



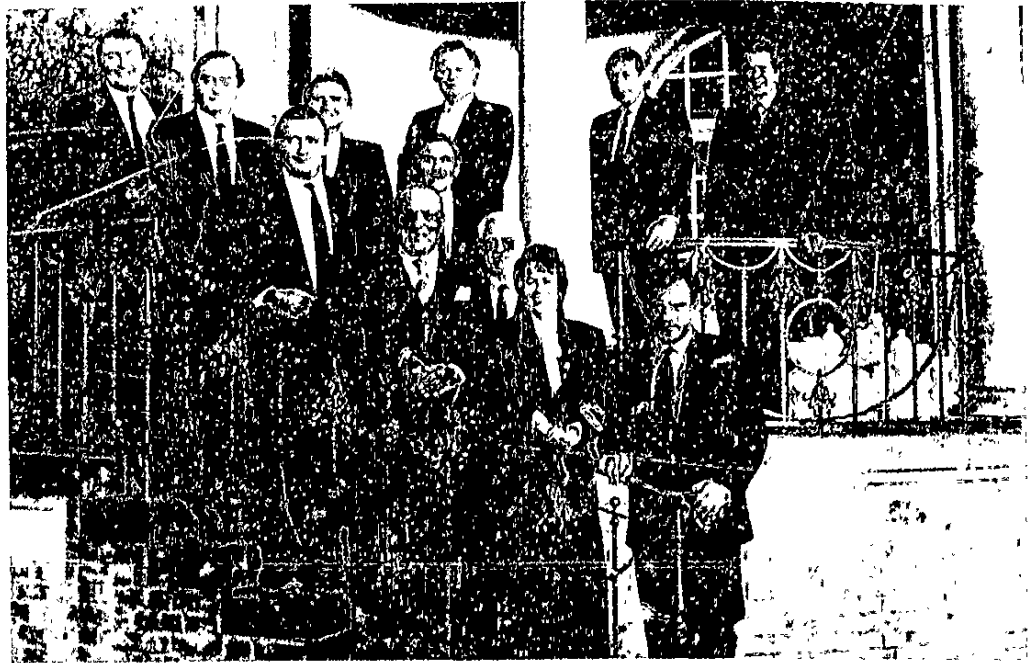
TESCO PLC

Annual Report and Accounts 1988

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The board of Tesco PLC photographed at the company's training headquarters at Ponsbourne Park, Hertfordshire.

(Front row, right foreground to left):

Mr. I. C. MacLaurin†§, Chairman; Miss D. O'Cathain, OBE*§, Sir Leslie Porter*†, President; Mr. D. E. Reid†, Finance Director; Mr. A. D. Malpas, Managing Director; Mr. D. C. Tuffin, Retail Director.

(Second row, right to left on steps):

Mr. H. F. Pennell, Buying and Marketing Director (retired 25th February, 1988); Mr. V. W. Benjamin*†§, Deputy Chairman; Mr. F. R. N. Krejsa, Property and Estates Director.

(On the terrace, left to right):

Mr. M. Darnell, Distribution Director; Mr. J. Gildersleeve, Personnel, Buying and Marketing Director; Mr. J. M. F. Padovan*†§.

Not included:

Mr. J. A. Gardiner* (appointed 8th March, 1988)

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

Secretary and Registered Office



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Principal Bankers

Midland Bank plc
Barclays Bank PLC
National Westminster Bank PLC

Stockbrokers

Phillips & Drew Limited

FINANCIAL HIGHLIGHTS

	1988 (52 weeks) £m	1987 (53 weeks) £m	% Increase
Turnover excluding value added tax	4,119.1	3,593.0	14.6
Profit before taxation and profit sharing	241.3	178.5	35.2
Net margin percentage	5.9%	5.0%	
Employee profit sharing	10.7	2.6	
Profit before taxation	230.6	175.9	31.1
Taxation	76.8	56.9	
Dividends	42.1	31.0	
	pence	pence*	
Earnings per share	10.93	9.51	14.9
Fully diluted earnings per share (excluding property profits)	9.66	8.05	20.0
Dividends per share	2.85	2.43	17.3

*These comparative figures have been restated to account for the capitalisation issue in July 1987.

FINANCIAL DIARY

Year end: Last Saturday in February

Half-year's results announced: Late September

Year's results announced: Early April

Annual Report and Accounts despatched: Late April

Annual General Meeting held: Mid-May

Dividend:

Interim: announced late September and paid in late November

Final: announced early April and paid in early July

Interest:

Convertible Loan Stock paid 31st May and 30th November

Deep Discount Loan Stock paid 31st January and 31st July

Convertible Bonds paid 20th February



"Our business continues to make excellent progress."

I am pleased to report that our business continues to make excellent progress. It has been a year of sound achievement which has further established Tesco at the forefront of food retailing in the United Kingdom.

We have gained a significant increase in our market share which fully justifies the investments we have made during the last few years. Our investment strategy for the years ahead reflects our confidence for further gains in market share and profitability.

RESULTS AND DIVIDENDS

You may care to note that we are reporting these results on a much reduced timescale compared with previous years.

Profits before taxation increased from £175.9 million to a record £230.6 million, an increase of 31.1%. This is reflected in our net margin, which has improved from 5.0% to 7.9%.

Fully diluted earnings per share, excluding the net surplus on the sale of properties, increased to 9.66p, an increase of 20.0%.

Sales, excluding VAT, increased to £4,119 million, an increase of 14.6%, or 16.8% adjusted for the 53rd week. After allowing for inflation of 3%, this represents an esti-

mated volume gain of 14%, of which 4% was generated by existing stores and 10% from net new selling area. The stores acquired with Hillards contributed 7% to the 10% gain from net new selling area.

The final dividend recommended by the directors is 1.85p per share, making a total for the year of 2.85p, compared with 2.43p last year, an increase of 17.3%.

FUNDING

In March 1987, we raised £112 million by the issue of 4% convertible bonds 2002, as reported in my statement last year. In December 1987, we arranged further facilities of £350 million through a multi-option facility and a sterling commercial paper programme. These instruments will enable the Group to borrow at very competitive rates from a syndicate of prime banks.

The medium and long term borrowings of the Group have risen to £237 million during the course of this year, and are planned to increase further next year. We are confident that our investment in an increasing store development programme, in modern distribution and in technology will provide significant benefits.

STRATEGY

The acquisition of Hillards plc gave us a higher level of representation in Yorkshire and the North of England. The integration of this business into the Tesco group was achieved within a rigorous timetable and was a credit to the management and staff of both Hillards and Tesco. At operating profit level, the Hillards stores have made an incremental contribution of £13 million for the 41 week period since acquisition. We look forward to increasing our market share in this region through the opening of new stores and further growth of sales in the stores we acquired.

Other key features of our strategy are our substantial investments in new stores, electronic point of sale, branch computing, and in composite distribution. These investments, while initially incurring substantial start-up costs, will lead to greater productivity with benefits emerging strongly over the next few years.

NEW STORES

Our new store openings are running to plan. During the year we opened 17 superstores and extended four more. In August 1987, we opened our new 'flagship' store at New Malden. This set new standards and introduced many innovations in design and product merchandising which have been widely acclaimed by the public.

In February 1988, Marks and Spencer opened at the Brookfield Centre, Cheshunt, Hertfordshire where we have traded for some years: this has proved most successful for both of us and we plan further joint ventures with them.

Next year we will be opening 16 more stores to continue our high rate of store development. We also have excellent sites to develop in the years ahead.

PRODUCTS AND QUALITY

Great emphasis is being placed on the quality and development of new products. More than 850 own-label products have been launched — and at least as many more are in the making. Many are unique and all conform to stringent quality standards, creating new demand and new business for us and reinforcing the image of the company.

PEOPLE

Customer service is paramount. Our Customer First campaign launched last year called for the involvement of all our employees and was highly successful. Surveys have since shown that improvements in customer service are being maintained and these will continue to be monitored carefully.

We believe that to serve customers better we need to have a skilled team of managers and staff knowledgeable about our company and our products, and who share the determination to achieve greater efficiencies.

We are investing heavily in training for all levels of staff to equip them to achieve these aims. Part of this endeavour was the purchase of Ponsbourne Park, in Hertfordshire, our management training centre. This facility is now being fully utilised by field and head office staff.

We have also undertaken a communications audit which showed clearly that we need to communicate better with our staff to improve levels of understanding of the needs of the business and to become more aware of the needs and aspirations of our employees. We are now implementing a full communications programme.

The package of pay and conditions we now offer employees is consistent with our quality objectives and our leading position in the industry. We believe that it is important for the future success of the company that its management and staff should be motivated and rewarded through performance related incentives. Accordingly, we introduced a profit shar-

ing scheme for employees in the second half of the previous year, which resulted in an allocation of £2.6 million. The amount for the current year is £10.7 million. This scheme is in addition to the existing executive and savings-related share option schemes. The role of part-time employees is a very important part of our operations and we have further recognised this by the introduction of a non-contributory pension scheme for them.

Our 70,000 managers and staff working in offices, depots, and stores throughout the country are our major asset and have achieved an enormous amount, sometimes under the considerable working pressures created by the rate of change taking place in our company. Their performance gives us confidence for the future in terms of the major changes that we are planning for technology in our stores and in composite distribution.

DIRECTORS

I am indebted to my fellow Directors for the unstinting support they have given me during the past 12 months. My executive colleagues deserve congratulations for the way they have successfully managed the changes which have taken place and I thank my non-executive colleagues for their expertise and wise counsel.

Mr. H. F. Pennell retired from the Board after 25 years' service with the company on 25th February. He had been largely responsible for our buying operations and was one of the most respected names in the company and in the industry he served so well. We wish him a long and happy retirement.



I would like to welcome to the Board, as a non-executive director, Mr. John A. Gardiner, Chairman and Chief Executive of the Laird Group. He has very wide business experience and I am personally delighted he has agreed to join us.

ACHIEVEMENT

It has been an excellent year of achievement for Tesco. This is demonstrated by the number of awards our people, our products and our stores have won for skill, product quality, design and architecture. These are listed in more detail on pages 15 to 17 in this report and I am sure you will share my view that it is an impressive record.

CHAIRMAN'S STATEMENT

THE TRADE

We have again received excellent support from our suppliers and manufacturers. We are all part of a combined industry serving the public and I make no apology for repeating a message I gave last year that every opportunity must be taken for retailers, suppliers, and manufacturers to work closer together. We must move further away from the old retailer-versus-supplier arguments and accept that, if we are to grow, we can only do this together and on the basis of co-operation and mutual understanding.

DEREGULATION OF TRADING HOURS

We shall continue to press for the total deregulation of opening hours to allow us to trade seven days a week in England and Wales. Our experience in Scotland, where Sunday trading is lawful, convinces us that this is what our customers want. We welcome new initiatives being taken and urge the retail trade to give the Government a clear message of united support on this issue.

PROSPECTS AND CURRENT TRADING

Our widening range of quality products and new stores offering a more exciting shopping atmosphere, reflect our determination to make our company the best. Our core business is strong and I have no doubt whatsoever that our investment in people and in modern technology will significantly enhance our competitive position. Furthermore, I am encouraged that we have improved the service to our customers — and this will remain a priority objective.

We are pleased with trading for the first few weeks of the current financial year. The opening of another 16 stores together with the improved performance in our existing stores should contribute to further profitable growth.



Ian MacLaurin, Chairman

12th April, 1988

Today's Tesco is one of the leading food retailers in the United Kingdom. This position has been achieved by the continued pursuit of excellence in products and services.

Recent years have been characterised by an increasing drive for higher and higher quality. This has been reflected by initiatives taken at all levels to improve quality without sacrificing efficiency or value to the customer. Tesco has set new standards during the year and this review portrays those differences which set Tesco apart from its competitors.



Testing through our in-store consumer kitchens plays a key role in own-label development.

PRODUCTS

The ranges of food and non-food sold by Tesco are comprehensive and many of the products are innovative.

Fresh foods are a major success for the company and now represent a turnover approaching half of all company sales. The company's achievement in this market was recognised by The Grand Prix D'Excellence award from the International Epicurian Circle, for the quality and excellent presentation of fresh food. The year has seen tremendous development with improved and expanded store formats for our fresh products and the launch of more than 850 own-label products.

A completely new delicatessen counter has been developed to display products specially selected from all over Europe as well as many regional specialities from Britain.

A separate cheese 'shop' has been introduced in some new superstores providing breadth and depth of selection. The first of these were installed at our flagship superstore at New Malden and at our major extension at the Brookfield Centre, Cheshunt.

More space has been given to fresh food especially pre-packed to accommodate the new ranges and increased consumer demand. In provisions a new low-base refrigerated cabinet has been developed to provide much improved presentation and to accommodate the 300 plus new Tesco products introduced in this area alone.

Produce has benefited from the increased popularity of more natural foods. Tesco led the field with the introduction of market style departments, the first of which was at Gatwick. They offer an unrivalled selection presented in a traditional way, and are now in 40 stores. Design and practicality have boosted turnover and had a significant effect on productivity.

Meat and poultry sales are very buoyant as more and more shoppers recognise our



Continued improvement in customer relations owes much to the presence of customer service desks in store.



The delicatessen and cheese counters at New Malden set new standards in superstore design and facility.



Consumer confidence in Tesco own-label continues to grow.



The Tesco emphasis on high quality and value can be seen across a wide range of products.

quality and value and regard Tesco as their meat specialist. Specially prepared meat in controlled atmospheric packaging has been very popular and is a rapidly expanding market particularly in the added value sectors such as "lean cuts".

Frozen food ranges are being expanded and repositioned as Tesco leads a drive to set new quality standards. The introduction of over 200 products to new stringent standards underlines this policy.

There are now 176 stores with bakery departments, 60 with fish departments and 74 with petrol filling stations.

