced 27 new products to the basket, which we know are among the most important for customers. We now make sure that we are not beaten on price for these products.

This insight is also helping us to make things simpler for customers to shop in our stores. For example, in Asia we have worked with our leading supplier of baby milk. By reviewing the sales data we discovered that displaying the products by brand rather than by age was important so we are changing the layout on the shelves to make it easier for customers to find the products they want.

Loyalty card schemes

We have national loyalty card schemes based on Clubcard in Ireland, Malaysia, South Korea and China and pilot schemes in Slovakia, Poland, Thailand and Turkey.

Whilst it is important to invest in the shopping trip we are also continuing to invest for future growth. This is a strategy that has served us well in the past; for example we entered Thailand and South Korea during the Asian economic crisis in the 1990s and emerged stronger once the economies started to recover. We are now market leader in Thailand and following our acquisition of 36 hypermarkets in South Korea we are now in a very strong position to challenge for market leadership there as well.

We also announced our entry into the Indian market last year. We are establishing a cash & carry business that will offer a comprehensive range of great value fresh food, grocery and non-food products to small retailers, restaurants, kirana stores and other business owners. We will also provide farmers and other suppliers with a highly efficient route to market. In addition, we have signed an exclusive franchise agreement with Trent, the retail arm of the Tata Group. Trent currently operates four Star Bazaar hypermarkets, with plans to grow to 50 stores over the next five years. We will supply these hypermarkets with products, but also offer our retail expertise and technical capability to support the development of their business.

The overall performance of our international businesses during the year has been strong, particularly against the background of increasingly challenging trading conditions in all of our markets as the effects of the economic downturn on consumers have grown and spread around the world.

We have delivered very good sales and profit growth and our investment returns have held up well. Importantly, we have grown share in all of our markets and in some countries we have made more rapid progress this year by sticking to our strategy as competitors falter. By continuing to focus on doing the right things for customers – lowering prices, introducing more affordable products, offering even stronger promotions – they have rewarded us with good sales and market share growth. By keeping our costs low and pushing on with expansion, we aim to take the opportunity to strengthen further our market positions during the recession.

International continued

In most of our markets we are now amongst the largest, most profitable and fastest growing businesses – and this is a good platform from which to make further progress, even in tough times. Our experience in Hungary of trading profitably and growing well during an already prolonged recession which began in 2006, also gives us confidence that by applying what we have learned there in our other markets, the business can perform well through the current environment.

Europe – including Ireland, Turkey and the four Central European countries – and the Western US have seen the most marked effects of the economic downturn although more recently, as the export-led economies of Asia – particularly South Korea and China – have also slowed, trading conditions there too have deteriorated.

In Europe, these challenges have been joined by the consequences of substantial exchange rate movements between the Euro or Euro-linked currencies and other currencies within the European Union. These movements have encouraged very significant increases in cross-border shopping by consumers in several regions – the clearest examples being Ireland into Northern Ireland, Czech Republic into Germany and Slovakia into Poland. Our stores located close to these borders have seen material sales impacts as customers take advantage of devalued currencies and this has affected the rate of sales growth overall in these markets.

Although in some markets we have moderated our rate of growth in space, overall we have chosen to sustain strong growth in selling area – and this will continue. With reductions in site, build and fitting costs for stores – these have fallen substantially since last year – we are able to use our capital more efficiently, and this should be helpful to long-term returns.

At the end of February, our operations in Asia and Europe were trading from 1,911 stores, including 608 hypermarkets, with a total of 55.0m sq ft of selling space. This year, we plan to open 320 new stores with a total of 5.4m square feet of sales area in these markets and a further 0.6m sq ft is planned to open in the US.

Poland

In Poland we have launched the first phase of our new discount range designed to compete with local limited range discounters.

Asia

We have delivered a strong performance in Asia. This has been achieved whilst absorbing planned integration costs and initial trading losses during conversion on the newly-acquired Homever stores in South Korea. With all the stores now converted to our Homeplus format, we expect this acquisition to provide a good underpinning to growth in Asia as a whole in the current year and beyond as we realise the synergies and scale benefits from the deal. The underlying business in South Korea delivered solid profit growth and elsewhere in Asia we saw excellent progress in Malaysia and Thailand, partly offset by a small trading loss in Japan.

- In **China**, having studied the market carefully and developed our long-term strategy, we have begun to accelerate store and infrastructure development in the economically important and populous coastal provinces, centred on the major cities. Our first multi-level freehold shopping centre development will open in Foshun in a few months' time, with a further three planned in the current year. Sites have been secured for a further 14. We saw strong sales, including good like-for-like growth in the year as a whole – although sales slowed in the final quarter, partly driven by food price deflation – and we made a modest profit, similar to last year.
- **Japan**'s already difficult retail market saw a further sharp deterioration towards the end of 2008. The new team in Japan is building on last year's introduction of the Tesco operating model – a suite of systems and processes which is being rolled out across our markets – by strengthening distribution, range and pricing management. Our strategic focus remains on building a strong offer for customers in the convenience sector based on Express and on our Tsurukame small discount supermarket format and this work is making progress. 13 new stores including six of our new 24-hour Express stores opened during the year.
- Homeplus in **South Korea** – which celebrates its tenth anniversary this year – delivered another very good performance, coping well with the twin challenges of subdued consumer spending and the task of integrating the 36 Homever stores which were acquired in September. Including the acquired stores, 3.9m square feet of space – an increase of 63% – was opened during the year. Some of last year's organic development was deferred whilst we focused on integrating Homever and our programme of new space this year will reflect this. The customer response to the conversion of the stores to Homeplus has been excellent, with sales uplifts on the converted stores averaging well over 50%. The performance of our Express stores, which saw sales growth of 64% in the year, has also been very encouraging.
- **Malaysia** has had an exceptional year – achieving rapid progress in sales, profits and returns as it delivers the full benefits of the Makro acquisition in early 2007. This success, combined with a fast rate of organic expansion, has enabled us to become market leader in a country which we entered only in 2001. Although economic growth has slowed in recent months, our strong market position plus a good pipeline of seven planned new hypermarkets in the current year, mean we can extend our lead. Clubcard, which was launched at the end of 2007, is being very well-received by customers.
- Tesco Lotus in **Thailand** has delivered strong growth against the background of sustained political uncertainty and a weakening economy. Consumer confidence levels are low but our continued investment in improving our offer for customers has served the business well and we are continuing to outperform our major competitors. Our small format stores – particularly Talad (supermarkets) and Express stores, which are very popular with customers in the larger cities – have seen very good growth in both sales and profit.

To find out more go to www.tesco.com/annualreport09

Europe

Our European growth for the year as a whole has been strong, helped overall by favourable exchange rate movements. During the second half, the effects of the global economic slowdown have been felt in all of our markets – reflected in slowing GDP growth and deteriorating consumer confidence and spending levels.

Inevitably, our businesses have been impacted, resulting in slower growth in sales and profit at constant exchange rates from last autumn onwards. Whilst our food and grocery categories have remained robust – and we have seen excellent market share performances across our markets – non-food sales, principally of hardlines, have been subdued and this has held back hypermarket growth in particular. Our multi-format approach has helped to mitigate this and we have seen very good growth in our smaller-format stores, particularly in Central Europe, and these remain a priority in our expansion plans.

The work we have done on pan-European sourcing of Tesco own-brand and general merchandise has further strengthened our competitive position in the region. We have fully launched the equivalent of our UK 'Discount Brands' in several markets and customer feedback has been very encouraging. The performance of Cherokee and F+F clothing in Europe has also been pleasing and we have taken significant market share. Overall clothing sales are up 11%, including 6% like-for-like growth – with children's garment sales increasing by 43%.

- In the **Czech Republic**, levels of consumer demand have been affected both by the slowdown in the economy and by the increasing scale of cross-border shopping into neighbouring Germany, driven by the strength of the Koruna. Despite this, good cost control (offsetting investment in lower prices, better pay rates and improved service levels) and continued expansion delivered solid growth in profits in the year. Our early Express stores have been well-received by customers in central Prague and we are continuing a programme of refits – and in some cases major redevelopments – of our department stores. This included the complete remodelling of our large department store in Leberec, which was completed last month.
- **Hungary** has endured a serious economic recession for approaching three years. However, our strategy of cutting costs and investing in lowering prices and expanding our store network is continuing to yield good results and we have been able to sustain profit growth this year in very challenging circumstances. Like-for-like sales growth (ex-petrol) was positive and we are outperforming most of our competitors, with our market share growing to 17%. Our new store opening programme delivered a 13% increase in our space through 14 large hypermarkets and 12 smaller format stores.
- In **Poland**, our business has delivered a very strong performance, including robust growth in sales and profits. This was achieved in the context of competitive trading conditions and significant wage investment and energy cost inflation during the year. Having successfully completed the integration of the former Leader Price stores – where the cumulative sales uplift on conversion is now approaching 60% – we have resumed faster organic expansion, with six large new hypermarkets and 12 compact hypermarkets opened in the year. Overall like-for-like growth was solid, with small formats seeing stronger growth than hypermarkets. We have recently introduced a new range of 700 'Discount Brand' products and these are proving very popular with customers.
- A solid performance from Tesco **Ireland** produced another year of growth despite the extremely difficult economic climate and trading conditions have worsened in recent months. A combination of very tight cost control and more international buying have helped us invest in lowering prices for customers. These investments have become even more necessary given the steep rise in cross-border shopping into Northern Ireland encouraged by the decline in Sterling relative to the Euro – which has seen an estimated 4% of the total market move over the border. The benefits of our new distribution centre at Donabate have delivered substantial efficiencies and improved stock management, and we have also seen a strong performance from our new stores.
- In **Slovakia** we saw excellent growth, although the adoption of the Euro in January 2009 gave rise to conversion costs and, given the weakening currencies relative to the Euro in bordering countries, we saw the emergence of cross-border shopping towards the end of the year. This has impacted sales in recent months. From our strong market-leading position, and with an excellent and growing network of multi-format stores, we have coped well with the tougher market conditions and achieved good market share gains.
- In **Turkey**, Kipa, which is one of our smallest but fastest-growing businesses, has seen strong sales, driven by the growth of new space, but pressure on margins resulting from the sharp contraction in the economy and consumer demand during recent months. We are continuing to see growth in share in a very fragmented market but given the severity of the downturn in Turkey, we have decided to slow our rate of expansion for the time being. Turkey remains an important strategic longer-term opportunity for us as a large, growing and relatively underdeveloped retail market.

United States

Fresh & Easy has made good progress. We are now trading from 115 stores and the early openings have moved strongly into like-for-like growth. Whilst it is still early days, and the economic environment into which we originally launched the business has markedly changed, customers' very positive feedback on our offer has continued to surpass our expectations. Research confirms that they love the quality and freshness of our ranges, as well as the prices and the convenient locations of the stores.

The normal process of adapting a new format to fully meet the needs of customers locally has resulted in some changes to the product ranges, the introduction of a limited number of promotions and special offers, as well as improvements to the ambience of the stores. These changes have been well-received and consequently we are seeing very strong growth in customer numbers per store.

Given the scale of the economic downturn, particularly in Las Vegas, Phoenix and the Inland Empire region of California, we are also seeing increased demand from customers looking to make stretched household budgets go further – through more affordable products, larger pack sizes and additional range in some categories, such as grocery and frozen food. We are looking to meet these needs by making further changes to the stores.

As previously announced, we are taking a more cautious approach to expansion by maintaining instead of accelerating the rate of new store opening, until economic conditions start to improve in the Western states in which we operate. We opened 62 new stores in the year with 0.6m square feet of selling space and we expect to open a similar number during the current year, mostly in the second half.

Last April, with our Preliminary Results, we said that initial US trading losses would total around £100m in the 2008/9 financial year. US trading losses in 2008/9 were higher than expected, at £142m, principally as a result of the adverse movement in the Dollar: Sterling exchange rate during the second half and higher overhead costs linked to our more prudent rate of new store opening. We expect a similar loss in the current year.

£540m
in productivity savings

David Potts Retail and Logistics Director

Is 'Every Little Helps' still important?

Making many small improvements in everything we do is what 'Every Little Helps' is about, because when we all work together on the little things, it amounts to a great deal. It's more important today than it's ever been – it keeps us focused on what matters most to customers.

They are shopping around more and price is clearly a priority for many – so we need to put the right effort and investment into price – but not sacrifice all the other things that are so important to customers, such as not having to queue and being able to get everything that they want.

So we've continued to make lots of small improvements and they're making a big difference. For example, through a number of initiatives to achieve a better and more efficient service at our checkouts, many more customers didn't have to queue last year and customers continue to rank us best for speed of service at the checkouts.

Core UK

Everyone in the business understands the way we work – to make things better for customers, simpler for staff and cheaper for Tesco. At a time when customers are feeling the pinch and our competitors have improved, this philosophy is more important than ever.

It's been a tough year for many of our customers. Consumer confidence has fallen as people worry about unemployment and are struggling to manage their household budgets. Not surprisingly, there has been a shift in our customers' priorities – our research has shown that price is ranked as the most important by a margin not seen in two decades. Therefore, we believe our job is to be on the side of customers, listening to them and doing what we can to help them spend less.

At the time of the last recession we launched Value lines – the famous blue and white stripes – so we've long been able to provide the cheapest grocery shop in the country, discounters included.

This recession has provided a new challenge because although customers tend to shop around more for the best prices when times are hard – it doesn't mean they want to compromise on quality of the shopping trip or on choice. That is why this year we made the biggest change to our range in a decade, launching around 500 new products as part of our 'Discount Brands at Tesco' initiative. The new range means that every customer can have a product to match their budget without compromising on choice or quality. It creates a completely new way to shop for customers who want to spend less.

As well as introducing more affordable products we have been working hard to cut prices across the store. To help us do this we have been keeping very good control of costs and have put more focus on our efficiency saving programme we call Step-Change. This programme has delivered £540 million of productivity and other savings in the year, most of which have been reinvested in improving our shopping trip for customers.

This programme involves many projects right across the business which change the way we do things to drive efficiency. Many of today's savings were conceived and planned years ago and they are a result of productivity projects that span the whole business, from stores and depots to the office. They range from reducing the amount of energy we use in our stores to introducing better ways of working to improve our efficiency by making things better for customers, simpler for staff and cheaper for Tesco. For example, in the last year we have saved 52,000 deliveries to our stores by using larger-fill double-decked vehicles, which in turn have also saved 12 million road miles.

We've also introduced innovative technology which allows us to electronically check-in bread and milk deliveries at our depots, eliminating substantial paperwork and administration.

We have picked up the pace on a number of these long-term cross-functional Step-Change projects and plan to deliver similar savings in the current year of around £550 million. These savings will continue to go back into improving our offer for customers.

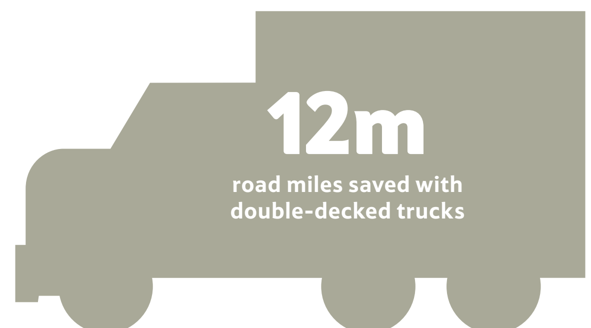
Making things better, simpler and cheaper is part of our culture at Tesco and all our people are encouraged to suggest new ideas on how we can achieve this.

30%

Around 30% of our customers buy something from our 'Discount Brands at Tesco' every time they shop.

One-in-front promise

Millions more customers didn't have to queue at the checkout last year thanks to our one-in-front promise.



Core UK continued

Some examples of these projects which have delivered substantial savings in the year include:

- Savings in the supply chain – from more shelf-ready packaging and reconfiguring of our depot network to increased vehicle utilisation and more productive work methods in depots and stores – mean that, for example, distribution costs have been held in cash terms and reduced in percentage of sales terms. This has been achieved despite higher fuel costs.
- We have significantly increased the level of capital investment in energy-saving projects across the business – in new refrigeration, store lobbies and lighting – delivering significant reductions in consumption and helping us to absorb rising utility costs. Energy consumption in Tesco fell by 8% last year despite business growth.

£400m

We have given our Clubcard customers over £400 million worth of vouchers in the year.

70%

of our products are delivered to stores in retail-ready packaging, including all of our new 'Discount Brands' saving many hours of staff time re-filling shelves.

- We now have 3,100 employees at our Hindustan Global Support Centre in Bangalore, India, which provides IT and administrative support to our UK and International operations – from software development to management accounting and payroll.
- The introduction of new checkout technology for stores, which is faster, more accurate and easier for staff, has continued to reduce costs and improve customer service. For example, around 25% of our UK customer transactions are through self-service checkouts.

UK performance

In the UK, Tesco coped well with recovering competitors and a difficult non-food market, particularly in the second half, to deliver solid progress in the year. UK retail sales grew by 9.1%, including a like-for-like increase, including petrol, of 4.3% (3.0% excluding petrol). Both customer numbers and spend per visit increased and we also delivered robust margin and profit improvement.

To find out more go to www.tesco.com/annualreport09

Some of your competitors say that they are cheaper than Tesco. Why aren't you doing more to cut prices?

To reflect our customers' need to spend less, we have invested millions of pounds in cutting prices and introduced more promotions, as well as launching new ranges of affordable products in both our Value range and our new 'Discount Brands'.

Although there are many different conflicting claims on price in the marketplace, we have focused on comparing the prices of real customers' baskets from Clubcard on the products people buy most often. These baskets clearly show that Tesco is cheaper on the real baskets people actually buy, and is the most comprehensive survey in the marketplace today.

In order to continue to reduce our prices, our efficiency programme Step-Change generated £540m of savings in the last year which we have been reinvesting back in our offer and will be doing more of this in the year ahead.

TESCO Every little helps
Real Basket Results.
At Tesco, we compare prices on the things you actually put in your shopping basket – like bread, milk, meat and fruit and veg. And on Thursday 2nd April, we found that over 1,680,000 of your baskets were cheaper at Tesco than they would have been at Sainsbury's.
BRITAIN'S BIGGEST DISCOUNTER
1,683,000 baskets cheaper
221,000 baskets cheaper
Sainsbury's
Tesco

In the current year we expect to trade the business harder to give what help we can to families whose budgets have become stretched and who are worried about their jobs. Our competitive offer is strong and we are investing more in cutting prices, sharpening our promotions and putting even more affordable products on our shelves, particularly through the launch of more 'Discount Brands'. Whilst price and value matter more to many customers at times like these, as always, we are improving all aspects of the shopping trip, including service and availability. As part of this, we are planning to relaunch and invest substantially more in Clubcard – our unique way of saying 'thank you' to our customers – in the coming weeks.

New space

We opened a total of 2.0m square feet of new sales area in 2008/9, of which 362,000 square feet was in store extensions, principally for Extra. We opened another 11 Extra hypermarkets – six from extensions to existing stores and five new stores, bringing the total to 177, with a further 15 planned this year. Extra now represents 40% of our total sales area. We also opened 21 new superstores and 125 new Express stores, bringing the overall total number of Tesco stores to 2,282.

In the current year, we aim to open a similar amount of new space across our formats – equivalent to an additional 6.4% of sales area.

25%
of our customer transactions are through self-service checkouts

£12.5bn
Group non-food sales

Richard Brasher Commercial and Marketing Director

Lots of high street retailers have been cutting prices. Can I still get the best deals at Tesco?

Across the non-food market, customers have been cutting back on non-essential purchases. But they have been buying when they see real value and, as a consequence, we have increased our market share as customers appreciate the convenience of buying non-food from Tesco and the value that we offer.

We've been adding new ranges with lower price-points and extending ranges that consumers see as essentials and we've seen real success on own-brand products such as Technika in electricals and Cherokee and F+F in our clothing offer.

Our online catalogue non-food offer, Tesco Direct, has been very popular and we have seen strong growth with our latest spring/summer range which included 1,500 price cuts compared to our autumn/winter catalogue. With the benefit of high footfall, great value ranges and the option to shop in store or online, we are well-placed to continue to grow both sales and market share in a difficult market.

Non-food

It's been a challenging year for non-food as consumers around the globe have been hit by the economic downturn and are cutting back on non-essential purchases – but by keeping our prices low, improving our offer in key categories like electricals and clothing and giving customers more choice about how they shop, such as through Tesco Direct – we have outperformed the market.

Non-food remains an important part of our strategy and we continue to grow both sales and market share.

In our experience, customers will buy where they see value. To help customers we have been making changes to our ranges and cutting prices. For example, in the UK sales of our Technika own-brand televisions have been very strong as customers trade away from big brands and we now have a 10% share of the television market. We've also been promoting our slow cooking appliances as customers have been buying cheaper cuts of meat and cooking from scratch – half of all slow cookers bought in the run-up to Christmas were sold in Tesco.

Our online non-food business, Tesco Direct, continues to grow rapidly, increasing sales by more than 50% in the year. The latest spring/summer catalogue and website includes over 1,500 products that are cheaper than they were last year. In the current year we also plan to introduce an online clothing offer – making our fashionable, affordable clothes easier to buy for many more customers.

To ensure that we offer the best possible prices for customers we buy many products globally so that we benefit from our scale. We have an international sourcing office based in Hong Kong which is responsible for buying 100,000 non-food products for the Group. The international sourcing operation has seen rapid growth in the last few years and now sources 60% of our clothing in the UK and 40% of hardlines, including electricals, homewares, entertainment, toys and books. In Europe it provides over 25% of our hardlines and 85% of our clothing and we have recently started to source products for Asia. In the last year our international sourcing team shipped 72,000 containers from 54 ports.

We also have sourcing hubs in China, India, Sri Lanka, Bangladesh and Turkey, with smaller offices in Thailand, Czech Republic and Italy.

Gaming sales up

30%

No. 5

Technika is the fifth largest TV brand in the UK.

We have invested in buying hubs where we have a critical mass of suppliers and shipment volumes. It helps to be close to our suppliers so that we can ensure great quality products, delivered from ethical sources, on time and at the best price.

Where possible we try to source products direct from factories rather than through agents or middlemen. This way we can ensure the lowest possible cost price as well as making sure that our products are sourced safely and fairly. We also manage to strip out more costs by consolidating freight volumes. This gives us the best shipping and transportation rates, which can be passed on to the customer in the form of lower prices.

Non-food continued

Tesco's large general merchandise business has been resilient despite the challenges posed by weakening demand as consumers cut back on discretionary spending. Price reductions, stronger promotions – particularly of smaller ticket items – and a focus on particular categories such as electronics, plus an excellent performance from Tesco Direct, have supported good market share growth. The profitability of our non-food business has also been pleasing.

UK non-food sales rose by 5% in the year, compared with 9% in 2007/8, with total non-food sales increasing to £8.7 billion (included in reported UK sales). Second half like-for-like was encouraging, showing a small improvement versus Quarter 2, with a stable performance in Quarter 4 compared with Quarter 3.

We saw growth in some hardlines categories – particularly in electrical goods, games and entertainment – and also in pharmacy. Home related categories reflecting the slowdown in the housing market, were more challenging – particularly furniture, DIY and cookware. On a like-for-like basis, clothing sales reduced by 2% in the year, but outperformed the market – with good growth in menswear and an improving trend in childrenswear, with a stronger second half performance.

Market leader

We are market leader for clothing in Hungary and the Czech Republic.

53m

Last year our international buying office sourced over 53 million pairs of socks for the Group.

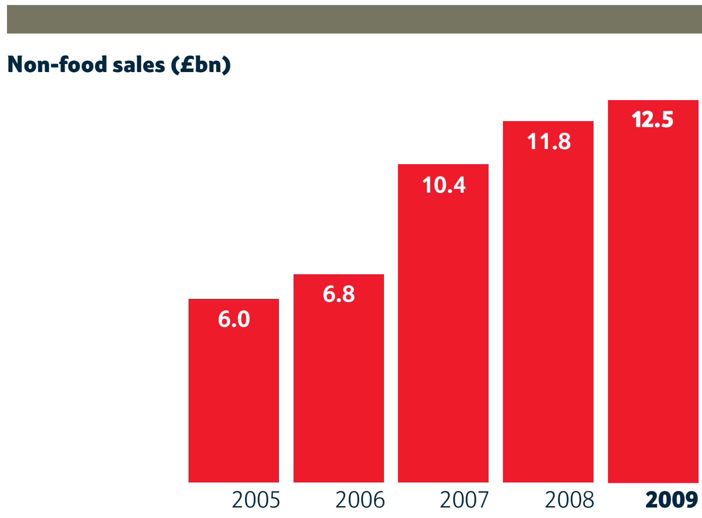
Have you cut back on the amount of new space you are adding for non-food?

Non-food is an important part of a long-term strategy for growth. It is a market which is similar in size to food and in which we only have a small share so we see it as a big opportunity for us in the future, irrespective of the economic climate.

Last year we opened over 600,000 square feet of new space for non-food in the UK alone – including our latest non-food-only Homeplus stores in Edinburgh and Nottingham – which means more customers than ever have access to our offer in store. With Tesco Direct we have made our widest non-food range available to millions of customers who can't get to one of our larger stores.

In fact, we get around 1.5 million visits to the website each week and we've continued to roll-out Direct collection desks in store so customers have the convenience of collecting their purchases at the same time as doing their weekly shop, as well as having the opportunity to have them delivered directly to their homes.

Non-food sales (£bn)



Tesco Direct, which is managed within tesco.com, is designed to extend the reach of our non-food offer by making it more available to customers via the internet and catalogues and is now established and thriving. It has delivered excellent sales growth and reduced losses as planned. We issued 11.5 million catalogues last year and now have 12,500 products available online. The popularity of our in-store Direct desks, which are now in 231 stores, continues to increase as more customers order and collect items from their local Tesco. We plan to add clothing to our online offer later this year.

Group non-food sales rose 6% to £12.5 billion, including £3.8 billion in International.

Tesco Tech Support Teams

We have Tesco Tech Support Teams in our largest stores who are specially trained to help customers with technical queries about everything from TVs and digital switchover, to computing and wireless networking, to cameras and sat navs.

To find out more go to www.tesco.com/annualreport09

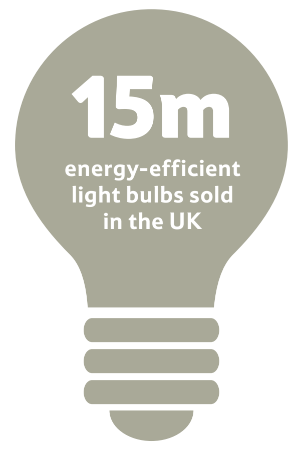
How do you ensure that your products are ethically sourced in places like Bangladesh?

We want all of our products to be sourced responsibly and fairly, but it is more challenging to achieve for general merchandise because of the global nature of the supply base. We're building stronger relationships with our global non-food suppliers by reducing the number we work with.

We've improved the quality of supplier audits and now have 730 authorised independent auditors around the world. To ensure that audits are representative, we have made a significant shift from announced to surprise audits (where suppliers are given a one month window when auditors may visit).

In October we were highly commended for the Fashion Ethical Cotton Award – the only major retailer nominated in any category.

To find out more go to www.tesco.com/cr-report09



6m
Tesco Personal Finance customer accounts

Andrew Higginson Chief Executive of Retailing Services and Group Strategy Director

Can Tesco really offer the same value as my bank?

We believe in creating value for all our customers because that is how we earn their loyalty. Over time customers have come to trust Tesco to deliver value whether they are buying their weekly shop or opening a savings account. Their trust is very important to us. So we take the same approach to financial services as we do to all other parts of our business and that means offering competitive, straightforward products with no confusing small print and hidden charges.

Unlike many of the high street banks TPF is well funded – we never got involved in any of the complicated financial products and toxic debt that has caused so many problems for the banking sector. So while many banks now have to grow their margins and rebuild their balance sheets, we can concentrate on offering competitive rates across our savings, loans, credit cards and insurance products.

We are aiming to add more value by rewarding our loyal customers with Clubcard points, which is of course unique to Tesco. Looking further ahead, it's clear that customers want us to provide a real alternative to other banks and that means a broader product range, including a current account.

Retailing Services

It has been a big year for Retailing Services, which includes our online shopping channels, tesco.com and Tesco Direct; Telecoms; Tesco Personal Finance (TPF) and dunnhumby – our consumer research business.

Developing Retailing Services has been part of our strategy for over a decade – with the aim of bringing value and simplicity to customers through services such as telecoms and financial products. After ten years of success, we have given it a renewed focus and in July we announced that Andrew Higginson would relinquish his role as Group Finance Director to take on the role of Chief Executive of Retailing Services. He has assembled an experienced team to really drive forward this part of the strategy, which we believe has the potential to deliver £1 billion of annual profit in the next few years.

The aim is to develop our services business to offer customers the same convenience we have brought to food shopping, to all the other products and services we offer. Our dotcom grocery business and now our online non-food offer, Tesco Direct, have already added more convenient options for customers to shop – particularly those with very busy lives or limited access to transport. The growing power of the internet means increasingly that people look to this channel to buy everyday services and goods.

However, many people still like the reassurance of being able to talk to someone knowledgeable about the products and services they buy. We believe in offering customers the choice – to shop in the way which most suits their needs whether that is online, in store or by phone. That is why we now have 40 phone shops in our stores, and we plan to have around 100 open by the end of this year. This means more customers than ever can access our popular telecoms offer. We remain one of the fastest growing providers for pre-pay mobiles and we are now attracting more customers through our new contract mobile deals.

tesco.com

is the world's most successful online grocery retailer.

In December we completed the acquisition of the remaining 50% of TPF from Royal Bank of Scotland Group PLC (RBSG). This was an important move for Tesco, allowing us to build on the success of TPF and eventually offer customers the products you would expect from a full-service retail bank. This will mean growing our existing customer base across the 28 simple products we offer from home insurance to credit cards, but also attracting new customers at a time when many have lost trust in their high street bank.

All our current financial products are available to buy online and at present over 50% of our customers choose to buy this way. However, in the same way as customers value the service offered by our telecoms centres, we understand that many would like to discuss their financial needs with someone knowledgeable. We plan to increase our presence for TPF by extending the trial of our in-store branches which offer customers the opportunity to talk to our specially trained finance advisors in a convenient location.

100,000

new savings account customers.

Retailing Services continued

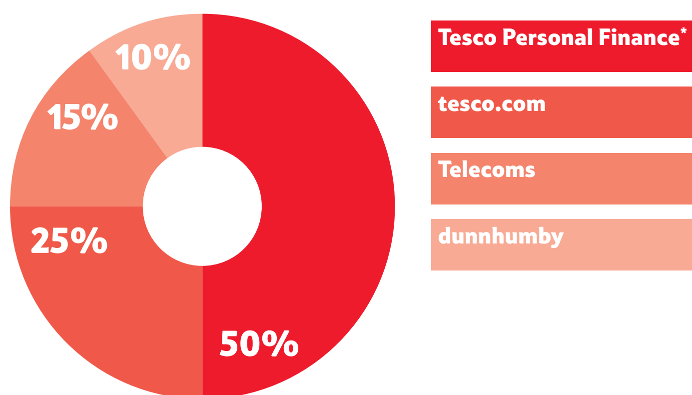
This year has seen an increased focus on our strategy for growth in retailing services – where we now have substantial, profitable businesses with long-term potential both in the UK and internationally. At the time of our announcement last July of our acquisition from RBSG of its 50% shareholding in TPF, we set a target to grow the profitability of the services businesses from a little under £400 million in 2007/8 to £1 billion during the next few years. We are committing more capital, management and other resources to support this growth.

Tesco Personal Finance. We completed the acquisition of TPF on 19 December 2008, for cash consideration of around £950m. The business is profitable and well-capitalised, which is a strong platform from which to pursue our plans to develop TPF from a successful, popular collection of financial products to a full-service retail bank in the years ahead. The new team, combining experienced management from Tesco and from the banking industry, is coming together well. Their focus for the time being is on migrating systems and customer support over to our own platforms, beginning the development of a branch network in Tesco stores and growing the business, both through existing and new products.

1.5m

Tesco Personal Finance has over 1.5 million car and home insurance customers.

Retailing services – profit contribution



* Assumes TPF is fully consolidated for the year.

Overall TPF has delivered a good performance, despite the challenging conditions in its markets and the protracted period between the announcement of the acquisition and its completion. The following commentary on the performance of the business relates to the TPF pro-forma income statement and actual balance sheet, which can be found in our Preliminary Results Statement (appendix 1) at www.tesco.com/investorcentre, covering the year to 28 February 2009.

- **Profit**. Underlying profit before tax, which excludes the amortisation of intangible assets linked to the acquisition, was £244 million. This performance was achieved against the background of an increase in bad debts, particularly during the second half of the year, although TPF's bad debt experience remains significantly better than the banking industry average. Profit before tax and minority interest was £212 million, which was also a pleasing performance in the context of the broader economic conditions. Under IFRS, we are required to amortise intangible assets arising on acquisition. This non-cash charge for the period was £32 million and we expect this to increase to approximately £130 million in 2009/10 and reduce thereafter.

  Total revenue was £949 million – generated by a combination of interest income and fees. The key products generating interest income (savings, loans and credit cards) all held up well in the current climate. In fee income, there was good growth from both credit cards and the ATM estate. Underlying costs included an increased investment in Tesco Compare and the planned rise in overhead cost as the business prepares for a faster rate of growth. Impairment losses on the cards and loans portfolios increased in the second half against the background of deteriorating market conditions.

To find out more go to www.tesco.com/annualreport09

- **Capital and Liquidity**. TPF's core Tier 1 capital ratio is 12%. Looking forward, TPF has strong earnings retention to support planned business growth and the funding and liquidity position of the business has also improved as a result of the successful re-launch of TPF as a savings brand. This is demonstrated by the near-doubling of balances from £2.5 billion in mid-October to in excess of £4.5 billion by the year-end. Combined with securing long-term wholesale funding, this has transformed TPF's liquidity position – providing high quality liquid assets and net short-term wholesale cash over £2 billion as at year-end.
- **Commercial**. Average lending balances grew slightly in the year, even after tightening lending criteria to reflect the deteriorating economic conditions. Good growth has been maintained in the customer base with total accounts and policies increasing by 8%. The ATM network continues to grow with over 2,700 now located across the Tesco store portfolio, which account for 12% of total market volumes. The insurance business continues to be a significant contributor to the overall profits, accounting for over 65% of the underlying profit. New asset quality has remained stable over 2008 and portfolio performance remains favourable to the industry. TPF continues to monitor closely portfolio and new business quality. However, the challenging economic conditions throughout the year have resulted in some increase in bad debt levels and fraud. The reduction in bank rates in recent months has, however, helped lending margins, a trend which has continued into 2009/10. TPF uses a range of techniques to ensure that risk and reward is balanced and remains committed to responsible lending.

tesco.com delivered another excellent performance, with our online businesses achieving a 20% increase in sales to £1.9bn, with profits after initial start-up losses on Tesco Direct, rising to £109m. We are continuing to see robust growth in customer and order numbers and operationally the business made further progress, with improved product availability, and strong productivity. Growth in the international businesses – in South Korea and Ireland – was very strong.

Telecoms had a good year, with particularly robust growth in Tesco Mobile. Mobile saw double-digit growth in customer numbers in a flat pre-pay phone market and an encouraging early performance from our new pay-monthly tariffs, which were launched during the year. Tesco Mobile retained its status as the best service in the market for overall customer satisfaction.

1.8m

Tesco Mobile customers.

250+
Community Champions

Lucy Neville-Rolfe Corporate & Legal Affairs Director

How much do customers really care about community when they are struggling with the recession?

We understand that many of our customers are facing real financial pressures at the moment and they're looking to us to help them spend less.

However, when customers shop with us they don't leave their ethics at the door and they're telling us it is still really important to them that we behave responsibly and honestly. They want to see Tesco doing the right things on community and the environment at the same time as providing them with the value they expect from us.

We've made some great progress this year and one of the things I'm most proud of is the work we have done in getting unemployed people back to work which is especially important in light of rising unemployment in the UK and elsewhere. Last year we recruited over 3,000 long-term unemployed people and other disadvantaged job seekers, up on nearly 500 the previous year.

Community

We recognise that running our business responsibly is important to our customers and increasingly crucial to our growth. We are working within communities to develop our own plans as well as involve customers in the journey.

500

We will measure the carbon footprint of 500 more products this year.

We understand the importance of behaving responsibly in all our operations. Over the past year, we have worked even harder to be a good neighbour and have strengthened our contribution to the wider communities we serve.

All communities have their own individual concerns and priorities and so each of our countries has its own Community Plan. Whilst the goals and targets are tailored specifically to each country, each plan is underpinned by five core promises: actively supporting local communities; buying and selling our products responsibly; caring for the environment; giving customers healthy choices; and creating good jobs and careers.

Our success depends on listening to our customers, and responding to their feedback by giving them what they want. Often the most significant contributions we can make to communities are at the truly local level and so over the past year we have appointed over 250 Community Champions in stores and depots across six countries. These members of staff are dedicated to working with local schools, charities and services to support the causes that matter most to our customers.

