



Companies House

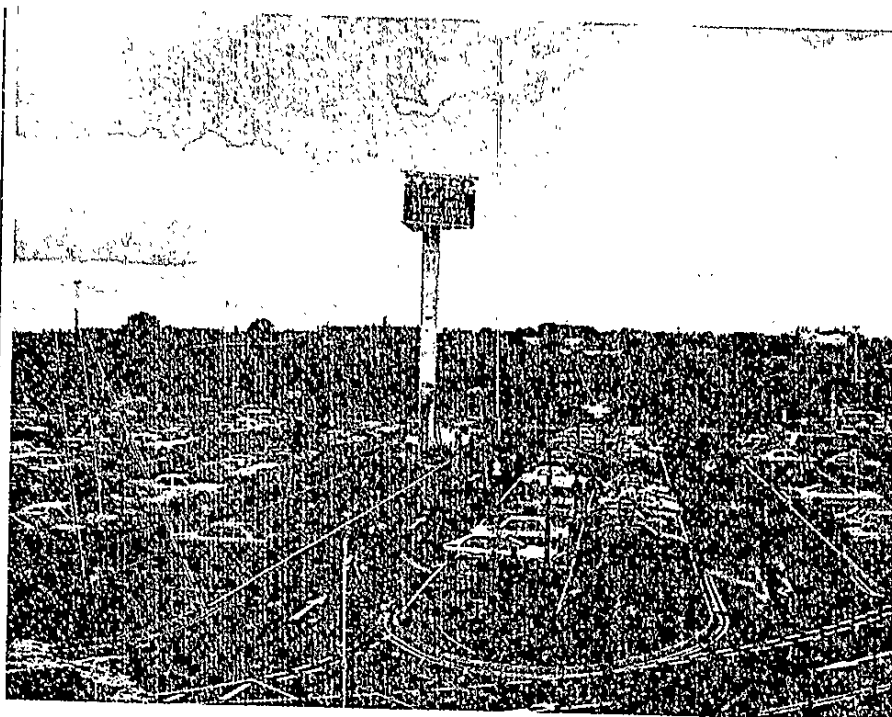
## **NOTICE OF ILLEGIBLE PAGES**

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**The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.**

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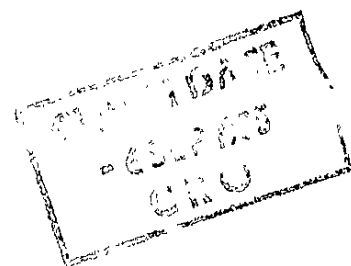


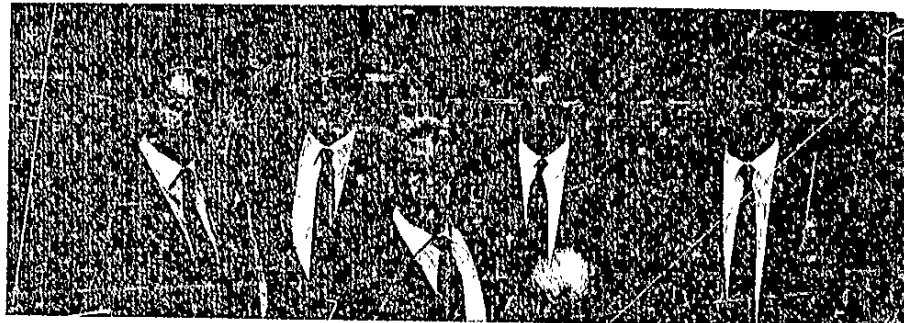


*ANNUAL REPORT & ACCOUNTS 1985*

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*David Malpas, Ralph Temple, Sir Leslie Porter, Ian MacLaurin and Victor Benjamin at the Tesco Brookfield Farm superstore.*

**Sir Leslie Porter Ph.D (Hon).**  
Chairman

**I. C. MacLaurin**  
Deputy Chairman

**V. W. Benjamin**  
Deputy Chairman

**A. D. Malpas B.A.**  
Managing Director (Trading)

**R. Temple F.C.A.**  
Managing Director  
(Finance and Administration)

**M. Darnell**

**J. Gildersleeve**  
(appointed 31st October 1984)

**F. R. N. Krejsa F.R.I.C.S.**

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

**H. F. Pennell**

**D. C. Tuffin**  
(appointed 1st April 1984)

**S. Young F.C.A.**

**Secretary and Registered Office**

**M. J. Boxall A.C.I.I.**

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Cheshunt

Hertfordshire EN8 9SL

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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

Hogg Bullimore & Co.

Ingersoll House

5th Floor

9 Kingsway

London WC2B 6XF

**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

	1985 £m	1984 £m
Turnover excluding value added tax	3,000.4	2,594.5
Profit on ordinary activities before taxation	81.3	67.4
Taxation	30.3	24.7
Net surplus on sale of properties	8.7	5.2
Dividends	16.4	13.9
	Pence	Pence
Dividends per share	4.85	4.10
Earnings per share:		
Excluding net surplus on sale of properties	15.07	12.67
Including net surplus on sale of properties	17.64	14.22

## FINANCIAL DIARY

Year end: Last Saturday in February

Half-year's results announced: Late November

Year's results announced: Mid-June

Annual Report and Accounts despatched: Early July

Annual General Meeting held: last Friday in July

Dividend:

Interim: announced late November paid late February

Final: announced mid-June paid early August

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

## CHAIRMAN'S STATEMENT



I am particularly pleased that, in my last statement to you as Chairman, I am able to report another year of good progress. Our annual report is in a new format this year which I hope you will find helpful.

In the year under review, underlying volume continued to show satisfactory gains. Sales increased over the previous year by 16%, representing an estimated volume gain of 8%, of which 6% was generated by volume growth in existing stores and 2% came from new selling area. Group sales (including VAT) increased by £433m to £3,177m and profit before tax advanced to £81m.

We have made good progress in the rationalisation of our distribution system, as a result of which we hope to achieve some significant economies. We have taken some important steps in marketing and our initiative in the introduction of nutritional information on the packaging of our own-label food products has been widely reported. Our distinctive 'healthy eating' logo and labelling are designed to draw customers' attention to products with a health benefit.

There has been favourable public comment also on the style of marketing of our own label products; on wines and spirits, packaged goods and through the whole range the quality of design has been consciously improved and well received by our customers.

I am glad to say that we have been able to improve staff conditions. We have introduced better canteens and facilities in many stores. We have also made some improvements in pension arrangements, particularly for our lower paid employees. Our managers have the benefit of a new approved share option scheme, adopted by shareholders last year.

We have also made progress in the development of Victor Value which now comprises 43 stores concentrated in the main around Manchester and London. These are small units (up to 9,000 sq. ft.) which rely on a computerised control system and sell a limited range of products at very keen prices. The chain has been run on an experimental basis. We have now begun to buy units on the open market, having converted all suitable surplus Tesco supermarkets that have become available so far. Victor Value improves slowly but surely and we look forward to its making a relevant contribution to our business.

We were able to strengthen our cash resources as a result of the rights issue announced on 16th April which has 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 the funding of our continuing substantial property development programme.

We have a very strong holding of sites for development in the next few years and our position improved considerably during the year under review. There are exciting opportunities before us, and we are detecting some evidence of a more co-operative attitude toward our industry both from local authorities and Government. We are very pleased with the nine stores we opened last year. They satisfy our aim to attract more customers by fulfilling their needs with a wide range of quality products and courteous service in an attractive shopping environment.

We continue to strive to develop important sites with generous, flat car-parking space. Local authorities become involved with us as planners and often as land-owners and in some cases, a major new shopping centre can be created involving very large areas and more than one key retailer.

It is in that connection that we reached an understanding with Marks and Spencer for the joint development of independent stores on major sites. While it may be some time before any of these schemes come to fruition, both companies are working with purpose to that end.

In addition to any Marks and Spencer/Tesco developments, we expect to open around half a million square feet of new selling space in each of the next three years. In the 1985/86 financial year, we are planning to open fourteen new stores. We will, of course, continue at the same time our programme of rationalisation and refurbishment of smaller stores.

In June, we opened our superstore at Brent Park, Neasden on the North Circular Road. Our negotiations for this site started more than seven years ago. It is our 100th UK superstore and has a sales area of 65,000 sq. ft. and parking for more than 1,000 cars. We hope it will give many more Londoners the opportunity to see how we trade today.

The first 'Midland Bank at Tesco' has opened for business at Brent Park. Our joint experiment with the Midland Bank will continue at Beaumont Leys, near Leicester and Bursledon Towers, near Southampton. At each of the in-store banks, customers will be able to cash cheques, open current accounts and have available a range of Midland services which will include personal loans, mortgages, insurance, foreign currency and travellers' cheques.

This step marks the recognition by Midland and us that the retail business of the future will contain a financial services element which we will evaluate carefully.

The composition of the Board has changed only a little since my last statement. John Gildersleeve, 40, was appointed to the Board on 31st October, 1984 and is responsible for Personnel and Marketing. Donald Harris resigned on 23rd February, 1985 after twenty years' service with the company to pursue an academic career in which we wish him well.

It is with great pleasure that I thank colleagues, employees and suppliers for their support: our success does indeed depend on them. I would like them also to accept my personal thanks for their friendship over the years we have worked and done business together.

I have enjoyed my 25 years with Tesco and it is gratifying to be handing over the Chair at a time when the company seems to be set on such a good course. I have been asked to continue as a non-executive director and I look forward to that. As already announced, Ian MacLaurin will succeed me as Chairman. He, too, has completed 25 years with the company, 15 of them on the Board. He joined the company as a trainee and served in every managerial position in retail operations until his appointment as managing director in October 1973. He is a born trader and leader and I have every confidence in handing over to him.

In my time as Chairman, I have endeavoured to continue the lively and innovative spirit of the founder of this company, the late Sir John Cohen. I know that Ian MacLaurin intends that spirit to continue.