Conventional groceries remain the core of the Group's business. Own-label growth continues steadily—primarily achieved

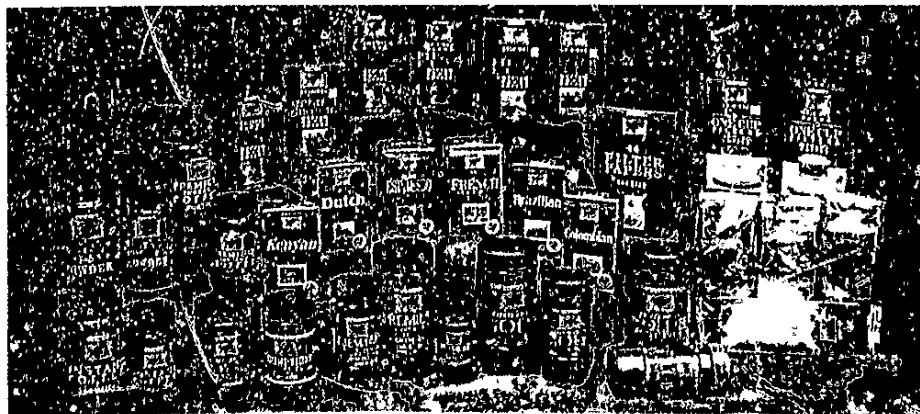
through a continuous process of upgrading product quality to match or surpass major brands, and an ongoing programme of innovative new product development.

Increased numbers of larger stores ensure that greater breadth of range is available to more customers. Greater sales densities at higher margins, and improved levels of productivity, provide the impetus for enhanced profitability.

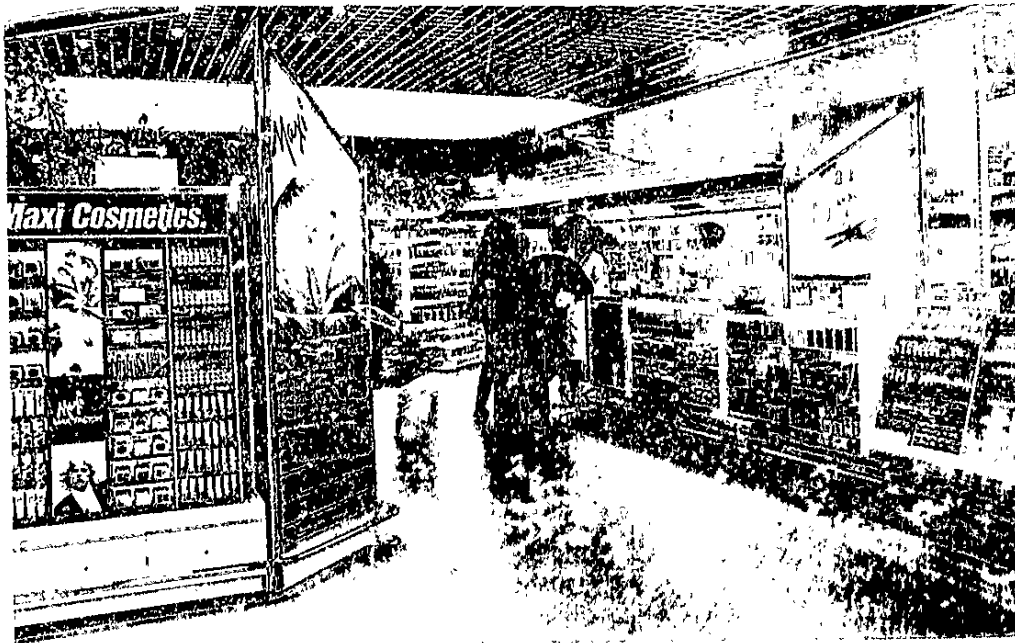
Non-food ranges are continually reviewed and refined particularly in the light of the need to create more space for our highly successful fresh foods business. Our non-food departments continued successfully, including Home 'n' Wear in the larger stores, and a number of new areas were pioneered during the year. At our New Malden store we revealed new approaches to several of our non-food ranges, notably health and beauty, and housewares.

In health and beauty an enlarged department surrounding a pharmacy created a refreshing environment unlike anything seen before in a grocery-based superstore. The New Malden format has been introduced at Aylesbury and Brookfield Centre, Cheshunt, stores and enables our customers to satisfy all their health and beauty needs in a one-stop shop.

The wines and spirits department continued its growth, launching 62 new wines during the year. The selection received acclaim from wine writers for the



The new range of coffee in foil packs has boosted this important sector of the market.



The first in-store pharmacy and new health and beauty department at New Malden brought a unique dimension to superstore shopping.

quality and range available. The company continues to be the largest retailer of beer in the UK.

Tesco has made a major impact in the pre-school market with the launch of a new range of own-label educational toys and nursery items called Early Stages. It comprises 22 brightly-coloured toys for the age range from birth to 36 months—covering those vital years in a child's development.

Quality improvements have been brought about by the application of strictly applied standards. Existing products are reassessed on a regular basis throughout the year. Over 100,000 customers took part in the product testing programme during the year and over 22,000 products were tested.

The standard and reputation of Tesco own-label has never been higher, justifying the company's major commitment to improvement across the entire product range.

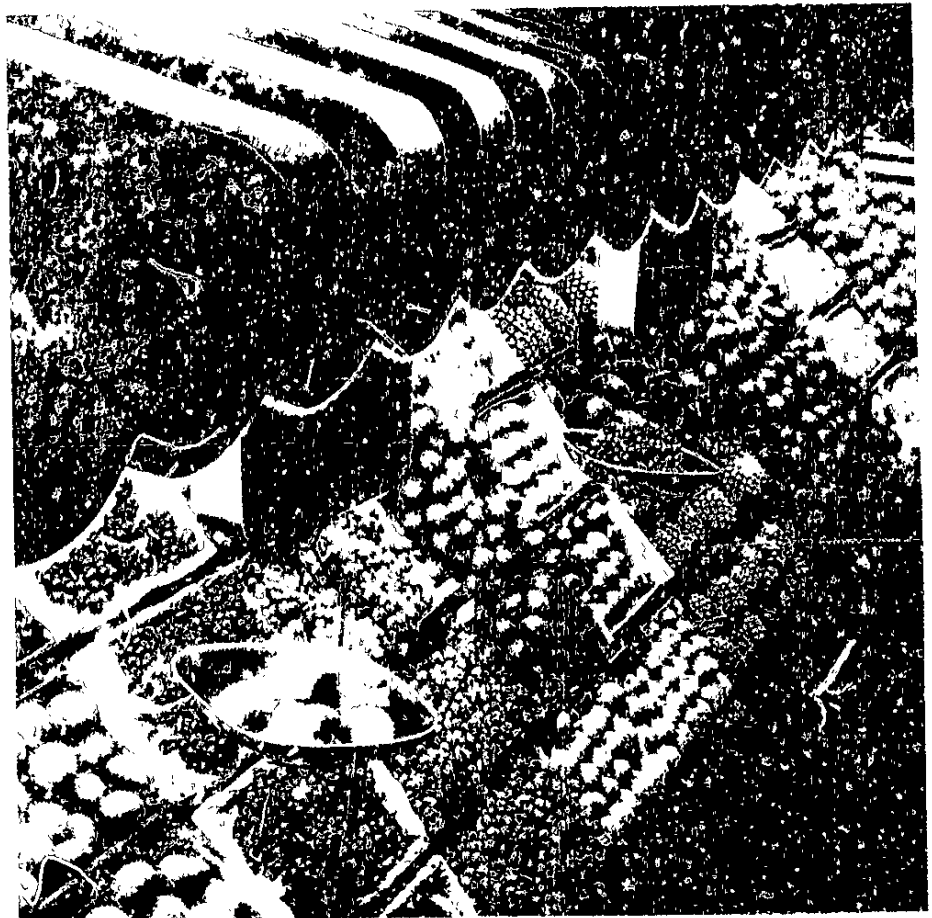
DISTRIBUTION

Tesco has continued to upgrade and restructure facilities in order to meet the requirements of its future expansion and retailing strategy.

The systems were successfully tested during the smooth integration of Hillards stores acquired in May 1987, a process which was accomplished in only 12 weeks. Hillards' Brighouse depot has been



Casual fashion is increasingly popular.



Sales of quality produce are expanding rapidly



Distribution facilities continue to be up-graded.

converted to play a key role in the supply of produce.

Considerable progress has been made on stock management and stock replenishment with the result that stockturn has again been substantially improved during the course of the year.

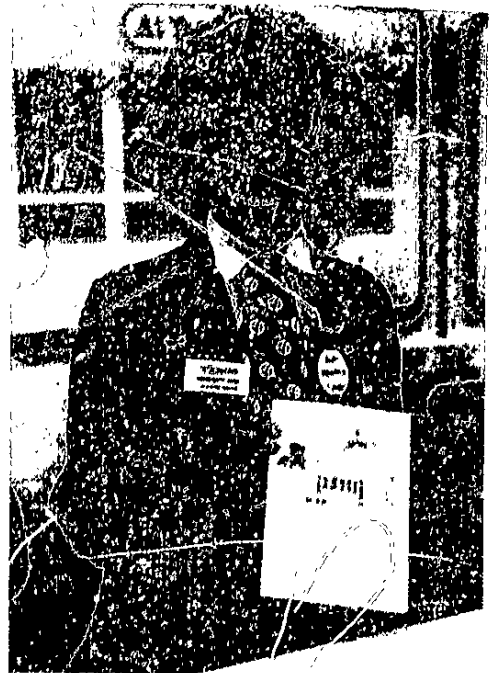
The three year installation programme of computer-controlled labour standards will be completed towards the middle of the current year providing a sophisticated, computer-based, work measurement system.

By the end of the year Tesco will be well positioned for the introduction in 1989 of the composite distribution system for ambient, chilled and frozen products from multi-temperature depots and vehicles.

TECHNOLOGY

Branch Computing, which provides electronic stock ordering, has now been installed into the top 103 stores. Measurements continue to confirm that the original benefits expected are being enjoyed by all these stores. Benefits are mainly in the areas of reduced stock levels and wastage and higher sales through improved availability. By the end of 1988 a total of 160 stores will have branch computing and the programme will be continued into 1989/90.

A new Electronic Point-of-Sale (EPOS) scanning project has been developed and a pilot scheme with Nixdorf was very successfully implemented at the Flitwick store. Extensive services provided to the



Improved customer relations are building customer loyalty.

customer at the checkout, including cheque and credit slip printing, and weigh scales, have been well received. Installation is currently planned in 30 stores during 1988/89 and a further 70 stores over the next two years.

Tesco is developing Electronic Funds Transfer at Point-of-Sale (EFTPOS) systems. Our latest scanning equipment is well designed to accommodate EFTPOS and the tests in petrol filling stations and



New EPOS installations provide increased consumer benefit.



Spacious and attractive surroundings are increasing sales in our new health and beauty departments.

various stores have been valuable.

A warehouse computer system, which provides stock control functions for Tesco depots, has now been installed in all grocery, non-food and bonded wines and spirits depots. For various fast-moving grocery lines, stores are now receiving daily deliveries with a lead-time of 24/48 hours, whilst the current computerised Home 'n' Wear replenishment system has been amended to significantly reduce lead-times and stock levels.

The area of direct deliveries by suppliers continues to be advanced by the provision of electronic means of order transmission. The number of main suppliers involved in this scheme continues to grow. Our participation in the nationwide Tradanet scheme, for which we were a pilot member, has proven very successful.

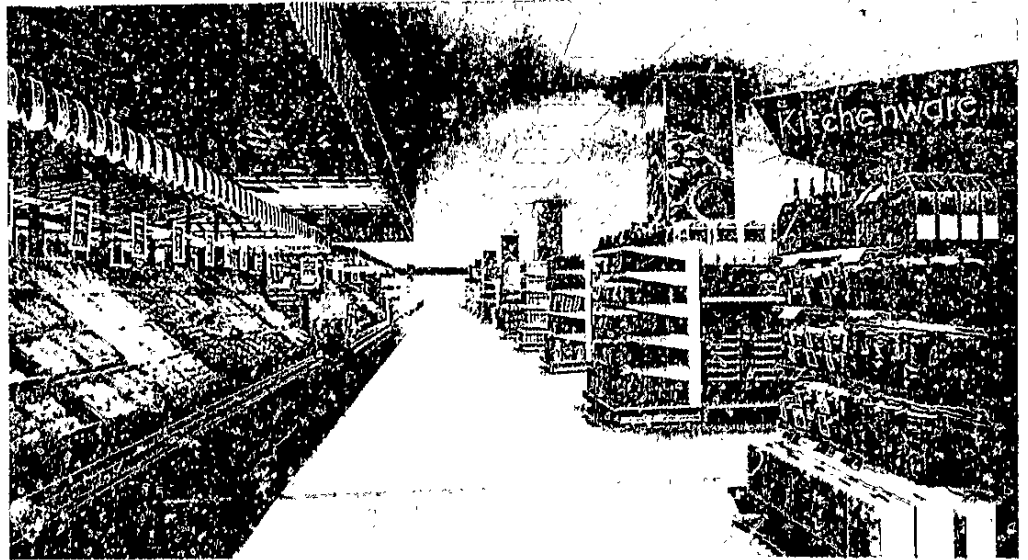
A trial of computerised vehicle scheduling facilities has confirmed the operational benefits of such an approach.



Own-label development is continuing at a rapid pace in the health and beauty market.



Growth in areas like textiles underlines the success of Tesco Home 'n' Wear policy.



Wide aisles provide space and shopping comfort for customers.

These facilities determine optimum routes and delivery schedules to meet store requirements while maximising driver and vehicle utilisation. A system is being developed for installation in 1988.

NEW STORES

The company has continued to refine its site acquisition process, particularly regarding the use of the planning appeals procedure.

It is encouraging that there is an increasing awareness by authorities that superstores are an accepted and established part of the shopping environment which are entirely complementary to existing facilities.

We continue to achieve a high level of success at appeal. This is the result of our site selection and appeal preparation procedures.

The appointment of a Director of Town Planning for Tesco Stores Limited, the first such appointment by a retailer, illustrates the company's commitment to develop and improve its dialogue with local authorities and civic bodies. It gives new impetus to our long-standing interest in all retail development matters, especially in the highly visible and vitally important area of town planning.

Our record on superstore development has been highly praised. Stores such as Whitstable, Lewisham and Baldock have been cited by local authorities as prime examples of how modern, functional buildings can be architecturally attractive and friendly to the environment and the customer.

Seventeen new stores were opened during the year including New Malden in



Newspaper and magazine departments have achieved increased sales.

August 1987. This store marks an important stage in superstore development, not just for Tesco but also for food retailing, setting new standards in design with extended facilities and added quality.