We have made a step-change in our work on climate change and environmental responsibility by taking clear leadership in these vital areas. In 2007, we set ambitious targets to reduce emissions in our

own buildings and distribution networks and we continue to make good progress. Over the past year we have continued to roll-out initiatives to save energy and lower our carbon footprint in all our operations and we now have environmental stores in every country in which we operate. Since 2006/7 we have reduced our carbon intensity of new stores by 21%.

Our aim is to give customers choice by providing them with the information they need to make informed decisions when they shop through initiatives such as carbon and Guideline Daily Amounts (GDA) labelling.

In addition we have continued to work hard to help our customers to lead healthy lifestyles by providing information and services such as Tesco Diets, our online dieting, weight loss and healthy eating service, and improving nutritional content in all our foods. We also continue to find innovative ways to help customers get active. In Thailand, for example, our Getting Active with Tesco Lotus programme has inspired 2.4 million people to get involved in activities such as aerobics.

To provide the best quality, choice and value for money for our customers we need strong and constructive relationships with our suppliers. We continue to make good progress in building these long-term relationships as we recognise that our success is linked to theirs. Trading fairly is essential in all our operations and last year we met with the UKSIF (the Sustainable Investment and Finance Association) to discuss our ethical trading approach. They benchmarked us against a number of peers and concluded that we were in a leadership position in terms of good factory labour standards.

200

Our Greener Living brand helps our customers to make greener choices. The range comprises 200 products as diverse as energy saving light bulbs, paper goods and kitchenware.

Community continued

2.4m

people in Thailand took part in activities including aerobics as part of our Getting Active with Tesco Lotus programme.

Actively supporting our local communities

We play a positive role in our local communities and work hard to be a good neighbour.

We now have Community Champions in 65 stores and five depots in the UK, each working with local schools, charities and services to support the causes that matter most to our customers, where they live. The Champions have a strong positive impact on our customers. In recent research over 60% of customers who are aware of these activities tell us they believe their community has benefited and they feel more favourable to Tesco as a result. We are already rolling out Community Champions in the Czech Republic, Slovakia, China and Malaysia.

Our staff broke all records for our Charity of the Year, raising over £6 million for Marie Curie Cancer Care to fund an additional 300,000 hours of nursing care for over 5,000 terminally ill patients and their families.

Our new Tesco for Schools and Clubs scheme is now running in our UK stores. With a catalogue spanning five different areas of the curriculum, customers can collect vouchers for anything their local school needs, whether that is a laptop, a new set of skipping ropes or a composting bin. We have had successful schools programmes in Ireland for 11 years now, in Poland for eight, and this year is the first year of 'Shop for Schools' in the US.

In recent months, we have also moved some £11 million worth of business back to UK suppliers, supporting domestic orderbooks and production, and safeguarding employment.

Caring for the environment

We opened our greenest store yet at Cheetham Hill in Manchester, with a carbon footprint 70% below that of a typical store in 2006. This is the latest step in our quest for a zero-carbon store, with environmental stores opening in all countries.

We have significantly increased the level of capital investment in energy-saving projects across the business – in new refrigeration, store lobbies, and lighting – delivering significant reductions in consumption and helping us to absorb rising utility costs. Energy consumption in Tesco fell 8% last year despite business growth.

Green Clubcard points have encouraged our customers to recycle, with recycling rates doubling where we have our automated recycling machines and over 9.5 million Clubcard customers now reusing their bags in the UK. Our customers are now using 50% fewer plastic bags than they did in May 2006, saving three billion bags since we introduced our green Clubcard points in August 2006. This July, Tesco Malaysia became the first country outside the UK to launch green Clubcard points to help customers use fewer carrier bags, issuing over 14,000 points in the first week of the reward scheme.

We were the first retailer in the world to carbon label products, with 100 products labelled in the UK already, and many more in the pipeline. Ireland is following suit with 14 products, and South Korea is starting carbon labelling this year.

Our leadership on climate change has been recognised through a number of awards internationally, including the prestigious Business in the Community Leadership in the Environment Award, and the Sustainable Management Award in South Korea.

Giving customers healthy choices

We have met our target of getting two million people active three years early, with 750,000 women running Race for Life, half a million children signed up to the FA Skills programme and 750,000 taking part in the Tesco Great School Run. Our Getting Active with Tesco Lotus programme has inspired 2.4 million people in Thailand to take part in activities such as aerobics, and we have charitable running and walking initiatives in the Czech Republic, Slovakia and Malaysia as well as our soccer camps in the UK and China.

Buying and selling our products responsibly

We have continued to evolve our Nurture scheme which was first launched in 1992. The independently accredited quality standard assures our customers that Tesco fruit and vegetables are grown in an environmentally and ethically responsible way. We now work with 15,000 growers in 70 countries across the world.

Good jobs and careers

As part of our promise to our people to provide 'an opportunity to get on', during the year 65% of senior managers were appointed internally. We also appointed 3,741 new managers for stores and 149 for depots in the UK alone – with 86% coming from within Tesco.

To find out more go to www.tesco.com/cr-report09

Sustainable Consumption Institute

In 2007, we committed £25 million to create a new Sustainable Consumption Institute (SCI) at the University of Manchester. The SCI aims to answer some of the fundamental questions about how to make a consumer society sustainable.

2008, the first year of the SCI, was devoted to building a team and establishing the initial research streams. A total of 12 academic appointments have now been made, including five at professorial level. 11 PhD students from around the world have been recruited and £2.3 million committed to 24 projects so far. An extensive, multi-disciplinary, multi-faculty network of academics is being established and prestigious SCI independent research fellowships are being awarded.

The SCI is committed to publishing its research findings on an open access basis. **www.manchester.ac.uk/sci**

Looking ahead

- This year, we plan to create 11,000 new jobs directly in the UK as we continue to open new stores and expand our services businesses, particularly TPF. Indirectly, our investment in new stores, refits and extensions will sustain more than 7,300 jobs in construction, maintenance and related areas. We also plan to create a further 15,000 jobs in our international businesses.
- This summer, we will pilot Community Fairs at stores across the country – fun days for the whole community to support local charities and featuring local suppliers.
- We will make Community Champions a stronger part of more stores and in more communities.
- We will aim to get 5.3 million people active with Tesco activity programmes around the world.
- We will continue to help customers be green and save money, through more recycling facilities and by reducing plastic bag usage even further. We will also work with our suppliers to reduce carbon emissions in our supply chain.
- We will measure the carbon footprint of 500 more products and communicate the findings to our customers. We will also continue to grow our range of green products, making it easy and affordable for our customers to make green choices.
- We will roll out the first phase of our Trading Fairly programme, ensuring our Values live throughout our supply chain and improving labour standards at the farms and factories that supply us.
- We will provide opportunities for the long-term unemployed through three new Regeneration Partnerships.

3bn+

Since launching green Clubcard points in August 2006 to reward customers who re-use their bags, they have helped us to save over three billion bags.

Does carbon labelling really make a difference?

We believe in encouraging customers to make greener decisions by providing clear information to help them make better choices.

We've been working with the Carbon Trust as well as some of our main suppliers to develop a universal carbon footprint label which not only helps inform customers, but also helps our suppliers – by identifying opportunities to reduce emissions. We started trialling carbon labels in the UK and Ireland last year, on products such as orange juice, light bulbs, washing detergents and potatoes, and the results have been encouraging – more than half our customers say that wider application of the labels could change their purchasing decisions.

470,000
people

Tim Mason President and CEO of Fresh & Easy

Is training and developing staff still a priority?

Having started a business from scratch in the US – one of the world's largest markets – I know how important it is to have a strong team around you. Developing talent is crucial to any growing business, particularly retail which is a people-intensive industry.

As a Group, we're still investing hard and growing through the downturn, with sales growing by 15% last year. To handle that growth well, we need to bring skilled, experienced people through all the time to fill the thousands of jobs it creates. Take Fresh & Easy where our team has grown from 65 to over 2,500 in less than two years. Hundreds more will join us this year, so we can't rely on bringing people in from other parts of the business. We need to develop our own talent locally and equip our people with the skills they need to be able to do the job and lead others. That's why we're absolutely committed to putting the best training plans in place making sure that all of our people have the opportunity to get on in the business.

People

Over 470,000 people now work for Tesco across 14 countries. It's been a challenging year for our people and they have worked harder than ever to deliver an 'Every Little Helps' shopping trip.

This year we brought together over 2,000 managers from across the whole business at our triennial conference. It was an opportunity to look back at the tremendous growth in the business in the last three years, but also to look ahead. It has been a challenging year for our people, but with a clear strategy, underpinned by our Values, they have never been clearer on what we need to do.

The theme of the conference was 'Living the Values'. We first launched our Values a decade ago and they have been the glue that has held us together as we have rapidly grown the business. They ensure that every person understands our culture and goals. In the last year we have spent a lot of time talking to our people across the business to make sure that they are still as relevant today as they were ten years ago and that they are universally understood. It was clear that not only do our Values remain relevant, but that they have travelled because things like trust and respect, for example, are universal – they are as important to our people in Tokyo as to those in Torquay.

Our Values
No-one tries harder for customers
- Understand customers
- Be first to meet their needs
- Act responsibly for our communities

We treat people how we like to be treated
- Work as a team
- Trust and respect each other
- Listen, support and say thank you
- Share knowledge and experience

…so we can enjoy our work.

80%

of our UK staff agree they have the opportunity to get on in Tesco.

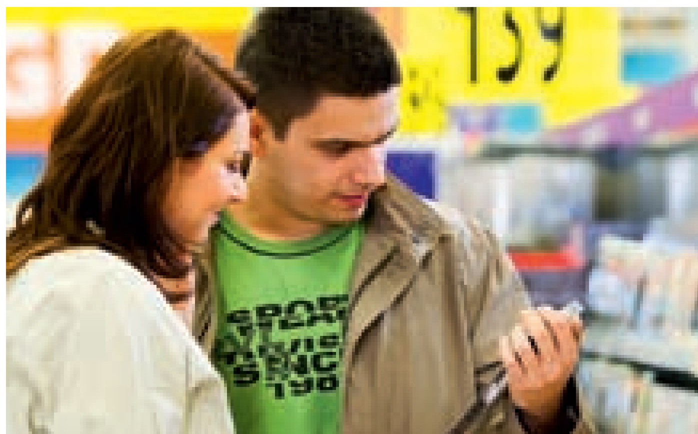
As the business continues to grow it is important that we build capability through training and development. Over 3,500 new management appointments were made in the UK last year through Options, a tailored programme for our people who have been identified as having the potential to move to a bigger job, and our training Academies. We also have our highest ever number of people on Options – 7,680 – which includes over 500 in our depots. Our Graduate Options programme was externally recognised, winning a Times Graduate Recruitment award in 2008 for Graduate Employer of Choice in General Management.

We're also doing more to recruit graduates across our international business. We have plans to recruit 1,000 graduates in Asia and 300 in Central Europe to ensure that we have a great pool of talent to support our future growth.

137

In China, we have developed a leadership development programme to help us meet the needs of our rapid expansion. This year 137 people completed the programme which is tailored to meet the development needs of each person and prepare them for leadership roles.

Resources and relationships



Customer Question Time

We have been holding forums in our stores in Europe to ask customers how the economic slowdown is affecting them.

Customers
This year hundreds of thousands of customers have told us what they want from an 'Every Little Helps' shopping trip. We've held over 200 'Customer Question Time' forums in our stores in addition to many other focus groups. We have also launched 'Shopper Thoughts', a proprietary online panel of 64,000 customers who provide us with rapid and detailed feedback on everything from the range of products we sell to the friendliness of our staff. Our latest trial feedback initiative is called Fizzback, which allows customers to tell us what they think via free text message, phone, email or comment card. Clubcard also helps us to understand what our customers want, whilst allowing us to thank them for shopping with us – this year we gave away over £400 million in Clubcard vouchers. We have national loyalty card schemes, based on Clubcard, in Ireland, Malaysia, South Korea and China and pilot schemes in Slovakia, Poland, Thailand and Turkey.

We don't always get it right but we try to make our customers' shopping trip as easy as possible, reduce prices where we can to help them spend less and give them the convenience of shopping when and where they want – in small stores, large stores or online.

Employees
With 470,000 staff in 14 countries, we play an important role in creating employment, fostering skills and generating economic development. Our people are our most important asset and never more so than in the current economic environment. Looking after our staff so that they can look after our customers is one of the core values of the business. We are committed to providing market-leading working conditions for our staff and we encourage our suppliers to do the same.

Training and development
We are committed to developing our people to bring out the best in everyone and do what we can to enable all our people to reach their potential. All our staff have access to training programmes and personal development planning to ensure that they have the right skills to do their job.

Diversity and inclusivity
We strive to provide an inclusive environment where all difference is valued, people are able to be themselves, enjoy coming to work and realise their full potential, regardless of their gender, marital status, race, age, sexual orientation, creed, ethnic origin, religion or belief, or disability.

In the UK, we offer our staff a market-leading package of pay and benefits:

Employee share schemes
Through share ownership and share incentive schemes, over 170,000 of our people have a personal stake in Tesco. Staff were awarded shares worth a record £91 million last May under our Shares in Success scheme. 52,000 staff were able to benefit when Save As You Earn schemes matured in February, giving them access to shares worth £126 million.

170,000

Over 170,000 of our UK staff have a personal stake in Tesco through our share ownership and share incentive schemes.

To find out more go to www.tesco.com/annualreport09

We carry out ethical audits and target ourselves to cover 100% of our high risk own brand suppliers and ensure all commercial teams have received training on supply chain labour standards. This year we carried out significantly more audits than the previous year – 1,233 compared to 445. Whilst we risk assessed 100% of high risk sites, we fell short on our audit targets, with 87% of high-risk sites being audited (up on 73% in 2007). We have put in place resources to improve performance in 2009.

Tesco does not have any contractual or other arrangements which are essential to the business of the company.

90%

of our suppliers say that we pay on time, are committed to meeting customers' requirements, are professional and that we treat them with respect.

Suppliers

To be a successful, sustainable business we have to ensure that our drive to bring cheaper prices is achieved without compromising our standards, reducing quality, damaging the environment or harming the suppliers and workers who produce the goods we sell. So we take a partnership approach to working with suppliers – sharing our knowledge and listening to suppliers' feedback. This includes providing technical expertise, advice and insight into customer trends, and making regular payments, on time.

We are one of four signatories to the UK Government's statutory Supermarkets Code of Practice. Since the Code's introduction we have run tailored training for all Tesco buyers to promote understanding and compliance. If problems do arise in supplier relationships we aim to air and resolve them through constructive discussion and when necessary with the support of our Code Compliance Officer. We support the Competition Commission on a number of changes that are planned to the Code, including its wider application in the grocery retail sector.

We hope that our annual Supplier Viewpoint Survey encourages suppliers to give us more feedback on our relationships. We surveyed more than 6,000 suppliers during the year and more than 90% of them agreed that we pay on time, are committed to meeting customers' requirements, are professional and that we treat them with respect.

How exactly are you helping the unemployed get back to work?

We're a growing business and because we know how important local jobs are to communities we advertise all our new jobs through the local JobCentre Plus. We let them know well in advance so that they have time to prepare candidates for interview. There is growing uncertainty about jobs at the moment and it's even harder for people who have been out of work for a long time. That's why we were one of the first companies to sign up for the Government's Local Employment Partnership programme which offers roles to job seekers who have previously struggled to find work.

In the last year we recruited over 3,000 long-term unemployed and other disadvantaged job seekers, compared with 434 in 2007. We want Tesco to be a great place to work for all our people, so our new staff members will be given all the support and training they need to harness the potential and talent they can bring to our diverse workforce.

Group performance

These results are for the 53 weeks ended 28 February 2009 for the UK, Ireland and the United States (US) and for the 52-weeks ended 28 February 2009 for the rest of the Group. This compares with the 52-week period ending 23 February 2008. Where appropriate, growth rates are provided on a comparable 52-week basis.

Growth in sales and profit growth is reported on a consistent basis (12 months versus 12 months) for China. Last year's numbers for Group, International and for Asia have been restated to reflect this change.

Group sales, including VAT, increased by 15.1% to £59.4bn (last year £51.6bn). At constant exchange rates sales increased by 10.6%. On a 52-week comparable basis, Group sales growth was 13.5%.

In 2006, following our transition to IFRS, we introduced an underlying profit measure, which excludes the impact of the volatile non-cash elements of IAS 19, IAS 32, IAS 39 and IAS 17 (principally pension costs, the marking to market of financial instruments and the impact of annual uplifts in rents and rent-free periods) and now also excludes the amortisation charge on intangible assets arising on acquisition this year relating to Tesco Personal Finance. Underlying profit before tax rose to £3,128m in the year (last year £2,843m), an increase of 10.0%. On a 52-week comparable basis, underlying profit before tax rose by 8.8%.

In the same year, we also began reporting segmental trading profit, which excludes property profits and, as our underlying profit measure does, also excludes the non-cash element of the IAS 19 pension charge, the non-cash element of the IAS 17 lease charge and the amortisation charge on intangible assets arising on acquisition. Group trading profits were £3,090m (last year £2,748m), up 12.4% on last year and Group trading margin, at 5.7%, reduced slightly on last year. Excluding initial US losses and the impact of the Homever acquisition (integration costs and pre-conversion losses), Group trading margin rose by 11 basis points. On a 52-week comparable basis, Group trading profits increased by 10.9%.

Group operating profit rose by 15.0% to £3,206m (last year £2,788m). Within this, total net Group property profits were £236m in the year (last year £188m), comprising £263m in the UK and a loss of £27m in International. Group profit before tax increased 5.5% to £2,954m (last year £2,800m) and growth was held back by an increase in non-cash IAS 32 and 39 adjustments. Based on statutory numbers reported last year, Group operating profit rose by 14.9% to £3,206m (last year £2,791m) and Group profit before tax rose by 5.4% to £2,954m (last year £2,803m).

Group results		Actual rates		Constant
		% ch.	52-week % ch.	% ch.
Group sales (inc. VAT)	£59,426m	15.1%	13.5%	10.6%
Group profit before tax	£2,954m	5.5%	4.3%	2.8%
Group operating profit	£3,206m	15.0%	13.5%	12.3%
Group underlying profit before tax	£3,128m	10.0%	8.8%	7.4%
Group trading profit	£3,090m	12.4%	10.9%	9.7%
Trading margin	5.7%	–	–	–

International
Our International business delivered a very strong performance, helped in part by favourable exchange rate movements during the year, and excluding the United States (US) contributed 51% of the growth in Group sales and 45% of the growth in Group trading profit. Underlying margins improved, excluding the impact of the Homever acquisition and excluding the US.

Total International sales grew strongly – by 30.6% at actual exchange rates to £17.9bn (last year £13.7bn) and by 13.6% at constant exchange rates. On a 52-week comparable basis, actual and constant exchange rate growth was 30.3% and 13.3% respectively. Sales growth slowed in Europe during the second half, which reflected deteriorating economic conditions in a number of markets.

In contrast, sales growth in Asia accelerated, driven by the acquisition of the 36 Homever stores in South Korea at the start of the second half. These contributed some £350m to sales, including the strong uplifts achieved on the initial conversions to our Homeplus format, and this represented 2.6 percentage points of the year's total International growth at actual rates.

US segmental reporting of sales and trading results within International began with our Interim Results in September. For these Preliminary Results, sales and initial trading losses in the United States are reported within International for the first time. Last year's numbers, both for International and for the UK, have been restated to reflect this change.

International results – Excluding US		Actual rates		Constant
		% ch.	52-week % ch.	% ch.
International sales (inc. VAT)	£17,698m	29.3%	29.0%	12.4%
International trading profit	£851m	21.9%	21.5%	8.3%
Trading margin	5.3%	–	–	–

International contributed £709m to trading profit in the year (last year £636m), up 11.5% after charging £33m of Homever integration costs and pre-conversion losses. Before these costs, trading profit grew by 16.7%. Excluding initial US trading losses, International trading profits grew by 21.9%, or by 21.5% on a 52-week comparable basis. At constant exchange rates, and excluding initial US losses, International trading profits grew by 8.3%. International EBITDA* rose to £1,157m. Excluding the US, International EBITDA rose to £1,293m.

* EBITDA is calculated by adding depreciation and amortisation charges of £491m to International operating profit of £666m.

In **Asia**, sales grew by 29.4% at actual exchange rates and by 19.9% at constant rates to £7.6bn (last year £5.9bn). Trading profit increased by 17.9% at actual rates and by 14.6% at constant rates to £355m (last year £301m), after £33m of integration costs and pre-conversion losses in South Korea.

The acquired Homever stores contributed 6.0 percentage points of sales growth in Asia at actual rates. Excluding Homever, trading margins rose to 5.8%, driven by strong performances in Thailand and Malaysia. China made a small trading profit in the year after absorbing additional overhead costs linked to its regional expansion strategy.

Asia results

		Actual rates		Constant
		% ch.	52-week % ch.	% ch.
Asia sales (inc. VAT)	£7,578m	29.4%	29.4%	19.9%
Asia trading profit	£355m	17.9%	17.9%	14.6%
Trading margin	5.0%	–	–	–

In **Europe**, sales rose by 29.1% at actual rates and by 6.9% at constant rates to £10.1bn (last year £7.8bn). On a 52-week comparable basis, sales grew by 28.6%. Trading profit increased by 24.9% at actual rates to £496m (last year £397m) and by 3.5% at constant rates. Trading margins fell slightly.

Europe overall delivered solid growth, although we saw a weakening pattern of consumer demand, particularly in non-food, as the year progressed. Despite deteriorating trading conditions in several markets and the unhelpful effects of increased cross-border shopping being felt particularly in Ireland and the Czech and Slovak Republics, our businesses delivered a pleasing increase in profit, helped by favourable movements in Sterling exchange rates.

Europe results

		Actual rates		Constant
		% ch.	52-week % ch.	% ch.
Europe sales (inc. VAT)	£10,120m	29.1%	28.6%	6.9%
Europe trading profit	£496m	24.9%	24.2%	3.5%
Trading margin	5.6%	–	–	–

A segmental report on the **United States** is included in International in respect of the full year for the first time with these results. US sales and initial trading losses were previously reported within the UK segment.

US sales were £208m in the year, including like-for-like growth of 30%, and trading losses were £142m (last year US trading losses were £62m). At constant exchange rates, trading losses were £123m, higher than our guidance provided last year, reflecting the more challenging trading environment in the Western states and our decision not to open stores in Northern California for the time being. Sales overall were lower than anticipated at the time of last year's Preliminary Results, as a consequence of our previously announced decision to maintain, rather than accelerate, our rate of new store expansion during the second half given the severity of the economic downturn in some geographic markets in the Western US.

US trading losses reflect the fact that the US business – which has now been trading for 16 months – has been built with the necessary infrastructure in place from the beginning to support hundreds of stores. At this stage, it is therefore operating with high overhead and other costs in relation to the scale of the business, whilst also trading from immature stores.

United States results

		Actual rates		Constant
		% ch.	52-week % ch.	% ch.
US sales (inc. VAT)	£208m	n/m	n/m	n/m
US trading profit/(loss)	£(142)m	129.0%	124.2%	98.4%
Trading margin	n/a	–	–	–

Group performance continued

UK In competitive market conditions, our core business delivered a year of solid progress. UK sales increased by 9.5% to £41.5bn (last year £37.9bn), including like-for-like growth of 4.3%, 2.7% growth from net new stores, a contribution of 2.1% from the 53rd week and a first-time contribution from the consolidation of TPF. Excluding petrol, like-for-like sales grew by 3.0%, with increases of 2.0% and 2.7% in the third and fourth quarters respectively. Adjusting for the reduction in VAT rates, which came into effect in early December, like-for-like growth excluding petrol was 3.7% in the fourth quarter.

The pattern of our trading during the year was affected by a number of factors. Inflation reduced during the second half and our rate of growth was also impacted by a sharp increase during the year in the level of downtrading by customers seeking to spend less on their weekly shop. Tesco supported both of these trends by cutting prices and introducing more affordable products – including our successful new 'Discount Brand' ranges. A combination of recovering competitors and more subdued customer demand in some non-food product categories continued to hold back sales progress in the second half, although non-food sales growth remained positive in a subdued market and broadly stable in like-for-like terms.

Increased productivity and good expense control enabled us to maintain solid margins and deliver good profit growth despite these challenges, whilst also absorbing initial trading losses totalling around £22m on Tesco Direct. After these costs, UK trading profit rose 12.7% to £2,381m (last year £2,112m), with trading margins at 6.2% including TPF, slightly up on last year. On a 52-week comparable basis, UK trading profit rose 10.7%.

In December, we completed as planned the acquisition of The Royal Bank of Scotland Group PLC's 50% shareholding in Tesco Personal Finance (TPF) and on becoming a subsidiary, its results were consolidated into our UK business for the final ten weeks of the financial year. During this period it contributed £163m to UK sales and made a small contribution to trading profit. TPF's results to the date of acquisition are reported as usual within Joint Ventures and Associates.

UK results		% ch.	52-week % ch.
UK sales (inc. VAT)	£41,520m	9.5%	7.4%
UK trading profit	£2,381m	12.7%	10.7%
Trading margin	6.2%	–	–

Joint ventures and associates Our share of profit (net of tax and interest) for the year was £110m, an increase of £35m compared with last year.

Tesco Personal Finance delivered a good performance in a challenging financial services market and profit was reported within Joint Ventures and Associates for 50 weeks (50% share). Underlying growth in the business was encouraging – with the number of customer accounts rising to six million – and the new management team demonstrating that there is significant growth potential for TPF within the financial services sector, particularly amongst loyal Tesco customers, and as we build our portfolio of products. Although we are seeing rises in credit card arrears and bad debts, TPF is well-provisioned.

Tesco Mobile, our joint venture with O2, saw strong growth, with a pleasing rise in profits during the year, reflecting excellent increases in customer numbers and revenues.

Finance costs and tax Net finance costs rose substantially to £362m (last year £63m), reflecting principally increased average net debt levels linked to acquisitions and foreign exchange movements, higher coupon rates on commercial paper and unfavourable changes in the non-cash IFRS elements of the interest charge. The interest charge, excluding IFRS adjustments, rose by £150m.

Total Group tax has been charged at an effective rate of 26.7% (last year 24.0%). This increase in tax rate is primarily due to last year's one-off tax reimbursement, reflecting settlement of prior year tax items with HMRC. We also benefited in the prior year from an adjustment of deferred tax balances as a result of the lowering of the rate of UK corporation tax from 30% to 28% with effect from 1 April 2008. We expect the effective tax rate for the current year to be around 27%.

Underlying diluted earnings per share increased by 7.0% to 28.92p (last year 27.02p), despite the significantly lower than normal effective tax rate in the prior year. Using a constant tax rate, underlying diluted earnings per share rose by 11.0%, or by 9.7% on a 52-week comparable basis.

Dividend The Board has proposed a final dividend of 8.39p per share (last year 7.70p). This represents an increase of 9.0%, and takes the full year increase in dividend to 9.7%. This rise in dividend is in line with the 52-week growth in underlying diluted earnings per share, which are inclusive of net property profits, using a constant tax rate. Going forward, we intend to continue with our policy of growing annual dividends broadly in line with underlying diluted earnings per share growth.

The final dividend will be paid on 10 July 2009 to shareholders on the Register of Members at the close of business on 1 May 2009.

Cash flow and balance sheet Tesco has a strong, property-backed balance sheet, with sufficient funding in place to meet our needs, including no material bond maturities during the current financial year. We plan to fund the growth of the Group predominantly from internal sources – recognising the current uncertainties in financial markets – and this will be achieved by reducing capital expenditure to below our operating cash flow.

Group capital expenditure (excluding acquisitions) rose to £4.7bn (last year £3.9bn), slightly higher than the forecast made at our Interim Results. This increase compared with last year was attributable principally to the purchase of a small number of trading stores from a competitor and investment in new mixed-use development schemes in the UK, combined with higher International capital expenditure, including our initial investment in freehold shopping centre developments in China. Furthermore, International capital spending, and as a result total Group expenditure, was impacted by the decline in Sterling relative to most of our trading currencies.

UK capital expenditure was £2.6bn (last year £2.3bn). Total International capital expenditure rose to £2.1bn (last year £1.6bn) comprising £0.9bn in Asia, £0.9bn in Europe and £0.3bn in the US.

We are now reducing UK capital spend on large mixed-use development schemes and we have purchased fewer existing trading stores from competitors, allowing UK capital expenditure to revert to the levels of four years ago. Importantly this is being achieved whilst continuing to meet our objective of adding some 6 to 7% to our UK selling space annually. In some of our markets, such as the US, we are taking a more cautious approach to expansion during the downturn and we are also seeing substantial falls in store site and build costs. Taken together, these changes mean that we are able to plan for Group capital expenditure to reduce substantially this year to around £3.5bn, whilst still delivering strong organic growth in Group selling space of around 9% in the current year.

Cash flow from operating activities totalled £5.0bn (last year £4.1bn), including an improvement of £582m within working capital, driven in part by good control of stock. Net debt rose to £9.6bn at the year-end (last year £6.2bn). £1.9bn of this increase is attributable to the impact of acquiring TPF and Homever, and a further £1.0bn to the effect of unfavourable currency movements.

We are targeting a reduction in net debt in the current year, driven by lower capital expenditure, property divestments, lower stock levels and other improvements in working capital.

Property In April 2006, we announced plans to release cash from property through a sequence of joint ventures and other sale and leaseback transactions, in the UK and internationally and return significant value to shareholders, both through enhanced dividends (through the growth in underlying earnings per share, which includes property profits) and share buy-backs. We have managed the pace of this programme in light of the current financial and property market conditions, and as a result we have divested the property at attractive yields.

The transactions completed so far – with pension funds, property companies and other investors – have delivered aggregate proceeds of £2.2bn.

Whilst yields have increased modestly in recent months, we expect to be able to complete further transactions on attractive terms in the months ahead and we are currently in discussion with potential counterparties. Proceeds for the remainder of this year will principally be used to pay down debt.

The net book value of our fixed tangible assets is £24.7bn, most of it in our freehold store portfolio – even after recent property divestments linked to our £5bn programme. We estimate the current market value of these assets to be £30.4bn, representing a 23% premium to book value.

Pensions Our award-winning defined-benefit pension scheme is an important part of our competitive benefits package, which helps Tesco recruit and retain the best people. The trustees manage and fund our scheme on an actuarial valuation basis and, at our triennial valuation dated 31 March 2008, the scheme had a small deficit of £275m.

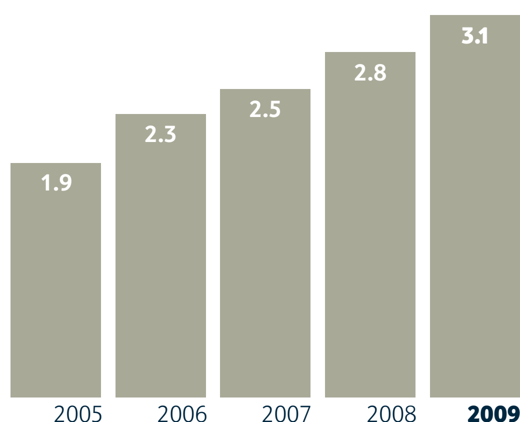
Following the valuation, member and company contributions have increased and, to further improve the security of the scheme for members, the trustees will be granted contingent property assets worth £500m.

As at February 2009, under the IAS 19 methodology of pension liability valuation, the scheme had a deficit on a post-tax basis of £1.1bn (last year £0.6bn). This change has been driven mainly by falls in capital markets and other asset classes, although the deficit is similar to the level reported at our Interim results.

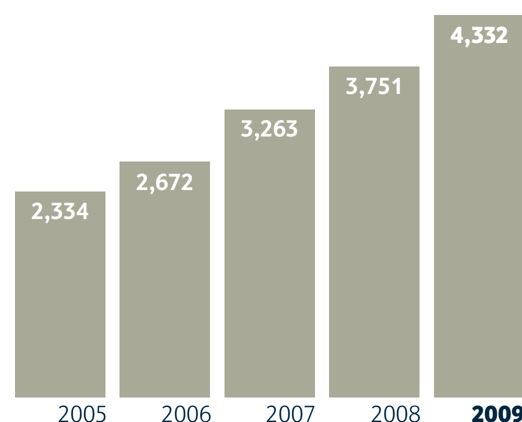
Return on capital employed In January 2004, we said that we had an aspiration to increase our post-tax return on capital employed (ROCE) of 10.2% in the 2002/3 financial year by 200 basis points over five years on then current plans. In April 2006, we renewed our commitment to increasing our post-tax return on capital employed (ROCE) by a further 200 basis points, having exceeded our 2004 aspiration early.

ROCE rose slightly to 13.0% in the year before the effect of the two major acquisitions – TPF and Homever – which were completed in the second half. This represents a good performance and we remain on track to deliver our targeted ROCE improvement in the years ahead as these investments mature.

Underlying profit before tax (£bn)



Number of stores



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Key performance indicators*

We operate a balanced scorecard approach to managing the business that is known internally within the Group as our 'Steering Wheel'. This unites the Group's resources and in particular focuses the efforts of our staff around our customers, people, operations, finance and the community. Its prime focus is as a management tool for the company so that there is appropriate balance in the trade-offs that need to be made all the time between the main levers of management – such as operations measures, financial measures or delivery of customer metrics.

It therefore enables the business to be operated and monitored on a balanced basis with due regard to the needs of all stakeholders. For the owners of the business, it is simply based around the philosophy that if we look after customers well and operate efficiently and effectively then shareholders' interests will always be best served by the inevitable outputs of those – growth in sales, profits and returns.

	2009	2008
Sales growth		
Change in Group sales over the year (including value added tax)	**15.1%**	11.1%
UK sales growth	**9.5%**	6.7%
International sales growth	**30.6%**	25.3%
International sales growth (at constant exchange rates)	**13.6%**	22.5%
Retailing Services sales growth	**11%**	–
Profit before tax	**£2,954m**	£2,803m
Underlying profit before tax	**£3,128m**	£2,846m
Trading margin		
UK trading margin	**6.2%**	5.9%
International trading margin (excluding the United States)	**5.3%**	5.6%†
Trading margin is calculated from the trading profit expressed as a percentage of Group revenue (sales excluding value added tax). It is a measure of profit generation from sales and is a comparable performance measure with other companies. This is how much we made from trade in our stores, taking account of the cost of the products sold, wages and salaries, expenses associated with running the stores, depots and head office, and the cost of depreciation of the assets used to generate the profits. Trading profit is stated after adjusting operating profit for the impact of IAS 19, IAS 32 and IAS 39 (principally pension costs and the marking to market of financial instruments). It also excludes the non-cash elements of IAS 17 'Leases', relating to the impact of annual uplifts in rents and rent-free periods, and the IFRS 3 amortisation charge on intangible assets arising on the acquisition of Tesco Personal Finance (TPF).		
Net cash inflow/(outflow)	**£1,601m**	£801m
Net cash inflow is the cash received less cash spent during the financial period, after financing activities		
Capital expenditure	**£4.7bn**	£3.9bn
This is the amount invested in purchasing fixed assets		
UK	**£2.6bn**	£2.3bn
International	**£2.1bn**	£1.6bn
Net borrowings and gearing		
Net borrowings	**£9.6bn**	£6.2bn
Gearing	**74%**	52%
Return on capital employed (ROCE)	**13.0%‡**	12.9%**
ROCE is calculated as profit before interest less tax divided by the average of net assets plus net debt plus dividend creditor less net assets held for sale. 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.		
Underlying diluted earnings per share	**28.92p§**	27.02p
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.		

* All 2009 KPIs are for 53 weeks to 28 February 2009 unless otherwise stated.
† International trading margins rose by 15 basis points excluding the impact of consolidating the China business.
‡ Excluding acquisitions of TPF and Homever, India start-up costs, and after adjusting for assets held for sale.
** Using a 'normalised' tax rate before 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 of Dobbies.
§ Underlying diluted earnings per share grew by 7% on a statutory basis.

	2009	2008
Total shareholder return	**8.0%**	22.8%
Total shareholder return is the notional return from a share and is measured as the percentage change in the share price, plus the dividend paid. This is measured over the last five years.		
Full year dividend per share	**11.96p**	10.90p
The growth of the dividend per share from one period to the next is important to shareholders since this represents their actual cash return, and is usually paid twice a year.		

We monitor a wide range of KPIs, both financial and non-financial. Individual business units have their own versions of the Steering Wheel which incorporate their own priorities and KPIs. Some of the Group KPIs below are tracked through the Steering Wheel and those above are tracked as a monitor of investor return.

Across the Group, KPIs are set for local markets, with oversight from the Executive Directors, to ensure they are tailored to drive the priorities of each business.

