
prepared Vegetables
is available in the
chilled cabinet.
19p
4 for 57p
Healthy Eating
WHOLE
WHEAT
FLAKES

Tesco

Tesco is one of Britain's leading food retailers with 396 stores throughout England, Scotland and Wales, and serves more than eight million customers every week.

Tesco is committed to:

- offering customers the best value for money, and the most competitive prices, of any national superstore chain
- meeting the needs of customers by constantly seeking, and acting on, their opinions regarding product quality, choice, innovation, store facilities and service
- providing shareholders with outstanding returns on their investment
- improving profitability through investment in efficient stores and distribution depots, in productivity improvements and in new technology
- developing the talents of its people through sound management and training practices, while rewarding them fairly with equal opportunities for all
- working closely with suppliers to build long-term business relationships based on strict quality and price criteria
- participating in the formulation of national food industry policies on key issues such as health, nutrition, hygiene, safety and animal welfare
- supporting the well-being of the community and the protection of the environment.

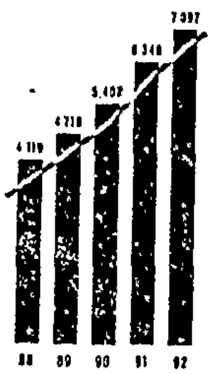
CONTENTS

THIS YEAR

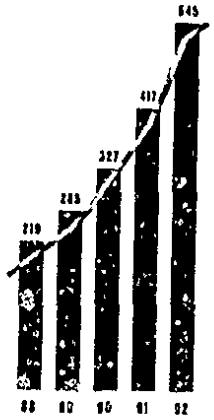
	1992	1991	% Increase
Turnover excluding value added tax – £m	7,097·4	6,346·3	11·8
Profit before property profits – £m	545·0	417·1	30·7
Fully diluted earnings per share (excluding property profits) – pence	19·95	16·60	20·2
Dividends per share – pence	6·30	5·25	20·0

Financial Highlights

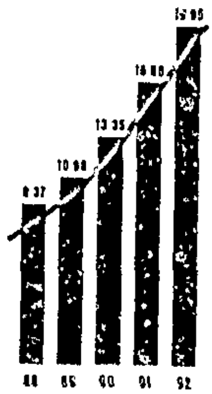
LAST FIVE YEARS



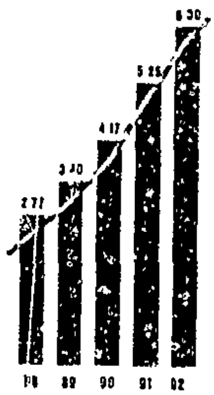
TURNOVER (£M) (EXCLUDING VAT)



PROFIT BEFORE TAXATION (£M) (EXCLUDING PROPERTY PROFITS)



EARNINGS PER SHARE (PENCE) (FULLY DILUTED EXCLUDING PROPERTY PROFITS)



DIVIDENDS PER SHARE (PENCE)

	1992	1988	Compound % increase per annum over five years
Turnover excluding value added tax – £m	7,097·4	4,119·1	14·6
Profit before property profits – £m	545·0	219·0	26·8
Fully diluted earnings per share (excluding property profits) – pence	19·95	9·37	20·6
Dividends per share – pence	6·30	2·77	21·7

For further details please turn to the Five Year Record on page 48.

Sir Ian MacLaurin, who is 55, was appointed Chairman of Tesco in 1985. He joined Tesco as a management trainee in 1959 and was appointed to the Board in 1970. He became Managing Director in 1973 and Deputy Chairman in 1983. Sir Ian is currently President of the Institute of Grocery Distribution and is also a non-executive director of Guinness PLC and National Westminster Bank PLC.

Victor Benjamin, who is 57, was appointed a part-time executive director of Tesco in 1982 and became Deputy Chairman in 1983. He has been associated with the company for more than 20 years as a partner in Berwin Leighton, the company's solicitors, and is also Deputy Chairman of Lex Service PLC.

David Malpas, who is 52, was appointed Managing Director of Tesco in 1983. He joined Tesco in 1966 and was appointed to the Board in 1979.

David Reid, who is 45, was appointed to the Board of Tesco in 1985, having joined the company in the same year. He previously worked with Philips Industries and B.A.T. Industries Group. He is a non-executive director of Westbury PLC.

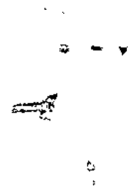
John Gildersleeve, who is 47, was appointed to the Board of Tesco in 1984. He joined the company in 1965.

Dennis Tuffin, who is 58, was appointed to the Board of Tesco in 1984. He joined the company in 1966 and was appointed Regional Managing Director in 1971 and joint Managing Director in charge of retail operations in 1980.

Michael Darnell, who is 58, was appointed to the Board of Tesco in 1975 with responsibility for the Home'n'Wear business. He joined the company in 1967 and has held a number of senior retail appointments. He became Distribution Director in 1982.

Michael Wemms, who is 52, was appointed to the Board of Tesco in 1989. He joined the company in 1972 as a trainee manager. His previous appointments were in retail operations where he had been Regional Managing Director for the London area since 1984.

Detta O'Cathain, who is 54, was appointed a non-executive director of Tesco in 1985. She is Managing Director of the Barbican Centre, and is also a non-executive director of Sears PLC and Midland Bank plc.



John Padovan, who is 53, was appointed a non-executive director of Tesco in 1982. He is consultant to BZW Group, Chairman of Mabey Holdings Ltd, Deputy Chairman of AAH Holdings PLC and a director of Whitbread PLC and The Hartstone Group PLC.

Rowley Ager, who is 46, was appointed Company Secretary in 1990. He joined Tesco in 1986 from B.A.T. Industries Group where he held a number of finance positions.

John Gardiner, who is 55 was appointed a non-executive director of Tesco in 1988. He is Chairman and Chief Executive of Laird Group PLC and is also a non-executive director of Enterprise Oil PLC, The Securities & Investments Board Ltd and PowerGen PLC.

Francis Krejsa*†

Francis Krejsa, who is 66, was appointed a non-executive director of Tesco in 1990. He joined the Company in 1968 and was appointed to the Main Board in 1974 as Estates and Property Director. He retired as an executive director in 1990. He now continues as Chairman of the company's property development subsidiary, Spen Hill Properties PLC.

Dr Gwyn Jones*‡

Gwyn Jones, who is 43, was appointed a non-executive director of Tesco in January 1992. He is Chairman of the Welsh Development Agency and a director of ACT Group PLC and Welsh Water Enterprises Ltd. He is a Governor of the BBC.

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Registrars
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Registrar's Department
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West Sussex BN12 6DA
Telephone 0903 502541

*Non-Executive Director
†Member of the Audit Committee
‡Member of the Remuneration Committee

The 200th Tesco superstore opened in Maldon, Essex, this year, giving another example of our commitment to providing customers with the best facilities, service and value in United Kingdom food shopping.

We have again produced an excellent level of profits. Group profits (before property profits) exceeded £500 million for the first time.

Chairman's statement

SIR IAN MACLAURIN
Chairman

At £545m this figure has more than doubled in the last five years.

Our performance during the last year, particularly in the second half, when the recession also began to affect industry food sales, has proved very resilient. Management and staff can be proud to have delivered, in difficult trading conditions, growth in operating profits of 19.8%. This has been achieved by communicating the value of our offer to customers and by generating significant productivity improvements in all areas of our business.

Very few companies in the United Kingdom can demonstrate compound growth in pre-tax profits, earnings per share and dividends of more than 20% per annum over the last five years.

THE TESCO BRAND

The strength of the Tesco brand which now attracts over eight million customers every week continues to grow, supported by many initiatives and substantial investment. We have introduced many new products into our stores, including healthy eating ranges, environmental ranges and traditional recipe products. We are also introducing in-store pharmacies as another important facility, much valued by customers.

QUALITY AND VALUE

Our stores continue to offer both national brands and our successful Tesco own-label products. During the year just ended, we introduced over 500 new own-label products, including a large number of innovative, added-value lines.

Price is important to our customers, as well as quality, so I am very pleased that a 'Which?' report published in January 1992 confirmed to the public that, of the large scale national multiples, Tesco has the most competitive prices. And the technology which supports our 'multi-save' system makes it easy for customers to take advantage of many excellent price offers in the stores.

Development

During the year we opened 24 new stores with an average sales area of 40,000 square feet. We are planning to open around 28 new stores next year with a total sales area of 1.1 million square feet. In following years, we expect to maintain a substantial development programme.

We will also continue to invest heavily in new technology and systems. In particular, we will roll out our Sales Based Ordering system, which gives customers even better product availability and freshness while reducing wastage and overhead costs.

