

INTERIM RESULTS 2014/15

| 26 weeks ended 23 August 2014 (unaudited) On a continuing operations basis | 2014/15 | Growth (Actual exchange rates) | Growth (Constant exchange rates) |
|---|-----------------|--------------------------------------|--|
| Group sales (inc. VAT)* | £34,012m | (4.4)% | (2.0)% |
| Sales growth excluding petrol | | (4.5)% | (1.9)% |
| Group trading profit | £937m | (41.0)% | (39.4)% |
| - UK | £499m | (55.9)% | (56.0)% |
| - Asia | £260m | (17.2)% | (9.2)% |
| - Europe | £76m | 38.2% | 41.8% |
| - Tesco Bank | £102m | 15.9% | 15.9% |
| Underlying profit before tax | £783m | (46.6)% | (45.3)% |
| Underlying diluted earnings per share | 7.71p | (46.8)%** | n/a |
| Capex | £1.0bn | down 20.4% | down 18.2% |
| Statutory profit before tax includes: | | | |
| - One-off items | £(527)m | | |
| Statutory profit before tax | £112m | (91.9)% | n/a |

Sir Richard Broadbent, Chairman:

"The issues that have come to light over recent weeks are a matter of profound regret. We have acted quickly to clarify the financial performance of the company. A new management team is in place to address the root causes of the mis-statement and to develop and implement the actions that will build the company's future. I am confident that the new Chief Executive and Chief Financial Officer will move rapidly and effectively in this respect.

Once this transition is complete and business plans are in place, it will mark the beginning of a new phase for the company and I will begin now to prepare the ground to ensure an orderly process for my own succession at that time. My decision reflects the important principle of accountability on behalf of the Board and will support the company to draw a line under the past as it enters the next phase of its development."

Dave Lewis, Chief Executive:

"Our business is operating in challenging times. Trading conditions are tough and our underlying profitability is under pressure. We do however face these challenges from a position of market strength and I have been heartened by the team's welcome and their determination to stay focused on doing the very best for our customers. Whilst my review of the whole business continues, three immediate priorities are clear: to recover our competitiveness in the UK, to protect and strengthen our balance sheet and to begin the long journey back to building trust and transparency into our business and brand."

HEADLINES

- **UK like-for-like sales down (4.6)%, impacted by strong competition across the grocery market, headwinds from price cuts and fewer untargeted promotions**
- **£0.9bn Group trading profit – year-on-year decline reflects challenges of UK business**
- **Total UK online sales up 11%; like-for-like sales growth of +0.8% in UK convenience stores**
- **Deloitte investigation into overstatement of expected half year profit concluded; impact confirmed as £(263)m, of which £(118)m relates to first half trading profit, with the balance treated as a one-off item (being c.£(70)m relating to 13/14 and c.£(75)m to pre-13/14)**
- **Interim dividend 1.16p*** as previously announced; full-year capex reduction to £2.1bn**
- **New Executive team in place and reviewing all strategic options to create greater shareholder value**

* Group sales (inc. VAT) exclude the accounting impact of IFRIC 13 (Customer Loyalty Programmes).

** Underlying diluted EPS growth calculated on a constant tax rate basis; (48.2)% at actual tax rates.

*** The interim dividend will be paid on 19 December 2014 to shareholders on the Register of Members at the close of business on 31 October 2014.

SUMMARY OF GROUP RESULTS¹

Continuing operations²

| | Group | | |
|--|---------------|---------------|----------------|
| | TY £m | LY £m | Growth % |
| Sales (inc. VAT)⁴ | 34,012 | 35,582 | (4.4)% |
| Growth % | | | |
| UK LFL (exc. petrol) | | | |
| Revenue (exc. VAT)⁵ | 30,473 | 31,914 | (4.5)% |
| Growth % | | | |
| UK LFL – IFRIC 13 compliant basis (exc. petrol) | | | |
| Trading profit⁶ | 937 | 1,588 | (41.0)% |
| Growth % | | | |
| Trading profit margin ⁴ | 3.04% | 4.93% | (189)bp |
| Change (basis points) | | | |
| Other underlying profit items: | | | |
| - Share of post-tax profits of joint ventures and associates | 17 | 29 | (41.4)% |
| - Net interest cost | (171) | (151) | (13.2)% |
| Underlying profit before tax⁷ | 783 | 1,466 | (46.6)% |
| IAS adjustments | (151) | (103) | (46.6)% |
| Restructuring and other one-off items | | | |
| - Provision for customer redress | (27) | - | n/m |
| - Impairment of PPE and onerous lease provisions included within cost of sales | (136) | - | n/m |
| - Stock write-downs | (63) | - | n/m |
| - Commercial income adjustment: | | | |
| - relating to 13/14 | (70) | - | n/m |
| - relating to years prior to 13/14 | (75) | - | n/m |
| - Other restructuring and one-off items | (156) | (21) | n/m |
| Profits/losses arising on property-related items | 7 | 45 | (84.4)% |
| Statutory profit before tax | 112 | 1,387 | (91.9)% |
| Dividend per share (pence) | 1.16 | 4.63 | (75.0)% |

| UK ³ | Asia | Europe | Tesco Bank |
|-----------------|--------------|--------------|---------------|
| TY £m | TY £m | TY £m | TY £m |
| 23,566 | 5,078 | 4,847 | 521 |
| (2.6)% | (8.4)% | (9.3)% | 4.6% |
| (4.6)% | | | |
| 21,031 | 4,766 | 4,155 | 521 |
| (2.8)% | (8.4)% | (9.3)% | 4.6% |
| (4.8)% | | | |
| 499 | 260 | 76 | 102 |
| (55.9)% | (17.2)% | 38.2% | 15.9% |
| 2.34% | 5.44% | 1.82% | 19.58% |
| (283)bp | (57)bp | 63bp | 191bp |

| | Group | | |
|------------------------------------|-------|-----|------------|
| | TY | LY | YOY Change |
| Capital expenditure (£bn) | 1.0 | 1.3 | (0.3) |
| Gross space added (million sq.ft.) | 1.1 | 1.6 | (0.5) |

| UK | | Asia | | Europe | | Tesco Bank | |
|-----|-----|------|-----|--------|-----|------------|-----|
| TY | LY | TY | LY | TY | LY | TY | LY |
| 0.7 | 0.8 | 0.2 | 0.4 | 0.1 | 0.1 | 0.0 | 0.0 |
| 0.3 | 0.5 | 0.6 | 0.7 | 0.2 | 0.3 | n/a | n/a |

| | Group | | |
|--|-------|-------|------------|
| | TY | LY | YOY Change |
| Net cash flow from operating activities (£bn) ⁸ | | | |
| - Retail | 1.0 | 1.7 | (0.7) |
| - Tesco Bank | (0.3) | (0.5) | 0.2 |
| - Group | 0.7 | 1.1 | (0.4) |
| IFRS pensions liability post-tax (£bn) | 3.4 | 2.4 | 1.0 |
| Net debt (£bn) ⁸ | 7.5 | 7.0 | 0.5 |

Notes:

- For the UK and the Republic of Ireland these results are for the 26 weeks ended 23 August 2014 and the previous period comparison is made with the 26 week period ended 24 August 2013. For Tesco Bank and India these results are for the 6 months ended 31 August 2014 and the previous period comparison is made with the 6 months ended 31 August 2013. For all other countries these results are for the 177 days ended 24 August 2014 and the previous period comparison is made with the 178 days ended 25 August 2013. All growth rates are calculated at actual exchange rates unless otherwise stated. Statutory numbers include the accounting impact of IFRIC 13 (Customer Loyalty Programmes). All other numbers are shown excluding the accounting impact of IFRIC 13, consistent with internal management reporting. More information can be found in Note 1 to the interim consolidated financial information.
- Continuing operations exclude the results from our operations in China and the US which have been treated as discontinued. China was a discontinued operation for the 13 weeks ended 28 May 2014, (at which point the operations were contributed into a new joint venture with CRE).
- The UK segment excludes Tesco Bank, which is reported separately in accordance with IFRS 8 (Operating Segments).
- Excludes the accounting impact of IFRIC 13 (Customer Loyalty Programmes). Trading margin is based on revenue excluding the accounting impact of IFRIC 13.
- Includes the accounting impact of IFRIC 13 (Customer Loyalty Programmes).
- Trading profit excludes profits/losses arising on property-related items and makes the same additional adjustments as our underlying profit measure, except for the impact of non-cash elements of IAS 17 relating to joint ventures and associates, IAS 32 and 39, and the interest element of IAS 19.
- Underlying profit excludes the impact of non-cash elements of IAS 17, 19, 32, and 39 (principally the impact of annual uplifts in rents and rent-free periods, pension costs, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition (Tesco Bank) and acquisition costs, the non-cash impact of IFRIC 13 (Customer Loyalty Programmes), and profits/losses arising on property-related items. It also excludes restructuring and other one-off items.
- Includes both continuing and discontinued operations.

CHAIRMAN'S OVERVIEW

When I took over as Chairman three years ago, I was aware that the scale of change for this company would be substantial. Structural change in this industry was accelerating and internally the business had been through a prolonged period of expansion. In response, we took substantial steps to underpin the future of the business.

It is in this context that on 22 September we announced an overstatement of our expected profits for the half year due to the accelerated recognition of commercial income and delayed accrual of costs in the UK food business. The Board immediately asked Deloitte to undertake an independent review of these issues working with Freshfields, the Group's legal advisers. Following our announcement on 22 September, Alan Stewart joined the Board immediately as Chief Financial Officer.

The Deloitte investigation into the validity of the figures has now concluded, and has confirmed our assessment that there was an overstatement in our profit expectations of £(263)m. The impact to trading profit is £(118)m in the first half of this year, with a further c.£(70)m relating to 2013/14 and c.£(75)m relating to pre-2013/14 treated as one-off items within these results.

The Deloitte Report will be passed to the Financial Conduct Authority (FCA) and to other regulatory agencies. As announced on 1 October 2014, the FCA has launched an investigation into the issue. We will fully cooperate with the regulatory authorities. Given the outstanding investigation, we can make no further statement at this stage about how these events came about.