*Leslie Porter*

Sir Leslie Porter, Chairman  
1st July, 1985



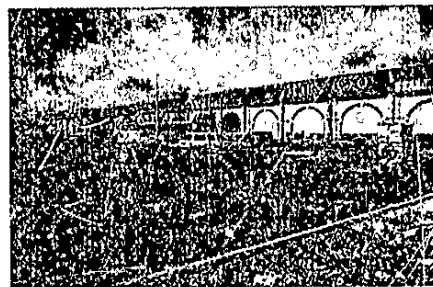
Tesco is a leading British multiple retailer with national representation.

In recent years, the company has substantially streamlined its operations. Today, it has almost halved the number of stores it had ten years ago yet its sales area has risen by over 50%. Of pre-eminent importance has been the company's concentration over the past 15 years on the development of superstores (units 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 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 believes that it is also essential to have outlets fully equipped to sell these products. The stores Tesco is building today respond to market developments and to changing and increasingly sophisticated consumer demand. Superstore development  
Tesco aims to build single-storey stores with ample free, flat and

easily accessible car parking. Sites must be able to accommodate these essential activities and should also provide space for petrol filling stations and, where appropriate, garden centres. Stores should be of about 40,000 sq. ft. sales area, but Tesco also seeks smaller stores down to about 20,000 sq. ft. sales area concentrating mainly on food products.

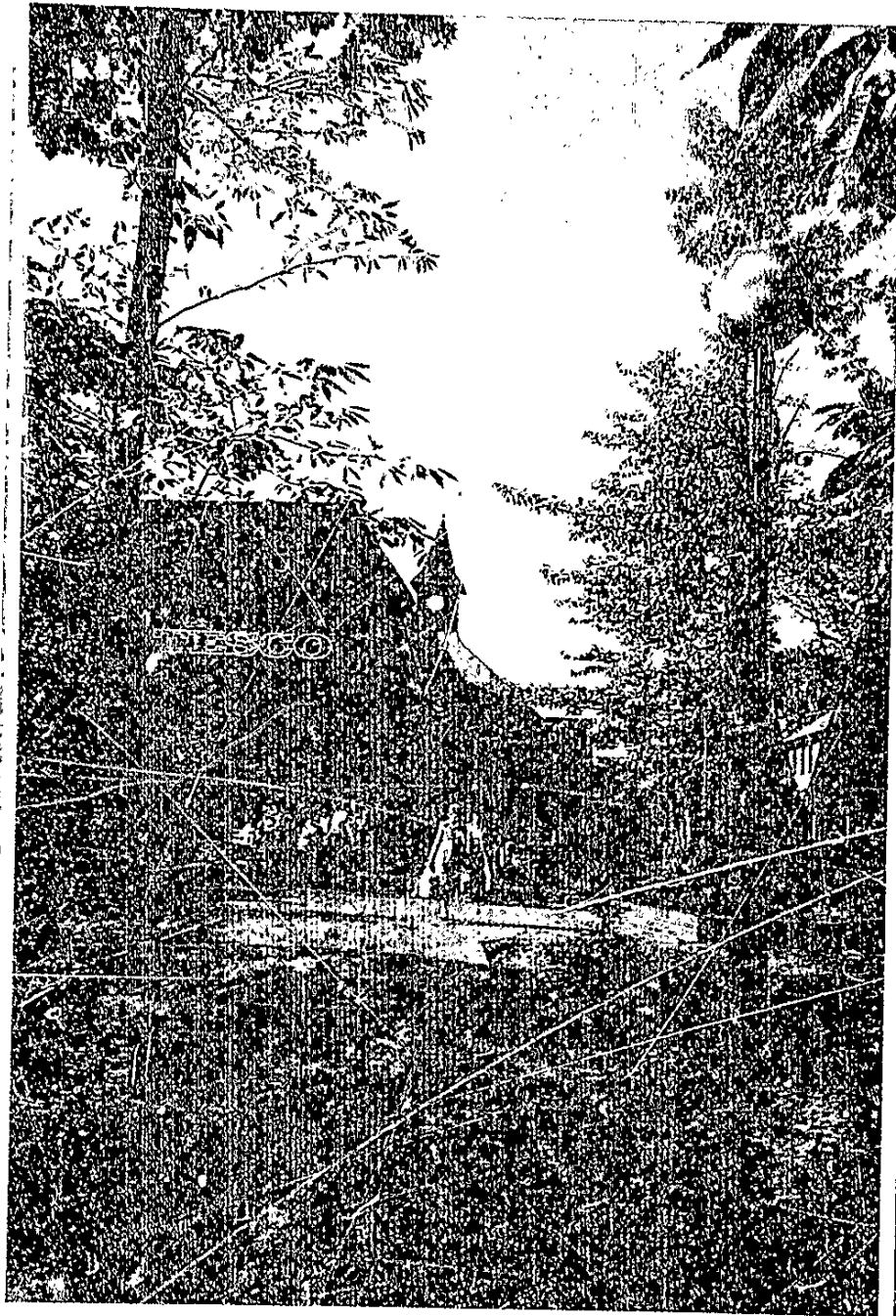


*Under construction at Neasden, North West London, the 100th Tesco superstore, Brent Park.*

In seeking suitable sites, Tesco does not discriminate between high street, in-town, edge-of-town or out-of-town locations. The company is concerned only with whether an attractive, commercially viable development can take place within the site available. Increasingly, however, new Tesco superstores are to be found on edge-of-town or out-of-town sites because opportunities for building such outlets in town and city centres are extremely limited.

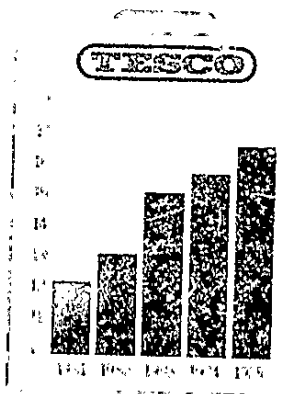








Average site area size of stores



Total number of branches (excluding petrol stations and garden centres) 441  
 Company sales in a financial year (including concessions) 7,914,854 sq ft  
 Average site area size 16,814 sq ft

**Marks and Spencer/Tesco**  
 In November 1984, Marks and Spencer and Tesco announced that they had agreed to work together to develop edge-of-town shopping centres. The association provides for a combination of both companies' expertise, experience and reputations in a way that should make their joint development proposals of interest to customers and to planners. A number of prospective joint sites are under consideration. The first could well be at Brookfield Farm, Cheshunt where, if planning permission is obtained, it is hoped that the existing Tesco superstore will be extended and a new Marks and Spencer store built alongside. Existing stores

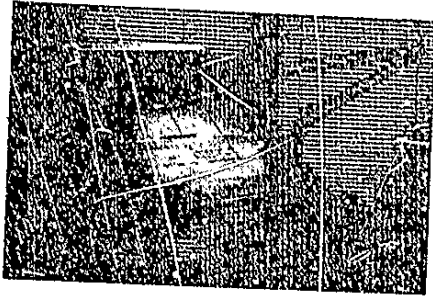
traditional market place—the High Street. Although many existing Tesco stores cannot conform to the company's present superstore development criteria, they are nevertheless very successful. They are also the subject of a continuous, planned programme of refurbishment and extension. From time to time a store inevitably becomes uneconomic and it is sold for redevelopment or to be occupied by another trader. Tesco also has a few stores which have become too small to be viable for the company but it recognises that it has a special responsibility toward such stores and their local communities.

Some are converted to become Victor Value stores, described more fully later. It is company policy to dispose of those stores not finally required to other food traders, or to its own managers who wish to start



MARKS AND SPENCER/TESCO

up in business on their own account. 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, or 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. Our Research Unit looks at the likely impact of a superstore on a particular location, examines the demographic profile of population now, estimated population growth, the development of industry in the area, infrastructure plans, and other factors.

Specialist units within the Retail Planning and Property and Estates 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 care. Wide aisles, controlled temperature and facilities for the disabled are all part of good design. Careful colour co-

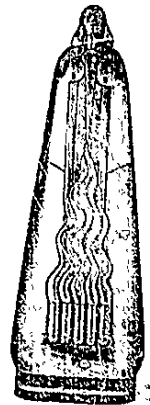
ordination provides a restful and pleasant atmosphere for shopping. Attention paid to signs—from those ceiling-hung, identifying departments, to those on the individual shelf edge, showing product and price—whilst maintaining continuity of design, also provide information.

The company's aim is that the customer should feel at home and at ease in its stores.

#### Energy

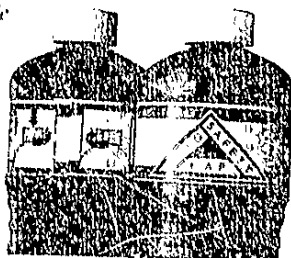
An important 'task force', the company's Energy Committee, deals with energy saving, since Tesco's aggregate annual energy costs, excluding petrol and derv, are of the order of £20 million. The company takes careful note of developments in the fields of lighting, heating and chilling equipment, as well as in insulation products and techniques.

In February 1985, Tesco was awarded £90,000 from the Government—the largest grant of its kind yet awarded to a multiple food retailer—to finance a two-year project which could help the nation's retailers save millions of pounds per year in heating and lighting bills. Ten Tesco stores have been fitted with 'monitoring meters' to provide day-to-day information on energy consumption which should lead to a much more accurate approach to the control of electricity and gas charges on the part of the retail industry as a whole than has been achieved so far.

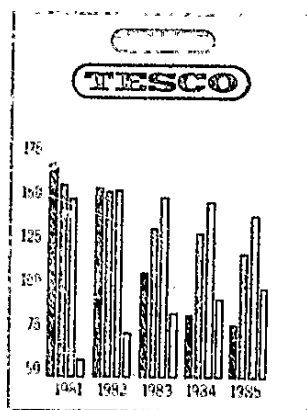


The coveted LAMSAC TEAM (Tesco Energy and Management) awards, sponsored by Tesco every two years, a unique collaboration between the public and private sectors that recognises the achievements of Britain's local authorities in reducing energy bills.

