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TESCO STORES LIMITED

REPORT AND ACCOUNTS

24 FEBRUARY 1996



TESCO STORES LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the 52 weeks ended 24 February 1996.

RESULTS AND DIVIDENDS

The net profit of the company before tax for the period was £540m compared with £441m for the previous year.

Dividends of £295m (1995 - £105m) have been paid in respect of the period to 24 February 1996. The directors do not recommend payment of a final dividend (1995 - £50m) for the year. Profit retained for the financial year amounted to £93m (1995 - £150m).

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is the operation of food stores, with 545 stores throughout England, Scotland and Wales, serving more than 9 million customers every week. During recent years, the Tesco strategy has concentrated above all on high quality products, service and value for its customers.

FIXED ASSETS

A summary of the changes in fixed assets is shown in Note 7 to the Accounts.

The directors are of the opinion that the open market value of the company's properties is in excess of the net book value, £3,025m, included in the accounts.

TESCO STORES LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS AND THEIR INTERESTS

The following directors served between 25 February 1995 and the date of this report:-

Sir Ian MacLaurin	(Chairman)
V W Benjamin	
A D Malpas	
R S Ager	
J Gildersleeve	
T P Leahy	
D E Reid	
J M Wemms	
T Mason	
L James	
P Bateman	
K W Blackburn	
G Booth	
K M Brandon	
D F E Elliott	
A J Elmer	
S P Glew	
I P O'Reilly	
D Potts	
R F Pugh	(Resigned 1 December 1995)
M Raycraft	
D M Tattersall	
D J Wild	
S L Ager	(Appointed 9 May 1995)
A L Allen	(Appointed 27 November 1995)
G Fryett	(Appointed 9 May 1995)
P Clarke	(Appointed 17 July 1995)
S Hammett	(Appointed 27 November 1995)
R Howell	(Appointed 27 November 1995)
P V Mercer	(Appointed 3 July 1995)
M R Risk	(Appointed 26 January 1996)
C Smith	(Appointed 9 May 1995)
S Uwins	(Appointed 9 May 1995)
R Brasher	(Appointed 4 March 1996)

TESCO STORES LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

For those directors at 24 February 1996 who were not also directors of the ultimate holding company, their interests in the shares of Tesco PLC at the beginning of the period or at the date of appointment, and at the end of the period are given below:-

<u>Name</u>	<u>Ordinary Shares</u>		<u>Share Options*</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
S L Ager	7,778	8,831	157,319	145,921
P Bateman	32,319	16,371	142,744	217,591
K W Blackburn	156,595	110,861	233,499	235,464
G Booth	60,519	18,708	200,185	211,784
K M Brandon	60,102	24,758	267,469	253,246
P Clarke	2,397	1,918	139,429	28,000
D F E Elliott	14,842	-	179,144	188,196
A J Elmer	133,977	20,912	243,387	296,363
G Fryett	45,620	47,394	176,211	150,915
S P Glew	26,693	10,738	162,428	156,639
R Howell	9,343	9,253	100,315	100,315
I P O'Reilly	65,934	25,328	200,891	193,702
D Potts	23,822	9,726	184,489	188,536
M Raycraft	44,910	13,980	168,525	123,942
C Smith	11,229	14,682	170,451	159,986
D M Tattersall	71,091	69,812	120,625	100,625
S Uwins	20,048	23,984	144,740	144,740
D J Wild	24,277	19,222	284,039	204,360
A L Allen	5,665	5,611	124,703	124,703
P V Mercer	1,922	1,922	167,267	172,787
M R Risk	7,978	8,092	120,808	120,808
S Hammett	5,207	5,157	124,099	124,099

* Executive share option scheme (1984) and Savings-related share option scheme (1981). Details of these schemes are contained in the Annual Report and Accounts of Tesco PLC.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the financial year ended 24 February 1996 the company had directors' and officers' liability insurance in force.

TESCO STORES LIMITED

DIRECTORS' REPORT (continued)

EMPLOYMENT POLICIES

The company depends on the skills and commitment of its employees in order to achieve its objectives. Company staff at every level are encouraged to make their fullest contribution to Tesco success.

A key business priority is to provide First Class Service to the customer. Ongoing training programmes seek to ensure that employees understand the company's customer service objectives and strive to achieve them.

The company's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, marital status, race, age or disability. All decisions are based on merit.

Internal communications are designed to ensure that employees are well informed about the business of the company. These include a staff magazine, videos and staff briefing sessions. Staff attitudes are frequently researched through surveys and store visits and management seeks to respond positively to the needs of employees.

