TESCO STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

Registered Number: 519500

TESCO STORES LIMITED

DIRECTORS' REPORT

Directors' Report for the 52 weeks ended 27 February 2010

The dırectors present theır report and the audıted financıal statements of Tesco Stores Lımıted (the "company") for the 52 week penod ended 27 February 2010 (Pnor year 53 weeks ended 28 February 2009)

Principal activities

The pnncıpal actıvıty of the company ıs the operatıon of food stores and assocıated actıvıtıes wıth 1,969 (2009 1,770) stores throughout England, Scotland, Wales and Northern Ireland, servıng on average 22 8 mıllıon customers every week

Business review

We have focussed on earnıng customer loyalty by helpıng them to spend less wıth low pnces and affordable new products such as Dıscount Brands By encouragıng and rewardıng loyalty through an ıncreased ınvestment ın Clubcard we have maıntaıned steadıer sales growth than the ındustry as a whole, whıch has seen a sıgnıficant slowdown wıth the steep declıne ın ınflatıon We contınued to focus on delıverıng an ımproved shoppıng tnp for customers, by keepıng pnces as low as possıble, workıng towards ensurıng more of our customers receıve our 'one-ın-front' checkout promıse, ımprovıng on-shelf avaılabılıty and ımprovıng our product ranges We also contınued our aım of ıncreasıng our UK sales area, exploıtıng opportunıtıes arısıng from the growth ın use of the ınternet, delıverıng effıcıency savıngs to make what we do better for customers, sımpler for staff and cheaper for Tesco, and of beıng as strong ın non-food as ın food

The busıness delıvered a solıd performance ın competıtıve market condıtıons We are growıng faster than the ındustry as a whole and we have achıeved thıs by remaınıng focused – as always – on customers Our non-food performance has been very resılıent through the downturn In some key categorıes we have made sıgnıficant market share gaıns as our customers have been encouraged to try our range and we have extended our reach ın sellıng a broad range of products on the ınternet and vıa catalogue Tesco com, our ınternet grocery arm, has sustaıned ıts rapıd growth

Results and dividends

The profit on ordınary actıvıtıes of the company before taxatıon for the 52 weeks ended 27 February 2010 was £2,419m compared wıth £1,748m for the prevıous penod

An ınterım dıvıdend of £1,000m (2009 £1,000m) has been paıd ın respect of the 52 weeks ended 27 February 2010 The dırectors do not recommend payment of a final dıvıdend for the 52 weeks ended 27 February 2010 (2009 £nıl) The company also paıd preference dıvıdends amountıng to £16m (2009 £16m) The retaıned profit for the 52 weeks ended 27 February 2010 amounted to £845m (2009 £553m)

Future outlook

The company's performance ıs expected to contınue throughout the next financıal penod and ıt ıs hoped that the current performance levels wıll be maıntaıned

The company's future developments form a part of the Tesco PLC Group's long-term strategy, whıch ıs dıscussed on page 9 of the Group's Annual Report for the 52 weeks ended 27 February 2010, whıch does not form part of thıs report

Key performance indicators (KPI's)

We operate a balanced scorecard approach to managıng the busıness that ıs known ınternally as our 'Steenng Wheel' Thıs unıtes resources and ın partıcular focuses the efforts of our staff around our customers, people, operatıons, finance and the communıty Its prıme focus ıs as a management tool for the company so there ıs appropnate balance between the dıfferent areas of focus ın managıng the busıness

It therefore enables the busıness to be operated and monıtored on a balanced basıs wıth due regard to the needs of all stakeholders

The development, performance and posıtıon of the UK operatıons of the Tesco PLC Group, whıch ıncludes the company, ıs dıscussed on pages 38 to 44 of the Group's Annual Report whıch does not form part of thıs report

TESCO STORES LIMITED

DIRECTORS' REPORT

Directors' Report for the 52 weeks ended 27 February 2010 (continued)

