

CONTENTS

445790/

40

442

Directors and Advisers	2
Financial Highlights	3
Chairman's Statement	4
Company Review	6
Financial Statistics	22
Directors' Report	24
Shareholder Profile	28
Accounting Policies	29
Consolidated Profit and Loss Account	30
Balance Sheets	31
Consolidated Statement of Source and Application of Funds	32
Notes to the Accounts	33
Auditors' Report	41
Notice of Meeting	42
Form of Proxy	43
Ten Year Record	Inside back cover



DIRECTORS AND ADVISERS

Executive

I. C. MacLaurin
Chairman

V. W. Benjamin
Deputy Chairman

A. D. Malpas
Managing Director

M. Darnell
Distribution

J. Gildersleeve
Personnel, Buying and Marketing

F. R. N. Krejsa, F.R.I.C.S.
Property and Estates

H. F. Pennell
Buying and Marketing

D. E. Reid, C.A.
Finance

D. C. Tuffin
Retail

Non-Executive
Sir Leslie Porter
President

Miss D. O'Cathain, O.B.E.

J. M. F. Padovan, LL.B., B.C.L., F.C.A.

S. Young, F.C.A.

Secretary and Registered Office

M. J. Boxall, A.C.I.I.
Tesco House
Delamare Road
Cheshunt
Hertfordshire EN8 9SL
Telephone: 0992-32222
Telex: 24138

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

Merchant Bankers

County Bank Limited

Stockbrokers

Phillips and Drew

FINANCIAL HIGHLIGHTS

	1986 £m	1985 £m
Turnover excluding value added tax	3,355.3	3,000.4
Profit on ordinary activities before taxation	122.9	81.3
Taxation	47.2	30.3
Net surplus on sale of properties	8.1	8.7
Dividends	23.8	16.4
	pence	pence
Dividends per share	5.80	4.85
Earnings per share:		
Excluding net surplus on sale of properties	19.05	14.84
Including net surplus on sale of properties	21.09	17.36

FINANCIAL DIARY

Year end: Last Saturday in February

Half-year's results announced: Late October

Year's results announced: Late May

Annual Report and Accounts despatched: Mid-June

Annual General Meeting held: Mid-July

Dividend:

Interim: announced late October and paid late February

Final: announced late May and paid early August

Convertible Loan Stock: interest paid: 31st May, 30th November

CHAIRMAN'S STATEMENT



In my first annual statement to you as Chairman I am happy to report that we have achieved record profits and that positive progress has been made in the development of our business.

Profits before taxation increased from £81.3m to £122.9m representing a profit growth of 51%. Pure trading performance stated at the profit before interest level increased from £81.7m to £104.1m, an increase of 27%. This represented an increase in our operating margin from 2.7% to 3.1%, which is excellent progress.

Sales, excluding VAT, increased to £3,355.3m, an increase of 12% over the previous year. This represented an estimated volume gain of 8% of which 6% was generated by volume growth in existing stores and 2% from new selling area.

Fully diluted earnings per share, excluding the net surplus on the sale of properties, increased to 17.52p, an increase of 28.5%.

The final dividend recommended by the Directors is 3.70p per share, making a total of 5.80p for the year, compared to 4.85p last year.

We were able to strengthen our cash resources as a result of the rights issue in May, 1985 which raised £145m on the basis of one new ordinary share at 222p for every five shares held. The issue was an important element in our plans for funding our continuing substantial superstore

development programme. In this context our cash flows are proceeding very much to plan, and at the end of the financial year we retained as surplus funds a substantial part of the proceeds of the rights issue, which will be largely expended during the course of the next financial year.

These achievements are all the more gratifying during a year which has seen major changes to the composition and operational structure of the Company as part of our commitment to improve our efficiency and profitability. The keenly competitive nature of our business means that all our systems and procedures must be kept under review to respond to new challenges and business opportunities. As part of this process our buying, marketing, and sales promotion departments were integrated into a single structure in March of this year. This enables them to work more effectively and more closely together and so help sharpen the edge of our trading operations.

The dedication of our employees at all levels has been excellent, and shows a willingness by them to adapt and to accept change while continuing to operate successfully a large and complex business. I am privileged to lead such a team.

We now have an increasingly impressive list of more than 109 superstores and large supermarkets in a total portfolio of 364 stores in England, Scotland and Wales. Fifteen new stores were opened during the last financial year. There was also substantial investment in the refurbishment of some of our older stores. Our total capital investment on these matters during the year under review amounted to £186m.

During the year under review we sold our Victor Value division comprising 45 stores to Bejam Group PLC. Victor Value, a limited range discount store group with advanced computer systems, was moving further away from Tesco in terms of store image and market place identity. The sale reflects our resolve to concentrate on the mainstream superstore business.

After the year end we disposed of Tesco Stores Ireland Limited because this business was not fulfilling our expectations and continuing losses left us with no alternative but to withdraw from this market, which is

CHAIRMAN'S STATEMENT

currently overprovided with food retailing space.

Both these groups were comparatively small operations within the total Tesco business and their disposal will result in an improvement in our trading performance.

The year ahead will see the opening of a further 11 stores and two extensions representing over 400,000 square feet of sales area. This, together with our refurbishment programme, represents an investment in the current year of over £233m.

Our forward programme for the development of stores opening after 1st March, 1987 is, I believe, the best researched and the most extensive this company has had.

Work will start in the near future on our first development with Marks and Spencer at Cheshunt, Hertfordshire, to be known as the Brookfield Centre: our two companies also have an on-going development programme.

We will not achieve improvements in the profitable growth we are seeking simply by building more and more superstores. Our stores have to be supported by equally efficient and cost-effective functions and services such as distribution, marketing and buying. These important areas are fundamental to the success of our business and are undergoing a quickening pace of change. Benefits are already becoming self evident particularly in our distribution and warehousing systems.

Tesco is part of an industry and depends on a large number of people to supply us with goods and services. We are building an important long-term relationship with all our suppliers to ensure a profitable future for them and ourselves. We thank them for their support during the past year.

Changes have been made to the composition of the Board. Mr Ralph Temple, Managing Director (Finance & Administration), resigned to pursue private business interests. We thank him for the contribution he made to the business during his 25 years and wish him every success. Mr David Reid, a chartered accountant, was appointed to the Board as Finance Director. He joined Tesco in April 1985 from BAT where he was Finance Director of International Stores.

I was also delighted to announce the



Delta O'Cathain



David Reid

appointment of Miss Delta O'Cathain, OBE, Managing Director (Milk Marketing) of the Milk Marketing Board, as a non-executive Director. She has brought into our boardroom not only a woman's perspective but further expertise in marketing and consumer affairs. This prompts me to recognise, and to thank, our non-executive directors for the helpful advice and support they give me and my executive directors. Their professional and business skills are drawn from various walks of life and they add a vital dimension to our discussions and decision making processes.

Improvements continue to be made to the terms of employment of our employees and to the conditions in which they work. Our employees are our most important asset and we are committed to their welfare, training and development. There is a great deal of goodwill and commitment among all our staff and I personally believe that new incentives are needed to recognise this loyalty. For this reason the Board is now proposing a profit sharing scheme which will be put before you at the Extraordinary General Meeting immediately following the Annual General Meeting.

I am convinced that we have never been better placed to consolidate our position as a leading retailer, capable not only of meeting challenge but of creating challenge itself. We are moving forward into a new and exciting era in the expansion of our business. The year has started well and, with our development programme of new stores, I look forward to the future with confidence.

A handwritten signature in dark ink, appearing to read 'Ian MacLaurin'.

Ian MacLaurin, Chairman
28th May, 1986

COMPANY REVIEW

In the last Annual Report the opportunity was taken to include for the first time a review of the company. This was intended to give readers a broader view of the company, its policies, and its activities. The theme is continued in this Review.

Tesco – the company

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

In recent years the company has streamlined its operations substantially and determinedly. Today, it has almost half the stores it had ten years ago yet its sales area has actually risen by over 50%.

Of pre-eminent importance has been Tesco's 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 approximately half the company's selling space.

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 outlets fully equipped to sell these products.

The stores Tesco is building today respond to market changes and to increasingly sophisticated consumer demands.

Organisation

In March of this year the structure of the Buying and Marketing departments was revised to secure a closer and more effective relationship between these important functions. It also enabled clear accountabilities and responsibilities to be established for the executives concerned.

All of the buying, product marketing, sales, and technical service activities have now been integrated into a single trading function.

Products

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

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

Today's Tesco store manager is concerned with people – customers and staff – rather than buying, and is responsible for the efficient running of the store. His product range is controlled by a central marketing policy.

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

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

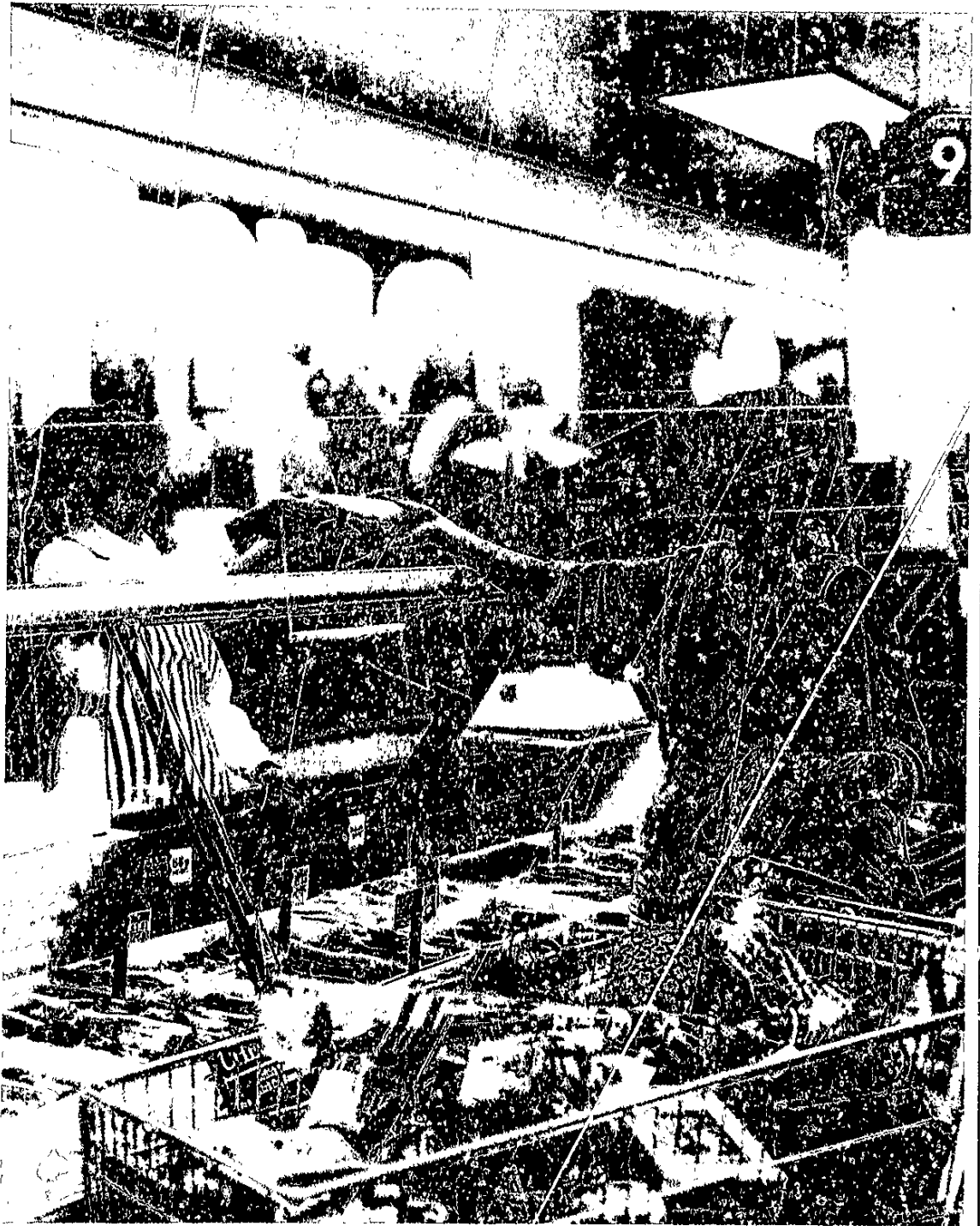
Portable data capture devices are used in the stores so that sales totals and stock levels are transmitted to head office daily.

Conventional dry groceries such as canned and packaged provisions are allotted roughly one half of food products' space. Over 40% of Tesco's grocery sales are of own-label products.

Tesco fresh foods sales, 85% of which are own-label, include chilled food products, fruit and vegetables, cheese and dairy products, meat and poultry, and fresh bread.

Most stores carry fresh fruit and vegetables, and have meat departments. One

COMPANY REVIEW



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 100 stores.

Tesco is expanding its toiletries business in step with the growth of this market. Over the past year the company launched 70 new such own-label products, including shampoos, baby care products and deodorants.

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.

Own-label products now represent a little over 50% of Tesco's total business. There are some 1,200 Tesco own-label products with a further 200 under development.

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

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 320 licensed stores offering one of the most extensive ranges of wines, spirits and beers in the UK. Of these, 244 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 accounts for seven per cent of the UK take-home drinks market. In the 92 stores with the largest departments there are over 300 wines available. Of these, 90% of the wines are own-label. The range includes

wines from at least ten countries.

Early 1985 saw the introduction of a range of fine wines – a high quality range to satisfy the requirements of the more discerning customer. This range includes some 30 wines which in the case of French wines for example, have been produced in single Estates, Domaines or Chateaux.

Tesco offers probably the most comprehensive range of beers in the country. This market has been growing rapidly and Tesco has been quick to respond to consumer demand for varied and good quality beers to be drunk at home. Over 50% of the Tesco beer range is now own-label. (Approximately 120 beers and 37 ciders are on sale in larger stores).

The range of spirits is equally extensive. Brand names still play a strong role here and Tesco carries all the household names. Own-label, however, is growing in importance and offers a tremendous price advantage while still offering excellent quality.

It is essential to ensure that each product is produced to the company's high specifications. Tesco liaises closely with the suppliers to ensure that the highest standards are maintained.

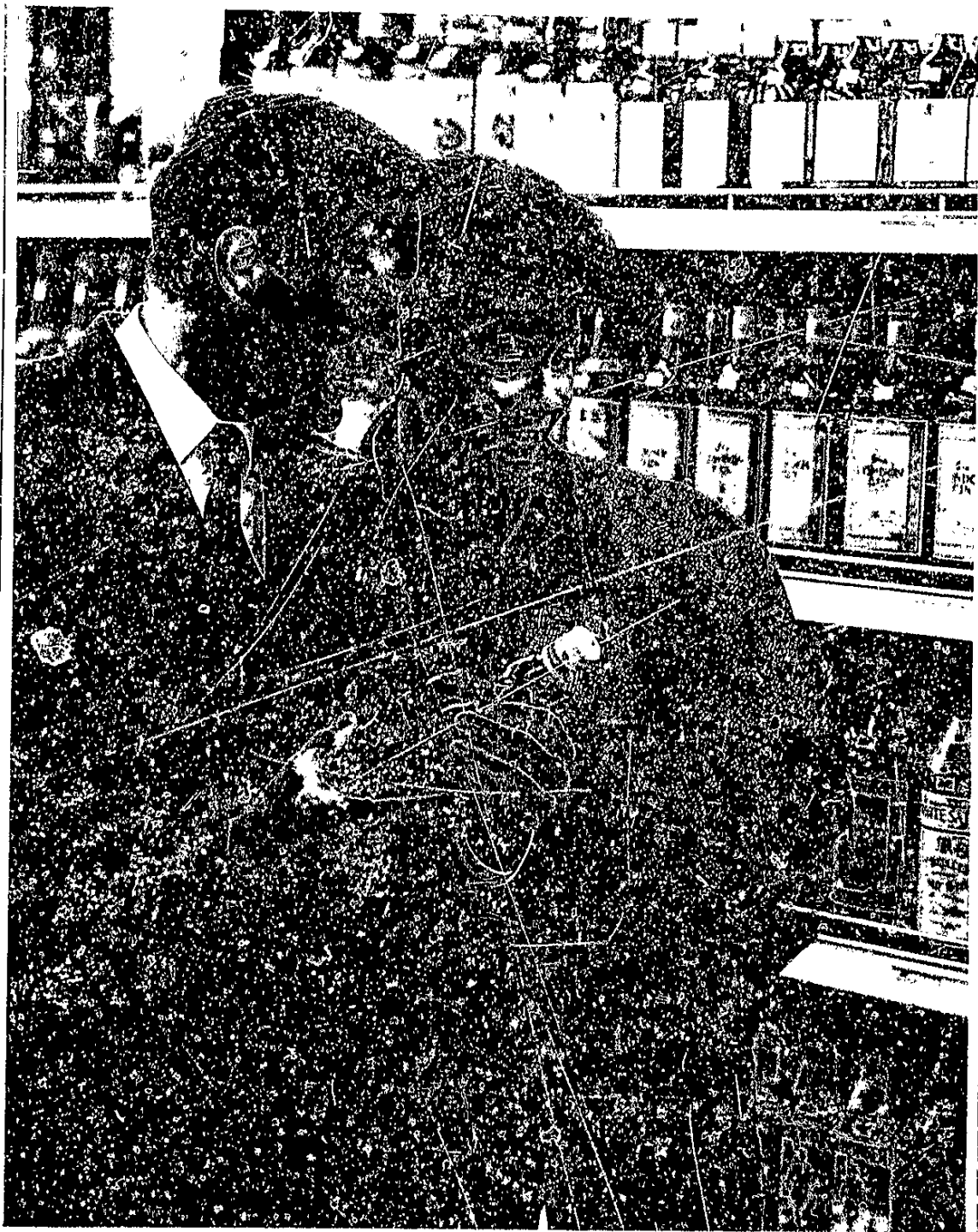
Home 'n' Wear

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 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. It is a complementary extension to food retailing and vital to the concept of one-stop shopping. There are garden centres adjacent to ten Tesco superstores.

Quality control

The company's commitment to producing high quality products is reflected in its continued investment in Technical Services



and Quality Control. The Central Laboratory facilities at Ware, Hertfordshire, remain at the forefront of technology, applying the most up-to-date techniques to product testing.

A team of over 70 full-time quality controllers monitor the manufacture and handling of all Tesco products on a regular basis. Expert 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, where customers have the opportunity to try out and comment on current and proposed Tesco products.

At Cheshunt home economists and nutritionists continue to develop and support the Dietary Information Service and the very successful campaign for Healthy Eating, under which a major review of the use of food additives is now in progress.

Healthy Eating

The Healthy Eating initiative launched by Tesco in January 1985 continues to be a focus of attention. Tesco led the industry by introducing nutrition labelling on its own-label products in advance of any legislative requirements. This commitment to giving customers more information about the food they eat was widely applauded.

Now more than 1,000 Tesco own-label products carry this type of information. A measure of the impact the campaign has had is that since it was launched 15 million leaflets on Healthy Eating have been produced and given away to customers.

Wider recognition was also gained when Tesco was named as one of the winners of an Evian Health Award "for encouraging health awareness in the supermarket by pioneering a nutritional labelling policy".

Additives

Tesco recognises increasing concern over the use of unnecessary additives and colours in food. Steady progress is being made in their removal from its own-label products.

The colouring tartrazine (E102) has, for

example, been removed from 70 products including squashes, salad cream, yoghurts, and table jellies.

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

When new foods are launched particular care is taken to ensure that no unnecessary additives are used.

For customers a list of Tesco's 400 additive-free foods is being prepared and will be available free of charge later this year.

Superstore development

The main thrust of Tesco's development programme is concentrated on its highly successful superstore strategy in which Tesco aims to build single-storey stores with all operations at ground level. Ample free, flat, and easily accessible car parking is seen as essential. Sites must provide space for petrol filling stations and, where appropriate, garden centres.

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. selling food products only.

In seeking suitable sites, Tesco does not discriminate between high street, edge-of-town, or out-of-town locations. The main consideration is whether an attractive, commercially viable development can take place.

Increasingly new Tesco superstores are to be found on edge-of-town or out-of-town sites. However, stores opened in 1985 in Weston-super-Mare and Epping are excellent examples of town centre sites, as are stores currently being built at Lewisham and Brixton.

These stores refute the possible perception that Tesco is abandoning the High Street.

London also saw the opening of a new Tesco superstore at Brent Park, Neasden,



in June 1985 – a milestone in Tesco's new store programme. It was Tesco's 100th UK superstore and featured the first of three experimental in-store Midland Banks among new service features offered to customers. The other two in-store banks are at Beaumont Leys (Leicester) and Bursledon Towers (Southampton). More are planned and Tesco reviews all suitable aspects of the emerging retail financial services business.

Tesco/Marks and Spencer

Tesco and Marks and Spencer continue to seek joint development opportunities each featuring individual facilities and services which for Tesco has proved so highly successful.

The association provides for a combination of both companies' expertise, experience and reputations 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 venture will be at Brookfield Farm, Cheshunt, Hertfordshire, where an enlarged existing Tesco superstore will have a similar sized Marks and Spencer store constructed alongside. The project will be named 'The Brookfield Centre'. Broxbourne Borough Council has resolved to grant planning permission for the scheme which, when completed, will provide for two stores, each having a gross floor area of 95,000 sq. ft., plus relocation of the three unit shops, a major petrol filling station, all supported by associated surface parking for 1,930 cars.