The following are some KPIs for the UK and Group operations:

	2009	2008
UK market share		
Grocery market share**	**22.2%**	21.8%
Non-food market share	**8.8%**	8.5%
Employee retention	**87%**	84%
This measure shows the percentage of employees who have stayed with the business for longer than one year. It is one measure that we use to monitor employee loyalty and satisfaction and we aim to exceed 80% retention of experienced staff.		
Reduction in CO_2 emissions††		
UK	**13.3%**	3.8%
The Group	**12.6%**	3.8%
This measure shows the overall reduction in emissions from energy use of existing stores and distribution centres, related to a fixed (2006/7) floor area. It excludes refrigerant gas emissions.		
Reduction in CO_2 emissions intensity of new stores††		
The Group	**20.9%**	11.7%
Intensity is measured as CO_2 emissions/sq ft. The measure indicates the average reduction in emissions intensity of all new stores built since 2006/7 (the base year). Carbon footprint reporting has been assured by Environmental Resources Management (ERM).		

** This is measured as the share of all spend by all shoppers through Taylor Nelson Sofres Superpanel (Total Till Roll) data.
†† Figures adjusted for 52-week comparison.

Risks and uncertainties

Introduction 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 consequence.

The Board has overall responsibility for 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 47 of the Corporate Governance section of this Annual Report and Financial Statements. The key risks faced by the Group and relevant mitigating factors are set out below.

Business strategy If our strategy follows the wrong direction or is not effectively communicated then the business may suffer. We need to understand and properly manage strategic risk in order to deliver long-term growth for the benefit of all our stakeholders. Our strategy is based on five elements: to become a successful international retailer, to grow the core UK business, be as strong in non-food as in food, develop retailing services and put the community at the heart of what we do. Pursuit of this five-part strategy has allowed the business to diversify and, at a strategic level, diversification and pursuit of growth in emerging markets have the effect of reducing overall risk by avoiding reliance on a small number of business areas. However, by its very nature, diversification also introduces new risks to be managed in areas of the business that are less mature and less fully understood.

To ensure the Group continues to pursue the right strategy, the Board discusses strategic issues at every Board meeting, and dedicates two full days a year to reviewing the Group's strategy. The Executive Committee also holds specific sessions to discuss strategy on a regular basis. We have structured programmes for engaging with all our stakeholders including customers, employees, investors, suppliers, government, media and non-governmental organisations. We also invest significant resources in ensuring our strategy is communicated well and understood by the parties who are key to delivering it. The business operates a Steering Wheel – a balanced scorecard process whereby we set goals for different areas of the business and assess our overall progress on a quarterly basis – in all countries and significant business units such as Dotcom to help manage performance and deliver business strategy.

Financial strategy and Group treasury risk The main financial risks of the Group relate to the availability of funds to meet business needs, the risk of default by counterparties to financial transactions, and fluctuations in interest and foreign exchange rates. The risks associated with operating Tesco Personal Finance are covered under Financial services risks below.

The Treasury function is mandated by the Board to manage the financial risks that arise in relation to underlying business needs. The function has clear policies and operating parameters, and its activities are routinely reviewed and audited. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. A description of the role of the Finance Committee and Internal and External Audit is set out in the Corporate Governance section on page 48.

Financial services risks Through Tesco Personal Finance PLC (formerly Tesco Personal Finance Group Limited) (TPF), the Group is subject to certain risks relating to the personal financial services industry in the UK.

TPF is subject to significant legislative and regulatory oversight. In particular, TPF is subject to supervision by the Financial Services Authority (FSA), which has substantial powers of intervention, and is required to satisfy certain capital adequacy and liquidity ratios. If TPF is unable or fails to satisfy these ratios in the future, it could lose its licence and, consequently, its ability to transact business.

TPF is subject to various risks associated with the provision of financial services. In relation to its insurance business, TPF may experience a concentration of risks from natural or man-made disasters. In addition, market conditions may not allow TPF to purchase the amount of re-insurance it considers necessary on terms it considers acceptable. Actual claims may exceed the claims provisions that have been made on the basis of past experience. TPF's credit card receivables and personal loan portfolio may be subject to changes in credit quality, due to a general deterioration in economic conditions or by failures in its credit assessment process, which could adversely impact its ability to recover amounts due. Furthermore, there is significant competition in the financial services industry, which could adversely affect TPF's market share and profitability. Legal developments, changes in legal interpretation or precedent, and changes in public policy may result in new risks emerging in addition to those anticipated.

Because TPF is an FSA-regulated entity, its treasury function is run independently from the rest of the Group. TPF's treasury risks include, in particular, liquidity risk and interest rate risk (in particular, in the interest rate margin realised between lending and borrowing costs). TPF is also subject to the risk of unexpected losses arising from operational failure, whether as a result of human error, systems failures, fraud or inadequate controls.

Operational threats and performance risk in the business There is a risk that our business may not deliver the stated strategy in full, particularly since, like all retailers, the business is susceptible to economic downturn that could affect consumer spending. The continuing acquisition and development of property sites also forms an intrinsic part of our strategy and this carries inherent risks.

We try to deliver what customers want better than our competitors by understanding and responding to their behaviour. All of our business units have stretching targets based on the Steering Wheel and the performance of business units is monitored continually and reported regularly to the Board. We manage the acquisition and development of our property assets carefully. We consider and assess in detail every site at each stage of acquisition and development and ensure that relevant action is taken to minimise any risks.

Competition and consolidation The retail industry is highly competitive. The Group competes with a wide variety of retailers of varying sizes and faces increased competition from UK retailers as well as international operators in the UK and overseas.

Failure to compete with competitors on areas including price, product range, quality and service could have an adverse effect on the Group's financial results.

We aim to have a broad appeal in price, range and store format in a way that allows us to compete in different markets. We track performance against a range of measures that customers tell us are critical to their shopping trip experience and we constantly monitor customer perceptions of ourselves and our competitors to ensure we can respond quickly if we need to.

People capabilities Our greatest asset is our employees. It is critical to our success to attract, retain, develop and motivate the best people with the right capabilities at all levels of operations. We review our people policies regularly and are committed to investing in training and development and incentives for our people. Our 'Talent Planning' process helps individuals achieve their full potential. We also carry out succession planning to ensure that the needs of the business going forward are considered and provided for. There are clear processes for understanding and responding 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.

Reputational risk As the largest retailer in the UK, expectations of the Group are high. Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in a decline in the customer base and affect the ability to recruit and retain good people.

Like other companies we must consider potential threats to our reputation and the consequences of reputational damage. Emotional loyalty to the Tesco brand has helped us diversify into new areas like retail services and non-food and we recognise the commercial imperative to do the right thing for all our stakeholders and avoid the loss of such loyalty. The 'Tesco Values' are embedded in the way we do business at every level and our Code of Ethics guides our behaviour in our dealings with customers, employees and suppliers.

We engage with stakeholders in every sphere to take into account their views and we try to ensure our strategy reflects them. The launch of the Community Plan in 2006 has demonstrated our commitment to tackling a wide range of societal and environmental issues. We have high level committees, including the Executive Committee, Corporate Responsibility Committee and Compliance Committee, to help guide and monitor our policies.

Environmental risks Our key environmental risks are related to minimising energy usage in stores and transportation, waste management and our ability to respond to consumer concerns in this area. We develop environmental policy through engaging with key stakeholders and experts in this field to achieve sustainable growth and minimise our environmental impacts. The Group's approach is brought together in a consistent manner by the Corporate Responsibility Committee.

Policy is reviewed regularly by the Compliance Committee and Corporate Responsibility Committee. We recognise the opportunities for competitive advantage through energy efficiency and look for continuous improvement through innovations and better ways to help customers act responsibly towards the environment.

Product safety The safety and quality of our products is of paramount importance to Tesco as well as being essential for maintaining customer trust and confidence. A breach in confidence could affect the size of our customer base and hence financial results.

We have detailed and established procedures for ensuring product integrity at all times, especially for our own-label products. There are strict product safety processes and regular management reports. We work in partnership with suppliers to ensure mutual understanding of the standards required. We also monitor developments in areas such as health, safety and nutrition in order to respond appropriately to changing customer trends and new legislation. We have clear processes for crisis management, pulling together expert teams should we need to respond quickly on issues.

Health and safety risks While the safety of our staff and customers is of the utmost importance to us, if we are unable to provide safe environments for our staff and customers this could lead to injuries or loss of life.

We operate stringent health and safety processes in line with best practice in our stores, distribution centres and offices, which are monitored and audited regularly. KPIs for preventing health and safety incidents form an intrinsic part of our Steering Wheels across the business, and performance against these KPIs is reported quarterly. Our Group Compliance Committee and the compliance committees in our international businesses monitor the level of compliance with health and safety laws and our internal policies on a regular basis.

Ethical risks in the supply chain Millions of people around the world work for direct suppliers to Tesco and the supply chain is made of complex relationships – from individual farmers and growers through to processors, manufacturers and distributors. At the heart of our Values is our belief that we should treat people as we like to be treated and we have a responsibility to help workers in our supply chain enjoy fair labour standards. We therefore require our suppliers to meet strict criteria on labour standards, and as a founder member of the Ethical Trading Initiative (ETI) we expect all our suppliers to follow the ETI base code and guarantee their workers the rights set out within it. There is, however, a risk that any part of the supply chain might not adhere to these high standards.

To minimise this risk we only work with suppliers who can demonstrate that they are committed to the ETI code and share our values. We use Supplier Ethical Data Exchange (SEDEX) to carry out risk assessment of all our direct suppliers and all medium and high-risk suppliers must undergo an extensive, independent ethical audit. We continue to operate a comprehensive programme of audit improvements, including more unannounced audits, a Trading Fairly strategy and an industry-leading Auditor Recognition programme. We have also sought to involve more multi-stakeholder representatives on our audits to improve workforce engagement and enable activists to see and feedback on our approach. We work with suppliers to identify any problems and, where they exist, support them in taking action to improve standards for their workers.

We have also invested heavily in building the labour standards capabilities of our suppliers and our own commercial teams in the last year, including rolling out extensive training, to help them identify and avoid issues before they arise. We also work with businesses, governments, non-governmental organisations (NGOs) and others to tackle complex and systemic problems that we cannot solve on our own. As well as having a key role in the ETI we also work closely with the Global Social Compliance Programme and other groups in specific industries or regions.

Fraud and compliance As the business grows in size and geographical spread, the risk of occurrence of fraudulent behaviour by our employees increases. Whilst the vast majority of our staff are completely honest, there remains the potential for fraud and other dishonest activity at all levels of the business from the shop floor to senior management.

The Group takes extensive steps to reduce this risk. Relevant accounting and other procedures and controls at all levels are clearly set out and audited across the business to reduce the risk of fraud. The Group gives clear guidance on behaviour to employees through the Tesco Values and the Code of Ethics. Internal Audit undertakes detailed investigations into all areas of the business and highlights its findings to the Audit Committee. The Compliance Committee formulates and monitors the implementation of, and compliance with appropriate policies on key areas of ethical behaviour, including fraud.

Property We have stretching targets for delivering new space in the UK and overseas, and may face challenges in finding suitable sites and obtaining planning or other consents to enable sites to be acquired and developed. The complexity of many of our property developments is increasing, especially the growing number of mixed-use schemes. We also have to comply with design and construction standards which vary significantly from country to country.

Our Property Acquisition Committees and other related committees in the UK, Europe, Asia and the US closely control all aspects of the property acquisition, planning and construction processes, to ensure that applicable standards are met and financial risks are minimised. Our Group and country compliance committees also monitor compliance with applicable legal and regulatory requirements in all aspects of our property activities.

Non-food risks As the proportion of our business represented by non-food products increases, there is a risk that a downturn in consumer confidence may affect the level of demand for products which consumers may regard as non-essential.

We make every effort to ensure that our non-food products are competitively priced to offer a broad range of products ranging from value to the luxury end of the market, in order to cater for the needs of as wide a range of customers as possible.

IT systems and infrastructure The business is dependent on efficient information technology (IT) systems. Any significant failure in the IT processes of our retail operations (e.g. barcode scanning or supply chain logistics) would impact our ability to trade. We recognise the essential role that IT plays across our operations in allowing us to trade efficiently and so that we can achieve commercial advantage through implementing IT innovations that improve the shopping trip for customers and make life easier for employees. We have extensive controls in place to maintain the integrity and efficiency of our IT infrastructure and we share systems from across our international operations to ensure consistency of delivery.

To find out more go to
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Risks and uncertainties continued

Regulatory and political environment We are subject to a wide variety of regulations in the different countries in which we operate because of the diverse nature of our business. Tesco may be impacted by regulatory changes in key areas such as planning laws, trading hours, and tax rules as well as by scrutiny by the competition authorities, who have been carrying out enquiries in the UK, Ireland and elsewhere. We may also be impacted by political developments in the countries in which we operate. We consider these uncertainties in the external environment when developing strategy and reviewing performance. We remain vigilant to future changes. As part of our day-to-day operations we engage with governmental and non-governmental organisations to ensure the views of our customers and employees are represented and try to anticipate and contribute to important changes in public policy wherever we operate.

Activism and terrorism A major incident or terrorist event incapacitating management, systems or stores could impact on the Group's ability to trade. In addition to contingency plans, we have security systems and processes that reflect best practice.

Pension risks The Group's pension arrangements are an important part of our employees' overall benefits package especially in the UK. We see them as a strong contributor to our ability to attract and retain good people, our Group's greatest asset. Since the implementation of IAS 19 there is a risk that the accounting valuation deficit (which is recorded as a liability on the Group Balance Sheet) could increase if returns on corporate bonds are higher than the investment return on the pension scheme's assets. The Group has considered its pension risks and has taken action by reducing risk in its investment strategy.

Joint venture governance and partnerships As we continue to enter into new partnerships and joint ventures as well as developing existing arrangements, there remains an inherent risk in managing these partnerships and joint ventures. It is more difficult to guarantee the achievement of joint goals that affect our partners and we rely on partners to help achieve such goals. We may also be impacted by reputational issues which affect our partners. We choose partners with good reputations and set out joint goals and clear contractual arrangements from the outset. We monitor performance and governance of our joint ventures and partnerships.

Financial review

The main financial risks faced by the Group relate to the availability of funds to meet business needs, the risk of default by counterparties to financial transactions, fluctuations in interest and foreign exchange rates and credit rating risks. These risks are managed as described below. The Group Balance Sheet position at 28 February 2009 is representative of the position throughout the year.

Funding and liquidity The Group finances its operations by a combination of retained profits, long and medium-term debt, capital market issues, 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 by Moody's and A- by Standard and Poor's with a stable outlook. New funding of £5.6bn was arranged during the year, including a net £0.7bn from property transactions and £4.9bn from medium-term notes (MTNs). At the year end, net debt was £9.6bn (last year £6.2bn).

Interest rate risk management The objective is to limit our exposure to increases in interest rates while retaining the opportunity to benefit from interest rate reductions. Forward rate agreements, interest rate swaps, caps and collars are used to achieve the desired mix of fixed and floating rate debt.

The policy is to fix or cap a minimum of 40% of actual and projected debt interest costs of the Group excluding TPF. At the year end, £6.3bn of debt was in fixed rate form (last year £2.5bn) with a further £0.7bn of debt capped or collared, therefore 72% (2008 – 55%) of net debt is fixed, capped or collared. The remaining balance of our debt is in floating rate form. The average rate of interest paid on an historic cost basis excluding joint ventures and associates this year was 5.2% (last year 4.5%).

Foreign currency risk management Our principal objective is to reduce the effect of exchange rate volatility on short-term profits. Transactional currency exposures that could significantly impact the Group Income Statement are hedged, 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 £2,110m were outstanding (2008 – £1,198m) as detailed in note 22. We hedge the majority of our investments in our international subsidiaries via foreign exchange transactions in matching currencies. Our objective is to maintain a low cost of borrowing and hedge against material movements in our Group Balance Sheet value. During the year, currency movements increased the net value of the Group's overseas assets by £480m (last year increase of £284m). We translate overseas profits at average foreign exchange rates which we do not currently seek to hedge.

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 high credit quality. The Group's positions with these counterparties and their credit ratings are routinely monitored.

Tesco Personal Finance (TPF) TPF became a wholly owned subsidiary of Tesco Group on 19 December 2008. In preparation for this change the risk management and treasury capabilities of TPF have been materially strengthened. All policies pertaining to risk within TPF are now subject to TPF governance procedures which are owned by the TPF Board.

TPF has a banking business, predominantly in the UK, with the three main products being credit cards, unsecured personal loans and savings. TPF has also developed a significant insurance business, with motor, home and pet insurance being the main products.

Credit risk, arising from its unsecured lending, is managed using all the normal reporting and collections and recoveries systems. In terms of liquidity risk TPF has implemented a conservative approach to the minimum amount of liquid assets its holds and to its core funding ratio of customer assets/customer liabilities. TPF has at this stage in its development an increased element of operational risk as it currently outsources most of its operations to Royal Bank of Scotland Group whilst at the same time it is in the process of building new banking and insurance systems. TPF retains profit and loss risk to its insurance activities of which a large weather related event would generate the largest adverse variance.

Insurance We purchased Assets, Earnings and Combined Liability protection from the open insurance market at 'catastrophe' level only. The risk not transferred to the insurance market is retained within the business by using our captive insurance companies, Tesco Insurance Limited in Guernsey and Valiant Insurance Company Limited in the Republic of Ireland. Tesco Insurance Limited covers Assets and Earnings, while Valiant Insurance Company Limited covers Combined Liability.

Statement of compliance

This Business Review has been prepared in accordance with the requirements for a business review under the Companies Acts 1985 and 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 'Risks and uncertainties' on pages 38 to 40 of this document.

General information

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

Group results Group revenue rose by £7bn to £54.3bn, representing an increase of 15%. Group profit before tax increased by £151m, to £2,954m. Profit for the year was £2,166m, of which £2,161m was attributable to equity holders of the parent company.

Dividends The Directors recommend the payment of a final dividend of 8.39p per ordinary share, to be paid on 10 July 2009 to members on the Register at the close of business on 1 May 2009. Together with the interim dividend of 3.57p per ordinary share paid in December 2008, the total dividend for the year will be 11.96p compared with 10.90p for the previous year, an increase of 9.7%.

Fixed assets Capital expenditure (excluding business combinations) amounted to £4.7bn compared with £3.9bn the previous year. In the Directors' opinion, the properties of the Group have a market value in excess of the carrying value of £7bn 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 114. Details of treasury shares held by the Company are shown in note 30 on page 115. During the year 25,214,811 ordinary shares were repurchased for cancellation. No shareholder holds securities carrying special rights with regards to control of the Company and there are no restrictions on voting rights. The Board has power to purchase its own shares and is seeking renewal of that power 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, but voting rights and rights of acceptance of any offer relating to the shares rests with the Trustees, who may take account of any recommendation of the Company, and are not exercisable by the employees.

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 that as at the date of this report Legal & General Investment Management Limited owns 4.55% of the issued share capital of the Company. The Company is not aware of any other ordinary shareholders with interests of 3% or more in 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:

Mr D E Reid; Mr R F Chase CBE; Sir Terry Leahy; Mr R Brasher; Mr P A Clarke; Mr A T Higginson; Mr T J R Mason; Mr L McIlwee; Miss L Neville-Rolfe CMG; Mr D T Potts; Mr C L Allen CBE; Ms J Tammenoms Bakker; Mr P Cescau; Mrs K Cook; Mr E M Davies CBE; Dr H Einsmann; Mr K J Hydon; and Ms C McCall.

Ms C McCall resigned from the Board on 10 April 2008 and Mr E M Davies CBE resigned from the Board on 31 October 2008. The biographical details of the present Directors are set out on page 43 of this Report. Ms Tammenoms Bakker, Mr Cescau, Mr Hanna and Mr McIlwee were appointed to the Board in the last 12 months and, as required by the articles of association, offer themselves for election. Mr Allen, Mr Brasher, Mr Clarke, Dr H Einsmann and Mr Higginson retire from the Board by rotation and, being eligible, offer themselves for re-election. 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 50 to 64.

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, or disability. 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 £28,278,867 (2008 – £22,655,173). Contributions to community projects including cause-related marketing, gifts-in-kind, staff time and management costs amounted to £57,094,208 (2008 – £54,542,913). There were no political donations (2008 – £nil). During the year, the Group made contributions of £55,468 (2008 – £45,023) in the form of sponsorship for political events: Labour Party £15,500; Liberal Democrat Party £6,150; Conservative Party £8,595; Scottish National Party £7,343; Plaid Cymru £1,880; trade unions £16,000.

Supplier payment policy Tesco PLC is a signatory to the CBI Code of Prompt Payment. Copies of the Code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Payment terms and conditions are agreed with suppliers in advance. Tesco PLC has no trade creditors on its Balance Sheet. The Group pays its creditors on a pay on time basis which varies according to the type of product and territory in which the suppliers operate.

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 Annual General Meeting.

Directors' statement of dislosure 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

David Reid

Rodney Chase

Sir Terry Leahy

Richard Brasher

Philip Clarke

Andrew Higginson

Tim Mason

Laurie McIlwee

Lucy Neville-Rolfe

David Potts

Charles Allen

Patrick Cescau

Karen Cook

Dr Harald Einsmann

Ken Hanna

Ken Hydon

Jacqueline Tammenoms Bakker

Jonathan Lloyd

David Reid – 62•
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 of Reed Elsevier Group PLC and Chairman of Kwik-Fit Group.

Rodney Chase CBE – 65• ◆ ■
Deputy Chairman and Senior Non-executive Director
Rodney Chase was appointed a Non-executive Director on 1 July 2002. He is Non-executive Chairman of Petrofac Limited and a Non-executive Director of Computer Sciences Corporation in Los Angeles, Nalco Company in Chicago and Tesoro Corporation in San Antonio.

Sir Terry Leahy – 53•
Chief Executive
Terry Leahy became Chief Executive in 1997. Joining Tesco in 1979, he held a number of marketing and commercial positions prior to being appointed to the Board of Tesco PLC on 5 October 1992.

Richard Brasher – 47
Commercial and Marketing Director
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 Non-food Commercial Director.

Philip Clarke – 48
International and IT Director
Philip Clarke was appointed to the Board on 16 November 1998. Prior to his appointment he held a number of roles in store operations, commercial and marketing. He is a Non-executive Director of Whitbread PLC.

Andrew Higginson – 51
Chief Executive of Retailing Services and Group Strategy Director
Andrew Higginson was appointed to the Board on 17 November 1997. He has recently taken up a new Board position as Chief Executive of Retailing Services, retaining his responsibilities for Tesco Group strategy. He is Chairman of Tesco Personal Finance and a Non-executive Director of BSkyB plc.

Tim Mason – 51
President and Chief Executive Officer, Fresh & Easy
Tim Mason has been President and Chief Executive Officer, Fresh & Easy Neighborhood Market since January 2006. He was appointed to the Board on 16 February 1995. He joined Tesco in 1982.

Laurie McIlwee – 46
Group Finance Director
Laurie McIlwee was appointed to the Board on 27 January 2009. He joined Tesco in 2000 as UK Finance Director and Distribution Director in 2005. He is currently a member of the 100 Group of Finance Directors.

Lucy Neville-Rolfe, CMG – 56
Corporate & Legal Affairs Director
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 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.

David Potts – 51
Retail and Logistics Director
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 have included the UK Supply Chain and the Republic of Ireland.

Charles Allen CBE – 52• ■
Non-executive Director
Charles Allen was appointed a Non-executive Director on 19 February 1999. He was Chief Executive of ITV plc from 2004 to 2007. He is Chairman of Global Radio and is a Non-executive Director of the London Organising Committee of the Olympics and Paralympics.

Patrick Cescau – 60• ◆ ■
Non-executive Director
Patrick Cescau was appointed a Non-executive Director on 1 February 2009. 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. Patrick was appointed a Chevalier de la Légion d'honneur in 2005.

Karen Cook – 55• ■
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.

Dr Harald Einsmann – 75• ■
Non-executive Director
Dr Harald Einsmann was appointed a Non-executive Director on 1 April 1999. He is on the Board of Carlson Group of Companies, Harman International Industries Inc. and Checkpoint Systems Inc. in the United States. He is also on the Board of Rezidor AB in Sweden.

Ken Hanna – 55• ◆ ■
Non-executive Director
Ken Hanna was appointed a Non-executive Director on 1 April 2009. He is Chairman of Inchcape PLC. He was previously Chief Financial Officer of Cadbury PLC until January 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.

Ken Hydon – 64• ◆
Non-executive Director
Ken Hydon was appointed a Non-executive Director on 23 February 2004. He is also a Non-executive Director of Reckitt Benckiser plc, The Royal Berkshire NHS Foundation Trust and Pearson PLC.

Jacqueline Tammenoms Bakker – 55•
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 was appointed a Chevalier de la Légion d'honneur in 2006.

Jonathan Lloyd – 42
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.

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

To find out more go to
www.tesco.com/annualreport09

Corporate governance

Directors' report on corporate governance
Tesco PLC is committed to the highest standards of corporate governance as we recognise that good governance is crucial in helping the business to deliver its strategy, generating shareholder value and safeguarding our shareholders' long-term interests.

Compliance with the Combined Code
The Combined Code on Corporate Governance sets out guidance in the form of principles and 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 Section 1 of the Combined Code, how they have applied the principles and whether they have complied with its 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 Combined Code principles of Corporate Governance and Code of Best Practice for the whole of the year ended 28 February 2009, with the exception of provision A.3.2, in respect of which the company was not in compliance for part of the year.

Provision A.3.2 requires that at least half 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. There were, however, two unexpected changes to the Board in the year, with the resignation of Carolyn McCall and E Mervyn Davies as Non-executive Directors due to conflicts of interest, which resulted in the Board not being in balance.

While the process of finding replacements for Carolyn McCall and E Mervyn Davies was started immediately, the Board places a priority on ensuring that the right candidates are selected and the process of recruiting individuals with the right experience, availability and skills to complement those of the existing Board can take a significant amount of time. The Company announced the appointment of two new Non-executive Directors on 17 December 2008 as replacements for the two Non-executive Directors who had resigned, and the appointment of a further Non-executive Director was announced on 12 January 2009, in order to ensure that the Board remained in balance once the new Group Finance Director, Laurie McIlwee, was appointed on 27 January 2009. Jacqueline Tammenoms Bakker and Patrick Cescau joined the Board with effect from 1 January and 1 February respectively, and Ken Hanna joined the Board with effect from 1 April 2009, at which point the Board became once again fully compliant with provision A.3.2.

Further information on the Combined Code provision be found at www.frc.org.uk.

Board composition and independence
As at 28 February 2009, the Board of Tesco PLC comprised eight Executive Directors, seven independent Non-executive Directors and David Reid, Non-executive Chairman. Rodney Chase is Deputy Chairman and Senior Independent Non-executive Director. Ken Hanna joined the Board on 1 April 2009.

The structure of the Board and 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 page 43 of this Report.

Changes to the Board since 24 February 2008 are as follows:

Carolyn McCall	Non-executive Director	Resigned 10 April 2008
E Mervyn Davies	Non-executive Director	Resigned 31 October 2008
Jacqueline Tammenoms Bakker	Non-executive Director	Appointed 1 January 2009
Laurie McIlwee	Executive Director	Appointed 27 January 2009
Patrick Cescau	Non-executive Director	Appointed 1 February 2009
Ken Hanna	Non-executive Director	Appointed 1 April 2009

Election of Directors
All Directors have to submit themselves for re-election at least every three years 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.

The Chairman
Clear divisions of accountability and responsibility exist and operate effectively for the positions of Chairman and Chief Executive. The Chairman has primary responsibility for running the Board, while the Chief Executive has executive responsibilities for the operations and results of the Group and making proposals to the Board for the strategic development of the Group.

Senior Independent Director
The Board has appointed one Non-executive Director, Rodney Chase, to act as Senior Independent Director. The Senior Independent Director is available to shareholders to assist in resolving concerns, should the alternative channels be inappropriate. The Senior Independent Director is also required to lead the discussion in relation to assessing the effectiveness of the Chairman's performance.

Non-executive Directors
The Non-executive Directors bring a wide range of skills and experience, as well as independent judgement on strategy, risk and performance to the Company.

Both Charles Allen and Harald Einsmann have served on the Board for ten years. The Chairman has conducted a thorough review with each Director to assess his independence and contributions to the Board and confirmed that they both continue to be effective independent Non-executive Directors. Charles Allen brings extensive corporate operational experience and knowledge of the media industry and provides leadership for the Remuneration Committee. Through his wealth of business experience Harald Einsmann contributes a valued dimension to the Board in terms of international marketing, brand building and human resource development. Both Charles Allen and Harald Einsmann will retire and offer themselves for re-election at this year's Annual General Meeting. Thereafter they may submit themselves for re-election each year if the Board considers them to be eligible.

Number of meetings	Full Board meetings		Audit Committee		Remuneration Committee		Nominations Committee	
	Actual	Possible	Actual	Possible	Actual	Possible	Actual	Possible
Non-executive Directors								
David Reid (Chairman)	9	9	–	–	–	–	4	4
Charles Allen CBE	9	9	–	–	10	10	4	4
Patrick Cescau (appointed 1.2.09)	1	1	1	1	1	1	0	0
Rodney Chase CBE (Senior Independent Director)	9	9	5	5	10	10	4	4
Karen Cook	8	9	–	–	9	10	4	4
E Mervyn Davies (resigned 31.10.08)	3	6	2	4	4	7	1	2
Harald Einsmann	9	9	–	–	9	10	4	4
Ken Hydon	9	9	5	5	–	–	4	4
Carolyn McCall (resigned 10.4.08)	1	1	1	2	–	–	0	1
Jacqueline Tammenoms Bakker (appointed 1.1.09)	2	2	–	–	–	–	1	1
Executive Directors								
Sir Terry Leahy	8	9	–	–	–	–	4	4
Richard Brasher	9	9	–	–	–	–	–	–
Philip Clarke	8	9	–	–	–	–	–	–
Andrew Higginson	9	9	–	–	–	–	–	–
Tim Mason	8	9	–	–	–	–	–	–
Laurie McIlwee (appointed 27.01.09)	1	1	–	–	–	–	–	–
Lucy Neville-Rolfe CMG	9	9	–	–	–	–	–	–
David Potts	9	9	–	–	–	–	–	–

Board responsibilities
The Board has set out a clear Schedule of Matters Reserved for Board Decision in order to ensure its overall control of the Group's affairs. These 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.

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.

Attendance at meetings
The Board scheduled nine meetings in the year ended 28 February 2009 including a two-day off-site meeting which considered the Group's strategy. Ad hoc meetings were also convened to deal with matters between scheduled meetings as appropriate. It is expected that all Directors attend scheduled Board and 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 due to conflicts in their schedules, they receive the papers scheduled for discussion in the relevant meetings, giving them the opportunity to relay any comments to the Chairman in advance of the meeting. Directors leave the meeting where matters relating to them or which may constitute a conflict of interest are being discussed.

The table above shows the attendance of Directors at scheduled Board meetings and at meetings of the Nominations, Remuneration and Audit Committees during the year.

Board processes
The Board governs through a number of statutory Board Committees – 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.tesco.com/boardprocess. The Board is serviced by the Company Secretary, who reports to the Chairman in respect of his core duties to the Board.

Corporate governance continued

David Reid Nominations Committee Chairman

Charles Allen Remuneration Committee Chairman

Ken Hydon Audit Committee Chairman

Nominations Committee
Members:

- David Reid (Chairman)
- Charles Allen
- Patrick Cescau (from 1 February 2009)
- Rodney Chase
- Karen Cook
- E Mervyn Davies (until 31 October 2008)
- Dr Harald Einsmann
- Ken Hydon
- Carolyn McCall (until 10 April 2008)
- Jacqueline Tammenoms Bakker (from 1 January 2009)
- Sir Terry Leahy

From 1 April 2009:
- Ken Hanna

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 statutory 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 Non-executive Director chairs the meeting. The Nominations Committee met four times in the year to discuss the ongoing shape and capability of the Board. As well as reviewing the performance and development of the Executive Directors and the senior executive levels below the Board, the Committee also regularly reviews board structure, size, composition, working arrangements and capability, and considers succession plans for Executive and Non-executive Directors.

During the year the Committee continued the effort of identifying suitable candidates for the position of Non-executive Director, and a successor for the position of Group Finance Director. External search consultants were engaged to identify candidates. The Chairman and CEO then met candidates before recommending a shortlist to the Committee. The Committee members interviewed the candidates before recommending three new appointments of Non-executive Directors to the Board. A similar process was followed for the selection of the new Group Finance Director except that, in addition to identifying potential external candidates, the external search consultants also carried out benchmarking of internal candidates.

Remuneration Committee
Members (all independent Non-executive Directors):

- Charles Allen (Chairman)
- Patrick Cescau (from 1 February 2009)
- Rodney Chase
- Karen Cook
- E Mervyn Davies (until 31 October 2008)
- Dr Harald Einsmann

From 1 April 2009:
- Ken Hanna

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 Chief Executive attends 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 ten times this year. Each year it conducts a review of the Committee's 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 Combined Code, are set out in the Directors' Remuneration Report on pages 50 to 64.

Audit Committee
Members (all independent Non-executive Directors):

- Ken Hydon (Chairman)
- Patrick Cescau (from 1 February 2009)
- Rodney Chase
- E Mervyn Davies (until 31 October 2008)
- Carolyn McCall (until 10 April 2008)

From 1 April 2009:
- Ken Hanna

The Audit Committee's primary responsibilities are to review the financial statements, 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, as well as to review the programme of Internal Audit.

At the invitation of the Committee, the Chairman of the Board, the Finance Director and his representatives, the Head of Internal Audit, the Corporate and Legal Affairs Director, other relevant Executive Directors and representatives of the external auditors regularly attend meetings. The Company Secretary also attends in his capacity as Secretary of the Committee.

The Committee met five times this year and took advantage of an overseas Board meeting to meet with local management and review risks and controls. The Committee also had regular private meetings with the external auditors and Head of Internal Audit. During the year the Committee received presentations on whistleblowing, IT security, fraud, bribery and corruption, business continuity and updates from business units. Each year the Committee conducts a review of its own effectiveness and its Terms of Reference.

The need for training is kept under review and the annual agenda ensures time is dedicated to technical updates which are generally provided by external experts. This year training was provided on accounting and reporting developments under IFRS, IFRIC, IAS, and other relevant guidance and standards. Training is also provided to meet specific individual needs of Committee members.

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 comprises the eight Executive Directors and is chaired by the Chief Executive. The Committee, which is not a statutory 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 every week. A number of senior executives also attend the Committee and their valuable operational experience helps broaden the debate. Their attendance facilitates the communication of the Committee's decisions to the rest of the Group. 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 Executive Committee has set up further non-statutory committees – including the Finance, Compliance and Corporate Responsibility Committees (which are described in more detail below) – and 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.

Procedures to deal with Director's conflicts of interest
The Company has procedures in place to deal with the situation where a Director has a conflict of interest. The procedures have been revised in accordance with the new provisions set out in Companies Act 2006. As part of 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 Companies Act 2006;
- keep records and board minutes as to authorisation granted by Directors and the scope of any approvals given; and
- regularly review conflict authorisation.

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 taking into account feedback from new Directors, and will usually include an overview of the business model and Board processes, meetings with the Executive team and senior managers, site visits across our international operations and briefings on key issues (including social, ethical and environmental (SEE) issues). Directors also receive an induction to those Board Committees he or she will serve on.

The need for Director training is regularly assessed by the Board and regular training sessions are arranged to provide an opportunity for upskilling of the Directors on a variety of areas relevant to the Group's business, including SEE issues. In the coming year the Board proposes to hold training sessions focusing, inter alia, on the regulation and governance issues associated with operating a financial services business, following the acquisition of Tesco Personal Finance.

The Board usually holds at least one meeting overseas each year to facilitate the Directors' understanding of the Group's international operations. In March 2008, the Board convened in the USA to enhance their understanding of the progress of the Fresh & Easy operation.

Board performance evaluation
The performance of the Board is a fundamental component of the Group's success. The Board regularly reviews its own performance. During the year ended 28 February 2009, the Board assessed its own performance. This assessment was co-ordinated and directed by the Chairman with the support of the Company Secretary. A questionnaire covering the main areas of evaluation was prepared by the Chairman and the Company Secretary and formed the basis of in-depth interviews with each Director. The results of the evaluation were considered by the Board, and confirmed the strength of the strategic and entrepreneurial leadership of the Company, a sound governance framework and practices compliant with the Combined Code.

The Chief Executive reviews the performance of each Executive Director. The Chairman reviews the performance of the Chief Executive and each Non-executive Director. 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. The Senior Independent Non-executive Director met with the Non-executive Directors in the absence of the Chairman, to assess the Chairman's performance.

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 of long-term growth and returns for shareholders. 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 Ethics which offers guidance on relationships between the Group and its employees, suppliers and contractors. The Company is a signatory to the DTI Code of Conduct and met its obligations for implementing the Code for the financial year ended 28 February 2009.

We operate a balanced scorecard approach that is known within the Group as our Steering Wheel. This unites the Group's resources around our customers, people, operations, community and finance. The scorecard operates at every level within the Group, from ground level business units, through to country level operations. It enables the business to be operated and monitored on a balanced basis with due regard for all stakeholders.