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 business strategy, financial strategy and Group treasury risk, financial services risks, operational threats and performance risk, competition and consolidation, people capabilities, reputational risk, regulatory, political and economic environment, product safety, property, fraud, compliance and internal control, IT systems and infrastructure, activism and terrorism, pension risks and climate change Further discussion of these risks and uncertainties, in the context of the Tesco PLC Group as a whole, is provided on pages 41 to 44 of the group's Annual Report which does not form part of this report

Directors and their interests

The following directors served during the period and up to the date of signing the financial statements

R Brasher
P Clarke
G Fryett
A Higginson
T Leahy
T Mason
L McIlwee
L Neville-Rolfe
D Potts

Save as set out below, none of the directors had any disclosable interests in the company during this period

R Brasher, P Clarke, A Higginson, T Leahy , T Mason, L McIlwee, L Neville-Rolfe and D Potts are also directors of Tesco PLC, the company's ultimate parent company, and as such their disclosable interests in Tesco PLC are all declared in the financial statements of that company

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Tesco PLC directors listed above 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

Interests in land

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 £8,098m included in the financial statements The market value of the land and properties is not disclosed as it can fluctuate with the market volatility and is market sensitive

Employees

The company depends on the skills and commitment of its employees in order to achieve its objectives

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

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) The company had 260,670 employees on average during the 52 weeks ended 27 February 2010 (2009 257,283)

Directors' Report for the 52 weeks ended 27 February 2010 (continued)

Charitable and political contributions

Cash donatıons to charıtıes amounted to £9 3m for the 52 weeks ended 27 February 2010 (2009 £7 6m) There were no polıtıcal donatıons (2009 £nıl)

Research and development

The company does not undertake any research and development actıvıtıes

Supplier payment policy

Tesco PLC ıs a sıgnatory to the Prompt Payment Code More ınformatıon about the Code can be found at www promptpaymentcode org uk Payment terms and condıtıons are agreed wıth supplıers ın advance Tesco PLC has no trade credıtors on ıts Balance Sheet The Group pays ıts credıtors on a pay on tıme basıs whıch varıes accordıng to the type of product and terrıtory ın whıch the supplıers operate

Trade credıtor days of the company for the 52 weeks ended 27 February 2010 were 29 days (2009 31 days), based on the ratıo of company trade credıtors at the end of the perıod to the amounts ınvoıced durıng the perıod by trade credıtors

Cautionary statement regarding forward-looking information

Where thıs revıew contaıns forward-lookıng statements, these are made by the dırectors ın good faıth based on the ınformatıon avaılable to them at the tıme of theır approval of thıs report These statements should be treated wıth cautıon due to the ınherent rısks and uncertaıntıes underlyıng any such forward-lookıng ınformatıon A number of ımportant factors, ıncludıng those ın thıs document, could cause actual results to dıffer materıally from those contaıned ın any forward-lookıng statement

Branches

The company has a branch ın the Isle of Man

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

The dırectors are responsıble for preparıng the Annual Report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the financıal statements ın accordance wıth Unıted Kıngdom Generally Accepted Accountıng Practıce (Unıted Kıngdom Accountıng Standards and applıcable law) The financıal statements are requıred by law to gıve a true and faır vıew of the state of affaırs of the company and of the profit or loss of the company for that perıod

In preparıng those financıal statements, the dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgements and estımates that are reasonable and prudent,
- state whether applıcable UK Accountıng Standards have been followed, subject to any materıal departures dısclosed and explaıned ın the financıal statements, and
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the company wıll contınue ın busıness, ın whıch case there wıll be supportıng assumptıons or qualıficatıons as necessary

The dırectors confirm that they have complıed wıth the above requırements ın preparıng the financıal statements

The dırectors are responsıble for keepıng adequate accountıng records that are sufficıent to show and explaın the company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the company and enable them to ensure that the financıal statements comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

Legıslatıon ın the Unıted Kıngdom governıng the preparatıon and dıssemınatıon of financıal statements may dıffer from legıslatıon ın other jurısdıctıons

