TESCO STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007

Registered number: 519500

TESCO STORES LIMITED

DIRECTORS' REPORT

Directors' Report for the twelve months ended 24 February 2007

The directors present their report and the audited financial statements of Tesco Stores Limited (the "company") for the twelve months ended 24 February 2007

Principal activities

The principal activity of the company is the operation of retail stores and associated activities with 1,482 (2006 1,380) stores throughout England, Scotland, Wales and Northern Ireland, serving on average 20 million customers every week

Business review

During recent years, the Tesco strategy has focussed on delivering an improved shopping trip for customers, by keeping prices as low as possible, working towards ensuring more of our customers receive our 'one-in-front' checkout promise, improving on-shelf availability and improving our product ranges We also aim to increase our UK sales area, exploit opportunities arising from the growth in use of the internet, deliver efficiency savings to make what we do better for customers, simpler for staff and cheaper for Tesco, and to be as strong in non-food as in food

The company has again delivered strong performance, coping well with the challenges of recovering competitors, rising costs and a cautious consumer background In non-food, more customers are choosing to shop with us and we have launched Tesco Direct, which extends our reach in selling a broad range of products on the internet and via catalogue Tesco com, our internet grocery arm, has continued its rapid growth

Future outlook

The company's future developments form a part of the Tesco PLC long-term strategy, which is discussed on page 3 of the group's Annual Report for the year ended 24 February 2007, which does not form part of this report

Results and dividends

The profit on ordinary activities of the company before tax for the 12 months ended 24 February 2007 was £2,890m compared with £1,309m (restated, see note 1) for the previous 12 months ended 25 February 2006

Dividends of £1,000m (2006 £500m) have been paid for the 12 months to 24 February 2007 The directors do not recommend payment of a final dividend (2006 £nil) The company also paid a preference dividend amounting to £16m (2006 £16m) Retained profit for the 12 months to 24 February 2007 amounted to £1,245m (2006 £374m restated, see note 1)

Key performance indicators

The directors of Tesco PLC manage the group's operations on a divisional basis For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Tesco Stores Limited The development, performance and position of the UK operations of Tesco PLC, which includes the company, is discussed on pages 5 to 9 of the Group's Annual Report for the year ended 24 February 2007, which does not form part of this report

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks and uncertainties affecting the company are considered to include financial, changes in economic conditions, competition, employee retention, reputational, environmental, product safety, ethical risks in the supply chain, fraud and compliance, IT systems and infrastructure, regulatory and political, activism and terrorism, and pension risks Further discussion of these risks and uncertainties, in the context of the Tesco PLC Group as a whole, is provided on pages 16 to 18 of the Group's Annual Report which does not form part of this report

Tangible fixed assets

A summary of the changes in fixed assets is shown in Note 11 to the financial statements

The directors are of the opinion that the open market value of the company's land and buildings is in excess of the net book value of £6,213m included in the financial statements

Post balance sheet events

A number of changes to the United Kingdom Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts The changes had not been substantively enacted at the Balance Sheet date and, therefore, are not included in these financial statements This non-adjusting post balance sheet event has no material impact on the financial statements

Directors and their interests

The directors who served during the 12 months to 24 February 2007 and up to the date of signing the accounts were as follows

Sir T P Leahy
A T Higginson
T J R Mason
P A Clarke
D T Potts
R Brasher
G Fryett
M R Risk
S Uwins
L J Neville-Rolfe

The disclosable interests of the directors along with details of share options have been detailed in note 5 of the financial statements

Research and development

The company does not undertake any research and development activities

Employment policies

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

A key business priority is to deliver an 'Every little helps' shopping experience for customers 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 factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, 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 called 'One Team', videos and staff briefing sessions Staff opinions are frequently researched through surveys and store visits We work to deliver 'Every little helps' for all of our people across the company

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 (Shares in Success), the savings-related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn)

Charitable and political contributions

Chantable contnbutions totalled £6 5m (2006 £5 6m) There were no political donations (2006 £nil)

Supplier payment policy

The company is a signatory to the CBI Code of Prompt Payment Copies of the Code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU Payment terms and conditions are agreed with suppliers in advance

Trade creditor days of the company for the 12 months ended 24 February 2007 were 28 days (2006 27 days), based on the ratio of company trade creditors as at 24 February 2007 to the amounts invoiced during the 12 months to 24 February 2007 by trade creditors

Statement of directors' responsibilities in respect of the Annual Report and financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing those financial statements, the directors are required to
- select suitable accounting policies and then apply them consistently, with the exception of the changes arising on the adoption of new accounting standards during the period as explained on page 10,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there will be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Disclosure of information to auditors

Each director who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant information of which the company's auditors are unaware, and
- each director has taken all the steps that he/she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

TESCO STORES LIMITED

DIRECTORS' REPORT (continued)

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the Board on 19 December 2007

Andrew Higginson
Director
Tesco Stores Limited
Registered Number 519500

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TESCO STORES LIMITED

PricewaterhouseCoopers LLP
10 Bricket Road
St Albans AL1 3JX
Telephone +44 (0) 1727 844155
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We have audited the financial statements of Tesco Stores Limited for the twelve months ended 24 February 2007 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholder's Funds, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 24 February 2007 and of its results for the twelve months then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St Albans 21st December *2007*