The Brookfield Centre redevelopment at Cheshunt was opened just before the year-end, alongside a new 69,000 sq ft Marks and Spencer. It represents the first development undertaken by Marks and Spencer jointly with Tesco. Further joint sites at Camberley, Surrey and Handforth, South Manchester are under purchase contracts subject to receipt of acceptable planning consents. Other joint proposals are being considered by both companies.

The acquisition of Hillards represented an important step in our development strategy for expansion in Yorkshire and the North of England.

New stores planned by Hillards were opened at Leeds, Nottingham and Doncaster and a further opening is planned for Barnsley. These will further consolidate our position in that region where we are also opening a 160,000 sq ft retail centre, including a 70,000 sq ft superstore, outside York.

Sixteen stores are projected to open in the current financial year adding over 570,000 sq ft of sales area. This includes our own store in the 23 acre development at Surrey Quays in London's Docklands which will be completed this Autumn. All units at

Surrey Quays have been let or are under offer.

COMMUNITY SUPPORT

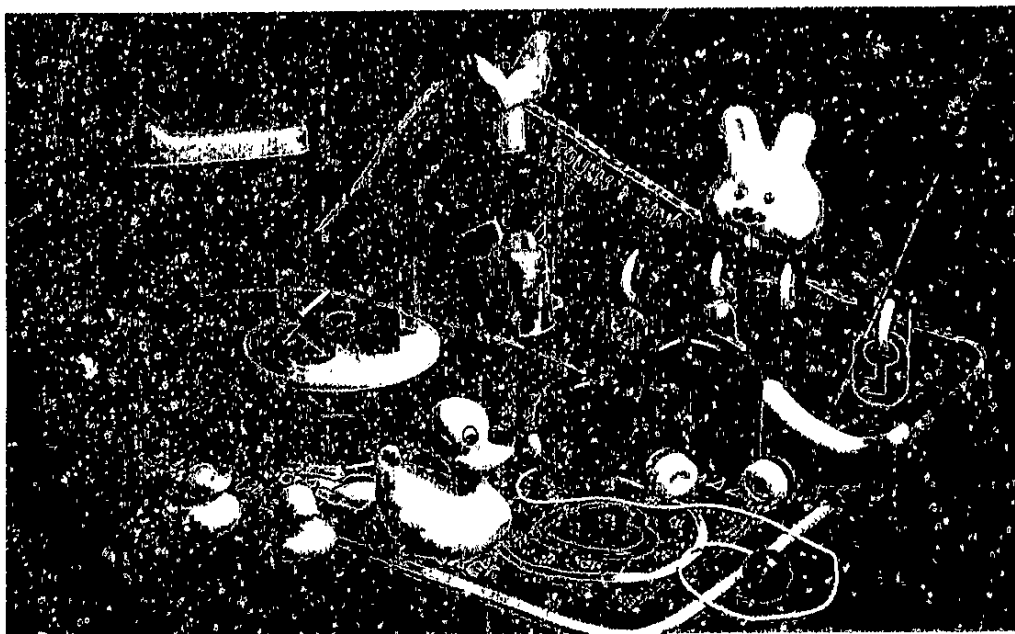
The contribution that we and our employees make to the community is very extensive. In addition to funds directly donated by Tesco, employees have raised large amounts of money through sponsorship for a considerable number of causes.

Twenty-two Sunshine coaches were donated to the Variety Club of Great Britain, making a total of 106 over the past six years, and a further £25,000 has been donated for Heartbeat Wales bringing the total contribution so far to over £250,000. The Give As You Earn scheme was introduced during the year enabling employees directly to donate money to the charity of their choice.

Our care for the community has been extended to the products we sell. For example, it is estimated that over 10,000 children are involved every year in accidental poisoning due to the ingestion of household chemicals, such as disinfectant or bleach. To combat this problem, Tesco has incorporated child-safety caps on a number of household and DIY products, and is the first company to add Bitrex to many other potentially hazardous products. Bitrex is a substance so bitter that it is almost impossible to swallow.



Consumer kitchens provide a unique service to Tesco shoppers.



A range of products was launched successfully for the pre-school market.



Well trained and pleasant staff keep Tesco at the forefront of U.K. food retailing.

In a further effort to improve safety in the home, Tesco is the first company to incorporate a braille description on to a wide range of household products, so helping the blind to identify products more easily on the shelf and in the home.

PEOPLE

The last financial year has seen a major new initiative—the Customer First Campaign.

It is clear that consumers are becoming more sophisticated and more demanding in their desire for an ever widening range of merchandise and improved quality and service. Tesco is responding to these needs with the development of products and the way in which they are sold.

If this leads to more competition on these grounds among retailers and manufacturers alike then that is to be wholly welcomed. It is, however, the human face that will differentiate one retailer from another.

Tesco has now embarked on the Customer Standards programme, following the first phase of the Customer First Campaign. The aim is to improve customer relations throughout the business based on the premise that everyone is someone's customer. The programme started at store level but has now been implemented through all departments including head office.

Tesco is, of course, ever mindful of the need to concentrate on the welfare, training and development of employees. Training,

development and equal opportunity policies are designed to ensure that the progression of the most able is achieved.

The aim of the Profit Sharing Scheme is to help employees identify more closely with the company's objectives and progress. For this, the first full year of its operation £10.7 million will be shared by 30,000 staff.

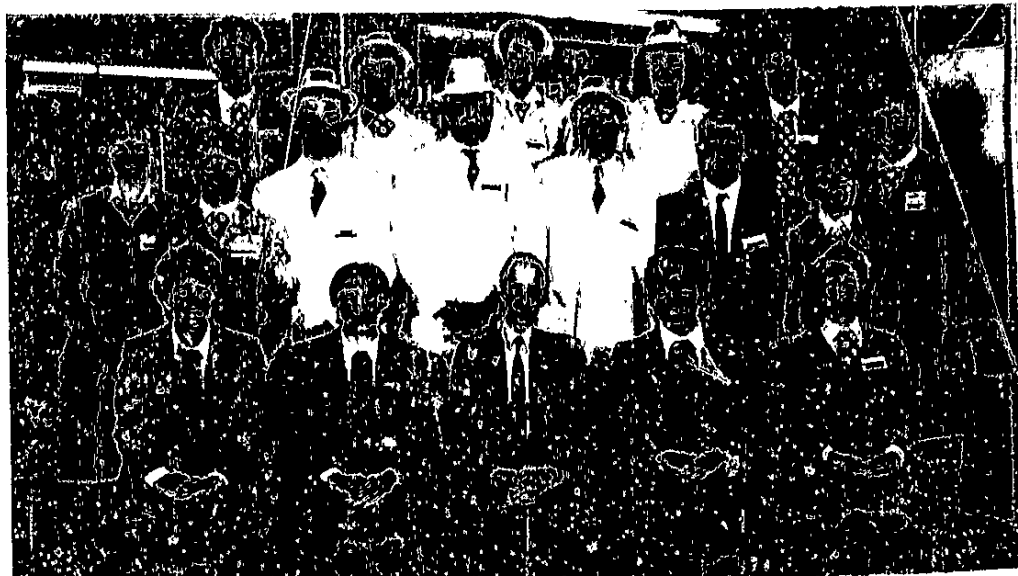
Our communication policies, including the important role of *Tesco Times*, the company newspaper, are designed to provide employees with regular information about the company, their progress and their team's progress.

This year, the company continued its investment in trainees at all levels and has increased its investment at graduate level.

Our policy of employing high calibre people and rewarding them commensurately extends to part-time employees for whom a pension scheme was introduced during the year. In addition, some of the actuarial surplus in the pension fund has once again been used to improve benefits.

Retailing is now a worthwhile career and provides a satisfying job for thousands of full and part-time staff.

This year has seen significant developments in the company's Industrial Relations policy. In January, 1988, the company resigned its membership of the Multiple Food Retailers Employers' Association through which it has negotiated the Terms and Conditions of Employment for the last 20 years. This decision was made so as to enable Tesco to directly address employment issues.



Our 'Customer First' campaign and competition resulted in a rise in the standards of service to our customers. Stafford store took the title, thanks to their consistently high performance.

In furtherance of this, the Chairman, Ian MacLaurin and Garfield Davies, General Secretary of the Union of Shop, Distributive and Allied Workers (USDAW), signed a Statement of Intent that details both parties' commitment to negotiating directly on a whole range of employment issues.

A YEAR OF ACHIEVEMENT

The past year has been a year of outstanding achievement for the company and its people. Tesco was voted in the top three of most respected retailers in Britain according to a *Sunday Times* survey. In addition we were the food retailer gaining the most business respect during the past year. The survey, of more than 1,000 company directors and city analysts, placed Tesco seventh overall in the list of most respected companies.

Our people have captured a whole host of prizes for excellence in their business. They have built up an impressive record of passes in important examinations within the industry.

The superstore development programme, which is already held in high esteem because of its friendly approach to the environment and the community, continues to win awards. This year they include civic awards for recognition of the way in which buildings have blended in with the environment and played a major role in the regeneration of urban wasteland. In addition, the company's contribution to promoting the health education "Look After Your Heart" campaign has been recognised. Other awards have come from local authorities for the excellence of our stores in the area of cleanliness and hygiene standards.

PEOPLE AWARDS

Superstore Manager of the Year: Noel Robbins of Northampton Mereway store won the title in the competition arranged by *Super Marketing* magazine. The prizes were presented by Bob Dunn, Junior Education Minister at a presentation dinner and included a week-long study tour of retailing developments in the USA. Finalists had to answer questions set by the Institute of Grocery Distribution and submit a 1,000 word essay on advances in retail technology and distribution systems before an interview with the judging panel.

Supermarket Manager of the Year: Paul Bennett of Newbury was the runner-up to this title in the same competition.

Checkout Assistant of the Year: Jane Bryan of Lichfield store won this national competition run by *Super Marketing*. Finalists were judged at the Savoy Hotel on accuracy, speed and personality.

Off-Licence Manager of the Year: Ann Bell, Wines and Spirits Manageress at St Austell store won the title of Britain's top off-licence operator from amongst six finalists in the Off-Licence News/Martini and Rossi Awards. Judges used video recorders to assess 500 contenders. The first prize worth £5,000 was presented in the Martini Terrace in London.

Institute of Grocery Distribution—Diploma in Grocery Distribution: 43 retail management trainees passed the Diploma, six were national prize winners (Ken Towle—Brent Park, David Lewis—Hanley, Geoff Melling—Melton Mowbray, Michael Dudge—Worksop 2, Miles Olding—Ipswich, Anthony Davies—Worksop).

Institute of Personnel Management Foundation Certificate: 13 staff managers have passed the examinations.

STORE AWARDS

Lewisham

Civic Trust Commendation

HRH The Prince of Wales is the Civic Trust's Patron. The Awards are open to buildings in the London Boroughs and the Metropolitan Districts.



Noel Robbins won the coveted 'Superstore Manager of the Year' title.



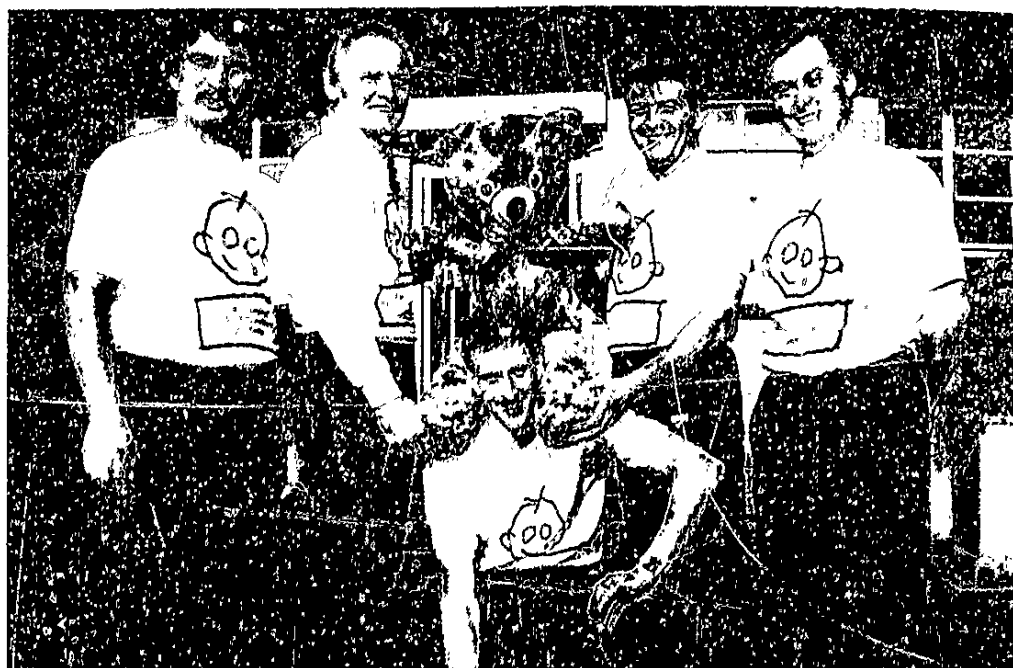
Ann Bell of St Austell store became the first woman to win the title of 'Off-Licence Manager of the Year'.



Lewisham Store won a Civic Trust Award.



Jane Bryan of Lichfield took first prize in the annual competition for 'Check-out Assistant of the Year'.



Tesco employees aim to raise £1,000,000 for the Great Ormond Street Hospital Rebuilding Appeal.



Paul Bennett with his Supermarket Manager Award.

The awards originated from concern about the future of urban areas and the inner cities. The Trust's Chairman, Christopher Benson, says: "Civic Trust Awards are unique in recognising those schemes which bring together quality of design with overall environmental impact." 1987 saw over 480 entries and the Tesco superstore in Lewisham was amongst the 65 commendations. The site had been derelict for several years and the surface parking facilities, the landscaping of the pedestrian walkway by the river and the retaining of Eagle House, an historical building on the site, were given a special mention.

Baldock North Herts District Council's Commendation 1986 Annual Civic Awards

Care is taken to design and landscape new Tesco superstores so that the original character of the site is preserved. At Baldock, the classical style facade of the original 1920s film studio was preserved and incorporated into the superstore design to win a commendation in the North Herts Civic Awards.

Romford London in Bloom

The flowers and landscaping surrounding the store were recognised by the London Visitor and Convention Bureau. The

Bureau nominated the store for the Award after judges travelled the area in search of winners.