TESCO STORES LIMITED

DIRECTORS' REPORT

Directors' Report for the 52 weeks ended 27 February 2010 (continued)

Statement on disclosure of information to auditors

Each director who is a director of the company at the date of approval of this Annual Report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he/she 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

Post balance sheet events

Since the balance sheet date, the company was involved in a number of important events which are disclosed (note 27)

Independent auditors

The independent auditors of Tesco Stores Limited, PricewaterhouseCoopers LLP, are proposed for reappointment

On behalf of the Board

24 November 2010

R Brasher
Director
Tesco Stores Limited
Registered Number 519500

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
1 Embankment Place London WC2N 6RH

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 27 February 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4 and 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 27 February 2010 and of its profit for the 52 weeks then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Richard Winter

Richard Winter (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 November 2010

TESCO STORES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

	Notes	**52 weeks to 27 Feb 2010 £'m**	53 weeks to 28 Feb 2009 £'m
Sales at net selling prices		**41,810**	41,258
Value added tax		**(3,068)**	(3,231)
Turnover excluding value added tax	2	**38,742**	38,027
Cost of sales		**(34,895)**	(34,336)
Gross profit		**3,847**	3,691
Administrative expenses		**(1,766)**	(1,614)
Other operating income		**130**	109
Operating profit	3	**2,211**	2,186
Net income from shares in group undertakings		**1**	-
Net profit on disposal of fixed assets	4	**132**	85
Interest receivable and similar income	6	**84**	222
Interest payable and similar charges	7	**(9)**	(745)
Profit on ordinary activities before taxation		**2,419**	1,748
Tax on profit on ordinary activities	8	**(574)**	(195)
Profit for the financial period	20	**1,845**	1,553

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

All operations are continuing

The notes on pages 10 to 29 form part of these financial statements

TESCO STORES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

	2010 £'m	2009 £'m
Profit for the financial period	**1,845**	1,553
Adjustment in respect of prior years - FRS 20 SBP*	**(17)**	31
Total recognised gains in the financial period	**1,828**	-
Prior period adjustment – deferred tax	-	222
Items taken directly to equity for share based payments	**201**	-
Total recognised gains since the last Annual Report	**2,029**	1,806

* The company adopted Amendments to FRS 20 'Share Based Payment' – Vesting Conditions and Cancellations The impact on the company's result for the year ended 28 February 2009 is a reduction in profit of £17m This is considered immaterial and the accounts have not been restated

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

RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS AS AT 27 FEBRUARY 2010

	2010 £'m	2009 £'m
Opening shareholder's funds	**5,664**	4,925
Profit for the financial period	**1,845**	1,553
Dividends paid (note 9)	**(1,000)**	(1,000)
Share-based payments	**201**	155
Adjustment in respect of prior years - FRS 20 SBP*	**(17)**	31
Net additions / (reduction) to equity shareholder's funds	**1,029**	739
Closing equity shareholder's funds	**6,693**	5,664

* The company adopted Amendments to FRS 20 'Share Based Payment' – Vesting Conditions and Cancellations The impact on the Company's result for the year ended 28 February 2009 is a reduction in profit of £17m This is considered immaterial and the accounts have not been restated

TESCO STORES LIMITED

BALANCE SHEET AS AT 27 FEBRUARY 2010

	Notes	2010 £'m	2009 £'m
Fixed assets			
Intangible assets	10	178	189
Tangible assets	11	9,997	10,187
Investments	12	255	270
		10,430	10,646
Current assets			
Stock	13	1,321	1,292
Debtors – amounts falling due within one year	14	6,295	6,992
Cash at bank and in hand		586	2,274
		8,202	10,558
Creditors – amounts falling due within one year	15	(11,192)	(14,809)
Net current liabilities		(2,990)	(4,251)
Total assets less current liabilities		7,440	6,395
Creditors – amounts due after more than one year	16	(321)	(358)
Provisions for liabilities	17	(426)	(373)
Net assets		6,693	5,664
Capital and reserves			
Called up share capital	19	1,320	1,320
Profit and loss account	20	5,373	4,344
Total equity shareholder's funds		6,693	5,664

