

TESCO PLC

ANNUAL REPORT AND ACCOUNTS 1987



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DIRECTORS AND ADVISERS



I. C. MacLaurin†
Chairman



V. W. Benjamin†
Deputy Chairman



A. D. Malpas
Managing Director



M. Darnell
Distribution



J. Gildersleeve
Personnel, Buying & Marketing



F. R. N. Krejsa, FRICS
Property & Estates



H. F. Pennell
Buying & Marketing



D. E. Reid, CA†
Finance



D. C. Tuffin
Retail



Sir Leslie Porter†**
President



Miss D. O'Cathain*
OBE



J. M. F. Padovan†**
LLB, BCL, FCA

*Non-Executive Directors †Members of the Audit Committee

Secretary and Registered Office



M. J. Boxall, ACH
Tesco House
Delamare Road, Cheshunt
Hertfordshire EN8 9SL
Telephone: 0992-32222

Registrars

Lloyds Bank Plc
Registrar's Department
Goring-by-Sea
Worthing
West Sussex BN12 6DA
Telephone: 0903-502541

Auditors

Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

Solicitors

Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HA

Principal Bankers:

Midland Bank plc
Barclays Bank PLC
National Westminster Bank PLC

Stockbrokers

Phillips & Drew Limited

FINANCIAL HIGHLIGHTS

	1987 £m	1986 £m	% Increase
Turnover excluding value added tax	3,593.0	3,355.3	7.1
Employee profit sharing	2.6	—	
Profit on ordinary activities before taxation	175.9	131.2	34.1
Taxation	56.9	47.4	
Dividends	31.0	23.8	30.3
	pence	pence	
Dividends per share	7.30	5.80	25.9
Earnings per share	28.52	21.09	35.2
Fully diluted earnings per share	26.12	19.29	35.4

FINANCIAL DIARY

Year end: Last Saturday in February

Half-year's results announced: Mid-October

Year's results announced: End of April

Annual Report and Accounts despatched: Early June

Annual General Meeting held: End of June

Dividend:

Interim: announced mid-October and paid in late November (1986 – paid in late February)
Final: announced at end of 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



CHAIRMAN'S STATEMENT

I am pleased to report that we have continued to consolidate our position as one of the UK's leading retailers. The benefits of the previous two years, which were essentially periods of rationalisation, have begun to emerge to reinforce the profit potential of our company.

The fact that our profits before tax have risen by 34% gives a clear measure of this achievement and reflects the shopping public's increasing awareness of the improved quality of our stores and range of products.

Our development expenditure continues to run to plan. While sustaining a large and increasing investment programme in new stores, distribution and technology we have been able to maintain a very strong balance sheet.

In March, 1987, we took our first major step into the international capital markets by the issue of a £115 million Convertible Eurobond. This followed the raising of £60 million in June last year through a Deep Discount Unsecured Loan Stock.

Results and dividends

Profits before taxation increased from £131.2 million to £175.9 million. There was a substantial increase in our net margin from 3.9% to 5.0% which is excellent progress.

Fully diluted earnings per share, including the net surplus on the sale of properties, increased to 26.12p, an increase of 35.4%.

Sales, excluding vat, increased to £3,593.0 million. After excluding the sales in the previous year of the disposed businesses of Victor Value and Tesco Stores Ireland and adjusting for the 53 week period the sales increase was 11.4%. This represented an estimated volume gain of 9% of which 4% was generated by volume growth in existing stores and 5% from net new selling area.

Reflecting the strong rise in post tax profits the final dividend recommended by the directors is 4.75p per share, making a total of 7.30p for the year, compared to 5.80p last year.

Store development

We have continued to follow our successful strategy of improving the quality of our store profile and profits through the opening of modern stores which replace smaller and outmoded stores. Eleven new stores, together with two extensions, were opened during the year, representing 432,000 sq. ft. We plan to spend £500

million on superstore development during the next two years.

With this will come the creation of 10,000 new jobs, bringing the total workforce figure to over 70,000. Each new superstore will be built with customer care in mind. A free car park, air conditioning, ample checkouts and wide aisles will be standard. Every store will also take into consideration the needs and tastes of the local community.

Our next flagship store will be at New Malden located on a site adjacent to the A3 Kingston bypass. This will have a sales area of 55,000 sq. ft offering all that is best in superstore shopping. It will open in August and will provide some 900 full and part-time jobs.

Continuing investments

These store developments are powerfully supported by substantial continuing investment in distribution and computer systems and by new management and marketing initiatives.

For example, we plan to begin the first phase of the introduction of a new generation of scanners in our stores this year. We are also establishing, with partners, six new composite distribution warehouses. These will enable a variety of products including grocery, fresh and frozen foods to be delivered together in vehicles sourced from the same depot. When completed at the end of next year the depots will place Tesco among the leaders in distribution efficiency. These investments will bring real financial benefits to the company and to the customer particularly in terms of the quality and freshness of products delivered to our stores.

Product quality

Our commitment to the pursuit of product quality and excellence in all the elements of our operations is central to our strategy. Research and development contribute greatly to this perception - research to ensure that existing and new products maintain the high standards of excellence that we set for ourselves, and development of new lines to cater for public demands for wider choice.

Customers and suppliers

In an increasingly sophisticated business it is vital that we do not lose sight of the fact that customers are the most important element and must come first. This is the objective of a major new service campaign involving all our employees, which represents the biggest cus-



Chairman Ian MacLaurin meets some of his store staff. He welcomes the growing sense of team spirit within the company.

customer relations campaign in the history of our company.

We have always valued the close association we have with manufacturers and suppliers – and never more so than today. It is unquestionable that the willingness of the ‘food chain’ to work together to achieve common goals is not only to the benefit of manufacturers and retailers but also to that of the people we all serve, our customers. We must do everything we can to improve this dialogue, so that together we can encourage innovation and other incentives which bring prosperity and excitement into our industry.

Tesco people

Retailing remains a people business. A great deal of effort continues to be put into new training schemes to improve skills of existing staff and to cope with the inevitable and ongoing process of change. Allied to this, there are the growing number of incentives to share in our company's success.

The Employee Profit Sharing Scheme you endorsed at our last General Meeting is now in place and I am glad to report that over 24,000 employees qualify to participate in the scheme. In the second half of the financial year on which we are reporting we have included a provision of £2.6 million for this purpose. In addition there have been improvements to other benefits, including pensions. All this has been made possible because of one single fact – our profitable trading performance.

I reiterate my belief that our employees are our most important resource – a view borne out by their exceptional determination to keep our stores open during the blizzards earlier in the year. This was typical of the growing team spirit within the company which I welcome and

applaud. I thank them all for their efforts this year.

I would also like to thank my fellow directors – both executive and non-executive – for the support they have given me and for their unstinting commitment to their respective areas of responsibility.

It was with shock and sadness that we learned of the sudden death last August of Stuart Young, one of our non-executive directors, at the age of 52. He had been a member of our Board for only four years but in that short time had contributed greatly to our business. His friendship, his wise counsel and his professionalism is sadly missed by us all.

Hillards

I am pleased that we acquired Hillards plc, the Yorkshire-based supermarket group, today. This will enable us to accelerate our store development programme in Yorkshire and the North of England. It is an excellent acquisition by our company and I am confident that it will contribute substantially to our profitability.

Current trading

We are pleased with trading for the first few weeks of the current financial year and our sales performance has continued in line with expectation. The opening of another 14 stores, a substantial programme for the introduction of new products, and continued productivity gains should contribute to further profitable growth.

Ian MacLaurin, Chairman
15th May, 1987

COMPANY REVIEW

The opportunity has again been taken to include in this Annual Report a review of the company, which gives readers a broader view of the company, its policies, and its activities.

TESCO - THE COMPANY

Tesco is one of Britain's largest and best-known multiple retailers with superstores and supermarkets in England, Scotland and Wales.

In recent years the company has streamlined its operations substantially and determinedly. Today, it has almost half the number of stores it had 10 years ago yet its sales area has actually risen by over 35%.

Of primary importance has been the concentration over the past 10 years on the development of superstores, (those with sales areas of 25,000 square feet and above), which now account for over 60% of the company's sales.

Tesco is committed to expansion and believes the best way to secure a healthy and growing share of the market is to be innovative and efficient both in the creation of high quality products and in the way they are produced, distributed and sold.

The company and its suppliers invest heavily in the development of new products to broaden the range of goods available to the consumer. Tesco's view is that it is also

essential to have modern outlets fully equipped to sell these products in pleasant and convenient surroundings.

Tesco is also able to respond to market changes and to increasingly sophisticated consumer demands.

Organisation

Organisational changes which resulted in the Buying and Product Marketing functions being integrated have proved very successful. Accountabilities have been more closely defined and the decision making process made simpler.

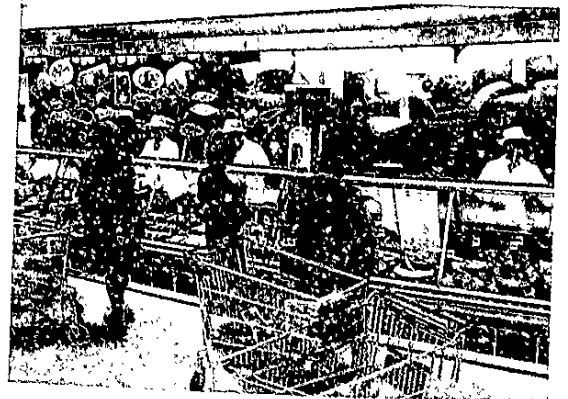
In addition, organisational reviews have taken place in the Property, Estates and Finance areas, resulting in revisions being introduced to improve communication, accountability and management succession.

PRODUCTS

Tesco sells food, drink, housewares, garden products, toiletries, textiles, clothes and petrol. It offers its customers quality, value, choice, convenience, and service.

The superstores stock up to 18,000 product lines, while supermarkets carry a product range consistent with their size and location.

Today's Tesco store manager is concerned with people - customers and staff - and is responsible for the efficient running of the store. Product range is controlled by a central marketing policy.

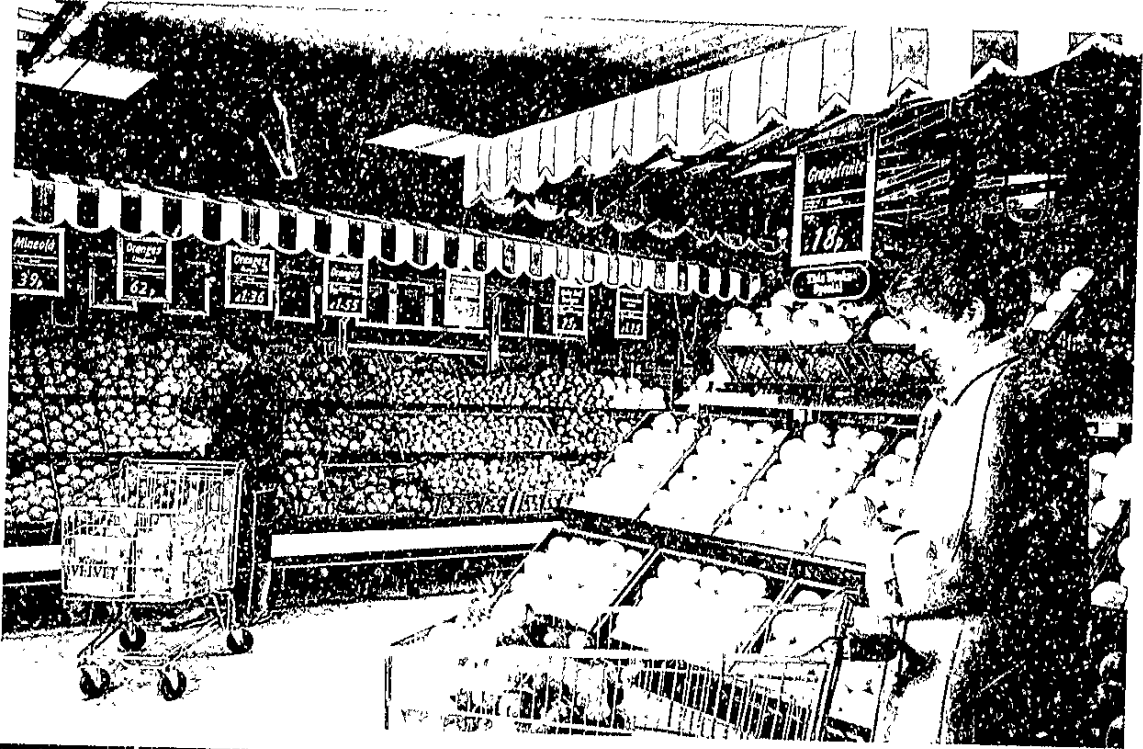


...the

Opposite right: Choice

Below: New fresh produce departments have an
 attractive traditional 'marketplace' atmosphere.