Cambridge Heartbeat Award

The company is promoting the national Health Education Authority's "Look After Your Heart" campaign, and the store received some of the first Heartbeat Award certificates from South Cambridgeshire District Council. The council was sponsored by the company to run the awards. The award was won for hygiene standards, good staff training, providing no-smoking areas and for giving a healthy eating choice in the staff restaurant. Tesco was the first major retailer to support the campaign and is now being followed by others such as Marks and Spencer and Boots. Carey Dennis, Head of Product and Consumer Services is on the government's committee implementing the campaign.

Brent Park, Neasden Brightening up London Awards

There were three categories of awards—Community Service, Architecture and Environment, and Commerce. The store was runner-up in the "Commerce" category and Mike McDermott, store general manager was presented with a certificate.



Tesco continues to maintain its position as the biggest contributor to the Variety Club Sunshine Coach Appeal.

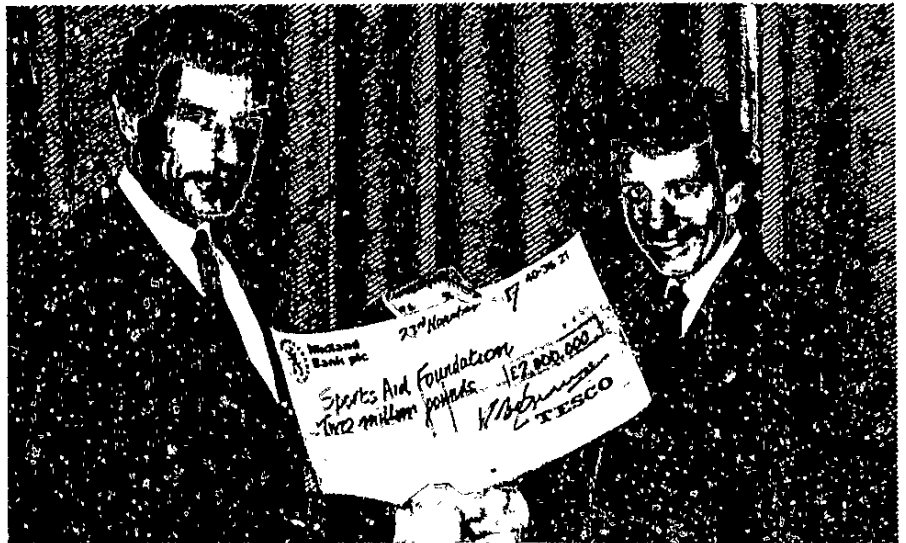
**Belle Vale
Social Services Today Award**

This was run by Social Services Today magazine. Belle Vale store, Liverpool won the Care in the Community category. A shopping delivery service is run from the store and is manned by mentally handicapped employees.

Epicurian Circle whose President is the distinguished food writer Jean Conil. He writes for *The Times* amongst other publications and presented the award at Brent Park store.

YTS Awards

Our YTS Scheme has won an Approved Training Organisation award from the Manpower Services Commission. Only 40 per cent of 3,000 organisations monitored by the MSC gained the award.



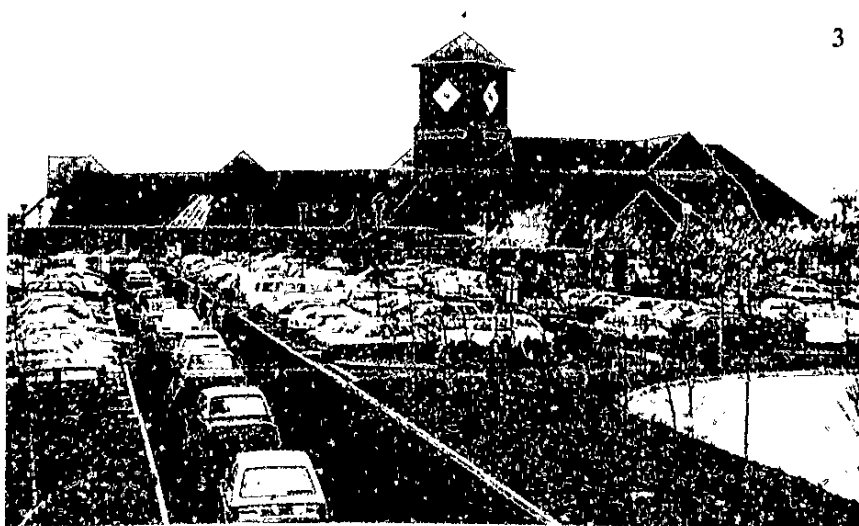
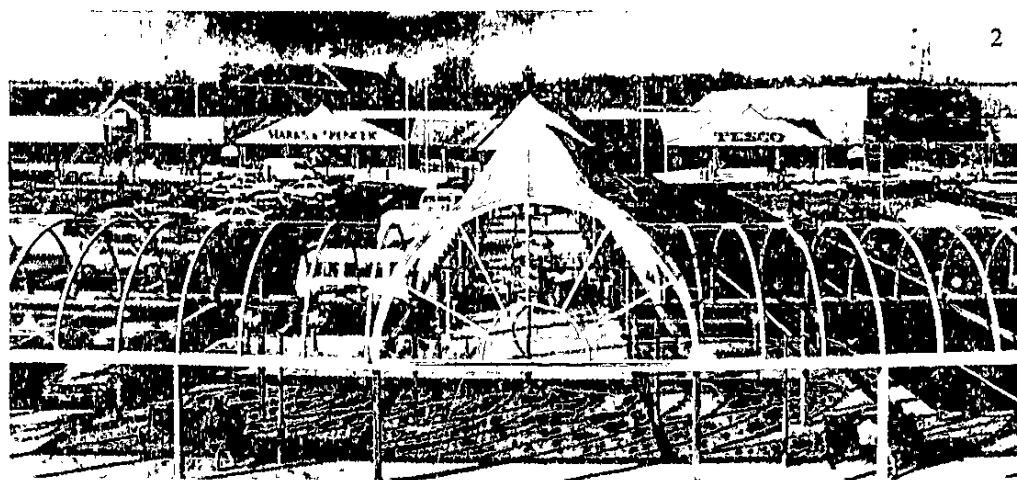
PRODUCT AWARDS

Grand Prix d'Excellence

The company won this prize for the quality and excellent presentation of our fresh foods. It was awarded by the International

Thanks to Tesco participation the Sports Aid Foundation has received £2,000,000 via its Chairman, Ian MacLaurin who is seen presenting the cheque to Mr Sean Moynehan the Minister for Sport.

1. Careful design and use of building material makes this superstore at Witham, Essex a focal point for shoppers.
2. Brookfield Centre, Cheshunt, is the first joint development with Marks & Spencer.
3. Architectural design at Hatfield brings a new dimension to the environment.
4. Our flagship store at New Malden continues to attract interest.



5



7

5. Careful landscaping provides a fine setting for the Wafford store.

6. Extended shopping hours have proved highly popular with customers using stores like Rugby.

7. Flat free car parking as illustrated by this shot at our Truro store rates high with superstore shoppers.

8. Striking design at Goodmayes, Essex characterises today's Tesco superstores.

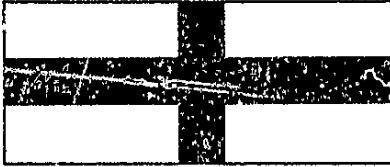
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COMPANY REVIEW

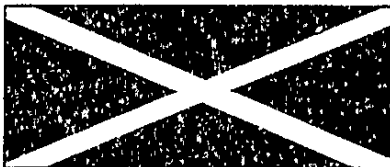
The company has stores in:

ENGLAND



ABINGDON	COVENTRY	HENDON	NEWTON ABBOT	STAFFORD
ALFRETON	CRAWLEY	HERFORD	NORTH HAMPTON	STAMFORD
ANDOVER	CROSSGATES	HESWALL	NORTHENDEN	STEVENAGE
ASHFORD	DEAL	HIGH WYCOMBE	NORTHFIELD	STOCKPORT
ATHERTON	DEVIZES	HORN HURCH	NORWICH	STOCKTON ON TEES
AYLESBURY	DIDSBURY	HORSHAM	NOTTING HILL	STOKE ON TRENT
BALDOCK	DONCASTER	HORWICH	NOTTINGHAM	STOURPORT
BAR HILL	DORCHESTER	HOUNSLOW	OADBY	STRAITFORD ON AVON
BARKING	DOVER	HOVE	OLDHAM	STREET
BARNSTAPLE	DUDLEY	HUCKNALL	ORMSKIRK	STRET FORD
BARROW IN FURNESS	DUNSTABLE	HUDDERSFIELD	OXFORD	STROOD
BELFORD	EALING	HULL	PADDINGTON	STROUD GREEN
BENINGSTOKE	EAST GRINSTEAD	HUNTINGDON	PAIGNTON	SUNDERLAND
BATLEY	EAST MOLESEY	HYDE	PALMERS GREEN	SUTTON
BEDWORTH	EAST RETFORD	ILKLEY	PENZANCE	SWINDON
BERKHAMSTED	EASTBOURNE	IPSWICH	PETERBOROUGH	TEDDINGTON
BETHNAL GREEN	EASTLEIGH	IRAM	PLYMOUTH	TEWKESBURY
BICESTER	EDGWARE	IVYBRIDGE	PONDERS END	THAME
BIRKENHEAD	EGHAM	KIDLINGTON	PONTEFRAC	THORNTON HEATH
BIRMINGHAM	ELEPHANT & CASTLE	KING'S LYNN	POLY	TIVERTON
BLACKBURN	ELTHAM	KNOWLE	PORTSLADE	TROWBRIDGE
BOLTON	ELY	KNUTSFORD	PORTSMOUTH	TRURO
BOOTLE	EPPING	LARKFIELD	POTTERS BAR	TUNBRIDGE WELLS
BOREHAMWOOD	EVESHAM	LEAMINGTON SPA	QUENIFLEY	UPTON PARK
BOSTON	EXETER	LEEDS	RAINHAM	UTTONGETER
BOW	FALMOUTH	LEICESTER	RAMSGATE	UXBRIDGE
BRADFORD	FAVERSHAM	LEWISHAM	RAYLEIGH	VICTORIA
BRAINTREE	FELIXSTOWE	LEYTON	RLADING	WAKEFIELD
BRIGHTON	FELTHAM	LICHFIELD	REDDITCH	WALKDEN
BRISTOL	FERNDOWN	LINCOLN	REDRUTH	WALLASEY
BRIXTON	FINCHLEY	LIVERPOOL	RICKMANSWORTH	WALSALL
BROADSTAIRS	HITWICK	LOUGHBOROUGH	ROCHDALE	WANDSWORTH
BROWN HILLS	FOLKESTONE	LOWER EDMONTON	ROMFORD	WARE
BURGESS HILL	FORMBY	LOWESTOFT	ROTHERHAM	WATERLOOVILLE
BURTON UPON TRENT	FRIERN BARNET	LUTON	ROTHERHITHE	WATFORD
BURY	GARFORTH	LYMINGTON	RUGBY	WELLING
CAMBERLEY	GATESHEAD	MACCLESFIELD	RUNCORN	WELLINGBOROUGH
CAMBORNE	GATWICK	MAIDENHEAD	RYDI	WEST BROMWICH
CAMDEN TOWN	GLOSSOP	MAIDSTONE	SALT	WEST DURREINGTON
CANNOCK	GOODGE ST.	MALDON	SALFORD	WEST MALLING
CARLISLE	GOODMAYES	MANSFIELD	SALISBURY	WISTON SUPER MARE
CARLTON	GOSPORT	MARGATE	SCARBOROUGH	WEYMOUTH
CASTLE BROMWICH	GRAVESEND	MARKET	SCARISBRICK	WHITCHURCH
CATFORD	GRAYS	HARBOROUGH	SCUNTHORPE	WHITSTABLE
CHATHAM	GREAT YARMOUTH	MELTON MOWBRAY	SELBY	WHITTON
CHELMSFORD	GREENFORD	MEXBOROUGH	SEVENOAKS	WIMBLEDON
CHELTONHAM	GRIMSBY	MICKLEOVER	SHEERNESS	WINTON
CHESHUNT	GUILDFORD	MIDDLETON	SHEFFIELD	WISBECH
CHESTER	PACKNEY	MITCHAM	SHREY SHIPPY	WITAM
CHICHESTER	HADEIGH	MORECAMBE	SKIPTON	WOKINGHAM
CIRENCESTER	HALIFAX	MOSELEY	SLOUGH	WOLVERHAMPTON
CLACTON ON SEA	HANLEY	MOSSLEY HILL	SMETHWICK	WORCESTER
CLECKHEATON	HARLOW	NEASDEN	SOUTH TOTTENHAM	WORKINGTON
CLEVELYS	HAROLD HILL	NESTON	SOUTHAMPTON	WORKSOP
CLITHEROE	HARROW	NEW ADDINGTON	SOUTHSEA	YATE
COBHAM	HASTINGS	NEW MALDEN	SPALDING	YEOVIL
COLCHESTER	HATFIELD	NEWBURY	ST ALBANS	YIEWSLEY
COSHAM	HAVANT	NEWMARKET	ST AUSTELL	YORK
	Hemel Hempstead	NEWPORT		

SCOTLAND



AYR	GLASGOW	KILMARNOCK	RENFREW	STIRLING
DUNDEE	GREENOCK	KIRKCALDY	SALT COATS	WESTERHAILES
FALKIRK	IRVINE	PERTH		

WALES



ABERDARE	CAERNARFON	HAVERFORDWEST	PONTYPOOL	SHOTTON
ABERGAVENNY	CAERPHILLY	LLANELLI	PONTYPRIDD	TALBOT GREEN
BARRY	CARDIFF	MERTHYR TYDFIL	PORT TALBOT	TREDEGAR
BLACKWOOD	CARMARTHEN	NEATH	RHYL	WREXHAM
BRIDGEND	EDBW VALE	NEWPORT	SWANSEA	

Towns with superstores (in excess of 25,000 square feet sales area) are indicated in red

Stores and major extensions opened in 1987/88

New Stores

Crawley
Doncaster
Friern Barnet
Goodmayes
Hatfield
Ipswich
King's Lynn
Leeds
Melton Mowbray
New Malden
Nottingham
Ponders End
Rugby
Truro
Watford
Witham
Worcester

New
Sales Area
(square feet)

29,000
27,500
37,000
37,000
40,500
42,000
32,000
33,000
23,500
54,000
34,000
23,000
40,000
34,500
46,000
20,000
29,500

Resultant
Sales Area
(square feet)

59,000
41,500
59,500
48,500

Total 17 stores

582,500

Extensions

Aylesbury
Basingstoke
Cheshunt, Brookfield Centre
Pontypridd

18,000
14,000
21,000
19,500

72,500

655,000

794,000

40 Hillards stores acquired

Total sales area gain

1,449,000

Average size of stores opened
(excluding Hillards)

34,500

Stores to be opened in 1988/89

Barnsley
Bedford
Bognor
Bracknell
Carmarthen
Clitheroe
Dover
Hertford
Maidstone
Newcastle upon Tyne
Newmarket
Sidcup
Solihull
Stevenage
Surrey Quays
York

45,500
40,500
40,000
28,000
32,500
16,000
39,500
21,000
20,000
40,000
24,000
38,500
42,000
37,500
49,000
57,500

571,500

Total sales area gain (16 stores)

36,000

Average size of stores to be opened



The directors present their Annual Report on the affairs of the group together with the accounts and auditors' report for the 52 weeks ended 27th February, 1988.