A number of other proposals are being evaluated, and arising from this process Tesco and Marks and Spencer are applying for planning permission at Handforth, Cheshire and Trumpington, Cambridge. These developments will each accommodate two retail stores, having gross floor areas of 120,000 sq. ft, with associated surface parking facilities for 2,400 cars, and petrol

filling stations.

Marks and Spencer and Tesco see this type of expansion offering exciting prospects for both companies and their customers and several future developments are under consideration.

Existing stores

The majority of Tesco's stores are in its traditional market place, the High Street. This remains at the core of the business, and is likely to remain so for the foreseeable future. Our investment in new stores in Epping, Weston-super-Mare, Lewisham, and Brixton emphasises this.

Although many of Tesco's existing stores cannot conform to the company's present superstore development criteria, they are nevertheless very successful. They are also the subject of a continuous investment programme of refurbishment and extension.

From time to time stores which become uneconomic are sold to other retailers and the demand for them continues.

Store location and design

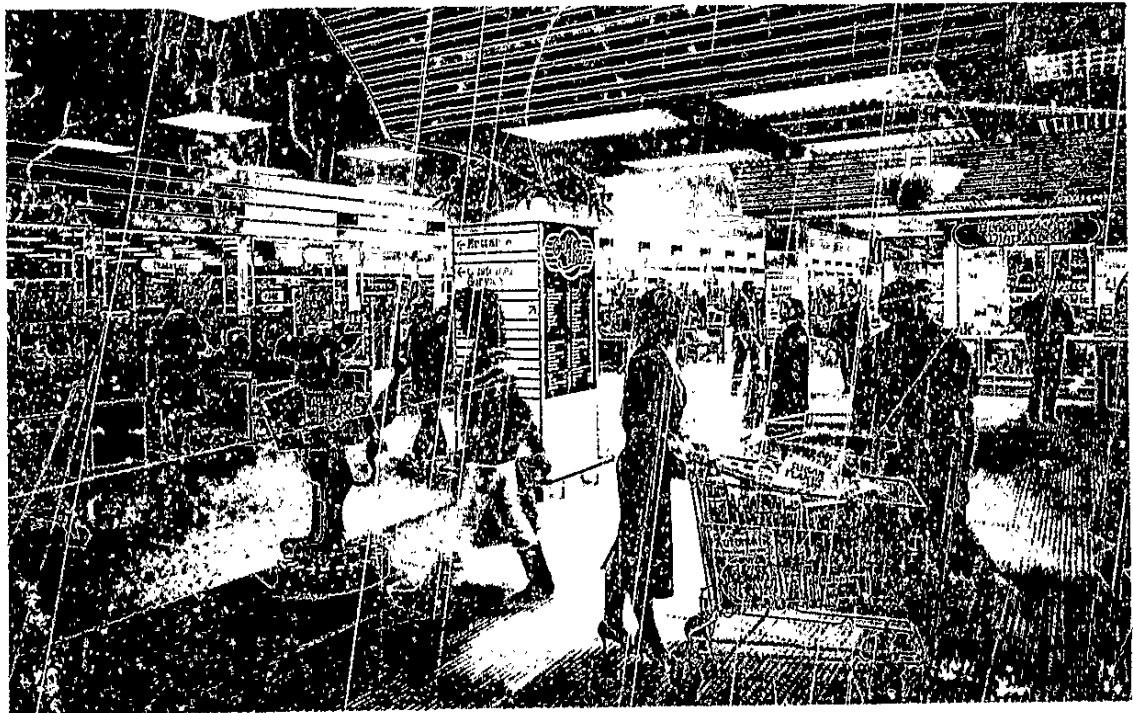
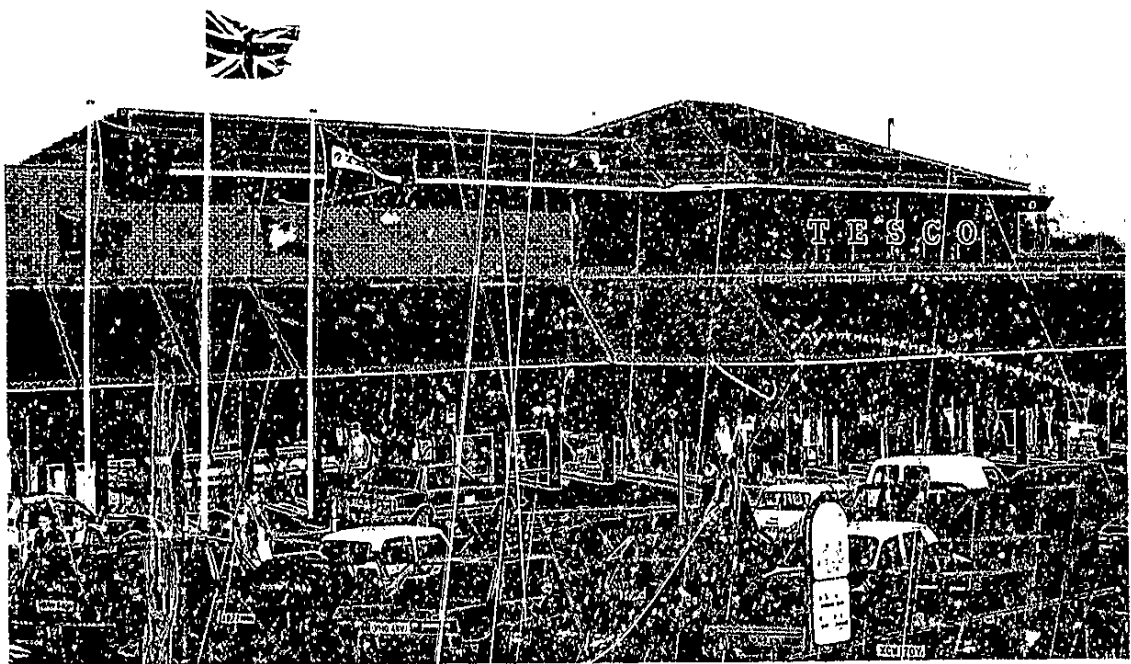
The process of store development, central to the growing reputation of Tesco, is as important as it is sensitive.

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

Tesco looks carefully at the likely impact of a superstore on a particular location, examines the demographic profile of current population, estimated population growth, the development of industry in the area, infrastructure plans and other factors.

Specialist units within the Retail Planning and Property and Estate Departments are concerned with store layout, construction, architectural treatment, landscaping, interior design, customer flow, fixtures, fittings and display stands.

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



convenience foremost in mind.

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

Special facilities are provided for the disabled. For those in wheelchairs there is parking near the store entrance, easy access without steps, automatic doors, special shopping carts, wide checkout aisles, and help reaching goods from shelves. Tesco is 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 over £20m refitting and improving existing stores. This is over and above normal maintenance.

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

Distribution

Tesco's increasing range of products is distributed under a centralised control system to ensure that customers receive products of the quality and freshness they have rightly come to expect.

Computer technology has given the company the opportunity to replenish dry grocery stocks at all stores within 24-48 hours.

By using portable data capture devices, daily sales and stock levels can be determined and transmitted by direct telephone link to the depot computer which automatically re-orders for the store.

Tesco's distribution facilities have been extended and developed over the past two

years with the enlargement of existing warehouses and the building of new ones.

The two most recent new warehouses are at Weybridge, Surrey and Strood, Kent. Work is underway on a new distribution depot at Welham Green, Hertfordshire, which will replace two older warehouses at Cheshunt.

The company is also reviewing the range of goods that should be stocked in its warehouses, using computer software packages to help the sourcing of products from the most suitable point, be it national distribution centre, regional centre, or direct from manufacturers or suppliers themselves.

Order picking at depots and warehouses is being re-organised, and the company is paying special attention to inventory management to minimise stockholding while ensuring the correct level of availability of goods on store shelves.

Contract carriers are an important supplement to the company's in-house distribution capacity and capability.

Technology

Tesco has one of the most sophisticated computer installations in Europe.

The company's recent progress has been made alongside technological developments, in particular those surrounding the micro-chip which plays an important part in modern retailing.

Tesco led the UK retail industry with the introduction of Electronic Point of Sale (EPOS). It has a firm commitment to matching business needs to technological advances.

Tesco attaches great importance to information technology and to the development of further computer systems.

Work to equip each major store with its own computer is well advanced and promises substantial cost benefits and a very rapid pay-back for the relatively modest investment involved.

This equipment will be used to assist the



Computer technology has brought big improvements in the way Tesco orders, controls and distributes its products to stores nationwide. The use of portable data capture devices (top left) are an example of this. Daily sales and stock levels are determined and transmitted by direct telephone link to the Depot computer (top right) which automatically re-orders for the store.

COMPANY REVIEW

re-ordering of short life products and the control and scheduling of store labour costs.

It is evident that investment in technology has so far produced savings in total stock holding, better warehousing, and distribution systems as well as improving productivity in the stores and better customer service levels, fully justifying the investment itself.

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.

Progress in developing the energy Monitoring and Targeting exercise, for which the company received a grant from the Government in 1985, is on schedule. Completion towards the end of 1986 will benefit the company and the retail industry as a whole.

Training

Training is vital to the continued success of the company, and has recently been the subject of close scrutiny.

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 products 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.

Retired staff association

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

The company wishes to provide support and assistance in retirement to those who require it, as a mark of appreciation by Tesco for their past service to the company.

Tesco and the community

Tesco aims to provide modern shopping for everyone and to create more jobs in retailing and manufacturing. Employee relations and customer relations are two priorities for the company. A third is community relations.

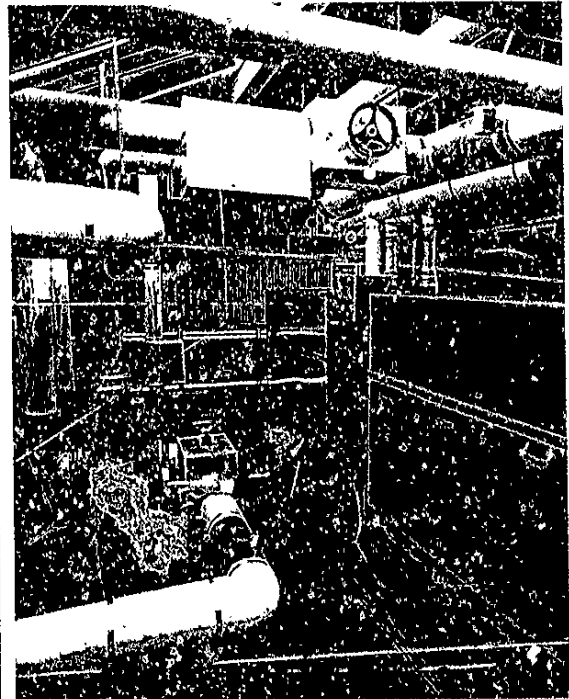
Tesco recognises that its prosperity and success are related directly to the community. Its operations are an inextricable, integral part of the community.

As an active member of 'Business in the Community', the company has seconded a number of senior executives to enterprise projects to help create new and meaningful jobs through business and local ventures.

Tesco makes direct contributions in support of many charities, principally to support the sick, the handicapped, the disabled, and to famine relief. The company also makes it possible for charitable organisations to collect hundreds of thousands of pounds per year by allowing them to set up collecting points in some stores. The Sports Aid Foundation, has benefited substantially from this facility. Tesco is also a major supporter of the work of the Variety Club of Great Britain.

By the end of 1985, the company, thanks

COMPANY REVIEW



Top: Staff training is seen as the key to providing customers with an efficient service.

Above: Staff facilities and conditions are being improved.

Above right: The latest technology in energy conservation is being used to achieve significant savings in Tesco's annual fuel bill.

COMPANY REVIEW

to the efforts of its staff on sponsored walks and other events, raised sufficient money to buy the 50th Tesco – sponsored Variety Club Sunshine Coach; a record for any commercial organisation.

Employees

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

Wage levels, material 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 the past year, 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.

The company acknowledges that its employees have needs and ambitions to which it must and wishes to 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.

The in-house newspaper, 'Tesco Times', published monthly, fulfils an increasingly important role in internal communications and staff relations.

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.

Development of staff

Assessment centres designed to identify the potential of existing staff have been set up as part of our commitment to redeveloping and improving 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 increased its intake of graduates as part of its philosophy to train and develop its own management of the future.

The company has 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.

Sunday trading

Sunday trading remains a controversial topic following the unexpected defeat of the Government's new Shops Bill. Had the proposed legislation been approved Sunday opening would have become lawful in England and Wales as is already the case in Scotland. Tesco's experience there is that Sunday trading has shown few problems. Indeed the experience has been highly successful and well received by employees and customers alike.

Tesco shares the widely held view that changes are needed to the existing legislation and hopes that the Government will take further action to resolve this highly unsatisfactory situation.



COMPANY REVIEW

Places where the Group is represented – 23th May 1986

Aberdare	Crayford	Hounslow	Perth	Tewkesbury
Abercavenny	Crossgates	Hove	Peterborough	Thame
Abingdon	Dartford Tunnel (Aveley)	Hull	Pitsea	Thornton Heath
Acton	Deal	Huntingdon	Plymouth	Tiverton
Aigburth	Devizes	Hyde	Pollok	Tredegar
Allerton	Didsbury	Ilford	Pontypool	Trowbridge
Andover	Doncaster	Ipswich	Pontypridd	Truro
Ashford	Dorchester	Irlam	Pools	Tunbridge Wells
Aylesbury	Dover	Irvine	Port Talbot	Upton Park
Ayr	Dudley	Kendal	Portsmouth	Uttoxeter
Bangor	Dundee	Kidlington	Portsmouth	Uxbridge
Barking	Durham	Kilmarnock	Potters Bar	Victoria
Barnstaple	Ealing	Kings Lynn	Quedgeley	Wakefield
Barrow-in-Furness	East Grinstead	Kirkcaldy	Rainham	Walkden
Barry	East Molesey	Knaphill	Ramsgate	Wallasey
Basingstoke	Eastbourne	Knowle	Rayleigh	Walsall
Bedworth	Eastleigh	Knutsford	Reading	Wandsworth
Belle Vale	Ebbw Vale	Leamington Spa	Redditch	Ware
Berkhamsted	Eccleshall	Lee Mill	Redfish	Waterlooville
Bermondsey	Edgbaston	Leicester	Redruth	Welling
Bethnal Green	Edgware	Leyton	Renfrew	Wellingborough
Bicester	Edmonton	Lichfield	Rhyl	West Bromwich
Birmingham	Egham	Lincoln	Rickmansworth	West Durrington
Blackburn	Elephant and Castle	Llanelli	Rochdale	West Malling
Blackwood	Eltham	Loughborough	Rockferry	West Wickham
Bootle	Ely	Lowestoft	Romford	Westerhailes
Borehamwood	Epping	Lunsford Park, Maidstone	Runcorn	Weston Favell
Bracknell	Evesham	Luton	Ryde	Weston-super-Mare
Braintree	Exeter	Lyngton	Sale	Weymouth
Brent Park, Neasden	Falkirk	Macclesfield	Salford	Whitby
Bridgend	Falmouth	Maidenhead	Salisbury	Whitton
Bridgwater	Faversham	Maidstone	Saltscoats	Wimbledon
Brighton	Felixstowe	Maldon	Saltley	Winton
Brislington	Feltham	Mansfield	Scarborough	Wisbech
Bristol	Ferndown	Margate	Scarisbrick	Witham
Brixton	Finchley	Market Harborough	Sevenoaks	Wokingham
Broadstairs	Flitwick	Melton Mowbray	Sheerness	Wolverhampton
Bromley-by-Bow	Folkestone	Merthyr Tydfil	Shotton	Woodseats
Brownhills	Formby	Middlesbrough	Shrewsbury	Workington
Burgess Hill	Garforth	Middleton	Sidcup	Worsnop
Bursledon Towers	Gateshead	Mitcham	Sittingbourne	Wrexham
Burton upon Trent	Gatwick	Mold	Slough	Yarmouth
Bury	Goode Street	Morecambe	Smethwick	Yate
Caernarvon	Gosport	Moseley	South Tottenham	Yeovil
Caerphilly	Gravesend	Neath	Southampton	Yiewsley
Camberley	Greenford	Neston	Southey	York
Camborne	Greenock	New Addington	Southsea	
Cambridge	Guildford	Newbury	Spalding	Distribution
Cannock	Hackney	Newmarket	St Albans	Depots
Canterbury	Hadleigh	Newport, Gwent	St Austell	Grocery
Cardiff	Halifax	Newport, Salop	St Mellons	Cheshunt
Carlisle	Hanley	Newton Abbot	Stafford	Crick
Carmarthen	Harehills	Norris Green	Stamford	Livingston
Castle Bromwich	Harlow	Northampton	Stevenage	Middleton
Catford	Harold Hill	Northenden	Stirling	Strood
Ceolham	Harrow	Northfield	Stockport	Thornbury
Ceolham	Hastings	Norwich	Stockton-on-Tees	Westbury
Ceolham	Hatfield	Norwood	Stoke	Weybridge
Ceolham	Havant	Notting Hill	Stourport-on-Severn	Winsford
Cheshunt	Haverfordwest	Nottingham	Stratford-upon-Avon	
Chester	Hemel Hempstead	Oadby	Street	Home 'n' Wear
Chichester	Hendon	Oakengates	Stratford	Bletchley
Cirencester	Henley	Oldham	Strood	Milton Keynes
Clacton	Hereford	Ormskirk	Stroud Green	
Cleveleys	Herne Bay	Orpington	Sunderland	Fresh Foods
Cobham	Heswall	Oxford	Sutton	Ashton-under-Lyne
Colchester	High Wycombe	Paddington	Swansea	Bristol
Collier Row	Hitchin	Paignton	Swindon	Corby
Cosham	Hornchurch	Palmers Green	Swinton	Cusley
Coventry	Horsham	Parkstone	Talbot Green	Heywood
Crawley	Horwich	Penzance	Teddington	Rainham

COMPANY REVIEW

Stores and Major Extensions opened in 1985/86

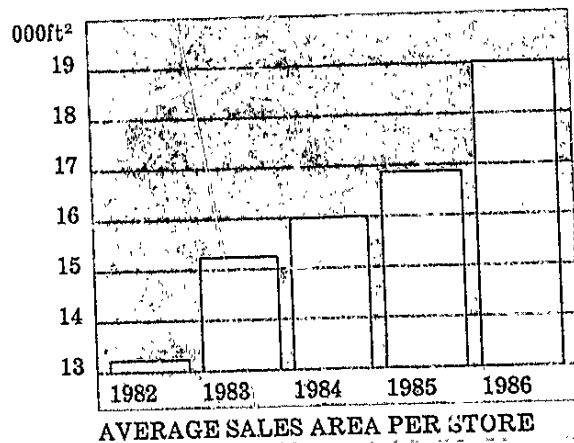
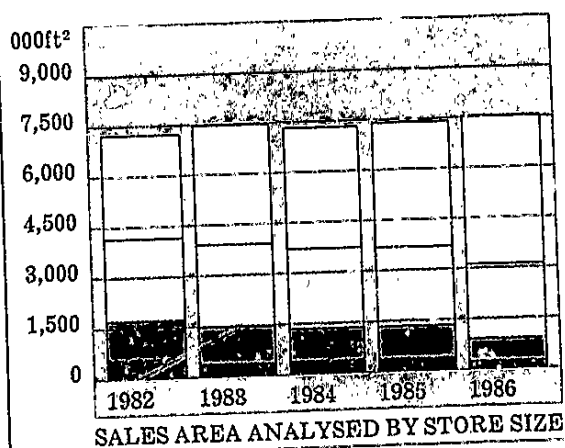
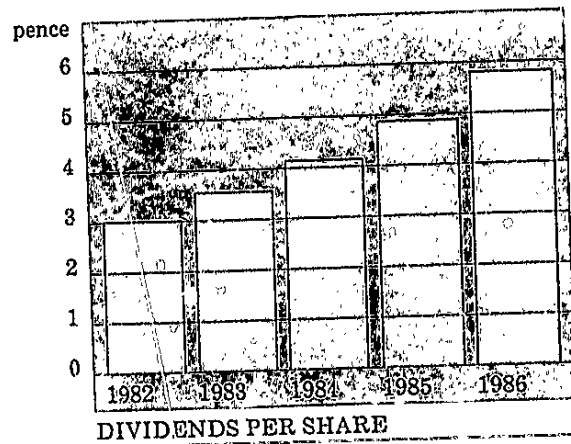
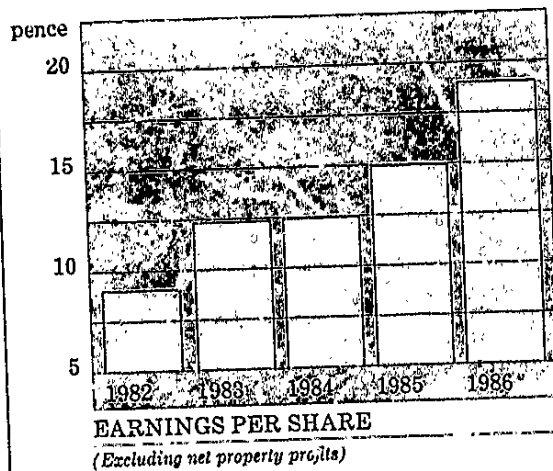
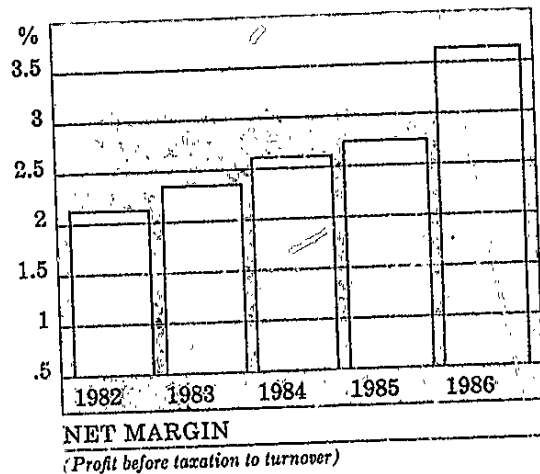
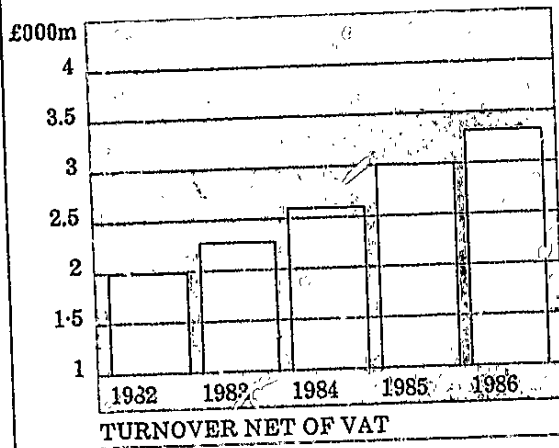
	Additional Sales Area (sq. ft)	Resultant Sales Area (sq. ft)
Blackburn		37,000
Brent Park, Neasden		65,000
Brislington, Bristol		46,500
Bursledon, Southampton	11,500	49,500
Epping		18,500
Ferndown		36,500
Folkestone		31,000
Gatwick		49,000
Hull		32,000
Lunsford Park, Maidstone		39,500
Newport, Gwent		42,000
Northampton		40,500
Norwich		18,000
Nottingham		21,000
Plymouth		40,000
Weston-super-Mare		40,000

Stores and Major Extensions to be opened in 1986/87

	Additional Sales Area (sq. ft)	Resultant Sales Area (sq. ft)
Abingdon	14,500	50,000
Baldock		41,000
Barnstaple		25,500
Barry		22,000
Bristol, Eastville		46,000
Brixton		20,000
Colchester, Highwoods	30,000	60,500
Culverhouse Cross, Cardiff		38,500
Horsham		42,000
Lewisham		31,000
Romford		39,000
Stratford-upon-Avon		28,000
Whitstable		39,500

FINANCIAL STATISTICS

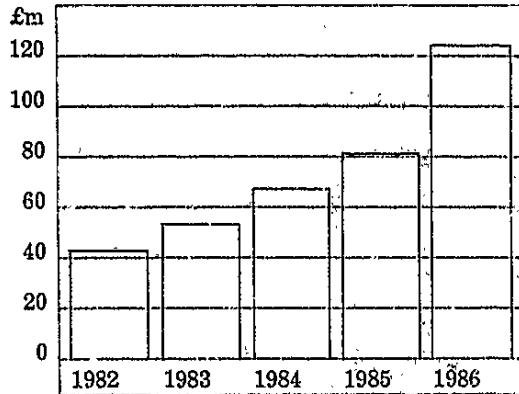
22nd February, 1986



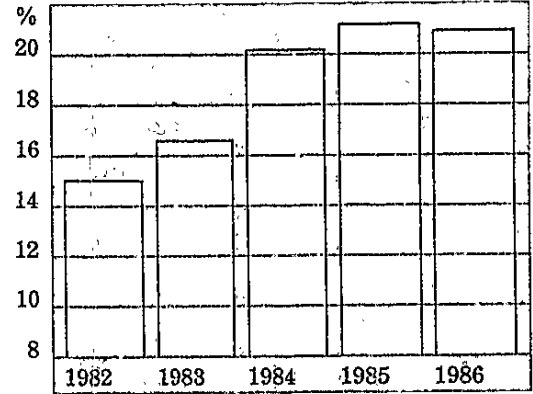
■ Up to 5,000 sq. ft	222,436 sq. ft (3%)
■ 5,001 to 10,000 sq. ft	645,987 sq. ft (9%)
■ 10,001 to 25,000 sq. ft	2,266,060 sq. ft (30%)
■ Greater than 25,000 sq. ft	4,367,532 sq. ft (58%)

Total number of stores (excluding petrol stations and garden centres)	395
Total company sales areas (including concessions)	7,501,995 sq. ft
Average sales area per store	18,992 sq. ft

FINANCIAL STATISTICS

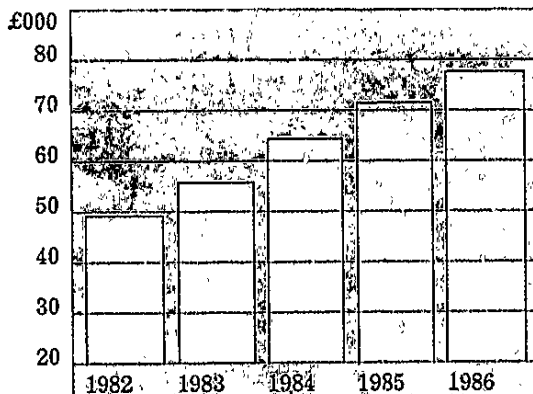


PROFIT BEFORE TAXATION



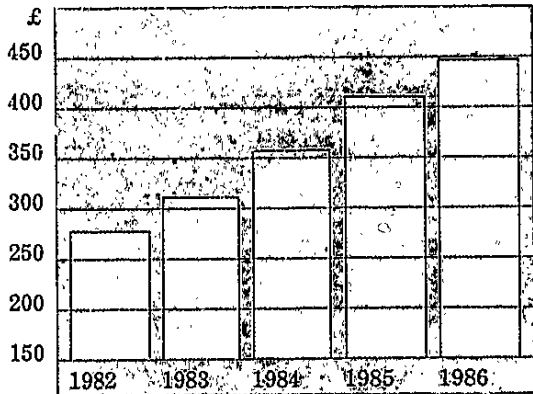
RETURN ON CAPITAL

(Profit on ordinary activities before taxation to shareholders' funds)



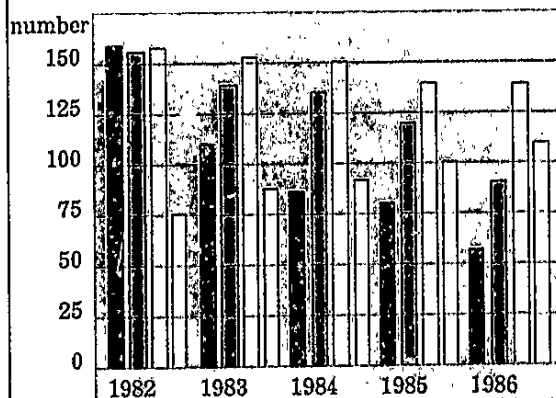
TURNOVER PER EMPLOYEE

(Full-time equivalent)



TURNOVER PER SQUARE FOOT

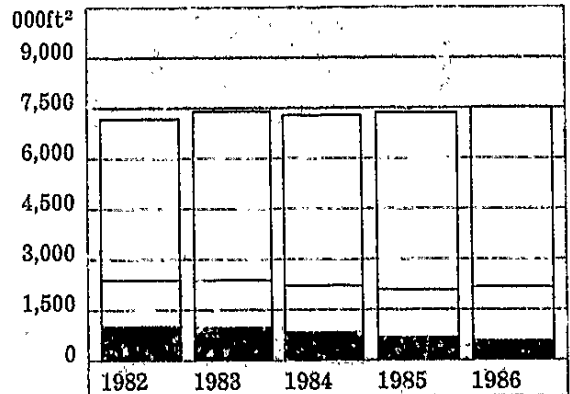
(Annual turnover excluding value added tax)



STORES ANALYSED BY SALES AREA

- Up to 5,000 sq. ft. 56 Stores
- 5,001 to 10,000 sq. ft. 90 Stores
- 10,001 to 25,000 sq. ft. 139 Stores
- Greater than 25,000 sq. ft. 110 Stores

(excluding petrol stations and garden centres)



STORE SALES AREA ANALYSIS

- Grocery sales area (i.e. total company sales area including concessions, but excluding Home 'n' Wear) 5,262,636 sq. ft (70%)
- Home 'n' Wear sales area ground floor 1,586,194 sq. ft (21%)
- Home 'n' Wear sales area other floors 653,165 sq. ft (9%)

DIRECTORS' REPORT

The directors present their Annual Report on the affairs of the group together with the accounts and auditors' report for the 52 weeks ended 22nd February, 1986.

Results and dividends

Group net profit before tax for the year was £122.9m compared with £81.3m for the previous year, an increase of £41.6m. The net margin as a percentage of turnover, excluding vat, increased from 2.71% to 3.66%.

Group turnover increased by £379.7m (including vat), and showed a volume gain of 8%. Capital expenditure, mainly on new stores and distribution depots together with the refitting of existing stores, amounted to £225m compared with £170m during the previous year. Planned expenditure for 1986/87 is estimated to exceed £265m. Last year, we spent over £20m on store refits and refurbishment; in the year 1986/87, we expect to spend a similar amount.

An interim dividend of 2.10p (gross equivalent 3.00p) per share has been paid on account of the 52 week period ended 22nd February, 1986 on the ordinary shares and the directors recommend the payment of a final dividend of 3.70p (gross equivalent 5.21p) per ordinary share to be paid on the 1st August, 1986, leaving profit for the financial year to be retained of £52.6m. (1985 - £43.3m).

Principal activity and business review

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

Disposal

On 10th February, 1986 the Victor Value division of Tesco Stores Limited was sold for a cash consideration of £5.25m, with the purchaser assuming the company's liabilities in respect of the division's trade creditors and bank borrowings.

Subsequent event

Tesco Stores Ireland Limited has been sold subsequent to the balance sheet date. The accounts include a provision in extraordinary items of £16.2m for the estimated loss arising on this disposal.

Fixed assets

A summary of the changes in fixed assets and information relating to market value is shown in Note 8 to the Accounts. A professional valuation of the majority of the group's properties was carried out as at 23rd February, 1985.

Current cost accounts

In view of the suspension of Statement of Standard Accounting Practice No. 16, current cost accounts have not been prepared.

Directors and their interests (see table opposite)

A list of directors is given on page 2. Mr. I. C. MacLaurin, Mr. V. W. Benjamin, Mr. M. Darnell and Mr. S. Young retire from the board by rotation in accordance with the company's Articles of Association and, being eligible, offer themselves for re-election.