Bottom: Fresh fish counters are included in many
 stores. The daily deliveries ensure variety and
 freshness.



COMPANY REVIEW



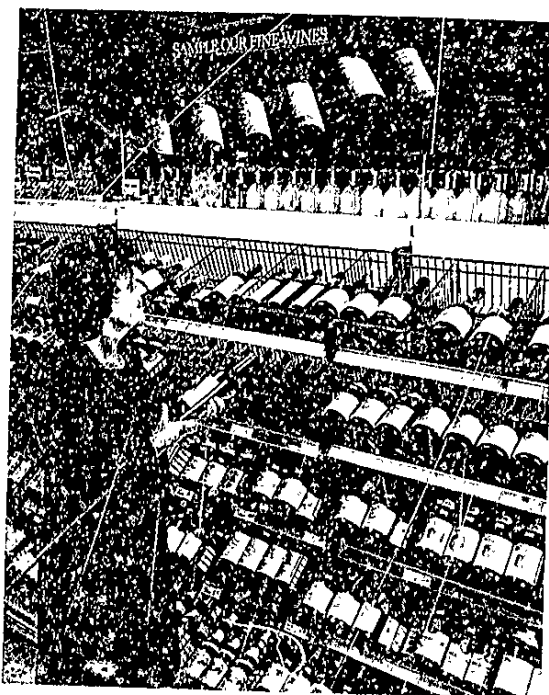
Planned buying enables the company to make a consistent range of products available nationally, adjusted to take account of specific local tastes including, in some areas, the needs of ethnic customers.

All Tesco stores are analysed according to their size, layout and location in order to optimise the product range. Shelf space allocation, stock replenishment levels, product development and productivity are carefully controlled providing the basis of an integrated management information system.

Conventional dry groceries, such as canned and packaged provisions, occupy half of the space allocated to food. A large proportion of Tesco's grocery sales are of own-label products.

Tesco fresh foods sales include chilled food products, fruit and vegetables, cheese and dairy products, meat and poultry, and fresh bread.

All stores carry fresh fruit and vegetables, and have meat departments. One in three has an in-store bakery. Delicatessens can be



found in two-thirds of the supermarkets, and in all the superstores. Fresh fish ranges are now available in 39 stores.

During the year under review Tesco has made major advances within the toiletries sector. Currently, it has six superstores with specially developed illuminated fixtures and has plans for more during 1987. Over the past year the company has launched over 50 new own-label products, including haircare, beauty and baby care products.

Own-label

Tesco's policy is to support strongly manufacturers of branded goods, so as to maintain widespread product development and customer choice.

Equally, it is Tesco's desire to establish own-label products and increase the company's reputation for innovation and product quality, which is important in creating and maintaining customer loyalty.

Tesco own-label products are manufactured to the company's specifications by suppliers who are able to maintain the very strict quality standards required.

Opposite page, left: The traditional skills of baking have made in-store bakeries one of the most popular departments in all of our superstores.

Opposite page, right: Extensive ranges of wines are available in 308 stores.

Below: A new concept of selling cosmetics and toiletries has been introduced during the past year. Illuminated fixtures have proved highly successful in enhancing sales.



Development of own-label products is part of the company's drive to broaden and enhance the range of products available in Tesco stores.

Wines, Spirits and Beers

Tesco has 308 licensed stores offering one of the most extensive ranges of wines, spirits and beers in the UK. Of these, 250 stores offer a self-service facility so that customers can browse and select their drinks at leisure and pay for them with their other purchases.

Tesco's innovation in product development is widely recognised and this is reflected in a buoyant performance within the drinks sector.

In the stores with the largest departments, the wine selection includes more than 180 different products. The range includes wines from at least 10 countries.

The range of fine wines, introduced in 1985, has been extended to over 100 stores. Due to the success of this range, selections of Domaine and Estate bottled quality wines are now bought at source by our wine buyers.

Tesco offers probably the most compre-

hensive range of beers in the country. Performance within the take home market has been excellent and 1986 has seen further development of the policy to provide regional beers to cater for local consumer tastes. Own-label development during 1986 has concentrated on the premium end of the lager and bitter markets.

The range of spirits on offer is equally extensive. In keeping with Tesco's own-label development policy, each product is produced to the company's high specifications. Quality is monitored regularly to ensure that the highest standards are maintained.

QUALITY CONTROL

The company's commitment to high quality standards is demonstrated by its continued investment in Technical Services and Quality Control. The Central Laboratories at Ware, Hertfordshire, apply the most up-to-date techniques for product testing and development.

The team of quality controllers monitors

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the manufacture and processing of all Tesco products on a regular basis and during the year the effort directed towards fresh meat and produce was substantially increased in a major drive to improve quality standards even further.

Expert chefs and food technologists are actively engaged in the development and testing of new products working closely with six in-store Consumer Advisory Kitchens, unique in the UK. Here customers have the opportunity to sample and comment on current and proposed Tesco products.

During the year this capacity for assessing products with customers was substantially increased with the introduction of consumer taste panels at the Head Office site.



HEALTHY EATING

The Healthy Eating initiative launched by Tesco in January 1985 continues to be the focus of attention. Tesco led the industry by introducing nutrition labelling. Now all own-label products carry this information making Tesco the first retailer to completely label all their products in this way.

The publication of the 1987 guides to healthy eating and nutrition information completed the current series, with further editions planned for the coming year. As a

measure of the impact the campaign has had since it was launched, 21 million leaflets and guides have been produced and given away to customers.

Tesco participated significantly in the health campaign 'Heartbeat Wales', and continues to support this and a number of other initiatives nationwide.

The recommendations of the Committee on Medical Aspects of Food Policy report on diet and health have been fully incorporated into product development plans and numerous revisions were made to product recipes during the year, providing customers with a wide choice of healthier products.

In 1987 the company will provide dietary summaries of all its food products for the Food Intolerance Data Bank, established by the Food Development Federation to provide essential information to dieticians, doctors and professional organisations in the treatment of diet sensitive patients.

Additives

Tesco continues to recognise the case for reviewing the use of food additives and the elimination of additives wherever this is possible.

During the year over 350 products were reformulated resulting in over 600 fewer uses of additives, particularly artificial colours. No additives were introduced into new products unless they proved to be essential.

The company is very careful to ensure that the quality and safety of its products is maintained and any changes in formulation are thoroughly tested in its laboratories before they are approved.

Comprehensive lists of additive free foods have been much appreciated by customers and professional institutions.

HOME 'N' WEAR

Home 'n' Wear is one activity that distinguishes Tesco from other supermarket and superstore groups. Tesco sells a wide range of products including clothes and has made

Opposite: Tesco builds on the success of its Consumer Advisory Kitchens - a unique customer service. Advice is free on everything ranging from menu making to using the latest kitchen equipment sold in small electrical appliance departments.

Below, left: Our T for Toys and large toy departments are an Aladdin's Cave for small children.

Below, right: Always making a splash of colour - flowers, together with house plants, are a very popular feature in many stores.



important strides in improving quality. The vast majority of its clothes and textiles are manufactured in the UK. The average size Home 'n' Wear department occupies just over a quarter of store space. Ten superstores also have their own outdoor garden centres.

SUPERSTORE DEVELOPMENT

The main thrust of Tesco's development programme is concentrated on its superstore strategy in which Tesco aims to build single-storey stores with all services at ground level.

Ample free and easily accessible car parking is seen as essential. Sites must provide space for petrol filling stations.

Ideally stores should be between 40,000 sq. ft and 65,000 sq. ft of sales area on sites of about eight acres but Tesco also seeks smaller stores of 20,000 sq. ft net sales area

Bottom, left: Attention to quality, design and colour co-ordination has produced a superb range of towels - just part of the improved range of household textiles.

Bottom, right. Infants' playwear is now a major feature of the Tesco fashion range.



selling food and drink products only.

In identifying suitable sites, high street, edge-of-town or out-of-town locations are seen as equally attractive provided they represent a commercially-viable development. Stores opened in 1986/87 in Lewisham, Brixton and Baldocton are excellent examples of in-town sites, as are stores currently being developed at Ponders End and Ilford (Goodmayes).

These stores confirm the policy of assisting with the regeneration of town centres where it is practical and possible to do so.

During November 1986 Tesco began the development of a 280,000 sq. ft superstore centre on a 22-acre site in London's former Surrey docklands. The scheme includes two large stores, the largest of which at 80,000 sq. ft gross, will be occupied by Tesco. The other is reserved for British Home Stores,

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plus up to 33 retail units, three other large units, a petrol filling station, and car parking at surface level for 1,300 cars. It is Tesco's intention to attract other major retailers into this scheme.

It is also proposed to introduce a computer linked Shopping and Information Service based on the service pioneered at Gateshead. This has enabled disadvantaged people such as the disabled to enjoy the benefits of armchair shopping. At the same time it provides jobs and job experience opportunities for young people.

Tesco/Marks and Spencer

Tesco and Marks and Spencer continue to seek joint development opportunities each featuring individual facilities and services.

The association provides for a combination of both companies' expertise, experience and reputation in the development of individual stores on major out-of-town sites in a way that should be highly attractive to customers and to planning authorities.

The first joint development has started at the Brookfield Centre, Cheshunt, Hertfordshire, where an enlarged existing Tesco superstore will have a Marks and Spencer store constructed alongside. When completed during the Spring of 1988 the development will have two stores, each having sales areas in excess of 60,000 sq. ft, plus four unit shops, a major petrol filling station, all supported by associated surface car parking for nearly 2,000 cars.

Tesco and Marks and Spencer have applied for planning permission at Handforth, Cheshire; Trumpington, Cambridge and Camberley, Berkshire. These developments will each accommodate large retail stores, with associated surface car parking facilities and a petrol filling station at each.

Marks and Spencer and Tesco see this type of expansion as offering exciting prospects for both companies and their customers. Several other development opportunities are under consideration.

EXISTING STORES

These are the subject of a continuous selective investment programme of refurbishment and refitting.

Major extensions are in progress at stores located at Basingstoke, Pontypridd and Aylesbury. These extended stores when completed will include those merchandising improvements, installations, and other features that are included within the new store development programme.

Four new petrol filling stations are to be created at existing store locations during this financial year.

As stores are replaced they are offered for sale for other retail use and in general the demand for them continues. Tesco prefers these stores to be occupied by other retailers so that they may continue to serve local communities. Experience has also shown that supermarkets that are too small for Tesco can be ideal for other operators.

STORE LOCATION AND DESIGN

The process of store development is central to the growing reputation of Tesco.

The building of new stores, or the extension of existing ones, has to be considered in terms of the local environment and the tastes and needs of those who live within the area.

Specialist units within the Retail Planning and Property and Estates Department are concerned with store layout, construction, architectural treatment, landscaping, interior design, customer flow, fixtures, fittings and displays.

Stores are planned and designed with great care with the customer's comfort and convenience foremost.

Air conditioning is now standard in all new Tesco stores. There are wide aisles and goods are attractively displayed on shelves up to a sensible height. Colours and materials are selected to create a modern, hygienic and

Below: Plans and elevations of the Enterprise Centre Superstore, B'ham. The dramatic design of the roof is an outstanding feature of this 20,000 sq. ft. store.

Middle, left: Tens of thousands of items in the design of its new stores. Here, Lee's team shows the creative use of traditional materials.