Results and Dividends

Group turnover including VAT increased by £559.2m to £4,365.7m, representing a volume gain of 14%.

Group profit before tax and profit sharing for the year was £241.3m compared with £178.5m for the previous year, an increase of £62.8m. This represented a net margin of 5.9% compared with 5.0%.

The amount allocated to the employee profit sharing scheme this year was £10.7m compared with £2.6m for the second half of last year when the scheme commenced.

After provision for tax of £76.8m and dividends, paid and proposed, of £42.1m, profit retained for the financial year amounted to £111.7m.

An interim dividend of 1.00p (gross equivalent 1.37p) per ordinary share has been paid on account of the 52 week period ended 27th February, 1988 and the directors recommend the payment of a final dividend of 1.85p (gross equivalent 2.47p) per ordinary share to be paid on 1st July, 1988.

Principal Activity and Business Review

The principal activity of the company and its subsidiaries during the year was food retailing within the United Kingdom. For a detailed business review, please refer to pages 7 to 21.

Acquisition

Hillards plc and subsidiary companies were acquired on 15th May, 1987 at an acquisition cost of £231.1m as a result of a general offer. The company operated 40 stores in the Yorkshire region.

Capital Expenditure

Capital expenditure amounted to £407m compared with £312m during the previous year.

A summary of the changes in fixed assets and information relating to market value is shown in Note 8 to the Accounts. A professional valuation of the majority of the group's properties was carried out as at 27th February, 1988 which shows a surplus of £219m on the basis disclosed in paragraph (c) of Note 8 to the Accounts.

Share Capital

During the year, the company issued 42,120,927 ordinary shares of 5p each as

part of the consideration for the acquisition of the entire issued share capital of Hillards plc.

A capitalisation issue on the basis of two new shares for every one held was made on 3rd July, 1987.

The company resolved to allow shareholders the option to receive ordinary shares in lieu of cash dividends payable; this facility was first available for the interim dividend declared for the current year.

On 9th July, 1987, the company allotted 1,353,261 ordinary shares to the trustees of the profit sharing scheme. Further shares were allotted and options granted under the company's share option schemes for employees.

Details of all share capital movements and options can be found in Notes 16 and 17 to the accounts.

Resolution 9 set out in the notice of the annual general meeting is proposed in order to renew until the next annual general meeting the directors' power to issue ordinary shares for cash in connection with a rights issue or up to a maximum nominal value equivalent to 5% of the issued share capital without having to observe the pre-emption rights in section 89 of the Companies Act 1985.

Funding

In March 1987, the company raised approximately £112m, after expenses, by the issue of £115m 4% convertible bonds 2002. These bonds are listed on The International Stock Exchange.

In December 1987, the company arranged a £200m multi-option facility, of which £150m was underwritten for five years by a syndicate of banks at a fixed margin above market interest rates. Simultaneously, the company announced that it had arranged an uncommitted facility to borrow amounts up to a total value of £150m outstanding at any one time through the issue of sterling commercial paper.

In August 1987, £26.9m of the 9% convertible unsecured loan stock 2002/2007 was converted into ordinary shares. The amount of outstanding stock is now £16.4m.

Details on the above can be found in Note 13.

Substantial Shareholdings

There was, at 13th April, 1988, no person holding or, as far as the register of shareholders discloses, beneficially interested in 5% or more of the share capital of the company.

Directors and their Interests

The names of the directors and their interests are shown below with the exception of Mr. J. A. Gardiner who was appointed after the year end. Mr. H. F. Pennell was a director until his retirement on 25th February, 1988. Mr. F. R. N. Krejsa, Mr. J. M. F. Padovan and Mr. D. E. Reid retire from the Board by rotation in accordance with the company's Articles of Association and, being eligible, offer themselves for re-election. Mr. J. A. Gardiner was appointed a director on 8th March, 1988 and in accordance with the company's Articles of Association retires and, being eligible, offers himself for re-election.

The service contract of Mr. Krejsa expires on 30th April, 1989. The service contract of Mr. Reid is for a term of three years currently running from 1st January, 1988. Mr. Gardiner and Mr. Padovan do not have service contracts of more than one year's duration.

Non-executive directors

Mr. V. W. Benjamin was appointed to the

Board on 2nd August, 1982. He also acts as an executive on a part-time basis. He is a partner in Berwin Leighton, the company's solicitors, and deputy chairman of Lex Service PLC.

Miss D. O'Cathain was appointed to the Board on 18th December, 1985. She is managing director, milk marketing, of the Milk Marketing Board and a non-executive director of Midland Bank plc and Sears plc.

Mr. J. M. F. Padovan was appointed to the Board on 2nd August, 1982. He is a director of Barclays de Zoete Wedd Holdings Ltd. and subsidiary companies.

Sir Leslie Porter was appointed to the Board on 31st December, 1959. He was chairman of the company from 1973 to 1985 and is chairman of Unicorn Heritage PLC and a director of a number of other companies.

Mr. J. A. Gardiner was appointed to the Board on 8th March, 1988. He is chairman and chief executive of The Laird Group plc and a director of Cambrian & General Securities PLC.

Directors' Shareholdings and Interests

Directors' shareholdings in the company and family interests at the year-ends were as follows:—

Beneficial and Family Interests	Ordinary Shares		Convertible Unsecured Loan Stock	
	1988	1987	1988	1987
Mr. I. C. MacLaurin	136,863	116,265	750	750
Mr. V. W. Benjamin	75,000	15,000	—	—
Mr. A. D. Malpas	53,015	3,000	—	—
Mr. M. Darnell	44,375	24,375	—	—
Mr. J. Gildersleeve	27,000	24,375	—	—
Mr. F. R. N. Krejsa	65,346	70,485	—	—
Miss D. O'Cathain	3,005	—	—	—
Mr. J. M. F. Padovan	3,600	3,600	—	—
Sir Leslie Porter	8,542,453	10,901,427	91,014	91,014
Mr. D. E. Reid	—	—	—	—
Mr. D. C. Tuffin	44,502	24,375	—	—

Non-Beneficial as Trustees

Mr. I. C. MacLaurin	90,000	90,000	5,000	5,000
Sir Leslie Porter	10,174,341	8,410,041	85,320	743,890

1987 figures have been adjusted as a result of the capitalisation issue in July 1987.

Details of all directors' share options are given in Note 17 to the Accounts.

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. Between 27th February, 1988 and 13th April, 1988 there have been no changes in the interests of the directors in the share capital of the company.

On the recommendation of the Remuneration Committee of the Board a performance related incentive scheme was approved at the beginning of this year for the full-time executive directors other than those retiring in the near future. The scheme is dependent on performance over a three-year period commencing in 1987-88 and ending in 1989-90. A provisional amount of £0.8m in respect of the current year's performance has been accrued in these accounts.

Employment of Disabled People

The group's policy in relation to the employment of disabled persons has developed over several years and remains unchanged. Full and fair consideration is given to the employment of applicants who are disabled persons, taking account of their aptitudes and abilities. Employees becoming disabled persons are retained in employment where practicable and fair regard is given to the training needs, career development and promotion potential of disabled persons in the group's employment.

Employee Involvement

The group's employment policy encourages the provision of employment opportunities for women, racial minorities, disabled persons and disadvantaged groups.

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 most important and widespread being schemes under which shares in the company are appropriated to them or they are actively invited to apply for options to acquire shares in the company.

Charitable and Political Contributions

Charitable contributions totalled £344,000 (1987 - £240,000). No political contributions were made.

Number of Shareholders

The number of shareholders in the company at 27th February, 1988 was 61,775 (1987 - 45,218).

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.

By Order of the Board

Michael J. Boxall
Secretary

13th April, 1988

Basis of Accounts

The accounts are prepared 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 subsidiaries, all of which are made up to 27th February, 1988.

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

Hillards plc, acquired on 15th May, 1987, has been consolidated by the means of acquisition accounting, adopting the merger relief provisions of the Companies Act 1985.

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.

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

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

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, for the following reasons:

- a) The group follows a programme of regular refurbishment and maintenance of its properties, which includes the reinstatement of the fabric of buildings, where necessary, in order to maintain them to a high standard
- b) The properties were revalued by Healey & Baker as at February 1988 at open market value for existing use and the valuation showed a considerable surplus over

book value which has not been incorporated in the accounts (see Note 8 to the Accounts).

Accordingly, in the opinion of the directors, the total realisable value of the land and buildings is considerably higher than the book value and the total residual value of buildings will be at least equal to their book value.

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 useful 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.

Surplus advance corporation tax on dividends paid and proposed, which is expected to be recoverable, is set off against any deferred tax provision.

Foreign Currency

Assets and liabilities of overseas subsidiary companies are translated into sterling at the rates of exchange ruling at the balance sheet date, but their operating results are translated at the average rate for the period. The exchange translation differences that arise are dealt with through reserves.

Foreign exchange profits and losses arising in the ordinary course of business during the year are included in operating profit.

Pension Contributions

Contributions are made by the group to the pension schemes in accordance with the actuaries' recommendations and are charged against profits as incurred.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 27th February, 1988 (1987 – 53 weeks)

	Note	1988 £m	1987 £m
Sales to customers at net selling prices		4,365.7	3,806.5
Value added tax		246.6	213.5
Turnover excluding value added tax		4,119.1	3,593.0
Cost of sales		3,816.1	3,367.0
Gross profit		303.0	226.0
Administration expenses		88.6	78.3
Operating profit	1	214.4	147.7
Interest receivable less payable	3	20.3	21.4
		234.7	169.1
Net surplus on sale of properties		6.6	9.4
Profit on ordinary activities before taxation and profit sharing		241.3	178.5
Employee profit sharing	4	10.7	2.6
Profit on ordinary activities before taxation		230.6	175.9
Tax on profit on ordinary activities	5	76.8	56.9
Profit for the financial year		153.8	119.0
Dividends	6	42.1	31.0
Profit retained		111.7	88.0
		pence	pence*
Earnings per share:			
Excluding net surplus on sale of properties	7	10.46	8.76
Including net surplus on sale of properties	7	10.93	9.51
Fully diluted earnings per share:			
Excluding net surplus on sale of properties	7	9.66	8.05
Including net surplus on sale of properties	7	10.07	8.71
Dividend per share		2.85	2.43

*The comparative figures have been restated to account for the capitalisation issue in July 1987.

Accounting policies and notes forming part of these accounts are on page 25 and pages 29 to 40.

BALANCE SHEETS

27th February, 1988

			Consolidated		Tesco PLC	
1987		Note	1988	1987	1988	1987
£m			£m	£m	£m	£m
06.5	Fixed Assets					
13.5	Tangible assets	8	1,415.7	999.9	—	—
93.0	Investments: shares in subsidiaries	9	—	—	23.8	19.3
67.0	Current Assets					
26.0	Stocks (goods for resale)		179.0	182.5	—	—
78.3	Debtors	10	39.7	13.8	949.2	674.5
47.7	Money Market investments and					
21.4	deposits	11	8.0	40.2	6.8	31.5
69.1	Cash at bank and in hand		27.3	20.3	—	—
9.4			254.0	256.8	956.0	706.0
78.5	Creditors:					
2.6	Amounts falling due within one year	12	508.7	440.4	116.1	59.0
75.9	Net current assets/(liabilities)		(254.7)	(183.6)	839.9	647.0
56.9	Total assets less current liabilities		1,161.0	816.3	863.7	666.3
19.0	Creditors:					
31.0	Amounts falling due after more than					
88.0	one year	13	289.1	120.4	230.1	105.1
	Provisions for liabilities and charges	14	1.2	5.8	(0.3)	—
			870.7	690.1	633.9	561.2
	Shareholders' funds					
	Called up share capital	16	74.0	21.2	74.0	21.2
	Reserves	18	796.7	668.9	559.9	540.0
			870.7	690.1	633.9	561.2

Directors: I. C. MacLaurin, D. E. Reid.
Accounts approved by Board: 13th April, 1988.

I. C. MacLaurin
D. E. Reid



Accounting policies and notes forming part of these accounts are on page 25 and pages 29 to 40.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

52 weeks ended 27th February, 1988 (1987 – 53 weeks)

	1988		1987	
	£m	£m	£m	£m
Source of funds				
Profit on ordinary activities before taxation		230.6		175.9
Adjustment for items not involving movement of funds:—				
Depreciation and amortisation		61.1		52.4
Net surplus on sale of properties		(6.6)		(9.4)
Tax relief on interest capitalised		(9.4)		(6.4)
Amortisation of discount on loan stock		1.2		0.7
Total generated from operations		276.9		213.2
Funds from other sources				
Net proceeds from convertible bonds	111.9		—	
Net proceeds from issue of commercial paper	17.9		—	
Increase in medium term bank loans	17.8		—	
Net proceeds from deep discount loan stock issue	—		60.4	
Proceeds from disposal of tangible assets	25.1		25.8	
Shares issued in part consideration of the acquisition of Hillards plc (Note 20)	228.7		—	
Proceeds from other issues of shares	10.0		1.6	
Proceeds from disposal of business	—		7.8	
		411.4		95.6
		688.3		308.8
Application of funds				
Purchase of tangible assets	495.4		311.9	
Dividends paid in cash	34.4		26.0	
Taxation paid	69.6		47.2	
Decrease/(increase) in leasing commitments	9.7		(15.4)	
Purchase of goodwill on acquisition of Hillards plc (Note 20)	193.9		—	
		(803.0)		(369.7)
Increase/(decrease) in working capital		(114.7)		(60.9)
Increase/(decrease) in working capital				
Increase/(decrease) in stocks		(3.5)		(0.4)
Increase/(decrease) in debtors		25.9		(10.6)
Decrease/(increase) in creditors		(55.8)		3.4
Movement in net liquid funds including short-term deposits		(81.3)		(53.3)
		(114.7)		(60.9)

Accounting policies and notes forming part of these accounts are on page 25 and pages 29 to 40.