Miss D. O'Cathain and Mr. D. E. Reid were appointed directors of the company on 18th December and 20th November 1985 respectively and in accordance with the company's Articles of Association retire and, being eligible, offer themselves for re-election.

The contracts of Mr. MacLaurin and Mr. Darnell are for terms of 5 years and Mr. Reid for 3 years, each running currently from 1st January, 1986. Mr. Benjamin, Mr. Young and Miss O'Cathain do not have contracts for more than one year's duration.

Sir Leslie Porter retired as Chairman and was appointed President on 26th July, 1985 and Mr R. Temple resigned on 21st February, 1986.

Substantial shareholdings

There were, as at 16th May, 1986, no persons 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. Each £100 nominal of the stock is convertible in August during the years 1986 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' REPORT

Directors' shareholding 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		"A" Ordinary Shares 1p paid		Share Options*	
	1986	1985	1986	1985	1986	1985	1986	1985
Mr. I. C. MacLaurin	32,230	32,230	750	750	—	—	139,979	139,474
Mr. V. W. Benjamin	15,000	15,000	—	—	—	—	83,709	83,654
Mr. A. D. Malpas	1,000	1,000	—	—	—	—	109,979	131,974
Mr. M. Darnell	25,000	15,000	—	166	—	—	99,979	109,474
Mr. J. Gildersleeve	—	—	—	—	—	—	89,979	96,474
Mr. F. R. N. Krejsa	35,495	2,080	—	—	—	5,000	104,441	134,361
Miss D. O'Cathain (1)	—	—	—	—	—	—	—	—
Mr. J. M. F. Padovan	1,200	1,000	—	—	—	—	—	—
Mr. H. F. Pennell	24,174	26,600	—	—	—	312	99,979	99,474
Sir Leslie Porter	3,686,684	4,281,220	91,014	396,014	—	—	9,979	9,474
Mr. D. E. Reid (2)	—	—	—	—	—	—	80,000	—
Mr. D. C. Tuffin	12,078	12,078	—	—	—	5,312	90,979	96,474
Mr. S. Young	—	—	—	—	—	—	—	—

Non Beneficial as Trustees

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

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

(1) Appointed 18th December 1985.

(2) Appointed 20th November 1985.

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 22nd February, 1986 and 16th May, 1986 there have been no changes in the interests of the directors in the share capital of the company apart from the exercising of options by Mr. H. F. Pennell on 10,000 ordinary shares under the Executive share option scheme and their subsequent sale and the sale by Mr. F. R. N. Krejsa of 10,000 ordinary shares.

Rights issue

For the purpose of funding the expansion of the company's investment in new superstores and the continuing investment in systems and distribution, in May, 1985, the company made a 1 for 5 rights issue of 67,841,673 new ordinary shares of 5p each to raise approximately £145m after expenses.

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 they are actively invited to acquire shares in the company. Further details regarding these schemes are shown below.

Executive share scheme

On 31st July, 1970 your company adopted an Executive share scheme. By the terms of the scheme certain executives of the group were given the right to subscribe for 'A' ordinary shares of 5p each in your company. Such shares were allotted on the basis of a subscription price which exceeded by 5% the average of the middle market quotations on The Stock Exchange of the fully-paid ordinary shares of the company for the period of 30 days immediately preceding the date of issue of the scheme shares. This subscription price was 61p per share subsequently adjusted to 48.2p to take into account bonus issues. 1p per share was payable on subscription and the balance payable in certain events. Following payment of the subscription monies in full, in accordance with the terms of the scheme, the 'A' ordinary shares were automatically converted into ordinary shares for which an application for listing was sought.

No options have been granted under the scheme since 1970 and all the remaining 'A' shares have been paid up in full.

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. 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 22.2.86	Subscription price p.
15.12.78	529	3,665,500	—	47*
27.3.81	343	1,564,000	213,000	54*
24.7.81	142	412,500	46,500	53*
21.1.83	538	916,500	555,500	116*

The scheme has terminated 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 22.2.86	Subscription price p.
17.12.84	1,445	8,221,000	7,506,750	211*
2.8.85	188	749,750	719,250	245
16.12.85	103	299,500	288,250	295

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 the higher of the nominal value of an ordinary share and 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.

The following options have been granted:

Date	Number of executives and employees	Number of shares	Shares under option 22.2.86	Subscription price p.
2.9.81	942	2,909,544	2,227,009	48*
11.8.82	225	590,230	486,855	58*
10.8.83	424	709,624	577,796	114*
8.8.84	853	1,014,558	891,126	143*
19.12.84	3,235	2,814,389	2,446,438	199½*
7.8.85	1,950	1,353,398	1,275,657	222

*The subscription price payable in respect of each ordinary share comprised in an option unexercised at 25th April, 1985 was reduced by 3p to take account of the rights issue in May, 1985.

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.

Charitable and political contributions

Charitable contributions totalled £39,000 (1985 - £16,000). No political contributions were made.

Number of shareholders

The number of shareholders of the company at 22nd February, 1986 was 44,127 (1985 - 43,451).

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

28th May, 1986

SHAREHOLDER PROFILE

As at 22nd February, 1986				
Size of shareholding	Number of shareholders	Percentage of number of shareholders	Number of ordinary shares	Percentage of ordinary shares
100,000 and over	382	1	333,925,667	81
50,000-99,999	128	—	8,654,214	2
10,000-49,999	975	2	18,242,974	4
5,000-9,999	1,698	4	11,407,688	3
1,000-4,999	14,214	32	29,458,044	7
500-999	8,330	19	5,875,759	2
100-499	13,832	32	3,634,519	1
1-99	4,568	10	190,488	—
	44,127	100	411,389,353	100
Type of shareholder				
Private individuals	40,672	92	68,077,730	17
Banks and nominees	1,994	5	216,306,014	53
Pension funds	103	—	34,163,137	8
Limited companies and other corporate bodies	1,358	3	92,842,472	22
	44,127	100	411,389,353	100

These figures do not reveal how many shares are held by nominees on behalf of private individuals.

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 22nd February, 1986.

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%.

Freehold buildings in Ireland – 2%.

Leasehold properties with less than 100 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 100 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 8 to the Accounts).

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

Leasing

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

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

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

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

Deferred taxation and advance corporation tax

Deferred taxation is provided on accelerated capital allowances and other timing differences, except when the tax benefit can be expected with reasonable probability to be retained for the foreseeable future.

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

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

Foreign currency

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

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

Pension contributions

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 22nd February, 1986

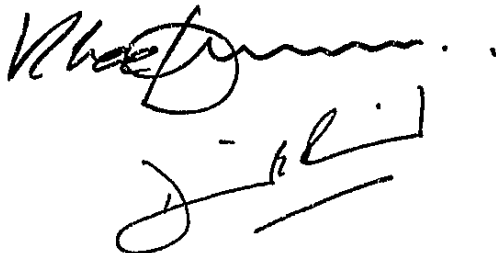
	Note	1985 £m	1985 £m
Sales to customers at net selling prices		3,556.4	3,176.7
Value added tax		201.1	176.3
Turnover excluding value added tax		3,355.3	3,000.4
Cost of Sales		3,186.2	2,867.0
Gross Profit		169.1	133.4
Administration expenses		65.0	51.7
Operating profit	1	104.1	81.7
Interest receivable less payable	3	18.8	(0.4)
Profit on ordinary activities before taxation		122.9	81.3
Tax on profit on ordinary activities	4	47.2	30.3
Profit on ordinary activities after taxation		75.7	51.0
Net surplus on sale of properties	4	8.1	8.7
		83.8	59.7
Extraordinary items	5	(7.4)	—
Profit for the financial year		76.4	59.7
Dividends	6	23.8	16.4
Profit retained		52.6	43.3
Earnings per share:		pence	pence
Excluding net surplus on sale of properties	7	19.05	14.84
Including net surplus on sale of properties	7	21.09	17.36
Fully diluted earnings per share:			
Excluding net surplus on sale of properties	7	17.52	13.63
Including net surplus on sale of properties	7	19.29	15.81
Dividend per share		5.80	4.85

BALANCE SHEETS

22nd February, 1986

	Note	Consolidated		Tesco PLC	
		1986 £m	1985 £m	1986 £m	1985 £m
Fixed assets					
Tangible assets	8	772.2	628.3	—	—
Investments: shares in subsidiaries	9	—	—	19.3	17.1
Current assets					
Stocks (goods for resale)		191.1	178.3	—	—
Debtors	10	24.4	14.1	394.2	330.8
Money Market investments and deposits	11	105.3	37.0	103.3	37.0
Cash at bank and in hand		30.3	13.8	88.1	0.7
		351.1	243.2	585.6	374.5
Creditors:					
Amounts falling due within one year	12	456.3	399.5	46.1	34.1
Net current assets/(liabilities)		(105.2)	(156.3)	539.5	340.4
Total assets less current liabilities		667.0	472.0	558.8	357.5
Creditors:					
Amounts falling due after more than one year	13	61.2	71.6	56.0	56.0
Provisions for liabilities and charges	14	17.2	20.4	1.7	—
		588.6	380.0	501.1	301.5
Shareholders' funds					
Called up share capital	16	20.6	17.0	20.6	17.0
Share premium account	17	167.2	15.4	167.2	15.4
Profit and loss account	17	400.8	347.6	313.3	269.1
		588.6	380.0	501.1	301.5

Directors: I. C. MacLaurin, D. E. Reid.
Accounts approved by Board: 28th May, 1986.



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

52 weeks ended 22nd February, 1986

	1986 £m	1985 £m
Source of funds	122.9	81.3
Profit on ordinary activities before taxation		
Adjustment for items not involving the movement of funds:		
Depreciation	47.8	41.1
Tax relief on interest capitalised	(4.8)	—
	165.9	122.4
Funds generated from operations		
Funds from other sources	145.4	—
Net proceeds from rights issue	10.0	0.9
Proceeds from other issues of shares	23.1	17.6
Proceeds from disposal of tangible assets	5.0	—
Net proceeds from disposal of business (a)	349.4	140.9
Application of funds	225.4	169.7
Purchase of tangible assets	19.1	14.7
Dividends paid	41.0	6.9
Taxation paid	6.9	2.1
Decrease in medium term bank loans	3.7	4.9
Decrease in leasing commitment	296.1	198.3
	53.3	(57.4)
Increase/(Decrease) in working capital		
Increase/(Decrease) in working capital	16.7	(1.6)
Increase/(Decrease) in stock	10.3	4.2
Increase in debtors	(56.0)	(28.8)
Increase in creditors		
Movement in net liquid funds	14.6	(24.2)
Increase/(Decrease) in bank balances	68.3	(7.0)
Increase/(Decrease) in Money Market deposits and investments	53.3	(57.4)
Notes:		
(a) Net proceeds from disposal of business	5.3	—
Tangible fixed assets	3.9	—
Stock	(7.8)	—
Creditors	(5.0)	—
Bank overdraft	(3.6)	—
Net liabilities disposed of	8.6	—
Net surplus on disposal	5.0	—

(b) Foreign exchange differences arising on the translation of overseas assets and liabilities into sterling have been excluded from this statement.

NOTES TO THE ACCOUNTS

1. Operating profit

	1986 £m	1985 £m
Profit is stated after charging the following:		
Depreciation	47.8	41.1
Operating lease costs	17.1	16.4
Auditors' remuneration	0.2	0.2
Staff costs (note 2a)	300.1	264.9
Cost of sales includes warehouse and transportation costs and all store operating costs.		

2. Staff costs

	1986 £m	1985 £m
(a) Employment costs during the year		
Wages and salaries	269.3	236.0
Social Security costs	19.4	19.8
Other pension costs	11.4	9.1
	300.1	264.9

(b) Number of persons employed

The average number of UK employees per week during the year was 60,781 (1985 - 57,180) - full-time equivalent 43,447 (1985 - 42,020).

(c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were £1,140,790 (1985 - £1,052,035) including £47,123 (1985 - £20,000) in respect of services as directors. In addition, termination payments to former directors were £15,000 (1985 - £203,500).

The emoluments of the Chairman, who was the highest paid director, amounted to £118,461 (1985 - £122,338), 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	
		1986	1985	1986	1985
From	£0 to £5,000	1	—		
"	£5,001 to £10,000	—	2		
"	£10,001 to £15,000	3	1		
"	£15,001 to £20,000	—	1		
"	£20,001 to £25,000	—	1	19	9
"	£25,001 to £30,000	1	—	9	7
"	£30,001 to £35,000	—	—	6	4
"	£35,001 to £40,000	—	1	2	—
"	£40,001 to £45,000	—	1	1	—
"	£45,001 to £50,000	—	2	—	—
"	£50,001 to £55,000	3	1	—	—
"	£55,001 to £60,000	1	—	—	—
"	£60,001 to £65,000	2	—	—	—
"	£65,001 to £70,000	—	2	—	—
"	£70,001 to £75,000	1	—	—	—
"	£75,001 to £80,000	—	—	—	—
"	£80,001 to £85,000	—	1	—	—
"	£85,001 to £90,000	—	—	—	—
"	£90,001 to £95,000	1	—	—	—
"	£95,001 to £100,000	—	—	—	—

NOTES TO THE ACCOUNTS

3. Interest

	1986 £m	1985 £m
Interest receivable and similar income on Money Market investments and deposits	26.7	7.4
Deduct interest payable on: Short term bank loans and overdrafts repayable within 5 years	(15.2)	(2.7)
Finance charges payable on finance leases	(0.1)	(0.1)
9% Convertible unsecured loan stock 2002/2007	(5.0)	(5.0)
Interest capitalised	12.4	—
	(7.9)	(7.8)
	18.8	(0.4)

Interest payable on funds used to finance the initial acquisition and development of land and buildings has been capitalised. No adjustment has been made to the results for the previous year as the amount involved would have been immaterial.

4. Taxation

	1986 £m	1985 £m
United Kingdom taxation		
Corporation tax at 40.5% (1985 – 45.5%)	50.1	30.8
Deferred taxation	(1.5)	1.3
Prior year adjustments	(1.5)	(2.0)
	47.1	30.1
Overseas taxation		
Corporate taxes	0.1	0.2
	47.2	30.3

After deducting tax relief of £4.8m (1985 – £nil) on interest capitalised, the net amount of £45.3m less advance corporation tax is the corporation tax payable in January, 1987.

The group tax charge for the year has been reduced by £2.1m (1985 – £4.1m) in respect of accelerated capital allowances on which no provision for deferred tax is required. Net surplus on sale of properties is net of taxation amounting to £0.2m (1985 – £0.9m). Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Acts (Note 14).

5. Extraordinary items after taxation

	1986 £m	1985 £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)	—

NOTES TO THE ACCOUNTS

6. Dividends

	1986 £m	1985 £m
Declared interim—2.10p per share (1985 – 1.75p)	8.6	5.9
Proposed final –3.70p per share (1985 – 3.10p)	15.2	10.5
	23.8	16.4

7. Earnings per share and fully diluted earnings per share

(a) The calculations of the earnings per ordinary share, excluding and including net surplus on sale of properties, are based respectively on the profit on ordinary activities after taxation, before and after including the net surplus on sale of properties, divided by the weighted average number of ordinary 5p shares in issue during the year of 397,415,431 (1985 – 343,832,748).

(b) The calculations of fully diluted earnings per share, excluding and including net surplus on sale of properties, are based respectively on the profit on ordinary activities after taxation, before and after including the net surplus on sale of properties 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 amounts so derived have been divided by the weighted average number of ordinary shares in issue during the year together with the weighted average number of ordinary shares assumed to have been issued as indicated above.

(c) The comparative figures for the year ended 23rd February, 1985 have been adjusted in respect of the rights issue in May, 1985.

NOTES TO THE ACCOUNTS

8. Tangible assets

	Note	Land and buildings		Plant equipment fixtures & fittings & vehicles £m	Assets in course of construction £m	Total £m
		Freeholds £m	Leaseholds 50 years or more £m less than 50 years £m			
Cost						
As at 24th February, 1985		188.9	168.2	17.6	347.9	88.4
Currency translation adjustments		1.2	(0.1)	0.1	0.6	—
Additions at cost	(a)	10.4	1.4	0.8	77.6	135.2
Transfers		110.6	15.8	0.4	2.1	(128.9)
		311.1	185.3	18.9	428.2	94.7
Deduct disposals		(11.8)	(0.9)	(1.4)	(37.9)	(0.4)
As at 22nd February, 1986		299.3	184.4	17.5	390.3	94.3
Depreciation						
As at 24th February, 1985		1.0	6.3	6.4	169.0	—
Currency translation adjustments		0.2	—	—	0.2	—
Provision against fixed assets of Tesco Stores Ireland Limited		9.8	1.5	0.5	3.2	—
Charge for period		0.2	1.7	0.5	45.4	—
		11.2	9.5	7.4	217.8	—
Deduct disposals		—	—	(1.0)	(31.3)	—
As at 22nd February, 1986		11.2	9.5	6.4	186.5	—
Net book value at 22nd February, 1986	(b)	288.1	174.9	11.1	203.8	94.3
Net book value at 23rd February, 1985		187.9	161.9	11.2	178.9	88.4

Notes:

(a) Includes £7.6m in respect of interest capitalised net of tax relief of £4.8m.

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

	Cost £m	Depreciation £m	Net book value £m
As at 24th February, 1985	25.0	13.4	11.6
Movement in the period	(0.2)	3.9	(4.1)
As at 22nd February, 1986	24.8	17.3	7.5

(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

9. Investments: shares in subsidiaries

(a) Tesco Stores Limited and Bugden (Supermarkets) Limited, operated and registered in England, Tesco Stores Ireland Limited, operated and registered in the Irish Republic 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 Bugden (Supermarkets) Limited, wholly owned by Tesco PLC, and Tesco Insurance Limited, consist of £1 ordinary shares. The investment in Bugden (Supermarkets) Limited was acquired during the year for £5.1m. The investment of £2.7m in Tesco Stores Ireland Limited, a wholly owned subsidiary, was transferred from Tesco PLC to Tesco Stores Limited during the year.

	1986 £m	1985 £m
(b) Investments – shares at cost less amounts written off	19.3	17.1

10. Debtors

	Consolidated		Tesco PLC	
	1986 £m	1985 £m	1986 £m	1985 £m
Amounts owed by group companies	—	—	393.8	330.8
Prepayments and accrued income	3.0	2.9	0.1	—
Other debtors	21.4	11.2	0.3	—
	24.4	14.1	394.2	330.8

£nil (1985-£ nil) of the debtors fall due after one year.

11. Money Market investments and deposits

	Consolidated		Tesco PLC	
	1986 £m	1985 £m	1986 £m	1985 £m
Money Market deposits	54.0	37.0	54.0	37.0
Bonds and certificates of deposit (Original cost £49.0m)	51.3	—	49.3	—
	105.3	37.0	103.3	37.0

12. Creditors: amounts falling due within one year

	Consolidated		Tesco PLC	
	1986 £m	1985 £m	1986 £m	1985 £m
Bank loans and overdrafts (a)	21.8	24.9	—	—
Trade creditors	289.4	234.2	—	—
Amounts owed to group companies	—	—	11.2	6.3
Corporate taxation (b)	54.4	49.8	11.8	7.5
Other taxation and social security	11.4	14.7	0.1	0.1
Other creditors	38.6	41.1	5.3	7.2
Accrued charges	25.5	24.3	2.5	2.5
Proposed final dividend	15.2	10.5	15.2	19.5
	456.3	399.5	46.1	34.1

Notes:

- (a) Bank borrowings in a subsidiary company of £85.6m (1985 – £nil) have been offset in the group accounts against bank balances in Tesco PLC.
- (b) Includes corporation tax payable on 1st January, 1987 of £37.1m (1985 – £25.1m) which has been reduced by advance corporation tax of £8.2m (1985 – £6.3m).

NOTES TO THE ACCOUNTS

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

	Consolidated		Tesco PLC	
	1986 £m	1985 £m	1986 £m	1985 £m
9% Convertible unsecured loan stock 2002/2007	56.0	56.0	56.0	56.0
Finance leases (Note 15)	5.2	8.7	—	—
Bank loans	—	6.9	—	—
	61.2	71.6	56.0	56.0

Each £100 nominal of the 9% Convertible unsecured loan stock may be converted during August in any of the years 1986 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 stock at par.

14. Provisions for liabilities and charges

Deferred taxation	Note	Amount Provided		Potential amount for deferred tax on all timing differences	
		1986 £m	1985 £m	1986 £m	1985 £m
Excess of capital allowances over depreciation		23.7	25.7	51.6	52.9
Capital gains deferred by rollover relief		—	—	19.7	14.8
Other	(a)	(0.3)	(0.8)	(0.3)	(0.8)
		23.4	24.9	71.0	66.9
Advance corporation tax recoverable		(6.2)	(4.5)	(6.2)	(4.5)
		17.2	20.4	64.8	62.4

Note:

(a) Includes £1.7m (1985 – £nil) in respect of Tesco PLC representing full provision for deferred tax on all timing differences arising in Tesco PLC.

15. Leasing commitments**Finance leases**

The future minimum finance lease payments to which the group was committed at 22nd February, 1986 and which have been guaranteed by Tesco PLC are:

	£m	
Year to 28th February, 1987	3.6	
Year to 27th February, 1988	3.2	
Year to 25th February, 1989	1.8	
Year to 24th February, 1990	0.3	
	8.9	
Deduct finance charges allocated to future periods	(0.2)	
	8.7	
	1986	1985
	£m	£m
Net amounts payable are:		
Within one year, included in other creditors	3.5	3.7
Between one and five years	5.2	8.7
	8.7	12.4

Operating leases

Group commitments during the year to 28th February, 1987 in terms of lease agreements in respect of land and buildings expiring as follows are:

	1986	1985
	£m	£m
Within one year	0.1	0.1
Between one and five years	0.4	0.4
Beyond five years	17.2	16.9
	17.7	17.4

NOTES TO THE ACCOUNTS

16. Called up share capital

Authorised: £30,000,000 (1985 - £20,000,000)

Issued:	Shares of 5p each		£m	£m
	Ordinary	'A' Ordinary	Ordinary (fully paid)	'A' Ordinary (1p paid)
Issued at 24th February, 1985	339,104,990	55,025	17.0	—
Issued 25th May, 1985(1)	67,841,673		3.4	
Issued 16th June, 1985(2)	1,600,000		0.1	
Issued 28th November, 1985(3)	1,866,277		0.1	
Converted during year	55,025	(55,025)	—	—
Share options exercised during the year	921,388	—	—	—
Issued at 22nd February, 1986	411,389,353	—	20.6	—

(1) Rights issue.

(2) Consideration for the acquisition of Bugden (Supermarkets) Limited whose principal asset was one store in Norwich.

(3) Vendor placing in connection with the purchase of land at Welham Green, Hertfordshire.

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 22nd February, 1986 amounted to 815,000 ordinary shares, 8,514,250 ordinary shares and 7,904,881 ordinary shares respectively.

Between 22nd February and 28th May, 1986, options on 265,000 ordinary shares and 30,268 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 26 and 27.

17. Shareholders' funds

	Consolidated		Tesco PLC	
	1986 £m	1985 £m	1986 £m	1985 £m
Called up share capital (Note 16)	20.6	17.0	20.6	17.0
Share premium account				
At 24th February, 1985	15.4	14.6	15.4	14.6
Premium on issue of shares less costs	151.8	0.8	151.8	0.8
At 22nd February, 1986	167.2	15.4	167.2	15.4
Profit and loss account				
At 24th February, 1985	347.6	303.8	269.1	236.3
Movement due to currency translation differences	0.6	0.5	—	—
Profit retained	52.6	43.3	44.2	32.8
At 22nd February, 1986	400.8	347.6	313.3	269.1

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.

NOTES TO THE ACCOUNTS

18. Capital commitments

At 22nd February, 1986

- (a) There were commitments for capital expenditure of approximately £138m (1985 - £98m).
- (b) Capital expenditure authorised by the board, but not contracted for, amounted to £138m (1985 - £96m).

19. Contingent liabilities

- (a) The consideration payable by the company for the acquisition of the balance of the issued share capital of Tesco Stores Ireland Limited, which was completed on 26th March, 1979, has been finally determined and is no longer the subject of litigation.
- (b) Bank loans and overdrafts of subsidiary companies of £98.5m (1985 - £17.8m) have been guaranteed by the company.

20. Pension commitments

Pension schemes are operated by the group and all employees and executive directors, subject to age and service, are eligible for membership. The schemes are trustee-administered and the assets are entirely separate from the assets of the group. The schemes were fully funded at the most recent independent actuarial valuation on the 6th April, 1984.

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 22nd February, 1986, and of the profit and source and application of funds of the group for the 52 weeks then ended, and comply with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
London
28th May, 1986

NOTICE OF MEETING

Notice is hereby given that the thirty eighth Annual General Meeting of Tesco PLC will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Friday 11th July, 1986 at 3 pm for the following purposes:

1. To receive and adopt the directors' report and accounts for the 52 weeks ended 22nd February, 1986 (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. I. C. MacLaurin (Resolution 3.), Mr. V. W. Benjamin (Resolution 4.), Mr. M. Darnell (Resolution 5.), Mr S. Young (Resolution 6.), Miss D. O'Cathain (Resolution 7.), Mr. D. E. Reid (Resolution 8.)
4. To re-appoint Price Waterhouse as auditors to hold office until the conclusion of the next Annual General Meeting (Resolution 9.)
5. To authorise the directors to fix the remuneration of the auditors (Resolution 10.)
6. To transact any other ordinary business of the meeting
7. As special business, to pass the following special resolution:

That:

- (a) The directors be empowered, during the period expiring at the conclusion of the company's Annual General Meeting next following the date of the passing of this Resolution, to allot equity securities of the company as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, provided that such power shall be limited to the allotment of equity securities:
 - (i) in connection with a rights issue of such securities to the holders of relevant shares and relevant employee shares of the company in proportion (as nearly as may be) to their respective holdings of such shares or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with the problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
 - (ii) otherwise than under sub-paragraph (a)(i) above, having an aggregate nominal value of £1,350,000;
- (b) Such power shall permit and enable the directors to make an offer or agreement, before the expiry of such power, which would or might require equity securities to be allotted after such expiry;
- (c) Words and expressions defined in or for the purposes of Sections 89 to 96 inclusive of the Companies Act 1985 shall bear the same meanings in this Resolution (Resolution 11 - refer to note 3).

By Order of the Board
Michael J. Boxall
Secretary

Tesco House, Delamare Road, Cheshunt,
Hertfordshire, EN8 9SL.
Dated 16th June, 1986.

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 16th June, 1986, 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.
3. Under the Companies Act 1985, there are specific restrictions on the allotment of ordinary shares (and certain other securities) or a right to subscribe for, or to convert, any securities into such shares, for cash, otherwise than pursuant to an employee share scheme, requiring directors to offer such shares initially to existing shareholders in proportion to their existing holdings. It is desirable in some circumstances for directors to have the power to allot shares for cash without having to comply with these pre-emption rights. If Resolution 11 is passed, the directors will not be required to allot ordinary shares (and certain other securities) to existing shareholders in proportion to their existing holdings (i) in the case of a rights issue (and therefore the company will overcome certain technical contraventions of the statutory pre-emption rights) and (ii) in any other case relating to the allotment of ordinary shares up to a maximum nominal value of £1,350,000, being approximately 5% of the company's present issued share capital and the further ordinary shares which the directors are generally authorised to allot pursuant to Section 80 of the Companies Act 1985. This power will commence at this Annual General Meeting and will expire at the conclusion of the next Annual General Meeting, when it may be renewed.

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 11th July, 1986, 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. I. C. MacLaurin a director		
4. To re-elect Mr. V. W. Benjamin a director		
5. To re-elect Mr. M. Darnell a director		
6. To re-elect Mr. S. Young a director		
7. To re-elect Miss. D. O'Cathain a director		
8. To re-elect Mr. D. E. Reid a director		
9. To re-appoint the auditors		
10. To authorise the directors to fix the remuneration of the auditors		
11. To empower the directors to allot equity securities without application of pre-emption rights, subject to limitations		

Dated _____ 1986

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.

FOLD 2

Postage
will be
paid by
licensee

Do not affix Postage Stamps if posted in
Gt Britain, Channel Islands, N Ireland
or the Isle of Man



BUSINESS REPLY SERVICE
Licence No. W.G.83

2

FOLD 1

Lloyds Bank Plc
Registrar's Department
Goring-By-Sea
WORTHING
West Sussex BN12 4ZZ

FOLD 3 AND TUCK IN

10 YEAR RECORD

Year ended February	1977 £m	1978 £m	1979 £m	1980 £m	1981 ¹ £m	1982 £m	1983 £m	1984 £m	1985 £m	1986 £m
Turnover net of VAT	701.3	953.0	1,201.8	1,530.6	1,820.7	1,994.4	2,276.6	2,594.5	2,000.4	3,355.3
Profit before taxation	30.2	28.6	37.7	36.5	35.6	42.7	53.5	67.4	81.3	122.9
Taxation	(15.2)	0.5	(1.1)	(1.4)	(5.5)	(12.0)	(11.5)	(24.7)	(30.3)	(47.2)
Net property profits	15.0	29.1	36.6	35.1	30.1	30.7	42.0	42.7	51.0	75.7
	0.6	0.2	0.4	0.4	20.0	24.0	7.7	5.2	8.7	8.1
Extraordinary items	15.6	29.3	37.0	35.5	50.1	54.7	49.7	47.9	59.7	83.8
Dividends	0.3	(0.1)	0.2	0.1	—	—	0.3	(20.0)	—	(7.4)
	(4.6)	(5.2)	(6.5)	(8.2)	(8.5)	(10.0)	(11.8)	(13.9)	(16.4)	(23.8)
Retained	11.3	24.0	30.7	27.4	41.6	44.7	38.2	14.0	43.3	52.6

	p	p	p	p	p	p	p	p	p	p
Dividends per share	1.46	1.63	1.98	2.45	2.55	3.00	3.50	4.10	4.85	5.80
Earnings per share: ²										
Excluding net property profits	4.67	9.06	11.33	10.41	8.90	9.08	12.37	12.47	14.84	19.05
Including net property profits	4.87	9.12	11.44	10.52	14.79	16.21	14.63	14.00	17.36	21.09
Fully diluted earnings per share: ²										
Excluding net property profits	—	—	—	—	—	—	11.89	11.49	13.63	17.52
Including net property profits	—	—	—	—	—	—	14.02	12.81	15.81	19.29

	%	%	%	%	%	%	%	%	%	%
Profit before taxation to turnover	4.30	3.00	3.13	2.39	1.95	2.14	2.35	2.60	2.71	3.66

Average number of full-time equivalent employees in the United Kingdom	28,400	31,000	35,802	39,862	38,809	40,421	40,377	40,363	42,020	43,447
--	--------	--------	--------	--------	--------	--------	--------	--------	--------	--------

	£	£	£	£	£	£	£	£	£	£
Turnover per employee ³	24,682	30,900	34,045	38,398	46,913	49,341	56,384	64,279	71,404	77,227
Wages per employee ³	2,289	2,504	2,868	3,478	4,401	4,730	5,227	5,800	6,304	6,997
Retail price index	174.1	190.6	208.9	248.8	279.8	310.7	327.3	344.0	362.7	381.1
Number of stores	722	673	571	552	554	544	489	461	441	395

	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft	sq. ft
Total sales area	5,196,000	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
Average store size (sales area)	7,200	8,000	9,900	11,200	12,300	13,200	15,200	16,000	16,800	19,000
Average sales area of stores opened in the year	11,266	28,094	22,197	17,676	23,154	22,042	30,569	27,985	36,715	35,597

Notes:

¹53 week period.

²Adjusted in respect of the 1985 rights issue.

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

TESCO PLC



ANNUAL REPORT AND ACCOUNTS 1986