Notwithstanding this deeply disappointing issue, the business continues to face the challenges of difficult markets and intense competition. There is much to do in improving our offer to customers and re-positioning our business to meet modern retail requirements. Since the beginning of the year, the Board has taken tough decisions on capital and dividend to preserve the financial strength of the company and replaced the executive leadership of the business. We have also announced new non-executive appointments to the Board.

Dave Lewis joined Tesco as Chief Executive on 1 September, one month earlier than previously anticipated. He is reviewing all aspects of the Group in order to improve its competitive position and deliver sustainable returns. Consideration will be given to all options which increase flexibility and create value for customers and shareholders.

Stability and orderly process are now of primary importance to the company. The Board's immediate focus must be on ensuring that we complete the transition to a new management team and that new and far-reaching business plans are put in place quickly. These plans will mark the beginning of a new phase for the company and I will begin now to prepare the ground to ensure an orderly process for my own succession at that time. My decision reflects the important principle of accountability on behalf of the Board and will support the company to draw a line under the past as it enters the next phase of its development.

THE DELOITTE REVIEW

We announced on 22 September 2014 that Deloitte, supported by the Company's external lawyers, Freshfields, had been appointed to carry out an independent review into the matters which had come to light in our UK food business. Deloitte has now presented its findings, which validate our assessment of the size and nature of the income overstatement, and thereby provide us with additional assurance for the purposes of the announcement of our interim results today.

Deloitte, in their review of our conclusions, has confirmed that:

- our overall commercial income adjustment in the current reporting period of £263m is reasonable;
- amounts have been pulled forward or deferred, contrary to Tesco Group accounting policies;
- there have been similar practices in prior reporting periods;
- the current and prior practices appear to be linked as income pulled forward grew period by period.

As we confirmed on 1 October 2014, the FCA has commenced a full investigation. Other regulatory authorities are reviewing the situation. The nature of the FCA investigation precludes Deloitte from continuing their work into the causes of the overstatement. The Deloitte independent review is therefore now complete.

This issue raises many questions which will now be examined in the context of the FCA investigation. We will continue to cooperate fully with the FCA and any other regulatory authorities.

OUTLOOK

We have three immediate priorities. The first is restoring competitiveness in our core UK business. The second is protecting and strengthening our balance sheet. The third is to begin the long journey of rebuilding trust and transparency in the business and the brand.

Our relative performance was not competitive enough in the first half of the year and the business continues to face a softening market and tough trading conditions, particularly in the UK. In this challenging environment we will continue to invest for customers.

We are reviewing all opportunities that exist within the Group to generate value and create headroom. Full year profitability could therefore be further impacted by actions we choose to take.

In addition, the commercial income overstatement will affect our second half results as we revisit our plans with new management.

As such, there are a number of uncertainties which limit visibility of future performance. We will do the right thing for customers – and therefore the business – despite these uncertainties. For these reasons we are not providing full year profit guidance.

Our next update to the market will be our Christmas trading statement on 8 January 2015, when we will also update on our third quarter performance.

GROUP RESULTS

Group sales, including VAT, fell by (4.4)% to £34.0bn. At constant exchange rates, sales declined by (2.0)% including petrol and by (1.9)% excluding petrol.

Group trading profit was £937m, down (41.0)% on last year, impacted by a weakening UK grocery market, the investments we are making in our customer offer and challenging trading conditions overseas. Group trading margin was 3.04%, down (189) basis points year-on-year.

Profit from **joint ventures and associates** reduced by (41)%, primarily reflecting lower profits from our UK property joint ventures, in addition to small initial trading and integration losses from our newly formed partnerships with China Resources Enterprise Ltd (CRE) and Trent Limited, part of the Tata Group.

Net finance costs increased to £(171)m from £(151)m last year due to early refinancing of maturing debt, in addition to a fall in capitalised interest, driven by a reduction in the level of work-in-progress from last year.

Underlying profit before tax therefore declined by (46.6)% to £783m.

Group profit before tax was £112m, after one-off items totalling £(527)m, including an adjustment relating to prior years' commercial income of £(145)m, stock write-downs of £(63)m, impairment charges of £(136)m in the UK and Europe, restructuring costs of £(41)m, a £(41)m retrospective charge relating to a Valuation Office ruling on ATM rates and a £(27)m increase in the Bank's provision for customer redress.

Profits arising on property-related items. In April 2013 we announced that we would be accelerating the scaling back of our sale and leaseback programme. In the first half, profits arising on property-related items were minimal as a reduced sale and leaseback programme was offset by losses on disposal and property-related costs across the Group.

Total **Group tax** has been charged at an effective rate (on profit before tax prior to the one-off items mentioned above) of 20.2% and we expect the effective rate for the full year to be broadly in line with the rate for the half year. Last year's rate of 18.0% incorporated the one-off effect of a lower UK tax rate on deferred tax liabilities.

Underlying diluted earnings per share in the first half were 7.71p, (48.2)% lower year-on-year at actual tax rates, due to the reduction in underlying profitability and a more normal rate of Group tax.

Cash Flow and Balance Sheet. Net cash generated from retail operating activities decreased by £(0.7)bn to £1.0bn, principally driven by lower operating profit.

Group capital expenditure was £1.0bn, or 3.0% of sales, a decrease of £(0.3)bn from the prior year on a continuing operations basis. Our capex fell across all our reporting segments, consistent with our aim of a reduced level of capital expenditure for the year. On 29 August 2014 we announced that our capital expenditure for 2014/15 will be no more than £2.1bn.

As planned, we made a cash contribution to the China JV of £179m and a further payment of £78m to CRE, in addition to an £85m investment in our Trent JV in India. Further details can be found in Note 5, on page 22 of this statement.

Net debt increased by £0.5bn year-on-year to £7.5bn. This included the impact of the reduced level of operating cash flow and the investments in the China and India joint ventures. The increase was partially offset by the disposal of China net debt and lower capital expenditure.

Funding and liquidity. We continue to have a strong funding and liquidity position. During the period we retired £600m of bonds. We issued medium-term notes of €1,250m and €750m with coupons of 1.375% and 2.5% respectively, ahead of future planned redemptions.

Pensions. On an accounting basis, the Group's net pension deficit after tax increased from £2.6bn, as at 22 February 2014, to £3.4bn. This movement is mainly due to a significant reduction of 40 basis points in real corporate bond yields, due to high demand and limited supply in the bond market. This has led to a corresponding reduction in the discount rate used to measure our long term liabilities.

SEGMENTAL PERFORMANCE

UK

| | UK Results H1 2014/15 | |
|--|------------------------------|----------|
| | £m | % growth |
| UK sales | £23,566m | (2.6)% |
| UK revenue (exc. VAT, exc. impact of IFRIC 13) | £21,301m | (2.7)% |
| UK trading profit | £499m | (55.9)% |
| Trading margin (trading profit/revenue) | 2.34% | (283)bp |

Whilst a weakening of the UK grocery market and the more structural trends towards proximity and online retailing have been headwinds across the industry, our relative performance also fell short of our initial expectations. The decision to reduce the level of untargeted couponing activity in order to focus on initiatives that drive long-term loyalty also impacted sales. Total UK sales declined by (2.6)% to £23.6bn. Like-for-like sales excluding VAT and petrol for the first half were down (4.6)%.

| | UK LFL Growth 2014/15 | | |
|---------------------------------------|------------------------------|--------|---------------|
| | Q1 | Q2 | H1 |
| LFL (inc. VAT, inc. petrol) | (3.8)% | (5.0)% | (4.4)% |
| LFL (inc. VAT, exc. petrol) | (3.7)% | (5.4)% | (4.6)% |
| LFL (exc. VAT, exc. petrol) | (3.8)% | (5.5)% | (4.6)% |
| LFL (exc. VAT, exc. petrol) IFRIC 13* | (4.0)% | (5.5)% | (4.8)% |

*Compliant with IFRIC 13 (customer loyalty programmes)

The UK business saw historically low levels of inflation during the second quarter in particular, driven by the strength of sterling and reflecting price investment across the industry.

UK trading profit declined by (55.9)% year-on-year to £499m with a trading margin of 2.34%, a reduction of (283) basis points. This was driven primarily by the impact of reduced like-for-like sales, our continued investment in the customer offer and inflation in our cost base.

In line with our plans for a lower level of new store openings, the contribution from net new space fell to 2.1% for the half year. We will open 0.5m square feet of net new space in the second half, with the majority in our Express and One Stop convenience formats.

We completed 262 store refreshes in the first half, including over 200 Express stores. As we said in August, we will reduce our level of capital expenditure for the rest of the year, resulting in a slower roll-out of our Refresh programme.

ASIA

| | Asia Results H1 2014/15 | | |
|--|--------------------------------|----------|----------------|
| | Actual rates | | Constant rates |
| | £m | % growth | % growth |
| Asia sales | £5,078m | (8.4)% | (0.5)% |
| Asia revenue (exc. VAT, exc. impact of IFRIC 13) | £4,780m | (8.4)% | (0.5)% |
| Asia trading profit | £260m | (17.2)% | (9.2)% |
| Trading margin (trading profit/revenue) | 5.44% | (57)bp | (52)bp |

Total sales in Asia decreased by (0.5)% at constant rates and by (8.4)% at actual rates, held back by difficult market conditions across the region.

Market conditions in Korea remained challenging, particularly for large stores, with a higher number of enforced Sunday closures under the DIDA opening regulations for all major retailers.

In Thailand, whilst the political situation improved with the cessation of the curfew, the environment remained uncertain for our customers. Sales were also impacted by significant market vouchering activity and an increasingly competitive convenience sector.

Our sales performance in Malaysia was impacted by low consumer sentiment and more recently by protests against Western businesses.

We opened 0.6m square feet of net new space in the region as a whole and plan to open a similar amount in the second half.

EUROPE

In Europe, total sales including petrol declined by (1.8)% at constant rates and by (9.3)% at actual rates although we saw positive like-for-like sales growth in the Czech Republic, Hungary and Turkey.

| | Europe Results H1 2014/15 | | |
|--|----------------------------------|----------|----------------|
| | Actual rates | | Constant rates |
| | £m | % growth | % growth |
| Europe sales | £4,847m | (9.3)% | (1.8)% |
| Europe revenue (exc. VAT, exc. impact of IFRIC 13) | £4,173m | (9.4)% | (1.9)% |
| Europe trading profit | £76m | 38.2% | 41.8% |
| Trading margin (trading profit/revenue) | 1.82% | 63bp | 54bp |

Overall profits increased by 38%, largely due to a lower depreciation charge following last year's asset impairments. The pressure on sales, particularly in Ireland and Slovakia, held back any further profit growth. The Irish market remained challenging with intense competition led by the discounters and high levels of couponing.