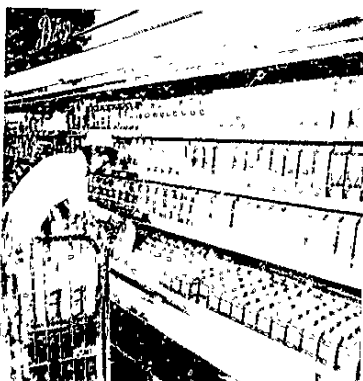
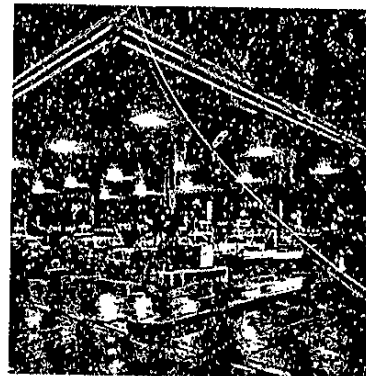
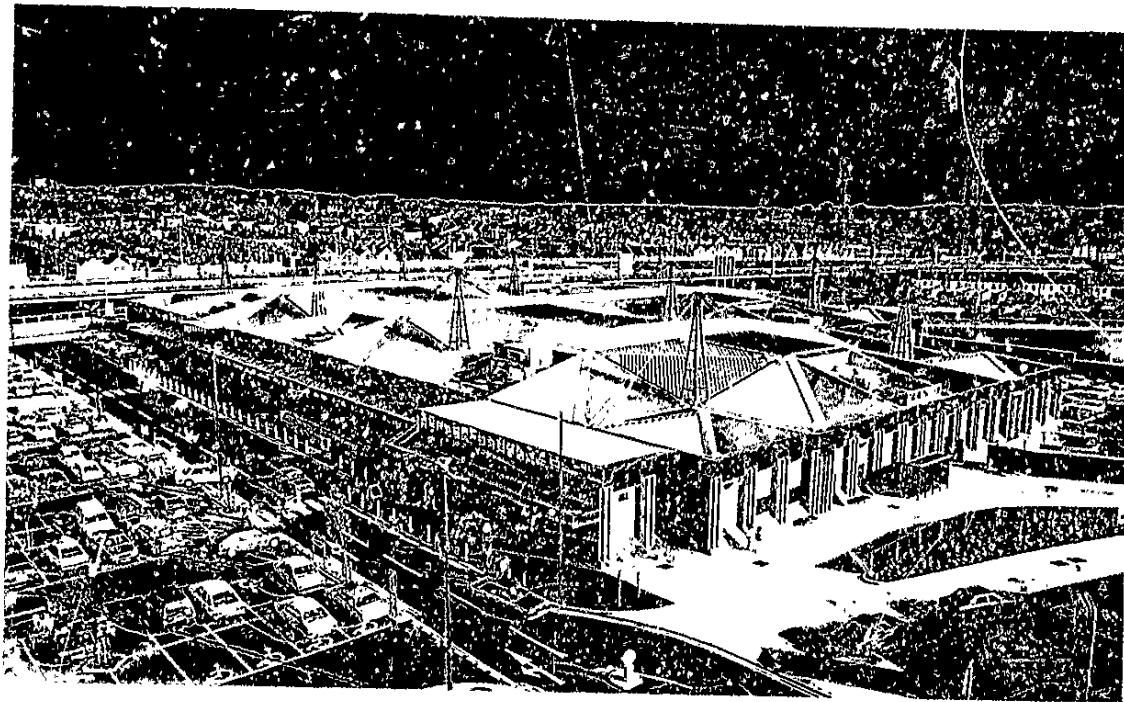
Middle, centre: Customers relax in the pleasant surroundings of one of our coffee shops.

Middle, right: Petrol filling stations are just one of the many services provided for customers at superstores.

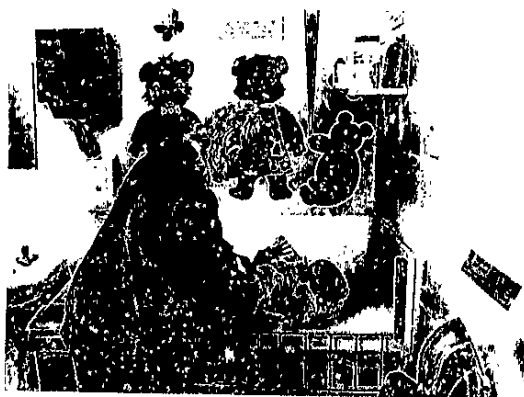
Bottom, left: Fruit prices are just some of the over-100 chilled products proving tremendously popular with customers.

Bottom, centre: Quality control through buying and distribution maintains the highest standards for all products like our range of special cheeses.

Bottom, right: A clocktower and pedestrian covered areas combine as a focal point and practical amenity for customers. This one is at Culverhouse Cross, Cardiff.



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practical atmosphere. Product layout and clear signage are designed to make shopping as easy as possible. Better checkout systems are constantly being researched and developed.

Special facilities are provided for disabled customers and staff. For those in wheelchairs there is parking near the store entrance, easy access without steps, automatic doors, special shopping carts, wide checkout aisles, and staff available to assist in reaching goods on shelves. Tesco staff are also eager to provide help for those with other disabilities such as the partially sighted, hard of hearing and for the elderly.

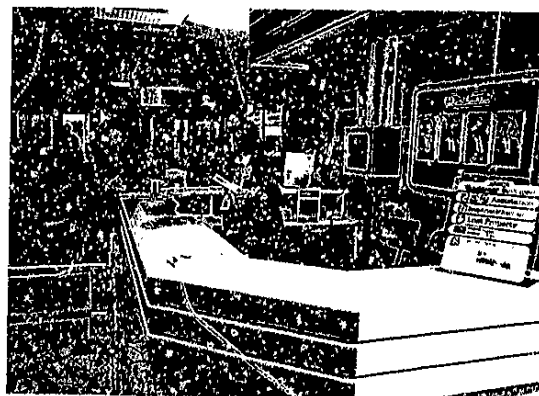
The same careful thought goes into existing stores. Every branch is reviewed annually, and this year Tesco will spend in the region of £40 million refitting and improving existing stores. This is over and above normal maintenance expenditure.

Tesco's aim is to design exciting and efficient stores which make shopping an enjoyable experience.

DISTRIBUTION

More efficient use of existing resources strengthened by a programme of new development has provided the company with a robust distribution structure well-equipped to meet the demands of long-term growth.

Tesco retail stores are now serviced by major distribution centres in Scotland, the



North West, Midlands, South West and London.

Highlight of the year was the opening on schedule of a new dry grocery depot at Welham Green in Hertfordshire, with a storage capacity of 19,000 pallets. This sophisticated centre, along with the depot at Weybridge in Surrey, spearheads distribution service to stores in London and the South East regions.

Significant progress has been achieved in increasing frequency and quality of deliveries to all stores and at the same time, reducing store stockholding levels.

Specialist wine and spirit bond and distribution depots in the Midlands and South East will eliminate the need for intermediate stockholding, while improving frequency and quality of service.

Further efficiencies in the frozen foods operation have been achieved by consolidating deliveries through four key depots. Newly-appointed and existing direct suppliers are now integrated through these depots with resultant increases in frequency of delivery and reduction in stockholding.

In fresh foods a programme of service improvement will enable us to provide our stores with a wide range of products under the corporate umbrella. This will also bring about productivity gains in Distribution and Retail.

The company has continued its policy of recruiting high calibre management and

Opposite, left: *Babycare facilities* – a special room with changing shelf, wash basin, drier and complementary baby care products are incorporated in all new superstores.

Opposite, right: *Customer service desks* make dealing with customer enquiries easy and convenient.

introducing productivity improvements in warehousing and transport.

TECHNOLOGY

Tesco is one of the most sophisticated users of technology in retailing. There is now virtually no part of the Tesco business which is not aided or enhanced by computing or information technology.

The central mainframe sites comprise one of the most extensive IBM-based sites in the United Kingdom. In addition computers are installed in:

- depots to control the replenishment of goods in our stores.
- produce depots to facilitate ordering of fresh quality produce.
- stores to assist in the re-ordering of short life products to help guarantee freshness and range whilst minimising wastage.
- remote locations to facilitate administration functions such as payroll.

The branch computing programme has generated favourable results in the stores in which it has already been installed. A corporate communications network is being built to support the programme and eventually to reduce overall telephone costs.

Scanning or Electronic Point of Sale will also use the corporate network and some economies of scale will be achieved. It is hoped to begin the first phase of a major new initiative by introducing a new generation of scanners into our stores during the year. Again real benefits have been identified for the customer and the company is satisfied that this will lead to significant financial returns.

The investment in information technology has allowed Tesco to maintain and improve its competitiveness through improved stock holding, efficient warehouse control, improvements in distribution systems, provision of buying and marketing information, timely and effective financial

data, and efficient, economic administration systems.

Like many leading companies the Tesco of today depends on its technology to maintain and improve its position in the marketplace and the commitment to improve further is fundamental to our development programme.

Energy

The company continues to promote actively energy saving in all aspects of its activities. Much of the substantial saving comes from the conscientious efforts of all members of staff.

The Engineering Department ensures that the latest technology is used collectively in both new and existing stores. Energy efficiency is achieving significant savings for the company.

The Energy Monitoring and Targeting exercise, for which the company received a grant from the Government in 1985, is completed and the results are being evaluated.

TRAINING

Training is vital to the continued success of the company, and is always the subject of close scrutiny. An important activity this year has been that all executive management have undergone performance review training, designed to focus attention on target setting and reviewing performance against those targets.

All new staff undergo initial training. Existing employees also receive training to improve their performance, to enable them to cope with changes such as the impact of new technology, and to assist their career development.

A particular feature is the intensive training support given to the store opening programme, enabling a large new store to provide an efficient service from the outset, whilst employing staff many of whom had little or no relevant experience before joining the company.

The on-going programme of computerisation entails the training of large numbers of staff including secretaries and executives who were hitherto unfamiliar with information technology.

The company recognises that it relies heavily on its managers to maintain its product and service standards, and to respond to the needs of the customers and the business. Management development programmes are being intensified to ensure that the supply of talent and skills is maintained.

A significant investment in management training has been the purchase of Ponsbourne Park in Hertfordshire for conversion to a fully equipped residential Management Training Centre. This will increase the company's ability to widen the skills of executives and managers, and so improve both their career opportunities and the company's performance.

EMPLOYEES

Tesco regards its employees as its most important resource and its management is committed to their welfare, training and development, with direction and support from a forward thinking Personnel department.

Wage levels, employee benefits, the working environment of staff and good human relations, all have a bearing on the success of the business. For this reason the company has been reviewing its personnel policies and staff facilities and conditions to ensure that it attracts and retains the best people available.

Over recent years major improvements in staff restaurants have been extended to most stores, in addition to established benefits including subsidised meals, the SAYE Share Option Scheme, improved Pension rights and the Staff Discount Scheme.

This year has also seen the extension of the staff discount scheme to many part-time employees who had not previously benefited

from this facility, as well as a significant improvement in our retail pay scales to reflect more correctly the company's need for high quality employees in a competitive marketplace.

The company acknowledges that its employees have needs and ambitions to which it must react positively. These needs include a set of common goals with which employees can identify and which they can share with their colleagues, as well as clear and regular information about the company's progress and development.

Consistent with this philosophy is the introduction of the company Profit Sharing Scheme, which is designed to ensure that employees not only identify with company aims and objectives, but share the benefits of attaining them. In the first year of the scheme over 24,000 employees will participate.

While the monthly company newspaper *Tesco Times* continues to play an important role in internal communications the company has undertaken a major review of the effectiveness of its internal communications and is currently devising policies to improve this vitally important area.

Remuneration and Benefits

The company aims to motivate and retain its employees and has revised its Remuneration and Benefits policy to ensure that higher performance attracts greater rewards.

The introduction of an executive job evaluation system has allowed the company to provide an equitable system of comparing the relative value of jobs, monitoring market wage rates more accurately, improving control over pay rates, and the direction of organisational development. This year, evaluations have been carried out in order to extend the policy to every executive position in the company.