Employees are encouraged to become involved in the financial performance of the company through a variety of schemes - principally the Tesco employee profit sharing scheme and the savings-related share option scheme.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable contributions totalled £529,000 (1995 - £267,000). No political contributions were made.

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



J A Bailey FCIS, ACIB
Secretary

Tesco Stores Limited
Registered Number 519500

15 April 1996

TESCO STORES LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 7 to 20, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

TESCO STORES LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF TESCO STORES LIMITED

We have audited the financial statements on pages 7 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective Responsibilities of Directors and Auditors

As described on page 5, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 24 February 1996 and the company's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

10 Bricket Road
St Albans
Herts AL1 3JX

15 April 1996

TESCO STORES LIMITED**PROFIT AND LOSS ACCOUNT**
FOR THE 52 WEEKS ENDED 24 FEBRUARY 1996

	<u>Note</u>	<u>1996</u> £m	<u>1995</u> £m
Sales at net selling prices		12,388	10,164
Value added tax		871	713
		<hr/>	<hr/>
Turnover excluding value added tax		11,517	9,451
Cost of Sales	3	10,660	8,730
		<hr/>	<hr/>
GROSS PROFIT		857	721
Administration Expenses		182	175
Employee Profit Sharing	2	29	25
		<hr/>	<hr/>
OPERATING PROFIT	3 & 4	646	521
Net loss on disposal of properties		(8)	(9)
Net Interest payable	5	(98)	(71)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	540	441
Tax on profit on ordinary activities	6	152	136
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		388	305
Dividends		295	155
		<hr/>	<hr/>
RETAINED PROFIT FOR THE FINANCIAL YEAR	15	93	150
		<hr/>	<hr/>

The company's recognised gains and losses consist wholly of the retained profit for the financial year. A reconciliation of movements in shareholders' funds is shown in note 16 to the accounts. All company operations for the financial period are continuing.

The notes on pages 9 to 20 form part of these accounts.

TESCO STORES LIMITED**BALANCE SHEET AT 24 FEBRUARY 1996**

	<u>Note</u>	<u>1996</u> £m	<u>1996</u> £m	<u>1995</u> £m	<u>1995</u> £m
FIXED ASSETS					
Tangible assets	7		3,551		3,416
Investments	8		1		1
			<u>3,552</u>		<u>3,417</u>
CURRENT ASSETS					
Stocks (goods for resale)		396		358	
Debtors	9	423		332	
Cash at bank and in hand		-		60	
		<u>819</u>		<u>750</u>	
CREDITORS (amounts falling due within one year)	10	(1,521)		(1,280)	
NET CURRENT LIABILITIES			<u>(702)</u>		<u>(530)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>2,850</u>		<u>2,887</u>
CREDITORS (amounts falling due after more than one year)	11		(1,508)		(1,589)
PROVISIONS FOR LIABILITIES AND CHARGES	12		(9)		(58)
			<u>1,333</u>		<u>1,240</u>
CAPITAL AND RESERVES					
Called up share capital	14		0		0
Revaluation reserve	15		6		6
Profit and loss account	15		1,327		1,234
			<u>1,333</u>		<u>1,240</u>

Approved by the Board on 15 April 1996.

D E REID

DIRECTOR 

The notes on pages 9 to 20 form part of these accounts

TESCO STORES LIMITED

NOTES TO ACCOUNTS

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTS

The accounts are prepared in accordance with applicable accounting standards, under the historical cost convention, and are in accordance with the Companies Act 1985. Group accounts have not been prepared because the company is a wholly owned subsidiary of a body corporate, incorporated in Great Britain.

In accordance with paragraph 8c of FRS1, the company being the wholly owned subsidiary of another company which prepares a cash flow statement including the cash flow of this company, has not prepared such a statement itself.

STOCKS

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

FIXED ASSETS

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

DEPRECIATION

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

Land premiums paid in excess of the alternative use value on acquisition - at 4% of cost.

Freehold and leasehold buildings with greater than 40 years unexpired - at 2.5% of cost.

Leasehold properties with less than 40 years unexpired are amortised by equal annual instalments over the unexpired period of the lease.

Plant, equipment, fixtures and fittings, and motor vehicles - at rates varying from 10% to 33%.