[illegible]

As you will be aware, a number of our larger stores are currently open for trade on a Sunday. The Board is, of course, mindful of the public responsibilities of a major company; the law on Sunday trading is uncertain and has for many years, and particularly last year, been interpreted by many traders in ways which brought competitive disadvantage to our company, its employees and shareholders.

We remain strong supporters of the freedom to shop on Sundays. It is already proving a very popular food shopping day in England and Wales, as it already is in Scotland, and about half a million customers now visit our stores each Sunday.

We hope that the Government will see it as a priority to clarify the law and at least ensure that there is a fair and level playing field for all retailers, be they large or small, food or non-food.

Baroness O'Cathain

Detta O'Cathain has been a non-executive director of Tesco since 1985, and she was honoured with a life peerage in 1991. I and all my Board colleagues offer her our warmest congratulations.

Gwyn Jones was appointed a non-executive director on 14th January 1992. He is Chairman of the Welsh Development Agency and a Governor of the BBC. I welcome him to the Board.

Staff Sharing in Success

Over the last five years, the Board has determined that our people, at all levels, share in the success of the company. I am particularly proud that 30,000 of our management and staff are now shareholders, while 43,000 participate in our profit sharing scheme. These people will share £24 million allocated in shares in respect of last year's trading – the equivalent of nearly three weeks' pay.

Since the profit-sharing scheme started six years ago, the total allocated has reached £90 million. Share ownership and profit sharing by staff engender both continuity and strong motivation for future success, while rewarding our people for the tremendous contribution they make to the company's performance.

Our store development has created 7,000 new jobs during the year. Tesco now employs 87,000 people in the United Kingdom.

I would like to thank all our staff, and our suppliers, for their first-class performance during a testing year. I believe that we now have the strongest team of people in United Kingdom retailing, and our results bear out that belief.

Current Trading and Prospects

Our sales performance has steadily improved since the low point in November 1991, and has been assisted by the additional sales from Sunday opening. Currently our sales growth is running at a satisfactory level of 11% to 12%.

Against a background of recession, and with signs of improved current trading, we are planning for a year of continuing sales growth.

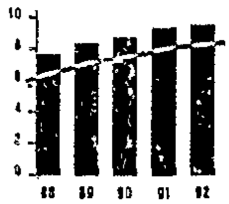
In addition, we will continue to focus closely on productivity and control of both margins and costs to give yet another year of profit growth. In the medium and long-term our superstore development programme will continue as before to be the cornerstone of our growth.

SIR IAN MACLAURIN

Sales

The financial year covered a period of demanding trading conditions for the industry and our company, particularly in the second half of the year, through a combination of low food price inflation and the impact of the recession in the United Kingdom finally affecting the volumes of food sales. Despite these conditions, Tesco achieved 12.9% total sales growth and on a like-for-like basis continued to out-perform the food retail industry. Our market share also increased by some 0.2% for the year to 9.6%.

Financial review

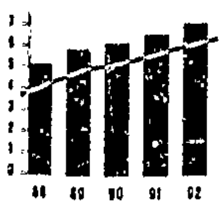


MARKET SHARE IN FOOD/DRINK SHOPS (%) (SOURCE DTI)

Profits

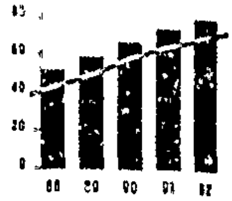
Profits before tax (excluding property) increased by 30.7%, including the benefit of interest from the 1991 rights issue, which raised £572m. Fully diluted earnings per share, (including both the new shares and the returns earned on their proceeds), achieved a very satisfactory 20.2% increase.

Operating profits increased 19.8% and operating margins have grown by 0.5% in the year. Strong management controls have ensured that we continue to produce high levels of productivity and lower operating costs in stores, depots and head office. Productivity, in terms of sales per employee, increased by 12.4%, whilst profits per employee, achieved an increase of 20.5%. Profit growth has been further enhanced due to the increased participation of conforming stores, which now account for 73% of our sales and 80% of our operating profits.



OPERATING MARGIN (%)

These stores are very productive in terms of the higher than average sales per square foot they achieve (£17) which, in turn with added labour productivity and economies of scale, produce operating margins which are significantly above the chain average. It is interesting to note that the substantial investment in freehold tenure, in systems, in technology and in distribution and marketing has resulted in our modern stores achieving higher profit margins than most of our international counterparts. This performance is all the more creditable, given that our research shows retail prices to be, on average, lower in our stores than for stores with comparable facilities in Europe.

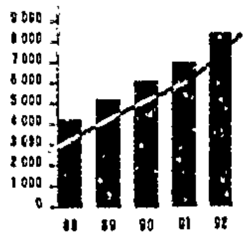


CONFORMING STORE OPERATING PROFIT PARTICIPATION (%)

Despite negative comment on higher net margins prevailing in the UK, the actual return on capital we and our major competitors achieve is commensurate with leading retailers in most other countries.

Capital Expenditure

Capital Expenditure in the year was £852m of which some £700m related to the new store development programme. The 24 new stores opened in the year have added 950,500 square feet of new selling space, increasing the proportion of our selling space which has been opened within the last three years to 25%. Quality superstores such as these, built on well-located sites, with large car parks and customer facilities cost in excess of £20m. The strong sales and productive margins obtained from these new large stores give us an appropriate return on these substantial investments.



OPERATING PROFIT PER EMPLOYEE (£)

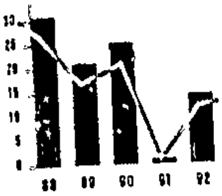
The stores opened during the 1990/91 financial year are achieving good levels of return and we will continue to benefit from second and third year sales and profit growth. We are also satisfied with the initial sales levels achieved from our stores opened during 1991/92.

Funding

The £572m received from the rights issue in February 1991 was the major factor in the improvement in net interest receivable to £65.5m (1991 – £19.1m), and has given us a sound financial base to develop our food retailing business over the next five years.

During the year we put in place a number of long-term debt instruments which yielded some £320m; in addition a further £50m was raised through the sale and leaseback of six stores.

Capitalised interest has risen to £87.7m (1991 – £63.2m) reflecting the increase of our development programme. Capitalised interest represents the interest cost to Tesco during development of its stores and is treated as if the completed development was purchased from an outside developer. Financing the project with our own borrowing, as opposed to a developer's is achieved at lower interest rates.

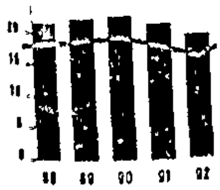


NET GEARING (%)

Operating working capital continues to provide a significant level of funding and contributed £59m. Stock levels at the end of the current year represented 2.5 weeks forward cover, compared to 2.8 weeks last year, the lowest in our industry. The funding programme has left us in a strong cash position at the year-end and the net gearing level is 14.4%. Looking forward over the next few years our current cash outflows will reduce to give us a cash neutral position and we expect to maintain gearing within prudent levels.

Returns

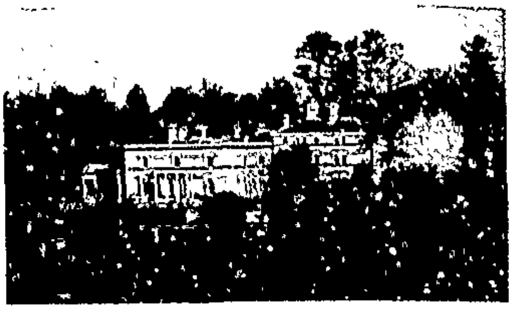
Return on capital is currently 19.3%, marginally lower than last year and reflects the increasing proportion of freehold sites within our property portfolio; also, at the peak of our development programme, we have a large proportion of new maturing space.



RETURN ON CAPITAL EMPLOYED (%)

Earnings per share have again shown good growth of 20.2% and dividend per share growth has also been maintained at 20.0%, reflecting our commitment to give investors the benefits of the long-term growth of our company.