Development of Staff

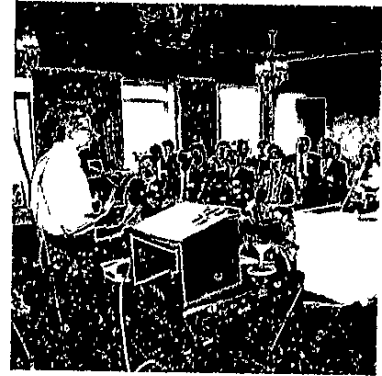
Assessment Centres designed to identify the potential of existing staff are part of our commitment to redeveloping and improving

and a well equipped office for the secretarial department
and a large store for the company.

Below, centre: The largest sports centre is strategically situated at Welham Green near Hatfield,
close to big motorways.

Below, right: Seminars to help staff prepare for
retirement have proved both valuable and popular.

Bottom: Poushmore Park, formerly a hotel, has
been converted to provide the company with a com-
prehensive management training centre.



COMPANY REVIEW

the future competence of managers, executives and staff. This method of auditing the skills and qualities of people is also used in the recruitment of graduate trainees who join Tesco training schemes. This year Tesco has once again increased its intake of graduates as part of its philosophy to train and develop its own management of the future.

The company has once again increased its visits to schools and colleges to make students more aware of career possibilities in retailing and to promote more widely the benefits of the company and the industry as a career.

As part of our continued commitment to the future, a significant development programme has been designed and implemented, in partnership with Ashridge Management College, covering many key executives who, we believe, possess the potential to progress into the highest levels of senior management.

RETIRED STAFF ASSOCIATION

The company's Retired Staff Association continues to grow and maintain links with retired employees.

The company continues to provide support and assistance in retirement to those who require it, as a mark of appreciation for past service to the company, as evidenced by the latest increases in pensions.

SUNDAY TRADING

Sunday trading remains a controversial topic following the unexpected defeat of the Government's new Shops' Bill. Had this been approved, Sunday trading would have become lawful in England and Wales as is already the case in Scotland. Since its defeat a number of campaigns have been launched to bring about diluted legislation which would have enabled certain outlets – such as DIY shops and garden centres – to open on Sundays.

Tesco is strongly against piecemeal amendment of the current law, inadequate though it is. Tesco believes that the only answer to this complex question is by way of comprehensive legislation. These views have been made known to the Home Secretary, and to Members of Parliament.

Tesco's experience is that Sunday trading in Scotland has been highly successful and well received by employees and customers alike.

Tesco will continue to press the Government to take further action to resolve this highly unsatisfactory situation in the rest of the United Kingdom.

COMMUNITY SUPPORT

Tesco and its employees can be proud of their record of helping charities and social community projects. This record has been achieved either by direct financial contribution from Tesco or by fund-raising initiatives undertaken by employees, and occasionally in association with suppliers.

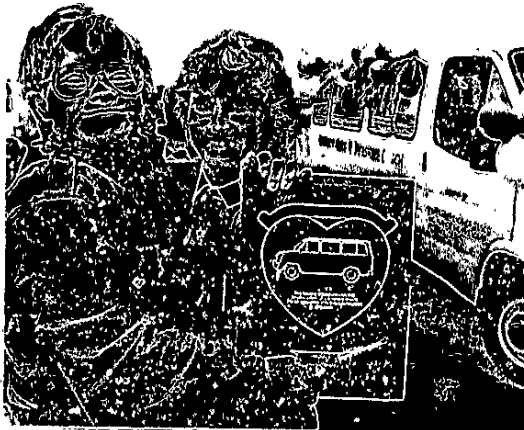
The secondment of executives to create and run local businesses and job creation ventures, fund raising events to buy Sunshine Coaches for underprivileged children, and substantial cash donations to the 'Heart-beat Wales' programme are just three examples of the scope of these initiatives.

Help, too, has also come by Tesco providing facilities at stores for various organisations to raise funds by allowing them to set up collecting points. The Sports Aid Foundation benefits greatly from this facility by operating a large number of lottery kiosks.

During the year a detailed review of Tesco's total charity commitment was carried out. This was prompted in part by new legislation enabling tax relief to be obtained on charitable donations by employees, and also in recognition of the need to introduce new guidelines to maximise the benefits from all charity giving and fund-raising within the company.

Below, left: A unique Gold Heart was the special award presented to Tesco and its staff by the Variety Club of Great Britain in recognition of the fund raising to buy a record 100 Sunshine Coaches.

Below, right: A record £120,000 was raised by the Tesco Pro-Am Golf Classic for Cancer Relief MacMillan Homes. The cheque was presented to HRH The Duke of Edinburgh by Chairman Ian MacLaurin.



Following the review Tesco's commitment was defined as being: 'To support charitable and community related projects in keeping with our declared policy to act as a socially responsible company recognising the needs of others.'

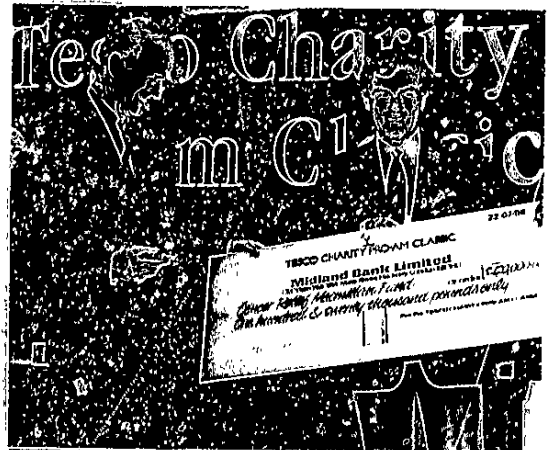
The main areas of support are to be local community enterprise, education, health, the Arts, national heritage, and people in need.

Fund-raising by employees in stores and elsewhere will continue and will be encouraged and supported by the company.

A new Tesco Charity Trust, headed by the Chairman, Ian MacLaurin, was established to ensure that the new policy and related guidelines to fund-raising activities

Bottom, left: Staff showed their concern for others less fortunate by enthusiastic fund raising for many charities.

Bottom, right: Tesco plans to sponsor a number of Life Education Centres – an exciting new concept in mobile classrooms with the teaching theme 'Let's learn to live'.



within the company are carried out effectively.

Tesco became a founder member of the Percentage Club launched by HRH The Prince of Wales to support charities and other community ventures.

A payroll scheme in which employees would be able to contribute to their favourite charities and gain tax advantages is currently under active consideration.

COMPANY REVIEW

The company has stores:

Over 25,000 sq. ft sales area in:	Northampton	Eastbourne	Tunbridge Wells	Sheffield
Abingdon	Nottingham	Eastleigh	Uxbridge	Solihull
Ashford	Nuneaton	Edgware	Wakefield	Spalding
Aylesbury	Plymouth	Edinburgh	Ware	Tewkesbury
Ayr	Pontypridd	Eltham	Welling	Tredegar
Baldock	Poole	Ely	Wellingborough	Wallasey
Barnstaple	Portsmouth	Epping	West Drayton	Ware
Basildon	Reading	Exeter	Whitchurch	Wirral
Basingstoke	Redditch	Falkirk	Wimbledon	Wisbech
Bedford	Renfrew	Falmouth	Wolverhampton	Workington
Birmingham	Rochdale	Faversham	Between 5,001 and 10,000 sq. ft sales area in:	York
Blackburn	Romford	Feltham	Abergavenny	Up to 5,000 sq. ft sales area in:
Bolton	Runcorn	Finsbury Park	Barking	Bridgwater
Borehamwood	Ryde	Great Yarmouth	Birkenhead	Broadstairs
Bow	Sale	Greenford	Birmingham	Burgess Hill
Braintree	Shrewsbury	Guildford	Blackwood	Caernarfon
Bridgend	South Tottonham	Hackney	Bristol	Camden Town
Brighton	Southampton	Halifax	Burton upon Trent	Cannock
Bristol	Stafford	Hatfield	Bury	Cardiff
Cambridge	Stevenage	Hemel Hempstead	Caerphilly	Cheadle
Cardiff	Stoke-on-Trent	Hornchurch	Cheltenham	Chichester
Catford	Stratford-upon-Avon	Ipswich	Cheshunt	Croydon
Chatham	Sutton	Kennington	Clacton	Deal
Chelmsford	Swansea	Kilmarnock	Cobham	Dover
Cheshunt	Talbot Green	Kings Lynn	Coventry	East Molesey
Chester	Trowbridge	Leamington Spa	Deeside	Evesham
Cirencester	Truro	Lichfield	Doncaster	Gosport
Coichester	Walsall	Liverpool	Dorchester	Hounslow
Coventry	Wandsworth	Lowestoft	Dover	Hove
Crawley	West Bromwich	Macclesfield	Dunstable	Knutsford
Croydon	Weston-Super-Mare	Maidenhead	Ealing	Leicester
Dudley	Whitstable	Maidstone	Ebbw Vale	Liverpool
Dundee	Wimborne	Manchester	Egham	Lymington
Finchley	Wokingham	Newmarket	Ely	Paignton
Folkestone	Worksop	Norwich	Felixstowe	Rickmansworth
Gateshead	Worthing	Nottingham	Harrow	Romford
Glasgow	Wrexham	Oldham	Havant	Rotherhithe
Gloucester	Yeovil	Oxford	Hendon	Slough
Gravesend	Between 10,001 and 25,000 sq. ft sales area in:	Penzance	Huntingdon	Southampton
Grays	Aberdare	Perth	Hyde	Southsea
Greenock	Andover	Peterborough	Leeds	Stamford
Harlow	Ashford	Plaistow	Leyton	Stourport
Hastings	Ayr	Port Talbot	Liverpool	Tewkesbury
Haverfordwest	Barrow-in-Furness	Potters Bar	Loughborough	Thame
Hereford	Barry	Rainham	Lymington	Twickenham
High Wycombe	Berkhamsted	Ramsgate	Maidstone	Uttoxeter
Horley	Bethnal Green	Rochester	Maldon	Victoria
Horsham	Bicester	Salford	Manchester	Weymouth
Hull	Birmingham	Salisbury	Margate	Wirral
Ipswich	Blackburn	Scarborough	Market Harborough	Witham
Irvine	Blackpool	Sevenoaks	Melton Mowbray	The company operates distribution depots:
Ivybridge	Bournemouth	Sheerness	Merthyr Tydfil	Grocery in:
Kirkcaldy	Brighton	Slough	Mitcham	Crick
Kirkcaldy	Bristol	Smethwick	Morecambe	Welham Green
Leicester	Brixton	Southport	Newbury	Westbury
Lewisham	Burgess Hill	St Albans	Newport	Weybridge
Lincoln	Camberley	St Austell	Notting Hill	Winsford
Liverpool	Cambridge	Stirling	Ormskirk	Home 'n' Wear in:
Llanelli	Cambridge	Stockport	Paddington	Milton Keynes
Lower Edmontan	Cardiff	Stockton-on-Tees	Palmer's Green	Fresh Foods in:
Luton	Cardiff	Street	Portsmouth	Bristol
Maidstone	Carlisle	Sunderland	Rayleigh	Corby
Manchester	Carmarthen	Swansea	Redruth	Cuffley
Mansfield	Cheshunt	Swindon	Rhyl	Heywood
Neasden	Coventry	Teddington	Romford	Rainham
Neath	Devizes	Tiverton	Scarborough	
Newport	East Grinstead			
Newton Abbot				

COMPANY REVIEW

Stores and Major Extensions opened in 1986/87

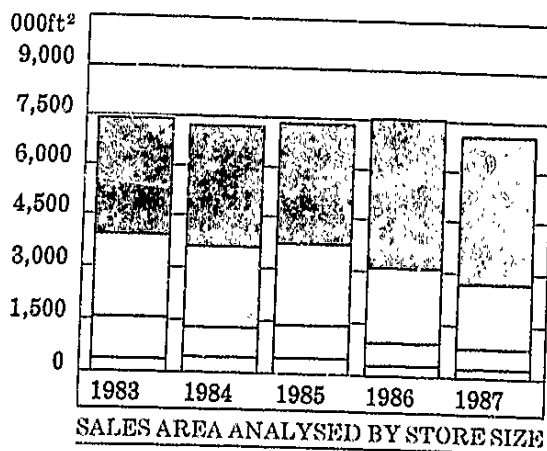
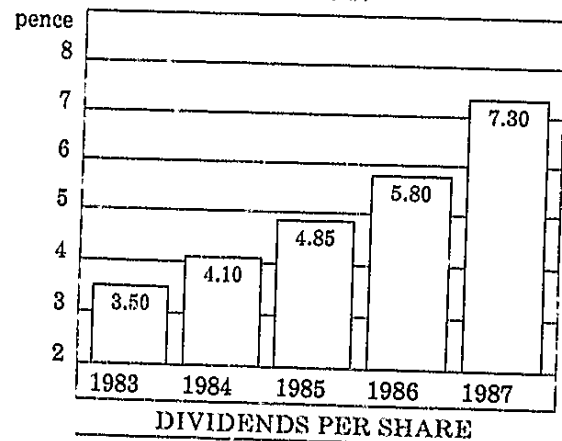
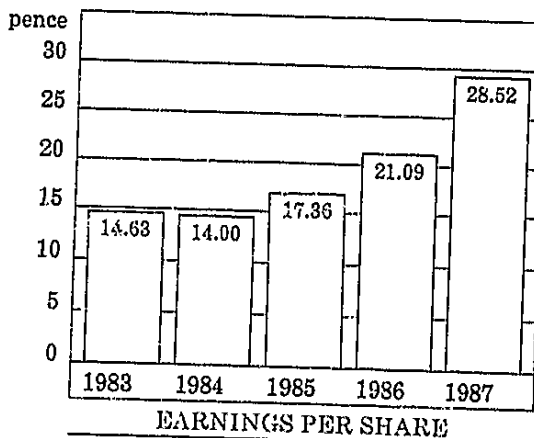
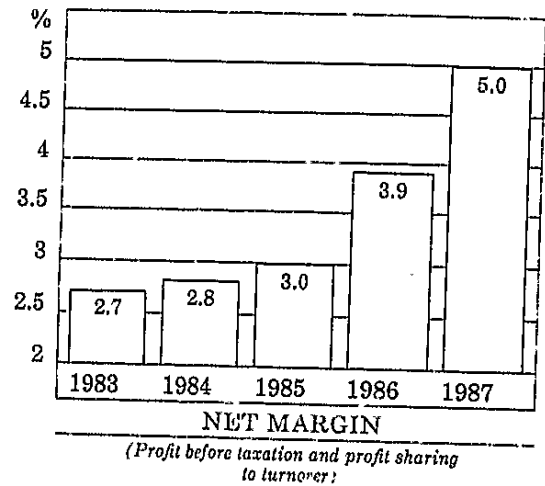
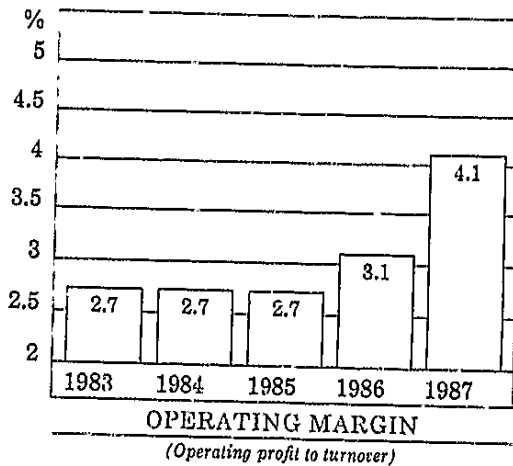
	Additional Sales Area (sq. ft)	Resultant Sales Area (sq. ft)
Abingdon		
Baldock	15,000	51,000
Barnstaple		43,500
Barry		28,500
Bristol, Eastville		22,500
Brixton		49,000
Colchester, Highwoods		20,000
Culverhouse Cross, Cardiff	34,500	65,000
Horsham		36,000
Lewisham		42,500
Romford		35,500
Stratford-upon-Avon		37,000
Whitstable		29,500
		38,500

Stores and Major Extensions to be opened in 1987/88

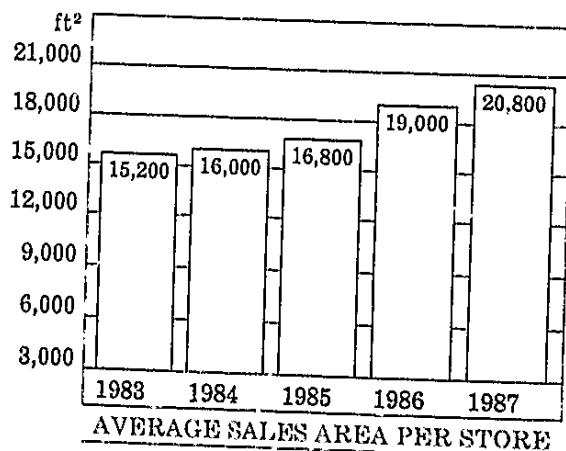
	Additional Sales Area (sq. ft)	Resultant Sales Area (sq. ft)
Aylesbury		
Basingstoke, Chineham	18,500	59,500
Colney Hatch	13,000	42,500
Crawley, Hazelwick		37,000
Hatfield		28,500
Ilford, Goodmayes		40,500
Ipswich		36,500
Kings Lynn		41,000
Maidstone		31,500
Melton Mowbray		20,000
New Malden		23,500
Ponders End		55,000
Pontypridd		23,000
Rugby	20,000	49,000
Truro		39,000
Witham		34,000
Worcester		20,000
		30,000

FINANCIAL STATISTICS

28th February 1987

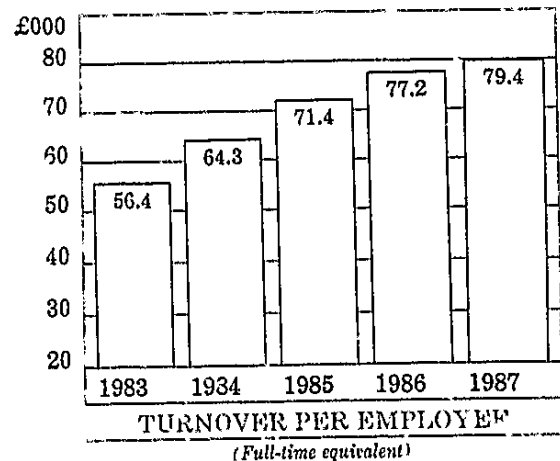
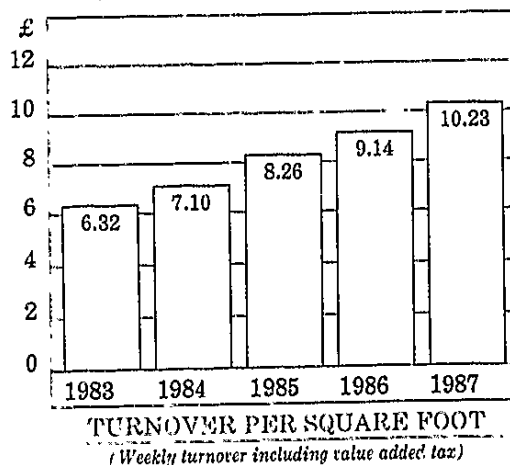
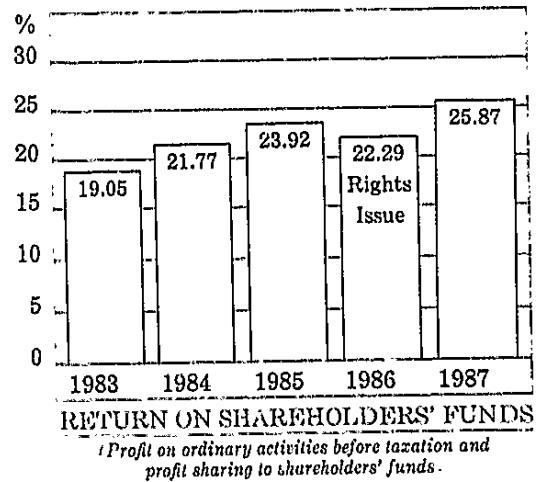
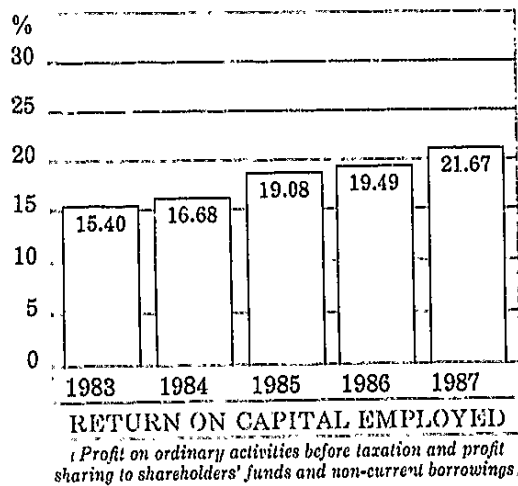
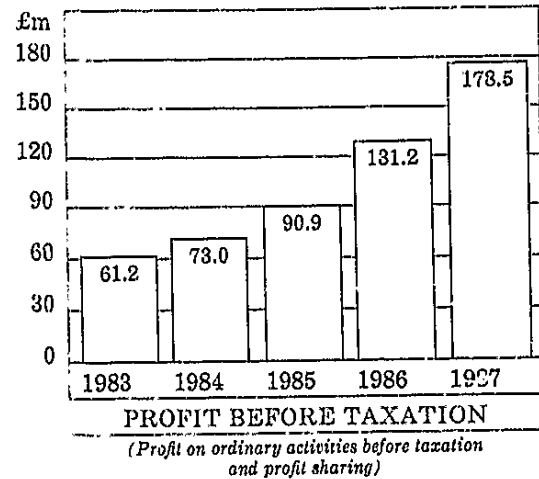
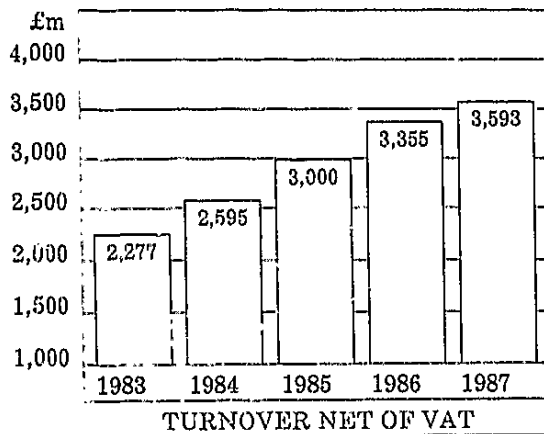


Greater than 25,000 sq. ft.	4,470,515 sq. ft. (64%)	114 stores
10,001 to 25,000 sq. ft.	1,848,783 sq. ft. (26%)	111 stores
5,001 to 10,000 sq. ft.	522,326 sq. ft. (8%)	73 stores
Up to 5,000 sq. ft.	155,454 sq. ft. (2%)	39 stores



Total number of stores (excluding petrol stations and garden centres) 337
 Total company sales area (including concessions) 6,997,078 sq. ft.
 Average sales area per store 20,800 sq. ft.

FINANCIAL STATISTICS



DIRECTORS' REPORT

The directors present their Annual Report on the affairs of the group together with the accounts and auditors' report for the 53 weeks ended 28th February, 1987.

Results and dividends

Group net profit before tax for the year was £175.9m compared with £131.2m for the previous year, an increase of £44.7m. The net margin as a percentage of turnover, excluding vat, increased from 3.9% to 5.0%.

Group turnover increased by £250.1m (including vat), and showed a volume gain of 9%.

Capital expenditure, mainly on new stores and distribution depots together with the refitting of existing stores, amounted to £312m compared with £225m during the previous year. Planned expenditure for 1987/88 will exceed £350m. Last year, over £23m was spent on store refits and refurbishment; in the year 1987/88, £40m is expected to be spent.