*Tesco has introduced child safety caps on the containers of its own-label household products to help reduce the number of poisoning and other accidents by making it difficult if not impossible for children to open them*



Stores analysed by sales area sizes



- 1,001 to 5,000 sq ft 80 Branches
- 5,001 to 10,000 sq ft 120 Branches
- 10,001 to 25,000 sq ft 149 Branches
- Over 25,000 sq ft 101 Branches

(excluding petrol stations  
and garden centres)



Automatic re-ordering of products using a data capture wand that "reads" the product bar code.

### 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 20,000 product lines. The supermarkets carry a product range consistent with their size and location. Victor Value sells a limited range of fast-moving products at discount prices.

Today's Tesco store manager is concerned with people—staff and customers—and is responsible for the efficient running of his store. His product range is controlled by a central marketing policy. Controlled buying enables the company to make a consistent national 'offer' 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

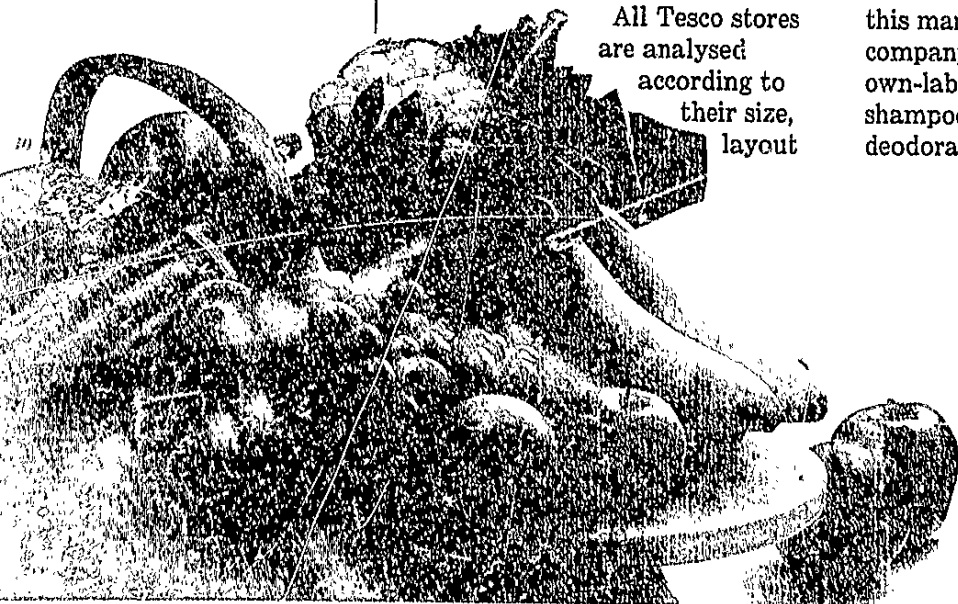
and location in order to optimise the product portfolio. Shelf space allocation, stock replenishment levels, product development and productivity are carefully controlled providing the basis of an integrated management information system.

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

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

Tesco fresh foods sales, 85% of which are own-label, include frozen food products, fruit and vegetables, cheese and dairy products, meat and poultry, and fresh bread. Almost all stores carry fresh fruit and vegetables, and sell meat. One in three has an in-store bakery. Delicatessens can be found in two-thirds of the supermarkets, and in all the superstores. Tesco today is not a grocer selling fresh food, but a first class retailer of fresh food in its own right.

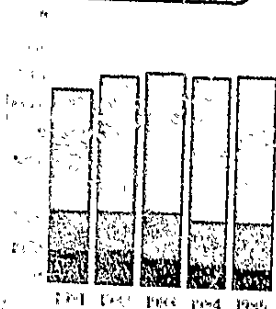
Tesco is expanding its toiletries business in step with the growth of this market. Over the past year the company launched 75 new such own-label products including shampoos, baby care products and deodorants.





Sales and profits for the year ended 27th March 1985

**TESCO**



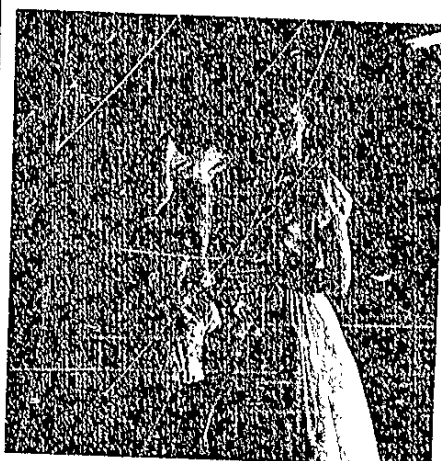
- Grocery sales area for total company sales area including concessions, but excluding Home 'n' Wear 5,202,623 sq.ft. or 70%
  - Home 'n' Wear sales area ground floor 1,493,579 sq.ft. or 20%
  - Home 'n' Wear sales area other floors 712,652 sq.ft. or 10%
- Bar stations and garden centres are not included

### Wines and spirits

With one of the most extensive ranges in the country, over 100 own-label table wines and a similar wide range of beers, lagers and spirits, Tesco accounts for 7% of the UK take-home market for wines and spirits. Own-label products account for approximately 50% of sales.

### Home 'n' Wear

Home 'n' Wear is one activity that distinguishes Tesco from other supermarket groups.



Home 'n' Wear is a vital ingredient of the increasingly popular one-stop shopping. Tesco sells a wide range of products including clothes for men, women and children, household textiles, towels, kitchen equipment, electrical goods, greenhouses, lawnmowers, garden furniture, DIY products, records and tapes

and toys; (Tesco is the UK's third largest year-round toy retailer). There are garden centres adjacent to ten Tesco superstores.

Tesco has made important strides in the last three years to improve the quality of its clothes and footwear. Now the vast majority of its clothes and textiles are manufactured in the UK.

### Own-Label

Tesco's policy is strongly to support manufacture 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 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 the range of products in Tesco stores with the aim of expanding and enhancing the market as a whole.



## Victor Value

Victor Value-Tesco's discount store division—uses former Tesco stores which have become too small or uneconomic to continue trading under the parent company's name. In the normal course of events, such stores would have closed and been sold. The Victor Value project, introduced in 1982, has proved an effective way of utilising such premises with the benefit of Tesco's back-up resources.

The range of goods available at Victor Value is kept to 1,300 lines (compared to 3,000 in similar-sized Tesco stores). All the Victor Value stores are equipped with checkout scanning systems and, as every product sold is bar-coded, sales data is captured line by line. Individual

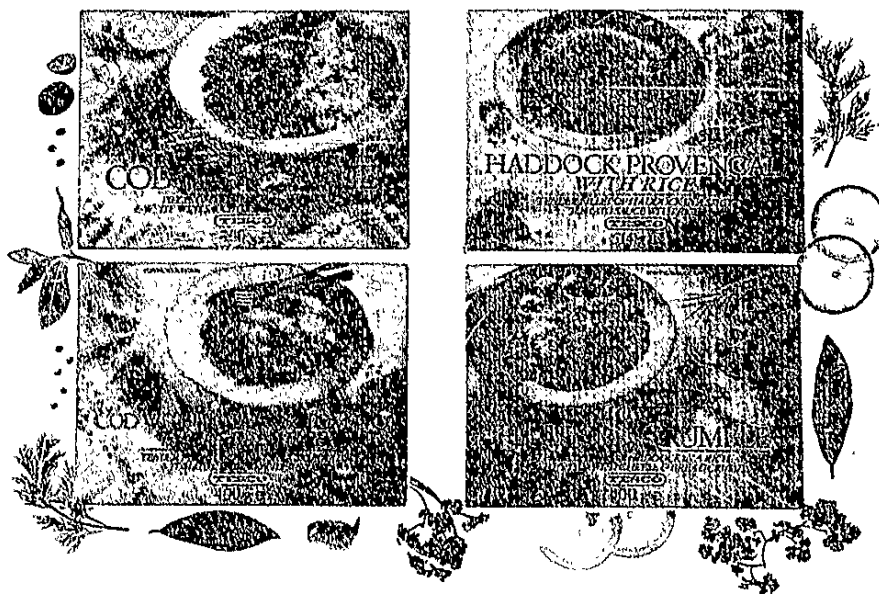
stores can order via telephone direct to the mainframe. Customers receive an itemised print-out of their purchases.

The company is in the process of extending the Victor Value project including the use of non-Tesco premises. While Victor Value operations have, so far, been based at Sandbach, Cheshire, a distribution centre is planned to support Victor Value's anticipated growth in the South of England.

## Quality Control

The Tesco advanced control laboratory at Ware in Hertfordshire is responsible for testing and monitoring the standards of food and virtually every other product Tesco sells. Its facilities are amongst the most

VICTOR VALUE





up-to-date in Europe.

Quality controllers liaise between stores and suppliers'



In store consumer advisory kitchens can be found at six Tesco branches at Ayr, Brent Park, Cardiff, Sels, Thornton Heath and Wiston Fawell.

factories on a regular basis to ensure that the standards Tesco requires are maintained.

Linked to the work done at the laboratory and by the quality controllers is that carried out in Tesco's six in-store consumer advisory kitchens, strategically positioned from Scotland down to the South of England, where customers can try, comment on and criticise existing and planned Tesco products. The kitchens' work before and after the launch of own-label products is of particular importance. The kitchens are unique in the UK.