The performance of the company during the financial year demonstrates the underlying strength of the Tesco brand. That strength has been developed during recent years through investment in every aspect of the brand – technology and systems, the new composite distribution network, innovative products and product ranges, new stores and customer services, and first-class development and training for our people. Considerable resources have been devoted to customer



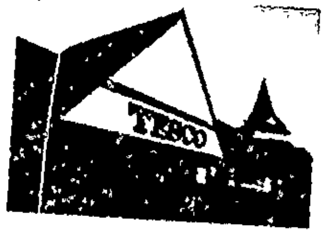
Investing in a great

research, to new product development, and to the creation of highly successful product ranges such as Healthy Eating, Green Choice and Nature's Choice. Over the last five years alone, investment in these and many other aspects of the Tesco brand has totalled more than £3 billion. The Review section which follows outlines the main developments that took place during 1991/92. Each represents the investment of time, money and skill to reinforce the leading position of the Tesco brand. For example, we have opened 24 new stores and two major extensions. We have continued our programme of refurbishing older stores. We have introduced SBO – our Sales Based Ordering system – into 243 stores for grocery products

and 20 stores for fresh foods. During the year, we began buying petrol direct from producers and distributing it ourselves to Tesco petrol stations with our own expanding fleet of petrol tankers. We introduced a new system of job evaluation and pay, and also laid the foundation for the most efficient store management structure in British retailing, which is being introduced during 1992/93. The Tesco record of innovation

retail brand

and investment has therefore been well maintained during the year, as it will be in the future. During 1992/93, we plan to provide our customers with a further 28 stores. We shall roll out our Sales Based Ordering system into more stores. We shall continue to introduce new, high quality products into our stores, at competitive prices, for the satisfaction of our customers throughout England, Scotland and Wales. In these and many other ways, the successful development of the Tesco brand continues. And our ongoing investment programme will lead to further efficiency and productivity improvements and to better products, stores and services, in years to come.



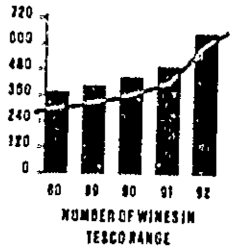
Investing in value

Tesco is committed to offering the most competitive prices, and the finest quality, of any national superstore chain. Our success in meeting this commitment was demonstrated by a recent 'Which?' survey when it confirmed that Tesco products has the most competitive prices of the three major multiples. The value we offer our customers is achieved through conscious collaboration

with suppliers who work with us to produce high-quality products in cost-effective ways. Our buyers, marketeers and food technologists have established a community of dedicated, profitable and innovative suppliers both at home and overseas. We take part in industry initiatives to reduce the food trade gap. Much of our fresh food comes from within the UK; most of our bacon and pork, most of our peppers and tomatoes, most of our iceberg lettuce now come from British growers. Further work with growers to increase the level of UK sourcing is proceeding.

SUPERMARKET WINE MERCHANT OF THE YEAR Tesco wine buyers have assembled the widest range of wines available from any supermarket – over 650 different wines from 23 different countries. We again won the Supermarket Wine Merchant of the Year award in the important International Wine Challenge organised by Wine Magazine. One of the judges commented: 'If they take advantage of even a fraction of this list, Tesco customers are among the best-served wine drinkers in the world.'

HOW IS IT DONE? Chilean Cabernet Sauvignon demonstrates the Tesco buying approach. We do not rely on agents based in the UK to suggest new wines; instead, we invest money and time to send our own people



to seek new and exciting varieties all over the world. Tesco buyers visited Chile and Argentina in 1990 and found four wines, one of which was the Chilean Cabernet Sauvignon. Technologists then worked with the grower at length to ensure that Tesco standards of quality, consistency and labelling would be met. The Cabernet Sauvignon (along with Tesco Argentinian white wine) won the highest praise for its quality and value on the BBC's 'Food and Drink' programme in the Autumn of 1991.

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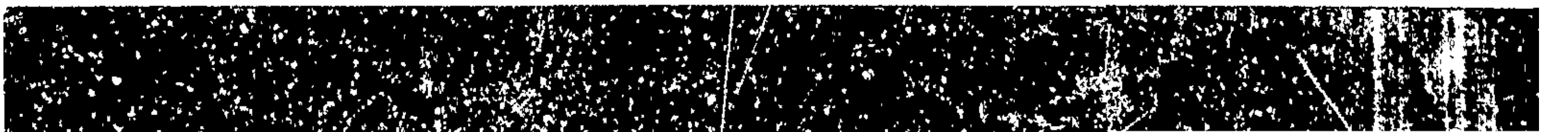
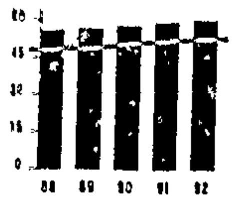


Tesco invests time and expertise to build long-term, rewarding partnerships with suppliers – particularly those who produce our fresh foods and our own-label products.

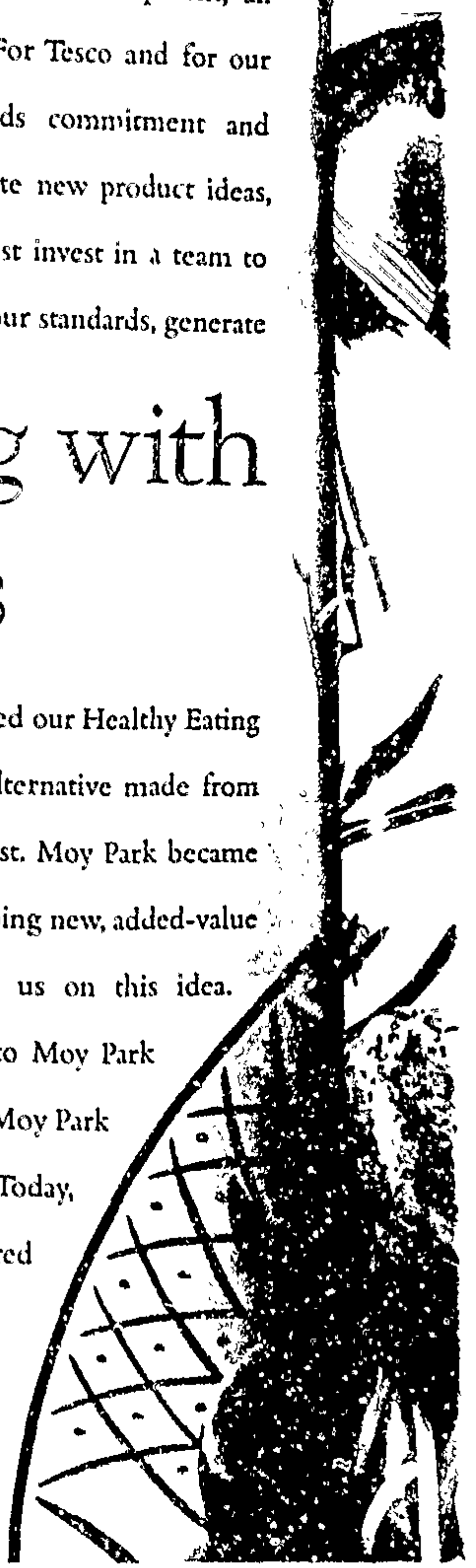
The concept of 'partnership sourcing' has gained ground in recent years, greatly enhancing the traditional buyer/seller relationships. [illegible] Partnership sourcing delivers tangible benefits: lower cost, a firmer basis for investment by suppliers, better product quality, improved logistics and more innovative product development, all leading to exceptional value and competitive prices. For Tesco and for our partnership suppliers, this way of working demands commitment and investment. Our buyers and technologists work with the supplier to evaluate new product ideas, to develop products, and to install quality control systems. Our suppliers must invest in a team to work with ours. They must bring their levels of efficiency and systems up to our standards, generate a flow of new product ideas and constantly monitor the performance of the partnership.



OWN LABEL PROPORTION OF FOOD SALES (%)

Investing with suppliers

ADDING VALUE TO PRODUCTS Tesco has entered into partnerships with many suppliers in the United Kingdom. One example is Raines Dairy Foods, with whom we developed our Healthy Eating Bio Yoghurt – the only yoghurt in the world to use Simplesse®, a new fat alternative made from natural ingredients. Another is Moy Park, a poultry producer based near Belfast. Moy Park became interested a few years ago in differentiating its 'commodity' products by developing new, added-value lines. They approached Tesco hoping to work with us on this idea. Fortnightly meetings between the two companies led to Moy Park setting up a 'Tesco Team' at its plant. In turn, we invited Moy Park people to participate in our own marketing planning. Today, Moy Park is our fastest-growing poultry supplier, and the new Tesco prepared chicken dishes that they produce for us are among our most successful poultry products.



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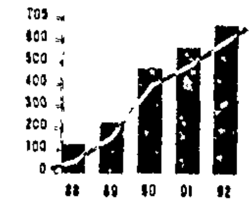
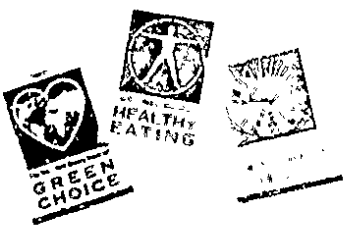
Investing to meet new values

Our customers' values have changed through the 1980s, and Tesco has invested time and money to develop product ranges in response to the changing attitudes. At the beginning of the decade, quality and value for money were the main criteria by which our customers assessed products, and we remain totally committed to offering excellent products at the most competitive prices. During the 1980s our research showed that additional values were beginning to influence customers' purchasing decisions.