An interim dividend of 2.55p (gross equivalent 3.59p) per ordinary share has been paid on account of the 53 week period ended 28th February, 1987 and the directors recommend the payment of a final dividend of 4.75p (gross equivalent 6.51p) per ordinary share to be paid on 1st July, 1987, leaving profit for the financial year to be retained of £88.0m. (1986 - £52.6m).

Principal activity and business review

The principal activity of the company and its subsidiaries during the year was multiple retailing within the United Kingdom. For a detailed business review please refer to pages 6 to 21.

Disposal

Tesco Stores Ireland Limited was sold on 10th May, 1986 as reported in the 1986 Annual Report.

Fixed assets

A summary of the changes in fixed assets and information relating to market value is shown in Note 9 to the Accounts. A professional valuation of the majority of the

group's properties was carried out as at 23rd February, 1985.

Directors and their interests

The names of the directors and their interests are shown on the next page. Mr. S. Young was a director until his untimely death on 29th August, 1986. Mr. J. Gildersleeve, Mr. D. C. Tuffin and Sir Leslie Porter retire from the board by rotation in accordance with the company's Articles of Association and, being eligible, offer themselves for re-election.

The contracts of Mr. Gildersleeve and Mr. Tuffin are for terms of three years each currently running from 1st January, 1987. Sir Leslie Porter does not have a contract for more than one year's duration.

Substantial shareholdings

There was, at 29th April, 1987, 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.

9% Convertible Unsecured

Loan Stock 2002/2007

On 2nd December, 1982, the company made a rights issue to shareholders of £56,057,487 in 9% Convertible unsecured loan stock 2002/2007 ('the stock') at par. The amount of outstanding stock is £43.3m following the exercise of conversion rights in August, 1986. Each £100 nominal of the stock is convertible in August in any year up to 2002 into 81.1007 ordinary shares of 5p each, representing an effective conversion price of 123p per ordinary share. This conversion rate has been adjusted in respect of the rights issue in May, 1985.

If at any time more than 75% of the stock has been converted the company may compulsorily convert the outstanding stock, but the stockholders may instead require repayment of their stock at par. As from 30th November, 2002, the company is entitled to redeem the outstanding stock at par and any stock not previously converted or redeemed will be repaid on 30th November, 2007. The trustee of the stock is Guardian Royal Exchange Assurance 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		Share Options*	
	1987	1986	1987	1986	1987	1986
			£	£		
Mr. I. C. MacLaurin	38,755	32,230	750	750	222,635	139,979
Mr. V. W. Benjamin	5,000	15,000	—	—	102,409	83,709
Mr. A. D. Malpas	1,000	1,000	—	—	154,585	109,979
Mr. M. Darnell	8,125	25,000	—	—	119,935	99,979
Mr. J. Gildersleeve	8,125	—	—	—	116,385	89,979
Mr. F. R. N. Krejsa	23,495	35,495	—	—	121,991	104,441
Miss D. O'Cathain	—	—	—	—	—	—
Mr. J. M. F. Padovan	1,200	1,200	—	—	—	—
Mr. H. F. Pennell	30,599	24,174	—	—	113,785	99,979
Sir Leslie Porter	3,633,809	3,686,684	91,014	91,014	1,854	9,979
Mr. D. E. Reid	—	—	—	—	99,450	80,000
Mr. D. C. Tuffin	8,125	12,078	—	—	111,085	96,979

**Non Beneficial
as Trustees**

Mr. I. C. MacLaurin	30,000	30,000	5,000	5,000
Sir Leslie Porter	2,803,347	4,203,347	743,890	743,890

*Executive share option scheme (1973), Executive share option scheme (1984) and Savings-related share option scheme (1981).

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 28th February, 1987 and 29th April, 1987 there have been no changes in the interests of the directors in the share capital of the company.

**1% Unsecured Deep Discount
Loan Stock 2006**

For the purpose of long-term funding of the group's investment in new superstores, in June, 1986 the company raised approximately £60m, after expenses, by the issue of £125m Unsecured deep discount loan stock 2006.

4% Convertible Bonds 2002

In March, 1987, after the end of the financial year under review, the company raised approximately £112m, after expenses, by the issue of £115m 4% Convertible bonds 2002. Bonds are convertible at the holder's option into fully paid ordinary shares of 5p each in

the company at a current conversion price of 524p 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 February, 1992. The bonds are listed on The Stock Exchange and the trustee of the bonds is Guardian Royal Exchange Assurance plc. The net proceeds of the issue will be used for the development of the group's retail business and for general corporate purposes.

Executive share option scheme (1973)

On 27th March, 1973, your company adopted an Executive share option scheme. The scheme was amended on 28th July, 1978.

DIRECTORS' REPORT

Under the scheme, options to acquire such number of fully-paid ordinary shares of 5p each of your company as might be determined by the board, were granted to full-time directors and employees of your company and its subsidiaries at a price of £1. An executive to whom an option was granted may exercise the option within the period between three and seven years from the date of the grant of the option. The subscription price payable in respect of each ordinary share is equal to the middle market quotation on The Stock Exchange of an ordinary share on the last dealing day prior to the date on which an executive accepted the offer of an option.

The following options have been granted:

Date	Number of executives	Number of shares	Shares under option 28.2.87	Subscription price p.
15.12.78	529	3,665,500	—	47*
27.3.81	343	1,564,000	117,000	54*
24.7.81	142	412,500	37,000	53*
21.1.83	538	916,500	211,500	116*

The scheme has terminated in respect of the grants of further options as it was for a fixed period of ten years.

Executive share option scheme (1984)

On 9th November, 1984, your company adopted a new Executive share option scheme. Under the scheme, options to acquire such number of fully-paid ordinary shares of 5p each of your company as might be determined by the board were granted to selected executives at a price of £1. An executive to whom an option was granted may exercise the option within the period between three and ten years from the date of the grant of the option. The subscription price payable in respect of each ordinary share shall be determined by the board but will be not less than the middle market quotation on The Stock Exchange of an ordinary share within the period of 30 days prior to the date of the grant of an option.

The following options have been granted:

Date	Number of executives	Number of shares	Shares under option 28.2.87	Subscription price p.
17.12.84	1,445	8,221,000	7,026,000	211*
2.8.85	188	749,750	578,250	245
16.12.85	103	299,500	259,500	295
21.7.86	159	1,847,600	1,755,050	380
1.12.86	13	246,621	246,621	399

Savings-related share option scheme (1981)

On 31st July, 1981, your company adopted a Savings-related share option scheme. Details of the scheme were supplied to shareholders by circular dated 6th July, 1981. On the 9th November, 1984, your company amended the rules of the scheme. Under the amended terms of the scheme, each employee of the group who has completed at least two years' continuous service and who works at least 16 hours each week may be given the option to subscribe for ordinary shares of 5p each in your company; at the time of the grant of the option, the employee must enter into a Save As You Earn contract with the Abbey National Building Society for a term of five years and contribute an integral amount between £10 and £100 a month. At the end of the five year term a refund of contributions plus a tax free bonus of an amount equal to fourteen/eighteen months' contributions will be received (dependent on the year of joining). Within six months of the date when the bonus becomes payable the option may be exercised; if the option is so exercised the refund and bonus must be used to settle the subscription price payable for each ordinary share which will be not less than 90% of the middle market quotation thereof on The Stock Exchange on the fifth dealing day immediately after the date on which the company's Annual Report and Accounts are sent to members prior to the option being granted. If the option is not exercised during that six month period, it will generally lapse.

DIRECTORS' REPORT

The following options have been granted:

Date	Number of executives and employees	Number of shares	Shares under option 28.2.87	Subscription price p.
2.9.81	942	2,909,544	9,262	48*
11.8.82	225	590,230	443,841	58*
10.8.83	424	709,624	521,950	114*
8.8.84	853	1,014,558	814,673	143*
19.12.84	3,235	2,814,389	2,052,954	111*
7.8.85	1,950	1,353,398	1,068,453	222
23.7.86	4,063	1,988,805	1,882,441	342

*The subscription price payable in respect of each ordinary share, adjusted as a result of the rights issues in 1982 and 1983.

The number of ordinary shares in respect of which options have been granted to directors of your company under the above schemes are included under the heading "Directors' shareholdings and interests" on page 25.

Employee profit sharing scheme

On 11th July, 1986, your company adopted an approved employee profit sharing scheme. All employees who are employed for not less than 16 hours per week and who have completed two years' continuous employment with the group are eligible to participate in the scheme. Under the scheme, participating companies may in each year of operation of the scheme, at the discretion of the directors of your company, provide the trustees of the scheme with funds to acquire Ordinary shares of the company which will then be appropriated to participants.

The amount of funds available to the trustees in any year must not exceed 5 per cent of the profit of the group which, in the opinion of the directors of your company, is attributable to the United Kingdom operations, excluding any property disposal surplus or deficit and before exceptional items and taxation, for the immediately preceding financial year. In this, the first year of operation of the scheme, £2.6m (approximately half of the sum calculated on the full year's profit) was made available to the trustees of the scheme for the acquisition of Ordinary shares of the company which will be appropriated to over 24,000 eligible employees.

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 other 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, and most importantly, 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 £240,000 (1986 £190,000). No political contributions were made.

Number of shareholders
The number of shareholders in the company at 28th February, 1987 was 45,218 (1986 - 44,127).

Close company status
The company is not a close company within the provisions of the Income and Corporation Taxes Act 1970.

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

29th April, 1987

SHAREHOLDER PROFILE

As at 28th February, 1987				
Size of shareholding	Number of shareholders	Percentage of number of shareholders	Number of ordinary shares	Percentage of ordinary shares
100,000 and over	81	—	239,801,692	56
50,000-99,999	544	1	113,478,546	27
10,000-49,999	1,042	2	19,936,649	5
5,000-9,999	1,716	4	11,479,973	3
1,000-4,999	14,494	32	29,653,729	7
500-999	9,041	20	6,349,331	1
100-499	13,681	31	3,604,026	1
1-99	4,619	10	190,541	—
	45,218	100	424,494,487	100
Type of shareholder				
Private individuals	40,473	89	65,913,296	16
Banks	1,652	4	2,272,735	1
Nominees (a)	1,393	3	228,460,920	53
Pension funds	105	—	30,452,351	7
Limited companies and other corporate bodies	1,595	4	97,395,185	23
	45,218	100	424,494,487	100

(a) These figures do not reveal how many shares are held by nominees on behalf of the other categories mentioned.

ACCOUNTING POLICIES

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 28th February, 1987.

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.

Stocks

Stocks which comprise goods for resale 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

The cost of land and buildings includes amounts in respect of interest, net of taxation, on funds specifically related to the financing of their initial acquisition and development.

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 - at rates varying from 7% to 30%.

Motor vehicles - 20% and 25%.

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, 1985 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 9 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

53 weeks ended 28th February, 1987 (1986-52 weeks)

	Note	1987 £m	1986 £m
Sales to customers at net selling prices		3,806.5	3,556.4
Value added tax		213.5	201.1
Turnover excluding value added tax		3,593.0	3,355.3
Cost of sales		3,367.0	3,186.2
Gross profit		226.0	169.1
Administration expenses		78.3	65.0
Operating profit	1	147.7	104.1
Interest receivable less payable	3	21.4	18.8
Net surplus on sale of properties		169.1	122.9
		9.4	8.3
Profit on ordinary activities before taxation and profit sharing		178.5	131.2
Employee profit sharing	4	2.6	—
Profit on ordinary activities before taxation		175.9	131.2
Tax on profit on ordinary activities	5	56.9	47.4
Profit on ordinary activities after taxation		119.0	83.8
Extraordinary items	6	—	(7.4)
Profit for the financial year		119.0	76.4
Dividends	7	31.0	23.8
Profit retained		88.0	52.6
Earnings per share	8	pence 28.52	pence 21.09
Fully diluted earnings per share	8	26.12	19.29
Dividend per share		7.30	5.80

The presentation of Net surplus on sale of properties has been changed from 1986 (See Note 22).

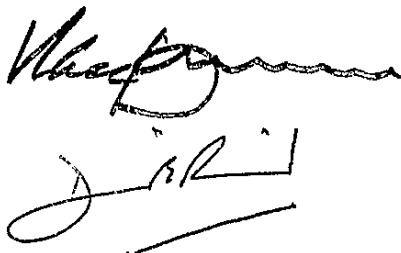
Accounting policies and notes forming part of these accounts are on page 29 and pages 33 to 41.

BALANCE SHEETS

28th February, 1987

	Note	Consolidated		Tesco PLC	
		1987 £m	1986 £m	1987 £m	1986 £m
Fixed assets					
Tangible assets	9	999.9	772.2	—	—
Investments: shares in subsidiaries	10	—	—	19.3	19.3
Current assets					
Stocks (goods for resale)		182.5	191.1	—	—
Debtors	11	13.8	24.4	674.5	394.2
Money Market investments and deposits	12	40.2	105.3	31.5	103.3
Cash at bank and in hand		20.3	30.3	—	88.1
		256.8	351.1	706.0	585.6
Creditors:					
Amounts falling due within one year	13	440.4	456.3	59.0	46.1
Net current assets/(liabilities)		(183.6)	(105.2)	647.0	539.5
Total assets less current liabilities		816.3	667.0	666.3	558.8
Creditors:					
Amounts falling due after more than one year	14	120.4	61.2	105.1	56.0
Provisions for liabilities and charges	15	5.8	17.2	—	1.7
		690.1	588.6	561.2	501.1
Shareholders' funds					
Called up share capital	17	21.2	20.6	21.2	20.6
Share premium account	18	180.2	167.2	180.2	167.2
Profit and loss account	18	488.7	400.8	359.8	313.3
		690.1	588.6	561.2	501.1

Directors: I. C. MacLaurin, D. E. Reid.
Accounts approved by Board: 29th April, 1987.



Accounting policies and notes forming part of these accounts are on page 29 and pages 33 to 41.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

53 weeks ended 28th February, 1987 (1986-52 weeks)

	1987 £m	1986 £m
Source of funds		
Profit on ordinary activities before taxation	175.9	131.2
Adjustment for items not involving the movement of funds:		
Depreciation	57.8	47.8
Net surplus on sale of properties	(9.4)	(8.3)
Tax relief on interest capitalised	(6.4)	(4.8)
Amortisation of discount on 4% Unsecured deep discount loan stock	0.7	—
Funds generated from operations	218.6	165.9
Funds from other sources		
Net proceeds from rights issue	—	145.4
Net proceeds from issue of 4% Unsecured deep discount loan stock	60.4	—
Proceeds from other issues of shares	1.6	10.0
Proceeds from disposal of tangible assets	20.4	23.1
Increase/(Decrease) in leasing commitments	15.4	(3.7)
Net proceeds from disposal of businesses (See below)	7.8	5.0
	324.2	345.7
Application of funds		
Purchase of tangible assets	311.9	225.4
Dividends paid	26.0	19.1
Taxation paid	47.2	41.0
Decrease in medium term bank loans	—	6.9
	385.1	292.4
(Decrease)/Increase in working capital	(60.9)	53.3
(Decrease)/Increase in working capital		
(Decrease)/Increase in stock	(0.4)	16.7
(Decrease)/Increase in debtors	(10.6)	10.3
Decrease/(Increase) in creditors	3.4	(56.6)
Movement in net liquid funds		
Increase in bank balances	11.8	14.6
(Decrease)/Increase in Money Market investments and deposits	(65.1)	68.3
	(60.9)	53.3
Net proceeds from disposal of businesses		
Tangible fixed assets	15.4	5.3
Stock	8.2	3.9
Creditors	(15.8)	(7.8)
Bank overdraft	—	(5.0)
Net assets/(liabilities) disposed of		
Net surplus on disposal	7.8	(3.6)
	—	8.6
	7.8	5.0

Accounting policies and notes forming part of these accounts are on page 29 and pages 33 to 41.

NOTES TO THE ACCOUNTS

1. Operating profit

	1987 £m	1986 £m
Profit is stated after charging the following:		
Depreciation	57.8	47.8
Operating lease costs	19.3	17.1
Auditors' remuneration	0.2	0.2
Staff costs (Note 2a)	332.9	300.1
Cost of sales includes warehouse and transportation costs and all store operating costs.		

2. Staff costs

	1987 £m	1986 £m
(a) Employment costs during the year		
Wages and salaries	300.7	269.3
Social Security costs	19.6	19.4
Other pension costs	12.6	11.4
	332.9	300.1

(b) Number of persons employed

The average number of UK employees per week during the year was 62,652 (1986 – 60,781) – full-time equivalent 45,260 (1986 – 43,447).

(c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were £1,220,937 (1986 – £1,140,790) including £53,944 (1986 – £47,123) in respect of services as directors. Termination payments to former directors were £nil (1986 – £15,000).

The emoluments of the Chairman, who was the highest paid director, amounted to £155,504 (1986 – £118,461), 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	
			1987	1986	1987	1986
From	£0 to	£5,000	—	1		
"	£5,001 to	£10,000	1	—		
"	£10,001 to	£15,000	—	3		
"	£15,001 to	£20,000	2	—		
"	£20,001 to	£25,000	1	—		
"	£25,001 to	£30,000	—	—		
"	£30,001 to	£35,000	—	—	40	19
"	£35,001 to	£40,000	—	1	21	9
"	£40,001 to	£45,000	—	—	11	6
"	£45,001 to	£50,000	—	—	9	2
"	£50,001 to	£55,000	—	—	2	1
"	£55,001 to	£60,000	1	—	—	—
"	£60,001 to	£65,000	—	3	2	—
"	£65,001 to	£70,000	—	1	—	—
"	£70,001 to	£75,000	3	2	—	—
"	£75,001 to	£80,000	2	—	—	—
"	£80,001 to	£85,000	1	—	—	—
"	£85,001 to	£90,000	—	1	—	—
"	£90,001 to	£95,000	—	1	—	—
"	£95,001 to	£100,000	—	—	—	—
"	£100,001 to	£110,000	1	—	—	—

NOTES TO THE ACCOUNTS

3. Interest

	1987 £m	1986 £m
Interest receivable and similar income on Money Market investments and deposits	31.0	26.7
Deduct interest payable on:		
Short term bank loans and overdrafts repayable within 5 years	(18.8)	(15.2)
Finance charges payable on finance leases	(0.3)	(0.1)
9% Convertible unsecured loan stock 2002/2007	(4.3)	(5.0)
4% Unsecured deep discount loan stock 2006	(4.3)	—
Interest capitalised	18.1	12.4
	(9.6)	(7.9)
	21.4	18.8

Interest payable on funds used to finance the initial acquisition and development of land and buildings has been capitalised. Interest payable on the 4% Unsecured deep discount loan stock 2006 includes £0.7m (1986 - £nil) of discount amortisation.

4. Employee profit sharing

The Employee profit sharing scheme was approved at an Extraordinary General Meeting on 11th July, 1986 and consequently the provision of £2.6m represents an appropriation of approximately half of the sum calculated on the full year's profit.

5. Taxation

	1987 £m	1986 £m
United Kingdom taxation		
Corporation tax at 35.5% (1986 - 40.5%)	66.7	50.3
Deferred taxation	(9.1)	(1.5)
Prior year adjustments	(1.0)	(1.5)
	56.6	47.3
Overseas taxation		
Corporate taxes	0.3	0.1
	56.9	47.4

After deducting tax relief of £6.4m (1986 - £4.8m) on interest capitalised, the net amount of £60.3m less advance corporation tax is the corporation tax payable in January, 1988. The group tax charge for the year has been reduced by £0.1m (1986 - £2.1m) in respect of accelerated capital allowances on which no provision for deferred tax is required. There is no taxation charge on the net surplus on sale of properties (1986 - £0.2m). Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Acts (Note 15).

NOTES TO THE ACCOUNTS

6. Extraordinary items after taxation

	1987	1986
	£m	£m
Net surplus on disposal of the Victor Value business	—	8.6
Provision for deficit on disposal of Tesco Stores Ireland Limited	—	(16.2)
	—	(7.6)
Less: taxation effect	—	0.2
	—	(7.4)

7. Dividends

	1987	1986
	£m	£m
Declared interim—2.55p per share (1986 – 2.10p)	10.8	8.6
Proposed final –4.75p per share (1986 – 3.70p)	20.2	15.2
	31.0	23.8

8. Earnings per share and fully diluted earnings per share

(a) The calculation of the earnings per ordinary share is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary 5p shares in issue during the year of 417,277,212 (1986 – 397,415,431).

(b) The calculation of fully diluted earnings per share is based on the profit on ordinary activities after taxation and after adding:

- (1) the savings of interest net of corporation tax on the 9% Convertible unsecured loan stock assuming that the loan stock were converted in full into ordinary shares on the first day of the financial year;
- (2) the interest income net of corporation tax which would have arisen had all the various ordinary share options granted under the company's various schemes been exercised on the first day of the financial year, or at the date granted if later, and the proceeds invested in 2½% Consolidated Stock on that day.

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

NOTES TO THE ACCOUNTS

9. Tangible assets

		Land and buildings		Plant			
		Freeholds	Leaseholds	equipment	Assets		
			50 years	less than	fixtures &	in course	
			or more	50 years	fittings &	of con-	
Note	£m	£m	£m	£m	vehicles	struction	Total
					£m	£m	£m
Cost							
As at 23rd February, 1986		299.3	184.4	17.5	390.3	94.3	985.8
Additions at cost	(a)	12.3	4.1	0.9	83.7	210.9	311.9
Transfers		93.0	35.3	1.3	1.3	(130.9)	—
Currency translation adjustments		—	—	(0.1)	—	—	(0.1)
		404.6	223.8	19.6	475.3	174.3	1,297.6
Deduct disposals		(28.7)	(3.2)	(1.7)	(30.2)	(0.1)	(63.9)
As at 28th February, 1987		375.9	220.6	17.9	445.1	174.2	1,233.7
Depreciation							
As at 23rd February, 1986		11.2	9.5	6.4	186.5	—	213.6
Charge for period		—	1.7	0.6	55.5	—	57.8
		11.2	11.2	7.0	242.0	—	271.4
Deduct disposals		(11.2)	(1.7)	(1.0)	(23.7)	—	(37.6)
As at 28th February, 1987		—	9.5	6.0	218.3	—	233.8
Net book value at							
28th February, 1987	(b)	375.9	211.1	11.9	226.8	174.2	999.9
Net book value at							
22nd February, 1986		288.1	174.9	11.1	203.8	94.3	772.2

Notes:

(a) Includes £11.7m (1986 - £7.6m) in respect of interest capitalised net of tax relief of £6.4m (1986 - £4.8m). Accumulated interest capitalised net of tax relief, included in the total cost above, amounts to £19.3m (1986 - £7.6m).

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

	Cost £m	Depreciation £m	Net book value £m
As at 23rd February, 1986	24.8	17.3	7.5
Movement in the period	27.0	4.3	22.7
As at 28th February, 1987	51.8	21.6	30.2

(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 UK and Ireland, and excluding trading stores which were opened in the preceding two years or were in the course of construction, were valued by Healey & Baker, international surveyors and valuers, as at 23rd February, 1985 on the basis of open market value for existing use at £471m. This valuation resulted in an excess over book value of these land and buildings at 23rd February, 1985 of £148m before taxation thereon.

NOTES TO THE ACCOUNTS

10. Investments: shares in subsidiaries

(a) Tesco Stores Limited, operated and registered in England and Tesco Insurance Limited, operated and registered in Guernsey, are the only subsidiary companies which, in the opinion of the directors, principally affected the amount of the profit or assets of the group. The issued share capitals of Tesco Stores Limited and Tesco Insurance Limited consist of £1 ordinary shares, wholly owned by Tesco PLC.