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

1. ACCOUNTING POLICIES (continued)

LEASING

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

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

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

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

DEFERRED TAXATION AND ADVANCE CORPORATION TAX

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

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

PENSIONS

The expected cost of pensions in respect of the defined benefit pension scheme operated by Tesco PLC, the company's ultimate holding company, is charged to the profit and loss account over the working lifetimes of employees in the scheme. Actuarial surpluses and deficits are spread over the expected remaining working lifetimes of employees.

POST RETIREMENT BENEFITS OTHER THAN PENSIONS

The cost of providing other post-retirement benefits, which comprise private healthcare, is charged to the profit and loss account so as to spread the cost over the service lives of relevant employees in accordance with the advice of qualified actuaries. Actuarial surpluses and deficits are spread over the expected remaining working lifetimes of relevant employees.

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

2. EMPLOYEE PROFIT SHARING

This represents the amount allocated to the trustees of the profit sharing scheme and is based on the United Kingdom profit after interest before net loss on disposal of properties and taxation.

3. <u>PROFIT ON ORDINARY ACTIVITIES</u>	<u>1996</u> £m	<u>1995</u> £m
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Operating profit is stated after charging the following:

Depreciation and amortisation	208	184
Operating lease costs	95	198
Auditors' remuneration (a)	-	-
Employment costs (Note 4a)	985	922
Net loss on disposal of properties (b)	8	9

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

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

a) Auditors remuneration was £0.3m (1995 £0.3m).

b) After the offset of profits of £10m (1995 - £16m) a net loss of £8m has been made in respect of property disposals (1995 - loss £9m).

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

4. EMPLOYMENT COSTS

	<u>1996</u> £m	<u>1995</u> £m
a) <u>EMPLOYMENT COSTS DURING THE YEAR</u>		
Wages & salaries	896	834
Social security costs	51	52
Other pension costs (Note 17)	38	36
	<u>985</u>	<u>922</u>

b) NUMBER OF PERSONS EMPLOYED

The average number of UK employees per week during the year was 124,511 (1995 - 104,546) - full-time equivalent 74,713 (1995 - 66,862).

c) DIRECTORS' EMOLUMENTS

Total emoluments of the directors, excluding directors who were also directors of Tesco PLC, were:

	<u>1996</u> £	<u>1995</u> £
Directors' emoluments	2,800,532	4,473,818
Performance related incentive payments (see d)	1,154,912	1,009,974
	<u>3,955,444</u>	<u>5,483,792</u>

Directors emoluments include redundancy payments of £184,000 (1995 - £1,746,000). These payments were in respect of their office as directors.

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

4. EMPLOYMENT COSTS (continued)

c) DIRECTORS' EMOLUMENTS (continued)

The emoluments of the chairman were £Nil (1995 - £Nil) and the highest paid director, excluding pension contributions and redundancy payments, were £277,051 (1995 - £256,308). Other directors' aggregate emoluments, excluding pension contributions and redundancy payments, but including payments under the performance related incentive scheme, fall within the following bands:-

	<u>Directors</u>	
	<u>1996</u>	<u>1995</u>
£15,001 - £20,000	1	-
£35,001 - £40,000	1	-
£45,001 - £50,000	-	1
£60,001 - £65,000	2*	2
£65,001 - £70,000	-	1
£90,001 - £95,000	-	1
£100,001 - £105,000	1	-
£110,001 - £115,000	1*	-
£115,001 - £120,000	1	2*
£135,001 - £140,000	2*	-
£145,001 - £150,000	1*	-
£155,001 - £160,000	1*	1*
£165,001 - £170,000	1*	-
£170,001 - £175,000	2*	1*
£175,001 - £180,000	-	1*
£185,001 - £190,000	-	1*
£190,001 - £195,000	-	1*
£195,001 - £200,000	-	1*
£200,001 - £205,000	-	1*
£205,001 - £210,000	-	2*
£210,001 - £215,000	-	1*
£215,001 - £220,000	1*	1*
£220,001 - £225,000	2*	-
£225,001 - £230,000	2*	1*
£235,001 - £240,000	1*	-
£240,001 - £245,000	-	1*
£250,001 - £255,000	1*	-
£255,001 - £260,000	-	1*
£260,001 - £265,000	1*	-

* Includes performance related incentive payments.

The table excludes the emoluments of directors of Tesco Stores Limited who were also directors of Tesco PLC during the period and who were remunerated by that company - 1996, ten directors (1995, ten directors).