#### Distribution

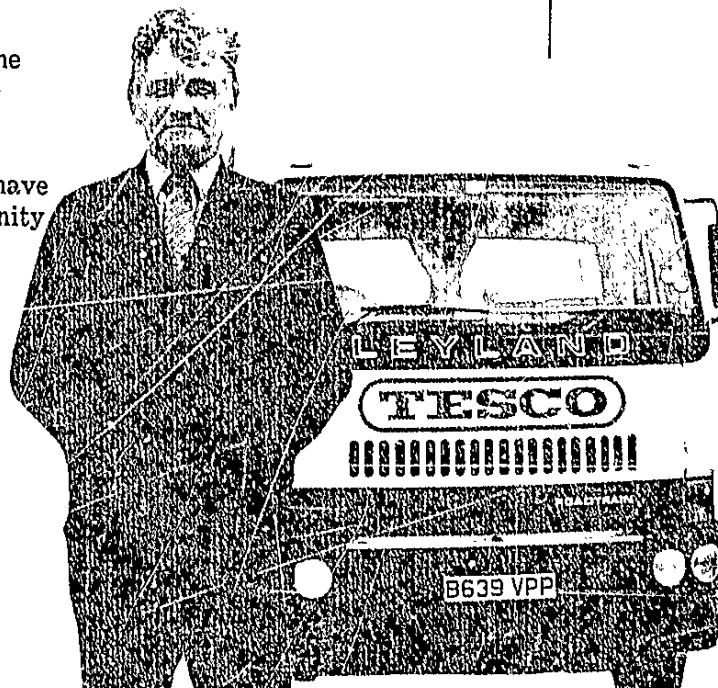
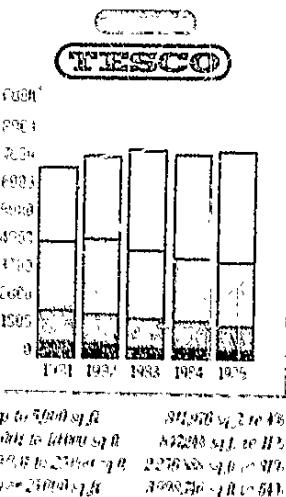
Tesco's range of products is distributed under a centralised control system to ensure that customers receive products of the quality and freshness they have grown, and have the right, to expect.

Computer technology will have given the company the opportunity

by the autumn of 1985 to replenish dry grocery stocks at all stores within 24—48 hours. By using portable data capture devices, daily 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.

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.

Sales area analysed by size of stores



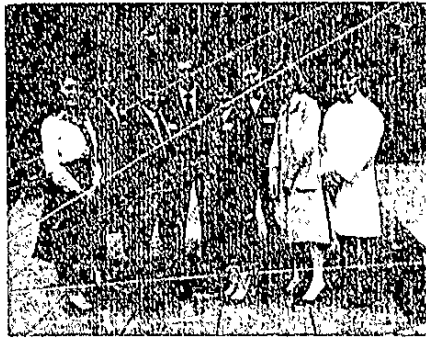




## Employees

Tesco regards its employees as its most important asset and its substantial personnel function is committed to their welfare, training and development.

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 have been made to staff restaurants in many 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 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 Tesco house newspaper, 'Tesco Times', published monthly, fulfils an increasingly important role in internal communications and staff relations.

### *Retired Staff Association*

The company formed a retired staff association last year to maintain links with retired employees. It wishes to provide support and assistance in retirement to those who require them, as a mark of appreciation by Tesco of their past service to the company. Within eighteen months the association had over 1,300 members through 36 branches.

### *Training*

Training makes a vital contribution to the continued success of the company.

Staff undertake formal training covering a wide range of skills and activities. Many have been trained to deal with the introduction of the computerised stock control system within head office and the distribution centres. Many executives have been trained in the use of personal computers and developments in word processing and data input facilities have extended the need for training to large numbers of secretarial and clerical staff.

An audit of management training needs is underway in the stores to ensure that Tesco managers, deputy managers and assistant managers receive the training which allows them to attain

*Some of the Tesco own-label foods that now carry the 'healthy eating' logo and nutritional information.*



and retain a high degree of adaptability to the changing demands of contemporary retailing. It is in this way that the company can anticipate and meet the needs of its customers and staff.

### Technology

Tesco has one of the largest, and still expanding, computer installations in Europe.

Tesco led the retail industry with the introduction of Electronic Point of Sale (EPOS). It attributes its expansion and success in part to planned, long-term investment and a genuine commitment to technological innovation.

Tesco attaches great importance to data processing and to the development of other computer control systems, especially those within the distribution function.

Work currently underway to set up a branch communication network and toward the

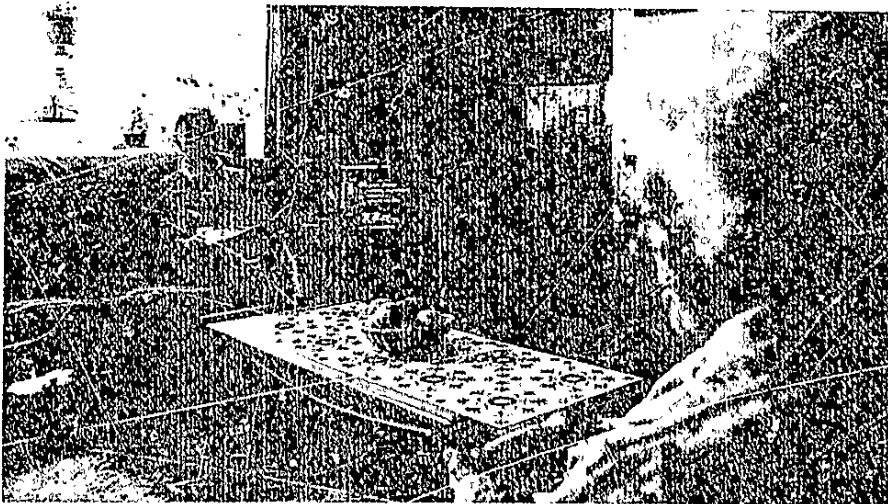
introduction of branch computing promises substantial cost benefits and a very rapid pay-back for the relatively modest investment involved.

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

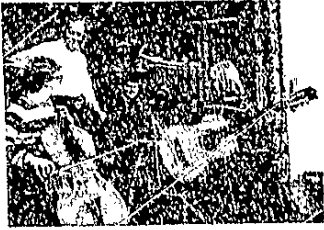
### New headquarters

The company is planning to build a new corporate headquarters in Hertfordshire to provide offices, warehousing, distribution and technical service and laboratory facilities.

A new headquarters will enable the company to bring together many of the departments currently dispersed because of lack of space at Cheshunt as well as provide a superior working environment. Certain administrative operations,



*Armchair shopping became a reality for this retired couple in Gateshead where Tesco with the local council and Newcastle University has established a shopping and information service to serve the needs of the elderly and disabled*



As part of its community relations activities, Tesco supports the Wareham Albion Club at Milton Keynes and the Wareham Albion Club at Milton Keynes. The club has a long history of success and has won many trophies. The club is a member of the Football Association and has a strong following of supporters. The club is a member of the Football Association and has a strong following of supporters. The club is a member of the Football Association and has a strong following of supporters.

however, will continue to be run from Cheshunt. Tesco and the community Employee relations and customer relations are two priorities for the company. A third is community relations.

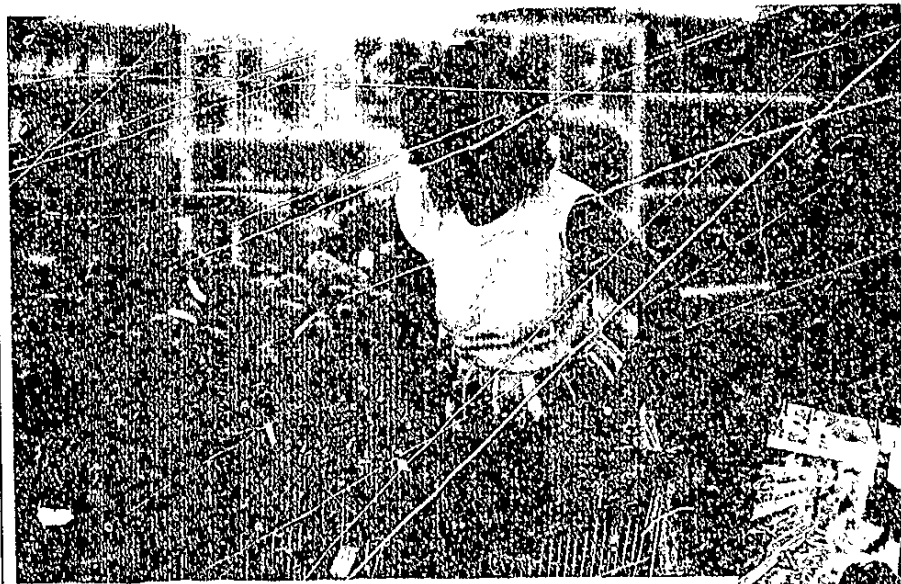
Tesco sees a strong relationship with the community as essential to its continued success.

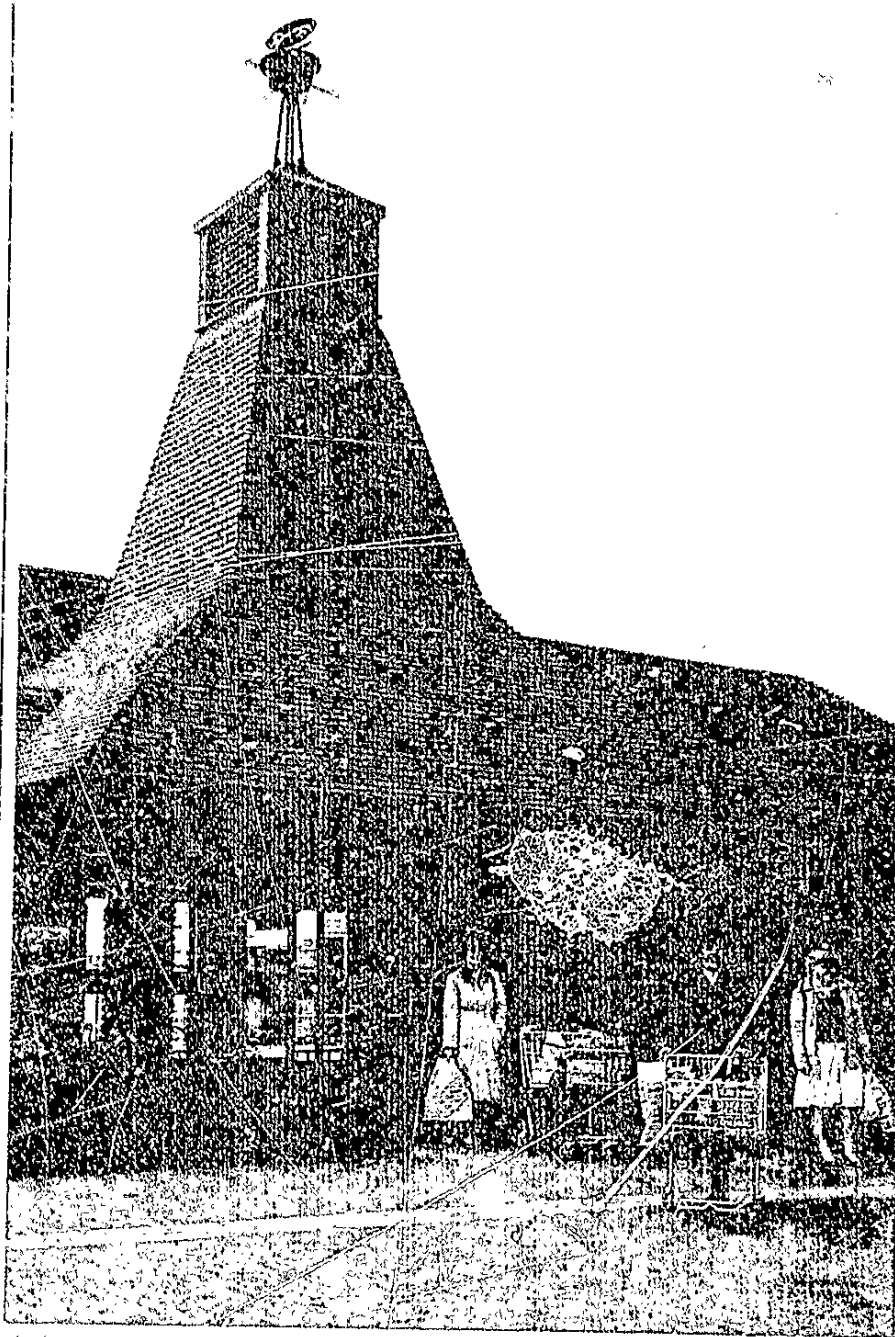
As an active member of 'Business in the Community', the company has seconded a number of senior executives to help or direct various regeneration projects.