Corporate governance continued

Risk management
The Group maintains a Key Risk Register. The Register contains the key risks faced by the Group including their impact and likelihood as well as the controls and procedures implemented to mitigate these risks. 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 risk management process recognises there are opportunities to improve the business to be built into our future plans. Our key risks are summarised on pages 38 to 40 of the Business Review.

The risk management process is cascaded through the Group with every international CEO and local 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. We also have a Corporate Responsibility Risk Register which specifically considers Social, Ethical and Environmental (SEE) risks. Oversight of these risks is the responsibility of the Corporate Responsibility Committee. The Board assesses the 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.

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 (www.tesco.com/cr-report09) and in our Annual Corporate Responsibility Review 2009.

Internal controls
The Board is responsible for the Company's system of internal control 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 CEOs of subsidiary businesses are required to certify by way of annual statements of assurance that the Board's governance policies have been adopted both in practice and in spirit. 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.

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 non-statutory committees including the Finance Committee, Compliance Committee and Corporate Responsibility Committee. The Minutes of the Audit Committee and the various non-statutory committees (Finance, Compliance and Corporate Responsibility 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 fully 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 audit and compliance committees in each of our international businesses and our 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 Committee has satisfied itself that PricewaterhouseCoopers LLP is independent and there are adequate controls in place to safeguard its objectivity. One such measure is the non-audit services policy that sets out criteria for employing external auditors and identifies areas where it is inappropriate for PricewaterhouseCoopers LLP to work. Non-audit services work carried out by PricewaterhouseCoopers LLP is predominantly the review of subsidiary undertakings' statutory accounts, transaction work and corporate tax services, where PWC's services are considered to be the most appropriate. PricewaterhouseCoopers LLP also follows its own ethical guidelines and continually reviews its audit team to ensure its independence is not compromised.

Finance Committee
The Finance Committee, which is not a statutory committee, is chaired by the CEO, Sir Terry Leahy, and membership includes Non-executive Directors with relevant financial expertise, Executive Directors and members of senior management. The Committee usually meets twice a year and its role is to review and agree the Finance Plan on an annual basis to review reports of the Treasury and Tax functions, and to review and approve Treasury limits and delegations.

Compliance Committee
The Compliance Committee, which is not a statutory committee, is chaired by the Corporate and Legal Affairs Director, Lucy Neville-Rolfe, and includes three Executive Directors and members of senior management. The Committee normally meets six times a year and its remit is to ensure that the Group complies with all necessary laws and regulations in all of its operations world-wide. The Committee has established a schedule for the regular review of operational activities and legal exposure. Each international business in the Group has a local compliance committee designed to ensure compliance with local laws and regulations as well as Group Compliance policies, and each country compliance committee reports to the Group Compliance Committee on a regular basis.

Corporate Responsibility Committee
The Corporate Responsibility Committee, which is not a statutory committee, is chaired by the Corporate and Legal Affairs Director, Lucy Neville-Rolfe and membership is made up of senior executives from across the Group. It meets at least four times a year to support, develop and monitor policies on Social, Ethical and Environmental issues, reviewing threats and opportunities for the Group. Progress in developing Community initiatives is monitored by the use of relevant KPIs in the UK and our international businesses. 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.

Whistleblowing
The Group operates a whistleblowing policy and has a confidential 'Protector Line' service accessible to concerned employees where they can report, anonymously if necessary, on issues of malpractice within the business. These issues include unethical behaviour such as fraud, dishonesty and any practices that endanger our staff, customers or the environment.

Complaints made are treated as confidential and are investigated. Where appropriate, matters will be escalated to the Director of Group Security for further action.

Management
In our fast moving business, trading is tracked on a daily and weekly basis, financial performance is reviewed weekly and monthly, and the Steering Wheel is reviewed quarterly. Steering Wheels are operated in business units across the Group, and reports are prepared of performance against target KPIs on a quarterly basis enabling management to measure performance. All major initiatives require business cases normally covering a minimum period of five years. Post-investment appraisals, carried out by management, determine the reasons for any significant variance from expected performance.

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. 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 we do the right thing by all our stakeholders.

Our programme of engaging with stakeholders including customers, staff, suppliers, investors, non-governmental organisations and others, is set out in more detail in our Corporate Responsibility Review 2009 and on our website (www.tesco.com/cr-report09).

Shareholder engagement
We are committed to maintaining 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, Chief Executive and Finance Director met with most of our leading shareholders to discuss issues relating to the board, strategy and governance matters, as well as new developments within the business. The Chairman's meetings with major shareholders took place independently from the Executive team. In addition to this the Company Secretary's office, Investor Relations and other teams within the business engage with shareholders on a regular basis, and on a wide range of issues.

It is normal that institutional shareholders may be in more regular contact with the Group than others, 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.

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

The Tesco PLC AGM
The Annual General Meeting offers the opportunity for the Board to communicate directly with shareholders. Our last Annual General Meeting in June 2008 was held near Birmingham, a departure from its traditional location in Central London. This was in recognition of the diversity of our shareholder base.

The 2009 AGM will be held in Glasgow at 10.30 am on Friday 3 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 meeting 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.

By Order of the Board
Jonathan Lloyd
Company Secretary
1 May 2009

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

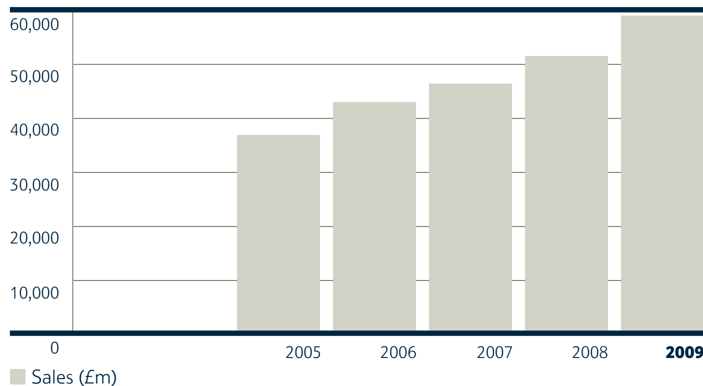
year ended 28 February 2009

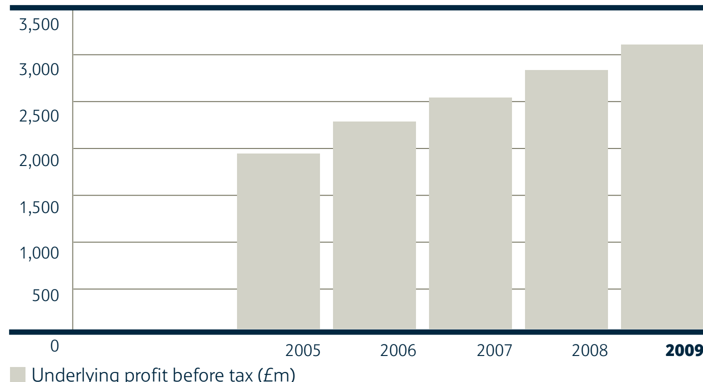
This report sets out the remuneration policy for the Executive and Non-executive Directors of Tesco PLC and describes the individual remuneration of the Directors for the year ended 28 February 2009.

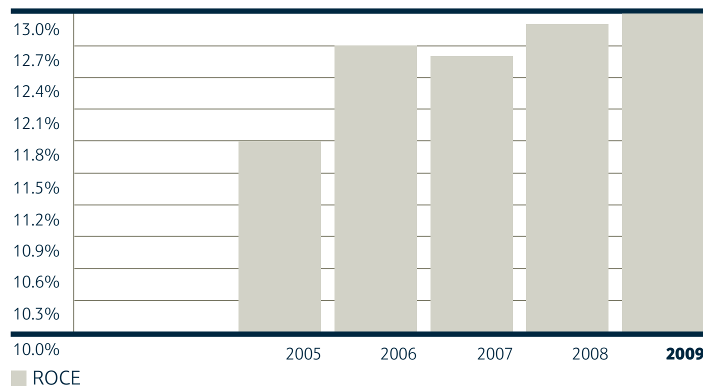
Executive summary

The primary goal of Tesco is to deliver strong, sustainable and profitable long-term growth. Despite the global downturn Tesco has delivered another strong performance against targets this year. This has continued to build on the track record of recent years.

Sales, Profit and ROCE Performance over 5 Years







Tesco is already a large and profitable company. A 10% increase in Company value equates to some £3bn in additional shareholder value, equivalent to a FTSE 50 organisation. Continuing to grow and expand profitability from such a high base is challenging but forms the core of Tesco's strategy, and its supporting processes including executive remuneration.

The result for 2008/9 included improvement on most of the underlying performance measures relating to productivity and growth. Against this performance background, the main aspects of executive remuneration policy and practice for the year are as follows:

- Executive Director salaries were increased from 1 July 2008 by an average of 5.4% after the normal review;
- annual bonus payouts ranged from 60% to 90% of maximum. The maximum potential bonus was 250% of salary for the Group CEO, 300% of salary for the US CEO and 200% of salary for other Executive Directors;
- long-term incentive payout was 90% of a potential maximum of 100% of salary;
- no material changes to policy, remuneration mix or scale of incentives;
- deferred awards, already earned from prior years, representing 4.6 million shares became available to Directors;
- minor changes are being proposed to remuneration arrangements relating to leaving conditions; and
- continuing high level of share ownership by Executive Directors.

Executive Director remuneration strategy

Tesco has a long-standing policy of rewarding talent and experience. We seek to provide incentives for delivering high, sustainable and profitable growth thus creating high additional value for shareholders.

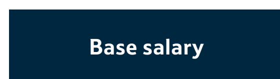
We operate in a keenly competitive and rapidly changing retail environment. Business success depends on the talents of the key team, but outstanding business performance comes from teamwork. Tesco has a stable and successful management team, and motivating that team at senior levels to deliver yet higher levels of performance is vital to our ongoing success. We believe our incentives should support the continued progress within the existing business, the strengthening of our returns from the International business and new retail lines as well as the creation of significant new businesses.

The Remuneration Committee believes 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. In determining the balance between the fixed and variable elements of the Executive Directors' remuneration packages, the Committee takes into account both policy and market practice.

Total remuneration levels of Executive Directors are reviewed annually by the Committee taking into account their value to the Company and competitive market practice. Consideration is also given to pay levels across the Group in order to sustain a common sense of purpose and sharing of success. When setting the remuneration of Executive Directors, the Committee considers the Group's performance on environmental, social and governance (ESG) matters. Specific ESG performance targets are applied to certain elements of the remuneration structure, in order to reinforce positive and responsible behaviour by senior management.

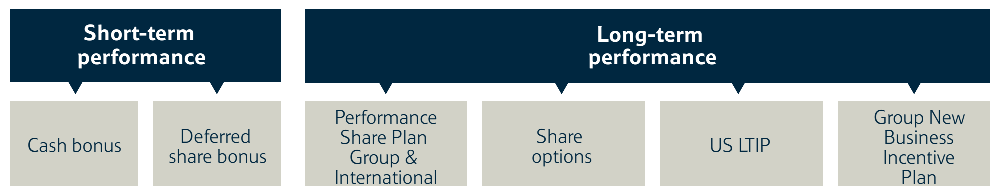
Balance of fixed and performance related remuneration

Fixed element



c.12%-33% depending on individual incentive arrangements and performance

Performance-related elements



c.67%-88% depending on individual incentive arrangements and performance

Performance related remuneration
The remuneration structures for Executive Directors and other key executives are tailored to emphasise the delivery of strong year-on-year earnings growth as well as sustained performance in the longer term. More than two-thirds of total remuneration (excluding pension) is linked to performance.

Long-term performance is rewarded through delivery of shares and short-term performance through a combination of cash and compulsory deferred shares. This ensures continued emphasis on strong annual performance combined with long-term executive share ownership, providing a strong link between the incentives received and shareholder value.

Performance measures
The Executive Directors have a range of performance targets across the various incentive plans which reflect the objectives of the Group and their own responsibilities. Targets are generally set to reward performance improvement over prior periods.

The measures are summarised in the table below and are based on:

- delivery of improved bottom-line financial results, measured through earnings, both in the present year and sustainably over time;
- enhancement of profitability, measured through return on capital, whilst growing the business;
- achievement of durable improvements in the underlying drivers of performance such as cost reduction, energy efficiency, reduced environmental impact and sales growth, captured through the corporate measures; and
- laying foundations for future performance through measures such as developing new sales footage, developing people, implementing community programmes, also captured through the corporate measures.

Short-term Performance Measures

Measures	Participation	Incentivises	Maximum potential % of salary	Performance period	Delivered via
Earnings per share	All Executive Directors	Year on year earnings growth	125% (US CEO 62.5%)	One year	Annual cash and annual deferred share bonuses (3-year deferral)
Corporate objectives	All Executive Directors	Delivery of strategic business priorities, entrepreneurial spirit and building framework for future growth	55% (US CEO 27.5%)	One year	Annual cash and annual deferred share bonuses (3-year deferral)
Total shareholder return	All Executive Directors	Share price and dividend growth	20% (US CEO 10%)	One year	Annual deferred share bonuses (3-year deferral)
Specific US objectives	US CEO	Delivery against financial and strategic milestones for US business	200%	One year	Annual cash and annual deferred share bonuses (3-year deferral)
Specific US objectives	Group CEO	Delivery against financial and strategic milestones for US business	50%	One year	Annual deferred share bonuses (3-year deferral)

Long-term Performance Measures

Measures	Participation	Incentivises	Maximum potential % of salary (unless otherwise stated)	Performance period	Delivered via
EPS relative to RPI	All Executive Directors	Longer-term earnings growth	200%*	Three years	Executive share options
Group ROCE	All Executive Directors	Long-term business success and shareholder returns	100%	Three years	Performance Share Plan
International ROCE	All Executive Directors except US CEO	Long-term business success and shareholder returns	50%	Three years	Performance Share Plan
US EBIT and ROCE	US CEO	Establishment of successful US business	2 million shares	2010/11 – 2013/14	US Long Term Incentive Plan
US EBIT and ROCE Group ROCE International ROCE	Group CEO	Entrepreneurial spirit and establishment of new businesses within whole Group performance	2.5 million shares	2010/11 – 2013/14	Group New Business Incentive Plan

* This is the amount on which the number of shares under option is calculated. The actual realisable value of these options will depend on any growth in share price between the date of grant and the date of exercise.

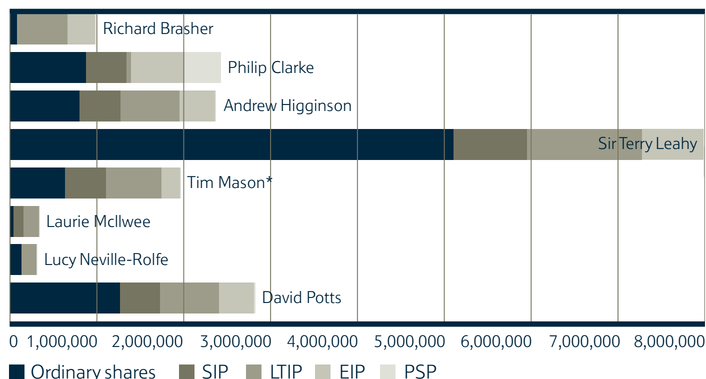
Directors' remuneration report continued

Participation in the various elements is governed by the Remuneration Committee and individual Executives are awarded incentives under the elements which are most relevant to their sphere of responsibility.

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. The Committee has reviewed 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.

Share ownership guidelines
The Remuneration Committee believes that Executive Directors holding shares aligns their interests with shareholders and demonstrates their ongoing commitment to the business. Executive Directors are required to build and maintain a shareholding with a value at least equal to their basic salary. New appointees will typically be allowed three years to establish this shareholding. Full participation in the long-term Performance Share Plan is conditional upon this. All Executive Directors currently satisfy this requirement.

Shares held by Executive Directors
as at 28 February 2009



* Tim Mason sold 631,384 ordinary shares on 22 April 2009.
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.

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.

Fixed remuneration
Basic pay
Basic 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. As the Group continues to diversify into new product areas and services, as well as expanding internationally, it seeks to reflect this in the benchmarking that is used. We examine salary levels at the major retailers, the leading FTSE companies and ensure consideration is given to international competitors. We also take into account pay conditions throughout the Group in deciding executive annual salary increases. The average increase for senior management below Board level last year was 5%, whereas for other staff the average increase was typically around 4%. Basic salaries are typically increased with effect from 1 July each year and the Remuneration Committee will be taking into account the current economic climate in setting salaries for the coming year.

Director	Basic salary 1 July 2008 £000
Richard Brasher	792
Philip Clarke	792
Andrew Higginson	792
Sir Terry Leahy	1,375
Tim Mason	792
Laurie McIlwee*	550
Lucy Neville-Rolfe	554
David Potts	792

* Salary on appointment 27 January 2009.

Pensions
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. The Final Salary Scheme is now closed to new entrants but has been replaced throughout the organisation by a different defined-benefit pension scheme based on career average earnings. 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. 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 pension contributions by our Executive Directors have been increasing progressively. In 2008/9 the level of contribution was 7% of salary which is in line with senior management's contribution levels. Contributions will rise over the next three years to 10% by 2011/12. Further details of the pension benefits earned by the Directors can be found on page 56.

All employee share schemes
The Executive Directors are eligible to participate in the Company's all employee share schemes on the same terms as UK employees.

- Shares In Success. 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 account of Company performance.
- Buy as You Earn. An HMRC approved share purchase scheme under which employees invest up to a limit of £110 on a four-weekly basis to buy shares at the market value in Tesco PLC.
- Save as You Earn. An HMRC approved 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. There are no performance conditions attached to SAYE options.

Other benefits
The Executive Directors are eligible for car benefits, life assurance, disability and health insurance and staff discount.

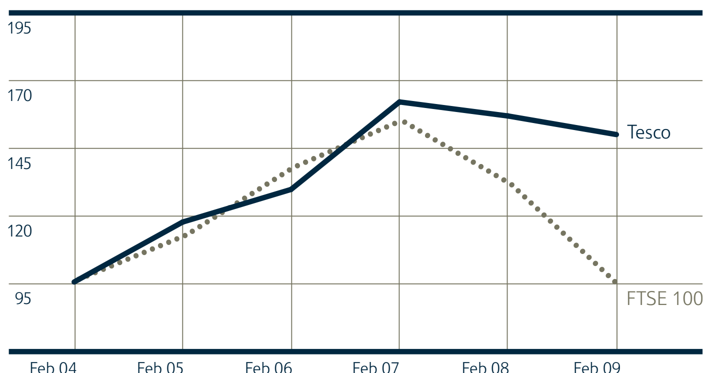
2008/9 Performance measurement
Short-term performance 2008/9
Earnings per share
The reported underlying diluted Group EPS for 2008/9 was 28.92p, an increase of 7% on last year.

Corporate objectives
The corporate objectives are based on our balanced scorecard, the Steering Wheel. Corporate objectives for the awards made in respect of the financial year 2008/9 included 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 developing trading models internationally; enhancing talent

management and capability; embedding the new international Community Plans; and reducing our environmental impact. Most targets were met at the stretch level.

Total shareholder return
The graph below highlights the Group's total shareholder return 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.

Total shareholder return (TSR) 1 March 2004 to 28 February 2009



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

The Committee considers TSR performance against the FTSE 100 and a comparator group of international retailers that includes Ahold, Carrefour, J Sainsbury, Metro, Morrisons, Safeway Inc, Target and Walmart.

Following the Remuneration Committee's consideration of the extent to which the various performance measures in respect of the 2008/9 award have been achieved, the Executive Directors have been awarded 90% of the potential maximum for the cash element and 90% of the potential maximum for the deferred shares element of that part of their annual bonus which is measured by reference to EPS, corporate objectives and TSR.

US objectives
The additional awards to Tim Mason and Sir Terry Leahy were subject to performance conditions which measure the progress of the US business against a range of aggressive targets related to the development of this business.

During 2008/9 advances were made on most measures including store development, sales growth, cost management and customer factors. However, the economic downturn did result in a constraint over the year on the pace of growth against the demanding development objectives. The Remuneration Committee has assessed the bonus outturn for 2008/9 and Tim Mason has been awarded 45% of the potential maximums for the cash and deferred shares elements of that part of his annual bonus which is measured by reference to US-specific targets, and Sir Terry Leahy has been awarded 45% of the potential maximum for the deferred shares element of that part of his annual bonus which is measured by reference to US-specific targets.

Long-term performance 2008/9
Earnings per share
The three-year performance period for the 2006/7 Executive Option grant over shares with a value of 200% of salary at the date of grant ended at the financial year end 2008/9. Vesting of these options is conditional on the achievement of earnings per share performance conditions, with the 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%. There is no re-testing of performance. The increase in underlying diluted EPS relative to RPI over the three years from 2006/7 to 2008/9 exceeded 15% and these options will therefore vest in full on the third anniversary of their grant.

Return on capital employed
Following the completion of the three-year performance period for the 2006/7 PSP award, 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 13.4% by the end of FY 2008/9. Post-tax ROCE (calculated on a like-for-like basis with the target originally set) at the end of FY 2008/9 was 13.3%, so 70 of the first 75% of the award will vest. The Committee also exercised its judgement as to the extent to which the remaining 25% of the PSP award should vest as a result of superior ROCE performance, 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. Having considered these factors in detail the Committee concluded that 20 of the remaining 25% of the award should vest.

Future performance targets
The Committee has determined that no change is required for the coming year in the form of incentive arrangements, nor in the relative balance between them. The maximum opportunity under incentive arrangements will remain the same for the forthcoming year (as set out on page 51). The same principles as described earlier were also adopted in the determination of performance targets, i.e. emphasis on continuous improvement, and recognition of the need to deliver underlying improvements and continue to develop for the future whilst delivering current financial objectives.

Short-term performance
We are not able to disclose specific future targets for reasons of commercial sensitivity, however it is intended that performance will continue to be measured against stretching EPS, TSR and Corporate Objective targets. For the Group CEO and US CEO a portion of the annual bonus will continue to relate to the performance of the US business.

Long-term performance
Earnings per share
Options were granted in 2008/9 to Executive Directors over shares with a value of 200% of salary with an exercise price equal to the market value at the date of grant and any gain is therefore dependent on increasing the share price between the date of grant and exercise. Vesting of these options is conditional on the achievement of earnings per share performance conditions, with the first 100% subject to the achievement of underlying diluted EPS growth of at least RPI plus 9% over three years and the balance vesting for achieving growth of at least RPI plus 15%. Performance against this target will be measured at the end of 2010/11 to determine the level of vesting.

Return on capital employed – Group and international
The rules of the Performance Share Plan allow awards to be made over shares up to 150% of salary. In the year ended 28 February 2009 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 up to 100% of salary will vest (together with reinvested dividends) subject to the achievement of Group ROCE targets. The awards over the equivalent of a further 50% of salary made to the Executive Directors other than Tim Mason will vest (together with reinvested dividends) subject to the achievement of targets based on International ROCE to incentivise and reward delivery of higher returns from invested capital outside the UK (but excluding the US).

The first 75% of the awards will vest on a straight-line basis at the end of the three-year performance period, with 25% vesting for baseline performance and the full 75% vesting for maximum performance against target. The target in respect of the first 75% of the 2008/9 PSP award is achievement of 14.2% Group ROCE and 9.0% International ROCE at the end of the three-year performance period in 2010/11. The remaining 25% of the award will vest for superior Return on Capital performance as judged by the Remuneration Committee taking into account the factors outlined above.

Directors' remuneration report continued

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 re-testing of performance in respect of any targets.

Return on capital employed – US

The Group is seeking to build a substantial presence in the US which in time has the potential to become a significant source of value for our shareholders. The Tesco PLC US Long Term Incentive Plan 2007 (the US LTIP) has been designed to deliver reward only if the US business realises this potential.

The US CEO was made an award of two million shares under the US LTIP in 2007. Awards were also made to other senior members of the US management team. No other Executive Directors will participate in the Plan. Awards under the plan vest based on the ROCE and EBIT performance of the US business as set out on page 61.

A key part of the Group's long-term strategy is to consider new business ventures which have the potential for significant long-term value creation for our shareholders. The Group New Business Incentive Plan (Group Plan) supports this initiative. Initially only the Group CEO will participate in the Group Plan. However, awards may be made to other employees at the discretion of the Remuneration Committee in the future where this is appropriate to do so in order to support the Group's new business ventures.

An award of 2.5 million shares was made to the Group CEO in November 2007. This award will vest based on the ROCE and EBIT performance of the US business as set out on page 61, however the plan also requires Group and International ROCE targets to be met and any payouts under this plan will be scaled back on a pro rata basis to the extent they are not met.

As the Company's US venture is currently the most developed new business initiative, the award made to the Group CEO under the Group Plan is focused on the performance of the US venture, although the Remuneration Committee has the flexibility to consider and include other new business development opportunities within the proposed award. In addition, the Remuneration Committee will consider the findings of the Governance Oversight Committee (described below) and opinions of the Audit Committee as to whether the level of reported results achieved reflects the underlying financial performance of the Company when considering if, and the extent to which, the award made to the Group CEO will vest.

Service agreements

The Executive Directors all have rolling service agreements with no fixed expiry date. These contracts are terminated on notice of 12 months 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. This means that amounts will be paid in instalments to permit mitigation. If the termination occurs within one year of retirement, the termination payment will be reduced accordingly. 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 Remuneration Committee has agreed that new appointments of Executive Directors will normally be on a notice period of 12 months. 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.

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 can be found on page 43 of this Report. Fees retained for any non-executive directorships are set out below.

	Company in which non-executive directorship held	Fee retained in 2008/9 (£000)
Philip Clarke	Whitbread PLC	55
Andrew Higginson	BskyB PLC	60
Lucy Neville-Rolfe	The Carbon Trust	19

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. All Non-executive Directors are subject to re-election by shareholders every three years at the Annual General Meeting and their appointment can be terminated by either party without notice. Charles Allen and Harald Einsmann, each having served over ten years, will submit themselves for re-election every year subject to the Chairman having reviewed their performance and concluded that they remain independent and continue to add value.

The remuneration of the Non-executive Directors is determined by the Chairman and the Executive Committee after considering external market research and individual contribution. Non-executive Directors' fees were reviewed during the year and the basic fee was increased to £65,000 per annum. The Chairs of the Audit and Remuneration Committees receive £30,000 (in addition to their basic non-executive fee) and Non-executive Directors who are members of these Committees receive an additional £12,000 for each Committee. The Senior Independent Non-executive Director, Rodney Chase, who is also the Deputy Chairman, receives a total fee of £135,000 per annum. 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 £610,000 this year and has the benefit of a company car and chauffeur.

The Remuneration Committee

The Remuneration Committee (the Committee) is governed by formal Terms of Reference. They are reviewed annually and this year they were updated to reflect an increased level of oversight of senior management packages. The Terms of Reference are available from the Company Secretary upon request or can be viewed at www.tesco.com/boardprocess.

Composition of the Committee

The Committee consists entirely of independent Non-executive Directors. The members of the Committee during the year were Charles Allen (Chairman of the Committee), Patrick Cescau, Rodney Chase, Karen Cook, E Mervyn Davies and Harald Einsmann. Patrick Cescau was appointed a member of the Remuneration Committee effective from 1 February 2009. E Mervyn Davies resigned from the Company during the year due to a conflict of interest. Ken Hanna joined the Committee on 1 April 2009. The directors' biographies can be found on page 43 of this 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. Jonathan Lloyd, the Company Secretary, is Secretary to the Committee. David Reid, Non-executive Chairman, and Sir Terry Leahy, Chief Executive of the Group, both 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 and has continued to use the services of Deloitte LLP whom it appointed as an external, independent advisor. Deloitte LLP also provided advisory services in respect of corporate tax planning, share schemes, international taxation, corporate finance and treasury to the Group during the year. Members' attendance at Committee meetings is listed in the Corporate Governance section on page 45 of this Report.

Role of the Committee
The Committee's purpose is 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;
- agree performance frameworks and targets, and review performance against these;
- monitor the level and structure of remuneration for senior management; and
- ensure the remuneration relationship between the Executive Directors and senior executives of the Company below this level is appropriate.

The Committee normally meets at least four times a year and has a rolling schedule of items within its remit. In the financial year ended 28 February 2009 the Committee met ten times. During the year the Committee reviewed its own performance and agreed steps to enhance its effectiveness.

Governance Oversight Committee
The Governance Oversight Committee (GOC) has been established to review and report at the end of each financial year on the allocation of capital and other Group resources. The GOC comprises the Senior Independent Director of the Company (who chairs the GOC), the Chairman of the Audit Committee and the Chairman of the Remuneration Committee. The Chairman attends the GOC and the Company Secretary serves as its secretary. The GOC reports its findings to the Remuneration Committee each year. The Remuneration Committee takes these into account along 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 the plans may be adjusted by the Remuneration Committee (in respect of Executive Directors) or the Board (in respect of all other employees who are participants). In accordance with the Combined Code, any such adjustments to vesting for Executive Directors will be reported to shareholders in the Remuneration Report at the relevant time.

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 67, covers the disclosures referred to in this report that are specified for audit by the Financial Services Authority. 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 55 to 64 of this Report.

Charles Allen
Chairman of the Remuneration Committee

Tables 1-11 are audited information.

Table 1 Directors' emoluments

	Fixed emoluments			Performance-related emoluments				
	Salary £000	Allowances £000	Benefits[3] £000	Short-term cash £000	Short-term deferred shares £000	Long-term[4] £000	**Total 2008/9 £000**	Total 2007/8 £000
Executive Directors								
Richard Brasher	778	–	65	712	712	–	**2,267**	2,116
Philip Clarke	778	–	38	712	712	480	**2,720**	2,749
Andrew Higginson	778	–	59	712	712	493	**2,754**	2,810
Sir Terry Leahy	1,356	–	85	1,238	1,547	876	**5,102**	5,472
Tim Mason – base salary[1]	778	312	218	712	712	493	**3,225**	3,797
Tim Mason – supplement[1]	200	–	–	180	180	–	**560**	733
Tim Mason – total	978	312	218	892	892	493	**3,785**	4,530
Laurie McIlwee[2]	38	–	5	24	24	–	**91**	–
Lucy Neville-Rolfe	538	–	70	499	499	–	**1,606**	1,451
David Potts	778	–	37	712	712	480	**2,719**	2,718
Non–executive Directors								
Charles Allen	91	–	–	–	–	–	**91**	85
Patrick Cescau[2]	5		–				**5**	–
Rodney Chase	129	–	–	–	–	–	**129**	118
Karen Cook	73	–	–	–	–	–	**73**	67
E Mervyn Davies	55	–	–	–	–	–	**55**	79
Harald Einsmann	73	–	–	–	–	–	**73**	67
Ken Hydon	91	–	–	–	–	–	**91**	85
Carolyn McCall	10	–	–	–	–	–	**10**	67
David Reid (Chairman)	601	–	56	–	–	–	**657**	675
Jacqueline Tammenoms Bakker[2]	9	–	–	–	–	–	**9**	–
Total	7,159	312	633	5,501	5,810	2,822	**22,237**	23,089

1 Tim Mason's salary is made up of a base salary and a non-pensionable salary supplement (shown separately). Allowances are made up of compensation payments for additional tax due on equity awards made prior to his move to the US. Tim Mason's benefits are made up of car, travel, medical, tax related costs and services and free shares awarded under the all employee Share Incentive Plan.
2 Laurie McIlwee, Patrick Cescau and Jacqueline Tammenoms Bakker were appointed during the year. Figures in table 1 are shown from their date of appointment.
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 Share Incentive Plan.
4 The long-term bonus figures shown in table 1 relate to the additional 12.5% enhancements allocated in May 2008 on short-term and long-term awards under the old bonus scheme. The long-term bonuses awarded on 8 July 2008 under the Performance Share Plan were awarded in the form of nil cost options with the exception of Tim Mason who received an unfunded promise to deliver shares. Details of these awards are shown in table 6.

Directors' remuneration report continued

Table 2 Directors' pension details

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 the age of 60, dependent upon service. The Scheme also provides for dependants' pensions and lump sums on death in service. The Scheme is a defined-benefit pension scheme, which is approved by HMRC.

	Age at 28 February 2009	Years of Company service	Total accrued pension at 28 February 2009[1,2] £000	Increase in accrued pension during the year £000	(a) Increase in accrued pension during the year (net of inflation) £000	Transfer value of (a) at 28 February 2009 (less Director's contributions) £000	Transfer value of total accrued pension at 23 February 2008 (old basis)[3] £000	Transfer value of total accrued pension at 23 February 2008 (new basis)[3] £000	**Transfer value of total accrued pension at 28 February 2009 £000**	Increase in transfer value (less Director's contributions) £000
Richard Brasher	47	22	332	39	24	218	2,767	3,075	**3,030**	(45)
Philip Clarke	48	34	363	32	16	153	3,343	3,695	**3,530**	(165)
Andrew Higginson	51	11	292	40	27	313	2,882	3,140	**3,354**	214
Sir Terry Leahy[4]	53	30	775	70	34	835	10,141	10,894	**12,130**	1,236
Tim Mason	51	27	395	34	17	188	4,123	4,490	**4,493**	3
Laurie McIlwee[5]	46	8	105	33	33	292	n/a	620	**918**	298
Lucy Neville-Rolfe	56	11	205	39	30	468	2,444	2,597	**3,216**	619
David Potts	51	36	399	35	17	196	4,285	4,664	**4,705**	41

1 The accrued pension is that which would be paid annually on retirement at 60 based on service to 28 February 2009.
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 The basis used for calculating transfer values was revised during the year because changes in financial conditions meant that the previous basis for calculating transfer values, used since 2007, no longer produced reasonable values. Transfer values at 23 February 2008 have been restated using the new method of comparative purposes.
4 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.
5 Laurie McIlwee was promoted to the Board on 27 January 2009. The increase in accrued pension shown is based on the increase since his date of promotion. Similarly, the transfer value as at 23 February 2008 is based on the value of his pension as at date of promotion.

Table 3 Gains made on executive share options

Executive share option scheme and discretionary share option plan

	Date of grant	Date exercisable	Date of exercise	Number of options exercised	Option price (pence)	Market price at exercise	Total	Value realisable[1] **2008/9 £000**	Value realisable[1] 2007/8 £000
Richard Brasher	–	–	–	–	–	–	–	**–**	–
Philip Clarke	–	–	–	–	–	–	–	**–**	935
Andrew Higginson	–	–	–	–	–	–	–	**–**	–
Sir Terry Leahy	30.09.98	30.09.01	30.09.08	126,832	164.00	369.20	126,832	**260**	–
Tim Mason	–	–	–	–	–	–	–	**–**	–
Laurie McIlwee [2]	–	–	–	–	–	–	–	**–**	–
Lucy Neville-Rolfe	–	–	–	–	–	–	–	**–**	274
David Potts	–	–	–	–	–	–	–	**–**	956
Total				126,832			126,832	**260**	2,165

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 Laurie McIlwee was appointed on 27 January 2009. Figures shown in this table are from the date of his appointment.
3 Gains made on Save As You Earn share options are not included above. These are detailed in table 5.
4 Gains made on nil cost options awarded under the Performance Share Plan and Executive Incentive Plan are not included above. These are detailed in table 6 and table 9.