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

4. EMPLOYMENT COSTS (continued)

d) EXECUTIVE INCENTIVE SCHEME

The executive incentive scheme was introduced in March 1993 for directors of the company. Awards are made in Tesco PLC ordinary shares of 5p each.

Short term share bonuses are awarded based on improvements in Tesco PLC Group earnings per share and on the achievement of strategic corporate goals. The maximum short term bonus payable is 25% of salary which is augmented by a further 12½% if the participants elect for the Trustees of the scheme to retain the fully paid ordinary shares awarded for a minimum period of two years conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

Long term share bonuses are awarded based on improvements in earnings per share, achievement of strategic corporate goals and comparative performance against peer companies. The maximum long term bonus is 25% of salary. Shares awarded have to be held for a period of four years conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

5.	<u>INTEREST</u>	<u>1996</u> £m	<u>1995</u> £m
	Interest receivable	21	36
	Interest payable on bank and other borrowings repayable within five years	(16)	(37)
	Interest payable on borrowings from group undertakings repayable within five years	(121)	(100)
	European Coal & Steel Community loan 1996	(5)	(4)
	Finance charges payable on finance leases	(4)	(5)
	Interest capitalised	27	39
	Net interest payable	(98)	(71)
		<hr/>	<hr/>
6.	<u>TAXATION</u>	<u>1996</u> £m	<u>1995</u> £m
	United Kingdom taxation:		
	Corporation tax at 33.0% (1995 - 33.0%)	215	129
	Prior year corporation tax items	(14)	(8)
	Group relief	-	15
	Deferred taxation	(49)	-
		<hr/>	<hr/>
		152	136
		<hr/>	<hr/>

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

7. FIXED ASSETS: TANGIBLE ASSETS

	Total land & buildings	Plant equipment fixtures & fittings and vehicles	Total
	£'m	£'m	£'m
<u>COST</u>			
At 25 February 1995	3,034	1,363	4,397
Additions at cost (a)	337	196	533
Transfer to Group Company	(66)	(195)	(261)
Deduct disposals	(33)	(25)	(58)
At 24 February 1996	3,272	1,339	4,611
<u>DEPRECIATION</u>			
At 25 February 1995	190	791	981
Charge for Period	70	138	208
Transfer to Group Company	(11)	(104)	(115)
Deduct disposals	(3)	(11)	(14)
At 24 February 1996	246	814	1,060
<u>NET BOOK VALUE (b)</u>			
At 24 February 1996	3,026	525	3,551
At 25 February 1995	2,844	572	3,416
<u>CAPITAL WORK IN PROGRESS INCLUDED ABOVE (c)</u>			
At 24 February 1996	90	15	105
At 25 February 1995	89	20	109

The net book value of land and buildings comprises:-

	24 February 1996	25 February 1995
	£'m	£'m
Freehold	2,396	2,271
Long Leasehold	432	414
Short Leasehold	197	159
	3,025	2,844

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

7. FIXED ASSETS: TANGIBLE ASSETS (continued)

NOTES:

(a) Includes £18m (1995 - £26m) in respect of interest capitalised net of tax relief of £9m (1995 - £13m). Accumulated interest capitalised net of tax relief, less amounts transferred and written off on disposal, included in the total cost above, amounts to £249m (1995 - £238m).

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

	Cost	Depreciation	Net Book Value
	£'m	£'m	£'m
At 25 February 1995	198	117	81
Movement in the period	4	21	(17)
At 24 February 1996	<u>202</u>	<u>138</u>	<u>64</u>

(c) Capital work in progress does not include land.

8. <u>INVESTMENTS</u>	1996 £m	1995 £m
Investments in subsidiary undertakings at cost less amounts written off	<u>1</u>	<u>1</u>

<u>Subsidiary Undertaking</u>	<u>Nature of Business</u>	<u>% Shares Held</u>	<u>Registered In</u>
Tesco Dispensing Ltd	Non Trading	100%	England
WH Richards Ltd	Non Trading	100%	England
Bride Developments Ltd	Non Trading	100%	England

9. <u>DEBTORS</u>	1996 £'m	1995 £'m
<u>Debtors falling due within one year:</u>		
Amounts owed by group undertakings	360	266
Prepayments and accrued income	19	18
Other debtors	44	48
	<u>423</u>	<u>332</u>

There were no debtors falling due after more than one year (1995 - £0m).