NUMBER OF HEALTHY EATING PRODUCTS

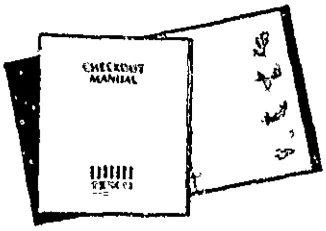
LEAN, GREEN AND CLEAN People began to take an interest in 'lean', low-fat diets and in the relationship between diet and health. In January 1985 Tesco launched a range of Healthy Eating products, which has proved immensely popular and successful with customers. This was followed by the launch, in 1989, of a range of products which recognised environmental concerns. Recycled materials, CFC-free aerosols, non-chlorine bleached paper products, phosphate-free detergents and environmental labelling were among the innovations we introduced. The range – now branded as Green Choice – has proved highly successful and continues to develop. Finally 'clean' food products – branded Nature's Choice – meet customers' anxieties over intensive methods of agriculture and animal husbandry. Inputs of fertilisers and agrichemicals have been reduced. Birds and animals are reared and fed in more natural ways, with access to open space, and without unnatural restrictions on movement. Codes of Practice for suppliers of Nature's Choice products are laid down, agreed, and strictly enforced.



NEW QUALITY INITIATIVE Healthy Eating, Green Choice and Nature's Choice product ranges are the three elements in the latest Tesco 'New Quality' initiative, launched in January 1992. There are many issues still to resolve and we will continue to develop products which satisfy the new customer values with integrity and responsibility.

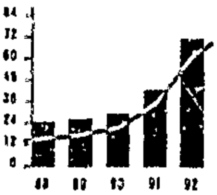

Healthy Eating's
WHOLE
WHEAT
FLAKES
TESCO
TESCO
GREEN CHOICE
removing
booster
TESCO
NATURE'S
CHOICE
TESCO
VEGETABLE
PIZZA
VEGETABLE CHILLI
Healthy Eating
VERY LOW FAT
NATURAL
COTTAGE CHEESE
1 pint 568 ml

The cornerstone of our personnel and training policies remains the development of the skills and commitment of our people. During the year, we set up initiatives which were designed to encourage all staff to play their full part within the company, and also to create better links between our training and development programmes and our business objectives. JOB EVALUATION In cooperation with the Union of Shop, Distributive and Allied Workers (USDAW), we finalised a programme of job evaluation using a set of common and objective factors to describe and then to measure the value of every store-based job. Following this, we introduced a new pay and grading system based on the relative value of each of these jobs. One of the most pleasing results is the recognition given to the role of our Checkout Operators, which is regarded as a highly responsible and demanding job, critically important to customer satisfaction and goodwill.



Investing in people's talents

RETAIL REORGANISATION Next, we began to examine the ways in which we organise retail jobs and to review the structure of store management in the light of the changing store environment. As a result, we are redefining and reorganising responsibilities in all our stores to give a more accountable and efficient structure appropriate to the needs of the nineties. SENIOR MANAGEMENT SKILLS We also began a programme aimed at enhancing the skills and leadership qualities of our senior managers. We are determined to pass these skills on to future generations through practical training and development programmes which will meet their needs and thus improve the quality and performance of our business. OUR SUCCESSFUL WOMEN In the last 10 years Tesco has attracted very many capable women who are determined to play a significant part in running our stores, distribution and head office. We were therefore proud when they won eight out of 20 top awards in the food industry's first 'Winning Women' competition organised by Checkout magazine.



RETAIL STAFF RETENTION (%)

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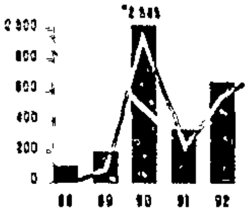
Tesco and Tesco people have a record of helping charities and of supporting many local community projects. This tradition is particularly valuable when many people are facing the stresses of recession. Last year, we raised over £200,000 for the Cancer Relief Macmillan Fund, and £440,000 for Birthright, the mother and baby charity, bringing the total raised for the latter to £675,000 over the last two years. The Tesco Charity Trust encourages fundraising activities by adding 20% to money raised by staff. The Tesco Charity Pro-Am Classic golf tournament raised £150,000 last year for Action Research – a leading medical research charity for children. In the eight years it has been held, this event has raised over £1 million.



MONEY RAISED BY TESCO STAFF FOR CHARITIES (£ 000s)

ACTIVITY AT STORES Charitable collections at Tesco stores also raise funds for local charities and communities, and the sale of Gold Hearts raised £527,000 for the Variety Club's Gold Heart Appeal for underprivileged children. Stores encourage the recycling of aluminium cans to raise money for charity. Over £30,000 was raised in this way for local Girl Guide units. The Tesco National Children's Fun Run, mounted with the Sports Aid Foundation and BBC Blue Peter at 30 locations, attracted 100,000 children and raised £190,000 for sport and medical research.

Investing in communities

HELPING MANY PROJECTS Many donations were made by the Tesco Charity Trust to a variety of charities and projects. Links with education and work enterprise schemes continue to be a feature of Tesco policy typified by our support for Business in the Community and for such projects as the Llanelli Foothold initiative to help young unemployed people set up their own businesses. Secondments are another way in which Tesco helps communities. Roy Stewart, who administers the Haringey Partnership in North East London, is just one example. Many others could be given of the financial and practical support which Tesco contributes to its communities, demonstrating the remarkable spirit of service and responsibility which exists throughout the company.

*1990 includes special fund raising for Great Ormond Street Hospital

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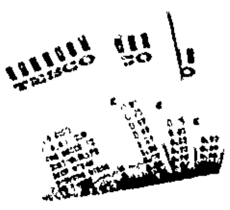
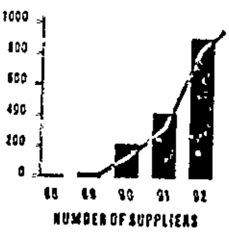
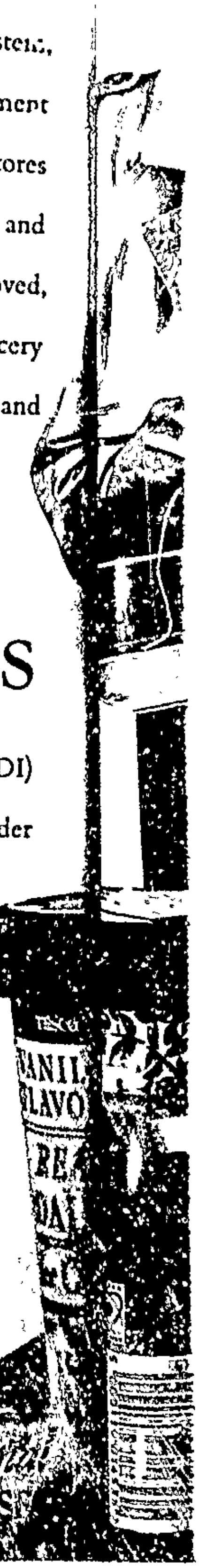
Tesco investment in technology over the last five years of £200 million has provided the foundation for the most efficient replenishment and supply-chain systems, and the most rigorous control of stock levels, in UK food retailing. SALES BASED ORDERING The checkouts not only supply customers with fully itemised receipts, they also provide precise sales information for Sales Based Ordering. SBO is an advanced computer system, developed by Tesco, which automatically calculates store replenishment requirements based on item sales and generates orders for delivery to stores within 24 to 48 hours. SBO eliminates the need for frequent stock checks and produces far more accurate orders. Stock levels and wastage are reduced, productivity is improved, and even fewer products go out of stock in the stores. By the end of the year, SBO for grocery products was operating in 247 stores. SBO for fresh foods was operating in 20 stores, and will be rolled out to 100 stores during 1992/93 giving benefits of some £15m per annum over the next two years.



Investing in advanced systems

EUROPE'S LARGEST ELECTRONIC COMMUNITY Tesco has set up Electronic Data Interchange (EDI) links with over 900 suppliers, and many more will follow next year. This establishes us as the leader of the largest, and fastest expanding, community of EDI partners in European food retailing. EDI means 'computer-to-computer' transmission of orders and invoices, which saves administration costs, for suppliers and ourselves, and time in the exchange of information. DEPOT REPLENISHMENT SYSTEMS Efficiency and productivity within our distribution centres is being improved by scanning systems which automatically record goods received into the depot management system. Productivity is further enhanced by radio-linked computers on board fork-lift trucks which now mean that drivers need not constantly return to the depot office for instructions on their next work assignment.





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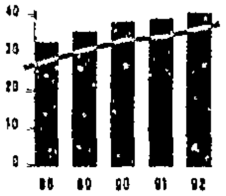
During the year, Tesco opened 24 new stores and two major extensions with a total selling area of 977,000 square feet. We are currently planning to open 28 new stores during 1992/93, as part of this continuing store development programme. Over the last five years, we have opened 100 new stores and 80 petrol stations, investing £2.6 billion in our store development programme.



PROPORTION OF SELLING SPACE LESS THAN FIVE YEARS OLD (%)

Existing stores have been constantly upgraded and in some cases extended in a continuing schedule of improvements, costing £73m in the year. This programme is designed to ensure all our customers benefit from the latest and finest facilities. IMPROVEMENTS TO CUSTOMER SERVICES Research showed that our customers' first choice for an additional service would be in-store pharmacies, to complement our rapidly expanding Health and Beauty departments. In October 1991, we took over control of 12 in-store pharmacies, a service which can now be found in a total of 40 stores and is planned for a further 60 stores over the next five years. Our successful market-style fruit and vegetable departments have been extended into more stores,

Investing in the finest stores

and a number of coffee shops have been modernised during the year. Bakeries now bake bread and cakes throughout the day, in batches precisely measured to customer demand, ensuring 'oven-fresh' supplies at all times. This popular service is made possible by sales data captured by laser-scanning checkouts which are now installed in 300 stores.

REFRIGERATION AND ENERGY MANAGEMENT Management of refrigeration and energy is becoming an increasingly important issue in store development, due to both environmental and efficiency concerns. Refrigeration systems have been replaced in many stores with frozen food products displayed on refrigerated shelves rather than in chests, and new non-CFC refrigeration equipment has been installed behind the scenes. The implementation of total temperature control systems now ensures excellent energy efficiency and a pleasant shopping environment.


TESCO

396 stores

Tesco stores are supported by a most efficient distribution infrastructure. Eight composite depots, providing storage at precisely correct temperatures for each type of product, and a fleet of 600 temperature-controlled delivery trailers, supply our stores with food kept in conditions for freshness and total product integrity. 16 other depots supply dry goods, non-foods, wines and spirits. Every day and every night, thousands of people are working to bring Tesco shoppers the freshest food, of the highest quality and value for money, in the country.

A full list of stores is given on the Inside Back Cover

Twenty-four stores opened in 1991/92

New Stores	New Sales area (Square Feet)
Basildon	48,500
Bedford	55,000
Bishop's Stortford	41,000
Bournemouth	48,000
Bridgend	48,500
Cleethorpes	48,000
Dorchester	30,000
Evesham	25,500
Greenock	36,000
Leatherhead	26,500
Leighton Buzzard	29,000
Macclesfield	32,000
Maldon	29,500
Milton Keynes (Kingston)	56,500
New Oscott	46,500
Purley	46,000
Sunbury	46,500
Swindon	53,500
Telford	42,000
Thetford	52,000
Uckfield	21,000
Wells	23,000
Wisbech	25,500
Worcester	40,500
New Sales Area	950,500
Average size of stores opened	39,600

Twenty-eight stores planned to be opened in 1992/93

New Stores	New Sales area (Square Feet)
Aldershot	45,000
Ashford	44,500
Bletchley	45,000
Borehamwood	50,000
Boston	37,000
Bristol	32,000
Buckingham	28,000
Chelmsford	32,000
Cirencester	40,000
Covent Garden	10,000
Didcot	28,000
Dudley	46,000
Edmonton	48,500
Exmouth	34,500
Harrow	36,000
High Wycombe	33,500
Hillingdon	46,500
Ealing (Hoover)	41,000
Huntingdon	45,000
Lewes	32,500
Lowestoft	36,500
Milton Keynes (Wolverton)	32,000
Reading	66,500
Rickmansworth	24,500
Royston	36,500
Saffron Walden	28,000
Shoreham	57,500
Yeovil	45,000
New Sales Area	1,081,500
Average size of stores opened	38,600

Directors' Report

The directors present their Annual Report on the affairs of the group together with the Accounts and Auditors' Report for the 53 weeks ended 29th February 1992.

Results and Dividends

Group turnover including VAT increased by £864.9m to £7,595.6m, representing a gain of 12.9%.

Group profit before property profits and taxation for the year was £545m compared with £417.1m for the previous year, an increase of £127.9m.

The amount allocated to the employee profit sharing scheme this year was £23.8m compared with £22m for last year.

After provision for tax of £149.9m and dividends, paid and proposed, of £122.3m, profit retained for the financial year amounted to £273.3m.

An interim dividend of 2.00p (gross equivalent 2.67p) per ordinary share has been paid on account of the 53 week period ended 29th February 1992. The directors recommend the payment of a final dividend of 4.30p (gross equivalent 5.73p) per ordinary share to be paid on 1st July 1992, making a total for the year of 6.30p (gross equivalent 8.40p) per ordinary share.

Principal Activity and Business Review

The principal activity of the group is the operation of food superstores and associated activities within the United Kingdom. For a detailed business review, please refer to pages 7 to 26.

Capital Expenditure

Capital expenditure amounted to £852m compared with £952m during the previous year.

A summary of the changes in fixed assets is shown in Note 8 to the Accounts. A sample of the group's retail properties were valued on an open market basis for existing use by Healey & Baker as at 29th February 1992. The valuation showed a surplus of 22% over net book value for the properties within the sample.

Based on the sample valuation the directors are of the opinion that the open market value of the group's properties is in excess of the net book value included in the accounts.

Share Capital

Shareholders were offered the option of ordinary shares in lieu of dividends during the year. As a result, the company allotted ordinary shares in lieu of the final dividend in respect of the 52 weeks ended 23rd February 1991 and the interim dividend in respect of the 53 weeks ended 29th February 1992, resulting in the issue of 1,915,088 ordinary shares.

Shares were again allotted and options granted under the company's share option schemes for employees.

During the year the authorised share capital of the company has been increased, details are given in Note 17.

Details of all share capital movements and options can be found in Notes 17 and 18 to the Accounts.

Substantial Shareholdings

So far as the company is aware as at the date of this report Prudential Corporation, for itself and others, hold interests in 79,660,703 ordinary shares (4.1%). The company is not aware of any other interest in its ordinary shares of 3% or more.

Directors and their Interests

The names of the directors and their interests are shown below. Sir Ian MacLaurin, Baroness O'Cathain and Mr J M Wemms retire from the Board by rotation in accordance with the company's Articles of Association and, being eligible, offer themselves for re-election.

Dr M G Jones was appointed as a director on 14th January 1992 and in accordance with the company's Articles of Association retires and, being eligible, offers himself for re-election.

Directors' biographies are set out on pages 2 and 3.

The service contracts of Sir Ian MacLaurin and Mr J M Wemms are terminable on three years notice from the company. Baroness O'Cathain and Dr M G Jones do not have service contracts of more than one year's duration.

Directors' Interests

The disclosable interests of the directors and their families at the year-ends were as follows:

		Ordinary Shares
Beneficial	**29th February 1992**	**1991**
Sir Ian MacLaurin	172,205	162,788
Mr V W Benjamin	104,221	99,648
Mr A D Malpas	84,069	76,676
Mr M Darnell	27,610	21,098
Mr J A Gardiner	16,784	16,655
Mr J Gildersleeve	22,559	47,778
Dr M G Jones	-	-
Mr F R N Krejsa	135,789	134,093
Baroness O'Cathain	3,821	3,792
Mr J M F Padovan	4,254	4,254
Mr D E Reid	56,999	53,184
Mr D C Tuffin	72,972	65,550
Mr J M Wemms	27,087	23,887
Non-Beneficial		
Sir Ian MacLaurin	93,075	93,075

Details of all directors' share options are given in Note 18 to the Accounts.

Between 29th February 1992 and 6th April 1992 there have been no changes in the interests of the directors in the share capital of the company. None of the directors had any material interest, at any time during the year, in any contract of significance with the company or any of its subsidiaries.

Directors' and officers' insurance

During the financial year ended 29th February 1992 the company had directors' and officers' insurance in force.

Equality of Opportunity

Our aim is to ensure that all our employees, and those who seek employment with us, are treated equally regardless of such factors as gender, race, colour, disability or age, and that no-one is prevented from achieving their full potential by any unreasonable conditions or requirements.

Greater emphasis has been given to the achievement of these fundamental objectives, by the setting up of a committee of senior executives to specifically review our policy on equal opportunities, and to define a strategy for its further development.

We have also set ourselves a number of goals designed to enhance the role of women, as part of the Opportunity 2000 initiative, specifically to increase the quantity and quality of women's participation in our success.

We believe in close consultation with employees on matters of concern to them. Employees are encouraged to become aware of, and involve themselves in, the performance of the group.

Communication with employees individually is achieved through the in-house newspaper, information bulletins and other such publications. Consultative meetings are attended by senior trading managers with senior management on a weekly basis and other meetings of retail staff are held at regular intervals. These meetings not only allow information to be passed to employees and their representatives on matters affecting the business, but also provide a forum for employees to communicate with management.

There are several ways in which employees are encouraged to become involved in the group's financial performance. The principal schemes are ones in which shares in the company are appropriated to employees and in which they are invited to apply for options to acquire shares in the company.

Charitable and Community Support
Contributions to charity via the Tesco Charity Trust and to community projects amounted to £260,000 (1991 – £453,000).

Political Contributions
No political contributions were made.

Corporate Personal Equity Plan
The directors announce the introduction of a Corporate Personal Equity Plan, outline details of which are included in a leaflet accompanying this report. Shareholders who are interested in receiving more detailed information are invited to return the reply paid card to the Plan Manager, Bradford & Bingley Building Society.

Number of Shareholders
The number of shareholders in the company at 29th February 1992 was 117,985 (1991 – 109,425).

Close Company Status
The company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors
Price Waterhouse have expressed their willingness to continue in office. In accordance with section 384 of the Companies Act 1985 a resolution proposing the re-appointment of Price Waterhouse as auditors of the company will be put to the Annual General Meeting.

Annual General Meeting
A separate circular accompanying the Annual Report and Accounts explains the special business to be considered at the Annual General Meeting.

By Order of the Board
ROWLEY AGER
Secretary

6th April 1992

Tesco PLC
Registered Number:
445790

Consolidated Profit and Loss Account

53 weeks ended 29th February 1992 (1991 – 52 weeks)	Note	1992 £m	1991 £m
Sales to customers at net selling prices		7,595.6	6,730.7
Value added tax		498.2	384.4
Turnover excluding value added tax		7,097.4	6,346.3
Cost of sales	*1*	6,435.9	5,787.7
Gross profit		661.5	558.6
Administration expenses		158.2	138.6
Operating profit	*1*	503.3	420.0
Interest receivable less payable	*3*	65.5	19.1
Profit after interest		568.8	439.1
Employee profit sharing	*4*	23.8	22.0
Profit before net surplus on sale of properties		545.0	417.1
Net surplus on sale of properties	*1*	0.5	19.1
Profit on ordinary activities before taxation		545.5	436.2
Tax on profit on ordinary activities	*5*	149.9	133.5
Profit for the financial year		395.6	302.7
Dividends	*6*	122.3	97.3
Profit retained	*19*	273.3	205.4
Earnings per share		pence	pence
Excluding net surplus on sale of properties	7	20.41	17.21
Including net surplus on sale of properties	7	20.43	18.37
Fully diluted earnings per share			
Excluding net surplus on sale of properties	7	19.95	16.60
Including net surplus on sale of properties	7	19.97	17.67
Dividends per share	6	6.30	5.25

Accounting policies and notes forming part of these accounts are on pages 33 to 47.

Balance Sheets

29th February 1992	Note	Consolidated 1992 £m	Consolidated 1991 £m	Tesco PLC 1992 £m	Tesco PLC 1991 £m
Fixed Assets					
Tangible assets	8	3,552.0	2,865.9	-	-
Investments	9	-	0.2	15.0	15.0
		3,552.0	2,866.1	15.0	15.0
Current Assets					
Stocks (goods for resale)		221.7	231.5	-	-
Debtors	10	39.6	74.7	2,095.1	1,597.2
Money market investments and deposits	11	300.7	203.6	289.8	203.5
Cash at bank and in hand		38.3	298.3	-	215.5
		600.3	808.1	2,384.9	2,016.2
Creditors					
Amounts falling due within one year	12	1,003.5	1,112.4	381.5	2[illegible]9
Net current (liabilities)/assets		(403.2)	(304.3)	2,003.4	1,756.3
Total assets less current liabilities		3,148.8	2,561.8	2,018.4	1,771.3
Creditors					
Amounts falling due after more than one year	13	648.2	363.5	519.0	290.7
Provisions for liabilities and charges	15	53.6	38.4	1.2	(0.1)
		2,447.0	2,159.9	1,498.2	1,480.7
Capital and Reserves					
Called up share capital	17	97.0	96.6	97.0	96.6
Share premium account	19	898.3	885.6	898.3	885.6
Other reserves	19	39.6	39.6	-	-
Profit and loss account	19	1,412.1	1,138.1	502.9	498.5
		2,447.0	2,159.9	1,498.2	1,480.7

SIR IAN MacLAURIN

D E REID C.A.

Directors

Accounts approved by the Board 6th April 1992.

Accounting policies and notes forming part of these accounts are on pages 33 to 47.

Consolidated Cash Flow Statement

53 weeks ended 29th February 1992 (1991 – 52 weeks)	Note	1992 £m	1991 £m
Net cash inflow from operating activities	23	676.4	532.4
Returns on investment and servicing of finance:			
Interest received		123.3	72.3
Interest paid		(136.4)	(107.4)
Interest element of finance lease rental payments		(9.1)	(9.0)
Dividends paid		(103.2)	(68.5)
Net cash outflow from returns on investments and servicing of finance		(125.4)	(112.6)
Taxation:			
Corporation tax paid (including advance corporation tax)		(165.4)	(81.9)
Investing activities:			
Payments to acquire tangible fixed assets		(775.7)	(889.8)
Receipts from sale of tangible fixed assets		54.4	165.2
Net cash outflow from investing activities		(721.3)	(724.6)
Net cash outflow before financing		(335.7)	(386.7)
Financing:			
Rights Issue of ordinary share capital		-	585.1
Ordinary shares issued for cash		8.9	5.7
Issue of convertible capital bond		-	200.0
Issue of 10⅞% bonds		200.0	-
Issue of ⅛% deep discount bond		50.0	-
E.C.S.C. loan		73.8	-
New finance leases		33.6	15.4
(Decrease)/Increase in other loans		(35.1)	38.4
Repurchase of bonds		(5.6)	(94.0)
Capital element of finance leases repaid		(24.7)	(13.2)
Increase in short-term deposits		(93.2)	(97.9)
Expenses paid in connection with share and bond issues		(1.0)	(17.7)
Net cash inflow from financing	24	206.7	621.8
(Decrease)/Increase in cash and cash equivalents	26	(129.0)	235.1

Accounting policies and notes forming part of these accounts are on pages 33 to 47.

Accounting Policies

Basis of Accounts
The accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention, and are in accordance with the Companies Act 1985.

Basis of Consolidation
The consolidated profit and loss account and balance sheet consist of the accounts of the parent company and its subsidiary undertakings, all of which are made up to or around 29th February 1992.

Any excess or deficiency of purchase consideration in relation to the fair value of attributable net assets of subsidiary undertakings at the date of acquisition is adjusted on reserves.

The group's share of associated undertakings' profits/losses is included in the consolidated profit and loss account and added to the cost of investments in the balance sheet. The accounting policies of associated undertakings are adjusted on consolidation to achieve consistent group accounting policies.

Stocks
Stocks are valued on the basis of first in first out at the lower of cost and net realisable value. Stocks in stores are calculated at retail prices and reduced by appropriate margins to the lower of cost and net realisable value.

Money Market Investments
Money market investments are stated at market value. All income from these investments is included in the profit and loss account as interest receivable and similar income.

Fixed Assets and Depreciation
Fixed assets include amounts in respect of interest paid, net of taxation, on funds specifically related to the financing of assets in the course of construction.

Depreciation is provided on an equal annual instalment basis over the anticipated useful working lives of the assets, after they have been brought into use, at the following rates:

Plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 7% to 30%. Leasehold properties with less than 125 years unexpired are amortised by equal annual instalments over the unexpired period of the lease.

No depreciation is provided on United Kingdom freehold buildings or leasehold buildings held on leases in excess of 125 years. The group follows a programme of regular refurbishment and maintenance of its properties, which includes the reinstatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard. Accordingly, in the opinion of the directors, any element of depreciation would be immaterial and no provision has been made.

Leasing
Plant, equipment and fixtures and fittings which are the subject of finance leases are dealt with in the accounts as tangible assets and equivalent liabilities at what would otherwise have been the cost of outright purchase.

Rentals are apportioned between reductions of the respective liabilities and finance charges, the latter being calculated by reference to the rates of interest implicit in the leases. The finance charges are dealt with under interest payable in the profit and loss account.

Leased assets are depreciated in accordance with the depreciation accounting policy over the anticipated working lives of the assets which generally correspond to the primary rental periods.

The costs of operating leases of land and buildings and other assets are expensed as incurred.

Deferred Taxation and Advance Corporation Tax
Deferred taxation is provided on accelerated capital allowances and other timing differences, only to the extent that it is probable that a liability will crystallise.

Provision for deferred taxation is made at the rate of corporation tax anticipated for the year in which the timing difference is expected to reverse (see Note 5).