Tesco supports many charities, principally for the sick, the handicapped and the disabled. In addition, the company 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 and, in the year under review, the Muscular Dystrophy Group, have benefited substantially as a result.

Tesco is also a major supporter of the work of the Variety Club of Great Britain. By the end of 1985, the company, thanks to the efforts of its staff on sponsored walks, mountain climbs and many other challenges, will have raised sufficient money to buy the 50th Tesco - sponsored Variety Club Sunshine Coach, a record for any commercial organisation.





The top of the chimney of the Alameda plant is visible in the background. The structure is a large, dark, conical shape, possibly a chimney or a monument, with a small figure on top. The structure is surrounded by a fence, and several people are standing in front of it.

COMPANY REVIEW  
PLACES WHERE THE GROUP IS REPRESENTED

[illegible]

# COMPANY REVIEW

## Stores and Major Extensions opened in 1984/85

	Additional Sales Area (sq ft)	Resultant Sales Area (sq ft)
Aylesbury		41,000
Beaumont Leys, Leicester		55,000
Bridgend		28,000
Dartford Tunnel, Aveley		63,000
Haverfordwest	11,000	28,500
Pontypridd		29,000
Quedgeley		27,500
Rathfarnham, Eire		36,000
Ryde	10,500	34,500
Shrewsbury		36,000
Tullamore, Eire		15,000

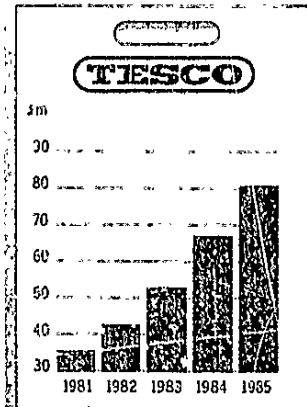
## Stores and Major Extensions to be opened in 1985/86

	Additional Sales Area (sq ft)	Resultant Sales Area (sq ft)
Blackburn		37,000
Brent Park, Neasden		65,000
Brislington, Bristol		43,000
Bursledon, Southampton	11,500	49,500
Epping		18,000
Ferndown		35,000
Folkestone		27,000
Hull		32,000
Lunsford Park, Maidstone		36,000
Newport, Gwent		38,500
Northampton		38,500
Nottingham		21,000
Prussia Street, Dublin, Eire		13,500
Plymouth		38,500
Weston-super-Mare		40,000

Turnover net of VAT



Profit before taxation



Earnings per share  
Excluding net property profits



Dividends per share



Turnover per employee  
(Full time equivalent)



Net margin  
(Profit before taxation to turnover)





# TESCO PLC 5 YEAR RECORD

Year ended February	1981(a) £m	1982 £m	1983 £m	1984 £m	1985 £m
Turnover net of VAT	1,820.7	1,994.4	2,276.6	2,594.5	3,000.4
Profit before taxation	35.6	42.7	53.5	67.4	81.3
Taxation	(5.5)	(12.0)	(11.5)	(24.7)	(30.3)
Net property profits	30.1	30.7	42.0	42.7	51.0
	20.0	24.0	7.7	5.2	8.7
Extraordinary items	50.1	54.7	49.7	47.9	59.7
Dividends	—	—	0.3	(20.0)	—
	(8.5)	(10.0)	(11.8)	(13.9)	(16.4)
Retained	41.6	44.7	38.2	14.0	43.3
	p	p	p	p	p
Dividends per share	2.55	3.00	3.50	4.10	4.85
Earnings per share:					
Excluding net property profits	9.04	9.23	12.57	12.67	15.07
Including net property profits	15.01	16.46	14.86	14.22	17.64
Fully diluted earnings per share:					
Excluding net property profits	—	—	12.08	11.67	13.85
Including net property profits	—	—	14.25	13.02	16.06
	%	%	%	%	%
Profit before taxation to turnover	1.95	2.14	2.35	2.60	2.71
Average number of full-time equivalent employees in the United Kingdom	38,809	40,421	40,377	40,363	42,020
	£	£	£	£	£
Turnover per employee (b)	46,913	49,341	56,384	64,279	71,404
Wages per employee (b)	4,401	4,731	5,227	5,800	6,304
Retail price index	279.8	310.7	327.3	344.0	362.7

## Notes:

(a) 53 week period.

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

## 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 23rd February, 1985.

### Results and dividends

Group net profit before tax for the year was £81.3m compared with £67.4m for the previous year, an increase of £13.9m. The net margin as a percentage of turnover, excluding vat, increased from 2.60% to 2.71%.

Group turnover increased by £432.7m (including vat), and showed a volume gain of 8%.

Stockturn has continued to improve with stock levels having decreased despite an increase in turnover.

Capital expenditure, mainly on new stores and distribution depots together with the refitting of existing stores, amounted to £170m compared with £93m during the previous year. Planned expenditure for 1985/86 is estimated to exceed £200m. Last year, we spent approximately £21m on store refits and refurbishment; in the year 1985/86, we expect to spend over £26m.

An interim dividend of 1.75p (gross equivalent 2.50p) per share has been paid on account of the 52 week period ended 23rd February, 1985 on the ordinary shares and the directors recommend the payment of a final dividend of 3.10p (gross equivalent 4.43p) per ordinary share leaving profit for the financial year to be retained of £43.3m (1984-£14.0m).

### Principal activity and business review

The principal activity of the company and its subsidiaries during the period was multiple retailing within the United Kingdom and the Republic of Ireland. For a detailed business review please refer to the Company Review.

### 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 decision of the Accountancy Standards Committee to recommend the suspension of Statement of Standard

Accounting Practice No. 16, current cost accounts have not been prepared. Further developments from the Accountancy bodies are awaited.

### Directors and their interests

(see chart on next page)

A list of directors is given on page 2. Mr. F. R. N. Krejsa, Mr. H. F. Pennell and Mr. J. M. F. Padovan retire from the board by rotation in accordance with Article 85 and, being eligible, offer themselves for re-election.

Mr. J. Gildersleeve was appointed a director of the company on 31st October, 1984 and in accordance with Article 91 retires and, being eligible, offers himself for re-election.

Mr. Krejsa's contract terminates on the 31st October, 1987 and that of Mr. Pennell on the 29th February, 1988. That of Mr. Gildersleeve is for a term of three years, currently from 1st January, 1985.

Mr. H. Kreitman retired on 27th July, 1984 and Mr D. G. Harris resigned on 23rd February, 1985.

### Substantial shareholdings

There were, as at 1st June, 1985, 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 85.5034 ordinary shares of 5p each, representing an effective conversion price of 117p per ordinary share. This conversion rate has been adjusted on account 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,

# DIRECTORS' REPORT

2007. The trustee of the stock is Guardian Royal Exchange Assurance plc.

## 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

## Directors' shareholdings and interests

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

Beneficial and Family Interests	Ordinary Shares		Convertible Unsecured Loan Stock		"A" Ordinary Shares 1p paid		Share Options*	
	1985	1984	1985	1984	1985	1984	1985	1984
Sir Leslie Porter	4,281,220	5,634,829	396,014	1,065,948	—	—	9,474	7,647
Mr. I. C. MacLaurin	32,230	51,230	750	750	—	16,000	139,474	27,647
Mr. V. W. Benjamin	15,000	15,000	—	—	—	—	83,654	—
Mr. A. D. Malpas	1,000	1,000	—	—	—	—	131,974	47,647
Mr. R. Temple	31,000	31,000	5,166	5,166	—	—	129,474	27,647
Mr. M. Darnell	15,000	15,000	166	166	—	—	109,474	27,647
Mr. J. Gildersleeve (1)	—	10,000	—	—	—	—	96,474	14,647
Mr. F. R. N. Krejsa	2,080	2,080	—	—	5,000	10,000	134,361	70,000
Mr. J. M. F. Padovan	1,000	1,000	—	—	—	—	—	—
Mr. H. F. Pennell	26,600	6,600	—	—	312	5,312	99,474	47,647
Mr. D. O. Tuffin (2)	12,078	1,078	—	—	5,312	10,312	96,474	25,647
Mr. S. Young	—	—	—	—	—	—	—	—

## Non Beneficial as Trustees

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

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

(1) Appointed 31st October, 1984.