In Poland, we have maintained our market share in a highly competitive market. Our trading performance in the second quarter was affected by deteriorating consumer confidence following the announcement of sanctions on Polish exports to Russia. Our sales performance in Hungary and the Czech Republic was supported by a strong F&F clothing offer and the remodelling of fresh departments in many of our stores. In Turkey, we remained focused on the heartland of our business and have seen an improvement in like-for-like sales across the first half.

We continued to limit capital expenditure in this region, opening 0.2m square feet of new space and closing a similar amount of under-performing space, primarily in Turkey and Poland. We continued to expand our grocery home shopping operations and recently launched our Delivery Saver subscription service to customers in Ireland.

TESCO BANK

Tesco Bank's trading profit increased by 15.9% year-on-year to £102m, driven by strong lending growth. Excluding fair value releases, trading profit grew by 18.8%.

Customer accounts in our core banking products (credit cards, loans, mortgages and savings) grew by 14% and the launch of personal current accounts in June completed the Bank's product portfolio.

| | Tesco Bank Results H1 2014/15 | |
|--|--------------------------------------|----------|
| | £m | % growth |
| Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13) | £521m | 4.6% |
| Tesco Bank trading profit | £102m | 15.9% |
| Tesco Bank trading margin | 19.58% | 191bp |

Within one-off items, the Bank has made a further increase to the provision for PPI of £(27)m.

As we said in our preliminary results announcement, we expect the growth in the Bank's underlying trading profit for the full year to be offset by our investment in personal current accounts.

The Bank ended the first half with strong liquidity and capital ratios comfortably exceeding required levels. An income statement, balance sheet and cash flow statement for Tesco Bank is available in the investor section of our corporate website – www.tescopl.com/interims2014. Tesco Bank's interim results are also published today and can be found at www.corporate.tescobank.com.

Tesco and Society

We will share more details on our 'Scale for Good' programme in our half year Tesco and Society Report and you can find out more about our ongoing activities at www.tescopl.com/society/news.

Change in financial reporting calendar

Given the proximity of our third quarter interim management statement to our Christmas trading update, going forward we will move the release of our Q3 IMS to early January with this statement also covering trading in the six weeks post the end of Q3 period. This next update is scheduled for release on 8 January 2015.

Supplementary Information

The following supplementary information can be found within our analyst pack, which is available at www.tescopl.com/interims2014:

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

Contacts

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| | Brunswick | 0207 404 5959 |

This document is available at www.tescopl.com/interims2014.

A meeting for investors and analysts will be held today at 9.00am at ETC Venues, 200 Aldersgate, St Paul's, London, EC1A 4HD. Access will be by invitation only. Presentations from the meeting will be available at www.tescopl.com/interims2014.

An interview with Dave Lewis, Chief Executive, discussing the Interim Results is available now to download in video, audio and transcript form at www.tescopl.com/interims2014.

Disclaimer

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is based on information available to Tesco as of the date of the statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution. Tesco does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Tesco's expectations.

Additional Disclosures

Risks and Uncertainties

As with any business, risk assessment and the implementation of mitigating actions and controls are vital to successfully achieving the Group's strategy. The Tesco Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. The Group faces risks and uncertainties in the immediate future as outlined under Outlook above, and in relation to the FCA and potentially other investigations referred to elsewhere in these Interim Results. Apart from these, the principal risks and uncertainties faced by the Group remain those set out in our 2014 Annual Report and Financial Statements and include:

- Business and financial strategies
- Competition and consolidation
- Reputational risk
- Performance risk
- Property
- Economic, political and regulatory risks
- Product safety and ethical trading
- Technology
- People
- Treasury, financial and Tesco Bank risks
- Pension risks
- Fraud, compliance and control
- Business continuity and crisis management

Greater detail on these risks and uncertainties are set out on pages 20 to 25 of our 2014 Annual Report and Financial Statements.

Statement of Directors' Responsibilities

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

The Directors of Tesco PLC are listed in the Tesco PLC 2014 Annual Report and Financial Statements, with the following exceptions: Dave Lewis joined the Board on 1 September 2014 as Chief Executive Officer in succession to Philip Clarke who stepped down on the same date; and Alan Stewart joined the Board on 23 September 2014 as Chief Financial Officer in succession to Laurie McIlwee who resigned from the Board on 4 April 2014. Further to our announcement on 6 October 2014, Richard Cousins and Mikael Ohlsson will join the Board on 1 November 2014 as Non-executive Directors. A list of current directors is maintained on the Tesco PLC website at: www.tescopl.com.

By order of the Board

Directors

Sir Richard Broadbent* – Chairman

Dave Lewis – Chief Executive

Alan Stewart – Chief Financial Officer

Mark Armour*

Gareth Bullock*

Patrick Cescau* – Senior Non-executive Director

Stuart Chambers*

Olivia Garfield*

Ken Hanna*

Deanna Oppenheimer*

Jacqueline Tammenoms Bakker*

*Non-executive Directors

Company Secretary

Jonathan Lloyd

22 October 2014

Appendix 1 – Segmental Sales Growth Rates *

| | | Total Sales Growth – Actual Rates ** | | | | | |
|-------------|---------------|--------------------------------------|--------|---------------|---------|---------|---------------|
| | | 2013/14 | | | 2014/15 | | |
| | | H1 | H2 | FY | Q1 | Q2 | H1 |
| Inc. Petrol | Group | 2.0% | (1.4)% | 0.3% | (3.7)% | (4.7)% | (4.4)% |
| | International | 4.4% | (1.9)% | 1.1% | (8.0)% | (8.4)% | (8.8)% |
| | Asia | 7.7% | (2.0)% | 2.7% | (8.9)% | (6.4)% | (8.4)% |
| | Europe | 1.2% | (1.9)% | (0.4)% | (7.1)% | (10.5)% | (9.3)% |
| | UK | 1.1% | (1.2)% | (0.1)% | (2.0)% | (3.2)% | (2.6)% |
| | Tesco Bank | (3.1)% | (0.4)% | (1.8)% | 3.6% | 5.8% | 4.6% |
| Exc. Petrol | Group | 2.6% | (0.7)% | 0.9% | (3.8)% | (4.9)% | (4.5)% |
| | International | 4.5% | (1.9)% | 1.2% | (8.0)% | (8.3)% | (8.7)% |
| | Asia | 7.7% | (2.0)% | 2.7% | (8.9)% | (6.4)% | (8.4)% |
| | Europe | 1.3% | (1.9)% | (0.3)% | (6.9)% | (10.3)% | (9.1)% |
| | UK | 1.7% | (0.1)% | 0.8% | (1.7)% | (3.3)% | (2.5)% |
| | Tesco Bank | (3.1)% | (0.4)% | (1.8)% | 3.6% | 5.8% | 4.6% |

| | | Total Sales Growth – Constant Rates ** | | | | | |
|-------------|---------------|--|--------|---------------|---------|--------|---------------|
| | | 2013/14 | | | 2014/15 | | |
| | | H1 | H2 | FY | Q1 | Q2 | H1 |
| Inc. Petrol | Group | 0.5% | (0.9)% | (0.2)% | (1.2)% | (2.5)% | (2.0)% |
| | International | (0.6)% | (0.1)% | (0.3)% | 0.5% | (1.4)% | (1.1)% |
| | Asia | 2.0% | 0.7% | 1.4% | 1.5% | (0.9)% | (0.5)% |
| | Europe | (3.1)% | (0.9)% | (2.0)% | (0.7)% | (1.9)% | (1.8)% |
| | UK | 1.1% | (1.2)% | (0.1)% | (2.0)% | (3.2)% | (2.6)% |
| | Tesco Bank | (3.1)% | (0.4)% | (1.8)% | 3.6% | 5.8% | 4.6% |
| Exc. Petrol | Group | 0.9% | (0.1)% | 0.4% | (0.9)% | (2.5)% | (1.9)% |
| | International | (0.4)% | (0.1)% | (0.3)% | 0.5% | (1.2)% | (1.0)% |
| | Asia | 2.0% | 0.7% | 1.4% | 1.5% | (0.9)% | (0.5)% |
| | Europe | (3.0)% | (0.9)% | (1.9)% | (0.6)% | (1.6)% | (1.6)% |
| | UK | 1.7% | (0.1)% | 0.8% | (1.7)% | (3.3)% | (2.5)% |
| | Tesco Bank | (3.1)% | (0.4)% | (1.8)% | 3.6% | 5.8% | 4.6% |

* Growth rates shown on a continuing operations basis.

** Quarterly growth rates based on comparable days for the current year and the previous year comparison. Half 1 growth rates based on comparable days for the current year and the previous year comparison for the UK and the Republic of Ireland. All other countries are for 177 days ended 24 August 2014 compared to 178 days ended 25 August 2013.

| | | Like-For-Like Sales Growth* | | | | | |
|----------------|---------------|-----------------------------|--------|---------------|---------|--------|---------------|
| | | 2013/14 | | | 2014/15 | | |
| | | H1 | H2 | FY | Q1 | Q2 | H1 |
| Inc. Petrol | Group | (1.9)% | (3.3)% | (2.6)% | (3.3)% | (4.7)% | (4.0)% |
| | International | (4.3)% | (3.8)% | (4.0)% | (2.2)% | (3.8)% | (3.0)% |
| | Asia | (3.7)% | (5.4)% | (4.5)% | (3.2)% | (4.9)% | (4.1)% |
| | Europe | (5.0)% | (2.1)% | (3.5)% | (1.1)% | (2.7)% | (1.9)% |
| | UK | (0.9)% | (3.1)% | (2.0)% | (3.8)% | (5.0)% | (4.4)% |
| | Tesco Bank | N/A | N/A | N/A | N/A | N/A | N/A |
| Exc. Petrol | Group | (1.8)% | (2.8)% | (2.3)% | (3.2)% | (4.8)% | (4.0)% |
| | International | (4.3)% | (3.8)% | (4.0)% | (2.2)% | (3.7)% | (3.0)% |
| | Asia | (3.7)% | (5.4)% | (4.5)% | (3.2)% | (4.9)% | (4.1)% |
| | Europe | (4.9)% | (2.2)% | (3.5)% | (1.0)% | (2.5)% | (1.8)% |
| | UK | (0.5)% | (2.2)% | (1.3)% | (3.7)% | (5.4)% | (4.6)% |
| | Tesco Bank | N/A | N/A | N/A | N/A | N/A | N/A |

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

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

| | | Like-For-Like Growth* | | | | | |
|----------------------|--|-----------------------|--------|---------------|---------|--------|---------------|
| | | 2013/14 | | | 2014/15 | | |
| | | H1 | H2 | FY | Q1 | Q2 | H1 |
| UK | | (0.5)% | (2.2)% | (1.3)% | (3.7)% | (5.4)% | (4.6)% |
| Asia | | (3.7)% | (5.4)% | (4.5)% | (3.2)% | (4.9)% | (4.1)% |
| Malaysia | | (0.4)% | 0.1% | (0.2)% | (2.3)% | (6.8)% | (4.7)% |
| South Korea | | (3.7)% | (4.8)% | (4.3)% | (2.8)% | (4.7)% | (3.8)% |
| Thailand | | (4.7)% | (8.1)% | (6.5)% | (5.3)% | (4.7)% | (5.0)% |
| Europe | | (4.9)% | (2.2)% | (3.5)% | (1.0)% | (2.5)% | (1.8)% |
| Czech Republic | | (6.9)% | (2.0)% | (4.4)% | 1.6% | 1.3% | 1.5% |
| Hungary [^] | | (0.1)% | 1.2% | 0.5% | 2.7% | (0.6)% | 1.0% |
| Poland | | (6.4)% | 0.6% | (2.8)% | 0.5% | (2.4)% | (1.0)% |
| Slovakia | | (4.3)% | (4.3)% | (4.3)% | (5.8)% | (4.6)% | (5.2)% |
| Turkey | | (12.8)% | (0.9)% | (7.0)% | 3.4% | 3.6% | 3.5% |
| Republic of Ireland | | (3.7)% | (7.2)% | (5.5)% | (5.5)% | (7.3)% | (6.4)% |

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

[^] Following the introduction of legislation preventing large retailers from selling tobacco in mid-July 2013, Hungary like-for-like growth is shown on an exc. tobacco basis. Including tobacco sales, in 2013/14 H1 was (0.8)%, H2 was (1.3)% and FY was (1.0)%. For 2014/15, Q1 was 0.0%, Q2 was (2.0)% and H1 was (1.1)%.

TESCO PLC

GROUP INCOME STATEMENT

26 weeks ended 23 August 2014

| | Notes | 2014 £m | 2013 £m | Change % |
|--|-------|---------------|---------------|---------------|
| Continuing operations | | | | |
| Revenue | 3 | 30,473 | 31,914 | (4.5) |
| Cost of sales | | (29,200) | (29,572) | |
| Gross profit | | 1,273 | 2,342 | (45.6) |
| Administrative expenses | | (933) | (820) | |
| Profits/losses arising on property-related items | | 7 | 45 | |
| Operating profit | 3 | 347 | 1,567 | (77.9) |
| Share of post-tax profits of joint ventures and associates | | 19 | 32 | |
| Finance income | | 47 | 65 | |
| Finance costs | | (301) | (277) | |
| Profit before tax | | 112 | 1,387 | (91.9) |
| Taxation | 4 | (37) | (250) | |
| Profit for the period from continuing operations | | 75 | 1,137 | (93.4) |
| Discontinued operations | | | | |
| Loss for the period from discontinued operations | 5 | (69) | (317) | |
| Profit for the period | | 6 | 820 | (99.3) |
| Attributable to: | | | | |
| Owners of the parent | | 6 | 820 | |
| Non-controlling interests | | - | - | |
| | | 6 | 820 | (99.3) |

Earnings per share from continuing and discontinued operations

| | | | | |
|---------|---|-------|--------|--------|
| Basic | 7 | 0.07p | 10.17p | (99.3) |
| Diluted | 7 | 0.07p | 10.15p | (99.3) |

Earnings per share from continuing operations

| | | | | |
|---------|---|-------|--------|--------|
| Basic | 7 | 0.93p | 14.10p | (93.4) |
| Diluted | 7 | 0.93p | 14.08p | (93.4) |

| | | | | |
|----------------------------|---|-------|-------|--------|
| Interim dividend per share | 6 | 1.16p | 4.63p | (74.9) |
|----------------------------|---|-------|-------|--------|

| Non-GAAP measure: underlying profit before tax | 1 | £m | £m | |
|--|----|------------|--------------|---------------|
| Profit before tax from continuing operations | | 112 | 1,387 | (91.9) |
| <i>Adjustments for:</i> | | | | |
| IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements | | 12 | 6 | |
| IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions | 10 | 127 | 76 | |
| IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods | | 4 | 10 | |
| IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions | | 8 | 7 | |
| IFRIC 13 'Customer Loyalty Programmes' – fair value of awards | | - | 4 | |
| Restructuring and other one-off items: | | | | |
| - Impairment of PPE included within cost of sales | | 136 | - | |
| - Gross margin transformation and other stock valuation provisions | | 63 | - | |
| - Provision for customer redress | | 27 | - | |
| - ATM rates charge | | 41 | - | |
| - Other restructuring and one-off items | | 115 | 21 | |
| Reversal of commercial income recognised in previous years: | | | | |
| - Recognised in 13/14 | 2 | 70 | - | |
| - Recognised in years prior to 13/14 | | 75 | - | |
| Profits/losses arising on property-related items | | (7) | (45) | |
| Underlying profit before tax from continuing operations | | 783 | 1,466 | (46.6) |
| Underlying diluted earnings per share from continuing operations | 7 | 7.71p | 14.88p | (48.2) |

The notes on pages 18 to 31 form part of this interim consolidated financial information.

TESCO PLC

GROUP STATEMENT OF COMPREHENSIVE INCOME

26 weeks ended 23 August 2014

| | Note | 2014 £m | 2013 £m |
|---|------|--------------|----------------|
| Items that will not be reclassified to income statement | | | |
| Remeasurements on defined benefit pension schemes | 10 | (886) | (531) |
| Tax on items that will not be reclassified | | 170 | 38 |
| | | (716) | (493) |
| Items that may subsequently be reclassified to income statement | | | |
| Change in fair value of available-for-sale financial assets and investments | | (2) | 1 |
| Currency translation differences: | | | |
| - Retranslation of net assets | | 115 | (473) |
| - Movements in foreign exchange reserve and net investment hedging on subsidiary disposed reclassified and reported in the Group Income Statement | | (17) | - |
| Gains/(losses) on cash flow hedges: | | | |
| - Net fair value gains/(losses) | | 46 | (119) |
| - Reclassified and reported in the Group Income Statement | | 69 | 14 |
| Tax on items that may be reclassified | | (28) | 46 |
| | | 183 | (531) |
| Total other comprehensive loss for the period | | (533) | (1,024) |
| Profit for the period | | 6 | 820 |
| Total comprehensive loss for the period | | (527) | (204) |
| Attributable to: | | | |
| Owners of the parent | | (528) | (199) |
| Non-controlling interests | | 1 | (5) |
| Total comprehensive loss for the period | | (527) | (204) |
| Total comprehensive loss attributable to owners of the parent arises from: | | | |
| Continuing operations | | (447) | 115 |
| Discontinued operations | | (81) | (314) |
| | | (528) | (199) |

The notes on pages 18 to 31 form part of this interim consolidated financial information.

TESCO PLC

GROUP BALANCE SHEET

As at 23 August 2014

| | Notes | 23 August 2014 £m | 22 February 2014 £m | 24 August 2013 £m |
|--|-------|-------------------------|---------------------------|-------------------------|
| Non-current assets | | | | |
| Goodwill and other intangible assets | 8 | 3,998 | 3,795 | 3,723 |
| Property, plant and equipment | 8 | 24,519 | 24,490 | 25,453 |
| Investment property | 8 | 203 | 227 | 315 |
| Investments in joint ventures and associates | | 1,648 | 286 | 309 |
| Other investments | | 1,089 | 1,015 | 810 |
| Loans and advances to customers | | 3,678 | 3,210 | 2,885 |
| Derivative financial instruments | | 1,626 | 1,496 | 1,682 |
| Deferred tax assets | | 70 | 73 | 24 |
| | | 36,831 | 34,592 | 35,201 |
| Current assets | | | | |
| Inventories | | 3,599 | 3,576 | 3,663 |
| Trade and other receivables | | 2,302 | 2,190 | 2,452 |
| Loans and advances to customers | | 3,844 | 3,705 | 3,542 |
| Derivative financial instruments | | 59 | 80 | 67 |
| Current tax assets | | 6 | 12 | 18 |
| Short-term investments | | 1,984 | 1,016 | 690 |
| Cash and cash equivalents | | 2,917 | 2,506 | 1,748 |
| | | 14,711 | 13,085 | 12,180 |
| Assets of the disposal group and non-current assets classified as held for sale | 5 | 266 | 2,487 | 3,065 |
| | | 14,977 | 15,572 | 15,245 |
| Current liabilities | | | | |
| Trade and other payables | | (11,174) | (10,595) | (10,893) |
| Financial liabilities: | | | | |
| - Borrowings | | (2,974) | (1,910) | (1,574) |
| - Derivative financial instruments and other liabilities | | (124) | (99) | (81) |
| - Customer deposits and deposits by banks | | (6,996) | (6,858) | (6,268) |
| Current tax liabilities | | (371) | (494) | (516) |
| Provisions | | (188) | (250) | (143) |
| | | (21,827) | (20,206) | (19,475) |
| Liabilities of the disposal group classified as held for sale | 5 | (10) | (1,193) | (1,316) |
| Net current liabilities | | (6,860) | (5,827) | (5,546) |
| Non-current liabilities | | | | |
| Financial liabilities: | | | | |
| - Borrowings | | (10,906) | (9,303) | (9,147) |
| - Derivative financial instruments and other liabilities | | (794) | (770) | (746) |
| Post-employment benefit obligations | 10 | (4,195) | (3,193) | (2,982) |
| Deferred tax liabilities | | (433) | (594) | (835) |
| Provisions | | (177) | (183) | (246) |
| | | (16,505) | (14,043) | (13,956) |
| Net assets | | 13,466 | 14,722 | 15,699 |
| Equity | | | | |
| Share capital | | 406 | 405 | 404 |
| Share premium | | 5,094 | 5,080 | 5,047 |
| All other reserves | | (311) | (498) | 101 |
| Retained earnings | | 8,254 | 9,728 | 10,134 |
| Equity attributable to owners of the parent | | 13,443 | 14,715 | 15,686 |
| Non-controlling interests | | 23 | 7 | 13 |
| Total equity | | 13,466 | 14,722 | 15,699 |

The notes on pages 18 to 31 form part of this interim consolidated financial information.

TESCO PLC

GROUP STATEMENT OF CHANGES IN EQUITY

26 weeks ended 23 August 2014

| | Share capital | Share premium | All other reserves | Retained earnings | Total equity attributable to owners of the parent | Non-controlling interests | Total equity |
|--|---------------|---------------|--------------------|-------------------|---|---------------------------|---------------|
| | £m | £m | £m | £m | £m | £m | £m |
| At 22 February 2014 | 405 | 5,080 | (498) | 9,728 | 14,715 | 7 | 14,722 |
| Total comprehensive gain/(loss) | - | - | 184 | (712) | (528) | 1 | (527) |
| Transactions with owners | | | | | | | |
| Purchase of treasury shares | - | - | (14) | - | (14) | - | (14) |
| Share-based payments | - | - | 17 | 57 | 74 | - | 74 |
| Issue of shares | 1 | 14 | - | - | 15 | - | 15 |
| Dividends | - | - | - | (819) | (819) | - | (819) |
| Changes in non-controlling interests | - | - | - | - | - | 15 | 15 |
| Total transactions with owners | 1 | 14 | 3 | (762) | (744) | 15 | (729) |
| At 23 August 2014 | 406 | 5,094 | (311) | 8,254 | 13,443 | 23 | 13,466 |

| | Share capital | Share premium | All other reserves | Retained earnings | Total equity attributable to owners of the parent | Non-controlling interests | Total equity |
|--|---------------|---------------|--------------------|-------------------|---|---------------------------|---------------|
| | £m | £m | £m | £m | £m | £m | £m |
| At 23 February 2013 | 403 | 5,020 | 685 | 10,535 | 16,643 | 18 | 16,661 |
| Total comprehensive (loss)/gain | - | - | (573) | 374 | (199) | (5) | (204) |
| Transactions with owners | | | | | | | |
| Share-based payments | - | - | (11) | 40 | 29 | - | 29 |
| Issue of shares | 1 | 27 | - | - | 28 | - | 28 |
| Dividends | - | - | - | (815) | (815) | - | (815) |
| Total transactions with owners | 1 | 27 | (11) | (775) | (758) | - | (758) |
| At 24 August 2013 | 404 | 5,047 | 101 | 10,134 | 15,686 | 13 | 15,699 |

The notes on pages 18 to 31 form part of this interim consolidated financial information.

TESCO PLC

GROUP CASH FLOW STATEMENT

26 weeks ended 23 August 2014

| | Notes | 2014 £m | 2013 £m |
|---|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 11 | 1,237 | 1,741 |
| Interest paid | | (271) | (280) |
| Corporation tax paid | | (244) | (319) |
| Net cash generated from operating activities | | 722 | 1,142 |
| Cash flows from investing activities | | | |
| Acquisition/disposal of subsidiaries, net of cash acquired/disposed | | (238) | (48) |
| Proceeds from sale of property, plant and equipment, investment property and non-current assets classified as held for sale | | 92 | 90 |
| Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale | | (1,026) | (1,163) |
| Proceeds from sale of intangible assets | | 1 | - |
| Purchase of intangible assets | | (147) | (169) |
| Net decrease in loans to joint ventures | | 33 | 72 |
| Investments in joint ventures and associates | | (365) | (6) |
| Net investments in short-term investments | | (968) | (168) |
| Net investments in other investments | | (69) | (10) |
| Dividends received from joint ventures and associates | | 30 | 22 |
| Interest received | | 48 | 64 |
| Net cash used in investing activities | | (2,609) | (1,316) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary share capital | | 15 | 28 |
| Increase in borrowings | | 4,343 | 786 |
| Repayment of borrowings | | (1,538) | (374) |
| Repayments of obligations under finance leases | | (1) | (4) |
| Rights issue to non-controlling interests | | 15 | - |
| Dividends paid to equity owners | 6 | (819) | (815) |
| Net cash from/(used in) financing activities | | 2,015 | (379) |
| Net increase/(decrease) in cash and cash equivalents | | 128 | (553) |
| Cash and cash equivalents at beginning of the year | | 2,813 | 2,531 |
| Effect of foreign exchange rate changes | | (13) | (29) |
| Cash and cash equivalents including cash held in disposal group at the end of the period | | 2,928 | 1,949 |
| Cash held in disposal group | 5 | (11) | (201) |
| Cash and cash equivalents at the end of the period | | 2,917 | 1,748 |

The notes on pages 18 to 31 form part of this interim consolidated financial information.

Reconciliation of net cash flow to movement in net debt

26 weeks ended 23 August 2014

| | Note | 2014 £m | 2013 £m |
|--|------|----------------|----------------|
| Net increase/(decrease) in cash and cash equivalents | | 128 | (553) |
| Elimination of net (increase)/decrease in Tesco Bank cash and cash equivalents | | (188) | 580 |
| Net cash inflow from Retail debt and lease financing | | (1,940) | (196) |
| Increase in Retail short-term investments | | 968 | 168 |
| Decrease in Retail joint venture loan receivables | | (33) | (72) |
| Other non-cash movements | | 148 | (207) |
| Elimination of other Tesco Bank non-cash movements | | 23 | (163) |
| Increase in net debt for the period | | (894) | (443) |
| Opening net debt | | (6,597) | (6,597) |
| Closing net debt | 12 | (7,491) | (7,040) |

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

The notes on pages 18 to 31 form part of this interim consolidated financial information.

The interim consolidated financial information for the 26 weeks ended 23 August 2014 was approved by the Directors on 22 October 2014.

NOTE 1 Basis of preparation

This interim consolidated financial information for the period ended 23 August 2014 has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority and with IAS 34, 'Interim financial reporting', as adopted by the European Union. The accounting policies applied are consistent with those described in the Annual Report and Financial Statements 2014, except for the adoption of International Financial Reporting Standards effective for the period ending 23 August 2014 as described below:

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. It also provides additional guidance to assist in the determination of control where this is difficult to assess. The application of IFRS 10 has not had a material impact on the Group.
- IFRS 11 'Joint Arrangements' gives a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are now only two types of joint arrangements: joint operations and joint ventures. The application of IFRS 11 has not had a material impact on the Group.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The application of IFRS 12 has not had a material impact on the Group.
- All other amendments to International Financial Reporting Standards effective for the period ending 23 August 2014 have not had a material impact on the interim consolidated financial information of the Group.

The interim consolidated financial information should be read in conjunction with the Annual Report and Financial Statements 2014, which were prepared in accordance with International Financial Reporting Standards ('IFRS') and the IFRS Interpretation Committee ('IFRIC') interpretations as endorsed by the European Union.

This interim consolidated financial information has been reviewed, not audited, and does not constitute statutory financial statements as defined in section 434 of the Companies Act 2006. The Annual Report and Financial Statements for the 52 weeks ended 22 February 2014 were approved by the Board of Directors on 2 May 2014 and have been filed with the Registrar of Companies. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the interim consolidated financial information.

Discontinued operations

On 28 May 2014 the Group completed its formation of a new venture with China Resources Enterprise, Limited ('CRE'). The new venture is classified as an associate within continuing operations. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of the Chinese operations for the period up to 28 May 2014 are presented within discontinued operations in the Group Income Statement. See Note 5 for further details.

Use of non-GAAP measures – Net debt

Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents and short-term investments.

Use of non-GAAP measures - Underlying profit

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

NOTE 1 Basis of preparation (continued)

- IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements. Under IAS 32 and IAS 39 the Group applies hedge accounting to its various hedge relationships when allowed under IAS 39 and when practical to do so. Sometimes the Group is unable to apply hedge accounting to the arrangements, but continues to enter into these arrangements as they provide certainty or active management of the exchange rates and interest rates applicable to the Group. The Group believes that these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting. Where hedge accounting is not applied to certain hedging arrangements, the reported results reflect the movement in fair value of related derivatives due to changes in foreign exchange and interest rates. In addition, at each period end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the period, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify the underlying performance of the Group.
- IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions. Under IAS 19, the cost of providing pension benefits in the future is discounted to a present value at the corporate bond yield rates applicable on the last day of the previous financial year. Corporate bond yields rates vary over time which in turn creates volatility in the Group Income Statement and Group Balance Sheet. IAS 19 also increases the charge for young pension schemes, such as the Group's, by requiring the use of rates which do not take into account the future expected returns on the assets held in the pension scheme which will fund pension liabilities as they fall due. The sum of these two effects can make the IAS 19 charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund all future liabilities. Therefore, within underlying profit the Group has included the 'normal' cash contributions for pensions but excluded the volatile element of IAS 19 to represent what the Group believes to be a fairer measure of the cost of providing post-employment benefits.
- IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods. Some operating leases have been structured in a way to increase annual lease costs as the businesses expand. IAS 17 requires the total cost of a lease to be recognised on a straight-line basis over the term of the lease, irrespective of the actual timing of the cost. This adjustment impacts the Group's operating profit and rental income within the share of post-tax profits of joint ventures and associates.
- IFRS 3 (Revised) 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions. Under IFRS 3 intangible assets are separately identified and fair valued. The intangible assets are required to be amortised on a straight-line basis over their useful lives and as such is a non-cash charge that does not reflect the underlying performance of the business acquired. Similarly, the standard requires all acquisition costs to be expensed in the Group Income Statement. Due to their nature, these costs have been excluded from underlying profit as they do not reflect the underlying performance of the Group.
- IFRIC 13 'Customer Loyalty Programmes' – fair value of awards. This interpretation requires the fair value of customer loyalty awards to be measured as a separate component of a sales transaction. The underlying profit measure removes this fair value allocation to present underlying business performance, and to reflect the performance of the operating segments as measured by management.
- Restructuring and other one-off items. These relate to certain items associated with the Group's restructuring activities and certain one-off items including items relating to fair valuing the assets of a disposal group. These have been excluded from underlying profit as they do not reflect the underlying performance of the Group.
- Profits/losses arising on property-related items. These relate to the Group's property activities including gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These have been excluded from underlying profit as they do not reflect the underlying performance of the Group.

NOTE 2 Commercial income recognised in previous periods

On 22 September 2014 the Group announced that the previous guidance given on 29 August 2014 regarding profit for the six months to 23 August 2014 was overstated principally due to the accelerated recognition of commercial income and delayed accrual of costs. The internal investigation into the appropriate recognition included a review of whether the impact of accelerated recognition should be attributed to prior years.

The impacts on prior years have been estimated as resulting in the profit before tax for the year ended 22 February 2014 being overstated by £70m and for the years prior to this being overstated by a total of £75m. On the basis that these figures are not material in the prior periods, a prior year restatement has not been made with the amounts instead being corrected in the current period. The impact of this has been separately identified in the reconciliation of profit before tax to underlying profit as the correction does not reflect current period performance.

NOTE 3 Segmental reporting

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

The Group's Chinese operations up to 28 May 2014 (previously reported as part of the Asia segment) and US operations have been treated as discontinued as described in more detail in Notes 1 and 5. The segment results do not include any amounts for these discontinued operations.

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

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

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

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

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

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

| 26 weeks ended 23 August 2014 | UK | Asia | Europe | Tesco | Total at | Foreign | Total at |
|--|-----------|-------------|---------------|--------------|-----------------|-----------------|-----------------|
| At constant exchange rates* | £m | £m | £m | Bank | constant | exchange | actual |
| | | | | £m | exchange | £m | exchange |
| | | | | | £m | | £m |
| Continuing operations | | | | | | | |
| Sales including VAT (excluding IFRIC 13) | 23,569 | 5,514 | 5,249 | 521 | 34,853 | (841) | 34,012 |
| Revenue (excluding IFRIC 13) | 21,304 | 5,194 | 4,519 | 521 | 31,538 | (763) | 30,775 |
| Effect of IFRIC 13 | (270) | (14) | (20) | - | (304) | 2 | (302) |
| Revenue | 21,034 | 5,180 | 4,499 | 521 | 31,234 | (761) | 30,473 |
| Trading profit | 498 | 285 | 78 | 102 | 963 | (26) | 937 |
| Trading margin** | 2.3% | 5.5% | 1.7% | 19.6% | 3.1% | - | 3.0% |

| 26 weeks ended 23 August 2014 | UK | Asia | Europe | Tesco | Total at |
|--|-----------|-------------|---------------|--------------|-----------------|
| At actual exchange rates*** | £m | £m | £m | Bank | actual |
| | | | | £m | exchange |
| | | | | | £m |
| Continuing operations | | | | | |
| Sales including VAT (excluding IFRIC 13) | 23,566 | 5,078 | 4,847 | 521 | 34,012 |
| Revenue (excluding IFRIC 13) | 21,301 | 4,780 | 4,173 | 521 | 30,775 |
| Effect of IFRIC 13 | (270) | (14) | (18) | - | (302) |
| Revenue | 21,031 | 4,766 | 4,155 | 521 | 30,473 |
| Trading profit | 499 | 260 | 76 | 102 | 937 |
| Trading margin** | 2.3% | 5.4% | 1.8% | 19.6% | 3.0% |

* Constant exchange rates are the average actual periodic exchange rates for the previous financial period.

** Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

*** Actual exchange rates are the average actual periodic exchange rates for that financial period.

NOTE 3 Segmental reporting (continued)

| 26 weeks ended 24 August 2013 At actual exchange rates* | UK £m | Asia £m | Europe £m | Tesco Bank £m | Total at actual exchange £m |
|--|----------|------------|--------------|---------------------|--------------------------------------|
| Continuing operations | | | | | |
| Sales including VAT (excluding IFRIC 13) | 24,196 | 5,542 | 5,346 | 498 | 35,582 |
| Revenue (excluding IFRIC 13) | 21,889 | 5,221 | 4,605 | 498 | 32,213 |
| Effect of IFRIC 13 | (259) | (17) | (23) | - | (299) |
| Revenue | 21,630 | 5,204 | 4,582 | 498 | 31,914 |
| Trading profit | 1,131 | 314 | 55 | 88 | 1,588 |
| Trading margin** | 5.2% | 6.0% | 1.2% | 17.7% | 4.9% |

* Actual exchange rates are the average actual periodic exchange rates for that financial period.

** Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

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

Reconciliation of trading profit to profit for the period from continuing operations

| | 26 weeks ended 23 August 2014 £m | 26 weeks ended 24 August 2013 £m |
|--|--|--|
| Trading profit | 937 | 1,588 |
| <i>Adjustments:</i> | | |
| IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions | (56) | (21) |
| IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods | (6) | (13) |
| IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions | (8) | (7) |
| IFRIC 13 'Customer Loyalty Programmes' – fair value of awards | - | (4) |
| Restructuring and other one-off items: | | |
| - Impairment of PPE included within cost of sales | (136) | - |
| - GM transformation and other stock valuation provisions | (63) | - |
| - Provision for customer redress | (27) | - |
| - ATM Rates charge | (41) | - |
| - Other restructuring and one-off items | (115) | (21) |
| Reversal of commercial income recognised in previous years: | | |
| - Recognised in 13/14 | (70) | - |
| - Recognised in years prior to 13/14 | (75) | - |
| Profits/losses arising on property-related items*** | 7 | 45 |
| Operating profit | 347 | 1,567 |
| Share of post-tax profit of joint ventures and associates | 19 | 32 |
| Finance income | 47 | 65 |
| Finance costs | (301) | (277) |
| Profit before tax | 112 | 1,387 |
| Taxation | (37) | (250) |
| Profit for the period from continuing operations | 75 | 1,137 |

*** Included within profits/losses arising on property-related items are £(133)m of new impairment of PPE offset by £143m of releases as a result of management's reassessment of the usage of certain undeveloped sites.

NOTE 4 Taxation

| | 26 weeks ended 23 August 2014 | 26 weeks ended 24 August 2013 |
|----------|----------------------------------|----------------------------------|
| | £m | £m |
| UK | (13) | 196 |
| Overseas | 50 | 54 |
| | 37 | 250 |

The tax charge in the Group Income Statement reflects management's best estimate of the full year effective tax rate based on expected full year profits to 28 February 2015.

NOTE 5 Discontinued operations and non-current assets classified as held for sale

| | 23 August 2014 | 22 February 2014 | 24 August 2013 |
|---|-------------------|---------------------|-------------------|
| | £m | £m | £m |
| Assets of the disposal groups | 11 | 2,160 | 2,762 |
| Non-current assets classified as held for sale | 255 | 327 | 303 |
| Total assets of the disposal groups and non-current assets classified as held for sale | 266 | 2,487 | 3,065 |
| Total liabilities of the disposal groups | (10) | (1,193) | (1,316) |
| Total net assets classified as held for sale | 256 | 1,294 | 1,749 |

The non-current assets classified as held for sale consist mainly of properties in the UK and Korea due to be sold within one year.

Discontinued operations

On 28 May 2014 the Group completed its formation of a new venture with China Resources Enterprise, Limited. The new venture is classified as an associate within continuing operations. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Chinese operations for the period up to 28 May 2014 have been classified as a disposal group. In addition US operations, representing the remaining costs of the orderly restructuring process, continues to be classified as a disposal group.

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

Income Statement

| 26 weeks ended 23 August 2014 | £m |
|---|-------------|
| China* | |
| Revenue | 281 |
| Expenses | (315) |
| Loss before tax of discontinued operations | (34) |
| Taxation | (1) |
| Loss after tax of discontinued operations in China | (35) |
| Loss after tax of disposal of Chinese operations | (49) |
| Total loss after tax of discontinued operations in China | (84) |
| Profit after tax of discontinued operations in the US | 15 |
| Total loss after tax of discontinued operations | (69) |

* The results of China are for the 13 weeks ended 28 May 2014, at which point the operations were contributed into a new venture with CRE.

Loss per share impact from discontinued operations

| | |
|---------|---------|
| Basic | (0.86)p |
| Diluted | (0.86)p |

The Group exchanged its Chinese retail and property interests plus cash of £334m (£257m paid during the period, with £77m due in May 2015) for a 20% interest in the new venture. The loss after tax on disposal of the Group's Chinese operations is made up as follows:

NOTE 5 Discontinued operations and non-current assets classified as held for sale (continued)

| | £m |
|---|-------------|
| Value of new investment | 1,261 |
| Cash paid and deferred payments | (334) |
| Net book value of assets contributed | (835) |
| Costs to sell and other provisions | (88) |
| Tax | (53) |
| Loss after tax of disposal of Chinese operations | (49) |

The loss in the period that resulted from remeasuring the retained investment on disposal was £10m.

| Income Statement | US | China | Total |
|--|--------------|--------------|--------------|
| 26 weeks ended 24 August 2013 | £m | £m | £m |
| Revenue | 352 | 702 | 1,054 |
| Expenses | (585) | (781) | (1,366) |
| Loss before tax of discontinued operations | (233) | (79) | (312) |
| Taxation | (1) | (4) | (5) |
| Loss after tax of discontinued operations | (234) | (83) | (317) |

Loss per share impact from discontinued operations

| | |
|---------|---------|
| Basic | (3.93)p |
| Diluted | (3.93)p |

| Non-GAAP measure: underlying profit/(loss) before tax* | US | China | Total |
|--|-----------|--------------|--------------|
| | £m | £m | £m |
| Underlying profit/(loss) before tax of discontinued operations for the 26 weeks ended 23 August 2014 | 11 | (25) | (14) |
| Underlying loss before tax of discontinued operations for the 26 weeks ended 24 August 2013 | (64) | (70) | (134) |

* Fair value remeasurements have been excluded when arriving at underlying profit/(loss) before tax.

The Group's Chinese operations had been disposed of at the period end. The assets and liabilities of the US represent the remaining costs of the orderly restructuring process.

| Balance Sheet | US |
|--|-------------|
| As at 23 August 2014 | £m |
| Assets of the disposal group | |
| Cash and cash equivalents | 11 |
| Total assets of the disposal group | 11 |
| Liabilities of the disposal group | |
| Trade and other payables | (9) |
| Other current liabilities | (1) |
| Total liabilities of the disposal group | (10) |
| Total net assets of the disposal group | 1 |

NOTE 5 Discontinued operations and non-current assets classified as held for sale (continued)

| Balance Sheet | As at 22 February 2014 | | | As at 24 August 2013 | | |
|---|------------------------|----------------|----------------|----------------------|----------------|----------------|
| | US £m | China £m | Total £m | US £m | China £m | Total £m |
| Assets of the disposal groups | | | | | | |
| Goodwill and other intangible assets | - | 100 | 100 | - | 681 | 681 |
| Property, plant and equipment | 30 | 1,145 | 1,175 | 61 | 1,142 | 1,203 |
| Investments in joint ventures and associates | - | 162 | 162 | - | 178 | 178 |
| Inventories | - | 138 | 138 | 29 | 165 | 194 |
| Trade and other receivables | - | 278 | 278 | 13 | 292 | 305 |
| Cash and cash equivalents | 48 | 259 | 307 | 12 | 189 | 201 |
| Total assets of the disposal groups | 78 | 2,082 | 2,160 | 115 | 2,647 | 2,762 |
| Liabilities of the disposal groups | | | | | | |
| Trade and other payables | (33) | (864) | (897) | (203) | (808) | (1,011) |
| Borrowings | - | (283) | (283) | (12) | (247) | (259) |
| Other current liabilities | (13) | - | (13) | (43) | (3) | (46) |
| Total liabilities of the disposal groups | (46) | (1,147) | (1,193) | (258) | (1,058) | (1,316) |
| Total net assets of the disposal groups | 32 | 935 | 967 | (143) | 1,589 | 1,446 |

| Cash Flow Statement | Total US & China | |
|--|--|--|
| | 26 weeks ended 23 August 2014 £m | 26 weeks ended 24 August 2013 £m |
| Net cash flows from operating activities | (187) | (224) |
| Net cash flows from investing activities | (5) | (196) |
| Net cash flows from financing activities | 66 | 105 |
| Net cash flows from discontinued operations | (126) | (315) |
| Intra-Group funding and intercompany transactions | (17) | 240 |
| Net cash flows from discontinued operations, net of intercompany | (143) | (75) |
| Net cash flows from disposal of subsidiary | (148) | - |
| Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary | (291) | (75) |

NOTE 6 Dividends

| | 26 weeks ended 23 August 2014 | | 26 weeks ended 24 August 2013 | |
|--|----------------------------------|-----------|----------------------------------|------------|
| | Pence/ share | £m | Pence/ share | £m |
| Amounts recognised as distributions to owners in the financial period: | | | | |
| Prior financial year final dividend | 10.13 | 819 | 10.13 | 815 |
| Interim dividend for the current financial year | 1.16 | 94 | 4.63 | 374 |

The interim dividend was approved by the Board of Directors on 22 October 2014, but has not been included as a liability as at 23 August 2014, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 19 December 2014 to shareholders who are on the Register of members at close of business on 31 October 2014.

NOTE 7 Earnings per share and diluted earnings per share

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

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

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

| | 26 weeks ended 23 August 2014 | | | 26 weeks ended 24 August 2013 | | |
|---|-------------------------------|------------------------------------|-------------|-------------------------------|------------------------------------|--------------|
| | Basic | Potentially dilutive share options | Diluted | Basic | Potentially dilutive share options | Diluted |
| Profit/(loss) (£m) | | | | | | |
| - Continuing operations | 75 | - | 75 | 1,137 | - | 1,137 |
| - Discontinued operations | (69) | - | (69) | (317) | - | (317) |
| Weighted average number of shares (millions) | 8,103 | 1 | 8,104 | 8,061 | 15 | 8,076 |
| Earnings per share (pence) | | | | | | |
| - Continuing operations | 0.93 | - | 0.93 | 14.10 | (0.02) | 14.08 |
| - Discontinued operations | (0.86) | - | (0.86) | (3.93) | - | (3.93) |
| Total | 0.07 | - | 0.07 | 10.17 | (0.02) | 10.15 |

NOTE 7 Earnings per share and diluted earnings per share (continued)

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

Reconciliation of non-GAAP underlying diluted earnings per share

| | 26 weeks ended 23 August 2014 | | 26 weeks ended 24 August 2013 | |
|--|----------------------------------|-----------------|----------------------------------|-----------------|
| | £m | Pence/ share | £m | Pence/ share |
| Profit from continuing operations (diluted) | 75 | 0.93 | 1,137 | 14.08 |
| <i>Adjustments for:</i> | | | | |
| IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements | 12 | 0.15 | 6 | 0.07 |
| IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions | 127 | 1.57 | 76 | 0.94 |
| IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods | 4 | 0.05 | 10 | 0.12 |
| IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions | 8 | 0.10 | 7 | 0.09 |
| IFRIC 13 'Customer Loyalty Programmes' – fair value of awards | - | - | 4 | 0.05 |
| Restructuring and other one-off items: | | | | |
| - Impairment of PPE included within cost of sales | 136 | 1.68 | - | - |
| - GM transformation and other stock valuation provisions | 63 | 0.78 | - | - |
| - Provision for customer redress | 27 | 0.33 | - | - |
| - ATM Rates charge | 41 | 0.51 | - | - |
| - Other restructuring and one-off items | 115 | 1.42 | 21 | 0.26 |
| Reversal of commercial income recognised in previous years: | | | | |
| - Recognised in 13/14 | 70 | 0.86 | - | - |
| - Recognised in years prior to 13/14 | 75 | 0.93 | - | - |
| Profits/losses arising on property-related items | (7) | (0.09) | (45) | (0.56) |
| Tax effect of adjustments | (121) | (1.51) | (14) | (0.17) |
| Underlying earnings from continuing operations | 625 | 7.71 | 1,202 | 14.88 |

The effective tax rate on underlying profit is 20.2% (24 August 2013: 18.0%)

NOTE 8 Capital expenditure, other commitments and impairment

In the 26 weeks ended 23 August 2014 there were additions to property, plant and equipment, investment property and other intangible assets within continuing operations of £1,017m (24 August 2013: £1,278m) and disposals with a net book value of £41m (24 August 2013: £46m). Commitments for capital expenditure contracted for, but not incurred, at 23 August 2014 were £244m (24 August 2013: £487m), principally relating to store development.

An impairment was recognised in the period in the UK and Europe reflecting challenging trading conditions and the latest discount rates.

NOTE 9 Investments in joint ventures and associates

On 28 May 2014, the Group exchanged its Chinese retail and property interests plus cash of £257m and deferred cash consideration of £77m due in May 2015, for a 20% interest in a combined business of those interests as well as certain retail operations of China Resources Enterprise, Limited ('CRE'). An investment in associate of £1,261m has been recognised on the Group Balance Sheet.

On 21 March 2014 the Group entered into an agreement with Trent Limited, part of the Tata Group, to form a 50:50 Joint Venture in Trent Hypermarket Limited ('THL') which operates the Star Bazaar retail business in India. An investment in joint venture of £85m has been recognised on the Group Balance Sheet.

NOTE 10 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are funded defined benefit pension schemes for the Group's employees in the UK, the Republic of Ireland, Thailand and South Korea. Of these schemes, the UK represents 95% of the net defined benefit obligation (24 August 2013: 95%).

The principal plan within the Group is the Tesco PLC Pension Scheme (the '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 the Trustee.

Principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries were as follows:

| | 23 August 2014 % | 23 February 2014 % | 24 August 2013 % |
|--|------------------------|--------------------------|------------------------|
| Discount rate | 4.2 | 4.7 | 4.8 |
| Price inflation | 3.2 | 3.3 | 3.3 |
| Rate of increase in deferred pensions* | 2.2 | 2.3 | 2.3 |
| Rate of increase in salaries | 3.3 | 3.4 | 3.4 |
| Rate of increase in pensions in payment: | | | |
| - Benefits accrued before 1 June 2012 | 3.0 | 3.1 | 3.1 |
| - Benefits accrued after 1 June 2012 | 2.2 | 2.3 | 2.3 |
| Rate of increase in career average benefits: | | | |
| - Benefits accrued before 1 June 2012 | 3.2 | 3.3 | 3.3 |
| - Benefits accrued after 1 June 2012 | 2.2 | 2.3 | 2.3 |

* 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 £270m.

Movement in the deficit of Group defined benefit pension schemes during the period

| | 26 weeks ended 23 August 2014 £m | 52 weeks ended 22 February 2014 £m | 26 weeks ended 24 August 2013 £m |
|---|---|--|---|
| Deficit in schemes at the beginning of the year | (3,193) | (2,378) | (2,378) |
| Current service cost | (310) | (542) | (262) |
| Net pension finance cost | (71) | (106) | (56) |
| Contributions by employer | 254 | 531 | 242 |
| Additional contribution by employer | 11 | 4 | - |
| Foreign currency translation | - | 11 | 3 |
| Actuarial loss | (886) | (713) | (531) |
| Deficit in schemes at the end of the period | (4,195) | (3,193) | (2,982) |
| Deferred tax asset | 835 | 634 | 591 |
| Deficit in schemes at the end of the period, net of deferred tax | (3,360) | (2,559) | (2,391) |

NOTE 11 Reconciliation of profit before tax to net cash generated from operations

| | 26 weeks ended 23 August 2014 | 26 weeks ended 24 August 2013 |
|--|----------------------------------|----------------------------------|
| | £m | £m |
| Profit before tax | 112 | 1,387 |
| Net finance costs | 254 | 212 |
| Share of post-tax profits of joint ventures and associates | (19) | (32) |
| Operating profit of continuing operations | 347 | 1,567 |
| Operating loss of discontinued operations | (13) | (304) |
| Depreciation and amortisation | 739 | 792 |
| Profits/losses arising on property-related items from continuing operations | 47 | (45) |
| Profits/losses arising on property-related items from discontinued operations | 5 | 167 |
| Loss arising on sale of non property-related items | 5 | 5 |
| Loss arising on sale of subsidiaries and other investments | - | (1) |
| Net charge of impairment of property, plant and equipment and intangible assets not included in property-related items | 142 | 10 |
| Adjustment for non-cash element of pension charges | 56 | 20 |
| Share-based payments | 60 | 29 |
| Tesco Bank non-cash items included in profit before tax | 40 | 40 |
| Decrease/(increase) in inventories | 13 | (137) |
| Decrease/(increase) in development stock | 54 | (23) |
| Increase in trade and other receivables | (42) | (335) |
| Increase in trade and other payables | 324 | 728 |
| Decrease in provisions | (94) | (60) |
| Tesco Bank increase in loans and advances to customers | (641) | (908) |
| Tesco Bank increase in trade and other receivables | (31) | (19) |
| Tesco Bank increase in customer and bank deposits and trade and other payables | 218 | 253 |
| Tesco Bank increase/(decrease) in provisions | 8 | (38) |
| Increase in working capital | (191) | (539) |
| Cash generated from operations | 1,237 | 1,741 |

Profits/losses arising on property-related items from continuing operations shown above excludes movements in respect of provisions for onerous contracts of £54m (24 August 2013: £nil). These are included in Profits/losses arising on property-related items as per the Group Income Statement.

NOTE 12 Analysis of changes in net debt

| | At 22 February 2014 | Tesco Bank at 22 February 2014 | Cash flow | Business combinations | Other non-cash movements | Net debt of disposal group | Elimination of Tesco Bank | At 23 August 2014 |
|---|---------------------------|--|----------------|--------------------------|--------------------------------|-------------------------------------|---------------------------------|-------------------------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Cash and cash equivalents | 2,021 | 485 | 124 | 4 | (13) | 296 | (673) | 2,244 |
| Short-term investments | 1,016 | - | 968 | - | - | - | - | 1,984 |
| Joint venture loans and other receivables | 220 | 34 | (44) | - | (84) | 136 | (34) | 228 |
| Bank and other borrowings | (10,606) | (486) | (2,517) | - | 131 | (282) | 1,130 | (12,630) |
| Finance lease payables | (121) | - | 1 | - | - | - | - | (120) |
| Net derivative financial instruments | 712 | (5) | (54) | - | 114 | - | 25 | 792 |
| Net debt of the disposal group | 161 | - | - | - | - | (150) | - | 11 |
| Net debt | (6,597) | 28 | (1,522) | 4 | 148 | - | 448 | (7,491) |

Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Movements and balances related to Tesco Bank are included within this analysis and the Reconciliation of net cash flow to movement in net debt note to allow reconciliation between the Group Balance Sheet and the Group Cash Flow Statement. These movements and balances relating to Tesco Bank are subsequently eliminated to arrive at closing net debt.

The £(2.5)bn cash flow movement on Bank and other borrowings includes Medium Term Notes of £(1.6)bn issued in the period less retired debt of £0.6bn, £(1.3)bn of commercial paper in issue at 23 August 2014 and Tesco Bank Medium Term Notes of £(0.5)bn issued following a credit card securitisation. The additional debt has been raised for refinancing existing debt and for general corporate purposes.

NOTE 13 Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 23 August 2014, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (from prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (from unobservable inputs) (Level 3).

| At 23 August 2014 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---------------|---------------|---------------|--------------|
| Assets | | | | |
| Available-for-sale financial assets | 952 | - | 104 | 1,056 |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | 90 | - | 90 |
| - Cross currency swaps | - | 825 | - | 825 |
| - Index-linked swaps | - | 738 | - | 738 |
| - Forward foreign currency contracts | - | 33 | - | 33 |
| Total assets | 952 | 1,686 | 104 | 2,742 |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | (199) | - | (199) |
| - Cross currency swaps | - | (148) | - | (148) |
| - Index-linked swaps | - | (523) | - | (523) |
| - Forward foreign currency contracts | - | (47) | - | (47) |
| Total liabilities | - | (917) | - | (917) |
| Total | 952 | 769 | 104 | 1,825 |

NOTE 13 Financial instruments (continued)

| At 22 February 2014 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| Assets | | | | |
| Available-for-sale financial assets | 850 | - | 96 | 946 |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | 86 | - | 86 |
| - Cross currency swaps | - | 740 | - | 740 |
| - Index-linked swaps | - | 704 | - | 704 |
| - Forward foreign currency contracts | - | 46 | - | 46 |
| Total assets | 850 | 1,576 | 96 | 2,522 |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | (152) | - | (152) |
| - Cross currency swaps | - | (140) | - | (140) |
| - Index-linked swaps | - | (515) | - | (515) |
| - Forward foreign currency contracts | - | (62) | - | (62) |
| Total liabilities | - | (869) | - | (869) |
| Total | 850 | 707 | 96 | 1,653 |

| At 24 August 2013 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| Assets | | | | |
| Available-for-sale financial assets | 810 | - | - | 810 |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | 88 | - | 88 |
| - Cross currency swaps | - | 906 | - | 906 |
| - Index-linked swaps | - | 706 | - | 706 |
| - Forward foreign currency contracts | - | 49 | - | 49 |
| Total assets | 810 | 1,749 | - | 2,559 |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| - Interest rate swaps and similar instruments | - | (146) | - | (146) |
| - Cross currency swaps | - | (119) | - | (119) |
| - Index-linked swaps | - | (534) | - | (534) |
| - Forward foreign currency contracts | - | (28) | - | (28) |
| Total liabilities | - | (827) | - | (827) |
| Total | 810 | 922 | - | 1,732 |

There were no transfers between Levels 1 and 2 during the period (24 August 2013: no transfers) and no transfers into and out of Level 3 fair value measurements (24 August 2013: no transfers).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Carrying amounts versus fair values

The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value: cash and cash equivalents, short-term and other investments, joint ventures and associates loan receivables, other receivables, derivative financial assets/liabilities, short-term borrowings at amortised cost and finance leases and deposits by banks – Tesco Bank.

NOTE 13 Financial instruments (continued)

The financial instruments where the carrying values and fair values are materially different are set out in the table below:

| | At 23 August 2014 | | At 22 February 2014 | | At 24 August 2013 | |
|--|----------------------|------------------|----------------------|------------------|----------------------|------------------|
| | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m | Carrying value £m | Fair value £m |
| Assets | | | | | | |
| Loans and advances to customers – Tesco Bank | 7,522 | 7,508 | 6,915 | 6,845 | 6,427 | 6,429 |
| Liabilities | | | | | | |
| Short-term borrowings: | | | | | | |
| - Bonds in fair value hedge relationships | (496) | (492) | (628) | (660) | (850) | (837) |
| Long-term borrowings: | | | | | | |
| - Amortised cost | (7,007) | (7,425) | (4,901) | (5,702) | (4,457) | (4,517) |
| - Bonds in fair value hedge relationships | (3,785) | (3,581) | (4,287) | (4,227) | (4,574) | (4,412) |
| Customer deposits – Tesco Bank | (6,628) | (6,589) | (6,078) | (6,044) | (5,214) | (5,197) |

NOTE 14 Contingent liabilities

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

The Group is monitoring the development of legal requirements around the calculation of holiday pay in the UK and variable pay in Korea and should changes come into effect, the Group may face potential claims from employees.

NOTE 15 Business combinations

On 2 April 2014 the Group, through its subsidiary dunnhumby Ltd, acquired Sociomantic Labs ('Sociomantic'), a Berlin-based global leader in digital advertising solutions, for £124m which includes £38m of deferred cash consideration. Sociomantic operates in 14 countries worldwide, with clients in retail, financial services and travel services.

NOTE 16 Events after the reporting period

On 22 September 2014 the Group announced that the previous guidance given on 29 August 2014 regarding profit for the six months to 23 August 2014 was overstated principally due to the accelerated recognition of commercial income and delayed accrual of costs. The Financial Conduct Authority (FCA) has notified the Group that it has commenced an investigation. The Group will cooperate fully with the FCA's investigation and with any investigations by other relevant authorities. These investigations are likely to result in significant legal and other costs and, while it is not possible to predict their outcome with certainty, in the event of adverse findings against the Group, fines or penalties may be imposed, which may be significant. The Group may also incur liabilities in respect of other third party claims.

Report on the interim consolidated financial statements

Our conclusion

We have reviewed the interim consolidated financial statements, defined below, in the half-yearly financial report of Tesco PLC for the 26 weeks ended 23 August 2014. Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The interim consolidated financial statements, which are prepared by Tesco PLC, comprise:

- the Group Balance Sheet as at 23 August 2014;
- the Group Income Statement and Group Statement of Comprehensive Income for the period then ended;
- the Group Cash Flow Statement for the period then ended;
- the Group Statement of Changes in Equity for the period then ended; and
- the notes to the interim consolidated financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The interim consolidated financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim consolidated financial statements.

Responsibilities for the interim consolidated financial statements and the review

Our responsibilities and those of the Directors

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

Our responsibility is to express to the company a conclusion on the interim consolidated financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
22 October 2014
London

Notes:

- (a) The maintenance and integrity of the Tesco PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Investor information

Registrar and shareholding enquiries

If you have any administrative enquiries about your holding of Tesco PLC shares (other than ADRs) please contact:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0871 384 2977

Consolidated tax vouchers

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

Tesco PLC website

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

www.tescopl.com.

Electronic communications

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

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

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

Security reminder

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

Customer services

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Investor information (continued)

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Secretary and registered office

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Cheshunt
Hertfordshire EN8 9SL
Telephone 01992 632222

| Financial Calendar | |
|------------------------------------|-------------|
| 2014 | |
| Interim dividend: ex-dividend date | 30 October |
| Interim dividend: record date | 31 October |
| Interim dividend: payment date | 19 December |
| 2015 | |
| Financial year-end | 28 February |
| Preliminary results announced* | 22 April |

* Please note that this date is provisional and subject to change.