Surplus advance corporation tax on dividends paid and proposed, which is expected to be recoverable, is included within debtors.

Pensions
The expected cost of pensions in respect of the group's defined benefit pension scheme is charged to the profit and loss account over the working lifetimes of employees in the scheme. Actuarial surpluses and deficits are spread over the expected remaining working lifetimes of employees.

Notes to the Accounts

Note 1 **Profit on Ordinary Activities**

	1992 £m	1991 £m
Operating profit is stated after charging the following:		
Depreciation and amortisation	112.3	99.8
Operating lease costs	72.1	61.2
Auditors' remuneration	0.3	0.2
Employment costs (Note 2a)	729.1	633.1

Cost of sales includes warehouse and transportation costs and all store operating costs.

Net surplus on sale of properties arises principally from sale-and-leaseback transactions of stores.

The auditors also received £0.2m in respect of non-audit services during the year.

The company operates within only one business segment that of the operation of food superstores and associated activities with business principally transacted in the United Kingdom.

Note 2 **Employment Costs**

a) Employment costs during the year

	1992 £m	1991 £m
Wages and salaries	653.6	570.9
Social security costs	44.2	39.4
Other pension costs (Note 20)	31.3	22.8
	729.1	633.1

Included within employment costs is an accrual of £1.1m (1991 – £2.7m) for the directors' performance related incentive scheme, of which £0.2m (1991 – £0.5m) relates to the Chairman (See Note 2c).

b) Number of persons employed

The average number of UK employees per week during the year was 87,033 (1991 – 87,691) – full-time equivalent 59,519 (1991 – 59,846).

c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were as follows:

	1992 £000	1991 £000
Directors' emoluments	3,639	2,414
Performance related incentive payments	1,779	4,326
	5,418	6,740

The executive directors' salaries and performance related incentive scheme are determined by the Remuneration Committee, which does not include any directors participating in the scheme.

Directors' salaries have been increased during the year, with a corresponding reduction in the level of incentive payments.

The group operates a performance related incentive scheme for seven executive directors, payments under which are related to the cumulative growth in fully diluted earnings per share (excluding extraordinary items and net surplus on sales of properties and after tax) over three year cycles.

Note 2
continued

Employment Costs

The performance related incentive payments of £1.8m in the year represent the entitlement vesting in 1991/92 in respect of the second three year cycle from 1988/89 to 1990/91. Over this three year period earnings per share increased by 77%. The aggregate amount of £1.8m was charged against profit in those three years.

The amount due in respect of the performance for the third three year cycle from 1989/90 to 1991/92 has now been finalised at £2.1m. Over this three year period, earnings per share increased by 82%. The amount of £2.1m is not included in directors' emoluments in the 1991/92 financial year, since the compensation is dependent upon the performance over a three year period and this entitlement to compensation will not vest until the 1992/93 financial year.

A cumulative provisional amount of £1.3m (1991 – £2.3m) has been accrued in respect of the scheme payments to be made in 1993/94 and 1994/95, of which £0.3m (1991 – £0.5m) relates to the Chairman.

The emoluments, excluding pension contributions, of the Chairman who was also the highest paid director, are analysed as follows:

	1992 £000	1991 £000
Emoluments	606	390
Performance related incentive payments	478	1,092
	1,084	1,482

Other directors' aggregate emoluments, excluding pension contributions but including, where appropriate, payments under the performance related incentive scheme, fall within the following scales:

	Number of directors 1992	1991
From £1 to £5,000	1	–
From £10,001 to £15,000	–	1
From £15,001 to £20,000	–	3
From £20,001 to £25,000	2	–
From £30,001 to £35,000	1	–
From £90,001 to £95,000	1	–
From £135,001 to £140,000	–	1
From £205,001 to £210,000	–	1
From £220,001 to £225,000	1	–
From £300,001 to £305,000	1	–
From £355,001 to £360,000	–	1*
From £445,001 to £450,000	1*	–
From £485,001 to £490,000	1*	–
From £590,001 to £595,000	1*	–
From £610,001 to £615,000	1*	1*
From £665,001 to £670,000	–	1*
From £785,001 to £790,000	–	2*
From £840,001 to £845,000	1*	–
From £1,135,001 to £1,140,000	–	1*

*Includes performance related incentive payments.

Note 3	**Interest**	1992 £m	1991 £m
	Interest receivable and similar income on Money Market investments and deposits	123.3	72.3
	Deduct interest payable on:		
	Short-term bank loans and overdrafts repayable within 5 years	(101.0)	(87.3)
	Finance charges payable on finance leases	(9.1)	(9.0)
	9% Convertible capital bond 2005	(18.3)	(11.0)
	4% Unsecured deep discount loan stock 2006 (a)	(6.8)	(6.5)
	E.C.S.C. loan 1996	(7.2)	-
	10⅜% Bonds 2002	(1.9)	-
	⅛% Deep discount bond 2012 (b)	(1.1)	-
	10½% Bonds 2015	(0.1)	(2.6)
	Interest capitalised	87.7	63.2
		(57.8)	(53.2)
		65.5	19.1

a) Interest payable on the 4% unsecured deep discount loan stock 2006 includes £1.8m (1991 – £1.5m) of discount amortisation.

b) Interest payable on the ⅛% deep discount bond 2012 includes £1.1m of discount amortisation.

Note 4 **Employee Profit Sharing**

This represents the amount allocated to the trustees of the profit sharing scheme and is based on the profit on ordinary activities before net surplus on sale of properties and taxation. This year 4.2% of the base profit has been allocated.

Note 5	**Taxation**	1992 £m	1991 £m
	United Kingdom taxation		
	Corporation tax at 33.0% (1991 – 35.0%)	143.6	113.6
	Prior year items	(9.2)	-
	Deferred taxation	15.4	19.8
		149.8	133.4
	Overseas taxation		
	Corporate taxes	0.1	0.1
		149.9	133.5

Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Acts (Note 15).

Note 6	**Dividends**	1992 £m	1991 £m
	Declared interim – 2.00p per share (1991 – 1.65p)	38.8	27.7
	Proposed final – 4.30p per share (1991 – 3.60p)	83.5	69.6
		122.3	97.3

The comparative interim dividend per share figure has been adjusted in respect of the 1991 Rights Issue.

Note 7 **Earnings Per Share & Fully Diluted Earnings Per Share**

a) The calculation of the earnings per ordinary share, including and excluding net surplus on sale of properties, is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year of 1,936,081,118 (1991 – 1,647,663,192).

b) The calculation of fully diluted earnings per share, including and excluding net surplus on sale of properties, is based on the profit on ordinary activities after taxation and after adding:

i) the savings of interest net of corporation tax on the 9% convertible bonds assuming that they were converted in full into ordinary shares on the first day of the financial year.

ii) the interest income net of corporation tax which would have arisen had all the various ordinary share options granted under the company's various schemes been exercised on the first day of the financial year, or at the date granted if later, and the proceeds invested in 2½% Consolidated Stock on that day.

The amount so derived has been divided by the number of ordinary shares in issue at the beginning of the year together with the weighted average number of ordinary shares assumed to have been issued as indicated above.

Note 8 **Tangible Assets**

	Land and Buildings			Plant, Equipment Fixtures & Fittings & Vehicles	Assets in Course of Construction(b)	Total
	Freeholds	Leaseholds 50 years or more	Leaseholds Less than 50 years			
	£m	£m	£m	£m	£m	£m
Cost						
As at 23rd February 1991	1,757.5	321.5	97.1	839.4	246.7	3,262.2
Additions at cost (a)	130.3	2.5	3.7	62.8	653.0	852.3
Transfers	460.2	67.6	13.2	17.1	(558.1)	-
	2,348.0	391.6	114.0	919.3	341.6	4,114.5
Deduct disposals	47.5	-	-	18.1	1.7	67.3
As at 29th February 1992	2,300.5	391.6	114.0	901.2	339.9	4,047.2
Depreciation						
As at 23rd February 1991	-	15.9	10.4	370.0	-	396.3
Charge for period	-	3.2	4.4	104.7	-	112.3
Transfers	-	-	-	-	-	-
	-	19.1	14.8	474.7	-	508.6
Deduct disposals	-	-	-	13.4	-	13.4
As at 29th February 1992	-	19.1	14.8	461.3	-	495.2
Net book value at 29th February 1992 (c)	2,300.5	372.5	99.2	439.9	339.9	3,552.0
Net book value at 23rd February 1991 (c)	1,757.5	305.6	86.7	469.4	246.7	2,865.9

Note 8 continued

Tangible Assets

Notes

a) Includes £59.6m (1991 – £41.4m) in respect of interest capitalised net of tax relief of £28.1m (1991 – £21.8m). Accumulated interest capitalised net of tax relief, included in the total cost above, amounts to £174.6m (1991 – £116.4m).