(2) Appointed 1st April, 1984.

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 23rd February, 1985 and 1st June, 1985 there have been no changes in the interests of the directors in the share capital of the company apart from in connection with the rights issue and the exercising of options by Mr. M. Darnell on 10,000 ordinary shares under the Executive share option scheme (1973).

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. Details of the scheme were supplied to members by circular dated 8th July, 1970. 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 are automatically converted into ordinary shares for which an application for listing will be sought.

No options have been granted under the scheme since 1970, and the board has resolved that the remaining 'A' shares are to be paid up in full by 15th September, 1985.

#### Executive share option scheme (1973)

On 27th March, 1973 your company adopted an Executive share option scheme. The scheme was amended, with the approval of the member, 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 23.2.85	Subscription price p.
15.12.78	529	3,665,500	221,500	50*
27.3.81	343	1,564,000	538,000	57*
24.7.81	142	412,500	135,500	56*
21.1.83	538	916,500	824,500	119*

The scheme has terminated as it was for a fixed period of ten years.

#### Executive share option scheme (1984)

At an extraordinary general meeting of the company held on 9th November, 1984, your company adopted a new executive share option scheme with the approval of members. 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 average of the middle market quotation on The Stock Exchange of an ordinary share for the five dealing days prior to the date of the offer. On 17th December, 1984, options were granted to 1,445 executives in respect of 8,221,000 ordinary shares of 5p each at a subscription price of 214p which was determined in the manner referred to above. As a result of the rights issue in May, 1985 the subscription price of 214p was adjusted to 211p per share. The number of shares under option under this scheme at the year end was 8,195,000.

#### 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

# DIRECTORS' REPORT

members by circular dated 6th July, 1981. At an extraordinary general meeting of the company held 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 23.2.85	Subscription price p.
2.9.81	942	2,909,544	2,273,681	51*
11.8.82	225	590,230	494,761	61*
10.8.83	424	709,624	623,465	117*
8.8.84	233	1,014,558	985,034	146*
14.12.84	3,235	2,814,389	2,796,240	2021*

\*The subscription price payable in respect of each ordinary share comprised in an option unexercised at 25th April, 1985 has subsequently been 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 £16,000 (1984 - £10,000). No political contributions were made.

## Number of shareholders

The number of shareholders of the company at 23rd February, 1985 was 43,451 (1984-45,726).

## Close company status

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

## Auditors

Hogg Bullimore & Co. will not be seeking re-appointment as joint auditors at the Annual General Meeting but Price Waterhouse have expressed their willingness to continue in office.

In accordance with Section 14 of the Companies Act 1976 a resolution proposing the 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

12th June, 1985

# TESCO PLC SHAREHOLDER PROFILE

Size of shareholding	Number of shareholders	Percentage of number of shareholders	Number of ordinary shares	Percentage of ordinary shares
100,000 and over	345	1	265,619,771	78
50,000-99,999	145	—	9,411,401	3
10,000-49,999	927	2	16,598,003	5
5,000-9,999	1,689	4	11,097,311	3
1,000-4,999	13,439	31	27,206,440	8
500-999	8,030	18	5,450,481	2
100-499	14,173	33	3,528,731	1
1-99	4,703	11	192,852	—
	43,451	100	339,104,990	100
<b>Type of Owner</b>				
Private individuals	41,014	95	64,772,918	19
Banks and nominee companies	1,321	3	157,103,127	46
Pension funds	94	—	30,321,020	9
Other corporate bodies and companies	1,022	2	86,907,925	26
	43,451	100	339,104,990	100

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

# TESCO PLC ACCOUNTING POLICIES

## Basis of accounts

The accounts are prepared under the historical cost convention and are in accordance with the Companies Act 1981.

**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 23rd February, 1985.

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 a consistent basis at the lower of cost and net realisable value. Stocks at branches are calculated at retail prices and reduced by appropriate margins to the lower of cost and net realisable value; for all other stocks cost is determined on the basis of first in first out.

## Fixed assets

The cost of land and buildings does not include any amounts in respect of interest on funds used to finance 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 - Tesco Stores Ireland Limited: 2%.  
Remainder: nil  
(see below)

Leasehold properties are amortised over the unexpired portions of the

leases by equal annual instalments on the following basis:-

## Term of lease

Up to 150 years - over period of the lease.

In excess of 150 years - nil.

No depreciation is provided on United Kingdom freehold buildings or leasehold buildings held on leases in excess of 150 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 values of the land and buildings are considerably higher than book values and the total residual values of buildings will be at least equal to their book values.

## 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 less receivable 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. Deferred taxation and advance corporation tax Deferred taxation is provided on:-

(1) accelerated capital allowances,  
(2) 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.

# TESCO PLC CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 23rd February, 1985

	Note	1985 £m	1984 £m
Sales to customers at net selling prices		3,176.7	2,744.0
Value added tax		176.3	149.5
Turnover excluding value added tax		3,000.4	2,594.5
Cost of Sales		2,811.1	2,441.1
Gross Profit		189.3	153.4
Distribution costs		55.9	39.9
Administration expenses		51.7	44.6
Operating profit	1	81.7	68.9
Interest payable less receivable	3	0.4	1.5
Profit on ordinary activities before taxation		81.3	67.4
Tax on profit on ordinary activities	4	30.3	24.7
Profit on ordinary activities after taxation		51.0	42.7
Net surplus on sale of properties	4	8.7	5.2
		59.7	47.9
Extraordinary items after taxation	5	—	(20.0)
Profit for the financial year		59.7	27.9
Dividends	6	16.4	13.9
Profit retained		43.3	14.0
Earnings per ordinary share:			
Excluding net surplus on sale of properties	7	15.07p	12.67p
Including net surplus on sale of properties	7	17.64p	14.22p
Fully diluted earnings per share:			
Excluding net surplus on sale of properties	7	13.85p	11.67p
Including net surplus on sale of properties	7	16.06p	13.02p
Dividend per share		4.85p	4.10p



23rd February, 1985

	Note	Consolidated		Tesco PLC	
		1985 £m	1984 £m	1985 £m	1984 £m
<b>Fixed assets</b>					
Tangible assets					
Investments: shares in subsidiaries	8	628.3	505.8	—	—
<b>Current assets</b>	9	—	—	17.1	19.8
Stocks (goods for resale)		178.3	179.9	—	—
Debtors		14.1	9.9	330.8	285.3
Investments – short term deposits	10	37.0	44.0	37.0	44.0
Cash at bank and in hand		13.8	24.3	6.7	2.1
		243.2	258.1	374.5	331.4
<b>Creditors:</b>					
Amounts falling due within one year	11	399.5	329.9	34.1	34.1
<b>Net current assets/(liabilities)</b>		(156.3)	(71.8)	340.4	304.0
<b>Total assets less current liabilities</b>		472.0	434.0	357.5	323.8
<b>Creditors:</b>					
Amounts falling due after more than one year	12	71.6	78.8	56.0	56.0
Provisions for liabilities and charges	13	20.4	19.9	—	—
		380.0	335.3	301.5	267.8
<b>Shareholders' funds</b>					
Called up share capital	15	17.0	16.9	17.0	16.9
Share premium account	16	15.4	14.6	15.4	14.6
Profit and loss account	16	347.6	303.8	269.1	236.3
		380.0	335.3	301.5	267.8

Directors: Sir Leslie Porter, I. C. MacLaurin  
Accounts approved by Board: 12th June, 1985.

*L. Porter*

*I. C. MacLaurin*



Accounting policies and notes forming part of these accounts are on page 29 and pages 33 to 40.

# TESCO PLC CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

52 weeks ended 23rd February, 1985

	1985 £m	1984 £m		
<b>Revenue funds</b>				
<b>Source of funds</b>				
Profit on ordinary activities before taxation	81.3	67.4		
Adjustment for items not involving the movement of funds:				
Depreciation and amortisation	41.1	35.4		
Decrease/(Increase) in stock	1.6	(5.9)		
Increase in creditors	22.1	34.1		
	146.1	131.0		
<b>Deduct</b>				
<b>Application of funds</b>				
Increase in debtors	1.8	0.8		
Dividends paid	14.7	16.9		
Taxation paid	6.9	12.6		
	23.4	30.3	122.7	100.7
<b>Capital funds</b>				
<b>Source of funds</b>				
Proceeds from issue of shares	0.9	0.6		
Proceeds from sale of tangible assets	17.6	11.8		
Increase/(Decrease) in creditors	6.7	(4.8)		
	25.2	7.6		
<b>Deduct</b>				
<b>Application of funds</b>				
Purchase of tangible assets	169.7	93.2		
Increase/(Decrease) in debtors	2.4	(0.2)		
Decrease in leasing commitments	4.9	3.5		
Decrease/(Increase) in medium term bank loans	2.1	(7.2)		
	179.1	89.3	(153.9)	(81.7)
<b>Movement in net liquid funds</b>				
(Decrease)/Increase in cash and short term deposits	(17.5)	11.1		
(Increase)/Decrease in short term bank loans and overdrafts	(13.7)	7.9		
			(31.2)	19.0

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

# TESCO PLC NOTES TO THE ACCOUNTS

## 1. Operating profit

	1985 £m	1984 £m
Profit is stated after charging the following:		
Depreciation		
Auditors' remuneration	41.1	35.4
Staff costs (note 2a)	0.2	0.2
	264.9	234.1

## 2. Staff costs

	1985 £m	1984 £m
(a) Employment costs during the period		
Wages and salaries	236.0	208.5
Social Security costs	19.8	18.2
Other pension costs	9.1	7.4
	264.9	234.1

### (b) Number of persons employed

The average number of UK employees per week during the period was 57,180 (1984-52,342)-full-time equivalent 42,020 (1984-40,363).

### (c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were £ nil (1984-£1,200) in respect of services as directors and £1,255,535 (1984-£757,663) in respect of their executive duties, including a termination payment of £150,000 and a lump sum pension contribution of £53,500 in respect of a past director.

The emoluments of the Chairman, who was the highest paid director, amounted to £122,338 (1984-£81,546), excluding pension contributions.

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

From	£0 to £5,000	Number of directors		Number of other employees	
		1985	1984	1985	1984
"	£5,001 to £10,000	—	1		
"	£10,001 to £15,000	2	—		
"	£15,001 to £20,000	1	3		
"	£20,001 to £25,000	1	—		
"	£25,001 to £30,000	—	1		
"	£30,001 to £35,000	1	—	9	12
"	£35,001 to £40,000	—	—	7	8
"	£40,001 to £45,000	—	—	4	1
"	£45,001 to £50,000	1	1	—	—
"	£50,001 to £55,000	1	3	—	—
"	£55,001 to £60,000	2	2	—	—
"	£60,001 to £65,000	1	—	—	—
"	£65,001 to £70,000	—	1	—	—
"	£70,001 to £75,000	2	—	—	—
"	£75,001 to £80,000	1	—	—	—
"	£80,001 to £85,000	—	—	—	—
"	£85,001 to £90,000	—	—	—	—
"	£90,001 to £95,000	1	—	—	—

# TESCO PLC NOTES TO THE ACCOUNTS

## 3. Interest

	1985 £m	1984 £m
Interest payable on: Short term bank loans, overdrafts and finance leases repayable within 5 years	2.8	3.4
Finance leases repayable beyond 5 years	—	0.8
9% Convertible unsecured loan stock 2002/2007	5.0	5.0
	7.8	8.7
Deduct interest receivable on short term deposits	7.4	7.2
	0.4	1.5

## 4. Taxation

	1985 £m	1984 £m
United Kingdom taxation		
Corporation tax at 45.5% (1984-50.2%)	30.8	20.9
Deferred taxation	1.3	3.6
Prior year adjustments	(2.0)	—
	30.1	24.5
Overseas taxation		
Corporate taxes	0.2	0.2
	30.3	24.7

The group tax charge for the year has been reduced by £0.7m (1984-£4.8m) in respect of stock relief and £4.1m (1984-£5.3m) 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 £0.9m (1984-£0.4m). Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Acts (Note 13).

## 5. Extraordinary items after taxation

The extraordinary charge in 1984 reflected the impact of the Finance Act 1984 on the level of provision for deferred taxation required as at 27th February, 1983.

6. Dividends

	1985 £m	1984 £m
Declared interim-1.75p per share (1984-1.50p)	5.9	5.1
Proposed final -3.10p per share (1984-2.60p)	10.5	8.8
	16.4	13.9

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 338,453,052 (1984-337,054,503).
- (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.

# 8. Fixed assets: Tangible assets

Note	Land and buildings			Plant equipment fixtures & fittings & vehicles	Assets in course of con- struction	Total
	Freeholds	Leaseholds 50 years or more	Leaseholds less than 50 years			
	£m	£m	£m	£m	£m	£m
<b>Cost</b>						
As at 26th February, 1984	142.5	151.3	17.0	302.2	49.8	662.8
Currency translation adjustments	1.3	0.3	0.1	0.4	0.2	2.3
Additions at cost (a)	22.9	10.1	1.4	60.6	74.7	169.7
Transfers	26.7	7.5	(0.6)	2.1	(35.7)	—
	193.4	169.2	17.9	365.3	89.0	834.8
Deduct disposals	4.5	1.0	0.3	17.4	0.6	23.8
As at 23rd February, 1985	188.9	168.2	17.6	347.9	88.4	811.0
<b>Depreciation</b>						
As at 26th February, 1984	0.8	4.8	6.1	145.3	—	157.0
Currency translation adjustments	0.1	0.1	—	0.2	—	0.4
Charge for period	0.2	1.6	0.6	38.7	—	41.1
	1.1	6.5	6.7	184.2	—	198.5
Deduct disposals	0.1	0.2	0.3	15.2	—	15.8
As at 23rd February, 1985	1.0	6.3	6.4	169.0	—	182.7
Net book value at 23rd February, 1985 (b)	187.9	161.9	11.2	178.9	88.4	628.3
Net book value at 25th February, 1984	141.7	146.5	10.9	156.9	49.8	505.8

## Notes:

(a) Includes acquisition costs of freehold title to existing leaseholds.

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

	Cost £m	Dep- reciation £m	Net book value £m
As at 26th February, 1984	25.4	9.5	15.9
Charge for period	(0.4)	3.9	(4.3)
As at 23rd February, 1985	25.0	13.4	11.6

(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.

## 8. Fixed assets: Tangible assets

	Note	Land and buildings Freeholds £m	Leaseholds 50 years or more £m	Leaseholds less than 50 years £m	Plant equipment fixtures & fittings & vehicles £m	Assets in course of con- struction £m	Total £m
<b>Cost</b>							
As at 26th February, 1984		142.5	151.3	17.0	302.2	49.8	662.8
Currency translation adjustments		1.3	0.3	0.1	0.4	0.2	2.3
Additions at cost	(a)	22.9	10.1	1.4	60.6	74.7	169.7
Transfers		26.7	7.5	(0.6)	2.1	(35.7)	—
		193.4	169.2	17.9	365.3	89.0	834.8
Deduct disposals		4.5	1.0	0.3	17.4	0.6	23.8
As at 23rd February, 1985		188.9	168.2	17.6	347.9	88.4	811.0
<b>Depreciation</b>							
As at 26th February, 1984		0.8	4.8	6.1	145.3	—	157.0
Currency translation adjustments		0.1	0.1	—	0.2	—	0.4
Charge for period		0.2	1.6	0.6	38.7	—	41.1
		1.1	6.5	6.7	184.2	—	198.5
Deduct disposals		0.1	0.2	0.3	15.2	—	15.8
As at 23rd February, 1985		1.0	6.3	6.4	169.0	—	182.7
Net book value at 23rd February, 1985	(b)	187.9	161.9	11.2	178.9	88.4	628.3
Net book value at 25th February, 1984		141.7	146.3	10.9	156.9	49.8	505.8

## Notes:

(a) Includes acquisition costs of freehold title to existing leaseholds.

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

	Cost £m	Depreciation £m	Net book value £m
As at 26th February, 1984	25.4	9.5	15.9
Charge for period	(0.4)	3.9	(4.3)
As at 23rd February, 1985	25.0	13.4	11.6

(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.

# TESCO PLC NOTES TO THE ACCOUNTS

## 9. Investments in subsidiaries

- (a) Tesco Stores 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 capital of these companies, which consists of £1 and IR£1 ordinary shares, is wholly owned by Tesco PLC.

	1985 £m	1984 £m
(b) Investments—shares at cost less amounts written off	17.1	19.8

## 10. Debtors

	Consolidated		Tesco PLC	
	1985 £m	1984 £m	1985 £m	1984 £m
Amounts owed by group companies	—	—	330.8	285.3
Prepayments and accrued income	2.9	2.7	—	—
Other debtors	11.2	7.2	—	—
	14.1	9.9	330.8	285.3

£ nil (1984—£ nil) of the debtors fall due after one year.

## 11. Creditors: amounts falling due within one year

	Consolidated		Tesco PLC	
	1985 £m	1984 £m	1985 £m	1984 £m
Bank loans and overdrafts	24.9	11.2	—	—
Trade creditors	234.2	225.3	—	—
Amounts owed to group companies	—	—	6.3	6.4
Corporate taxation (a)	49.8	26.0	7.5	6.1
Other taxation and social security	14.7	12.5	0.1	0.6
Other creditors	41.1	28.5	7.2	3.3
Accrued charges	24.3	17.6	2.5	2.2
Proposed final dividend	10.5	8.8	10.5	8.8
	399.5	329.9	34.1	27.4

- (a) Includes corporation tax payable on 1st January, 1986 of £25.1m (1984—£9.9m) which has been reduced by advance corporation tax of £6.3m (1984—£11.3m).



## 12. Creditors: amounts falling due after more than one year

	Consolidated		Tesco PLC	
	1985 £m	1984 £m	1985 £m	1984 £m
9% Convertible unsecured loan stock 2002/2007	56.0	56.0	56.0	56.0
Finance leases (Note 14)	8.7	13.8	—	—
Bank loans	6.9	9.0	—	—
	71.6	78.8	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 85.5034 ordinary shares of 5p each. This conversion rate has been adjusted on account of the rights issue in May, 1985. From 30th November 2002, the company will be entitled to redeem the stock at par.

81. 1007.

## 13. Provisions for liabilities and charges

## Deferred taxation

	Amount Provided		Potential amount for deferred tax on all timing differences	
	1985 £m	1984 £m	1985 £m	1984 £m
Excess of capital allowances over depreciation	25.7	24.2	52.9	51.8
Capital gains deferred by rollover relief	—	—	14.8	14.1
Other	(0.8)	(0.6)	(0.8)	(0.8)
	24.9	23.6	66.9	65.1
Advance corporation tax recoverable	(4.5)	(3.7)	(4.5)	(3.7)
	20.4	19.9	62.4	61.4

## 14. Leasing commitments

The future minimum finance lease payments to which the group was committed at 23rd February, 1985 and which have been guaranteed by Tesco PLC are:—

	£m	
Year to 22nd February, 1986	3.8	
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	
	12.7	
Deduct finance charges allocated to future periods	0.3	
	12.4	
	1985	1984
	£m	£m
Net amounts payable are:—		
Within one year, included in other creditors	3.7	3.5
Between one and two years	3.5	3.8
Between two and five years	5.2	9.7
Beyond five years	—	0.3
	12.4	17.3

**15. Called up share capital**

Authorised—£20,000,000 (1984—£20,000,000)

Issued—	Shares of 5p each		£m	£m
	Ordinary	"A" Ordinary	Ordinary (fully paid)	"A" Ordinary (1p paid)
Issued at 26th February, 1984	337,483,775	161,917	16.9	—
Converted during year	106,892	(106,892)	—	—
Share options exercised during the year	1,514,323	—	0.1	—
Issued at 23rd February, 1985	339,104,990	55,025	17.0	—

In connection with the rights issue in May, 1985, the authorised share capital was increased to £30.0m and the issued share capital to £20.4m.