	1987 £m	1986 £m
(b) Investments – shares at cost less amounts written off	19.3	19.3

11. Debtors

	Consolidated		Tesco PLC	
	1987 £m	1986 £m	1987 £m	1986 £m
Amounts owed by group companies	—	—	672.3	393.8
Prepayments and accrued income	5.7	3.0	1.7	0.1
Other debtors	8.1	21.4	0.5	0.3
	13.8	24.4	674.5	394.2

£0.2m (1986-£nil) of the debtors fall due after one year.

12. Money Market investments and deposits

	Consolidated		Tesco PLC	
	1987 £m	1986 £m	1987 £m	1986 £m
Money Market deposits	24.3	54.0	21.5	54.0
Bonds and certificates of deposit (Original cost £15.9m)	15.9	51.3	10.0	49.3
	40.2	105.3	31.5	103.3

13. Creditors: amounts falling due within one year

	Consolidated		Tesco PLC	
	1987 £m	1986 £m	1987 £m	1986 £m
Bank loans and overdrafts	—	21.8	3.9	—
Trade creditors	255.5	289.4	—	—
Amounts owed to group companies	—	—	11.1	11.2
Corporate taxation(a)	69.1	54.4	13.0	11.8
Other taxation and social security	17.5	11.4	1.0	0.1
Other creditors	49.3	38.6	7.0	5.3
Accrued charges	28.8	25.5	2.8	2.5
Proposed final dividend	20.2	15.2	20.2	15.2
	440.4	456.3	59.0	46.1

(a) Includes corporation tax payable on 1st January, 1988 of £49.6m (1986 - £37.1m) which has been reduced by advance corporation tax of £10.6m (1986 - £8.2m).

NOTES TO THE ACCOUNTS

14. Creditors: amounts falling due after more than one year

	Consolidated		Tesco PLC	
	1987	1986	1987	1986
	£m	£m	£m	£m
9% Convertible unsecured loan stock 2002/2007 (a)	43.3	56.0	43.3	56.0
4% Unsecured deep discount loan stock 2006 (b)	61.8	—	61.8	—
Finance leases (Note 16)	15.3	5.2	—	—
	120.4	61.2	105.1	56.0

(a) Each £100 nominal of the 9% Convertible unsecured loan stock may be converted during August in any year up to 2002 into 81.1007 ordinary shares of 5p each. This conversion rate has been adjusted in respect of the rights issue in May, 1985. 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.

15. Provisions for liabilities and charges

Deferred taxation

	Amount Provided		Potential amount for deferred tax on all timing differences	
	1987	1986	1987	1986
	£m	£m	£m	£m
Excess of capital allowances over depreciation	13.8	23.7	43.0	51.6
Capital gains deferred by rollover relief	—	—	22.2	19.7
Other (a)	(0.5)	(0.3)	1.5	(0.3)
	13.3	23.4	66.7	71.0
Advance corporation tax recoverable	(7.5)	(6.2)	(7.5)	(6.2)
	5.8	17.2	59.2	64.8

(a) Includes £nil (1986 - £1.7m) in respect of Tesco PLC representing full provision for deferred tax on all timing differences arising in Tesco PLC.

NOTES TO THE ACCOUNTS

16. Leasing commitments

Finance leases

The future minimum finance lease payments to which the group was committed at 28th February, 1987 and which have been guaranteed by Tesco PLC are:

	£m
Year to 27th February, 1988	11.0
Year to 25th February, 1989	9.6
Year to 24th February, 1990	8.0
	28.6
Deduct finance charges allocated to future periods	4.5
	24.1

	1987 £m	1986 £m
Net amounts payable are:		
Within one year, included in other creditors	8.8	3.5
Between one and five years	15.3	5.2
	24.1	8.7

Operating leases

Group commitments during the year to 27th February, 1988 in terms of lease agreements in respect of land and buildings expiring as follows are:

	1987 £m	1986 £m
Within one year	0.3	0.1
Between one and five years	0.7	0.4
Beyond five years	18.0	17.2
	19.0	17.7

NOTES TO THE ACCOUNTS

17. Called up share capital

Authorised: £30,000,000 (1986 - £30,000,000)

Issued:

	Number	Ordinary shares of 5p each £m
Issued at 23rd February, 1986	411,389,353	20.6
10th September, 1986(a)	10,314,149	0.5
Share options exercised during the year(b)	2,790,985	0.1
Issued at 28th February, 1987	424,494,487	21.2

Notes:

(a) Conversion of 9% Convertible unsecured loan stock.

(b) Options granted under the terms of the Executive share option scheme (1973), Executive share option scheme (1984) and the Savings-related share option scheme (1981) and outstanding at 28th February, 1987 amounted to 365,500 ordinary shares, 9,865,421 ordinary shares and 6,793,574 ordinary shares respectively.

Between 28th February and 29th April, 1987, options on 13,000 ordinary shares and 12,801 ordinary shares have been exercised under the terms of the Executive share option scheme (1973) and the Savings-related share option scheme (1981) respectively. These schemes are described in the Directors' Report on pages 24 to 28.

18. Shareholders' funds

	Consolidated		Tesco PLC	
	1987	1986	1987	1986
	£m	£m	£m	£m
Called up share capital (Note 17)	21.2	20.6	21.2	20.6
Share premium account				
At 23rd February, 1986	167.2	15.4	167.2	15.4
Premium on issue of shares less costs	13.7	151.8	13.7	151.8
Costs on the issue of 4% Unsecured deep discount loan stock 2006	(0.7)		(0.7)	
At 28th February, 1987	180.2	167.2	180.2	167.2
Profit and loss account				
At 23rd February, 1986	400.8	347.6	313.3	269.1
Movement due to currency translation differences	(0.1)	0.6	—	—
Profit retained	88.0	52.6	46.5	44.2
At 28th February, 1987	488.7	400.8	359.8	313.3

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. Capital commitments

At 28th February, 1987

(a) There were commitments for capital expenditure of approximately £206m (1986 - £138m).

(b) Capital expenditure authorised by the Board, but not contracted for, amounted to £496m (1986 - £402m).

NOTES TO THE ACCOUNTS

20. Contingent liabilities

Certain bank loans and overdraft facilities of subsidiary companies have been guaranteed by Tesco PLC. At 28th February, 1987 the amounts outstanding on these facilities were £0.2m (1986 £98.5m).

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 interim actuarial valuation on the 30th June, 1986.

22. Net surplus on sale of properties

The presentation of Net surplus on sale of properties has been changed in these accounts. This is now shown before tax and after operating profit. Consequently, Net surplus on sale of properties for 1986 has been restated at £8.3m and Tax on profit on ordinary activities for 1986 restated at £47.4m. In the opinion of the directors, this gives a fairer presentation of the accounts.

AUDITORS' REPORT to the members of Tesco PLC

We have audited the financial statements on pages 29 to 41 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 28th February, 1987, and of the profit and source and application of funds of the group for the 53 weeks then ended, and comply with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
London
29th April, 1987

NOTICE OF MEETING

Notice is hereby given that the thirty-ninth Annual General Meeting of Tesco PLC will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Friday 26th June, 1987 at 2.30 pm for the following purposes:

1. To receive and adopt the directors' report and accounts for the 53 weeks ended 28th February, 1987 (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. J. Gildersleeve (Resolution 3), Mr. D. C. Tuffin (Resolution 4), Sir Leslie Porter (Resolution 5).
4. To re-appoint Price Waterhouse as auditors to hold office until the conclusion of the next Annual General Meeting (Resolution 6).
5. To authorise the directors to fix the remuneration of the auditors (Resolution 7).
6. To transact any other ordinary business of the meeting.

By Order of the Board
Michael J. Boxall
Secretary

Tesco House, Delamare Road, Cheshunt,
Hertfordshire, EN8 9SL.
Dated 1st June, 1987.

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 (Saturday excepted) from the 1st June, 1987, 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 the 26th June, 1987, 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. J. Gildersleeve a director		
4. To re-elect Mr. D. C. Tuffin a director		
5. To re-elect Sir Leslie Porter a director		
6. To re-appoint the auditors		
7. To authorise the directors to fix the remuneration of the auditors		

Dated _____ 1987

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.

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Goring-By-Sea
WORTHING
West Sussex BN12 4ZZ

FOLD 3 AND TUCK IN

10 YEAR RECORD

Year ended February	1978 £m	1979 £m	1980 £m	1981 ¹ £m	1982 £m	1983 £m	1984 £m	1985 £m	1986 £m	1987 ¹ £m
Turnover including VAT	979.3	1,235.9	1,601.5	1,916.4	2,102.0	2,404.0	2,744.0	3,176.7	3,556.4	3,806.5
Turnover excluding VAT	953.0	1,201.8	1,530.6	1,820.7	1,994.4	2,276.6	2,594.5	3,000.4	3,355.3	3,593.0
Profit before taxation excluding property profits	28.6	37.7	36.5	35.6	42.7	53.5	67.4	81.3	122.9	166.5
Property profits	0.2	0.4	0.4	20.0	24.0	7.7	5.6	9.6	8.3	9.1
Profit before taxation	28.8	38.1	36.9	55.6	66.7	61.2	73.0	90.9	131.2	175.9
Taxation	0.5	(1.1)	(1.4)	(5.5)	(12.0)	(11.5)	(25.1)	(31.2)	(47.4)	(56.9)
Extraordinary items	29.3	37.0	35.5	50.1	54.7	49.7	47.9	59.7	83.8	119.0
Dividends	(0.1)	0.2	0.1	—	—	0.3	(20.0)	—	(7.4)	—
Retained	(5.2)	(6.5)	(8.2)	(8.5)	(10.0)	(11.8)	(13.9)	(16.4)	(23.8)	(31.0)
	24.0	30.7	27.4	41.6	44.7	38.2	14.0	43.3	52.6	88.0
	p	p	p	p	p	p	p	p	p	p
Dividends per share	1.63	1.98	2.45	2.55	3.00	3.50	4.10	4.85	5.80	7.30
Earnings per share ²	9.12	11.44	10.52	14.79	16.21	14.63	14.00	17.36	21.09	28.52
Fully diluted earnings per share ²	—	—	—	—	—	14.02	12.81	15.81	19.29	26.12
	%	%	%	%	%	%	%	%	%	%
Net margin	3.0	3.2	2.4	3.1	3.3	2.7	2.8	3.0	3.9	5.0
Operating margin	2.9	3.0	2.6	2.8	2.6	2.7	2.7	2.7	3.1	4.1
Average number of full-time equivalent employees in the United Kingdom	30,841	35,302	39,862	38,809	40,421	40,377	40,363	42,020	43,447	45,260
	£	£	£	£	£	£	£	£	£	£
Turnover per employee ³	30,900	34,045	38,398	46,913	49,341	56,384	64,279	71,404	77,227	79,386
Profit per employee ³	934	1,075	926	1,433	1,650	1,516	1,809	2,163	3,020	3,886
Wages per employee ³	2,504	2,868	3,478	4,401	4,731	5,227	5,800	6,304	6,907	7,355
Retail price index	190.3	208.9	248.8	279.8	310.7	327.3	344.0	362.7	381.1	396.1
Number of stores	673	571	552	554	544	489	461	441	395	337
	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft
Total sales area	5,400,000	5,650,000	6,210,000	6,840,000	7,203,000	7,425,000	7,362,000	7,415,000	7,502,000	6,997,000
Weighted average sales area	5,381,000	5,641,000	6,034,000	6,495,000	7,032,000	7,318,000	7,430,000	7,399,000	7,484,000	7,020,000
Average store size (sales area)	8,000	9,900	11,200	12,300	13,200	15,200	16,000	16,800	19,000	20,800
Average sales area of stores opened in the year	31,600	35,600	16,500	32,500	31,000	33,400	25,800	36,800	37,100	31,900
	£	£	£	£	£	£	£	£	£	£
Weekly sales per sq ft ⁴	3.50	4.21	5.10	5.57	5.75	6.32	7.10	8.26	9.14	10.23

Notes:

¹53 week period.

²Adjusted in respect of the 1985 rights issue.

³Based on full-time equivalent number of employees, turnover exclusive of value added tax and profit before taxation.

⁴Based on weighted average sales area and turnover inclusive of value added tax.