1. Operating Profit

Profit is stated after charging the following:

	1988	1987
	£m	£m
Depreciation and amortisation*	61.1	52.4
Operating lease costs	22.8	19.3
Auditors' remuneration	0.2	0.2
Staff costs (note 2a)	391.9	332.9

Operating profit includes £13m in respect of the incremental contribution from the stores acquired with Hillards plc.

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

*This excludes profit/loss on disposal of tangible assets; the prior year figure has been restated accordingly.

2. Staff Costs

(a) Employment costs during the year

	1988	1987
	£m	£m
Wages and salaries	354.7	300.7
Social Security costs	23.5	19.6
Other pension costs	13.7	12.6
	391.9	332.9

Included within staff costs is an accrual of £0.8m (1987-£nil) for the directors' deferred compensation scheme, as referred to in the Directors' Report. This amount is not included in the directors' emoluments analysed below, since the compensation is dependent upon the cumulative performance from 1987-88 to 1989-90 and any entitlement to compensation will not vest until the 1990-91 financial year.

(b) Number of persons employed

The average number of UK employees per week during the year was 71,262 (1987 - 62,652) — full-time equivalent 50,192 (1987 - 45,260).

(c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were £1,481,847 (1987 - £1,220,937) including £45,674 (1987 - £53,944) in respect of services as directors.

The emoluments of the Chairman, who was the highest-paid director, amounted to £196,951 (1987 - £155,504), excluding pension contributions.

Other directors' aggregate emoluments and the emoluments of other employees earning in excess of £30,000, excluding pension contributions, fall within the following scales:

	Number of Directors		Number of other Employees	
	1988	1987	1988	1987
From £5,001 to £10,000	—	1		
From £15,001 to £20,000	2	2		
From £25,001 to £30,000	1	1		
From £30,001 to £35,000	—	—	51	40
From £35,001 to £40,000	—	—	20	21
From £40,001 to £45,000	—	—	9	11
From £45,001 to £50,000	—	—	12	9
From £50,001 to £55,000	—	—	4	2
From £55,001 to £60,000	—	1	4	—
From £60,001 to £65,000	—	—	2	2
From £65,001 to £70,000	1	3	—	—
From £70,001 to £75,000	—	2	—	—
From £75,001 to £80,000	—	1	—	—
From £80,001 to £85,000	1	—	—	—
From £85,001 to £90,000	3	—	—	—
From £90,001 to £95,000	1	—	—	—
From £95,001 to £100,000	1	—	—	—
From £100,001 to £105,000	—	1	—	—
From £105,001 to £110,000	1	—	—	—
From £110,001 to £115,000	—	—	—	—
From £115,001 to £120,000	—	—	—	—
From £120,001 to £125,000	—	—	—	—
From £125,001 to £130,000	—	—	—	—
From £130,001 to £135,000	—	—	—	—
From £135,001 to £140,000	—	—	—	—
From £140,001 to £145,000	—	—	—	—

3. Interest

	1988 £m	1987 £m
Interest receivable and similar income on Money Market investments and deposits	36.1	31.0
Deduct interest payable on:		
Short term bank loans and overdrafts repayable within 5 years	(28.0)	(18.8)
Finance charges payable on finance leases	(1.7)	(0.3)
9% Convertible unsecured loan stock 2002/2007	(2.1)	(4.3)
4% Unsecured deep discount loan stock 2006	(6.1)	(4.3)
4% Convertible bonds 2002	(4.3)	—
Interest capitalised	26.4	18.1
	(15.8)	(9.6)
	20.3	21.4

Interest payable on the 4% unsecured deep discount loan stock 2006 includes £1.2m (1987 – £0.7m) of discount amortisation.

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. The amount allocated ranges from nil, if the base profit is below 2.5% of sales, excluding VAT, to a maximum 5% of the base profit, if it exceeds 6% of sales, excluding VAT.

5. Taxation

	1988 £m	1987 £m
United Kingdom taxation		
Corporation tax at 35.0% (1987 – 35.5%)	78.0	66.7
Deferred taxation	0.5	(9.1)
Prior year adjustments	(2.0)	(1.0)
	76.5	56.6
Overseas taxation		
Corporate taxes	0.3	0.3
	76.8	56.9

A net amount of £52.4m (1987 – £49.7m) is the corporation tax payable derived as follows:

	1988 £m	1987 £m
Corporation tax charge	78.0	66.7
Tax relief on interest capitalised	(9.4)	(6.4)
Current year tax relief on costs charged to merger reserve	(2.8)	—
Advance corporation tax paid	(13.4)	(10.6)
Corporation tax payable	52.4	49.7

Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Act (Note 14).

6. Dividends

1987 £m		1988 £m	1987 £m
31.0	Declared interim — 1.00p per share (1987 – 0.85p*)	14.7	10.8
	Proposed final — 1.85p per share (1987 – 1.58p*)	27.4	20.2
		42.1	31.0

*These comparative figures have been restated to account for the capitalisation issue in July 1987.

7. Earnings Per Share and 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 1,407,700,469 (1987 – 1,251,831,636).
- (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 unsecured loan stock and 4% 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 maturity.

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.

1987 £m	
66.7	
(9.1)	
(1.0)	
56.6	
0.3	
56.9	
1987 £m	
66.7	
(6.4)	
(10.6)	
49.7	
relief	

8. Tangible Assets

	Note	Land and Buildings			Plant, Equip- ment, Fixtures & Fittings & Vehicles	Assets in Course of Con- struction	Total £m
		Freeholds £m	Leaseholds 50 years or more £m	Less than 50 years £m	£m	£m	
Cost							
As at 1st March, 1987		375.9	220.6	17.9	445.1	174.2	1,233.7
Additions at cost	(a)	59.8	28.1	1.2	116.0	201.9	407.0
Acquisition of Hillards plc		51.9	19.8	1.0	7.5	8.2	88.4
Transfers		118.9	10.9	0.9	3.2	(133.9)	—
Deduct disposals		(9.2)	(3.2)	(0.4)	(41.5)	(0.7)	(55.0)
As at 27th February, 1988		597.3	276.2	20.6	530.3	249.7	1,674.1
Depreciation							
As at 1st March, 1987		—	9.5	6.0	218.3	—	233.8
Charge for period		—	1.9	0.7	58.5	—	61.1
Deduct disposals		—	(0.5)	(0.3)	(35.7)	—	(36.5)
As at 27th February, 1988		—	10.9	6.4	241.1	—	258.4
Net book value at 27th February, 1988	(b)	597.3	265.3	14.2	289.2	249.7	1,415.7
Net book value at 28th February, 1987		375.9	211.1	11.9	226.8	174.2	999.9

Notes:

(a) Includes £17.0m (1987 – £11.7m) in respect of interest capitalised net of tax relief of £9.4m (1987 – £6.4m). Accumulated interest capitalised net of tax relief, included in the total cost above, amounts to £36.3m (1987 – £19.3m).

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

	Cost £m	Depreciation £m	Net Book Value £m
As at 1st March, 1987	51.8	21.6	30.2
Movement in the period	(4.2)	5.3	(9.5)
As at 27th February, 1988	47.6	26.9	20.7

(c) Market value of land and buildings held as tangible assets: freehold and leasehold land and buildings (inclusive of landlords' fixtures and fittings) of the group, situated in the U.K., excluding all properties which became operational in the preceding two years or were in the course of construction at 27th February, 1988, were valued by Healey & Baker, international surveyors and valuers, as at that date. The properties have been valued on the basis of open market value for existing use which takes in the R.I.C.S. definition of open market value, ignoring any value attributable to a special purchaser with the assumption that the properties continue as owner-occupied in their existing use, thus ignoring any alternative use of the properties, any hope value, any goodwill and any increase in value due to financial transactions such as sale and leaseback. This valuation totalled £845m and resulted in an excess over book value of these lands and buildings at 27th February, 1988 of £219m before taxation thereon.

9. Investments: Shares in Subsidiaries

(a) In the opinion of the Directors, the company's principal subsidiaries are:—

Tesco Stores Limited
 Tesco Insurance Limited
 Tesco Holdings Limited
 Hillards plc
 Hillards Supermarkets Limited

These subsidiaries operate and are incorporated in the United Kingdom with the exception of Tesco Insurance Limited, which operates and is incorporated in Guernsey. The above subsidiaries' shares are owned by Tesco PLC with the exception of Hillards Supermarkets Limited, which is wholly owned by Hillards plc and Tesco Stores Limited which is wholly owned by Tesco Holdings Limited.

	Tesco PLC	
	1988	1987
	£m	£m
(b) Investments — shares at cost less amounts written off	23.8	19.3

10. Debtors

	Consolidated		Tesco PLC	
	1988	1987	1988	1987
	£m	£m	£m	£m
Amounts owed by group companies	—	—	948.3	672.3
Prepayments and accrued income	7.7	5.7	0.6	1.7
Other debtors	32.0	8.1	0.3	0.5
	39.7	13.8	949.2	674.5

£0.2m (1987 – £0.2m) of the debtors fall due after one year.

11. Money Market Investments and Deposits

	Consolidated		Tesco PLC	
	1988	1987	1988	1987
	£m	£m	£m	£m
Money Market deposits	1.2	24.3	—	21.5
Bonds and certificates of deposit (original cost £6.8m)	6.8	15.9	6.8	10.0
	8.0	40.2	6.8	31.5

12. Creditors: Amounts Falling Due Within One Year

	Consolidated		Tesco PLC	
	1988	1987	1988	1987
	£m	£m	£m	£m
Bank loans and overdrafts (a)	58.5	—	64.5	3.9
Trade creditors	286.4	255.5	—	—
Amounts owed to group companies	—	—	11.1	11.1
Corporate taxation	20.6	69.1	9.2	13.0
Other taxation and social security	24.0	17.5	0.7	1.0
Other creditors	60.8	49.3	1.9	7.0
Accrued charges	31.0	28.8	1.3	2.8
Proposed final dividend	27.4	20.2	27.4	20.2
	508.7	440.4	116.1	59.0

(a) Bank borrowings in a subsidiary company of £226.9m (1987 – £156.9m) have been offset against deposit balances with the same bank under a legal right of set-off.

NOTES TO THE ACCOUNTS

13. Creditors: Amounts Falling Due After More Than One Year

	Consolidated		Tesco PLC	
	1988	1987	1988	1987
	£m	£m	£m	£m
9% Convertible unsecured loan stock 2002/2007 (a)	16.4	43.3	16.4	43.3
4% Unsecured deep discount loan stock 2006 (b)	63.0	61.8	63.0	61.8
4% Convertible bonds 2002 (c)	115.0	—	115.0	—
Commercial paper (d)	17.9	—	17.9	—
Bank loans (e)	17.8	—	17.8	—
Finance leases (note 15)	6.8	15.3	—	—
	236.9	120.4	230.1	105.1
Corporate taxation	52.2	—	—	—
	289.1	120.4	230.1	105.1

- (a) Each £100 nominal of the 9% convertible unsecured loan stock may be converted during August in any year up to 2002 into 243.3021 ordinary shares of 5p each. This conversion rate has been adjusted in respect of the rights issue in May 1985 and capitalisation issue in July 1987. From 30th November, 2002 the company will be entitled to redeem the outstanding stock at par.
- (b) The 4% unsecured deep discount loan stock is redeemable at a par value of £125m in 2006.
- (c) The 4% convertible bonds are convertible at the holder's option into fully paid ordinary shares of 5p each at a current conversion price of 174p per ordinary share. Alternatively, the bondholder has the option of redeeming such bonds at a redemption price equal to 127.625% of the principal amount thereof in 1992. The bonds may be redeemed at the option of the company at a premium to the issued price reducing annually until 20th February, 1992 and thereafter at par provided that the market price of ordinary shares is at least 226p per share.
- (d) Commercial paper is sterling short term borrowing raised in the commercial paper markets in the UK. These borrowings are classified as medium to long term liabilities as it is the intention to renew the borrowings as they fall due by the issue of further commercial paper, or to re-finance by a committed stand-by multi-option facility with a group of underwriting banks. The rollover of this facility is guaranteed through a five-year obligation undertaken by these banks.
- (e) Bank loans represent amounts repayable within one year drawn via a variety of instruments but which are backed by the multi-option facility referred to in (d) above, and have therefore been included on the basis of the maturity of the stand-by facility.

NOTES TO THE ACCOUNTS

14. Provisions for Liabilities and Charges

Deferred taxation

	Amount Provided		Potential amount for deferred tax on all timing differences	
	1988 £m	1987 £m	1988 £m	1987 £m
Excess of capital allowances over depreciation	10.6	13.8	43.4	43.0
Capital gains deferred by rollover relief	—	—	24.3	22.2
Other	(0.3)	(0.5)	2.5	1.5
	10.3	13.3	70.2	66.7
Advance corporation tax recoverable	(9.1)	(7.5)	(9.1)	(7.5)
	1.2	5.8	61.1	59.2

15. Leasing Commitments

Finance Leases

The future minimum finance lease payments to which the group was committed at 27th February, 1988 and which have been guaranteed by Tesco PLC are:

	£m	
Year to 25th February, 1989	9.1	
Year to 24th February, 1990	7.5	
	16.6	
Deduct finance charges allocated to future periods	(2.2)	
	14.4	
	1988 £m	1987 £m
Net amounts payable are:		
Within one year, included in other creditors	7.6	8.8
Between one and five years	6.8	15.3
	14.4	24.1

Operating Leases

Group commitments during the year to 25th February, 1989 in terms of lease agreements in respect of land and buildings expiring are as follows:

	1988 £m	1987 £m
Within one year	0.1	0.3
Between one and five years	0.7	0.7
Beyond five years	20.7	18.0
	21.5	19.0

16. Called up Share Capital

Authorised: £104,000,000 (1987 – £30,000,000)

Issued:

	Ordinary shares of 5p each	
	Number	£m
Issued at 1st March, 1987	424,494,487	21.2
Capitalisation issue	933,518,258	46.7
Issued in connection with the acquisition of Hillards plc	42,120,927	2.1
Conversion of 9% loan stock	65,530,766	3.3
Profit sharing scheme allotment	1,353,261	0.1
Payment of interim dividend by shares in lieu of cash	241,160	—
Share options exercised*	12,283,409	0.6
Conversion of 4% bonds	4,597	—
Issued at 27th February, 1988	1,479,546,865	74.0

*Between 27th February and 13th April, 1988, options on 147,500 ordinary shares, 32,813 ordinary shares and 2,913,850 ordinary shares have been exercised under the terms of the Executive Share Option Scheme (1973), the Savings-Related Share Option Scheme (1981) and the Executive Share Option Scheme (1984) respectively.