Table 4 Share options held by Directors and not exercised at 28 February 2009

Executive share option schemes (1994) and (1996) and discretionary share option plan (2004)

	Date of grant	Options as at 23 February 2008	Options granted in year[1]	Options exercised in year[3]	**Options as at 28 February 2009**	Exercise price (pence)	Date from which exercisable	Expiry date
Richard Brasher	26.06.2000	106,613	–	–	**106,613**	205.00	26.06.2003	26.06.2010
	26.04.2001	101,215	–	–	**101,215**	247.00	26.04.2004	26.04.2011
	15.04.2002	100,386	–	–	**100,386**	259.00	15.04.2005	15.04.2012
	14.04.2003	151,900	–	–	**151,900**	197.50	14.04.2006	14.04.2013
	30.04.2004	296,150	–	–	**296,150**	253.25	30.04.2007	30.04.2014
	22.04.2005	255,795	–	–	**255,795**	312.75	22.04.2008	22.04.2015
	08.05.2006	345,261	–	–	**345,261**	318.60	08.05.2009	08.05.2016
	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
Total		1,635,947	353,114	–	**1,989,061**			

Table 4 Share options held by Directors and not exercised at 28 February 2009 continued

Executive share option schemes (1994) and (1996) and discretionary share option plan (2004)

	Date of grant	Options as at 23 February 2008	Options granted in year[1]	Options exercised in year[3]	**Options as at 28 February 2009**	Exercise price (pence)	Date from which exercisable	Expiry date
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
Total		1,083,596	353,114	–	**1,436,710**			
Andrew Higginson	30.04.2004	434,353	–	–	**434,353**	253.25	30.04.2007	30.04.2014
	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
Total		1,517,949	353,114	–	**1,871,063**			
Sir Terry Leahy	30.09.1998	126,832	–	126,832	**–**	164.00	30.09.2001	30.09.2008
	30.11.1999	228,901	–	–	**228,901**	173.00	30.11.2002	30.11.2009
	20.04.2000	17,673	–	–	**17,673**	209.50	20.04.2003	20.04.2010
	26.06.2000	780,487	–	–	**780,487**	205.00	26.06.2003	26.06.2010
	26.04.2001	647,773	–	–	**647,773**	247.00	26.04.2004	26.04.2011
	15.04.2002	642,471	–	–	**642,471**	259.00	15.04.2005	15.04.2012
	14.04.2003	939,747	–	–	**939,747**	197.50	14.04.2006	14.04.2013
	30.04.2004	766,041	–	–	**766,041**	253.25	30.04.2007	30.04.2014
	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	08.07.2010	08.05.2017
	12.05.2008	–	618,548	–	**618,548**	427.00	12.05.2011	12.05.2018
Total		6,041,507	618,548	126,832	**6,533,223**			
Tim Mason	15.04.2002	358,301	–	–	**358,301**	259.00	15.04.2005	15.04.2012
	30.04.2004	434,353	–	–	**434,353**	253.25	30.04.2007	30.04.2014
	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
	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
Total		1,910,725	353,114	–	**2,263,839**			
Laurie McIlwee [2]	22.04.2005	105,500	–	–	**105,500**	312.75	22.04.2008	22.04.2015
	08.05.2006	108,286	–	–	**108,286**	318.60	08.05.2009	08.05.2016
	08.05.2007	77,192	–	–	**77,192**	473.75	08.07.2010	08.05.2017
	12.05.2008	91,335	–	–	**91,335**	427.00	12.05.2011	12.05.2018
Total		382,313	–	–	**382,313**			
Lucy Neville-Rolfe	22.04.2005	108,050	–	–	**108,050**	312.75	22.04.2008	22.04.2015
	08.05.2006	116,133	–	–	**116,133**	318.60	08.05.2009	08.05.2016
	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
Total		414,156	231,850	–	**646,006**			
David Potts	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
Total		1,083,596	353,114	–	**1,436,710**			
Total		14,069,789	2,615,968	126,832	**16,558,925**			

1 Executive share options are subject to performance conditions measured over three years as set out on page 53. EPS growth for the period 2005/6 to 2007/8 exceeded RPI growth by 42%, therefore share options awarded on 22 April 2005 vested in full on 22 April 2008. Executives have until the tenth anniversary of the date of grant to exercise their options.
2 Laurie McIlwee was appointed on 27 January 2009. Figures shown in this table are from his date of appointment.
3 The market price at exercise is shown in table 3. The share price at 28 February 2009 was 333.20 pence. The share price during the 53 weeks to 28 February 2009 ranged from 285.90 pence to 437.00 pence.

Directors' remuneration report continued

Table 5 Share options held by Directors and not exercised at 28 February 2009

Savings-related share option scheme (1981)

	Date of grant	As at 23 February 2008	Options granted in year	Options exercised in year[1]	**As at 28 February 2009**	Exercise price (pence)	Value realisable 2008/9 £000	Value realisable 2007/8 £000
Richard Brasher	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
Philip Clarke	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
Andrew Higginson	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
Sir Terry Leahy	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
Tim Mason	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5

Table 5 Share options held by Directors and not exercised at 28 February 2009 continued

Savings-related share option scheme (1981)

	Date of grant	As at 23 February 2008	Options granted in year	Options exercised in year[1]	**As at 28 February 2009**	Exercise price (pence)	Value realisable 2008/9 £000	Value realisable 2007/8 £000
Laurie McIlwee[2]	06.11.2003	1,625	–	1,625	**–**	195.00	2	–
	02.11.2005	754	–	754	**–**	248.00	1	–
	08.11.2006	615	–	–	**615**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	1,077	–	–	**1,077**	311.00	–	–
		4,890	–	2,379	**2,511**		3	–
Lucy Neville-Rolfe	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
David Potts	06.11.2003	1,625	–	1,625	**–**	195.00	2	5
	04.11.2004	1,424	–	–	**1,424**	232.00	–	–
	02.11.2005	1,298	–	–	**1,298**	248.00	–	–
	08.11.2006	1,066	–	–	**1,066**	307.00	–	–
	07.11.2007	819	–	–	**819**	410.00	–	–
	05.11.2008	–	1,077	–	**1,077**	311.00	–	–
		6,232	1,077	1,625	**5,684**		2	5
Total		48,514	7,539	13,754	**42,299**			

1 Save As You Earn is an all employee share scheme. 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 6 months from their exercise date (i.e. on 1 August of the relevant year). All directors exercised their options granted on 6 November 2003 on 2 February 2009 when the market price was 347.40 pence. Laurie McIlwee exercised his option granted on 2 November 2005 on 18 February 2009 when the market price was 342.30 pence. No options lapsed in the year.

2 Laurie McIlwee was appointed on 27 January 2009. Figures shown in this table are from the date of his appointment.

Directors' remuneration report continued

Table 6 Long-Term Performance Share Plan

	Date of award/ grant	Share price on award date (pence)	As at 23 February 2008	Shares awarded/ options granted in year[3]	Shares released/ options exercised in year	**As at 28 February 2009**	Date of release/date from which exercisable	Expiry date[4]
Richard Brasher	28.07.2004	253.45	118,367	–	–	**118,367**	28.07.2008	28.07.2014
	12.10.2005	302.75	191,565	6,083	–	**197,648**	12.07.2009	12.10.2015
	20.07.2006	346.25	196,807	6,249	–	**203,056**	20.07.2010	20.07.2016
	14.11.2007	471.10	240,045	7,622	–	**247,667**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	339,360	–	**339,360**	08.07.2011	08.07.2018
Total			746,784	359,314	–	**1,106,098**		
Philip Clarke	28.07.2004	253.45	175,774	–	–	**175,774**	28.07.2008	28.07.2014
	12.10.2005	302.75	224,654	7,133	–	**231,787**	12.07.2009	12.10.2015
	20.07.2006	346.25	211,086	6,703	–	**217,789**	20.07.2010	20.07.2016
	14.11.2007	471.10	240,045	7,622	–	**247,667**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	339,360	–	**339,360**	08.07.2011	08.07.2018
Total			851,559	360,818	–	**1,212,377**		
Andrew Higginson	28.07.2004	253.45	175,774	–	–	**175,774**	28.07.2008	28.07.2014
	12.10.2005	302.75	224,654	7,133	–	**231,787**	12.07.2009	12.10.2015
	20.07.2006	346.25	211,086	6,703	–	**217,789**	20.07.2010	20.07.2016
	14.11.2007	471.10	240,045	7,622	–	**247,667**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	339,360	–	**339,360**	08.07.2011	08.07.2018
Total			851,559	360,818	–	**1,212,377**		
Sir Terry Leahy	28.07.2004	253.45	304,794	–	–	**304,794**	28.07.2008	28.07.2014
	12.10.2005	302.75	393,582	12,498	–	**406,080**	12.07.2009	12.10.2015
	20.07.2006	346.25	369,810	11,743	–	**381,553**	20.07.2010	20.07.2016
	14.11.2007	471.10	420,484	13,352	–	**433,836**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	589,465	–	**589,465**	08.07.2011	08.07.2018
Total			1,488,670	627,058	–	**2,115,728**		
Tim Mason[1]	28.07.2004	253.45	90,431	–	–	**90,431**	28.07.2008	28.07.2014
	12.10.2005	302.75	224,654	5,957	106,385	**124,226**	12.07.2009	12.10.2015
	25.08.2006	346.25	211,086	6,703	–	**217,789**	20.07.2010	–
	14.11.2007	471.10	160,030	5,081	–	**165,111**	14.07.2010	–
	08.07.2008	353.76	–	226,240	–	**226,240**	08.07.2011	–
Total			686,201	243,981	106,385	**823,797**		
Laurie McIlwee[2]	20.07.2006	346.25	52,808	–	–	**52,808**	20.07.2009	–
	10.10.2007	465.50	41,890	–	–	**41,890**	10.07.2010	–
	08.07.2008	353.76	62,141	–	–	**62,141**	08.07.2011	–
Total			156,839	–	–	**156,839**		
Lucy Neville-Rolfe[2]	18.01.2006	312.25	29,820	639	30,459	**–**	18.07.2008	–
	20.07.2006	346.25	57,417	1,818	–	**59,235**	20.07.2009	–
	14.11.2007	471.10	157,610	5,003	–	**162,613**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	237,552	–	**237,552**	08.07.2011	08.07.2018
Total			244,847	245,012	30,459	**459,400**		
David Potts	28.07.2004	253.45	175,774	–	–	**175,774**	28.07.2008	28.07.2014
	12.10.2005	302.75	224,654	7,133	–	**231,787**	12.07.2009	12.10.2015
	20.07.2006	346.25	211,086	6,703	–	**217,789**	20.07.2010	20.07.2016
	14.11.2007	471.10	240,045	7,622	–	**247,667**	14.07.2010	14.11.2017
	08.07.2008	353.76	–	339,360	–	**339,360**	08.07.2011	08.07.2018
Total			851,559	360,818	–	**1,212,377**		
Total			5,878,018	2,557,819	136,844	**8,298,993**		

1 Tim Mason's awards since 2006 have been made in the form of unfunded promises. Following approval by the Remuneration Committee Tim Mason part exercised his 2005 award on 12 July 2008 at a share price of 355.25 pence in order to fund a US tax liability.

2 Laurie McIlwee was appointed on 27 January 2009. His awards shown above were made in the form of restricted shares under the senior management Performance Share Plan. Figures shown in this table are from his date of appointment. Lucy Neville-Rolfe's 2006 awards were also made in the form of restricted shares under the senior management Performance Share Plan. On 18 July 2008, 30,459 shares were released to Lucy Neville-Rolfe at a share price of 375.75p.

3 The Performance Share Plan replaced the long-term Executive Incentive Scheme. The first award under the new plan was made in 2004. All awards except those described in notes 1 and 2 above have been made in the form of nil cost options. The awards are subject to performance conditions based on Return on Capital Employed targets. The Group ROCE for 2007/8 was 12.9%, therefore targets for PSP awards granted on 12 October 2005 were met in full and these awards vested. Executives are required to retain these vested awards for a further 12 months with the exception of Tim Mason (see note 1). Shareholder approval was obtained at the 2007 AGM for the removal of the requirement for any vested shares to be retained for a further 12 months. This applies to awards made after July 2007. All awards are increased to reflect dividend equivalents as each dividend is paid with the exception of the 2004 award on which no dividends accrue.

4 No options lapsed in the year under this Plan.

Table 7 Group New Business Incentive Plan

	Date of award/grant	Share price on award date (pence)	As at 23 February 2008	Shares awarded/ options granted in year	Options exercised/ shares released in year	**As at 28 February 2009**	Date from which exercisable	Expiry date
Sir Terry Leahy	14.11.2007	482.00	2,500,000	79,393	–	**2,579,393**	Four tranches 2011-2014	14.11.2017
Total				79,393	–	**2,579,393**		

1 The Group New Business Incentive Plan (2007) was approved by shareholders 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. 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.
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. The performance conditions under this award will be aligned with the targets set for awards made under the Performance Share Plan (PSP) in each of the years 2007 to 2009, which will become capable of vesting between 2010 and 2012. If less than threshold performance is achieved for each of these PSP awards then no portion of the Group Plan award will become capable of vesting. If maximum Group and International performance is achieved for each of these PSP awards (i.e. the 2007 – 2009 PSP awards vest in full in 2010 – 2012), then the whole of the Group Plan award will become eligible for vesting, subject to achievement of the appropriate new business performance targets referred to below. If Group and International performance for any of these PSP awards is between threshold and maximum levels then the Group award will become eligible for vesting on a pro rata basis, subject always to the achievement of the appropriate new business targets referred to below.
3 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 ventures, as determined by the Remuneration Committee.

Summary of US business performance conditions

ROCE hurdle	2010/11	2011/12	2012/13	2013/14
Maximum performance	6% ROCE	9% ROCE	11% ROCE	12% ROCE
Target performance	4% ROCE	6% ROCE	8% ROCE	10% ROCE
Vesting percentage (% of maximum award)				
Vesting levels at maximum performance	Up to 25%	Up to 50%	Up to 75%	Up to 100%
Vesting levels at target performance	Up to 6.25%	Up to 10%	Up to 12.5%	Up to 18.75%

Table 8 US Long Term Incentive Plan

	Date of award/grant	Share price on award date (pence)	As at 23 February 2008	Shares awarded in year	Shares released in year	**As at 28 February 2009**	Date of release
Tim Mason	14.11.2007	482.00	2,000,000	63,514	–	**2,063,514**	Four tranches 2011-2014
Total				63,514	–	**2,063,514**	

1 The US Long Term Incentive Plan (2007) was approved by shareholders 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 targets are set out under table 7.
2 The maximum number of shares which may be awarded under the US LTIP is two million shares to the US CEO and 1.5 million shares to any other participant. An award of two million shares was made to Tim Mason, US CEO, in November 2007. Awards may be adjusted to take account of any dividends paid or that are payable in respect of the number of shares earned. The extent to which awards will vest under the US LTIP is conditional on the financial performance of the Company's US business, based on the achievement of stretching Earnings Before Interest and Tax (EBIT) and Return On Capital Employed (ROCE) targets set by reference to the US long-term business plan.
3 A percentage of the EBIT of the US business for the relevant years may be allocated to an EBIT pool (the 'profit pool'). The profit pool will be capped at 10% in any one year and is expected to be approximately 5% of cumulative EBIT over the four measurement years (2010/11 to 2013/14). The portion of an award which may vest will be determined by reference to the value of the EBIT pool as well as performance against the ROCE hurdles for the relevant year, as outlined in the table above. To the extent that the ROCE hurdles for any one year are met (either in full or in part), but there is insufficient value in the profit pool to fund the vesting of awards, then the actual vesting in that year will be scaled back so that the profit pool is not exceeded. That portion of the award that has not paid out in that year due to the profit pool being restricted may vest in future years, provided that the profit pool in any later year permits this.
4 The targets for the US LTIP have been based on the business plan in respect of the initial phase of the US business. The Remuneration Committee has the responsibility to review these targets in light of the scale and scope of the US business in order to ensure that they remain appropriate and challenging. In particular, the Remuneration Committee will seek the input of the Audit Committee and the Governance Oversight Committee in order to ensure that financial performance against the targets is indicative of strong and robust business performance. Any material adjustments made in respect of the targets will be reviewed and approved by the Audit Committee and will be disclosed in the Company's Remuneration Report.

Directors' remuneration report continued

Table 9 Executive Incentive Plan[1]

	Date of award/grant	Share price on award (pence)	As at 23 February 2008	Shares awarded/ options granted	Shares released/ options exercised	**As at 28 February 2009**	Date of release/date from which exercisable	Expiry date[3]
Richard Brasher	20.05.2005	311.00	102,636	3,229	–	**105,865**	20.05.2008	20.05.2015
	26.05.2006	318.50	172,945	5,491	–	**178,436**	26.05.2009	26.05.2016
	24.05.2007	456.75	145,594	4,622	–	**150,216**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	149,192	–	**149,192**	02.05.2011	02.05.2018
Total			421,175	162,534	–	**583,709**		
Philip Clarke	20.05.2005	311.00	152,415	4,795	–	**157,210**	20.05.2008	20.05.2015
	26.05.2006	318.50	202,817	6,440	–	**209,257**	26.05.2009	26.05.2016
	24.05.2007	456.75	156,159	4,959	–	**161,118**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	149,192	–	**149,192**	02.05.2011	02.05.2018
Total			511,391	165,386	–	**676,777**		
Andrew Higginson	20.05.2005	311.00	152,415	4,795	–	**157,210**	20.05.2008	20.05.2015
	26.05.2006	318.50	202,817	6,440	–	**209,257**	26.05.2009	26.05.2016
	24.05.2007	456.75	156,159	4,959	–	**161,118**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	149,192	–	**149,192**	02.05.2011	02.05.2018
Total			511,391	165,386	–	**676,777**		
Sir Terry Leahy	20.05.2005	311.00	264,290	8,316	–	**272,606**	20.05.2008	20.05.2015
	26.05.2006	318.50	355,326	11,284	–	**366,610**	26.05.2009	26.05.2016
	24.05.2007	456.75	273,581	8,687	–	**282,268**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	403,030	–	**403,030**	02.05.2011	02.05.2018
Total			893,197	431,317	–	**1,324,514**		
Tim Mason[2]	20.05.2005	311.00	152,415	4,795	–	**157,210**	20.05.2008	20.05.2015
	24.05.2007	456.75	177,470	5,635	–	**183,105**	24.05.2010	–
	02.05.2008	424.05	–	299,078	–	**299,078**	02.05.2011	–
Total			329,885	309,508	–	**639,393**		
Lucy Neville-Rolfe	24.05.2007	456.75	74,452	2,363	–	**76,815**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	97,957	–	**97,957**	02.05.2011	02.05.2018
Total			74,452	100,320	–	**174,772**		
David Potts	20.05.2005	311.00	152,415	4,795	–	**157,210**	20.05.2008	20.05.2015
	26.05.2006	318.50	202,817	6,440	–	**209,257**	26.05.2009	26.05.2016
	24.05.2007	456.75	156,159	4,959	–	**161,118**	24.05.2010	24.05.2017
	02.05.2008	424.05	–	149,192	–	**149,192**	02.05.2011	02.05.2018
Total			511,391	165,386	–	**676,777**		
Total			3,252,882	1,499,837	–	**4,752,719**		

1 The Executive Incentive Plan replaced the short-term Executive Incentive Scheme. The first award under the new plan was made in 2005. The awards are subject to performance conditions based on TSR, earnings per share and corporate objectives. The awards are increased to reflect dividend equivalents as each dividend is paid.
2 Since 2007 Tim Mason's awards have been made in the form of an unfunded promise. His 2005 award was made in the form of nil cost options.
3 No options lapsed in the year under the Executive Incentive Plan.

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

	Year of release	Award date	Number of shares as at 23 February 2008	Shares awarded[3]	Shares released	**Number of shares as at 28 February 2009**	Value of shares released £000s	Release date	Market price on release (pence)
Philip Clarke	2009	10.04.02	164,538	25,983	190,521	**–**	668	19.02.09	350.70
	2009	04.05.04	340,886	53,831	394,717	**–**	1,384	19.02.09	350.70
	2010	09.04.03	218,410	34,491	–	**252,901**	–	09.04.10	–
	2011	04.05.04	179,884	28,407	–	**208,291**	–	04.05.11	–
Total			903,718	142,712	585,238	**461,192**	2,052		
Andrew Higginson	2009	10.04.02	179,639	28,368	208,007	**–**	729	19.02.09	350.70
	2009	04.05.04	340,886	53,831	394,717	**–**	1,384	19.02.09	350.70
	2010	09.04.03	228,119	36,024	–	**264,143**	–	09.04.10	–
	2011	04.05.04	179,884	28,407	–	**208,291**	–	04.05.11	–
Total			928,528	146,630	602,724	**472,434**	2,113		
Sir Terry Leahy	2009	10.04.02	322,117	50,869	372,986	**–**	1,308	19.02.09	350.70
	2009	04.05.04	601,210	94,943	696,153	**–**	2,441	19.02.09	350.70
	2010	09.04.03	409,471	64,664	–	**474,135**	–	09.04.10	–
	2011	04.05.04	317,250	50,100	–	**367,350**	–	04.05.11	–
Total			1,650,048	260,576	1,069,139	**841,485**	3,749		
Tim Mason	2009	10.04.02	179,639	28,368	208,007	**–**	729	19.02.09	350.70
	2009	04.05.04	340,886	53,831	394,717	**–**	1,384	19.02.09	350.70
	2010	09.04.03	228,119	36,024	–	**264,143**	–	09.04.10	–
	2011	04.05.04	179,884	28,407	–	**208,291**	–	04.05.11	–
Total			928,528	146,630	602,724	**472,434**	2,113		
Laurie McIlwee[1 2]	2009	24.05.06	52,804	–	52,804	**–**	185	19.02.09	350.70
	2010	24.05.07	58,863	–	–	**58,863**	–	24.05.10	–
	2011	21.05.08	62,383	–	–	**62,383**	–	21.05.11	–
Total			174,050	–	52,804	**121,246**	185		
Lucy Neville-Rolfe[1]	2009	24.05.06	57,935	1,834	59,769	**–**	210	19.02.09	350.70
Total			57,935	1,834	59,769	**–**	210		
David Potts	2009	10.04.02	164,538	25,983	190,521	**–**	668	19.02.09	350.70
	2009	04.05.04	340,886	53,831	394,717	**–**	1,384	19.02.09	350.70
	2010	09.04.03	218,410	34,491	–	**252,901**	–	09.04.10	–
	2011	04.05.04	179,884	28,407	–	**208,291**	–	04.05.11	–
Total			903,718	142,712	585,238	**461,192**	2,052		
Total			5,546,525	841,094	3,557,636	**2,829,983**	12,474		

1 Bonus shares shown for Laurie McIlwee and Lucy Neville-Rolfe were awarded under the senior management bonus scheme before they joined the Board. These shares can not be retained for an additional three-year period and enhanced.
2 Laurie McIlwee was appointed on 27 January 2009. Figures shown in this table are from the date of his appointment.
3 This Plan has been replaced by the Performance Share Plan and Executive Incentive Plan.

Date of award	10.04.02	09.04.03	04.05.04	24.05.06	24.05.07	21.05.08
Award price (pence)	248.00	197.25	248.75	316.88	456.63	415.45

Directors' remuneration report continued

Table 11 Disclosable interests of the Directors, including family interests

	28 February 2009		23 February 2008 (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	**189,825**	**3,684,552**	184,221	2,810,138
Philip Clarke	**1,344,598**	**3,331,548**	1,438,835	2,452,778
Andrew Higginson	**1,287,438**	**3,765,901**	1,384,926	2,887,131
Sir Terry Leahy	**5,992,724**	**12,558,542**	6,067,985	10,929,606
Tim Mason	**4,365,664**	**2,641,390**	3,882,995	2,384,457
Laurie McIlwee[3]	**320,878**	**384,824**	340,149	387,203
Lucy Neville-Rolfe	**197,903**	**1,226,627**	227,650	652,450
David Potts	**1,737,555**	**3,331,548**	1,803,574	2,452,778
Non-executive Directors				
Charles Allen	**–**	**–**	–	–
Patrick Cescau	**–**	**–**	–	–
Rodney Chase	**–**	**–**	–	–
Karen Cook	**–**	**–**	–	–
E Mervyn Davies[4]	**2,400**	**–**	2,400	–
Dr Harald Einsmann	**303,209**	**–**	246,054	–
Ken Hydon	**30,093**	**–**	30,093	–
Carolyn McCall[4]	**6,556**	**–**	6,556	–
David Reid (Chairman)	**193,825**	**–**	193,515	–
Jacqueline Tammenoms Bakker	**–**	**–**	–	–
Total	**15,972,668**	**30,924,932**	15,808,953	24,956,541

1 Ordinary shares shown in this table include restricted shares held by Laurie McIlwee and Lucy Neville-Rolfe under the Performance Share Plan shown in table 6 which are subject to future performance conditions, shares held under a promise by Tim Mason under the Performance Share Plan shown in table 6 which are subject to future performance conditions, the US Long Term Incentive Plan shown in table 8 which are subject to future performance conditions and the Executive Incentive Plan shown in table 9 which are subject to a holding period, shares held under the Long Term Incentive Plan shown in table 10 which are subject to a holding period and shares held under the all employee Share Incentive Plan which are subject to a holding period. Between 28 February 2009 and 20 April 2009, 483 shares were purchased by Executive Directors as part of the Buy As You Earn scheme and Tim Mason sold 631,384 ordinary shares.

2 Options to acquire ordinary shares shown in this table comprise options held under the Executive Share Option schemes and Discretionary Share Option Plan shown in table 4, Save As You Earn scheme shown in table 5, and nil cost options held under the Performance Share Plan, Group New Business Incentive Plan and Executive Incentive Plan shown in tables 6, 7 and 9 respectively.

3 Laurie McIlwee was appointed on 27 January 2009. Figures for 2007/8 shown in this table are from the date of his appointment.

4 Carolyn McCall and E Mervyn Davies resigned from the Board on 10 April 2008 and 31 October 2008 respectively.

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Statement of Directors' responsibilities

The Directors are required by the Companies Acts 1985 and 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 (IFRS) 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 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 Group, and which enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Acts 1985 and 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 53 weeks ended 28 February 2009 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Tesco PLC for the 53 weeks ended 28 February 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as endorsed by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Introduction, the Financial highlights, Chairman's statement, Tesco at a glance, the Chief Executive's Q&A, the Report of the Directors, the Corporate governance statement, the unaudited part of the Directors' remuneration report and the Five year record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as endorsed by the European Union, of the state of the Group's affairs as at 28 February 2009 and of its profit and cash flows for the 53 weeks then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 1 May 2009

Group income statement

53 weeks ended 28 February 2009	notes	2009 £m	2008* £m
Continuing operations			
Revenue (sales excluding VAT)	2	**54,327**	47,298
Cost of sales		**(50,109)**	(43,668)
Gross profit		**4,218**	3,630
Administrative expenses		**(1,248)**	(1,027)
Profit arising on property-related items	2/3	**236**	188
Operating profit	2	**3,206**	2,791
Share of post-tax profits of joint ventures and associates	13	**110**	75
Finance income	5	**116**	187
Finance costs	5	**(478)**	(250)
Profit before tax	3	**2,954**	2,803
Taxation	6	**(788)**	(673)
Profit for the year		**2,166**	2,130
Attributable to:			
Equity holders of the parent	30	**2,161**	2,124
Minority interests	30	**5**	6
		2,166	2,130
Earnings per share			
Basic	9	**27.50p**	26.95p
Diluted	9	**27.31p**	26.61p

Non-GAAP measure: underlying profit before tax

	notes	2009 £m	2008* £m
Profit before tax		**2,954**	2,803
Adjustments for:			
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	1/5	**88**	(49)
IAS 19 Income Statement charge for pensions	28	**403**	414
'Normal' cash contributions for pensions	28	**(376)**	(340)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	1	**27**	18
IFRS 3 Amortisation charge from intangible assets arising on acquisition	1	**32**	–
Underlying profit before tax	1	**3,128**	2,846

* Results for the year ended 23 February 2008 include 52 weeks of operation.

The notes on pages 72 to 123 form part of these financial statements.

Group statement of recognised income and expense

53 weeks ended 28 February 2009	notes	2009 £m	2008* £m
Change in fair value of available-for-sale investments		**3**	(4)
Foreign currency translation		**(275)**	38
Total (loss)/gain on defined benefit pension schemes	28	**(629)**	187
Gains/(losses) on cash flow hedges:			
Net fair value gains		**505**	66
Reclassified and reported in the Group Income Statement		**(334)**	(29)
Tax on items taken directly to equity	6	**435**	123
Net (expense)/income recognised directly in equity		**(295)**	381
Profit for the year		**2,166**	2,130
Total recognised income and expense for the year	30	**1,871**	2,511
Attributable to:			
Equity holders of the parent		**1,872**	2,500
Minority interests		**(1)**	11
		1,871	2,511

* Results for the year ended 23 February 2008 include 52 weeks of operation.

Group balance sheet

28 February 2009	notes	2009 £m	2008 £m
Non-current assets			
Goodwill and other intangible assets	10	**4,027**	2,336
Property, plant and equipment	11	**23,152**	19,787
Investment property	12	**1,539**	1,112
Investments in joint ventures and associates	13	**62**	305
Other investments	14	**259**	4
Loans and advances to customers	17	**1,470**	–
Derivative financial instruments	22	**1,478**	216
Deferred tax assets	6	**21**	104
		32,008	23,864
Current assets			
Inventories	15	**2,669**	2,430
Trade and other receivables	16	**1,798**	1,311
Loans and advances to customers	17	**1,918**	–
Loans and advances to banks and other financial assets	18	**2,129**	–
Derivative financial instruments	22	**382**	97
Current tax assets		**9**	6
Short-term investments		**1,233**	360
Cash and cash equivalents	19	**3,509**	1,788
		13,647	5,992
Non-current assets classified as held for sale	7	**398**	308
		14,045	6,300
Current liabilities			
Trade and other payables	20	**(8,522)**	(7,277)
Financial liabilities			
Borrowings	21	**(4,059)**	(2,084)
Derivative financial instruments and other liabilities	22	**(525)**	(443)
Customer deposits	24	**(4,538)**	–
Deposits by banks	25	**(24)**	–
Current tax liabilities		**(362)**	(455)
Provisions	26	**(10)**	(4)
		(18,040)	(10,263)
Net current liabilities		**(3,995)**	(3,963)
Non-current liabilities			
Financial liabilities			
Borrowings	21	**(12,391)**	(5,972)
Derivative financial instruments and other liabilities	22	**(302)**	(322)
Post-employment benefit obligations	28	**(1,494)**	(838)
Other non-current payables	20	**(68)**	(42)
Deferred tax liabilities	6	**(696)**	(802)
Provisions	26	**(67)**	(23)
		(15,018)	(7,999)
Net assets		**12,995**	11,902
Equity			
Share capital	29/30	**395**	393
Share premium account	30	**4,638**	4,511
Other reserves	30	**40**	40
Retained earnings	30	**7,865**	6,871
Equity attributable to equity holders of the parent		**12,938**	11,815
Minority interests	30	**57**	87
Total equity		**12,995**	11,902

Sir Terry Leahy
Laurie McIlwee

Directors
The financial statements on pages 68 to 123 were authorised for issue by the Directors on 1 May 2009 and are subject to the approval of the shareholders at the Annual General Meeting on 3 July 2009.

Group cash flow statement

53 weeks ended 28 February 2009	notes	2009 £m	2008* £m
Cash flows from operating activities			
Cash generated from operations	33	**4,978**	4,099
Interest paid		**(562)**	(410)
Corporation tax paid		**(456)**	(346)
Net cash from operating activities		**3,960**	3,343
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(1,275)**	(169)
Purchase of property, plant and equipment and investment property		**(4,487)**	(3,442)
Proceeds from sale of property, plant and equipment		**994**	1,056
Purchase of intangible assets		**(220)**	(158)
Increase in loans to joint ventures		**(242)**	(36)
Investments in joint ventures and associates		**(30)**	(61)
Investments in short-term investments		**(1,233)**	(360)
Proceeds from sale of short-term investments		**360**	–
Dividends received		**69**	88
Interest received		**90**	128
Net cash used in investing activities		**(5,974)**	(2,954)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**130**	138
Proceeds from sale of ordinary share capital to minority interests		**–**	16
Increase in borrowings		**7,387**	9,333
Repayment of borrowings		**(2,733)**	(7,593)
New finance leases		**–**	119
Repayment of obligations under finance leases		**(18)**	(32)
Dividends paid		**(883)**	(792)
Dividends paid to minority interests		**(3)**	(2)
Own shares purchased		**(265)**	(775)
Net cash from financing activities		**3,615**	412
Net increase in cash and cash equivalents		**1,601**	801
Cash and cash equivalents at beginning of year		**1,788**	1,042
Effect of foreign exchange rate changes		**120**	(55)
Cash and cash equivalents at end of year	19	**3,509**	1,788

* Results for the year ended 23 February 2008 include 52 weeks of operation.

Reconciliation of net cash flow to movement in net debt note

53 weeks ended 28 February 2009	notes	2009 £m	2008* £m
Net increase in cash and cash equivalents		**1,601**	801
Elimination of net increase in TPF cash and cash equivalents		**(37)**	–
Net cash inflow from debt and lease financing		**(4,636)**	(1,827)
Short-term investments		**873**	360
Movement in joint venture loan receivables		**242**	36
Debt acquired on acquisition of Homever		**(611)**	–
Transfer of joint venture loan receivable on acquisition of TPF		**(91)**	–
Other non-cash movements		**(759)**	(691)
Increase in net debt in the year		**(3,418)**	(1,321)
Opening net debt	34	**(6,182)**	(4,861)
Closing net debt	34	**(9,600)**	(6,182)

* Results for the year ended 23 February 2008 include 52 weeks of operation.
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 and forms part of the notes to the financial statements.

Notes to the Group 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 1985 (Registration number 445790). The address of the registered office is Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL, UK.

The financial year represents the 53 weeks to 28 February 2009 (prior financial year 52 weeks to 23 February 2008) and includes 53 weeks of trading for the UK, Republic of Ireland (ROI) and United States of America (US) businesses.

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

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Acts 1985 and 2006 as applicable to companies reporting under IFRS.

Basis of preparation
The financial statements are presented in Pounds Sterling, rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments 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 into 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 accounts of the Parent Company's subsidiary undertakings are prepared to dates around the Group year end.

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, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, impairment testing (including loans), provisions for onerous leases and dilapidations, assumptions for measuring pension provisions and fair value of share-based payments, determination of the fair value of obligations to purchase minority interests and fair value of derivative financial instruments, classification of leases as operating leases versus finance leases (including on sale and leasebacks), the likelihood that tax assets can be realised and the classification of certain operations as held for sale.

Revenue
Retailing
Revenue consists of sales through retail outlets.

Revenue is recorded net of returns, relevant vouchers/offers and value-added taxes, when the significant risks and rewards of ownership have been transferred to the buyer. Relevant vouchers/offers include: money-off coupons, conditional spend vouchers and offers such as buy one get one free (BOGOF) and 3 for 2.

Commission income is recorded based on the terms of the contracts and is recognised when the service is provided.

Financial Services
Revenue consists of interest, fees and commission receivable.

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.

Note 1 Accounting policies continued

Fees in respect of services are recognised on an accruals basis as service is provided. 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. Significant fee types include credit card related services fees such as interchange, late payment and balance transfer fees.

Insurance commission received by the Group is accrued over the term of the policy.

Clubcard and loyalty initiatives
The cost of Clubcard is treated as a cost of sale, with an accrual equal to the estimated fair value of the points issued recognised when the original transaction occurs. On redemption, the cost of redemption is offset against the accrual.

The fair value of the points awarded is determined with reference to the cost of redemption and considers factors such as redemption via Clubcard deals versus money-off in-store and redemption rate.

Computers for Schools and Sport for Schools and Clubs 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 as a deduction from sales.

Other income
Finance income, excluding income arising from financial services is recognised in the period to which it relates on an accruals basis. Dividends are recognised when a legal entitlement to payment arises.

Operating profit
Operating profit is stated after profit arising on property-related items but before the share of results of joint ventures and associates, finance income and finance costs.

Property, plant and equipment
Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value.

Property, plant and equipment assets are depreciated on a straight-line basis to their residual value over their anticipated useful economic lives.

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.

All tangible fixed assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that the carrying value may not be recoverable.

Borrowing costs
Borrowing 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 Personal Finance Group Limited interest expense on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

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.

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 relevant 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 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 relevant lease.

Sale and leaseback
A sale and leaseback transaction is one where a vendor 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 apparent profit or loss 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.

Following initial recognition, the lease treatment is consistent with those principles described above.

Business combinations and goodwill
All business combinations are accounted for by applying the purchase method.

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 at 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 charged on a straight-line basis.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

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) then 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.

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.

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 carried forward only if all the criteria set out in IAS 38 'Intangible Assets' are met, namely:

- 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.

Impairment of tangible and intangible assets excluding goodwill

At each Balance Sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication 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 as income immediately.

Other investments

Other investments in the Group Balance Sheet comprise equity investments and available-for-sale financial assets. Refer to the financial instruments accounting policy for further detail.

Equity investments are recognised at amortised cost and available-for-sale financial assets are recognised at fair value.

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.

Pensions and similar obligations

The Group accounts for pensions and other post-employment benefits (principally private healthcare) under IAS 19 'Employee Benefits'.

In respect of 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 Recognised Income and Expense.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Note 1 Accounting policies continued

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 or rights over shares (equity-settled transactions) or in exchange for entitlements to cash payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. In accordance with IFRS 2 'Share-based payment', 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.

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 is recognised in the Group Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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, in which case the deferred tax is also recognised in equity.

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 asset 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 for the period.

The financial statements of foreign subsidiaries are translated into Pounds Sterling according to the functional currency concept of IAS 21 'The Effects of Changes in Foreign Exchange Rates'. 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 into Pounds Sterling at average exchange rates for the relevant accounting periods. Exchange differences arising, if any, are classified as equity and transferred to 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, reduced by appropriate allowances for estimated irrecoverable amounts.

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
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 other 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
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.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets 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 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 and interest rate 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 (including 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 removed from 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 currency options.

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 Group Income Statement. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred 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 equity. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in equity are included in the Group Income Statement when the foreign operation is disposed of.

Derivative instruments qualifying for net investment hedging are principally forward foreign exchange transactions and currency options.

Note 1 Accounting policies continued

Treatment of agreements to acquire minority interests
The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with minority shareholdings.

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 for the year. 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.

Securitisation transactions
During 2008/9 the Group has entered into a securitisation transaction and issued debt securities. The debt securities in issue and the loans and advances to customers are recorded on the Group's Balance Sheet within current borrowings and loans and advances to customers.

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.

Recent accounting developments
Standards, amendments and interpretations effective for 2008/9 or issued and early adopted:

In preparing the Group financial statements for the current year, the Group has adopted the following new IFRS, amendments to IFRS and IFRIC Interpretations which have not had a significant impact on the results or net assets of the Group:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', effective from 1 July 2008. These amendments permit the reclassification of financial assets in particular circumstances. The adoption of the amendments to IAS 39 and IFRS 7 has had no impact on the results or net assets of the Group.
- IFRIC 11 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. This interpretation applies to public sector service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence the adoption of IFRIC 12 has had no impact on the results or net assets of the Group.

Standards, amendments and interpretations not yet effective, but not expected to have a significant impact on the Group:

- IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 'Segment Reporting' and requires segmental information to be presented on the same basis that management uses to evaluate performance of its reporting segments in its management reporting. We do not expect the adoption of IFRS 8 to have a significant impact upon the results or net assets of the Group.
- Amendment to IAS 23 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. We do not expect the adoption of the amendment to IAS 23 to have a significant impact upon the results or net assets of the Group.
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after 1 January 2009 as endorsed by the EU. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. We do not expect the adoption of IFRIC 14 to have a significant impact upon the results or net assets of the Group.

Standards, amendments and interpretations not yet effective and under review as to their impact on the Group:

- Amendment to IAS 1 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.
- Amendment to IAS 27 'Consolidated and Separate Financial Statements', effective for annual periods beginning on or after 1 July 2009.
- Amendment to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements'– Puttable Instruments and Instruments with Obligations Arising on Liquidation, effective for annual periods beginning on or after 1 January 2009.
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement'– Eligible hedged items, effective for annual periods beginning on or after 1 July 2009.
- Amendments to IFRS 1 'First-time Adoption of IFRSs' and IAS 27 'Consolidated and Separate Financial Statements'– Cost of an Investment of a Subsidiary, Jointly Controlled Entity or Associate, effective for annual reporting periods beginning on or after 1 January 2009.
- Amendment to IFRS 2 'Share-Based Payment'– Vesting Conditions and Cancellations, effective for annual periods beginning on or after 1 January 2009.
- Amendments to IFRS 3 'Business Combinations', effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- IFRIC 13 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- IFRIC 15 'Agreements for the Construction of Real Estate', effective for annual periods beginning on or after 1 January 2009.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', effective for annual periods beginning on or after 1 October 2008.
- IFRIC 17 'Distributions of Non-Cash Assets to Owners', effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 'Transfers of Assets from Customers', effective for transfers of assets from customers received on or after 1 July 2009.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

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 period end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the period, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify underlying business performance. During 2008/9, £10m (2007/8 – £nil) of the IAS 32/39 charge arose in the share of post-tax profit of joint ventures and associates, with the remainder in finance income/costs.

- IAS 19 Income Statement charge for pensions – Under IAS 19 'Employee Benefits', 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 makes 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 'Leases' 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. The impact of this treatment in 2008/9 was an adverse charge of £27m (2007/8 – £18m) to the Group Income Statement after deducting the impact of the straight-line treatment recognised as rental income within share of post-tax profits of joint ventures and associates.

- IFRS 3 Amortisation charge from intangible assets arising on acquisition – Under IFRS 3 'Business Combinations', intangible assets are separately identified and 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.

- Exceptional items – Due to their significance and special nature, certain other items which do not reflect the Group's underlying performance have been excluded from underlying profit. These gains or losses can have a significant impact on both absolute profit and profit trends; consequently, they are excluded from the underlying profit of the Group. There are no exceptional items in 2008/9 and 2007/8.

Segmental trading profit

Segmental trading profit is an adjusted measure of operating profit, which measures the performance of each geographical segment before profit/(loss) arising on property-related items, impact on leases of annual uplifts in rent and rent-free periods, amortisation charge from intangible assets arising on acquisition and replaces the IAS 19 pension charge with the 'normal' cash contributions for pensions.

Note 2 Segmental reporting

The Board has determined that the primary segmental reporting format is geographical, based on the Group's management and internal reporting structure. Secondary information is reported by business segments, which comprises retailing and financial services.

In 2007/8, the UK reporting segment included the start-up operations in the United States of America (US), which were not material. The results of the US business have been reported as a separate reporting segment within International in our results for 2008/9. The comparatives have been restated to reflect the US as a separate segment. The impact of this is to transfer sales of £16m and a loss of £67m from the UK segment to the US segment in 2007/8. In addition, the UK reporting segment includes the results for Tesco Personal Finance Group Limited (TPF) from the date of acquisition (see note 31).

The Rest of Europe reporting segment includes the Republic of Ireland, Hungary, Poland, the Czech Republic, Slovakia and Turkey.

The Asia reporting segment includes Thailand, South Korea, Malaysia, China, Japan and India. It also includes the results of Homever for 2008/9 from the date of acquisition (see note 31).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and taxation related assets/liabilities.

Inter-segment turnover between the geographical areas of business is not material.

Geographical segments

Year ended 28 February 2009	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Continuing operations					
Revenue					
Sales (excluding VAT) to external customers	38,191	8,862	7,068	206	54,327
Result					
Segment operating profit/(loss)	2,540	479	343	(156)	3,206
Share of post-tax profit/(loss) of joint ventures and associates	111	(2)	1	–	110
Net finance costs					(362)
Profit before tax					2,954
Taxation					(788)
Profit for the year					2,166

Reconciliation of operating profit to trading profit

	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Operating profit	2,540	479	343	(156)	3,206
Adjustments for:					
(Profit)/loss arising on property-related items	(263)	14	8	5	(236)
IAS 19 Income Statement charge for pensions	410	6	12	–	428
'Normal' cash contributions for pensions	(358)	(3)	(15)	–	(376)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	20	–	7	9	36
IFRS 3 Amortisation charge from intangible assets arising on acquisition	32	–	–	–	32
Trading profit/(loss)	2,381	496	355	(142)	3,090
Trading margin	6.2%	5.6%	5.0%	n/a	5.7%

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	UK £m	Rest of Europe £m	Asia £m	US £m	Other/ unallocated £m	Total £m
Assets and liabilities						
Segment assets	29,913	6,953	6,242	768	2,115	45,991
Investments in joint ventures and associates	49	–	13	–	–	62
Total assets	29,962	6,953	6,255	768	2,115	46,053
Segment liabilities	(13,032)	(1,270)	(1,966)	(98)	(16,692)	(33,058)
Total net assets						12,995
Other segment information						
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment	2,417	852	1,404	305	–	4,978
Investment property	–	48	152	–	–	200
Goodwill and other intangible assets	1,242	15	385	–	–	1,642
Depreciation:						
Property, plant and equipment	566	249	176	20	–	1,011
Investment property	–	9	16	–	–	25
Amortisation of intangible assets	131	16	6	–	–	153
Impairment losses recognised in the Group Income Statement	(21)	(41)	(4)	–	–	(66)
Reversal of prior period impairment losses through the Group Income Statement	21	50	17	–	–	88
Profit/(loss) arising on property-related items	263	(14)	(8)	(5)	–	236

Year ended 23 February 2008	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Continuing operations					
Revenue					
Sales (excluding VAT) to external customers	34,858	6,872	5,552	16	47,298
Result					
Segment operating profit/(loss)	2,164	400	294	(67)	2,791
Share of post-tax profit of joint ventures and associates	75	–	–	–	75
Net finance costs					(63)
Profit before tax					2,803
Taxation					(673)
Profit for the year					2,130

Reconciliation of operating profit to trading profit

	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Operating profit	2,164	400	294	(67)	2,791
Adjustments for:					
(Profit)/loss arising on property-related items	(188)	(5)	3	2	(188)
IAS 19 Income Statement charge for pensions	446	5	10	–	461
'Normal' cash contributions for pensions	(328)	(3)	(9)	–	(340)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	18	–	6	3	27
Trading profit/(loss)	2,112	397	304	(62)	2,751
Trading margin	6.1%	5.8%	5.5%	n/a	5.8%

Note 2 Segmental reporting continued

	UK £m	Rest of Europe £m	Asia £m	US £m	Other/ unallocated £m	Total £m
Assets and liabilities						
Segment assets	18,949	6,093	4,247	296	274	29,859
Investments in joint ventures and associates	293	1	11	–	–	305
Total assets	19,242	6,094	4,258	296	274	30,164
Segment liabilities	(6,442)	(1,229)	(1,314)	(72)	(9,205)	(18,262)
Total net assets						11,902
Other segment information						
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment	2,359	696	662	189	–	3,906
Investment property	–	13	37	–	–	50
Goodwill and other intangible assets	219	18	22	–	–	259
Depreciation:						
Property, plant and equipment	532	188	136	4	–	860
Investment property	–	9	7	–	–	16
Amortisation of intangible assets	99	12	5	–	–	116
Impairment losses recognised in the Group Income Statement	(48)	(25)	(4)	–	–	(77)
Reversal of prior period impairment losses through the Group Income Statement	48	36	3	–	–	87
Profit/(loss) arising on property-related items	188	5	(3)	(2)	–	188

Business segments
The Group has two business segments, retailing and financial services.

Year ended 28 February 2009	Retailing £m	Financial Services £m	Total £m
Revenue	54,164	163	54,327
Segment assets	39,788	6,203	45,991
Segment liabilities	(27,557)	(5,501)	(33,058)
Capital expenditure (including acquisitions through business combinations)	6,537	283	6,820

Year ended 23 February 2008	Retailing £m	Financial Services £m	Total £m
Revenue	47,298	–	47,298
Segment assets	29,859	–	29,859
Segment liabilities	(18,262)	–	(18,262)
Capital expenditure (including acquisitions through business combinations)	4,215	–	4,215

Note 3 Income and expenses

From continuing operations	**2009 £m**	2008 £m
Profit before tax is stated after charging/(crediting) the following:		
Profit arising on property-related items	**(236)**	(188)
Rental income, of which £304m (2008 – £211m) relates to investment properties	**(349)**	(267)
Direct operating expenses arising on rental earning investment properties	**91**	54
Costs of inventories recognised as an expense	**40,779**	35,279
Stock losses	**870**	700
Depreciation of property, plant and equipment and investment property	**1,036**	876
Net reversal of impairment of property, plant and equipment and impairment of investment property	**(22)**	(10)
Amortisation of internally-generated development intangible assets	**88**	87
Amortisation of other intangibles	**65**	29
Operating lease expenses[(a)]	**738**	520

(a) Operating lease expenses include £81m (2008 – £88m) for hire of plant and machinery.

Notes to the Group financial statements continued

Note 3 Income and expenses continued

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor, PricewaterhouseCoopers LLP, and network firms:

	2009 £m	2008 £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
Non-audit services		
Fees payable to the Company's auditor and network firms for other services:		
the audit of the accounts of the Company's subsidiaries pursuant to legislation	**3.1**	2.5
other services pursuant to such legislation	**0.1**	0.1
other services relating to taxation	**0.8**	1.2
other services relating to corporate finance transactions	**1.3**	0.3
all other services	**0.6**	0.3
Total auditor remuneration	**6.5**	5.0

In addition to the amounts shown above, the auditors received fees of £0.1m (2008 – £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 46 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

	2009 £m	2008 £m
Wages and salaries	**4,707**	4,246
Social security costs	**410**	349
Post-employment benefits (note 28)	**439**	470
Share-based payments expense (note 27)	**242**	228
	5,798	5,293

The average number of employees by geographical segment during the year was:

	2009	Average number of employees 2008*	2009	Average number of full-time equivalents 2008*
UK	**286,392**	282,199	**194,419**	193,187
Rest of Europe	**86,760**	83,705	**78,914**	77,267
Asia	**92,773**	77,554	**88,099**	74,570
US	**2,583**	669	**2,583**	730
Total	**468,508**	444,127	**364,015**	345,754

* The comparatives have been restated to reflect the US as a separate segment. In 2007/8, the US employees were included in the UK reporting segment.

Note 5 Finance income and costs

	2009 £m	2008 £m
Finance income		
Bank interest receivable and similar income on cash and cash equivalents	**91**	91
Net pension finance income (note 28)	**25**	47
Total finance income (on historical cost basis)	**116**	138
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	**–**	49
Total finance income	**116**	187
Finance costs		
Interest payable on short-term bank loans and overdrafts repayable within five years	**(152)**	(47)
Finance charges payable under finance leases and hire purchase contracts	**(13)**	(13)
7.5% 258m GBP MTN 2007	**–**	(8)
6% 125m GBP MTN 2008	**(2)**	(7)
5.25% 500m EUR MTN 2008	**(4)**	(18)
5.125% 192m GBP MTN 2009	**(10)**	(10)
6.625% 150m GBP MTN 2010	**(10)**	(10)
4.75% 750m EUR MTN 2010	**(26)**	(25)
3.875% 500m EUR MTN 2011	**(14)**	(13)
5.625% 1,500m EUR MTN 2012	**(35)**	–
5% 600m GBP MTN 2014	**(1)**	–
5.125% 600m EUR MTN 2015	**(1)**	–
4% RPI GBP MTN 2016[(a)]	**(23)**	(20)
5.875% 1,500m EUR MTN 2016	**(33)**	–
5.5% 850m USD Bond 2017	**(23)**	(12)
5.5% 350m GBP MTN 2019	**(20)**	(19)
6.125% 900m GBP MTN 2022	**(1)**	–
5% 515m GBP MTN 2023	**(21)**	(18)
3.322% LPI GBP MTN 2025[(b)]	**(20)**	(19)
6% 200m GBP MTN 2029	**(12)**	(12)
5.5% 200m GBP MTN 2033	**(11)**	(11)
1.982% RPI GBP MTN 2036[(c)]	**(14)**	(11)
6.15% 1,150m USD Bond 2037	**(35)**	(18)
5% 300m GBP MTN 2042	**(15)**	(15)
5.125% 600m EUR MTN 2047	**(21)**	(21)
5.2% 500m GBP MTN 2057	**(26)**	(13)
Other MTNs	**(9)**	(13)
Capitalised interest	**152**	103
Total finance costs (on historical cost basis)	**(400)**	(250)
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	**(78)**	–
Total finance costs	**(478)**	(250)

(a) Interest payable on the 4% RPI GBP MTN 2016 includes £13m (2008 – £10m) of Retail Price Index (RPI) related amortisation.
(b) Interest payable on the 3.322% LPI GBP MTN 2025 includes £11m (2008 – £11m) of RPI related amortisation.
(c) Interest payable on the 1.982% RPI GBP MTN 2036 includes £10m (2008 – £7m) of RPI related amortisation.

Finance costs of £30m (2008 – £nil) resulted from hedge ineffectiveness.

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group Income Statement

	2009 £m	2008 £m
Current tax expense		
UK corporation tax	**673**	853
Foreign tax	**88**	78
Adjustments in respect of prior years	**(164)**	(278)
Benefit of tax losses recognised – adjustments in respect of prior years	**–**	(56)
	597	597
Deferred tax expense		
Origination and reversal of temporary differences	**119**	54
Benefit of tax losses recognised – adjustments in respect of prior years	**–**	28
Adjustments in respect of prior years	**97**	63
Change in tax rate	**(25)**	(69)
	191	76
Total income tax expense	**788**	673

UK corporation tax is calculated at 28.2% (2008 – 30.0%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of effective tax charge

	2009 £m	2008 £m
Profit before tax	**2,954**	2,803
Effective tax charge at 28.2% (2008 at 30.0%)	**(833)**	(841)
Effect of:		
Non-deductible expenses	**(189)**	(180)
Differences in overseas taxation rates	**111**	41
Adjustments in respect of prior years	**67**	215
Share of results of joint ventures and associates	**31**	23
Change in tax rate	**25**	69
Total income tax charge for the year	**(788)**	(673)
Effective tax rate	**26.7%**	24.0%

Tax on items charged to equity

	2009 £m	2008 £m
Current tax credit on:		
Foreign exchange movements	**199**	250
Share-based payments	**46**	5
	245	255
Deferred tax credit/(charge) on:		
Share-based payments	**14**	(57)
Pensions	**176**	(75)
	190	(132)
Total tax on items credited to equity (note 30)	**435**	123

Note 6 Taxation continued

Deferred tax
The following are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior year:

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	IAS 32 and IAS 39 £m	Other pre/post tax temporary differences £m	Total £m
At 24 February 2007	(1,019)	284	136	51	24	21	–	(503)
(Charge)/credit to the Group Income Statement	(83)	22	(3)	(2)	(13)	(8)	11	(76)
Charge to equity	–	(75)	(57)	–	–	–	–	(132)
Acquisition of subsidiaries	(18)	–	–	–	–	–	–	(18)
Foreign exchange translation	52	2	–	(24)	1	–	–	31
At 23 February 2008	(1,068)	233	76	25	12	13	11	(698)
(Charge)/credit to the Group Income Statement	(194)	7	(46)	61	1	(8)	(12)	(191)
Credit to equity	–	176	14	–	–	–	–	190
Acquisition of subsidiaries	12	–	–	(42)	–	42	–	12
Foreign exchange translation	3	1	–	(2)	3	–	7	12
At 28 February 2009	(1,247)	417	44	42	16	47	6	(675)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2009 £m	2008 £m
Deferred tax assets	**21**	104
Deferred tax liabilities	**(696)**	(802)
	(675)	(698)

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 £1,726m (2008 – £1,053m).

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.

	2009 £m	2008 £m
Deductible temporary differences	**12**	2
Tax losses	**192**	38
	204	40

At the Balance Sheet date, the Group has unused trading tax losses of £744m (2008 – £146m) available for offset against future profits. A deferred tax asset has been recognised in respect of £58m (2008 – £9m) of such losses. No deferred tax asset has been recognised in respect of the remaining £686m (2008 – £137m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £32m (2008 – £39m in 2012) that will expire in 2013 and £647m (2008 – £57m in 2028) that will expire between 2014 and 2029. Other losses will be carried forward indefinitely.

In addition, the Group has UK capital losses of £310m (2008 – £350m).

To find out more go to
www.tesco.com/annualreport09

Notes to the Group financial statements continued

Note 7 Non-current assets classified as held for sale

	2009 £m	2008 £m
Non-current assets classified as held for sale	**398**	308

The non-current assets classified as held for sale consist mainly of properties held for sale.

Note 8 Dividends

	2009 pence/share	2008 pence/share	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the prior financial year	**7.70**	6.83	**603**	541
Interim dividend for the current financial year	**3.57**	3.20	**280**	251
	11.27	10.03	**883**	792
Proposed final dividend for the current financial year	**8.39**	7.70	**662**	605

The proposed final dividend was approved by the Board of Directors on 20 April 2009 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 28 February 2009, in accordance with IAS 10 'Events after the balance sheet date'. It will be paid on 10 July 2009 to shareholders who are on the register of members on 1 May 2009.

Note 9 Earnings per share and diluted earnings per share

Basic earnings per share amounts are calculated by dividing the profit attributable to equity holders 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 equity holders 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 dilution effect is calculated on the full exercise of all 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.

	2009			2008		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit (£m)	**2,161**	**–**	**2,161**	2,124	–	2,124
Weighted average number of shares (millions)	**7,859**	**53**	**7,912**	7,881	102	7,983
Earnings per share (pence)	**27.50**	**(0.19)**	**27.31**	26.95	(0.34)	26.61

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

	2009		2008	
	£m	pence/share	£m	pence/share
Profit				
Earnings from operations	**2,161**	**27.31**	2,124	26.61
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	**88**	**1.11**	(49)	(0.61)
Total IAS 19 Income Statement charge for pensions	**403**	**5.09**	414	5.19
'Normal' cash contributions for pensions	**(376)**	**(4.75)**	(340)	(4.26)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	**27**	**0.34**	18	0.22
IFRS 3 Amortisation charge from intangible assets arising on acquisition	**32**	**0.41**	–	–
Tax effect of adjustments at the effective rate of tax (2009 – 26.7%; 2008 – 24.0%*)	**(47)**	**(0.59)**	(10)	(0.13)
Underlying earnings from operations	**2,288**	**28.92**	2,157	27.02

* In 2007/8, agreement was reached with HMRC on settling prior year tax items. Removing the one-off impact of settling prior year tax items with HMRC, the normalised tax rate was 28.9%.

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 23 February 2008	691	278	48	1,927	2,944
Foreign currency translation	6	7	(4)	205	214
Additions	192	26	2	–	220
Acquisitions through business combinations	–	–	270	1,152	1,422
Reclassification across categories	(2)	–	2	–	–
Disposals	(8)	(1)	–	(1)	(10)
At 28 February 2009	879	310	318	3,283	4,790
Accumulated amortisation and impairment losses					
At 23 February 2008	340	163	7	98	608
Foreign currency translation	–	4	–	–	4
Amortisation for the year	88	31	34	–	153
Reclassification across categories	(1)	–	1	–	–
Disposals	(1)	(1)	–	–	(2)
At 28 February 2009	426	197	42	98	763
Net carrying value					
At 28 February 2009	453	113	276	3,185	4,027
At 23 February 2008	351	115	41	1,829	2,336
Cost					
At 24 February 2007	583	233	39	1,684	2,539
Foreign currency translation	2	18	–	151	171
Additions	128	29	2	22	181
Acquisitions through business combinations	–	–	8	70	78
Reclassification across categories	1	1	(1)	–	1
Disposals	(23)	(3)	–	–	(26)
At 23 February 2008	691	278	48	1,927	2,944
Accumulated amortisation and impairment losses					
At 24 February 2007	263	128	5	98	494
Foreign currency translation	–	9	–	–	9
Amortisation for the year	87	27	2	–	116
Reclassification across categories	1	–	–	–	1
Disposals	(11)	(1)	–	–	(12)
At 23 February 2008	340	163	7	98	608
Net carrying value					
At 23 February 2008	351	115	41	1,829	2,336
At 24 February 2007	320	105	34	1,586	2,045

There are no intangible assets, other than goodwill, with indefinite useful lives.

Notes to the Group financial statements continued

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. In 2008/9, recoverable amounts are based on value in use. Value in use is 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. 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. In the case of Japan, it is reasonably possible that a change in key assumptions would cause the goodwill to exceed its value in use. At 28 February 2009, there was headroom of £8m, incorporating a long-term growth rate of 1.5% and a pre-tax discount rate of 7.3% as key assumptions. A 0.2% reduction in the long-term growth rate or a 0.2% increase in the discount rate would cause goodwill to exceed its value in use. EBITDA margin is also assumed to increase in 2009/10 from 2008/9, where a 2.9% decrease in the forecast margin for 2009/10 would also cause goodwill to exceed its value in use. For Poland, with headroom of £84m and assuming an 11.3% pre-tax discount rate, a 0.4% increase in the discount rate would cause goodwill to exceed its value in use.

The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of generally 2%-10% (2008: 3%-4%).

The pre-tax discount rates used to calculate value in use range from 7%-24% (2008: 8%-24%). On a post-tax basis, the discount rates ranged from 5%-19% (2008: 5%-20%). 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.

In February 2009 and 2008 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. Management determined that there has been no impairment.

The components of goodwill are as follows:

	2009 £m	2008 £m
UK	**616**	571
Tesco Personal Finance Group Limited	**767**	–
Thailand	**153**	124
South Korea	**378**	48
Japan	**196**	129
China	**540**	376
Malaysia	**76**	65
Poland	**354**	394
Czech Republic	**47**	44
Turkey	**53**	54
Other	**5**	24
	3,185	1,829

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 23 February 2008	19,210	6,340	25,550
Foreign currency translation	434	191	625
Additions[b]	3,345	1,013	4,358
Acquisitions through business combinations	586	34	620
Reclassification across categories	(305)	45	(260)
Classified as held for sale	(74)	(8)	(82)
Disposals	(847)	(120)	(967)
At 28 February 2009	22,349	7,495	29,844
Accumulated depreciation and impairment losses			
At 23 February 2008	2,280	3,483	5,763
Foreign currency translation	55	103	158
Charge for the year	352	659	1,011
Reclassification across categories	(5)	–	(5)
Classified as held for sale	18	(3)	15
Disposals	(128)	(90)	(218)
Impairment losses	56	–	56
Reversal of impairment losses	(88)	–	(88)
At 28 February 2009	2,540	4,152	6,692
Net carrying value[c][d][e]			
At 28 February 2009	19,809	3,343	23,152
At 23 February 2008	16,930	2,857	19,787
Capital work in progress included above[f]			
At 28 February 2009	1,375	159	1,534

(a) Other assets consist of plant, equipment, fixtures and fittings and motor vehicles.
(b) Includes £152m (2008 – £103m) 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 year was 5.1% (2008 – 5.1%). Interest capitalised is deducted in determining taxable profit in the year in which it is incurred.
(c) Net carrying value includes:
(i) Capitalised interest at 28 February 2009 of £910m (2008 – £790m).
(ii) Assets held under finance leases which are analysed below:

	2009		2008	
	Land and buildings £m	**Other[a] £m**	Land and buildings £m	Other[a] £m
Cost	**121**	**578**	96	723
Accumulated depreciation and impairment losses	**(22)**	**(390)**	(20)	(441)
Net carrying value	**99**	**188**	76	282

These assets are pledged as security for the finance lease liabilities.

(d) The net carrying value of land and buildings comprises:

	2009 £m	2008 £m
Freehold	**17,332**	15,209
Long leasehold – 50 years or more	**1,450**	892
Short leasehold – less than 50 years	**1,027**	829
Net carrying value	**19,809**	16,930

(e) Carrying value of land and buildings includes £4m (2008 – £6m) relating to the prepayment of lease premiums.
(f) Capital work in progress does not include land.

Notes to the Group financial statements continued

Note 11 Property, plant and equipment continued

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 24 February 2007	16,540	5,389	21,929
Foreign currency translation	545	231	776
Additions[b]	2,802	925	3,727
Acquisitions through business combinations	153	26	179
Reclassification across categories	(50)	(95)	(145)
Classified as held for sale	(295)	(5)	(300)
Disposals	(485)	(131)	(616)
At 23 February 2008	19,210	6,340	25,550
Accumulated depreciation and impairment losses			
At 24 February 2007	1,942	3,011	4,953
Foreign currency translation	52	117	169
Charge for the year	353	507	860
Reclassification across categories	34	(40)	(6)
Classified as held for sale	(44)	(1)	(45)
Disposals	(47)	(111)	(158)
Impairment losses	77	–	77
Reversal of impairment losses	(87)	–	(87)
At 23 February 2008	2,280	3,483	5,763
Net carrying value[c][d][e]			
At 23 February 2008	16,930	2,857	19,787
At 24 February 2007	14,598	2,378	16,976
Capital work in progress included above[f]			
At 23 February 2008	1,058	112	1,170

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 based on value in use, which is 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. 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 generally 2%-10% (2008: 3%-4%).

The pre-tax discount rates used to calculate value in use range from 7%-24% (2008: 8%-24%) 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 (charged)/credited to operating costs in the Group Income Statement during the current and prior year:

	2009 £m	2008 £m
Impairment losses		
UK	**(21)**	(48)
Rest of Europe	**(31)**	(25)
Asia	**(4)**	(4)
	(56)	(77)
Reversal of impairment losses		
UK	**21**	48
Rest of Europe	**50**	36
Asia	**17**	3
	88	87
Net reversal of impairment losses	**32**	10

The impairment losses relate to stores whose recoverable amounts (either value in use or fair value less costs to sell) 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

	2009 £m	2008 £m
Cost		
At beginning of year	**1,190**	906
Foreign currency translation	**24**	93
Additions	**114**	50
Acquisitions through business combinations	**86**	–
Transfers	**260**	144
Classified as held for sale	**(10)**	–
Disposals	**(4)**	(3)
At end of year	**1,660**	1,190
Accumulated depreciation and impairment losses		
At beginning of year	**78**	50
Foreign currency translation	**3**	7
Charge for the period	**25**	16
Transfers	**5**	5
Impairment losses	**10**	–
At end of year	**121**	78
Net carrying value	**1,539**	1,112

The net carrying value at 24 February 2007 was £856m.

The following amounts have been charged to operating costs in the Group Income Statement during the current and prior year:

	2009 £m	2008 £m
Impairment losses		
Rest of Europe	**(10)**	–
Net impairment losses	**(10)**	–

The impairment losses relate to malls whose recoverable amounts (either value in use or fair value less costs to sell) do not exceed the asset carrying values. In all cases, impairment losses arose due to the malls performing below forecasted trading levels.

The estimated fair value of the Group's investment property is £3,196m (2008 – £2,265m). 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.

Notes to the Group financial statements continued

Note 13 Group entities

Significant subsidiaries

The Group consolidates its subsidiary undertakings; the principal subsidiaries are:

	Business activity	Share of issued ordinary share capital, and voting rights	Country of incorporation
Tesco Stores Limited*	Retail	100%	England
One Stop Stores Limited	Retail	100%	England
Tesco Ireland Limited*	Retail	100%	Republic of Ireland
Tesco-Global Stores Privately Held Co. Limited*	Retail	99%	Hungary
Tesco Polska Sp. z o.o.*	Retail	100%	Poland
Tesco Stores Č 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.	Retail	93%	Turkey
Samsung Tesco Co. Limited*	Retail	94%	South Korea
Homever Tesco Co. Limited*	Retail	100%	South Korea
Ek-Chai Distribution System Co. Limited*	Retail	86%[a]	Thailand
Tesco Stores Malaysia Sdn Bhd*	Retail	70%	Malaysia
Tesco Japan Co. Limited*	Retail	100%	Japan
Shanghai Kancheng Storage Co. Limited*	Retail	90%	Republic of China
Dobbies Garden Centres PLC*	Retail	100%	Scotland
Fresh & Easy Neighborhood Market Inc*	Retail	100%	USA
Tesco Personal Finance Group Limited	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	84%	England
Tesco Insurance Limited*	Self-insurance	100%	Guernsey
Valiant Insurance Company Limited*	Self-insurance	100%	Republic of Ireland

* Held by an intermediate subsidiary.
(a) The Group has 86% of voting rights and 39% of issued ordinary share capital in Ek-Chai Distribution System Co. Limited.

All principal subsidiary undertakings operate in their country of incorporation.

The accounting period ends of the subsidiary undertakings consolidated in these financial statements are on or around 28 February 2009.

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 1985.

Interests in joint ventures and associates

The Group uses the equity method of accounting for 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 24 February 2007	304	10	314
Additions	8	–	8
Share of profit of joint ventures and associates	74	1	75
Income received from joint ventures and associates	(87)	(1)	(88)
Transferred to investment in subsidiary undertakings	(4)	–	(4)
At 23 February 2008	295	10	305
Foreign currency translation	4	–	4
Share of profit of joint ventures and associates	106	4	110
Income received from joint ventures and associates	(68)	(1)	(69)
Transferred to amounts owed by subsidiary undertakings	(37)	–	(37)
Transferred to investment in subsidiary undertakings	(251)	–	(251)
At 28 February 2009	49	13	62

Note 13 Group entities continued

Transferred to investment in subsidiary undertakings
During the year ended 28 February 2009, the Group acquired the remaining 50% of the share capital of Tesco Personal Finance Group Limited, previously a joint venture, making the company a wholly-owned subsidiary entity which has been consolidated within the Group results from the date of acquisition onwards (see note 31).

During the year ended 23 February 2008, the Group purchased additional share capital in Nutri Centres Limited, making the company a wholly-owned subsidiary entity which has been consolidated within the Group results from the date of acquisition onwards.

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
Tesco Mobile Limited†	Telecommunications	50%	England
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
Arena (Jersey) Management Limited†	Property Investment	50%	Jersey
The Tesco Property (No. 2) Limited Partnership†	Property Investment	50%	Jersey

† Held by an intermediate subsidiary.

The accounting period ends of the joint ventures consolidated in these financial statements range from 31 December 2008 to 28 February 2009. Accounting period end dates different 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.

The share of the assets, liabilities, revenue and profit of the joint ventures, which are included in the consolidated financial statements, are as follows:

	2009 £m	2008 £m
Non-current assets	**1,637**	1,411
Current assets	**281**	4,277
Current liabilities	**(426)**	(3,888)
Non-current liabilities	**(1,458)**	(1,513)
Goodwill	**1**	1
Cumulative unrecognised losses	**14**	7
	49	295
Revenue	**549**	482
Expenses	**(443)**	(408)
Profit for the year	**106**	74

The unrecognised share of losses made by joint ventures in the year to 28 February 2009 was £7m (2008 – £nil).

Notes to the Group financial statements continued

Note 13 Group entities continued

Associates

At the Balance Sheet date, the Group's principal associate is:

	Business activity	Share of issued capital, loan capital and debt securities	Country of incorporation and principal country of operation
Greenergy International Limited†	Fuel Supplier	21%	England

† Held by an intermediate subsidiary.

Although the Group only holds a 21.3% non-voting shareholding in Greenergy International Limited it is treated as an associate as the Board of Greenergy International Limited requires the consent of Tesco on certain reserve matters as specified in the company's Articles of Association.

The share of the assets, liabilities, revenue and profit of the Group's associates, which are included in the consolidated financial statements, are as follows:

	2009 £m	2008 £m
Assets	**163**	115
Liabilities	**(152)**	(107)
Goodwill	**2**	2
	13	10
Revenue	**540**	325
Profit for the year	**4**	1

The accounting period ends of the associates consolidated in these financial statements range from 31 December 2008 to 31 January 2009. The accounting period end dates of the associates are different from those of the Group as they also 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 1985.

Note 14 Other investments

	2009 £m	2008 £m
Equity investment	**259**	–
Available-for-sale financial assets	**–**	4
	259	4

The equity investment comprises an interest free subordinated loan made by Tesco Personal Finance Group Limited to Direct Line Group Limited. This loan has been classed as an equity investment as there is no interest receivable and no fixed repayment date.

No impairment charges were recognised on the loan since the date of acquisition.

Available-for-sale financial assets consist of ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of the unlisted available-for-sale investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The fair value of the listed available-for-sale investments is based on quoted market prices at the Balance Sheet date.

The following table shows the aggregate movement in the Group's other investments during the year:

	2009 £m	2008 £m
At beginning of year	**4**	8
Acquisitions through business combinations	**259**	–
Revaluation through equity	**–**	(4)
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	**(4)**	–
At end of year	**259**	4

Note 15 Inventories

	2009 £m	2008 £m
Goods held for resale	**2,656**	2,420
Development properties	**13**	10
	2,669	2,430

Note 16 Trade and other receivables

	2009 £m	2008 £m
Prepayments and accrued income	**419**	298
Finance lease receivables (note 37)	**–**	5
Other receivables	**1,103**	796
Amounts owed by joint ventures and associates (note 32)	**276**	212
	1,798	1,311

Included within trade and other receivables are the following amounts receivable after more than one year:

	2009 £m	2008 £m
Prepayments and accrued income	**14**	12
Other receivables	**275**	160
Amounts owed by joint ventures and associates (note 32)	**262**	173
	551	345

Trade and other receivables are generally non-interest bearing. Credit terms vary by geography and the nature of the debt and can be from 7 to 60 days.

Trade receivables are recorded at amortised cost, reduced by estimated allowances for doubtful debts.

Provision for impairment of receivables

	£m
At 24 February 2007	(34)
Foreign currency translation	(3)
Charge for the year	(15)
Uncollectible amounts written off	14
Recoveries of amounts previously written off	9
At 23 February 2008	(29)
Foreign currency translation	(2)
Charge for the year	(21)
Uncollectible amounts written off	3
Recoveries of amounts previously written off	5
At 28 February 2009	(44)

As at 28 February 2009, trade and other receivables of £45m (2008 – £31m) were past due and impaired. The amount of the provision was £44m (2008 – £29m). The ageing analysis of these receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	**3**	3
3 to 6 months past due	**3**	3
Over 6 months past due	**39**	25
	45	31

Notes to the Group financial statements continued

Note 16 Trade and other receivables continued

As at 28 February 2009, trade and other receivables of £97m (2008 – £103m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	**71**	79
3 to 6 months past due	**15**	13
Over 6 months past due	**11**	11
	97	103

No receivables have been renegotiated in the current or prior year.

Note 17 Loans and advances to customers

Tesco Personal Finance Group Limited has loans and advances to customers.

	2009 £m	2008 £m
Current	**1,918**	–
Non-current	**1,470**	–
	3,388	–

The maturity of these loans and advances is as follows:

	2009 £m	2008 £m
Repayable on demand or at short notice	**1**	–
Within three months	**2,021**	–
Greater than three months but less than one year	**38**	–
Greater than one year but less than five years	**1,061**	–
After five years	**517**	–
	3,638	–
Provision for impairment of loans and advances	**(250)**	–
	3,388	–

The securitised amount against loans and advances is £1,468m and the fair value of these are not materially different to the amortised cost value at which they are disclosed.

Provision for impairment of loans and advances

	£m
Acquisition through business combination*	(229)
Charge for the period	(130)
Uncollectible amounts written off	109
Recoveries of amounts previously written off	(7)
Unwind of discount	7
At 28 February 2009	(250)

* Tesco Personal Finance Group Limited was acquired on 19 December 2008.