TESCO STORES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007

	Notes	2007 £'m	2006 £'m Restated
Sales at net selling prices		**35,553**	32,700
Value added tax		**(2,866)**	(2,613)
Turnover excluding value added tax	2	**32,687**	30,087
Cost of sales	2	**(29,308)**	(27,229)
Gross profit		**3,379**	2,858
Administrative expenses		**(1,604)**	(1,551)
Other operating income		**87**	128
Operating profit	3	**1,862**	1,435
Income from shares in group undertakings		**1**	2
Amounts written off of investments		**-**	(2)
Net profit / (loss) on disposal of fixed assets	4	**980**	(2)
Interest receivable and similar income	6	**270**	33
Interest payable and similar charges	7	**(223)**	(157)
Profit on ordinary activities before taxation		**2,890**	1,309
Tax on profit on ordinary activities	8	**(645)**	(435)
Profit for the financial period		**2,245**	874
Dividends paid	9	**(1,000)**	(500)
Retained profit for the financial period		**1,245**	374

The Profit and Loss account for the prior 12 months has been restated, see note 1

There are no differences between the profit on ordinary activities before taxation for the financial period stated above and their historical cost equivalents

All operations are continuing for the financial period

There are no recognised gains or losses other than those shown in the Profit and Loss account above

The notes on pages 10 to 28 form part of these financial statements

TESCO STORES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007

	2007 £'m	2006 £'m Restated
Profit for the financial period	2,245	874
Total recognised gains in the period	2,245	874
Prior period adjustment – FRS 20 "Share-based payments" *	24	
Tax on items taken directly to equity – FRS 20 "Share-based payments"*		
- Current period	66	
- Prior period	50	
Total recognised gains since the last Annual Report	2,385	

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS AS AT 24 FEBRUARY 2007

	2007 £'m	2006 £'m Restated
Opening shareholder's funds restated* / reported	3,597	3,146
Tax on items taken directly to equity - FRS 20 "Share-based payments" restatement*	-	41
Opening shareholder's funds restated	3,597	3,187
Profit for the financial period	2,245	874
Dividends	(1,000)	(500)
FRS 20 "Share-based payments"*	50	27
Tax on items taken directly to equity – FRS 20 "Share-based payments"*	66	9
Net addition to shareholder's funds	1,361	410
Closing shareholder's funds	4,958	3,597

* The prior period adjustment for FRS 20 "Share-based payments" results from the adoption of FRS 20 during the 12 months to 24 February 2007, the allocation of the Group share based payment charge between the company and other group undertakings, and a reclassification between reserves and creditors (see note 1)

The notes on pages 10 to 28 form part of these financial statements

TESCO STORES LIMITED

BALANCE SHEET AS AT 24 FEBRUARY 2007

	Notes	2007 £'m	2006 £'m Restated
Fixed assets			
Goodwill	10	**206**	211
Tangible fixed assets	11	**7,764**	8,574
Investments	12	**128**	129
		8,098	8,914
Current assets			
Stock	13	**1,127**	868
Debtors - due within one year	14	**6,800**	2,919
Debtors - due after more than one year	15	**383**	-
Cash at bank		**463**	556
		8,773	4,343
Creditors – amounts falling due within one year	16	**(10,993)**	(8,921)
Net current liabilities		**(2,220)**	(4,578)
Total assets less current liabilities		**5,878**	4,336
Creditors – amounts due after more than one year	17	**(361)**	(366)
Provisions for liabilities and charges	18	**(559)**	(373)
Net assets		**4,958**	3,597
Capital and reserves			
Called up share capital	20	**1,320**	1,320
Profit and loss reserve	21	**3,638**	2,277
Equity shareholder's funds		**4,958**	3,597

The notes on pages 10 to 28 form part of these financial statements

The financial statements on pages 7 to 28 were approved by the board of directors on 19 December 2007 and were signed on its behalf by

Andrew Higginson
Director

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007

1. ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements are prepared on the going concern basis in accordance with applicable United Kingdom accounting standards, under the historical cost convention, and in accordance with the Companies Act 1985 These have been applied consistently during the 12 months to 24 February 2007, except for changes arising from the adoption of new accounting standards

The financial statements contain information about Tesco Stores Limited as an individual company and do not contain consolidated financial information as the parent of a group The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its ultimate parent, Tesco PLC, which are publicly available

Changes in accounting policies and prior period adjustments

During the 12 months ended 24 February 2007 the company adopted FRS 20 "Share-based payments" The main impact of FRS 20 "Share-based payments" for the company is the recognition of an expense in relation to employees' and Directors' share option awards The expense is calculated with reference to the fair value of the award on the date of the grant and is recognised over the vesting period of the scheme, adjusted to reflect actual and expected levels of vesting We have used the Black-Scholes model to calculate the fair value of options on their grant date

In the twelve months ending 24 February 2007, the application of FRS 20 resulted in a total share-based payments charge of £158m (2006 £147m), which was offset by movements in share-based payments reserves, £143m (2006 £137m), and creditors £15m (2006 £10m) The movement in share-based payments reserves for the twelve months ended 24 February 2007 was offset by the settlement of the share bonus scheme awards for the twelve months ended 25 February 2006, £93m (2006 £110m)

Of the total share-based payments charge, the impact of the recognition of an expense in relation to employees' and Directors' share option awards resulted in a share-based payments charge of £42m (2006 £42m), with a corresponding increase in reserves of £42m (2006 £42m)

The application of FRS 20 has also resulted in an impact on the deferred tax position as at 24 February 2007 Deferred tax on share-based payments is calculated based on the difference between the market price of Tesco PLC shares at the Balance Sheet date and the option exercise price of share options outstanding As a result, the tax effect will not correlate to the charge The excess of the deferred tax over the cumulative Profit and Loss charge at the tax rate is recognised in equity The application of FRS 20 has resulted in a deferred tax asset as at 24 February 2007 of £103m (2006 £50m) and a credit of £53m, £6m of which has been credited to the Profit and Loss account and £47m to reserves

In the 12 months ended 25 February 2006 we had recognised a share-based payments charge of £129m calculated under UITF 17 for the other share-based payments schemes, with corresponding amounts in reserves £114m and creditors £15m We have made a prior period adjustment to reduce this share-based payments charge by £24m, reserves by £19m and creditors by £5m to allocate a portion of the UK element of the Group share–based payments charge to other Group companies

In assessing the impact of FRS 20 we identified an amount included in reserves of £110m as at 25 February 2006 in relation to share bonus schemes which has since been reclassified to creditors as a prior period adjustment

There is also an impact of adopting FRS 20 on the calculation of the Profit and Loss charge for share bonus schemes Prior to the adoption of FRS 20 the company expensed share bonus schemes by applying the rules of UITF 17 Whereas the UITF 17 Profit and Loss charge was based on the intrinsic value of the award, the FRS 20 charge is based on fair value The effect of this change was not material to the company

Cash flow statement

In accordance with paragraph 5 of FRS 1 "Cash Flow Statements (Revised)", the company, being the wholly owned subsidiary of another company, Tesco PLC, which prepares a cash flow statement including the cash flows of this company, has not prepared such a statement itself The accounts of Tesco PLC are publicly available

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets and capitalised interest

Fixed assets are carned at hıstonc purchase cost less accumulated depreciation They include amounts in respect of interest paid on funds specifically related to the financing of assets in the course of construction Interest is capitalised on a gross basis Freehold land is not depreciated

Depreciation

Depreciation is provided on a straight-line basis over the anticipated useful economic lives of the assets

The following rates were applied for the company and are consistent with the prior period

- 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%

Finance costs

Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use All other borrowing costs are recognised in the Profit and Loss account in the period in which they occur

Impairment of fixed assets and goodwill

At each balance sheet date, fixed assets are subject to review for impairment by the Board, in accordance with FRS 11, "Impairment of Fixed Assets and Goodwill" Any impairment is recognised in the Profit and Loss account in the period in which it occurs

Investments and goodwill

At each balance sheet date, the carrying values of the investments are reviewed by the Board and where an impairment loss arises, a provision is made against the cost of the investment Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life, which is estimated at being 20 years No amortisation is charged in the period of acquisition, with a full period charge in the period of disposal

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate on the date of the transaction At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date All differences are taken to the Profit and Loss account for the period

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

The company as a lessor

Amounts due from lessees under finance leases are recorded as receivable at the amount of the company's net investment in the leases Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment in the lease Rental income from operating leases is recognised on a straight-line basis over the term of the lease

The company as a lessee

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease The corresponding liability is included in the Balance Sheet as a finance obligation Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability Finance charges are charged to the Profit and Loss account Rentals payable under operating leases are charged to the Profit and Loss account on a straight-line basis over the term of the relevant lease

1. ACCOUNTING POLICIES (continued)

Stocks

Stocks at distribution centres are valued at the lower of cost and net realisable value Stocks in stores are calculated at retail prices and reduced by appropriate margins to take into account factors such as obsolescence, seasonality and damage

Turnover

Turnover consists of sales through retail outlets Turnover is reported net of returns, vouchers and value-added taxes, when the significant risks and rewards of ownership have been transferred to the buyer Commission income is recorded based on the terms of the contracts

Other operating income

Other operating income consists of commission and income from third parties, intra-group recharges, lottery sales income, and income from advertising and vending machine operations

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss account over the period of the borrowings using the effective interest method Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities The dividends on these preference shares are recognised in the Profit and Loss account as an interest expense

Pensions

The company participated in a defined benefit pension scheme for the benefit of its employees, the assets of which are held separately from those of the company in independently administered funds The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution being determined by the actuary The last valuation was performed by Watson Wyatt Limited in March, 2005

Under definitions set out in FRS 17 "Retirement Benefits", the Tesco PLC pension scheme, a defined benefit scheme, is a multi-employer pension scheme Consequently the company is unable to identify its share of the underlying assets and liabilities of the scheme Accordingly, the company has taken advantage of the exemption under FRS 17 and has accounted for its contributions as if it was a defined contribution scheme Accordingly the contributions to this scheme are charged to the Profit and Loss account as they become payable

The total cost of the scheme to the Tesco PLC group was £167m (2006 £292m) Disclosure relating to the group defined benefit scheme can be found in the Tesco PLC Annual Report and Financial Statements 2007, note 23

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

Share-based payments

Employees of the Tesco PLC group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions)

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model In accordance with FRS 20 "Share-based payments", the resulting cost is charged to the Profit and Loss account over the vesting period with a corresponding adjustment to equity The value of the charge is adjusted to reflect the expected and actual levels of vesting

Taxation

The amount included in the Profit and Loss account is based on the profit on ordinary activities before taxation and is calculated at current local tax rates, taking into account timing differences and the likelihood of realisation of deferred tax assets and liabilities

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007

1. ACCOUNTING POLICIES (continued)

Group relief on taxation

The company will receive group relief from group companies without payment and consequently there may be no tax charge in the Profit and Loss account