17. Share Options

(a) Company schemes

The company has three share option schemes:

- The Executive Share Option Scheme (1973), which has been terminated in respect of further options as it was for a fixed period of ten years, permitted the grant of options in respect of ordinary shares exercisable within the period between three and seven years from the date of grant at a subscription price equal to the middle market quotation of an ordinary share immediately prior to the date of grant.
- 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 £100 per month. Options are capable of being exercised at the end of the five-year period at a subscription price not less than 90% of the middle market quotation of an ordinary share immediately prior to the date of grant.
- The Executive Share Option Scheme (1984) permits the grant of options in respect of ordinary shares to selected executives. Options are capable of being exercised between three and ten years from the date of grant at a subscription price determined by the Board but not less than the middle market quotation within the period of 30 days prior to the date of grant.

The company has granted outstanding options in connection with the three schemes as follows:

Executive Share Option Scheme (1973)

Date of grant	Number of executives	Shares under option 27.02.88	Subscription price p
27.03.81	19	202,000	18.0
24.07.81	14	88,500	17.6
21.01.83	76	333,500	38.6

Executive Share Option Scheme (1984)

Date of grant	Number of executives	Shares under option 27.02.88	Subscription price p
17.12.84	663	10,111,500	70.3
02.08.85	145	1,629,750	81.6
16.12.85	78	723,750	98.3
21.07.86	132	4,942,650	126.6
01.12.86	12	709,863	133.0
06.07.87	781	7,813,953	183.3

Savings-Related Share Option Scheme (1981)

Date of grant	Number of executives and employees	Shares under option 27.02.88	Subscription price p
10.08.83	266	1,415,628	38.0
08.08.84	618	2,292,453	47.6
19.12.84	2,031	5,539,041	66.5
07.08.85	1,368	2,883,786	74.0
23.07.86	3,272	4,820,694	114.0
08.07.87	8,050	9,086,681	165.0

The subscription price and numbers of shares have been adjusted as a result of the rights issues in 1982 and 1985, and the capitalisation issue in 1987 as appropriate.

(b) Directors' share options

Share Options granted to directors in the financial year:	Executive Share Option Scheme 1984 Number of Shares	Savings-Related Share Option Scheme 1981 Number of Shares
I. C. MacLaurin	98,256	—
V. W. Benjamin	21,894	—
A. D. Malpas	76,461	—
M. Darnell	32,781	—
J. Gildersleeve	43,650	—
D. E. Reid	37,140	4,484
D. C. Tuffin	37,182	—

The subscriptions prices under the two schemes were 183.3p and 165.0p and the options expire in July 1997 and September 1992 respectively.

Share Options exercised by directors in the financial year:

	Executive Share Option Schemes 1973 Number of Shares	1984 Number of Shares
I. C. MacLaurin	—	360,000
V. W. Benjamin	—	240,000
A. D. Malpas	—	300,000
M. Darnell	10,000	240,000
J. Gildersleeve	—	240,000
D. C. Tuffin	—	240,000

The subscription prices under the two schemes were 38.6p and 70.3p respectively.

Share options held by directors and not exercised at 27th February, 1988:

	Executive Share Option Schemes				Savings-Related Share Option Scheme	
	1973	1984	1981	1981	1981	1981
	Number of Shares	Subscription price per Share	Number of Shares	Subscription price per Share	Number of Shares	Subscription price per Share
Mr. I. C. MacLaurin	30,000	38.6p	367,356	126.6p-183.3p	8,805	66.5p-114p
Mr. V. W. Benjamin	—	—	77,994	126.6p-183.3p	11,127	66.5p
Mr. A. D. Malpas	—	—	231,411	126.6p-183.3p	8,805	66.5p-114p
Mr. M. Darnell	—	—	113,781	126.6p-183.3p	8,805	66.5p-114p
Mr. J. Gildersleeve	—	—	144,000	126.6p-183.3p	8,805	66.5p-114p
Mr. F. R. N. Krejsa	—	—	352,650	70.3p-126.6p	13,323	47.6p-66.5p
Sir Leslie Porter	—	—	—	—	5,562	66.5p
Mr. D. E. Reid	—	—	335,490	81.6p-183.3p	4,484	165p
Mr. D. C. Tuffin	—	—	121,632	126.6p-183.3p	8,805	66.5p-114p

18. Reserves

	Consolidated		Tesco PLC	
	1988	1987	1988	1987
	£m	£m	£m	£m
Share premium account				
At 1st March, 1987	180.2	167.2	180.2	167.2
Premium on issue of shares less costs	6.7	13.7	6.7	13.7
Capitalisation issue	(46.7)	—	(46.7)	—
Hillards acquisition	(6.9)	—	(6.9)	—
Conversion of 9% loan stock	23.6	—	23.6	—
Profit sharing scheme	2.6	—	2.6	—
Scrip dividend election	0.5	—	0.5	—
Convertible bonds expenses	(3.1)	—	(3.1)	—
Costs on the issue of 4% unsecured deep discount loan stock 2006	—	(0.7)	—	(0.7)
At 27th February, 1988	156.9	180.2	156.9	180.2
Profit and loss account				
At 1st March, 1987	488.7	400.8	359.8	313.3
Movement due to currency translation differences	(0.2)	(0.1)	—	—
Profit retained	111.7	88.0	43.2	46.5
At 27th February, 1988	600.2	488.7	403.0	359.8
Merger reserve				
At 1st March, 1987	—	—	—	—
Arising on Hillards acquisition (see note 10)	39.6	—	—	—
At 27th February, 1988	39.6	—	—	—
	796.7	668.9	559.9	540.0

In accordance with section 228 of the Companies Act 1985 a profit and loss account for Tesco PLC, whose result for the year is shown above, has not been presented in these accounts.

19. Merger Reserve

	Hillards consolidated accounts at 2nd May, 1987 £m	Acquisition accounting adjust- ments £m	Total £m
Net Assets/(liabilities) acquired			
Goodwill on acquisition	—	193.9	193.9
Fixed Assets	82.0	6.4	88.4
Stocks	16.2	(2.7)	13.5
Debtors	0.8	—	0.8
Cash at bank and in hand	14.6	—	14.6
Creditors falling due within one year	(41.6)	—	(41.6)
Net Current Liabilities	(10.0)	(2.7)	(12.7)
Creditors falling due after more than one year	(21.6)	—	(21.6)
Increase in consolidated reserves from 2nd May, 1987 to 15th May, 1987	—	0.3	0.3
Total net assets acquired	50.4	197.9	248.3
Reorganisation costs, net of taxation (a)	—	(10.3)	(10.3)
	50.4	187.6	238.0
Consideration paid			
Ordinary shares issued (b)			2.1
Cash			2.4
Merger reserve arising on consolidation			233.5
Less: Goodwill written-off			193.9
			39.6

For presentation purposes, the audited Hillards' balance sheet at their 2nd May, 1987 year-end has been used to illustrate the calculation of the merger reserve. The acquisition was made on 15th May, 1987 and the adjustment to reserves reflects this.

(a) Acquisition accounting adjustments

Adjustments have been made to the book values of the net assets acquired to reflect their fair value to align the accounting policies of Hillards with those of the group and to provide for reorganisation costs subsequent to acquisition. The principal adjustments are as follows.

(i) Fixed Assets

Tangible assets have been included at fair value based principally on external professional property valuations and provisions against the disposal of fixtures and fittings arising from store conversions.

(ii) Stocks

Stocks have been adjusted mainly by writing down surplus stocks and providing for costs of realisation.

(iii) Reorganisation costs, net of taxation

The costs of reorganising Hillards' retailing, distribution, marketing and administration operations include principally head office and depot closure costs £3.6m, store conversion costs £4.2m, and other items including alignment of accounting policies £2.5m.

(b) Ordinary shares issued

In accordance with Section 131 of the Companies Act 1985, the company has recorded the ordinary shares issued in respect of the acquisition at their nominal value excluding the share premium, and expenses of the share issue of £6.9m have been offset against share premium account.

20. Acquisition of Subsidiary

The acquisition of Hillards plc, 15th May, 1987:

Net Assets Acquired	£m
Goodwill	193.9
Tangible fixed assets	88.4
Stocks	13.5
Debtors	0.8
Creditors	(48.3)
Provision for liabilities and charges	(17.2)
	231.1
Discharged by	
Shares issued:	
Nominal value	2.1
Share premium and merger reserve	226.6
	228.7
Cash	2.4
	231.1

21. Pension Commitments

Pension schemes are operated by the group and all employees and executive directors, subject to age and service, are eligible for membership. The schemes are trustee-administered and the assets are entirely separate from the assets of the group. The schemes were fully funded at the most recent independent actuarial valuation on 6th April, 1987.

22. Capital Commitments

At 27th February, 1988

- (a) There were commitments for capital expenditure of approximately £306m (1987 – £206m).
- (b) Capital expenditure authorised by the board, but not contracted for, amounted to £643m (1987 – £496m).

23. Contingent Liabilities

- (a) Certain bank loans and overdraft facilities of subsidiary companies have been guaranteed by Tesco PLC. At 27th February, 1988 the amounts outstanding on these facilities were £0.2m (1987 – £0.2m).
- (b) No provision has been made for supplemental interest, if any, payable if the 4% convertible bonds 2002 are redeemed at the bondholders' option in 1992. The maximum supplemental interest which would have arisen in the 52 week period ended 27th February, 1988 is £5.0m.

We have audited the financial statements on pages 25 to 40 in accordance with approved Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group at 27th February, 1988 and of the profit and source and application of funds of the group for the 52 weeks then ended, and comply with the Companies Act 1985.

Price Waterhouse



Chartered Accountants
London
13th April, 1988

SHAREHOLDER PROFILE

as at 27th February, 1988

Type of Shareholder	Number of Shareholders	Percentage of number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Individuals—Male	25,687	41.6	99,556,540	6.7
—Female	22,133	35.8	96,975,969	6.6
—Joint Accounts	4,817	7.8	43,273,411	2.9
Banks and nominee companies*	6,669	10.8	816,488,478	55.2
Other corporate bodies	2,152	3.5	141,635,439	9.6
Insurance companies	170	0.3	182,332,372	12.3
Pension funds	147	0.2	99,284,656	6.7
	61,775	100.0	1,479,546,865	100.0

*These companies largely represent the holdings of institutions rather than those of individuals.

TEN YEAR RECORD

Year ended February	1979	1980
Results £m		
Turnover excluding VAT	1,201.8	1,530.6
Operating profit	36.1	39.7
Interest receivable less payable	1.6	(3.2)
Profit before property profits, employee profit sharing and taxation	37.7	36.5
Property profits	0.4	0.4
Profit before employee profit sharing and taxation	38.1	36.9
Net margin ²	3.2%	2.4%
Employee profit sharing	—	—
Profit before taxation	38.1	36.9
Taxation	(1.1)	(1.4)
Profit after taxation	37.0	35.5
Earnings per share ³	3.81p	3.51p
Fully diluted earnings per share (excluding property profits) ³	—	—
Dividends per share ⁴	0.66p	0.82p
Productivity £		
Turnover per employee ⁵	34,045	38,398
Profit per employee ⁵	1,079	926
Wages per employee ⁵	2,868	3,478
Weekly sales per sq ft ⁶	4.21	5.10
Retail Statistics		
Number of stores	571	552
Total sales area — '000s sq ft	5,650	6,210
Average store size (sales area) — sq ft	9,900	11,200
Average sales area of stores opened in the year — sq ft	35,600	16,500
Full-time equivalent employees ⁷	35,302	39,862

Notes:

¹ 53 week period.

² Based upon turnover exclusive of value added tax.

³ Adjusted in respect of 1985 rights issue and 1987 capitalisation issue.

⁴ Adjusted in respect of 1987 capitalisation issue.

⁵ Based on full-time equivalent number of employees, turnover exclusive of value added tax and profit before taxation.