At 28 February 2009, Tesco Personal Finance Group Limited's non-interest bearing loans were £291m. Loan impairment provisions of £250m were held against these loans. In the period between the date of acquisition and year end, the gross income not recognised but which would have been recognised under the original terms of non-interest bearing loans was £25m.

Note 17 Loans and advances to customers continued

At 28 February 2009, loans and advances to customers of £82m were past due but not impaired. The ageing analysis of these loans and advances is as follows:

	2009 £m	2008 £m
Up to one month past due	58	–
One to three months past due	15	–
Over three months past due	9	–
	82	–

No loans have been renegotiated between the date of acquisition and the year end that would otherwise have been past due or impaired.

Note 18 Loans and advances to banks and other financial assets

Tesco Personal Finance Group Limited has loans and advances to banks and other financial assets with the following maturity:

	2009 £m	2008 £m
Within three months	1,509	–
Greater than three months but less than one year [a]	591	–
Greater than one year but less than five years	29	–
	2,129	–

(a) Included within loans and advances to banks and other financial assets are treasury bills of £588m in respect of collateral held with the Bank of England.

There are no loans and advances which are past due and impaired.

Note 19 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	2,112	1,542
Short-term deposits	1,397	246
	3,509	1,788

Note 20 Trade and other payables

Current

	2009 £m	2008 £m
Trade payables	4,748	3,936
Other taxation and social security	334	324
Other payables	1,984	1,714
Amounts payable to joint ventures and associates (note 32)	162	116
Accruals and deferred income	1,294	1,187
	8,522	7,277

Non-current

	2009 £m	2008 £m
Other payables	68	42

Notes to the Group financial statements continued

Note 21 Borrowings

Current

	Par value	Maturity year	2009 £m	2008 £m
Bank loans and overdrafts		2009	**3,014**	1,458
Loan from joint ventures (note 32)		2009	**20**	10
6% MTN	£125m	2008	**–**	130
5.25% MTN	€500m	2008	**–**	392
5.125% MTN	£192m	2009	**198**	–
1.434% MTN – TPF	£295m	2009	**295**	–
1.684% MTN – TPF	£89m	2009	**89**	–
1.418% MTN – TPF	£204m	2009	**204**	–
Other MTNs	–	–	**192**	43
Finance leases (note 37)	–	–	**47**	51
			4,059	2,084

The loan notes issued as part of the securitisation are secured on portfolios comprising variable rate personal credit cards. The maturity date of the notes matches the maturity date of the underlying assets and are repayable within one year from the balance sheet date.

Non-current

	Par value	Maturity year	2009 £m	2008 £m
Finance leases (note 37)	–	–	**196**	215
5.125% MTN	£192m	2009	**–**	191
6.625% MTN	£150m	2010	**154**	153
4.75% MTN	€750m	2010	**689**	592
3.875% MTN	€500m	2011	**476**	387
5.625% MTN	€1,500m	2012	**1,362**	–
LIBOR + 1.33% Bond – TPF	£225m	2012	**225**	–
5% MTN	£600m	2014	**592**	–
5.125% MTN	€600m	2015	**522**	–
4% RPI MTN[(a)]	£263m	2016	**268**	254
5.875% MTN	€1,500m	2016	**1,488**	–
5.5% USD Bond	$850m	2017	**678**	455
5.5% MTN	£350m	2019	**351**	350
6.125% MTN	£900m	2022	**901**	–
5% MTN[(b)]	£515m	2023	**515**	417
3.322% LPI MTN[(c)]	£265m	2025	**267**	255
6% MTN	£200m	2029	**216**	194
5.5% MTN	£200m	2033	**216**	192
1.982% RPI MTN[(d)]	£221m	2036	**221**	212
6.15% USD Bond	$1,150m	2037	**977**	604
5% MTN	£300m	2042	**306**	305
5.125% MTN	€600m	2047	**628**	451
5.2% MTN	£500m	2057	**500**	499
Other MTNs	–	–	**285**	135
Other loans	–	–	**358**	111
			12,391	5,972

(a) The 4% RPI MTN is redeemable at par, indexed for increases in the Retail Price Index (RPI) over the life of the MTN.
(b) An additional bond issue increased the principal of this MTN from £415m to £515m in 2008/9.
(c) 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%.
(d) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Borrowing facilities

The Group has the following undrawn committed facilities available at 28 February 2009, in respect of which all conditions precedent had been met as at that date:

	2009 £m	2008 £m
Expiring between one and two years	**100**	–
Expiring in more than two years	**2,600**	1,600
	2,700	1,600

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 22 Financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the maturity and other profiles of assets and liabilities.

Hedging policies using derivative financial instruments are further explained below. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes as described below.

Finance costs of £30m (2008 – £nil) 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 gain of £1,197m on hedging instruments was recognised during the year, offset by a loss of £1,227m on hedged items (in 2008, a gain of £261m on hedging instruments was offset by a loss of £261m 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.

The 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.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the Group Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Group Income Statement.

Net investment hedges

The Group uses forward foreign currency contracts, currency denominated borrowings and currency options 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 South Korean Won denominated liability relating to the future purchase of the minority shareholding of its subsidiary, Samsung Tesco Co. Limited. This liability has been designated as a net investment hedge of a proportion of the assets of Samsung Tesco Co. Limited.

The Group has a Chinese Yuan denominated liability relating to the future purchase of the minority shareholding of its subsidiary, Hymall. This liability has been designated as a net investment hedge of a proportion of the assets of Hymall.

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 may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is appropriate.

These instruments include caps, collars, 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 has a liability relating to the future purchase of the minority shareholding of its subsidiary, dunnhumby Limited. Changes in the value of the liability are 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:

	2009		2008	
	Asset £m	**Liability £m**	Asset £m	Liability £m
Current	**382**	**(525)**	97	(443)
Non-current	**1,478**	**(302)**	216	(322)
	1,860	**(827)**	313	(765)

Notes to the Group financial statements continued

Note 22 Financial instruments continued

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2009 Asset Fair value £m	2009 Asset Notional £m	2009 Liability Fair value £m	2009 Liability Notional £m	2008 Asset Fair value £m	2008 Asset Notional £m	2008 Liability Fair value £m	2008 Liability Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	**6**	**307**	**(67)**	**2,123**	2	125	(80)	657
Cross currency swaps	**1,445**	**4,293**	**(40)**	**996**	252	2,795	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	**–**	**100**	**(66)**	**400**	–	–	–	–
Cross currency swaps	**1**	**21**	**–**	**–**	–	–	(1)	17
Forward foreign currency contracts	**101**	**1,762**	**(24)**	**348**	19	811	(9)	387
Net investment hedges								
Forward foreign currency contracts	**92**	**2,623**	**(194)**	**2,767**	2	289	(218)	2,328
Future purchases of minority interests	**–**	**–**	**(167)**	**–**	–	–	(197)	–
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	**1**	**774**	**(35)**	**3,740**	6	3,668	(2)	189
Cross currency swaps	**25**	**411**	**(47)**	**639**	–	–	(16)	347
Forward foreign currency contracts	**189**	**2,784**	**(154)**	**2,767**	32	1,641	(207)	2,816
Future purchases of minority interests	**–**	**–**	**(33)**	**–**	–	–	(35)	–
Total	**1,860**	**13,075**	**(827)**	**13,780**	313	9,329	(765)	6,741

Carrying and fair value of financial assets and liabilities at financial year ending:

	2009 Carrying value £m	2009 Fair value £m	2008 Carrying value £m	2008 Fair value £m
Assets				
Finance leases (Group as lessor – note 37)	**–**	**–**	5	5
Cash and cash equivalents	**3,509**	**3,509**	1,788	1,788
Loans and advances to customers – TPF	**3,388**	**3,388**	–	–
Loans and advances to banks and other financial assets – TPF	**2,129**	**2,129**	–	–
Short-term investments	**1,233**	**1,233**	360	360
Other investments – TPF	**259**	**259**	–	–
Joint venture loan receivables (note 32)	**262**	**262**	173	173
Derivative financial assets:				
Interest rate swaps and similar instruments	**7**	**7**	8	8
Cross currency swaps	**1,471**	**1,471**	252	252
Forward foreign currency contracts	**382**	**382**	53	53
Total financial assets	**12,640**	**12,640**	2,639	2,639
Liabilities				
Short-term borrowings:				
Amortised cost	**(3,779)**	**(3,778)**	(1,511)	(1,516)
Bonds in fair value hedge relationships	**(233)**	**(223)**	(522)	(502)
Long-term borrowings:				
Amortised cost	**(5,248)**	**(5,028)**	(2,269)	(2,138)
Bonds in fair value hedge relationships	**(6,947)**	**(6,147)**	(3,488)	(3,261)
Finance leases (Group as lessee – note 37)	**(243)**	**(243)**	(266)	(266)
Customer deposits – TPF	**(4,538)**	**(4,538)**	–	–
Deposits by banks – TPF	**(24)**	**(24)**	–	–
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	**(168)**	**(168)**	(81)	(81)
Cross currency swaps	**(87)**	**(87)**	(18)	(18)
Forward foreign currency contracts	**(372)**	**(372)**	(434)	(434)
Future purchases of minority interests	**(200)**	**(200)**	(232)	(232)
Total financial liabilities	**(21,839)**	**(20,808)**	(8,821)	(8,448)
Total	**(9,199)**	**(8,168)**	(6,182)	(5,809)

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. The fair value of all other items have been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes other receivables/payables, which have fair values equal to their carrying values.

Financial assets and liabilities by category
The accounting classifications of each class of financial assets and liabilities as at 28 February 2009 and 23 February 2008 are as follows:

At 28 February 2009	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	3,509	–	3,509
Loans and advances to customers – TPF	3,388	–	3,388
Loans and advances to banks and other financial assets – TPF	1,541	588	2,129
Short-term investments	1,233	–	1,233
Other investments – TPF	259	–	259
Joint venture loan receivables (note 32)	262	–	262
Customer deposits – TPF	(4,538)	–	(4,538)
Deposits by banks – TPF	(24)	–	(24)
Short-term borrowings	(4,012)	–	(4,012)
Long-term borrowings	(12,195)	–	(12,195)
Finance leases (Group as lessee – note 37)	(243)	–	(243)
Derivative financial instruments:			
Interest rate swaps and similar instruments	–	(161)	(161)
Cross currency swaps	–	1,384	1,384
Forward foreign currency contracts	–	10	10
Future purchases of minority interests	–	(200)	(200)
	(10,820)	1,621	(9,199)

At 23 February 2008	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Finance leases (Group as lessor – note 37)	5	–	5
Cash and cash equivalents	1,788	–	1,788
Short-term investments	360	–	360
Joint venture loan receivables (note 32)	173	–	173
Short-term borrowings	(2,033)	–	(2,033)
Long-term borrowings	(5,757)	–	(5,757)
Finance leases (Group as lessee – note 37)	(266)	–	(266)
Derivative financial instruments:			
Interest rate swaps and similar instruments	–	(73)	(73)
Cross currency swaps	–	234	234
Forward foreign currency contracts	–	(381)	(381)
Future purchases of minority interests	–	(232)	(232)
	(5,730)	(452)	(6,182)

Notes to the Group financial statements continued

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. These risks are managed as described below. The Group Balance Sheet position at 28 February 2009 is representative of the position throughout the year, including the impact of acquisitions during the 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 38 to 40.

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 40.

The Group has 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 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 Personal Finance Group Limited (TPF) please refer to the separate section on TPF financial risk factors.

During 2009 and 2008, net debt including TPF was managed using derivative instruments to hedge interest rate risk as follows:

			2009			2008
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	**–**	**3,509**	**3,509**	–	1,788	1,788
Loans and advances to customers – TPF	**3,388**	**–**	**3,388**	–	–	–
Loans and advances to banks and other financial assets – TPF	**–**	**2,129**	**2,129**	–	–	–
Short-term investments	**–**	**1,233**	**1,233**	–	360	360
Other investments – TPF	**259**	**–**	**259**	–	–	–
Joint venture loan receivables	**–**	**262**	**262**	–	173	173
Finance leases	**(84)**	**(159)**	**(243)**	(73)	(188)	(261)
Bank and other borrowings	**(11,540)**	**(4,667)**	**(16,207)**	(5,745)	(2,045)	(7,790)
Customer deposits – TPF	**–**	**(4,538)**	**(4,538)**	–	–	–
Deposits by banks – TPF	**–**	**(24)**	**(24)**	–	–	–
Future purchases of minority interests	**(200)**	**–**	**(200)**	(232)	–	(232)
Derivative effect:						
Interest rate swaps	**(415)**	**415**	**–**	752	(752)	–
Cross currency swaps	**4,524**	**(4,524)**	**–**	2,778	(2,778)	–
Caps and collars	**774**	**(774)**	**–**	(876)	876	–
Total	**(3,294)**	**(7,138)**	**(10,432)**	(3,396)	(2,566)	(5,962)

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 40.

The counterparty exposure under derivative contracts is £1,860m (2008 – £313m). The Group policy is to transact derivatives only with counterparties rated at least A1 by Moody's.

For credit risk relating to TPF please refer to the separate section on TPF financial risk factors.

Liquidity risk

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £2.7bn (2008 – £1.6bn), which mature between 2010 and 2014.

The Group has a European Medium Term Note programme of £15bn, of which £11bn was in issue at 28 February 2009 (2008 – £4.9bn), plus a Euro Commercial Paper programme of £2bn, of which £1.6bn was in issue at 28 February 2009 (2008 – £0.6bn), and a US Commercial Paper programme of $4bn, none of which was in issue at 28 February 2009 (2008 – £nil).

For liquidity risk relating to TPF please refer to the separate section on TPF financial risk factors.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives.

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 3% for the life of the liability.

Note 23 Financial risk factors continued

At 28 February 2009	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	(3,616)	(971)	(873)	(1,931)	(225)	(7,943)
Interest payments on borrowings	(560)	(549)	(514)	(486)	(411)	(5,045)
Customer deposits – TPF	(4,538)	–	–	–	–	–
Deposits by banks – TPF	(24)	–	–	–	–	–
Finance leases	(55)	(51)	(48)	(32)	(9)	(172)
Trade and other payables	(8,522)	(34)	(5)	(2)	(4)	(23)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	104	17	9	5	4	1
Net settled derivative contracts – payments	(245)	(30)	(19)	(23)	(13)	(112)
Gross settled derivative contracts – receipts	4,657	1,186	1,247	404	708	5,707
Gross settled derivative contracts – payments	(4,577)	(957)	(1,053)	(313)	(671)	(4,652)
Future purchases of minority interests	(93)	–	(87)	(20)	–	–
Total	(17,469)	(1,389)	(1,343)	(2,398)	(621)	(12,239)

At 23 February 2008	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	(2,018)	(287)	(795)	(398)	(47)	(4,714)
Interest payments on borrowings	(298)	(272)	(229)	(211)	(198)	(4,906)
Finance leases	(62)	(54)	(50)	(46)	(30)	(130)
Trade and other payables	(7,277)	(14)	(13)	(2)	(6)	(7)
Derivative and other financial instruments						
Net settled derivative contracts – receipts	7	–	–	–	–	–
Net settled derivative contracts – payments	(230)	(16)	(9)	(9)	(9)	(172)
Gross settled derivative contracts – receipts	2,968	255	705	484	297	3,207
Gross settled derivative contracts – payments	(2,827)	(286)	(677)	(452)	(304)	(3,280)
Future purchases of minority interests	–	(70)	–	(166)	(34)	–
Total	(9,737)	(744)	(1,068)	(800)	(331)	(10,002)

Sensitivity analysis at 28 February 2009

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7 ‘Financial Instruments: Disclosures’, is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and foreign exchange risk.

Notes to the Group financial statements continued

Note 23 Financial risk factors continued

Foreign exchange risk
The Group is exposed to foreign exchange risk principally via:

(a) 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.

(b) Net investment exposure, from the value of net investments outside the UK. We hedge the majority of our investments in our international subsidiaries via foreign currency transactions and borrowings in matching currencies, which are formally designated as net investment hedges.

(c) 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.

The impact on Group financial instruments from foreign currency volatility is shown in the sensitivity analysis below.

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 28 February 2009.

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 the post hedge floating rate net debt exposure with no sensitivity assumed for LPI-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 equity;
- 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;
- debt with a maturity below one year is floating rate for the interest payable part of the calculation; 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 equity that would result from changes in UK interest rates, and in exchange rates:

	2009		2008	
	Income gain/(loss) £m	**Equity gain/(loss) £m**	Income gain/(loss) £m	Equity gain/(loss) £m
Assets				
1% increase in GBP interest rates	**(59)**	**–**	(42)	–
25% appreciation of the Euro (2008 – 5%)	**(22)**	**(22)**	(5)	(32)
20% appreciation of the South Korean Won (2008 – 5%)	**(1)**	**(222)**	–	–
25% appreciation of the US Dollar (2008 – 5%)	**(11)**	**218**	(2)	43
25% appreciation of the Thai Baht (2008 – 5%)	**–**	**(1)**	–	(1)
25% appreciation of the Czech Koruna (2008 – 10%)	**–**	**(204)**	–	(27)
15% appreciation of the Polish Zloty (2008 – 15%)	**14**	**–**	1	(102)
20% appreciation of the Slovak Koruna (2008 – 20%)	**–**	**–**	2	(87)

The impact on equity from changing exchange rates results principally from foreign currency deals used as net investment hedges. The impact on equity will largely be offset by the revaluation in equity of the hedged assets. For changes in the USD/GBP exchange rate, the impact on equity results principally from forward purchases of USD as cash flow hedges.

Note 23 Financial risk factors continued

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 Company.

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, we outlined our plan to release cash from our 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 we continued with the policy at the beginning of 2008/9, we have subsequently used the proceeds from property divestment to pay down debt, following the two major acquisitions in the second half (Homever and Tesco Personal Finance Group Limited). Early in 2008/9 we purchased and cancelled £100m ordinary shares. In the financial year 2009/10 we expect to continue 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 year with bonds redeemed of £524m and new bonds issued totalling £4,901m. The Group borrows centrally and locally, using a variety of capital market issues and borrowing facilities to meet the requirements of each local business.

Tesco Personal Finance Group Limited (TPF)

Interest rate risk

Interest rate risk arises where assets and liabilities in TPF's banking activities have different repricing dates. TPF 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 1.5% parallel movement in interest rates. Risk is managed through arm's length cash transactions.

Credit risk

Credit risk is the probability of customers and counterparties failing to meet their obligations to TPF and arises principally from TPF's lending activities but also from other transactions involving on and off-balance sheet instruments. 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) and Board of TPF.

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.

Liquidity risk

Liquidity risk is managed on a consolidated basis within TPF's banking activities and adheres to the liquidity requirements set by the Financial Services Authority (FSA) from time to time. In the UK, the FSA requires TPF to be able to meet its sterling obligations without recourse to the wholesale markets for a period of at least five business days. To meet regulatory requirements 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. TPF has credit facilities sufficient to meet all foreseeable outflow requirements as they fall due and its liquidity risk is further mitigated by its well diversified retail deposit base.

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:

	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 28 February 2009	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	259	–	–	–	–	–	–	–	259
Loans and advances to customers	352	652	828	870	563	82	291	(250)	3,388
Loans and advances to banks and other financial assets	2,129	–	–	–	–	–	–	–	2,129
	2,740	652	828	870	563	82	291	(250)	5,776
Commitment	3,103	1,451	744	305	129	–	–	–	5,732
Total off balance sheet	3,103	1,451	744	305	129	–	–	–	5,732

Notes to the Group financial statements continued

Note 23 Financial risk factors continued

Insurance risk
TPF is exposed to insurance risk indirectly through its profit sharing commission arrangement with The Royal Bank of Scotland Group PLC. Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting.

The frequency and severity of claims and the sources of uncertainty for the key classes that TPF is exposed to are as follows:

Motor insurance
Claims experience is quite variable, due to a wide range of factors, but the principal ones are age, sex and driving experience, type and nature of vehicle, use of vehicle and area. There are many sources of uncertainty that will affect TPF's experience under motor insurance including operational risk, reserving risk, premium rates not matching claims inflation rates, the weather, the social, economic and legislative environment and reinsurance failure risk.

Property insurance
The major causes of claims for property insurance are theft, flood, escape of water, fire, storm, subsidence and various types of accidental damage. The major source of uncertainty is the volatility of weather.

Note 24 Customer deposits

	2009 £m	2008 £m
Customer deposits	**4,538**	–

Customer deposits are recorded at amortised cost and are repayable on demand.

Note 25 Deposits by banks

The Group has deposits by banks with the following maturity:

	2009 £m	2008 £m
Within three months	**24**	–
	24	–

Deposits by banks are recorded at amortised cost.

Note 26 Provisions

	Property provisions £m
At 23 February 2008	27
Foreign currency translation	3
Acquisitions through business combinations	59
Amount utilised in the year	(12)
At 28 February 2009	77

Property provisions comprise future rents payable net of rents receivable on onerous and vacant property leases, provisions for terminal dilapidations and provisions for future rents above market value on unprofitable stores. The majority of the provision is expected to be utilised over the period to 2020.

The balances are analysed as follows:

	2009 £m	2008 £m
Current	**10**	4
Non-current	**67**	23
	77	27

Note 27 Share-based payments

The Group has not taken advantage of the transitional provisions of IFRS 2 'Share-based payment' in respect of equity-settled awards but instead applied IFRS 2 retrospectively to all awards granted, but not vested, as at 28 February 2004.

The total Group Income Statement charge for the year recognised in respect of share-based payments is £242m (2008 – £228m), which is made up of share option schemes and share bonus payments. Of this amount £204m (2008 – £199m) will be equity-settled and £38m (2008 – £29m) cash-settled.

a) Share option schemes
The Company had nine share option schemes in operation during the 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 on 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 on 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 on 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 on the achievement of specified performance targets related to the return on capital employed over the seven-year plan.

Notes to the Group financial statements continued

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 28 February 2009

	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 23 February 2008	153,361,820	281.40	5,083,009	300.71	16,229,846	324.45	77,043,605	307.00	36,970,259	333.22	10,838,238	0.00
Granted	38,531,375	311.00	1,642,089	311.00	3,308,213	426.79	18,297,370	426.82	13,664,591	422.88	3,591,855	0.00
Forfeited	(10,351,962)	299.64	(485,512)	293.84	(901,163)	384.34	(2,768,871)	388.51	(3,268,614)	327.65	–	–
Exercised	(38,731,136)	214.48	(820,683)	226.80	(2,767,976)	277.55	(11,272,220)	243.72	(3,468,031)	269.07	(106,385)	0.00
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
Exercisable as at 28 February 2009	6,553,484	220.72	398,093	233.61	5,574,827	259.54	36,205,357	260.09	12,340,929	268.72	2,048,225	–
Exercise price range (pence)		159.00 to 248.00		159.00 to 248.00		197.50 to 313.50		164.00 to 313.50		176.70 to 312.75		–
Weighted average remaining contractual life (years)		0.18		0.15		3.99		4.63		4.76		5.83

For the year ended 23 February 2008

	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 24 February 2007	173,103,108	236.12	4,927,409	250.27	16,855,033	276.19	82,526,915	267.70	33,128,105	280.68	5,810,007	0.00
Granted	30,284,995	410.00	1,333,621	410.00	3,675,200	473.75	14,355,638	473.66	10,127,935	466.57	5,113,574	0.00
Forfeited	(9,470,529)	253.96	(401,169)	241.75	(926,135)	336.21	(3,399,364)	355.17	(1,999,671)	310.13	–	–
Exercised	(40,555,754)	190.56	(776,852)	198.83	(3,374,252)	242.77	(16,439,584)	245.18	(4,286,110)	252.90	(85,343)	0.00
Outstanding at 23 February 2008	153,361,820	281.40	5,083,009	300.71	16,229,846	324.45	77,043,605	307.00	36,970,259	333.22	10,838,238	0.00
Exercisable as at 23 February 2008	7,761,557	192.99	245,709	201.21	4,968,637	232.22	33,091,974	230.57	9,412,295	225.27	–	–
Exercise price range (pence)		159.00 to 232.00		159.00 to 232.00		197.50 to 259.00		164.00 to 259.00		176.70 to 259.00		–
Weighted average remaining contractual life (years)		0.20		0.20		3.94		4.59		4.06		–

Note 27 Share-based payments continued

Share options were exercised on a regular basis throughout the year. The average share price during the year to 28 February 2009 was 372.06p (2008 – 443.59p).

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.

	2009			2008		
	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 (%)	**3.3%**	**3.3%**	**0.0%**	2.4%	2.4%	0.0%
Expected volatility (%)	**25-30%**	**25%**	**25%**	20-21%	24%	24-27%
Risk-free interest rate (%)	**3.2-3.8%**	**3.2-4.9%**	**4.6-4.9%**	4.8%	5.0-5.3%	4.7-4.9%
Expected life of option (years)	**3 or 5**	**6**	**6**	3 or 5	6	6-9
Weighted average fair value of options granted (pence)	**89.28**	**93.90**	**418.09**	116.35	119.96	469.17
Probability of forfeiture (%)	**20-25%**	**10%**	**0%**	20-25%	10%	0%
Share price (pence)	**361.00**	**425.20**	**418.09**	470.00	471.12	469.17
Weighted average exercise price (pence)	**311.00**	**425.20**	**0.00**	410.00	471.12	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 Tesco PLC 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 consider 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.

b) 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.

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 £33m (2008 – £26m).

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.

Eligible ROI 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.

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 period were:

	2009		2008	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	**21,295,232**	**431.05**	18,019,768	470.45
Executive Incentive Scheme	**10,996,677**	**415.68**	10,012,950	456.11
Performance Share Plan	**2,123,237**	**353.76**	1,292,172	466.21
US Long-Term Incentive Plan	**673,716**	**403.80**	4,817,720	471.10

Notes to the Group financial statements continued

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 and the Republic of Ireland.

Defined contribution plans
The contributions payable for defined contribution schemes of £11m (2008 – £8m) have been fully expensed against profits in the current year.

Defined benefit plans
United Kingdom
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. Watson Wyatt 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.

The One Stop Senior Executives Pension Scheme is a funded defined benefit scheme open to senior executives and certain other employees at the invitation of the Company. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 5 April 2004.

Overseas
The most significant overseas scheme is the funded defined benefit pension scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 1 April 2007.

The valuations used for IAS 19 have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The schemes' assets are stated at their market values as at 28 February 2009. Watson Wyatt Limited have updated the most recent Republic of Ireland valuation. 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
The valuations used have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2009 %	2008 %	2007 %
Rate of increase in salaries	**3.7**	5.0	4.5
Rate of increase in pensions in payment*	**3.1**	3.5	3.0
Rate of increase in deferred pensions*	**3.2**	3.5	3.0
Rate of increase in career average benefits	**3.2**	3.5	3.0
Discount rate	**6.5**	6.4	5.2
Price inflation	**3.2**	3.5	3.0

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

The main financial assumption is the real discount rate i.e. 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 £110m and the annual UK current service cost would decrease/increase by approximately £11m.

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.

This assumption was used for the calculation of the pension liability as at 28 February 2009 for the main UK scheme.

As at 28 February 2009, the mortality assumptions have been strengthened. The base tables have been updated in line with medium cohort projections with a minimum improvement of 1% per annum from 31 March 2008 to 28 February 2009. In addition, the allowance for future mortality improvements has been changed to incorporate medium cohort projections with a minimum improvement of 1% per annum.

Note 28 Post-employment benefits continued

The mortality assumptions used for the calculation of the pension liabilities as at 24 February 2007 and 23 February 2008 were based on the previous triennial actuarial valuation as at 31 March 2005, which included the following assumptions for funding purposes:

Base tables:

PMA92C00 for male members with cohort improvements to 2000 and members taken to be two years older than actual age.
PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

Additionally, at the 31 March 2005 valuation an allowance was built in for future mortality improvements via a 0.2% reduction to the discount rate.

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:

		2009 in years	2008 in years	2007 in years
Retiring at Reporting date at age 65:	Male	**21.5**	19.0	17.5
	Female	**23.3**	23.3	21.9
Retiring at Reporting date +25 years at age 65:	Male	**23.9**	20.6	18.4
	Female	**25.8**	24.7	23.0

Rates of return on scheme assets

The assets in the defined benefit pension schemes and the expected nominal rates of return were:

	2009		2008		2007	
	Long-term rate of return %	**Market value £m**	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m
Equities	**8.9**	**1,482**	8.9	2,205	8.1	2,420
Bonds	**5.5**	**1,080**	5.7	901	5.2	812
Property	**7.3**	**342**	7.3	351	6.7	343
Other (alternative assets)	**8.9**	**383**	8.9	512	8.1	384
Cash	**3.7**	**133**	4.5	120	4.0	48
Total market value of assets		**3,420**		4,089		4,007

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.

Movement in pension deficit during the year

Changes in the fair value of defined benefit pension plan assets are as follows:

	2009 £m	2008 £m	2007 £m
Opening fair value of plan assets	**4,089**	4,007	3,448
Expected return	**338**	301	255
Actuarial (losses)/gains	**(1,270)**	(465)	82
Contributions by employer	**376**	340	321
Actual member contributions	**8**	7	7
Foreign currency translation	**11**	9	(2)
Benefits paid	**(132)**	(112)	(104)
Acquisitions through business combinations	**–**	2	–
Closing fair value of plan assets	**3,420**	4,089	4,007

Notes to the Group financial statements continued

Note 28 Post-employment benefits continued

Changes in the present value of defined benefit obligations are as follows:

	2009 £m	2008 £m	2007 £m
Opening defined benefit obligation	**(4,927)**	(4,957)	(4,659)
Current service cost	**(428)**	(461)	(466)
Interest cost	**(313)**	(254)	(221)
Gain on change of assumptions	**760**	672	71
Experience losses	**(117)**	(21)	(41)
Foreign currency translation	**(13)**	(8)	4
Benefits paid	**132**	112	104
Actual member contributions	**(8)**	(7)	(7)
Past service gains	**–**	–	258
Acquisitions through business combinations	**–**	(3)	–
Closing defined benefit obligation	**(4,914)**	(4,927)	(4,957)

The amounts that have been charged to the Group Income Statement and Group Statement of Recognised Income and Expense for the year ended 28 February 2009 are set out below:

	2009 £m	2008 £m	2007 £m
Analysis of the amount (charged)/credited to operating profit:			
Current service cost	**(428)**	(461)	(466)
Past service gains	**–**	–	258
Total charge to operating profit	**(428)**	(461)	(208)
Analysis of the amount credited/(charged) to finance income:			
Expected return on pension schemes' assets	**338**	301	255
Interest on pension schemes' liabilities	**(313)**	(254)	(221)
Net pension finance income (note 5)	**25**	47	34
Total charge to the Group Income Statement	**(403)**	(414)	(174)

In 2007, in line with changes to the Finance Act 2006, the scheme rules were amended from 6 April 2006 to allow employees to commute (convert) a larger proportion of their pension for a cash lump sum at retirement. Accordingly, the assumptions made in calculating the Group's defined benefit pension liability have been revised, resulting in a gain of £250m being recognised in Group operating profit in 2006/7. Revisions to this assumption will be reflected in the Group Statement of Recognised Income and Expense. Changes to scheme rules in the Republic of Ireland affecting early retirement have reduced pension liabilities by a further £8m, which was also shown as a past service gain in the Group Income Statement in 2006/7.

	2009 £m	2008 £m	2007 £m
Analysis of the amount recognised in the Group Statement of Recognised Income and Expense:			
Actual return less expected return on pension schemes' assets	**(1,270)**	(465)	82
Experience losses arising on the schemes' liabilities	**(117)**	(21)	(41)
Foreign currency translation	**(2)**	1	2
Changes in assumptions underlying the present value of the schemes' liabilities	**760**	672	71
Total (loss)/gain recognised in the Group Statement of Recognised Income and Expense	**(629)**	187	114

The cumulative losses recognised through the Group Statement of Recognised Income and Expense since the date of transition to IFRS are £1,001m (2008 – £372m).

Note 28 Post-employment benefits continued

Summary of movements in deficit during the year

	2009 £m	2008 £m	2007 £m
Deficit in schemes at beginning of the year	**(838)**	(950)	(1,211)
Current service cost	**(428)**	(461)	(466)
Past service gains	**–**	–	258
Other finance income	**25**	47	34
Contributions by employer	**376**	340	321
Foreign currency translation	**(2)**	1	2
Actuarial (loss)/gain	**(627)**	186	112
Acquisitions through business combinations	**–**	(1)	–
Deficit in schemes at end of the year	**(1,494)**	(838)	(950)

History of movements

The historical movement in defined benefit pension schemes assets and liabilities and history of experience gains and losses are as follows:

	2009 £m	2008 £m	2007 £m	2006 £m
Total market value of assets	**3,420**	4,089	4,007	3,448
Present value of liabilities relating to unfunded schemes	**(39)**	(34)	(27)	(17)
Present value of liabilities relating to partially funded schemes	**(4,875)**	(4,893)	(4,930)	(4,642)
Pension deficit	**(1,494)**	(838)	(950)	(1,211)
Experience (losses)/gains on scheme assets	**(1,270)**	(465)	82	309
Experience losses on plan liabilities	**(117)**	(20)	(41)	(24)

Post-employment benefits other than pensions

The Company operates a scheme offering retirement 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 28 February 2009 of £10m (2008 – £11m) was determined in accordance with the advice of independent actuaries. In 2008/9, £0.7m (2007/8 – £0.6m) has been charged to the Group Income Statement and £0.5m (2007/8 – £0.7m) of benefits were paid.

A change of 1.0% in assumed healthcare cost trend rates would have the following effect:

	2009 £m	2008 £m	2007 £m
Effect of a 1% increase in assumed healthcare cost trend rate on:			
Service and interest cost	**0.1**	0.1	0.1
Defined benefit obligation	**1.6**	1.6	1.3
Effect of a 1% decrease in assumed healthcare cost trend rate on:			
Service and interest cost	**(0.1)**	(0.1)	(0.1)
Defined benefit obligation	**(1.3)**	(1.3)	(1.3)

Expected contributions

A formal actuarial valuation is carried out triennially for the scheme trustees by a professionally qualified independent actuary. The purpose of the valuation is to agree a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. The actuarial valuation of approved schemes as at 31 March 2008 has been concluded and company contributions are increasing to 11.1% from 10.9%. On this basis the Group expects to make contributions of approximately £410m to defined benefit pension schemes in the year ending 27 February 2010.

Notes to the Group financial statements continued

Note 29 Called up share capital

	2009		2008	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	**£m**	Number	£m
Authorised:				
At beginning of year	**10,858,000,000**	**543**	10,858,000,000	543
Authorised during the year	**–**	**–**	–	–
At end of year	**10,858,000,000**	**543**	10,858,000,000	543
Allotted, called up and fully paid:				
At beginning of year	**7,863,498,783**	**393**	7,947,349,558	397
Share options	**57,060,046**	**3**	65,432,552	3
Share buy-back	**(25,214,811)**	**(1)**	(149,283,327)	(7)
At end of year	**7,895,344,018**	**395**	7,863,498,783	393

During the financial year, 57 million (2008 – 65 million) shares of 5p each were issued in relation to share options for aggregate consideration of £130m (2008 – £138m).

During the year, the Company purchased and subsequently cancelled 25,214,811 (2008 – 149,283,327) shares of 5p each, representing 0% (2008 – 2%) of the called up share capital, at an average price of £3.98 (2008 – £4.38) per share. The total consideration, including expenses, was £100m (2008 – £657m). The excess of the consideration over the nominal value has been charged to retained earnings.

Between 1 March 2009 and 17 April 2009, options over 3,120,922 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 1 March 2009 and 17 April 2009, options over 324,991 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 28 February 2009, the Directors were authorised to purchase up to a maximum in aggregate of 784.8 million (2008 – 793.4 million) ordinary shares.

The holders 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.