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date and which could give rise to an obligation to pay more or less taxation in the future Deferred tax assets are recognised to the extent that they are regarded as recoverable They are regarded as recoverable to the extent that, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the Balance Sheet date

Dividends

Dividends to the company's shareholder are recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholder

Share Capital

Ordinary shares are classified as equity Mandatorily redeemable preference shares are classified as liabilities (refer to "Borrowings" – page 12)

2. SEGMENTAL REPORTING

The company operates within one business segment, being that of the operation of food superstores and associated activities, with business principally transacted in the United Kingdom Cost of sales includes distribution costs and store operating costs

3. OPERATING PROFIT

	2007 £'m	2006 £'m Restated
Operating profit is stated after charging		
Wages and salaries	**2,739**	2,434
Social security costs	**149**	137
Other pension costs	**187**	222
Share based payment expense	**158**	147
Staff costs	**3,233**	2,940
Depreciation of tangible fixed assets		
- owned assets	**442**	399
- leased assets	**26**	34
Amortisation of goodwill (note 10)	**11**	11
Operating lease charges		
- plant and machinery	**14**	13
- other	**205**	177

The average number of UK employees (excluding directors) per week during the 12 months to 24 February 2007 was 245,174 (2006 240,325) and the average number of full-time equivalents was 162,198 (2006 157,574)

The auditors remuneration was borne by another group company, including non-audit fees

The primary activity of employees of the company is retail operations

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007 (continued)

4. PROFIT / (LOSS) ON DISPOSAL OF FIXED ASSETS

During the 12 months to 24 February 2007, the company entered into a property sale and lease back agreement with other group companies These properties were sold at market value and the resulting gain on sale from these transactions was £987m There were various other property disposals during the period which resulted in a cumulative net loss of £7m (2006 £2m)

5. DIRECTORS EMOLUMENTS

The disclosures below excludes the emoluments of seven directors of Tesco Stores Limited who were also directors of Tesco PLC during the 12 months to 24 February 2007 and whom that company remunerated (2006 six directors) It is not possible to accurately allocate these emoluments between Tesco PLC and this company

	2007	2006
	£'000	£'000
Aggregate emoluments	**1,410**	2,196
Aggregate emoluments (excluding shares) receivable under long term incentive schemes	**1,107**	2,004
	2,517	4,200

Retirement benefits are accruing for ten directors (2006 ten directors) under a defined benefit scheme During the 12 months to 24 February 2007, all directors received or accrued shares under a long-term incentive scheme The number of directors who exercised options during the 12 months to 24 February 2007 was 8 (2006 7)

The total value of contributions to a defined benefit scheme on behalf of all directors of the company during the 12 months to 24 February 2007 was £577,385 (2006 £533,753) No compensation was paid to directors for loss of office or retirement during the 12 months to 24 February 2007

A. Highest paid director

	2007	2006
	£'000	£'000
Total aggregate emoluments excluding amounts receivable under long term incentive schemes	449	542
Long term incentive scheme	629	529
	1,078	1,071

Accrued pension per annum for the highest paid director, as at 24 February 2007 was £267,077 (2006 £242,568), with a lump sum entitlement at that date of £716,765 The highest paid director made gains of £nil (2006 £nil) on the exercise of share options granted as part of the long term incentive scheme, and £412,871 (2006 £1,994) on the exercise of options granted as part of the EIS scheme The highest paid director was granted 115,281 (2006 110,048) executive share options during the 12 months to 24 February 2007 as part of the long term incentive scheme and 226,644 (2006 130,426) shares were awarded for the Executive incentive scheme as part of the Long term bonus plan

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007 (continued)

5. DIRECTORS EMOLUMENTS (continued)

B. Executive incentive scheme

The company operates executive incentive schemes for directors of the company Awards are made in Tesco PLC ordinary shares of 5p each

Long term bonus
The Performance Share Plan (PSP) for senior directors provides the opportunity to earn rewards for achieving superior long term performance Awards under the PSP can be made up to 150% of salary For the 12 months ended 24 February 2007 awards were made over Tesco PLC shares equal to 100% and will vest, together with dividend equivalents, according to the achievement of Return On Capital Employed targets Any vested awards must then be retained for a further 12 months

The Long Term Incentive Plan (LTIP) for other directors provides the opportunity to earn rewards for achieving superior long term performance Awards under the LTIP can be made up to 25% of salary For the 12 months ended 24 February 2007 awards were made over Tesco PLC shares equal to 25% of salary and will vest according to the achievement of Return On Capital Employed targets

Short term bonus
Short term bonuses to senior directors are made each period in line with market practice For the 12 months ended 24 February 2007 awards were made over 197% of salary made up of 100% of salary in cash, and 97% of salary in shares with a compulsory deferral for three years Awards are made annually based on the achievement of earnings per share and total shareholder return targets and on the achievement of strategic corporate goals The share equivalent of dividends, which would have been paid on the shares, are added to the award during the deferral period

Short term bonuses to other directors can be made up to 100% of salary
Awards are made annually based on improvements in earnings per share and on the achievement of strategic corporate goals The trustees retain 50% of the bonus in shares for a period of three years, conditional on continuous service with the company The participants can elect for the remaining 50% to be paid in cash or for the trustees to retain the shares for a period of three years, conditional on continuous service with the company The share equivalent of dividends, which would have been paid on the shares, are released to the participants during the deferral period

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007 (continued)

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 £'m	2006 £'m
Interest receivable on bank deposits repayable within 5 years	**12**	12
Interest receivable on loans to group undertakings repayable within 5 years	**153**	21
Foreign exchange net gains	**105**	-
	270	33

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £'m	2006 £'m
Interest payable on overdrafts and bank loans repayable within 5 years	**4**	9
Interest payable on borrowings from group undertakings repayable within 5 years	**238**	170
Capitalised interest	**(44)**	(46)
Preference share dividend paid 6p (2006 6p) per share	**16**	16
Finance lease interest	**9**	8
	223	157

A dividend was paid on the "A" Preference shares of £15m (2006 £15m) and £0 3m (2006 £0 3m) on the "B" Preference shares

8. TAXATION

	2007 £'m	2006 £'m Restated
Current tax		
UK Corporation tax on profit for the period	**481**	412
Adjustments in respect of previous periods	**(69)**	10
Total current tax	**412**	422
Deferred tax		
Current period tax	**100**	9
Prior period items	**133**	4
Total deferred tax	**233**	13
Tax on profit on ordinary activities	**645**	435

The tax assessed for the period is higher (2006 higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2007 £'m	2006 £'m Restated
Profit on ordinary activities before tax	**2,890**	1,309
Profit on ordinary activities multiplied by standard rate in the UK 30% (2006 30%)	**867**	393
Effects of		
Expenses not deductible for tax purposes	**30**	30
Profit on property disposals not taxable or available for tax relief	**(297)**	(15)
Non taxable dividends	**-**	(5)
Accelerated capital allowances and other timing differences	**(75)**	(35)
Other short term timing differences	**(26)**	28
Group relief received without payment	**(50)**	(119)
UK to UK transfer pricing adjustment	**(13)**	17
Prior period items	**(69)**	10
Other items	**45**	118
Current tax charge for the period	**412**	422

The reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008 has had no impact upon the deferred tax provision in the 12 months ended 24 February 2007 as the rate was not substantively enacted by the Balance Sheet date If the rate was substantively enacted by the Balance Sheet date the deferred tax liability as at 24 February 2007 would have reduced by £37m, of which £44m would have been credited to the Profit and Loss account and £7m charged to reserves

9. DIVIDENDS

	2007 £'m	2006 £'m
Equity ordinary dividends paid 76p (2006 38p) per share	**1,000**	500

10. GOODWILL

	£'m
At 25 February 2006	211
Additions	6
Amortisation charge	(11)
At 24 February 2007	**206**

During 2007 the company acquired some stores from another group company, 12 of these (2006 31) were converted to Tesco Express stores at various stages throughout the 12 months to 24 February 2007 Once converted the associated goodwill is recognised

11. TANGIBLE FIXED ASSETS

	Land & buildings including long leasehold assets £'m	Short leasehold land and buildings £'m	Plant equipment fixtures & fittings and motor vehicles £'m	Total £'m
Cost				
At 25 February 2006	7,747	390	2,929	11,066
Additions at cost (a)	825	67	607	1,499
Transfer to / from group undertakings	(10)	2	(3)	(11)
Disposals	(1,968)	(16)	(95)	(2,079)
At 24 February 2007	**6,594**	**443**	**3,438**	**10,475**
Accumulated depreciation				
At 25 February 2006	820	112	1,560	2,492
Charge for the period	71	17	380	468
Transfer to group undertakings	-	-	-	-
Disposals (see note 4)	(189)	(7)	(53)	(249)
At 24 February 2007	**702**	**122**	**1,887**	**2,711**
Net book value (b)				
At 24 February 2007	**5,892**	**321**	**1,551**	**7,764**
At 25 February 2006	6,927	278	1,369	8,574
Capital work in progress included above (c)				
At 24 February 2007	**518**	**14**	**52**	**584**
At 25 February 2006	522	5	38	565

11. TANGIBLE FIXED ASSETS (continued)

The net book value of land and buildings comprise -

	2007 £'m	2006 £'m
Freehold	**5,603**	6,628
Long leaseholds	**289**	299
Short leaseholds	**321**	278
	6,213	7,205

Notes

a) Additions at cost includes £54m (2006 £56m) in respect of interest capitalised, principally relating to land and building assets The capitalisation rate used to determine the amount of finance costs capitalised during the 12 months to 24 February 2007 was 5% (2006 5%)

b) Net book value includes capitalised interest, less amounts transferred and written off on disposal, of £285m (2006 £483m)

Assets held under finance leases and capitalised in plant and machinery	2007 £'m	2006 £'m
Cost	**229**	163
Accumulated depreciation	**(47)**	(40)
Net book value	**182**	123

c) Capital work in progress does not include land

12. INVESTMENTS

	Group companies £'000
Cost	
At 25 February 2006	146
Additions	17
Disposals	(18)
At 24 February 2007	**145**
Impairment	
At 25 February 2006	17
Provision for impairment	-
At 24 February 2007	**17**
Net book value	
At 24 February 2007	**128**
At 25 February 2006	129

The directors believe that the carrying value of the investments is supported by their underlying net assets

(a) During the period the company acquired 21 3% of Greenergy International Limited, whose main activity is the supply of fuel The cost of this investment was £17,070,834

(b) During the period the company sold its holding in Dunnhumby Limited to another group company It also sold its holding in Greenergy Fuel Limited

12. INVESTMENTS (continued)

The company's subsidiary undertakings are set out below

Subsidiary undertakings	Nature of business	% shares held	Registered in
Buyright (London) Ltd	Dormant	100	England
J E Cohen Ltd	Organisation of sports events	100	England
Flitwick Pharmacies Ltd	Dormant	100	England
G H Langley (Pharmacy) Ltd	Dormant	100	England
Tesco Dispensing Ltd	Dormant	100	England
Sanders Supermarkets Ltd	Dormant	100	England
Tesco Employees' Share Scheme Trustees Ltd	Dormant	50	England
Broughton Retail Park Nominee 1 Ltd	Dormant	100	England
Broughton Retail Park Nominee 2 Ltd	Dormant	100	England
Broughton Retail Park Nominee 3 Ltd	Dormant	100	England
Broughton Retail Park Nominee 4 Ltd	Dormant	100	England
Tesco Seacroft Limited	Non-trading	100	England
Seacroft Green Nominee 1 Ltd	Non-trading	100	England
Seacroft Green Nominee 2 Ltd	Non-trading	100	England
Waltham Abbey Developments Ltd	Property development	100	England
M Copeland Ltd	Retail chemist	100	England
Cambridge Riverside Management Company Ltd	Property management	100	England
New Clapton Stadium Ltd	Non-trading	100	England
EIS 2006 Limited	Investment	100	England
Latitude Management Company Ltd	Property management	100	England
Red & Green Ltd	Non-trading	100	England
King Street Residents Company Ltd	Property management	100	England
Islington Green Management Company Ltd	Property management	100	England

The accounting period ends of the subsidiary undertakings are on or around 24 February 2007, with the exception of EIS 2006 Limited, which has a period end of 31 March 2007, and Latitude Management Company Limited, which has a period end of 30 June 2007

Investments in joint ventures	Nature of business	% shares held	Registered in
Nutri Centres Ltd	Complementary medicines	50 1	England

Investments in associated companies	Nature of business	% shares held	Registered in
Greenergy International Limited	Fuel supplier	21 3	England
Clarepharm Limited	Dispensing pharmaceuticals	25 5	England
Crown Partnership	Royalty income	20	England
Broadfield Management Limited	Real estate development	43	England

The accounting period end of Nutri Centres Limited is 30 June 2007 The accounting period ends of the associated companies range from 24 February 2007 to 24 March 2007 Accounting period ends different from that of Tesco Stores Limited arise for commercial reasons and depend on the requirements of the joint venture partner as well as Tesco Stores Limited

12. INVESTMENTS (continued)

All of the shares held are £1 ordinary shares with the exception of 5p ordinary shares held in New Clapton Stadium Limited and 10p ordinary shares held in Nutri Centres Limited and Clarepharm Limited The shares held by the company in Sanders Supermarket Limited are 50p ordinary voting shares, £1 ordinary non voting shares and £1 preference shares Only the ordinary voting shares have any right to vote at any general meeting

13. STOCK

	2007 £'m	2006 £'m
Goods for resale	1,127	868

14. DEBTORS – DUE WITHIN ONE YEAR

	2007 £'m	2006 £'m
Amounts owed by group undertakings	6,046	2,206
Other debtors	670	626
Finance lease receivable	11	17
Prepayments and accrued income	73	70
	6,800	2,919

The amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment

15. DEBTORS – DUE AFTER MORE THAN ONE YEAR

	2007 £'m	2006 £'m
Amounts owed by group undertakings	383	-

The amounts owed by group undertakings are unsecured and is repayable on 28 February 2008 Interest is charged at WIBOR (Warsaw Inter-bank Offered Rate) plus 0 4%

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £'m	2006 £'m Restated
Bank overdrafts	52	25
Trade creditors	2,228	1,959
Amounts due to group undertakings	7,032	5,204
Corporation tax	242	278
Finance leases (see note 19)	21	-
Finance leases due to group undertakings (see note 19)	42	67
Taxation and social security	166	173
Other creditors	716	897
Accruals and deferred income	494	318
	10,993	8,921

Within amounts owed to group undertakings is a loan with Armitage Finance Unlimited of PLZ1,886m which is unsecured and accrues interest at WIBOR + 0 15% This is repayable in November 2007 The company is also the holder of 2 Deep Discount Security Issues of £393 5m and £6 5m These both accrue interest at 5 53% and are redeemable on 31 October 2007

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007 (continued)

17. CREDITORS - AMOUNTS DUE AFTER MORE THAN ONE YEAR

	2007 £'m	2006 £'m
Amounts owed to group undertakings	-	21
Finance leases due to group undertakings (note 19)	29	81
Finance leases (note 19)	68	-
"A" Preference shares of £1 each – 259,000,000 (2006 259,000,000)	259	259
"B" Preference shares of £1 each – 5,000,000 (2006 5,000,000)	5	5
	361	366

The authorised preference share capital of the company is as follows 260,000,000 "A" Preference shares of £1 each (2006 260,000,000) and 2,263,000,000 "B" Preference shares of £1 each (2006 2,263,000,000)

The preference shares confer on the holder the right to receive a fixed dividend of 6 08% for the "A" Preference shares and 5 97% for the "B" Preference shares, calculated based on a pre-determined formula As regards capital, on winding up of the company, the preference shares shall be redeemed in priority to ordinary shares, together with any arrears of dividend

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'m
At 25 February 2006	423
FRS 20 "Share-based payments" restatement (see note 1)	(50)
At 25 February 2006 – restated	373
Charged to the Profit and Loss account	
- In respect of the current period	100
- In respect of prior periods	133
Charged to equity	(47)
At 24 February 2007	559

	Amount provided 2007 £'m	2006 £'m
Excess of capital allowances over depreciation	**618**	471
Other short term timing differences	**44**	(48)
FRS 20 "Share-based payment" (prior year restatement (see note 1))	**(103)**	(50)
	559	373

19. LEASING COMMITMENTS

Finance lease commitments – company as lessee

Future minimum lease payments under finance leases and hire purchase contracts are as follows

	2007	2006
	£'m	£'m
Gross rental obligations	169	158
Less future finance charges	(9)	(10)
Present value of minimum lease payments	160	148
Analysed as		
Within one year	63	67
Between two and five years	97	81
	160	148

The company has finance leases for various items of plant, equipment, fixtures and fittings There are also a small number of buildings which are held under finance leases The fair value of the company's lease obligations approximate to their carrying value

Finance lease receivables – company as lessor

Future minimum rentals receivable under finance leases are as follows

	2007	2006
	£'m	£'m
Within one year	7	7
Between two and five years	5	12
Total minimum lease receivables	12	19
Less unearned finance income	(1)	(2)
Net lease receivables	11	17
Analysed as		
Current finance lease receivables	6	6
Non-current finance lease receivables	5	11
	11	17

The company entered into finance leasing arrangements with UK staff for certain of its electronic equipment as part of the Computers for Staff scheme The average term of finance leases entered into is 3 years The interest rate inherent in the leases is fixed at the contract date for all of the lease term The average effective interest rate contracted approximates 4 0% (2006 4 6%) per annum

19. LEASING COMMITMENTS (continued)

Operating lease commitments – company as a lessee

Annual commitments payable under non-cancellable operating leases are as follows

	Land and buildings		Other	
	2007 £'m	2006 £'m	**2007 £'m**	2006 £'m
Within one year	**3**	1	**4**	-
Between two and five years	**7**	8	**14**	4
After five years	**373**	173	**1**	1
Total minimum lease payments	**383**	182	**19**	5

Operating lease payments represent rentals payable by the company for certain, of its retail, distribution and office properties The leases have varying terms, purchase options, escalation clauses and renewal rights

20. CALLED UP SHARE CAPITAL

	2007 £'m	2006 £'m
Authorised		
1,320,006,000 ordinary shares of £1 each	1,320	1,320
	1,320	1,320
Allotted, called up and fully paid		
1,320,006,000 ordinary shares of £1 each	1,320	1,320
	1,320	1,320

Only the ordinary shares carry a right to vote at any General Meeting

21. RESERVES

	Total £'m
At 25 February 2006 as previously reported	2,290
Prior period adjustment - FRS 20 "Share-based payment"*	(63)
Tax on items taken directly to equity – FRS 20 "Share-based payments" restatement*	50
At 25 February 2006 restated	2,277
Retained profit for the financial period	1,245
FRS 20 "Share-based payments"	50
Tax on items taken directly to equity – FRS 20 "Share-based payments"	66
At 24 February 2007	3,638

* The prior period adjustment for FRS 20 "Share-based payments" results from the adoption of FRS 20 during the 12 months to 24 February 2007, the allocation of the Group share based payment charge between the company and other group undertakings, and a reclassification between reserves and creditors (see note 1)

22. SHARE-BASED PAYMENTS

The total Profit and Loss account charge for the 12 months to 24 February 2007, recognised in respect of share-based payments is £158m (2006 £147m), which is made up of share option schemes and share bonus payments

a) Share option schemes

The company had six share option schemes in operation during the 12 months to 24 February 2007, all of which are equity-settled schemes

i) The savings-related share option scheme (1981) permits the grant to employees of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from employees of an amount between £5 and £250 per four-weekly period Options are capable of being exercised at the end of the three or five-year period at a subscription price not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date

ii) The approved executive share option scheme (1994) was adopted on 17 October 1994 The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period No further options will be granted under this scheme and it has been replaced by the discretionary share option plan (2004) There were no discounted options granted under this scheme

iii) The unapproved executive share option scheme (1996) was adopted on 7 June 1996 This scheme was introduced following legislative changes which limited the number of options which could be granted under the previous scheme The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period No further options will be granted under this scheme and it has been replaced by the discretionary share option plan (2004) There were no discounted options granted under this scheme

iv) The executive incentive plan (2004) was adopted on 4 July 2004 This scheme permits the grant of options in respect of ordinary shares to selected executives Options are normally exercisable between three and ten years from the date of grant for nil consideration

v) The performance share plan (2004) was adopted on 4 July 2004 This scheme permits the grant of options in respect of ordinary shares to selected executives Options are normally exercisable between four and ten years from the date of grant for nil consideration The exercise of options will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three-year period

vi) The discretionary share option plan (2004) was adopted on 4 July 2004 This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant The exercise of options will normally be conditional on the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period There will be no discounted options granted under this scheme

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE TWELVE MONTHS ENDED 24 FEBRUARY 2007 (continued)

22. SHARE-BASED PAYMENTS (continued)

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP)

For the 12 months ended 24 February 2007

	Saving-related share option scheme		Approved share option scheme		Unapproved share option scheme	
	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 25 February 2006	167,621,025	211 42	16,967,571	248 05	79,088,448	241 76
Granted	35,988,739	307 00	4,887,904	318 99	15,245,909	320 49
Forfeited	(10 086 154)	219 50	(883,081)	293 25	(2,928,924)	278 00
Exercised	(33,364,882)	193 52	(5,049,135)	220 10	(23,902,600)	215 72
Outstanding at 24 February 2007	**160,158,728**	**236.12**	**15,923,259**	**276.18**	**67,502,833**	**267 19**
Exercisable at 24 February 2007	4,924,269	196 51	5,363,265	226 02	22,336,179	218 47
Exercise price range (pence)		195 00 to 198 00		197 50 to 259 00		164 00 to 259 00
Weighted average remaining contractual life (years)		0 20		4 42		4 76

For the 12 months ended 25 February 2006

	Saving-related share option scheme		Approved share option scheme		Unapproved share option scheme	
	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 26 February 2005	172,114,061	194 78	19,914,071	223 52	82,477,569	226 61
Granted	41,034,228	248 00	4,143,719	312 75	14,289,788	312 75
Forfeited	(10,597,457)	200 07	(1,247,398)	233 62	(4,306,208)	239 06
Exercised	(34,929,808)	175 82	(5,842,822)	213 43	(13,372,701)	225 03
Outstanding at 25 February 2006	**167,621,024**	**211 42**	**16,967,570**	**248.05**	**79,088,448**	**241 76**
Exercisable as at 25 February 2006	5,464,574	176 90	7,721,660	231 70	23,182,239	232 09
Exercise price range (pence)		159 00 to 198 00		205 00 to 259 00		164 00 to 259 00
Weighted average remaining contractual life (years)		0 19		5 02		4 93

Share options were exercised on a regular basis throughout the 12 months ending 24 February 2007 The average share price during the 12 months ending 24 February 2007 was 369 70p (2006 317 79p)

22. SHARE-BASED PAYMENTS (continued)

The fair value of the share options is estimated at the date of grant using the Black-Scholes option pricing model The following table gives the assumptions applied to the options granted in the respective periods shown No assumption has been made to incorporate the effects of expected early exercise

	2007		2006	
	Savings-related share option schemes	Executive share option schemes	Savings-related share option schemes	Executive share option schemes
Expected dividend yield (%)	2 7%	3 0%	3 0%	3 0%
Expected volatility (%)	28 0%	28 0%	28 0%	28 0%
Risk-free interest rate (%)	4 8%	4 7%	4 4%	4 2%
Expected life of option (years)	3 or 5	6	3 or 5	6
Weighted average fair value of options granted (pence)	122 02	81 63	93 55	77 24
Probability of forfeiture (%)	20-25%	10%	20-25%	10%
Share price (pence)	383 80	318 60	310 00	312 80
Weighted average exercise price (pence)	307 00	318 60	248 00	312 75

Volatility is a measure of the amount by which a price is expected to fluctuate during a period The measure of volatility used in Tesco PLC option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time In estimating the future volatility of the company's share price, the Board consider the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option

b) Share bonus schemes

Eligible UK employees are able to participate in Shares in Success, an all-employee profit sharing scheme Each year, shares are awarded as a percentage of earnings up to a statutory maximum of £3,000

Senior management also participate in performance-related bonus schemes The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in shares Bonuses are awarded to eligible employees that have completed a required service period and depend on the achievement of corporate targets The accrued cash element of the bonus at the Balance Sheet date is £10m

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders Full details of these schemes can be found in the Directors' Remuneration Report The fair value of shares awarded under these schemes is their market value on the date of award Expected dividends are not incorporated into the fair value

The number and weighted average fair value (WAFV) of share bonuses awarded during the 12 months to 24 February 2007 was

	2007		2006	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	22,514,777	319 65	20,900,013	309 75
Executive incentive schemes	9,296,218	316 88	9 450,919	309 88

23. POST-RETIREMENT BENEFITS AND PENSIONS

Pensions

The company participates in the Tesco PLC Pension Scheme which is a defined benefit multi-employer scheme within the Tesco Group and cannot identify its shares of the underlying assets and liabilities of the scheme Accordingly, as permitted by FRS17, the company has accounted for the scheme as a defined contribution scheme, and the charge for the 12 months to 24 February 2007 is based upon the cash contributions payable

The total cost of the scheme to the Tesco PLC group was £167m (2006 £292m) Further disclosure relating to Tesco PLC Pension Scheme can be found in the Tesco PLC Annual Report and financial statements for the 12 months ending 24 February 2007

Post-retirement healthcare benefits

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 2007 of £11m (2006 £10m), was determined in accordance with the advice of qualified actuaries, is being spread forward over the service lives of relevant employees and £0 5m (2006 £0 5m) has been charged to the Profit and Loss account

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

24. CAPITAL COMMITMENTS

At 24 February 2007 there were commitments for capital expenditure contracted for but not provided of approximately £138m (2006 £173m)

25. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Tesco Holdings Limited

The company's ultimate parent undertaking and controlling party is Tesco PLC, which is incorporated in Great Britain and registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of the Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

26. RELATED PARTY TRANSACTIONS

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption under FRS 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC, in which the company is included, are available at the address noted above

27. FINANCIAL SUPPORT

The ultimate parent company has indicated that it will provide financial support to the company for the foreseeable future

28. CONTINGENT LIABILITY

The company is party to an unlimited composite joint and several guarantee with other group companies to secure all liabilities of each other

29. POST BALANCE SHEET EVENTS

A number of changes to the United Kingdom Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts The changes had not been substantively enacted at the Balance Sheet date and, therefore, are not included in these financial statements This non-adjusting post balance sheet event has no material impact on the financial statements