b) Assets in course of construction do not include land; prior year comparatives have been restated accordingly.

c) Includes plant, equipment, fixtures and fittings subject to finance leases:

	Cost £m	Depreciation £m	Net Book Value £m
As at 23rd February 1991	130.2	50.4	79.8
Movement in the period	33.2	24.8	8.4
As at 29th February 1992	163.4	75.2	88.2

Note 9

Investments

	Consolidated 1992 £m	Consolidated 1991 £m	Tesco PLC 1992 £m	Tesco PLC 1991 £m
Subsidiary undertakings – shares at cost, less amounts written off (a)	–	–	14.9	14.9
Associated undertakings – at cost less provisions (b)	–	0.2	0.1	0.1
	–	0.2	15.0	15.0

a) The company's principal subsidiary undertakings are:

Tesco Stores Limited
Tesco Insurance Limited
Spen Hill Properties PLC
Tesco Stores Hong Kong Limited
Tesco Capital Limited
Tesco Property Holdings Limited

These subsidiary undertakings operate and are registered in England, with the exception of Tesco Insurance Limited which operates and is incorporated in Guernsey, Tesco Capital Limited, which is incorporated in Jersey and controlled and managed in the United Kingdom, and Tesco Stores Hong Kong Limited which operates and is incorporated in Hong Kong. The above subsidiary undertakings' shares are all, directly or indirectly, owned by Tesco PLC.

Note 9 continued

Investments

b) The group has two associated undertakings, Shopping Centres Limited and Glaston Spen Hill Limited, whose main activities are property investment in which the group participates on a 50:50 basis. These companies operate and are registered in England.

The net borrowings of associated undertakings, as at 29th February 1992, were as follows:

	1992 £m	1991 £m
Cash and deposits	0.4	0.6
Term bank loan – repayable 1999	(48.0)	(48.0)
Debenture stock – repayable 2001	(27.5)	(25.6)
Other loans	(19.0)	(12.6)
	(94.1)	(85.6)

There is no recourse to group companies in respect of the borrowings of the associated undertakings apart from £14.0m which has been guaranteed by Tesco PLC (Note 22).

Note 10

Debtors

	Consolidated		Tesco PLC	
	1992 £m	1991 £m	1992 £m	1991 £m
Amounts owed by group undertakings	–	–	2,089.1	1,572.6
Prepayments and accrued income	15.2	11.7	6.0	0.2
Advance corporation tax recoverable	2.8	23.3	–	–
Other debtors	21.6	39.7	–	24.4
	39.6	74.7	2,095.1	1,597.2
Debtors falling due after one year included above:	3.8	24.7	800.0	700.0

Note 11

Investments and Deposits

	Consolidated		Tesco PLC	
	1992 £m	1991 £m	1992 £m	1991 £m
Money Market deposits	298.9	110.0	288.0	109.9
Bonds and certificates of deposit (original cost £1.8m – 1991 £93.6m)	1.8	93.6	1.8	93.6
	300.7	203.6	289.8	203.5

Note 12 Creditors

	Consolidated 1992 £m	1991 £m	Tesco PLC 1992 £m	1991 £m
Amounts falling due within one year				
Bank loans and overdrafts (a)	17.6	144.7	247.4	138.1
Trade creditors	500.4	451.3	-	-
Corporate taxation (b)	94.0	173.3	24.1	23.2
Other taxation and social security	45.5	18.8	0.7	0.9
Other creditors	199.8	197.3	23.2	27.3
Accrued charges	62.7	57.4	2.6	0.8
Proposed final dividend	83.5	69.6	83.5	69.6
	1,003.5	1,112.4	381.5	259.9

a) Bank borrowings within a subsidiary undertaking of £315.8m (1991 – £781.6m) have been offset against deposit balances with the same bank under a legal right of set-off.

b) The corporate taxation liability represents the corporation tax charge for the year after deducting tax relief for capitalised interest and advance corporation tax recoverable.

Note 13 Creditors

	Consolidated 1992 £m	1991 £m	Tesco PLC 1992 £m	1991 £m
Amounts falling due after more than one year				
4% Unsecured deep discount loan stock 2006 (a)	68.9	67.2	68.9	67.2
4% Convertible bonds 2002 (b)	-	0.1	-	0.1
Finance leases (Note 16)	55.4	53.8	-	-
10½% Bonds 2015 (c)	0.1	5.6	0.1	5.6
Multi-Option Facility 1992	-	17.8	-	17.8
Other Loans 1992	-	19.0	-	-
10⅜% Bonds 2002 (d)	200.0	-	200.0	-
⅛% Deep discount bond 2012 (e)	50.0	-	50.0	-
E.C.S.C. Loan 1996 (f)	73.8	-	-	-
	448.2	163.5	319.0	90.7
Amounts owed to group undertakings	-	-	200.0	200.0
	448.2	163.5	519.0	290.7
Convertible capital bond (Note 14)	200.0	200.0	-	-
	648.2	363.5	519.0	290.7

Note 13 continued

Creditors

a) The 4% unsecured deep discount loan stock is redeemable at a par value of £125m in 2006.

b) During the year ended 23rd February 1991 the company exercised its option to convert the 4% convertible bonds 2002 to ordinary shares.

c) During the year the company redeemed its 10½% bonds, the remaining bonds are redeemable at a par value of £0.1m in 2015.

d) The 10⅜% bonds are redeemable at a par value of £200m in 2002.

e) The ⅛% deep discount bond is redeemable at a par value of £428.9m in 2012.

f) E.C.S.C. refers to the European Coal and Steel Community.

Note 14

Convertible Capital Bond

In July 1990 the group issued £200,000,000 of 9% convertible capital bonds. The convertible capital bonds are convertible into fully paid 9% exchangeable redeemable preference shares due 2005 in Tesco Capital Limited which are guaranteed on a subordinated basis by, and are exchangeable for fully paid ordinary shares in, Tesco PLC at an exchange price of £2.51 per ordinary share (after adjustment to take account of the 1991 Rights Issue).

The convertible capital bonds have been included within creditors falling due after more than one year. Prior year comparatives have been restated accordingly.

Note 15

Provisions for Liabilities and Charges

	Amount Provided		Potential amount for deferred tax on all timing differences	
	1992 £m	1991 £m	1992 £m	1991 £m
Deferred taxation				
Excess of capital allowances over depreciation	19.0	17.8	46.6	35.2
Capital gains deferred by rollover relief	-	-	27.3	40.9
Other	34.6	20.6	34.6	23.6
	53.6	38.4	108.5	99.7

Deferred taxation balances in Tesco PLC relate to short-term timing differences.

Note 16

Leasing Commitments

a) Finance Leases

The future minimum finance lease payments to which the group was committed at 29th February 1992 and which have been guaranteed by Tesco PLC are:

	£m
Gross rental obligations	87.9
Deduct finance charges allocated to future periods	8.0
	79.9

Note 16 continued

Leasing Commitments

	1992 £m	1991 £m
Net amounts payable are:		
Within one year, included in other creditors	24.5	17.2
Between one and five years	55.4	53.8
	79.9	71.0

b) Operating Leases

Group commitments during the year to 28th February 1993 in terms of lease agreements expiring are as follows:

	1992 £m	1991 £m
Within one year	0.1	0.2
Between one and five years	3.9	2.9
Beyond five years	71.5	66.0
	75.5	69.1

Note 17

Called Up Share Capital

Authorised: £135,500,000 (1991 – £104,000,000)
Issued:

	Ordinary shares of 5p each Number	£m
Issued at 23rd February 1991	1,930,882,134	96.6
Allotment to Profit Sharing Scheme	15,000	–
Payment of dividends by shares in lieu of cash	1,915,088	0.1
Share options exercised	7,129,502	0.3
Issued at 29th February 1992	1,939,941,724	97.0

a) Between 29th February and 6th April 1992, options on 54,420 ordinary shares and 389,530 ordinary shares have been exercised under the terms of the Savings-Related Share Option Scheme (1981) and the Executive Share Option Scheme (1984) respectively.

As at 29th February 1992 the directors were authorised to purchase up to a maximum in aggregate of 96,997,086 ordinary shares.

The authorised share capital of the company was increased from £104,000,000 to £135,500,000 by means of a Special Resolution passed at an Extraordinary General Meeting on 4th March 1991.

Note 18

Share Options

a) Company Schemes

The company had two principal share option schemes in operation during the year:

i) The Savings-Related Share Option Scheme (1981) permits the grant to employees of options in respect of ordinary shares linked to a building society save-as-you-earn contract for a term of five years with contributions from employees of an amount between £10 and £250 per month. Options are capable of being exercised at the end of the five-year period at a subscription price not less than 80% of the middle market quotation of an ordinary share immediately prior to the date of grant.