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 23rd February, 1985 related to 1,719,500 ordinary shares, 8,195,500 ordinary shares and 7,173,181 ordinary shares respectively.

Between 23rd February and 12th June, 1985, 15,624 "A" ordinary shares have been converted into ordinary shares under the terms of the Executive share scheme and options on 184,500 ordinary shares and 22,939 ordinary shares 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.

**16. Shareholders' funds**

	Consolidated		Tesco PLC	
	1985	1984	1985	1984
	£m	£m	£m	£m
Called up share capital (Note 15)	17.0	16.9	17.0	16.9
Share premium account				
At 26th February, 1984	14.6	14.1	14.6	14.1
Premium on issue of shares less costs	0.8	0.5	0.8	0.5
At 23rd February, 1985	15.4	14.6	15.4	14.6
Profit and loss account				
At 26th February, 1984	303.8	290.4	236.3	243.4
Movement due to currency translation differences	0.5	(0.6)	—	—
Profit retained	43.3	14.0	32.8	(7.1)
At 23rd February, 1985	347.6	303.8	269.1	236.3

In accordance with Section 1(1) of the Companies Act 1981 a profit and loss account for Tesco PLC, whose result for the year is shown above, has not been presented in these accounts.

#### 17. Capital commitments

At 23rd February, 1985

- (a) There were commitments for capital expenditure of approximately £98m (1984-£57m).
- (b) Capital expenditure authorised by the board but not contracted for, amounted to £96m (1984-£91m).

#### 18. 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 not been finally determined and is the subject of litigation. The liability, if any, cannot be quantified at this stage.
- (b) The corporation tax liability of a subsidiary company noted in previous years as being the subject of dispute with the Inland Revenue in connection with the launch of Operation Checkout has been determined without further tax liability arising.
- (c) Bank loans and overdrafts of overseas subsidiary companies of £17.8m (1984-£15.0m) have been guaranteed by the company.

#### 19. 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.

The board agreed in February 1985 to improve the eventual pensions and life assurance cover during service of the majority of the members.

### AUDITORS' REPORT

We have audited the financial statements on pages 29 to 40 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 23rd February, 1985, and of the profit and source and application of funds of the group for the 52 weeks then ended, and comply with the Companies Acts 1948 to 1981.

Price Waterhouse  
Hogg Bullimore & Co  
Chartered Accountants  
London  
12th June, 1985

*Price Waterhouse*  
*Hogg Bullimore & Co.*

# TESCO PLC VALUE ADDED STATEMENT

52 weeks ended 23rd February, 1985

	1985 £m	%	1984 £m	%
<b>Value added</b>				
Sales including value added tax	3,176.7		2,744.0	
Net surplus on sale of properties	8.7		5.2	
	3,185.4		2,749.2	
<b>Less: Cost of materials and services</b>	2,593.7		2,238.5	
Interest payable less receivable	0.4		1.5	
	2,594.1		2,240.0	
	591.3	100.0	509.2	100.0
<b>Applied as follows:</b>				
<b>Employees</b>				
Wages, salaries and pension scheme costs	245.1	41.4	215.9	42.4
Less: Deduction for income tax and employees' social security contributions	52.5	8.9	47.0	9.2
	192.6	32.5	168.9	33.2
<b>Central and local government taxes and levies borne by the group</b>				
Corporation tax	29.0		21.1	
Contributions for social security	19.8		18.2	
Rates	19.0		17.6	
	67.8	11.5	56.9	11.2
<b>Tax and levies collected on behalf of government</b>				
Value added tax on sales	176.3		149.5	
Income tax and social security contributions deducted from employees	52.5		47.0	
	228.8	38.7	196.5	38.6
	296.6	50.2	253.4	49.8
<b>Providers of capital</b>				
Dividends to shareholders	16.4	2.8	13.9	2.7
<b>Reinvested in the business</b>				
Depreciation	41.1		35.4	
Provision for deferred taxation	1.3		23.6	
Retained profit	42.3		14.0	
	85.7	14.5	73.0	14.3
	591.3	100.0	509.2	100.0

Note: Excise duty on wines and spirits and tobacco is included in the sales and cost of materials figures in the above statement.

## NOTICE OF MEETING

Notice is hereby given that the thirty seventh Annual General Meeting of Tesco PLC will be held at the Connaught Rooms, Great Queen Street, London WC2B 50A, on Friday 26th July, 1985 at 10 am for the following purposes:

1. To receive and, if approved, adopt the directors' report and accounts for the 52 weeks ended 23rd February, 1985. (Resolution 1).
2. To declare a final dividend on the ordinary share capital of the company. (Resolution 2).
3. To re-elect the following directors: Mr. F. R. N. Krejsa. (Resolution 3) Mr. H. F. Pennell. (Resolution 4) Mr. J. M. F. Padovan. (Resolution 5) Mr J. Gildersleeve. (Resolution 6).
4. To appoint Price Waterhouse as auditors to hold office until the conclusion of the next Annual General Meeting. (Resolution 7 - refer to note 3).
5. To authorise the directors to fix the remuneration of the auditors. (Resolution 8).
6. To transact any other ordinary business of the meeting.
7. As special business, to pass the following special resolution:

That:

(a) The directors be empowered during the period expiring on the date 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 17 (1) of the Companies Act 1980 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;

(ii) (otherwise than under sub-paragraph (a) (i) above) having an aggregate nominal value of £1,000,000;

(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 Part II of the Companies Act 1980 shall bear the same meanings in this Resolution. (Resolution 9 - refer to note 4).

8. As special business, to pass the following special resolution:

That the Articles of Association of the company shall be altered by deleting the existing Article 82A and by substituting therefore the following:

'82A. The Directors may from time to time appoint any former Director of the Company who in their opinion has rendered outstanding services to the Company to be President of the Company. The President shall not by virtue of that office alone be a Director. The President shall not receive any remuneration for such office and shall vacate office at the conclusion of the Annual General Meeting next after he attains the age of 70'. (Resolution 10 - refer to Note 5).

By Order of the Board

Michael J. Boral

Secretary

Tesco House, Delamare Road, Cheshunt,  
Hertfordshire, EN8 9SL.

Dated 1st July, 1985.

### Notes:

1. Any member of the company who is not able to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. Such proxy need not be a member of the company. To be effective proxy forms must be received at the office of the Registrars of the company not less than 48 hours before the time fixed for the meeting.
2. There will be available for inspection at the registered office of the company, Tesco House, Delamare Road, Cheshunt, Hertfordshire, during usual business hours (Saturday excepted) from the 1st day of July, 1985, 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. Special notice has been received from a shareholder of the intention to propose a resolution for the appointment of Price Waterhouse as auditors. This resolution is recommended by the directors.
4. Under the Companies Act 1980 there are specific restrictions on the allotment of ordinary shares for cash 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 9 is passed, the directors will not be required to allot ordinary shares to existing shareholders in proportion to their existing holdings (i) in the case of a rights issue (and therefore the company will overcome the requirement to offer shares to foreign shareholders who, because of internal domestic laws or regulations, for example in the U.S.A., may be unable to take up their rights) and (ii) in any other case relating to the allotment of ordinary shares up to a maximum nominal value of £1,000,000, being less than 5% of the company's present authorised share capital. This power will commence at this Annual General Meeting and will expire on the date of the next Annual General Meeting, when it may be renewed.
5. The existing articles provide for the appointment of a Life President. The proposed alteration provides for any President to retire at the age of 70.

# PROXY FORM

## 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 Sir Leslie Porter or failing him the duly appointed Chairman of the meeting.

or\* \_\_\_\_\_  
as my/our proxy to vote for me/us and on my/our behalf in the manner indicated below at the Annual General Meeting of the company to be held on the 26th July, 1985, and at any adjournment thereof.

\*To be completed if another proxy is required.

	For	Against
1. To adopt the Directors' Report and Accounts		
2. To declare a final dividend		
3. To re-elect Mr. F. R. N. Krejsa a director		
4. To re-elect Mr. H. F. Pennell a director		
5. To re-elect Mr. J. M. F. Padovan a director		
6. To re-elect Mr. J. Gildersleeve a director		
7. To appoint the auditors		
8. To authorise the directors to fix the remuneration of the auditors		
9. To empower the directors to allot share capital without application of pre-emption rights, subject to conditions		
10. To alter the Articles of Association		

Dated \_\_\_\_\_ July 1985

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 shares 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 must reach the office of the Registrars of the company not later than 48 hours before the time appointed for the meeting.

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FOLD 3 AND TUCK IN

# PRINCIPAL DIRECTORS OF SUBSIDIARY COMPANIES

E. Ahmed	Retail Managing Director
F. J. Allan	Distribution
I. C. Atkinson	Grocery Buying
A. Benjamin	Home 'n' Wear Buying
A. I. Besbrode	Home 'n' Wear Buying
J. V. Bird	Retail Managing Director
K. W. Blackburn M.C.I.O.B.	Estates
*M. J. Boxall A.C.I.I.	Company Secretary
*D. P. Caulfield	Managing Director, Retail Operations
R. E. Clark	Retail Managing Director
*C. J. Goodfellow	Fresh Foods
E. G. Harris	Security
P. G. Herbert F.C.A.	Internal Audit
R. J. Horsman	Estates
T. P. Leahy	Marketing
C. N. Lewis M.A.	Public Affairs
C. Longley	Managing Director, Victor Value
*T. J. Macnab C.A.	Financial Controller
*J. G. Marshom	Home 'n' Wear
*P. L. Morley	Personnel
R. S. Parker	Fresh Foods
R. Parsons	Data Processing
*D. E. Reid C.A.	Financial Accounting and Corporate Planning
J. M. Smith	Retail Managing Director
D. M. Tattersall	Branch Administration
S. C. Taylor F.C.C.A.	Taxation
N. A. Todd	Retail Managing Director
*P. G. Uttley F.I.I.C.	Insurance, Pensions and Purchasing
J. C. Venner	Managing Director, Ireland
J. M. Wemms	Retail Managing Director
*B. R. Williams	Advertising and Promotions
E. S. Williams	Home 'n' Wear Buying

\*Senior Directors of Tesco Stores Limited