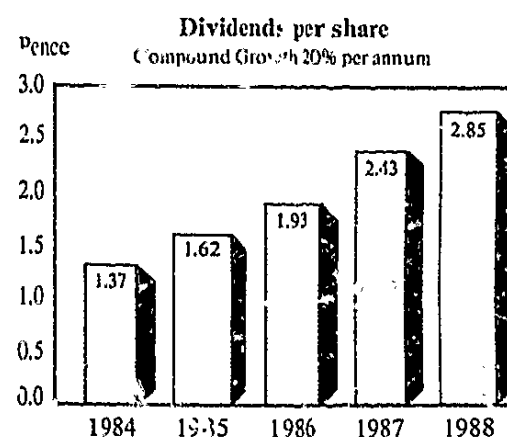
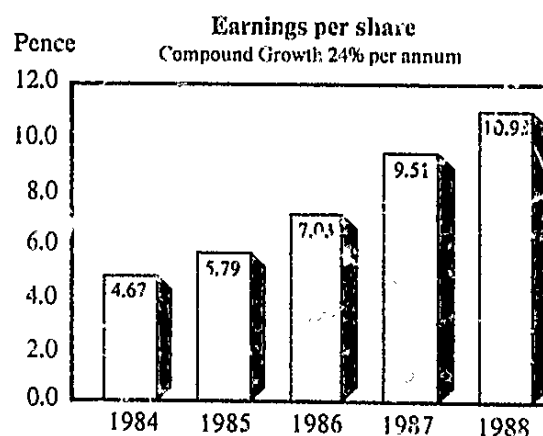
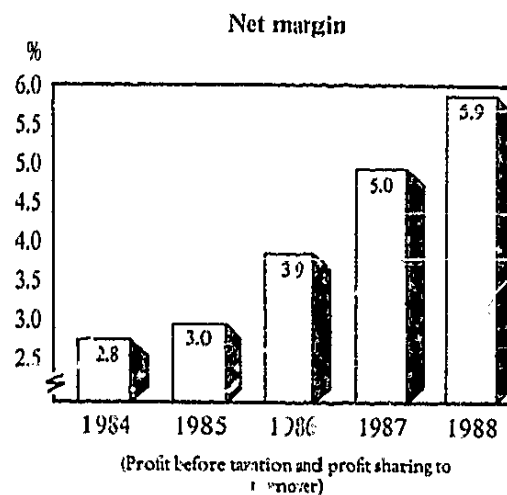
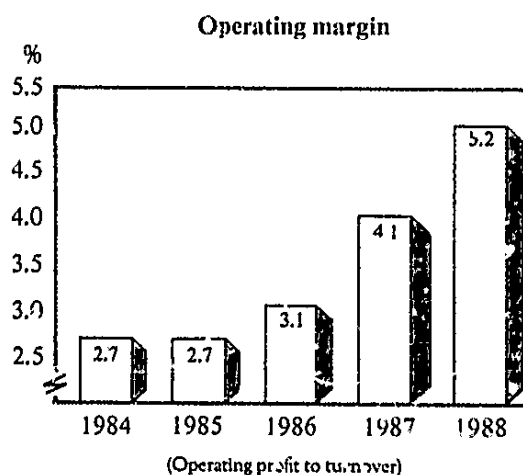
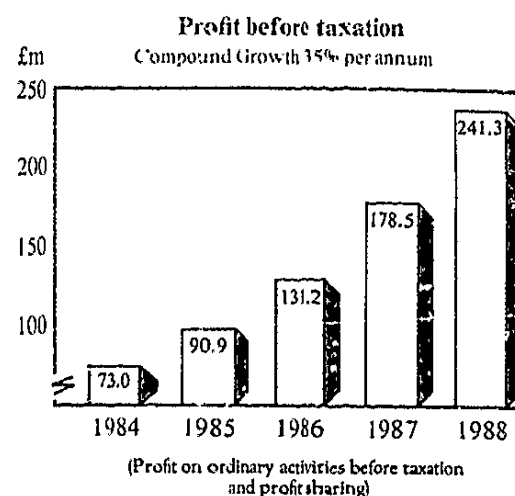
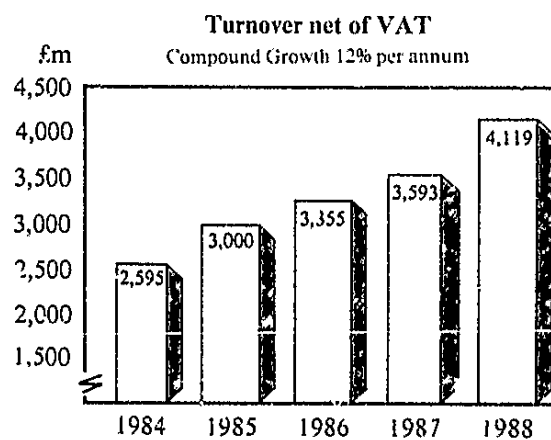
⁶ Based on weighted average sales area and turnover inclusive of value added tax.

⁷ Based on average number of full-time equivalent employees in the United Kingdom.

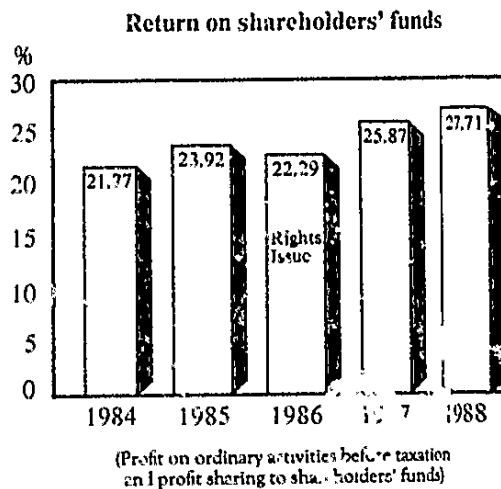
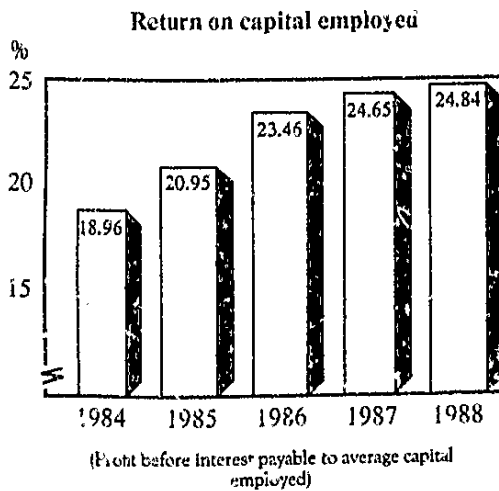
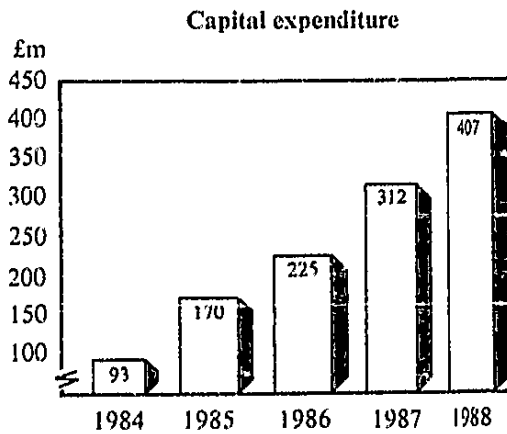
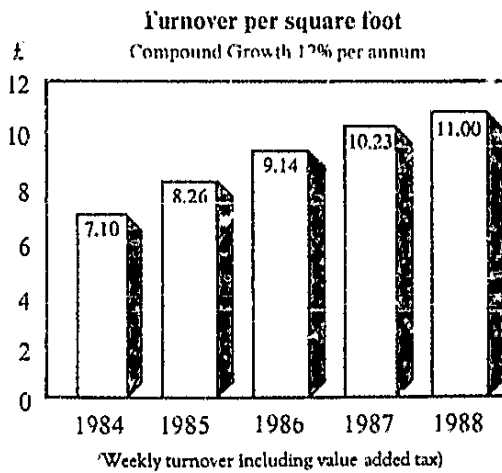
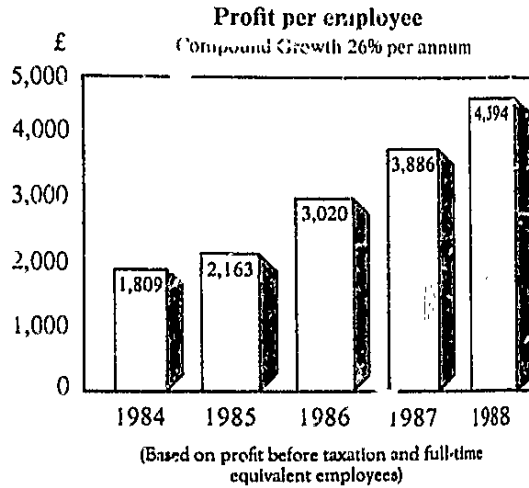
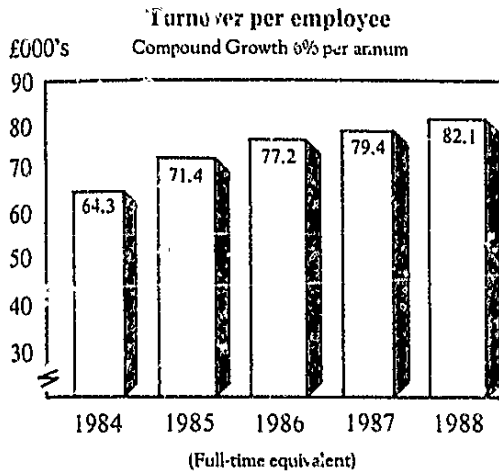
TEN YEAR RECORD

1981 ¹	1982	1983	1984	1985	1986	1987 ¹	1988
1,820.7	1,994.4	2,276.6	2,594.5	3,000.4	3,355.3	3,593.0	4,119.1
51.3 (15.7)	51.5 (8.8)	60.6 (7.1)	68.9 (1.5)	81.7 (0.4)	104.1 18.8	147.4 21.4	214.4 20.3
35.6 20.0	42.7 24.0	53.5 7.7	67.4 5.6	81.3 9.6	122.9 8.3	169.1 9.4	234.7 6.6
55.6 3.1%	66.7 3.3%	61.2 2.7%	73.0 2.8%	90.9 3.0%	131.2 3.9%	178.5 5.0% 2.6	241.3 5.9% 10.7
55.6 (5.5)	66.7 (12.0)	61.2 (11.5)	73.0 (25.1)	90.9 (31.2)	131.2 (47.4)	175.9 (56.9)	230.6 (76.8)
50.1	54.7	49.7	47.9	59.7	83.8	119.0	153.8
4.93p — 0.85p	5.40p — 1.00p	4.88p 3.96p 1.17p	4.67p 3.83p 1.37p	5.79p 4.54p 1.62p	7.03p 5.84p 1.93p	9.51p 8.05p 2.43p	10.93p 9.66p 2.85p
46,913 1,433 4,401 5.57	49,341 1,650 4,731 5.75	56,384 1,516 5,227 6.32	64,279 1,809 5,800 7.10	71,404 2,163 6,304 8.26	77,227 3,020 6,907 9.14	79,386 3,886 7,355 10.23	82,067 4,594 7,809 11.00
554 6,840 12,300 32,500 38,809	544 7,203 13,200 31,000 40,421	489 7,425 15,200 33,400 40,377	461 7,362 16,000 25,300 40,363	441 7,415 16,800 36,800 42,020	395 7,502 19,000 37,100 43,447	337 6,997 20,800 34,900 45,260	379 8,220 21,700 34,300 50,192

FINANCIAL STATISTICS



FINANCIAL STATISTICS



Notice is hereby given that the fortieth Annual General Meeting of Tesco PLC will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Friday 20th May, 1988 at 2.30 pm for the following purposes:

1. To receive and adopt the directors' report and accounts for the 52 weeks ended 27th February, 1988 (Resolution 1).
2. To declare a final dividend on the ordinary share capital of the company (Resolution 2).
3. To re-elect the following directors: Mr. F. R. N. Krejsa (Resolution 3), Mr. J. M. F. Padovan (Resolution 4), Mr. D. E. Reid (Resolution 5), Mr. J. A. Gardiner (Resolution 6).
4. To re-appoint Price Waterhouse as auditors to hold office until the conclusion of the next Annual General Meeting (Resolution 7).
5. To authorise the directors to fix the remuneration of the auditors (Resolution 8).
6. To transact any other ordinary business of the meeting.
7. As special business, to pass the following special resolution:

THAT

- (a) the directors be empowered, during the period expiring at the conclusion of the company's annual general meeting next following the date of the passing of this resolution or, if earlier, until the expiry of 15 months from the passing of this resolution, to allot equity securities of the company as if section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
 - (i) in connection with a rights issue of such securities to the holders of relevant shares and relevant employee shares of the company in proportion (as nearly as may be) to their respective holdings of such shares or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with the problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);
 - (ii) otherwise than under sub-paragraph (a)(i) of this resolution, having an aggregate nominal value not exceeding 5% of the nominal amount of the ordinary shares in issue at the close of business on 20th May, 1988;
- (b) such power shall permit and enable the directors to make an offer or agreement, before the expiry of such power, which would or might require equity securities to be allotted after such expiry;
- (c) words and expressions defined in or for the purposes of sections 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings in this resolution (Resolution 9).

By Order of the Board
Michael J. Boxall
Secretary

Tesco House, Delamare Road, Cheshunt,
Hertfordshire, EN8 9SL
Dated 27th April, 1988

Notes:

1. Any member of the company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. Such proxy need not be a member of the company. To be effective proxy forms must be received at the office of the Registrars of the company not less than 48 hours before the time fixed for the meeting.
2. There will be available for inspection at the registered office of the company, Tesco House, Delamare Road, Cheshunt, Hertfordshire, during usual business hours (Saturdays excepted) from 27th April, 1988, until the date of the Annual General Meeting, all contracts of service of the directors with the company or any of its subsidiaries. The contracts of service will also be available for inspection during the Annual General Meeting and for at least 15 minutes before it begins.

FORM OF PROXY

TESCO PLC Form of Proxy for Annual General Meeting

I/We _____
(BLOCK LETTERS PLEASE)

of _____
being a member/members of the above-named company hereby appoint Mr. I. C. MacLaurin or failing him the duly appointed Chairman of the meeting

or _____
as my/our proxy to vote for me/us and on my/our behalf in the manner indicated below at the Annual General Meeting of the company to be held on 20th May, 1988, and at any adjournment thereof.

	For	Against
1. To adopt the Directors' Report and Accounts		
2. To declare a final dividend		
3. To re-elect Mr. F. R. N. Krejsa a director		
4. To re-elect Mr. J. M. F. Padovan a director		
5. To re-elect Mr. D. E. Reid a director		
6. To re-elect Mr. J. A. Gardiner a director		
7. To re-appoint the auditors		
8. To authorise the directors to fix the remuneration of the auditors		
9. To disapply pre-emption rights, subject to conditions		

Dated _____ 1988

Signature _____

Notes:

1. Please indicate by an X in the spaces provided how you wish your votes to be cast. Without such specific directions the proxy will abstain or vote at his discretion.
2. In the case of a Corporation this Proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. In the case of joint holders the signature of any one holder will be sufficient but the names of all the joint holders should be stated.
4. To be valid this Proxy duly executed, and the power of attorney or other authority (if any) under which it is executed must reach the office of the Registrars of the company not later than 48 hours before the time appointed for the meeting.
5. If it is desired to appoint any other person (who need not be a member of the company) to act as proxy, insert the name in the space provided and strike out all other appointees.