Note 30 Statement of changes in equity

	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 equity attributable to equity holders of the parent £m	Minority interests £m	Total £m
				Retained earnings							
At 23 February 2008	393	4,511	40	12	4	245	(204)	6,814	11,815	87	11,902
Foreign currency translation differences	–	–	–	–	–	(269)	–	–	(269)	(6)	(275)
Actuarial loss on defined benefit schemes	–	–	–	–	–	(2)	–	(627)	(629)	–	(629)
Tax on items taken directly to or transferred from equity	–	–	–	–	–	199	–	236	435	–	435
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	3	3	–	3
Gains on cash flow hedges	–	–	–	–	171	–	–	–	171	–	171
Purchase of treasury shares	–	–	–	–	–	–	(165)	–	(165)	–	(165)
Share-based payments	–	–	–	–	–	–	137	67	204	–	204
Issue of shares	3	127	–	–	–	–	–	–	130	–	130
Share buy-backs	(1)	–	–	1	–	–	–	–	–	–	–
Purchase of minority interest	–	–	–	–	–	–	–	–	–	(26)	(26)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(3)	(3)
Fair value reserve arising on acquisition of TPF	–	–	–	–	–	–	–	(35)	(35)	–	(35)
Profit for the year	–	–	–	–	–	–	–	2,161	2,161	5	2,166
Equity dividends authorised in the year	–	–	–	–	–	–	–	(883)	(883)	–	(883)
At 28 February 2009	395	4,638	40	13	175	173	(232)	7,736	12,938	57	12,995

	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 equity attributable to equity holders of the parent £m	Minority interests £m	Total £m
				Retained earnings							
At 24 February 2007	397	4,376	40	5	(33)	(39)	(154)	5,914	10,506	65	10,571
Foreign currency translation differences	–	–	–	–	–	33	–	–	33	5	38
Actuarial gain on defined benefit schemes	–	–	–	–	–	1	–	186	187	–	187
Tax on items taken directly to or transferred from equity	–	–	–	–	–	250	–	(127)	123	–	123
Decrease in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Gains on cash flow hedges	–	–	–	–	37	–	–	–	37	–	37
Purchase of treasury shares	–	–	–	–	–	–	(118)	–	(118)	–	(118)
Share-based payments	–	–	–	–	–	–	68	131	199	–	199
Issue of shares	3	135	–	–	–	–	–	–	138	–	138
Share buy-backs	(7)	–	–	7	–	–	–	(665)	(665)	–	(665)
Purchase of minority interest	–	–	–	–	–	–	–	47	47	(27)	20
Minority interest on acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	38	38
Profit for the year	–	–	–	–	–	–	–	2,124	2,124	6	2,130
Equity dividends authorised in the year	–	–	–	–	–	–	–	(792)	(792)	–	(792)
At 23 February 2008	393	4,511	40	12	4	245	(204)	6,814	11,815	87	11,902

Notes to the Group financial statements continued

Note 30 Statement of changes in equity continued

Share premium account
The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares.

Translation reserve
The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the movements in net investment hedges.

Treasury shares
The employee benefit trusts hold shares in Tesco PLC for the purpose of the various executive share incentive and profit share schemes. At 28 February 2009, the trusts held 51.1 million shares (2008 – 47.4 million), which cost £203m (2008 – £184m) and had a market value of £170m (2008 – £190m).

The voting rights in relation to the shares are exercisable by the Trustee, however, in accordance with investor guidelines the Trustee abstains from voting.

At 28 February 2009, the Group's Trustees also held 8.7 million (2008 – 7.8 million) unallocated shares in Tesco PLC which cost £29m (2008 – £20m).

Other reserves
The merger reserve arose on the acquisition of Hillards PLC in 1987.

Share buy-back liability
Insider trading rules prevent the Group from buying back Tesco PLC shares in the market during specified close periods (including the period between the year end and the annual results announcement). However, if an irrevocable agreement is signed between the Company and a third party, they can continue to buy back shares on behalf of the Company. In 2008, three such arrangements were in place at the year end and in accordance with IAS 32, the Company recognised a financial liability equal to the estimated value of the shares purchasable under these agreements. A liability of £100m was recognised within other payables for this amount. There were no such agreements in place in 2009.

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.

Other
The cumulative goodwill written off against the reserves of the Group as at 28 February 2009 amounted to £718m (2008 – £718m).

Fair value reserve arising on acquisition of TPF
The share of fair value reserve has arisen on the acquisition of TPF and is made up of the reversal of previous profits recognised due to equity accounting of the joint venture and increase in fair value of the underlying identifiable assets since initial acquisition.

Note 31 Business combinations

The Group has made a number of acquisitions in the year, of which the most significant acquisitions have been disclosed separately and the remainder shown in aggregate.

The net assets and results of the acquired businesses are included in the consolidated accounts of the Group from the date of acquisition. Acquisition accounting has been applied and the goodwill arising has been capitalised and is subject to annual impairment testing.

The goodwill acquired in the business combinations listed below has been allocated to the single group of cash-generating units represented by the acquired businesses, as this is the lowest level within the Group at which the goodwill is monitored internally. Goodwill arising on acquisitions in the year is attributable mainly to location, the assembled workforce and the synergies expected to be achieved.

The fair values currently established for acquisitions made in the year to 28 February 2009 are provisional. Fair values will be reviewed based on additional information up to one year from the date of acquisition. The Directors do not believe that any net adjustments resulting from such a review would have a material effect on the Group.

Had all the combinations listed below taken place at the beginning of the financial year, with the exception of Dobbies Garden Centre PLC which became a subsidiary in 2007/8, the operating profit of the Group would have been £3,391m and revenue would have been £55,750m. The pro-forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

Tesco Personal Finance Group Limited (TPF)
On 19 December 2008, the Group acquired the remaining 50% of the share capital of its joint venture TPF, a provider of banking and other financial services in the United Kingdom, making it a wholly-owned subsidiary undertaking.

The fair value of the identifiable assets and liabilities of TPF as at the date of acquisition were:

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
Property, plant and equipment	24	(3)	21
Intangible assets	–	259	259
Loans and advances to banks and other financial assets	3	–	3
Loans and advances to customers	3,715	(347)	3,368
Other investments	259	–	259
Trade and other receivables	158	–	158
Deferred tax asset	12	40	52
Customer deposits	(3,175)	–	(3,175)
Bank overdraft	(92)	–	(92)
Borrowings	(226)	–	(226)
Trade and other payables	(177)	(18)	(195)
Net assets/(liabilities)	501	(69)	432
Fair value of acquired net assets of existing interest			(216)
Net assets acquired			216
Goodwill arising on acquisition			767
			983
Consideration:			
Cash consideration			955
Costs associated with the acquisition			28
Total consideration			983

From the date of acquisition, the acquired business has contributed £163m to revenue and £34m of operating profit to the Group.

Notes to the Group financial statements continued

Note 31 Business combinations continued

Homever
On 30 September 2008, the Group acquired 100% of the share capital of Homever, a retailer in South Korea.

The fair value of the identifiable assets and liabilities of Homever as at the date of acquisition were:

	Pre-acquisition carrying amounts £m	Adjustments to align accounting policies £m	Fair value adjustments £m	Recognised values on acquisition £m
Property, plant and equipment	643	2	37	682
Intangible assets	96	(2)	(83)	11
Other non-current assets	63	–	(3)	60
Deferred tax asset	1	–	(1)	–
Inventories	45	–	(8)	37
Trade and other receivables	32	–	(5)	27
Cash and cash equivalents	16	–	–	16
Trade and other payables	(204)	–	(16)	(220)
Provision for liabilities and charges	(5)	(2)	(52)	(59)
Bank and other borrowings	(611)	–	–	(611)
Deferred tax liability	(5)	(35)	–	(40)
Net assets/(liabilities) acquired	71	(37)	(131)	(97)
Goodwill arising on acquisition				362
				265
Consideration:				
Cash consideration				259
Costs associated with the acquisition				6
Total consideration				265

From the date of acquisition, the acquired business has contributed £326m to revenue and £18m of operating loss to the Group.

Dobbies Garden Centres PLC
On 31 July 2008, the Group completed the acquisition of the remaining 34.5% (2007/8 – 65.5%) of the share capital of Dobbies Garden Centres PLC (Dobbies), a retailer in the United Kingdom, for total consideration of £43m.

This resulted in additional goodwill of £18m, arising on acquisition during the year, based on Dobbies net assets of £77m.

Other acquisitions
The other acquisitions in the year include the trade and assets of Sandyholm Garden Centre and some smaller businesses. The companies acquired undertake retail activities.

Fair value adjustments of £2m were identified in addition to the £3m pre-acquisition carrying amounts of net assets, resulting in the recognition of £5m as the fair value of net assets acquired. With cash consideration of £10m, this has resulted in the recognition of £5m of goodwill arising on acquisition.

The post-acquisition contribution of the other acquisitions to the Group was £5m to revenue and £1m to operating profit.

Note 32 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:

i) Trading transactions

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Joint ventures	**183**	164	**290**	238	**14**	39	**6**	34
Associates	**–**	–	**1,175**	771	**–**	–	**156**	82

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

Purchases from related parties include £174m (2008 – £157m) of rentals payable to the Group's joint ventures, including those joint ventures formed as part of the sale and leaseback programme.

Note 32 Related party transactions continued

Purchases from associates include £1,171m (2008 – £766m) of fuel purchased from Greenergy International Limited.

ii) Non-trading transactions

	Sales to related parties		Loans to related parties		Loans from related parties		Injection of equity funding	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m	**2009 £m**	2008 £m
Joint ventures	**465**	652	**262**	173	**20**	10	**–**	8

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 and Unlimited Companies (Accounts) Regulations 1993 ('Regulations') apply. The accounts for those partnerships have been consolidated into these accounts pursuant to Regulation 7 of the Regulations.

On 19 December 2008, the Group formed a property joint venture with Tesco Pension Trustees. The limited partnership contains three superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £199m to the joint venture which had a net book value of approximately £107m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2008/9.

On 15 August 2008, the Group formed a property joint venture with the Universities Superannuation Scheme. The limited partnership contains four superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £222m to the joint venture which had a net book value of £136m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2008/9. Another smaller transaction with BP Pension Trustees was completed in June 2008 where £44m of assets were transferred.

On 20 March 2007, the Group formed a property joint venture with The British Land Company PLC. The limited partnership contains 21 superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £652m to the joint venture which had a net book value of approximately £350m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2007/8.

iii) 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 part of the Directors' Remuneration Report.

Transactions on an arm's length basis with Tesco Personal Finance Group Limited which became a wholly-owned subsidiary on 19 December 2008 were as follows:

	Credit cards and personal loan balances		Saving deposit accounts	
	Number of key management personnel	£k	Number of key management personnel	£k
At 23 February 2008	2	39	2	19
At 19 December 2008	2	30	2	44
At 28 February 2009	2	30	2	77

During the year, there were no other material transactions or balances between the Group and its key management personnel or members of their close family.

Notes to the Group financial statements continued

Note 33 Reconciliation of profit before tax to net cash generated from operations

	2009 £m	2008 £m
Profit before tax	**2,954**	2,803
Net finance costs	**362**	63
Share of post-tax profits of joint ventures and associates	**(110)**	(75)
Operating profit	**3,206**	2,791
Depreciation and amortisation	**1,189**	992
Profit arising on property-related items	**(236)**	(188)
Profit arising on sale of non property-related items	**3**	–
Net reversal of impairment of property, plant and equipment	**(22)**	(10)
Adjustment for non-cash element of pensions charge	**52**	121
Share-based payments	**204**	199
Increase in inventories	**(95)**	(376)
Decrease/(increase) in trade and other receivables	**79**	(71)
Increase in trade and other payables	**691**	641
Increase in TPF loans and advances to customers	**(20)**	–
Increase in TPF loans and advances to banks and other financial assets	**(2,126)**	–
Increase in TPF customer deposits and other financial liabilities	**2,053**	–
Increase in working capital	**582**	194
Cash generated from operations	**4,978**	4,099

The increase in working capital includes the impact of translating foreign currency working capital movements at average exchange rates rather than period end exchange rates.

Note 34 Analysis of changes in net debt

	At 23 February 2008 £m	Cash flow £m	Acquisitions £m	Other non-cash movements £m	Elimination of TPF £m	At 28 February 2009 £m
Cash and cash equivalents	1,788	1,601	–	120	(37)	**3,472**
Short-term investments	360	873	–	–	–	**1,233**
Finance lease receivables	5	(5)	–	–	–	**–**
Joint venture loan receivables	173	242	(91)	(62)	–	**262**
Derivative financial instruments	313	(183)	–	1,730	(2)	**1,858**
Cash and receivables	2,639	2,528	(91)	1,788	(39)	**6,825**
Bank and other borrowings	(2,033)	(1,025)	(611)	(343)	588	**(3,424)**
Finance lease payables	(51)	23	–	(19)	–	**(47)**
Derivative financial instruments and other liabilities	(443)	941	–	(1,023)	42	**(483)**
Debt due within one year	(2,527)	(61)	(611)	(1,385)	630	**(3,954)**
Bank and other borrowings	(5,757)	(5,290)	–	(1,148)	222	**(11,973)**
Finance lease payables	(215)	–	–	19	–	**(196)**
Derivative financial instruments and other liabilities	(322)	53	–	(33)	–	**(302)**
Debt due after one year	(6,294)	(5,237)	–	(1,162)	222	**(12,471)**
	(6,182)	(2,770)	(702)	(759)	813	**(9,600)**

Note 35 Commitments and contingencies

Capital commitments
At 28 February 2009 there were commitments for capital expenditure contracted for, but not provided, of £1,551m (2008 – £1,309m), 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.

In September 2007, the Office of Fair Trading issued its provisional findings in its Statement of Objections relating to the alleged collusion between certain large supermarkets and dairy processors. We continue to defend our case vigorously. No provision has been recognised in the Group's results.

Tesco Personal Finance Group Limited
At 28 February 2009, Tesco Personal Finance Group Limited (TPF) has commitments of formal standby facilities, credit lines and other commitments to lend, totalling £5.7bn. The amount is intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

The Financial Services Compensation Scheme ('FSCS') compensates customers of UK financial institutions when those institutions are unable to pay out. Firms are being levied only for interest costs and management expenses of the scheme (and not for the capital repayments which will ultimately need to be made), but the amounts have increased significantly compared to prior years. 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. TPF was a market participant at 31 December 2007 and 31 December 2008 and has accrued for its share of the 2008/9 and 2009/10 levy which was not material to the Group. Going forward further provisions in respect of these costs are likely, the ultimate cost of which remains uncertain.

Note 36 Capital resources

The following table shows the composition of regulatory capital resources of Tesco Personal Finance Group Limited at the Balance Sheet date:

	2009 £m	2008 £m
Tier 1 capital:		
Shareholders funds and minority interests	**566**	–
Tier 2 capital:		
Qualifying subordinated debt	**205**	–
Other interests in tier 2 capital	**19**	–
Supervisory deductions	**(259)**	–
Total regulatory capital	**531**	–

The movement of tier 1 capital from the date of acquisition to the Balance Sheet date is analysed as follows:

	2009 £m	2008 £m
At 19 December 2008*	**559**	–
Profit attributable to shareholders	**7**	–
At 28 February 2009	**566**	–

* Tesco Personal Finance Group Limited was acquired on 19 December 2008.

It is Tesco Personal Finance Group Limited'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'). The FSA uses Individual Capital Guidance ('ICG') as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). TPF has complied with the FSA's capital requirements throughout the period between the date of acquisition and the Balance Sheet date.

Notes to the Group financial statements continued

Note 37 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	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Within one year	**55**	62	**47**	51
Greater than one year but less than five years	**140**	181	**114**	156
After five years	**172**	130	**82**	59
Total minimum lease payments	**367**	373	**243**	266
Less future finance charges	**(124)**	(107)		
Present value of minimum lease payments	**243**	266		
Analysed as:				
Current finance lease payables	**47**	51		
Non-current finance lease payables	**196**	215		
	243	266		

Finance lease receivables – Group as lessor
In 2006, the Group entered into finance leasing arrangements with UK staff for certain of its electronic equipment as part of the Computers for Staff scheme. The average term of finance leases entered into was three years and these all expired in 2008. The interest rate inherent in the leases was fixed at the contract date for all of the lease term. The average effective interest rate contracted approximated to 2.6% per annum. The fair value of the Group's finance lease receivables at 23 February 2008 was £5m.

Future minimum lease receivables under finance leases together with the present value of the net minimum lease receivables are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	**2009 £m**	2008 £m
Within one year	**–**	5	**–**	5
Net finance lease receivables	**–**	5	**–**	5

Note 37 Leasing commitments continued

Operating lease commitments – Group as lessee
Future minimum rentals payable under non-cancellable operating leases are as follows:

	2009 £m	2008 £m
Within one year	754	551
Greater than one year but less than five years	3,069	2,190
After five years	9,170	7,127
Total minimum lease payments	12,993	9,868

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.

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 at the end of the lease for the Group to repurchase the properties at market value, market rent reviews and 20-25 year lease terms. The Group reviews the substance as well as the form of the arrangements when making the judgement as to whether these leases are operating or finance leases; all of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor
The Group both rents out its investment 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:

	2009 £m	2008 £m
Within one year	201	141
Greater than one year but less than five years	445	341
After five years	335	313
Total minimum lease payments	981	795

Five year record

	2005	2006[1]	2007	2008	IFRS **2009 53 weeks**
Financial statistics					
Group sales (including VAT) (£m)	36,957	43,137	46,611	51,773	**59,426**
Revenue (excluding VAT) (£m)					
UK	27,146	29,990	32,665	34,858[6]	**38,191**
Rest of Europe	3,818	5,095	5,559	6,872	**8,862**
Asia	2,902	4,369	4,417	5,552	**7,068**
US	–	–	–	16[6]	**206**
Total Group	33,866	39,454	42,641	47,298	**54,327**
Operating profit[2] (£m)					
UK	1,556	1,788	2,083	2,164[6]	**2,540**
Rest of Europe	243	263	324	400	**479**
Asia	153	229	241	294	**343**
US	–	–	–	(67)[6]	**(156)**
Total Group	1,952	2,280	2,648	2,791	**3,206**
Operating profit margin[2]					
UK	5.7%	6.0%	6.4%	6.2%[6]	**6.7%**
Rest of Europe	6.4%	5.2%	5.8%	5.8%	**5.4%**
Asia	5.3%	5.2%	5.5%	5.3%	**4.9%**
US	–	–	–	n/a[6]	**n/a**
Total Group	5.8%	5.8%	6.2%	5.9%	**5.9%**
Share of results of joint ventures and associates[3] (£m)	74	82	106	75	**110**
Profit on sale of investment in associates	–	–	25	–	**–**
Net finance costs[3] (£m)	(132)	(127)	(126)	(63)	**(362)**
Profit before tax (£m)	1,894	2,235	2,653	2,803	**2,954**
Taxation[3] (£m)	(541)	(649)	(772)	(673)	**(788)**
Minority interests (£m)	(3)	(6)	(7)	(6)	**(5)**
(Loss)/profit for the period from discontinued operation[4] (£m)	(6)	(10)	18	–	**–**
Profit for the financial year attributable to equity holders of the parent (£m)	1,344	1,570	1,892	2,124	**2,161**
Underlying profit before tax[5] (£m)	1,925	2,277	2,545	2,846	**3,128**

1 Results for the year ended 25 February 2006 include 52 weeks for the UK and ROI and 14 months for the majority of the remaining International businesses.
2 Operating profit includes integration costs and profit/(loss) arising on sale of fixed assets. Operating margin is based upon revenue excluding VAT.
3 Share of results of joint ventures and associates is stated net of the interest and tax of the Group's joint ventures and associates. The Group's charges for interest and tax have been reduced by these amounts.
4 Consists of the net result of the Taiwanese business which was sold during 2006/7.
5 IFRS underlying profit excludes IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements, the IAS 19 Income Statement charge, which is replaced by the 'normal' cash contributions for pensions, IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods and IFRS 3 Amortisation charge from intangible assets arising on acquisition. For further details of this measure, see page 78.
6 Results have been restated to reflect the US as a separate segment.

					IFRS
	2005	2006[1]	2007	2008	**2009 53 weeks**
Enterprise value[7] (£m)	27,910	30,841	40,469	37,656	**35,907**
Basic earnings per share[8]	17.52p	20.20p	23.61p	26.95p	**27.50p**
Diluted earnings per share[8]	17.30p	19.92p	23.31p	26.61p	**27.31p**
Dividend per share[9]	7.56p	8.63p	9.64p	10.90p	**11.96p**
Return on shareholders' funds[10]	23.2%	24.9%	26.7%	25.1%	**23.9%**
Return on capital employed[11]	11.8%	12.7%	12.6%[16]	12.9%[17]	**13.0%[20]**
Group statistics					
Number of stores	2,334	2,672	3,263	3,751	**4,332**
Total sales area – 000 sq ft[12]	49,135	55,215	68,189	76,338	**88,451**
Average employees	335,750	368,213	413,061	444,127	**468,508**
Average full-time equivalent employees	242,980	273,024	318,283	345,737	**364,015**
UK retail statistics					
Number of stores	1,780	1,898	1,988	2,115[18]	**2,282[21]**
Total sales area – 000 sq ft[12]	24,207	25,919	27,785	29,549[18]	**31,285[21]**
Average store size (sales area – sq ft)[13]	31,677	32,816	34,209	35,055[18]	**35,215[21]**
Average full-time equivalent employees	163,006	175,459	184,461	193,917	**194,420**
UK retail productivity (£)					
Revenue per employee[14]	166,534	170,923	177,084	179,840	**196,436**
Profit per employee[14]	9,564	10,190	11,292	10,814[19]	**13,065**
Weekly sales per sq ft[15]	23.89	25.06	25.48	25.43	**26.21**

7 Market capitalisation plus net debt.
8 Basic and diluted earnings per share are on a continuing operations basis.
9 Dividend per share relating to the interim and proposed final dividend.
10 Profit before tax divided by average shareholders' funds.
11 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.
12 Store sizes exclude lobby and restaurant areas.
13 Average store size excludes Express and One Stop stores.
14 Based on average number of full-time equivalent employees in the UK, revenue exclusive of VAT and operating profit.
15 Based on weighted average sales area and sales excluding property development.
16 Excludes one-off gain from 'Pensions A-Day', with this one-off gain ROCE was 13.6%.
17 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.
18 Excluding 53 US stores and 22 Dobbies stores.
19 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.
20 Excluding acquisition of TPF and Homever, and India start-up costs, and after adjusting for assets held for sale. Calculated on a 52 week basis, ROCE for 2008/9 is 12.8%.
21 Excluding 24 Dobbies stores.

Tesco PLC – Parent Company balance sheet

28 February 2009	notes	2009 £m	2008 £m
Non-current assets			
Investments	5	**10,975**	9,551
Derivative financial instruments	10	**1,473**	216
		12,448	9,767
Current assets			
Derivative financial instruments	10	**291**	76
Debtors	6	**8,815**	6,046
Current asset investments	7	**2,970**	491
		12,076	6,613
Creditors – amounts falling due within one year			
Borrowings	9	**(1,981)**	(1,114)
Derivative financial instruments	10	**(373)**	(413)
Other creditors	8	**(2,569)**	(2,037)
		(4,923)	(3,564)
Net current assets		**7,153**	3,049
Total assets less current liabilities		**19,601**	12,816
Creditors – amounts falling due after more than one year			
Borrowings	9	**(11,750)**	(5,645)
Derivative financial instruments	10	**(194)**	(86)
		(11,944)	(5,731)
Net assets		**7,657**	7,085
Capital and reserves			
Called up share capital	13	**395**	393
Share premium account	14	**4,638**	4,511
Profit and loss reserve	14	**2,624**	2,181
Total equity		**7,657**	7,085

Accounting policies and notes forming part of these financial statements are on pages 127 to 135.

Sir Terry Leahy
Laurie McIlwee

Directors
The Parent Company financial statements on pages 126 to 135 were authorised for issue by the Directors on 1 May 2009 and are subject to the approval of the shareholders at the Annual General Meeting on 3 July 2009.

Notes to the Parent Company financial statements

Note 1 Accounting policies

Basis of preparation
These financial statements have been prepared under UK GAAP using the historical cost convention modified for the revaluation of certain financial instruments and in accordance with applicable accounting standards and the Companies Acts 1985 and 2006 as applicable.

The financial year represents the 53 weeks to 28 February 2009 (prior financial year 52 weeks to 23 February 2008).

A summary of the Company's significant accounting policies are set out below.

Exemptions
The Directors have taken advantage of the exemption available under Section 230 of the Companies Act 1985 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 has not provided derivative financial instrument disclosures for 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 Parties' from disclosing related party transactions with entities that are part of the Tesco PLC Group.

Recent accounting developments
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 26 'Financial Instruments: Recognition and Measurement' and FRS 29 'Financial Instruments: Disclosures' – effective from 1 July 2008. These amendments permit the reclassification of financial assets in particular circumstances. The adoption of the amendments to FRS 26 and FRS 29 has had no impact on the results or net assets of the Company.

Standards, amendments and interpretations not yet effective but not expected to have a significant impact on the Company:

- Amendment to FRS 25, 'Financial Instruments: Presentation' – Puttable Financial Instruments and Obligations Arising on Liquidation, effective for annual periods beginning on or after 1 January 2010.
- Amendment to FRS 8, 'Related Party Transactions' to reflect changes to UK law, effective for annual periods beginning on or after 6 April 2008.

Standards, amendments and interpretations not yet effective but under review as to their effect on the Company:

- Amendment to FRS 20, 'Share Based Payment' – Vesting Conditions and Cancellations, effective for annual periods beginning on or after 1 January 2009.
- Amendment to FRS 26, 'Financial Instruments: Recognition and Measurement' – Eligible hedged items, effective for annual periods beginning on or after 1 July 2009.

Current asset investments
These relate to money market deposits which are stated at cost. All income from these investments is included in the 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 in foreign currencies are translated into Pounds Sterling at the financial year end exchange rates.

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 or rights over shares (equity-settled transactions) or in exchange for entitlements to cash payments based on the value of the shares (cash-settled transactions).

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 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 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, reduced by appropriate allowances for estimated irrecoverable amounts.

Investments
Investments are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value. There are no investments classified as held for trading. Gains and losses arising from changes in fair value for available-for-sale investments 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.

Financial liabilities and equity
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.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded 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 difference between cost and redemption value being recognised in the Profit and Loss Account over the period of the borrowings on an effective interest basis.

Creditors
Creditors are non interest-bearing and are stated at amortised cost.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Parent Company financial statements continued

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, 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 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 item 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 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 (including 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 Profit and Loss Account in the same period or periods during which the hedged transaction affects the Profit and Loss Account. The classification of the effective portion when recognised in the Profit and Loss Account 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 Profit and Loss Account.

Derivative instruments qualifying for cash flow hedging are principally forward foreign exchange transactions and currency options.

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 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 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 Profit and Loss Account. Gains and losses accumulated in equity are included in the Profit and Loss Account when the foreign operation is disposed of.

Derivative instruments qualifying for net investment hedging are principally forward foreign exchange transactions and currency options.

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 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-discounted 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.

Note 2 Auditor remuneration

	2009 £m	2008 £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

	2009 £m	2008 £m
Wages and salaries	**15**	12
Social security costs	**1**	6
Pension costs	**1**	1
Share-based payment expense	**18**	20
	35	39

The average number of employees (all Directors of the Company) during the year was: 14 (2008 – 15).

The Schedule VI requirements for Directors' Remuneration are included within the Directors' Remuneration Report on pages 50 to 64.

Note 4 Dividends

For details of equity 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			
As at 23 February 2008	9,612	162	9,774
Additions	1,434	–	1,434
Transferred to subsidiary undertaking	146	(146)	–
Disposals	(6)	–	(6)
As at 28 February 2009	11,186	16	11,202
Impairment			
As at 23 February 2008	223	–	223
Provision for impairment	4	–	4
As at 28 February 2009	227	–	227
Net carrying value			
As at 28 February 2009	10,959	16	10,975
As at 23 February 2008	9,389	162	9,551

For a list of the Company's principal operating subsidiary undertakings and joint ventures see note 13 in the Group financial statements.

The impairment charge for the year primarily relates to the revaluation of the Company's listed fixed asset investments to fair value based on quoted market prices at the Balance Sheet date (note 14 of the Group financial statements).

Notes to the Parent Company financial statements continued

Note 6 Debtors

	2009 £m	2008 £m
Amounts owed by Group undertakings	**8,587**	5,803
Amounts owed by joint ventures and associates[(a)]	**106**	171
Other debtors	**112**	60
Deferred tax asset[(b)]	**10**	12
Total	**8,815**	6,046

(a) The amounts due from joint ventures and associates of £106m (2008 – £171m) are due after more than one year.
(b) The deferred tax asset recognised by the Company, and the movements thereon, during the year are as follows:

	FRS 25 and FRS 26 £m	Other timing differences £m	Total £m
At 23 February 2008	13	(1)	12
Charge to profit and loss account for the year	(2)	–	(2)
At 28 February 2009	11	(1)	10

Note 7 Current asset investments

	2009 £m	2008 £m
Bonds and deposits	**2,970**	491

Note 8 Other creditors

	2009 £m	2008 £m
Amounts falling due within one year:		
Other tax and social security	**–**	1
Amounts owed to Group undertakings	**2,141**	1,725
Other liabilities	**421**	304
Accruals and deferred income	**7**	7
	2,569	2,037

Note 9 Borrowings

	Par value	Maturity year	2009 £m	2008 £m
Bank loans and overdrafts	–	2009	**1,494**	538
Loan from joint venture	–	2009	**9**	10
6% MTN	£125m	2008	**–**	130
5.25% MTN	€500m	2008	**–**	392
5.125% MTN	£192m	2009	**198**	191
6.625% MTN	£150m	2010	**154**	153
4.75% MTN	€750m	2010	**689**	592
3.875% MTN	€500m	2011	**476**	387
5.625% MTN	€1,500m	2012	**1,362**	–
5% MTN	£600m	2014	**592**	–
5.125% MTN	€600m	2015	**522**	–
4% RPI MTN[a]	£263m	2016	**268**	254
5.875% MTN	€1,500m	2016	**1,488**	–
5.5% USD Bond	$850m	2017	**678**	455
5.5% MTN	£350m	2019	**351**	350
6.125% MTN	£900m	2022	**901**	–
5% MTN[b]	£515m	2023	**515**	417
3.322% LPI MTN[c]	£265m	2025	**267**	255
6% MTN	£200m	2029	**216**	194
5.5% MTN	£200m	2033	**216**	192
1.982% RPI MTN[d]	£221m	2036	**221**	212
6.15% USD Bond	$1,150m	2037	**977**	604
5% MTN	£300m	2042	**306**	305
5.125% MTN	€600m	2047	**628**	451
5.2% MTN	£500m	2057	**500**	499
Other MTNs	–	–	**477**	178
Other loans	–	–	**226**	–
			13,731	6,759

(a) The 4% RPI MTN is redeemable at par, indexed for increases in the Retail Price Index (RPI) over the life of the MTN.
(b) An additional bond issue increased the principal of this MTN from £415m to £515m during 2009.
(c) 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%.
(d) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

	2009 £m	2008 £m
Repayment analysis:		
Amounts falling due within one year	**1,981**	1,114
	1,981	1,114
Amounts falling due after more than one year:		
Amounts falling due between one and two years	**867**	277
Amounts falling due between two and five years	**2,784**	1,166
Amounts falling due after more than five years	**8,099**	4,202
	11,750	5,645
	13,731	6,759

Notes to the Parent Company financial statements continued

Note 10 Derivative financial instruments

The fair value of derivative financial instruments has been disclosed in the Company's Balance Sheet as:

	2009		2008	
	Asset £m	**Liability £m**	Asset £m	Liability £m
Current	**291**	**(373)**	76	(413)
Non-current	**1,473**	**(194)**	216	(86)
Total	**1,764**	**(567)**	292	(499)

	2009				2008			
	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	**6**	**257**	**(31)**	**1,000**	2	125	(80)	657
Cross currency swaps	**1,444**	**4,293**	**(41)**	**996**	252	2,788	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	**–**	**–**	**(66)**	**400**	–	–	–	–
Forward foreign currency contracts	**19**	**656**	**(23)**	**283**	–	–	–	–
Net investment hedges								
Forward foreign currency contracts	**92**	**2,623**	**(194)**	**2,767**	2	289	(218)	2,328
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	**1**	**774**	**(30)**	**3,280**	5	3,638	(2)	189
Cross currency swaps	**20**	**219**	**(47)**	**639**	–	–	(2)	204
Forward foreign currency contracts	**182**	**2,632**	**(135)**	**2,561**	31	1,589	(197)	2,625
Total	**1,764**	**11,454**	**(567)**	**11,926**	292	8,429	(499)	6,003

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.

a) 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 28 February 2009	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 23 February 2008	37,652	269.29	53,381	280.99	12,191,979	303.75	10,838,238	0.00
Granted	7,539	311.00	–	–	2,615,968	427.00	3,591,855	0.00
Exercised	(8,125)	195.00	–	–	(126,832)	164.00	–	–
Outstanding at 28 February 2009	37,066	294.06	53,381	280.99	14,681,115	326.92	14,430,093	0.00
Exercisable as at 28 February 2009	–	–	43,965	272.93	7,511,677	258.10	2,050,588	0.00
Exercise price range (pence)	–	–	–	197.50 to 312.75	–	173.00 to 312.75	–	0.00
Weighted average remaining contractual life (years)	–	–	–	5.47	–	4.29	–	5.82

Note 11 Share-based payments continued

For the year ended 23 February 2008	Savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 24 February 2007	42,249	223.23	53,381	280.99	11,300,347	270.90	5,810,007	0.00
Granted	5,733	410.00	–	–	1,888,688	473.75	5,113,574	0.00
Exercised	(10,330)	159.00	–	–	(997,056)	253.25	(85,343)	0.00
Outstanding at 23 February 2008	37,652	269.29	53,381	280.99	12,191,979	303.75	10,838,238	0.00
Exercisable as at 23 February 2008	–	–	15,189	197.50	5,233,393	230.71	–	–
Exercise price range (pence)	–	–	–	197.50	–	164.00 to 259.00	–	–
Weighted average remaining contractual life (years)	–	–	–	5.16	–	4.33	–	–

b) Share bonus schemes

The number and weighted average fair value (WAFV) of share bonuses awarded during the period relating to Tesco PLC employees are:

	2009		2008	
	Shares number	**WAFV pence**	Shares number	WAFV pence
Shares in Success	**5,568**	**431.05**	4,464	470.45
Executive Incentive Scheme	**304,713**	**424.65**	176,135	401.90
Performance Share Plan	**238,024**	**356.05**	160,030	471.10
US Long-term Incentive Plan	**63,514**	**482.00**	2,000,000	471.10

Note 12 Pensions

The total cost of the pension scheme to the Group was £403m (2008 – £414m). Further disclosure relating to the Tesco PLC Pension Scheme can be found in note 28 of the Group financial statements.

Notes to the Parent Company financial statements continued

Note 13 Called up share capital

	2009		2008	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Authorised:				
At beginning of year	**10,858,000,000**	**543**	10,858,000,000	543
Authorised during the year	**–**	**–**	–	–
At end of year	**10,858,000,000**	**543**	10,858,000,000	543
Allotted, called up and fully paid:				
At beginning of year	**7,863,498,783**	**393**	7,947,349,558	397
Share options	**57,060,046**	**3**	65,432,552	3
Share buy-back	**(25,214,811)**	**(1)**	(149,283,327)	(7)
At end of year	**7,895,344,018**	**395**	7,863,498,783	393

During the financial year, 57 million (2008 – 65 million) shares of 5p each were issued in relation to share options for aggregate consideration of £130m (2008 – £138m).

During the year, the Company purchased and subsequently cancelled 25,214,811 (2008 – 149,283,327) shares of 5p each, representing 0% (2008 – 2%) of the called up share capital, at an average price of £3.98 (2008 – £4.38) per share. The total consideration, including expenses, was £100m (2008 – £657m). The excess of the consideration over the nominal value has been charged to retained earnings.

Between 1 March 2009 and 17 April 2009, options over 3,120,922 ordinary shares have been exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Option Scheme (2000). Between 1 March 2009 and 17 April 2009, options over 324,991 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 28 February 2009, the Directors were authorised to purchase up to a maximum in aggregate of 784.8 million (2008 – 793.4 million) ordinary shares.

The holders 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.

Share buy-back liability
Insider trading rules prevent the Group from buying back the Company shares in the market during specified close periods (including the period between the year end and the annual results announcement). However, if an irrevocable agreement is signed between the Company and a third party, they can continue to buy back shares on behalf of the Company. In 2008, three such arrangements were in place at the year end and in accordance with FRS 25, the Company recognised a financial liability equal to the estimated value of the shares purchasable under these agreements. A liability of £100m was recognised within other payables for this amount. There were no such agreements in place in 2009.

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 14 Reserves

	2009 £m	2008 £m
Share premium account		
At beginning of year	**4,511**	4,376
Premium on issue of shares less costs	**127**	135
At end of year	**4,638**	4,511

	2009 £m	2008 £m
Profit and loss reserve		
At beginning of year	**2,181**	1,380
Share-based payment	**204**	199
Purchase of treasury shares	**(165)**	(118)
Dividend	**(883)**	(792)
Change in fair value of available-for-sale financial assets	**3**	(4)
Share buy-back	**–**	(665)
Share buy-back – capital redemption	**1**	7
Gains on cash flow hedges	**105**	24
Profit after tax for the year	**1,178**	2,150
At end of year	**2,624**	2,181

Independent auditors' report to the members of Tesco PLC

We have audited the parent company financial statements of Tesco PLC for the 53 weeks ended 28 February 2009 which comprise the Balance Sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Tesco PLC for the 53 weeks ended 28 February 2009.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the parent company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the parent company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Introduction, the Financial highlights, Chairman's statement, Tesco at a glance, the Chief Executive's Q&A, the Report of the Directors, the Corporate governance statement, the unaudited part of the Directors' Remuneration Report and the Five year record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the parent company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 28 February 2009;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 1 May 2009

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