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

10. <u>CREDITORS (amounts falling due within one year)</u>	1996	1995
	£'m	£'m
Bank loans and overdrafts	135	-
European Coal & Steel Community loan 1996	74	-
Finance leases (Note 13)	11	19
Trade creditors	658	579
Amounts owed to group undertakings	63	176
Other creditors	231	241
Corporation tax	190	133
Other taxation and social security	70	36
Accrued charges and deferred income	89	96
	<u>1,521</u>	<u>1,280</u>

11. <u>CREDITORS</u> <u>(amounts falling due after more than one year)</u>	1996	1995
	£'m	£'m
Amounts owed to group undertaking (a)	1,450	1,450
Finance leases (see Note 13)	30	32
European Coal & Steel Community loan 1996	-	74
Accrued charges and deferred income	28	33
	<u>1,508</u>	<u>1,589</u>

(a) Tesco Holdings Limited 9% unsecured loan - repayable 1998.

12. <u>PROVISION FOR LIABILITIES AND CHARGES.</u>	<u>Amount Provided</u>		<u>Potential amount for deferred tax on all timing differences</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£m	£m	£m	£m
<u>Deferred Taxation</u>				
Excess of capital allowances over depreciation	10	19	253	233
Capital gains deferred by rollover relief	-	-	3	12
Other	(1)	39	(1)	39
	<u>9</u>	<u>58</u>	<u>255</u>	<u>284</u>

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

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

13. LEASING COMMITMENTS

Finance Leases

The future minimum finance lease payments to which the company was committed at 24 February 1996 and which have been guaranteed by Tesco PLC are:-

	£m
Gross rental obligations	49
Deduct finance charges allocated to future periods	8
	<u>41</u>

	<u>1996</u> £m	<u>1995</u> £m
Net amounts payable are:-		
Within one year	11	19
Between one and five years	28	28
Due wholly or in part by instalments after five years	2	4
	<u>41</u>	<u>51</u>

Operating Leases

Company commitments during the year to 24 February 1996 in terms of lease agreements expiring are as follows:-

	<u>1996</u> £m	<u>1995</u> £m
Within one year	-	1
Between one and five years	-	8
Beyond five years	156	210
	<u>156</u>	<u>219</u>

14. CALLED-UP SHARE CAPITAL

	<u>1996</u> £	<u>1995</u> £
Authorised ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>
Issued and fully paid shares of £1 each	<u>6,000</u>	<u>6,000</u>

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

15. RESERVES

	<u>Revaluation reserve</u> £m	<u>Profit and loss account</u> £m	<u>Total</u> £m
At 25 February 1995	6	1,234	1,240
Retained profit for the financial year	-	93	93
At 24 February 1996	<u>6</u>	<u>1,327</u>	<u>1,333</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u> £m	<u>1995</u> £m
Shareholders' funds at 25 February 1995	1,240	1,147
Goodwill written off	-	(57)
Profit for the financial year	388	305
Dividends	(295)	(155)
Shareholders' funds at 24 February 1996	<u>1,333</u>	<u>1,240</u>

At 25 January 1995 the company paid £25m to Wm Low and Co PLC, a fellow group company, for the transfer of that group's trade and assets and liabilities. This transaction generated £57m of goodwill which was written off against reserves in 1995, in line with group policy.

17. PENSION COMMITMENTS

Pension schemes are operated by Tesco PLC, the company's ultimate holding company, 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 6 April 1993. Further information regarding these schemes is contained in the Annual Report and Accounts of Tesco PLC.

TESCO STORES LIMITED

NOTES TO ACCOUNTS (continued)

18. POST RETIREMENT BENEFITS OTHER THAN PENSIONS

The company operates a scheme offering post retirement healthcare benefits. The cost of providing for these benefits has been accounted for on a basis similar to that used for defined benefit pension schemes.

The liability as at 24 February 1996 of £10m, which was determined in accordance with the advice of qualified actuaries, is being spread forward over the service lives of relevant employees and £1m (1995 - £1m) has been charged to the profit and loss account. A provision of £3m (1995 - £2m) is being carried in the balance sheet.

It is expected that payments will be tax deductible, at the company's tax rate, when made.

19. CAPITAL COMMITMENTS

At 24 February 1996.

- a) There were commitments for capital expenditure of approximately £188m (1995 - £190m).
- b) Capital expenditure authorised by the Board, but not contracted for, amounted to £366m (1995 - £244m).

20. ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of Tesco Holdings Limited, a company incorporated in Great Britain and registered in England. The ultimate holding company is Tesco PLC, which is incorporated in Great Britain and registered in England. Copies of the group accounts can be obtained from Tesco PLC, Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL.