TESCO STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008

Registered Number: 519500

TESCO STORES LIMITED

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008

The directors present their annual report and audited financial statements of Tesco Stores Limited (the "company") for the 52 weeks ended 23 February 2008.

Principal activity

The principal activity of the company is the operation of food stores and associated activities with 1,607 (2007: 1,482) stores throughout England, Scotland, Wales and Northern Ireland, serving on average 21 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.

In 2007/08, 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 seen good growth in 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 sustained 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 23 February 2008, which does not form part of this report.

Results and dividends

The profit on ordinary activities of the company before tax for the 52 weeks ended 23 February 2008 was £1,320m compared with £2,890m for the previous period.

An interim dividend of £1,500m (2007: £1,000m) has been paid in respect of the 52 weeks ended to 23 February 2008. The directors do not recommend payment of a final dividend for the 52 weeks ended 23 February 2008 (2007: £nil). The company also paid a preference dividend amounting to £16m (2007: £16m). The retained loss for the 52 weeks ended 23 February 2008 amounted to £580m (2007: retained profit of £1,245m).

Key performance indicators (KPI's)

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 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 14 to 17 of the group's Annual Report which does not form part of this report.

Tangible fixed assets

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 £7,100m included in the financial statements.

Directors and their interests

The following directors served during the 52 weeks ended 23 February 2008 and up to the date of signing the financial statements:

Sir T P Leahy	
A T Higginson	
T J R Mason	
P A Clarke	
D T Potts	
R Brasher	
G Fryett	
L J Neville-Rolfe	
M R Risk	(resigned 7 April 2008)
S Uwins	(resigned 23 February 2008)

A qualifying third-party indemnity provision as defined in Section 234(2) of the Companies Act 2006 is in force for the benefit of all directors that are also directors of Tesco PLC and the Company Secretary. This indemnity is in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not be indemnified, the company maintained a directors' and officers' liability insurance policy throughout the financial year.

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 newsletter called 'The One', 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

Charitable contributions totalled £7.6m (2007: £6.5m). There were no political donations (2007: £nil).

Supplier payment policy

Tesco PLC 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 52 weeks ended 23 February 2008 were 30 days (2007: 28 days), based on the ratio of company trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

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

The directors are required by the Companies Act 1985 and 2006 to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit and loss of the company for that 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).

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- 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 should 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 and 2006. 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 audit information (as defined by Section 418(3) of the Companies Act 2006) 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.

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 21st November 2008

R Brasher
Director
Tesco Stores Limited
Registered Number 519500

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TESCO STORES LIMITED

We have audited the financial statements of Tesco Stores Limited for the 52 weeks ended 23 February 2008 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 23 February 2008 and of its profit for the 52 weeks 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
London

21 November *2008*

TESCO STORES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008

	Notes	**2008** **£'m**	2007 £'m
Sales at net selling prices		**37,831**	35,553
Value added tax		**(3,045)**	(2,866)
Turnover excluding value added tax	2	**34,786**	32,687
Cost of sales		**(31,211)**	(29,308)
Gross profit		**3,575**	3,379
Administrative expenses		**(1,709)**	(1,604)
Other operating income		**110**	87
Operating profit	3	**1,976**	1,862
Net (loss) / income from shares in group undertakings		**(7)**	1
Net (loss) / profit on disposal of fixed assets	4	**(60)**	980
Interest receivable and similar income	6	**240**	270
Interest payable and similar charges	7	**(829)**	(223)
Profit on ordinary activities before taxation		**1,320**	2,890
Tax on profit on ordinary activities	8	**(400)**	(645)
Profit for the financial period	21	**920**	2,245

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

All operations are continuing for the financial periods.

TESCO STORES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008

	2008 £'m	2007 £'m
Profit for the financial period	**920**	2,245
Tax on items taken directly to equity for share based payments	**(51)**	66
Total recognised gains in the financial period	**869**	2,311
Prior period adjustment - share-based payment*	**(64)**	
Total recognised gains since the last Annual Report	**805**	

* The prior period adjustment for share-based payments results from the introduction of UITF 44 "Group and treasury share transactions" and our resulting review of how we account for share-based payments in the group (see note 1).

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS AS AT 23 FEBRUARY 2008

	2008 £'m	2007 £'m Restated*
Opening equity shareholder's funds restated* / reported	**5,179**	3,597
Prior period adjustment – share-based payment*	**-**	128
Opening shareholder's funds restated	**5,179**	3,725
Profit for the financial period	**920**	2,245
Dividends (note 9)	**(1,500)**	(1,000)
Share-based payments*	**155**	143
Tax on items taken directly to equity - share-based payments	**(51)**	66
Net (reduction) / additions to equity shareholder's funds	**(476)**	1,454
Closing equity shareholder's funds	**4,703**	5,179

* The prior period adjustment for share-based payments results from the introduction of UITF 44 "Group and treasury share transactions" and our resulting review of how we account for share-based payments in the group (see note 1). The movement in the prior period for share-based payments has increased by £93m to £143m (previously reported £50m).

TESCO STORES LIMITED

BALANCE SHEET AS AT 23 FEBRUARY 2008

	Notes	**2008** **£'m**	2007 £'m Restated*
Fixed assets			
Goodwill	10	**197**	206
Tangible fixed assets	11	**8,861**	7,764
Investments	12	**137**	128
		9,195	8,098
Current assets			
Stock	13	**1,250**	1,127
Debtors – amounts falling due within one year	14	**6,451**	6,800
Debtors – amounts falling due after more than one year	15	**490**	383
Cash at bank and in hand		**744**	463
		8,935	8,773
Creditors – amounts falling due within one year	16	**(12,397)**	(10,772)
Net current liabilities		**(3,462)**	(1,999)
Total assets less current liabilities		**5,733**	6,099
Creditors – amounts due after more than one year	17	**(394)**	(361)
Provisions for liabilities	18	**(636)**	(559)
Net assets		**4,703**	5,179
Capital and reserves			
Called up share capital	20	**1,320**	1,320
Profit and loss reserve	21	**3,383**	3,859
Total equity shareholder's funds		**4,703**	5,179

* The prior period restatement for share-based payments results from the introduction of UITF 44 "Group and treasury share transactions" and our resulting review of how we account for share-based payments in the group (see note 1).

The financial statements on pages 7 to 30 were approved by the board of directors on 21st November 2008 and were signed on its behalf by:

R Brasher
Director
Tesco Stores Limited
Registered Number 519500

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008

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 principal accounting policies have been applied consistently during the 52 week period except for the changes arising from the adoption of new UITF abstracts.

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.

Cash flow statement
The company is a wholly owned subsidiary of Tesco PLC and is included in the consolidated financial statements of Tesco PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 revised 1996.

Changes in accounting policies and prior period adjustments
During the 52 week period, an amendment to FRS 3 "Reporting financial performance" became effective, and has been adopted by the company. There is no impact on the financial statements arising from the adoption of this amendment.

UITF 44 'Group and treasury share transactions' (effective for periods beginning on or after 1 March 2007) addresses how to account for share-based payments in the individual financial statements of group entities.

Following the issue of this guidance we reviewed our accounting treatment of share-based payments in Tesco Stores Limited. Our new accounting treatment results in a balance sheet reclassification between inter-company balances and retained earnings. We have restated our comparatives to apply this treatment as if it had always existed. The impact of this reclassification was to decrease amounts owed to subsidiary undertakings, by £93m, and increase retained earnings by £93m.

When adopting FRS 20 "Share-based payment" during the period ended 24 February 2007 the company included, in the respective periods, the share-based payment charge for the periods ending 25 February 2006 and 24 February 2007. The Tesco PLC Group adopted the equivalent IFRS standard IFRS 2 "Share-based payment" during the period ended 25 February 2006. The IFRS transitional adjustment made by the Tesco PLC Group during this period also included the charge for the comparative period ended 26 February 2005 and an opening balance sheet adjustment as at 28 February 2004. To align the share-based payment reserves in Tesco Stores Limited to that of the Tesco PLC Group, we have now included in Tesco Stores Limited their share of the opening balance sheet adjustment and the share-based payment charge for the period ended 26 February 2005. This results in a decrease in profit and loss reserves of £54m and an increase in share-based payment reserves of £196m.

In assessing the impact of the above changes the company identified two amounts, £10m and £4m which were included in profit and loss reserves and share-based payment reserves respectively in relation to share-based payment schemes. These amounts have since been reclassified to creditors as a prior period adjustment.

Tangible fixed assets and capitalised interest
Fixed assets are carried at historic 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.

Financial liabilities
Financial liabilities 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.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008 (continued)

1. ACCOUNTING POLICIES (continued)

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 and from which future economic benefits are expected to arise. All other borrowing costs are recognised in the Profit and Loss Account on an accruals basis.

Fixed asset investments
Investments in subsidiaries and associates are stated at cost plus incidental expenses less, where appropriate, provisions for impairment.

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

The following depreciation 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%.

Foreign currencies
Transactions in foreign currencies are translated into pounds sterling 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 into pounds sterling at the exchange rates prevailing at the Balance Sheet date. All foreign exchange 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 in the Profit and Loss Account within Other operating income, on a straight-line basis over the term of the lease.

The company as a lessee
Assets held under finance leases are recognised as tangible fixed 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.

Goodwill
Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life, up to a maximum of 20 years. No amortisation is charged in the period of acquisition, with a full period charge in the period of disposal.

1. ACCOUNTING POLICIES (continued)

Impairment of fixed assets and goodwill
At each balance sheet date, the company reviews the carrying amounts of the fixed assets and determines whether there is any need for impairment 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.

Pensions
The company participates 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.

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 £414m (2007: £167m). Disclosure relating to the group defined benefit scheme can be found in the Tesco PLC Annual Report and Financial Statements 2008, note 24.

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) or in exchange for entitlements to cash payments based on the value of the shares (cash- 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.

Stocks
Stocks 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 using the weighted average cost basis.

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.

Current taxation
The amount included in the Profit and Loss Account is based on the profit or loss 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 52 WEEKS ENDED 23 FEBRUARY 2008 (continued)

1. ACCOUNTING POLICIES (continued)

Group relief on taxation

The company may 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 at 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.

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

	2008	2007
	£'m	£'m
Operating profit is stated after charging		
Wages and salaries	**2,844**	2,739
Social security costs	**166**	149
Other pension costs	**201**	187
Share based payment expense	**165**	158
Staff costs	**3,376**	3,233
Depreciation of tangible fixed assets (note 11)		
- owned assets	**419**	442
- leased assets	**28**	26
Amortisation of goodwill (note 10)	**11**	11
Operating lease charges		
- plant and machinery	**15**	14
- other	**319**	205

The average number of UK employees (excluding directors) per week during the 52 weeks ended 23 February 2008 was 253,809 (2007: 245,174) and the average number of full-time equivalents was 168,389 (2007: 162,198).

The auditors' remuneration for the current and prior periods was borne by another group company, including non-audit fees.

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

The net loss on sale on fixed assets for the 52 weeks ended 23 February 2008 was £60m (2007: gain of £980m).

5. DIRECTORS' EMOLUMENTS

	2008 £'000	2007 £'000
Aggregate emoluments (excluding shares) receivable under long term incentive schemes	**8,689**	7,393

Retirement benefits are accruing for ten directors (2007: ten directors) under a defined benefit scheme. During the 52 weeks ended 23 February 2008, all directors received or accrued shares under a long-term incentive scheme. The number of directors who exercised options during the 52 weeks to 23 February 2008 was 4 (2007: 8).

The total value of contributions to a defined benefit scheme on behalf of all directors of the company during the 52 weeks ended 23 February 2008 was £693,162 (2007: £577,385). No compensation was paid to directors for loss of office or retirement during the 52 weeks ended 23 February 2008 (2007: nil).

A. Highest paid director

	2008 £'000	2007 £'000
Aggregate emoluments (excluding shares) receivable under long term incentive schemes	**1,932**	1,906

Accrued pension per annum for the highest paid director, as at 23 February 2008 was £705,000 (2007: £627,000), with a lump sum entitlement at that date of £10,141,000 (2007: £9,350,000). The highest paid director made gains of £nil (2007: £nil) on the exercise of share options granted as part of the executive share option scheme. The highest paid director was granted 523,556 (2007: 709,353) share options during the 52 weeks ended 23 February 2008 as part of the executive share option scheme and 1,169,112 (2007: 921,944) shares were awarded as part of the Executive Incentive Plan, Performance Share Plan and Shares in Success. The highest paid director was also granted 2,500,000 (2007: nil) options as part of the Group New Business Incentive Plan.

B. Incentive schemes

The company operates executive incentive schemes for directors of the company. Awards are made in a combination of Tesco PLC ordinary shares of 5p each, cash and options over Tesco PLC shares.

Performance Share Plan

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 52 weeks ended 23 February 2008 awards were made over Tesco PLC shares up to 150% of salary and will vest, together with dividend equivalents, according to the achievement of Return On Capital Employed targets.

The Performance Share Plan (PSP) for other directors provides the opportunity to earn rewards for achieving superior long term performance. Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the Return On Capital Employed over a three year performance period.

5. DIRECTORS' EMOLUMENTS (continued)

Executive Incentive Scheme / Plan

Bonuses to senior directors are made each period in line with market practice. For the 52 weeks ended 23 February 2008 awards were made up to 200% of salary split equally between cash and 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, is added to the award during the deferral period.

Bonuses to other directors are made annually up to 100% of salary 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.

Shares in Success

All directors with at least one year's service are eligible to participate in the Shares in Success scheme. Shares are allocated on a pro-rata basis to base salary earned up to HMRC approved limits (currently £3,000 per annum).

Executive Share Option Scheme

Options over shares with a value of up to 200% of salary are granted to senior directors and with a value of up to 100% of salary are granted to other directors on an annual basis. Options are granted with an exercise price equal to the market value at the date of grant and any gain is therefore dependent on an increasing share price between the date of grant and exercise. Vesting of the options is conditional on the achievement of earnings per share growth against RPI.

US Long-Term Incentive Plan

Senior management in the US business participate in the US Long-Term Incentive Plan. The awards made under this Plan will normally vest in four tranches: four, five, six and seven years after the date of award, for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed in the US business over the seven-year plan.

Group New Business Incentive Plan

Options over shares are also made to selected senior directors of up to 2.5 million shares per person. Awards may be adjusted to take account of any dividends paid or that are payable in respect of the number of shares earned. Vesting is conditional on achievement of performance conditions which are aligned with targets set under the senior directors' PSP scheme.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £'m	2007 £'m
Interest receivable on bank deposits	**16**	12
Interest receivable from other loans	**34**	-
Interest receivable on loans to group undertakings	**190**	153
Foreign exchange net gains	**-**	105
	240	270

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'m	2007 £'m
Interest payable on overdrafts and bank loans	**27**	4
Interest payable on loans from group undertakings	**303**	238
Capitalised interest	**(69)**	(44)
Preference share dividend paid: 6p (2007: 6p) per share	**16**	16
Finance lease interest	**9**	9
Foreign exchange net loss	**543**	-
	829	223

A dividend was paid on the "A" Preference shares of £15m (2007: £15m) and £1m (2007: £1m) on the "B" Preference shares.

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2008 £'m	2007 £'m
Current tax:		
UK Corporation tax on profit for the financial period	**601**	481
Adjustments in respect of previous financial periods	**(221)**	(69)
Total current tax	**380**	412
Deferred tax:		
Current period tax	**(20)**	100
Prior period items	**91**	133
Change in tax rate	**(51)**	-
Total deferred tax	**20**	233
Tax on profit on ordinary activities	**400**	645

The tax assessed for the period is higher (2007: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2008 £'m	2007 £'m
Profit on ordinary activities before tax	**1,320**	2,890
Profit on ordinary activities multiplied by standard rate in the UK 30% (2007: 30%)	**396**	867
Effects of:		
Expenses not deductible for tax purposes	**59**	30
Non deductible expenditure on employee share schemes	**41**	-
Loss / (profit) on property disposals not taxable or available for tax relief	**17**	(297)
Non taxable dividends	**(3)**	-
Accelerated capital allowances and other timing differences	**(51)**	(75)
Other short term timing differences	**18**	(26)
Group relief received without payment	**(31)**	(50)
UK to UK transfer pricing adjustment	**11**	(13)
Prior period items	**(221)**	(69)
Other items	**144**	45
Current tax charge for the financial period	**380**	412

Factors that may affect future tax charges:
The standard rate of Corporation Tax in the UK changes to 28% with effect from the 1 April 2008.

Tax on items charged to equity:

	2008 £'m	2007 £'m
Current tax:		
Share-based payments	**6**	19
Deferred tax:		
Share-based payments	**(57)**	47
Total tax on items (charged) / credited to equity	**(51)**	66

9. DIVIDENDS

	2008 £'m	2007 £'m
Equity ordinary dividends paid £1.14 (2007: 76p) per share	**1,500**	1,000

10. GOODWILL

	£'m
At 24 February 2007	**206**
Additions	**2**
Amortisation charge	**(11)**
At 23 February 2008	**197**

During 2008 the company acquired some stores from another group company, 4 of these (2007: 12) were converted to Tesco Express stores at various stages throughout the 52 weeks ended 23 February 2008. Once converted the associated goodwill was recognised.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2008 (continued)

11. TANGIBLE FIXED ASSETS

	Land and buildings	Plant, equipment fixtures and fittings and motor vehicles	Total
	£'m	£'m	£'m
Cost			
At 24 February 2007	7,037	3,438	**10,475**
Additions at cost (a)	1,471	566	**2,037**
Transfer to / from group undertakings (b)	(89)	(7)	**(96)**
Disposals (see note 4)	(422)	(76)	**(498)**
At 23 February 2008	**7,997**	**3,921**	**11,918**
Accumulated depreciation			
At 24 February 2007	824	1,887	**2,711**
Charge for the period	110	337	**447**
Transfer to group undertakings (b)	(5)	(6)	**(11)**
Disposals (see note 4)	(32)	(58)	**(90)**
At 23 February 2008	**897**	**2,160**	**3,057**
Net book value (c)			
At 23 February 2008	**7,100**	**1,761**	**8,861**
At 24 February 2007	6,213	1,551	7,764
Capital work in progress included above (d)			
At 24 February 2008	**644**	**82**	**726**
At 25 February 2007	532	52	584

The net book value of land and buildings comprise:-

	2008	2007
	£'m	£'m
Freehold	**6,428**	5,603
Leaseholds	**672**	610
	7,100	6,213

Notes:

a) Additions at cost includes £65m (2007: £54m) 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 52 weeks to 23 February 2008 was 5% (2007: 5%).

b) Transfers of assets are made to / from other group companies throughout the 52 week period and are done at the net book value at the date of transfer.

c) Net book value includes capitalised interest, less amounts transferred and written off on disposal, of £297m (2007: £285m).

11. TANGIBLE FIXED ASSETS (continued)

Assets held under finance leases and capitalised in plant and machinery	**2008 £'m**	2007 £'m
Cost	**726**	659
Accumulated depreciation	**(447)**	(477)
Net book value	**279**	182

d) Capital work in progress does not include land.

The following amounts have been (charged) / credited to operating costs in the Profit and Loss Account during the 52 weeks ended 23 February 2008:

Impairment of fixed assets	**£'m**
At 24 February 2007	**52**
Impairment losses	**(48)**
Reversal of impairment losses	**48**
At 23 February 2008	**52**

The impairment losses relate to stores whose recoverable amounts do not exceed the net book value. In all cases, impairment losses arose due to stores performing below forecasted trading levels.

The reversal of previous impairment losses principally arose due to improvements in stores' performance over the last 52 weeks ended 23 February 2008 which increased the net present value of future cash flows.

12. INVESTMENTS

	Group companies £'m
Cost	
At 24 February 2007	145
Additions (a)	17
At 23 February 2008	**162**
Provision for impairment	
At 24 February 2007	17
Impairment charge (b)	8
At 23 February 2008	**25**
Net book value	
At 23 February 2008	**137**
At 24 February 2007	128

a) On 23 January 2008, the company acquired 100% of Halesworth SPV Limited, whose main activity is property management. The cost of this investment was £4m. 100% of Telegraph Properties (Kirkby) Limited, a property management company, was acquired on 20 September 2007 at a cost of £6m. The company also acquired the remaining 49.9% of Nutri Centres Limited, a complementary medicine company, on 3 May 2007 at a cost of £7m.

b) A provision has been made against the carrying value of the investment held by the Company in Greenergy International Limited of £8m. This brings the carrying value of this investment in line with the net assets of this company.

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

12. INVESTMENTS (continued)

Details of the principal subsidiary undertakings at the period end are as follows:

Investments in subsidiary undertakings	Registered in	% shares held	Nature of business
J E Cohen Limited	England	100	Organisation of sports events
Waltham Abbey Developments Limited	England	100	Property company
Halesworth SPV Limited	England	100	Property company
Motorcause Limited	England	100	Property company
Nutri Centres Limited	England	100	Complementary medicine
Telegraph Properties (Kirkby) Limited	England	100	Property company
Latitude Management Company Limited	England	100	Property company
Tesco Property Nominees (No 5) Limited	England	100	Property company
Tesco Property Nominees (No 6) Limited	England	100	Property company
Tesco Kirkby (General Partner) Limited	England	100	Property company

A full list of the company's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House.

Details of the principal associates at the period end are as follows:

Investments in associated companies	Registered in	% shares held	Nature of business
Greenergy International Limited	England	21.3	Fuel supplier
Clarepharm Limited	England	25.5	Dispensing pharmaceuticals
Crown Partnership	England	20	Royalty income
Broadfield Management Limited	England	43	Real estate development

All of the shares held are £1 ordinary shares with the exception of 10p ordinary shares held in Nutri Centres Limited. The company's share of the share capital and reserves of the principal associate was £32,000 (2007: ££26,000) and reserves of £9,832,000 (2007: £6,132,000) respectively.

13. STOCK

	2008	2007
	£'m	£'m
Goods for resale	**1,250**	1,127

14. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£'m	£'m
Amounts owed by group undertakings	**5,739**	6,046
Other debtors	**598**	670
Finance lease receivable (note 19)	**5**	11
Prepayments and accrued income	**109**	73
	6,451	6,800

Included within amounts owed by group undertakings are amounts that are unsecured, have no fixed date of repayment and are repayable on demand. During the year, interest was receivable on a portion of the amounts owed by group undertakings at the 12 month base rate plus 1%.

15. DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 £'m	2007 £'m
Amounts owed by group undertakings	**490**	383

The amount owed by group undertakings is unsecured and is repayable on 28 February 2009. Interest is charged at WIBOR (Warsaw Inter-bank Offered Rate) plus 0.4%.

16. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'m	2007 £'m Restated*
Bank loans and overdrafts	**326**	52
Trade creditors	**2,494**	2,228
Amounts due to group undertakings	**7,569**	6,811
Corporation tax	**343**	242
Finance leases (note 19)	**44**	21
Finance leases due to group undertakings (note 19)	**28**	42
Taxation and social security	**259**	166
Other creditors	**754**	716
Accruals and deferred income	**580**	494
	12,397	10,772

* The prior period restatement for share-based payments results from the introduction of UITF 44 "Group and treasury share transactions" and our resulting review of how we account for share-based payments in the group (see note 1). The amounts due to group undertakings as at 24 February 2007 has decreased by £221m to £6,811m (previously reported £7,032m).

Interest is paid on a portion of the amounts owed to group undertakings at the rate of LIBOR plus 1% except for a loan with Armitage Finance Unlimited of 1,836,004,000 (2007: 1,836,004,000) Polish zloty which is unsecured and accrues interest at WIBOR plus 0.15% points. This is repayable in November 2008. The loan agreement makes provision for future extensions of these terms by an additional year.

The company is also the holder of 2 Deep Discount Security Issues of £415.2m and £6.6m. These both accrue interest at 6.17625% and are redeemable on 31 August 2008.

Within amounts due to group undertakings is a loan of £690m which accrues interest at LIBOR plus 0.35%. This amount is repayable on demand. Other amounts due from group undertakings are unsecured, interest free and have no fixed date of repayment.

17. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 £'m	2007 £'m
Finance leases due to group undertakings (note 19)	**-**	29
Finance leases (note 19)	**130**	68
"A" Preference shares of £1 each – 259,000,000 (2007: 259,000,000)	**259**	259
"B" Preference shares of £1 each – 5,000,000 (2007: 5,000,000)	**5**	5
	394	361

The authorised preference share capital of the company is as follows: 259,994,000 "A" Preference shares of £1 each (2007: 259,994,000) and 2,263,250,000 "B" Preference shares of £1 each (2007: 2,263,250,000).

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

	Deferred taxation
	£'m
At 24 February 2007	**559**
Charged to the Profit and Loss Account:	
- In respect of the current period	**(20)**
- In respect of prior periods	**91**
- In respect of a change in tax rate	**(51)**
Charged to equity	**57**
At 23 February 2008	**636**

		Amount provided
	2008	2007
	£'m	£'m
Excess of capital allowances over depreciation	**722**	618
Other short term timing differences	**28**	44
Share-based payment	**(114)**	(103)
	636	559

19. LEASING COMMITMENTS

Finance lease commitments – company as lessee

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

	2008	2007
	£'m	£'m
Gross rental obligations	**226**	169
Less future finance charges	**(24)**	(9)
Present value of minimum lease payments	**202**	160
Analysed as:		
Within one year	**72**	63
Between two and five years	**130**	97
	202	160

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.

19. LEASING COMMITMENTS (continued)

Finance lease receivables – company as lessor

Future minimum rentals receivable under finance leases are as follows:

	2008 £'m	2007 £'m
Within one year	5	7
Between two and five years	-	5
Total minimum lease receivables	5	12
Less unearned finance income	-	(1)
Net lease receivables	5	11
Analysed as:		
Current finance lease receivables	5	6
Non-current finance lease receivables	-	5
	5	11

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 2.6% (2007: 4.0%) per annum.

Operating lease commitments – company as a lessee

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

	Land and buildings		Other	
	2008 £'m	2007 £'m	2008 £'m	2007 £'m
Within one year	2	3	5	4
Between two and five years	9	7	15	14
After five years	426	373	9	1
	437	383	29	19

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

	2008 **£'m**	2007 £'m
Authorised:		
1,320,006,000 ordinary shares of £1 each (2007: 1,320,006,000)	**1,320**	1,320
Allotted, called up and fully paid:		
1,320,006,000 ordinary shares of £1 each (2007: 1,320,006,000)	**1,320**	1,320

21. PROFIT AND LOSS RESERVE

	Total **£'m**
At 24 February 2007 as previously reported	**3,638**
Prior period adjustment for share-based payments*	**221**
At 24 February 2007 restated	**3,859**
Profit for the financial period	**920**
Dividends (note 9)	**(1,500)**
Share-based payment	**155**
Tax on items taken directly to equity for share-based payments	**(51)**
At 23 February 2008	3,383

* The prior period restatement for share-based payments results from the introduction of UITF 44 "Group and treasury share transactions" and our resulting review of how we account for share-based payments in the group (see note 1).

22. SHARE-BASED PAYMENTS

The total Profit and Loss Account charge for the period recognised in respect of share-based payments is £165m (2007: £158m), which is made up of share option schemes and share bonus payments.

a) Share option schemes

Tesco PLC had six share option schemes in operation during the 52 week period which were available to the employees of the company, 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. 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 5 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 5 July 2004 and amended on 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options granted before 29 June 2007 are normally exercisable between four and ten years from the date of grant for nil consideration. Options granted after 29 June 2007 are normally exercisable between three 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 5 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.

22. SHARE-BASED PAYMENTS (continued)

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

For the 52 weeks ended 23 February 2008

	Saving-related share option scheme		Approved share option scheme		Unapproved share option scheme	
	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 24 February 2007	160,158,728	236.12	15,923,259	276.17	67,502,832	267.18
Granted	27,946,829	410.00	3,502,788	473.75	11,882,097	473.64
Forfeited	(8,741,007)	253.96	(882,688)	336.21	(3,239,892)	343.74
Exercised	(37,422,181)	190.57	(3,215,958)	242.77	(14,718,084)	244.66
Outstanding at 23 February 2008	**141,942,369**	**281.27**	**15,327,401**	**324.87**	**61,426,953**	**308.47**
Exercisable as at 23 February 2008	7,163,679	192.99	4,721,071	232.32	26,551,672	230.55
Exercise price range (pence)		159.00 to 232.00		197.50 to 259.00		164.00 to 259.00
Weighted average remaining contractual life (years)		0.20		3.94		4.64

For the 52 weeks 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 as 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

Share options were exercised on a regular basis throughout the period. The average share price during the 52 weeks ended 23 February 2008 was 443.59p (2007: 369.70p).

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.

	2008		2007	
	Savings-related share option schemes	Executive share option schemes	Savings-related share option schemes	Executive share option schemes
Expected dividend yield (%)	**2.4%**	**2.4%**	2.7%	3.0%
Expected volatility (%)	**20-21%**	**24.0%**	28.0%	28.0%
Risk-free interest rate (%)	**4.8%**	**5.0-5.3%**	4.8%	4.7%
Expected life of option (years)	**3 or 5**	**6**	3 or 5	6
Weighted average fair value of options granted (pence)	**116.35**	**119.96**	122.02	81.63
Probability of forfeiture (%)	**20-25%**	**10%**	20-25%	10%
Share price (pence)	**470.00**	**471.12**	383.80	318.60
Weighted average exercise price (pence)	**410.00**	**471.12**	307.00	318.60

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 in Tesco PLC 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 (2007: £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 52 weeks to 23 February 2008 was:

	2008		2007	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	**16,627,572**	**470.45**	22,514,777	319.65
Executive incentive schemes	**6,258,749**	**456.63**	7,644,312	316.88
Performance share plan	**1,113,783**	**465.00**	1,651,906	346.25

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 52 weeks to 23 February 2008 is based upon the cash contributions payable.

The total cost of the scheme to the Tesco PLC group was £414m (2007: £167m). Further disclosure relating to the Tesco PLC Pension Scheme can be found in the Tesco PLC Annual Report and financial statements for the 52 weeks ended 23 February 2008.

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 23 February 2008 of £11m (2007: £11m), was determined in accordance with the advice of qualified actuaries, is being spread forward over the service lives of relevant employees and £0.6m (2007: £0.5m) has been charged to the Profit and Loss Account during the 52 weeks ended 23 February 2008.

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

24. CAPITAL COMMITMENTS

At 23 February 2008 there were commitments for capital expenditure contracted for but not provided of approximately £168m (2007: £138m).

25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

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. 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.

A number of contingent liabilities can arise in the normal course of business which if realised are not expected to result in a material liability to the company. The company recognises provisions for liabilities when it is more likely than not a settlement will be required and the value of such a payment can be reliably estimated.

In September 2007, the Office of Fair Trading issued its provisional findings in its Statement of Objections relating to the alleged collusion between certain large supermarkets and dairy processors. The Company continues to defend its case vigorously. No provision has been recognised in the company's results.

27. RELATED PARTY TRANSACTIONS

Transactions with other subsidiary companies within the group are not disclosed as the company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC, in which the company is included, are available at the address noted in note 25.

Transactions between the group and its associates are disclosed below:

During the 52 weeks ended 23 February 2008, the company purchased £766m (2007: £654m) of fuel from its associate Greenergy International Limited.

As at 23 February 2008, the company owes Greenergy International Limited £81m (2007: £82m) in respect of these transactions.

28. POST BALANCE SHEET EVENTS

On 29 September 2008, the company entered into a joint agreement with Samsung Tesco Co. Limited to acquire E-Land Retail Limited at a cost to the company of approximately £229m. As a result of this transaction, Tesco Stores Limited now holds a 50% interest in E-Land Retail Limited.

A number of changes to the UK Corporation Tax system were announced as part of the March 2007 budget statement. Certain of these changes were substantively enacted in the 2007 Finance Act on 26 June 2007. The impact of these changes has been recognised in these financial statements.

Certain other changes are expected to be enacted in the 2008 Finance Act. The impact of these changes will be recognised in the period in which the 2008 Finance Act becomes substantively enacted, which is expected to be in the next financial year.