The financial statements on pages 7 to 29 were approved by the board of directors on 24 November 2010 and were signed on its behalf by

R Brasher
Director
Tesco Stores Limited
Registered Number 519500

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 2006 The company's principal accounting policies have been applied consistently during the period except for the amendment set out below

In accordance with FRS 2 "Accounting for Subsidiary Undertakings" and Section 400 of the Companies Act 2006, group financial statements have not been prepared because the company is a wholly owned subsidiary of Tesco PLC, incorporated in England and Wales

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

Changes in accounting policies

The company has adopted the following standard amendment as of 1 March 2009
Amendments to FRS 20 'Share Based Payment' – Vesting Conditions and Cancellations, effective for annual periods beginning on or after 1 January 2009 (early adoption is permitted), clarifies that only service and performance conditions are vesting conditions Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of the equity instrument granted This award must be treated as a cancellation where the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the company or the counterparty Cancellations are treated as accelerated vestings and all remaining future charges are immediately recognised in the company Profit and Loss Account with the credit recognised directly in equity The impact on the company's result for the year ended 28 February 2009 is a reduction in profit of £17m This is considered immaterial and the accounts have not been restated

Tangible fixed assets and capitalised interest

Tangible 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 and other costs incurred in bringing the asset to its working condition for its intended use Interest is capitalised on a gross basis

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

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

Clubcard and loyalty initiatives

The cost of Clubcard is treated as a cost of sale, with an accrual equal to the estimated fair value of the points issued recognised when the original transaction occurs On redemption, the cost of redemption is offset against the accrual

The fair value of the points awarded is determined with reference to the cost of redemption and considers factors such as redemption via Clubcard deals versus money off in-store redemption rate

Computers for Schools and Sport for Schools and Club vouchers are issued for redemption by participating schools/clubs The cost of the redemption (i e meeting the obligation attached to the vouchers) is treated as a cost rather than as a reduction from sales

1. ACCOUNTING POLICIES (continued)

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

Depreciation
Depreciation is provided to write off costs or valuation of tangible fixed assets less their residuals 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 depreciated 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%
- Freehold land is not depreciated

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

Intangible assets
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

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

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 goodwill to determine 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 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 UK Group was £414m (2009 £383m) 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 27 February 2010

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

Options awarded to employees are for share capital of Tesco PLC This is treated as a capital contribution to the reserves of the company

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 Turnover is recognised 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 income from third parties, intra-group recharges, rental income, lottery sales income, and income from advertising and vending machine operations

1. ACCOUNTING POLICIES (continued)

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

Group relief on taxation
The company may receive or surrender 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

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Operating profit is stated after charging		
Wages and salaries	**3,059**	3,015
Social security costs	**189**	177
Other pension costs	**234**	219
Share based payment expense	**206**	176
Staff costs	**3,688**	3,587
Depreciation of tangible fixed assets (note 11)		
- owned assets	**491**	480
- leased assets	**52**	61
Amortisation of goodwill (note 10)	**11**	11
Operating lease charges		
- plant and machinery	**27**	10
- other	**452**	425

The average number of UK employees (excluding directors) per week during the 52 weeks ended 27 February 2010 was 260,670 (2009 257,283) and the average number of full-time equivalents was 174,316 (2009 171,163)

The auditors' remuneration for the current year was £65,000 (2009 £60,000)

4. NET PROFIT ON DISPOSAL OF FIXED ASSETS

The net profit on sale on fixed assets for the 52 weeks ended 27 February 2010 was £132m (2009 £85m)

5. DIRECTORS' EMOLUMENTS

	52 weeks to 27 Feb 2010 £'000	53 weeks to 28 Feb 2009 £'000
Aggregate emoluments (excluding shares) receivable under long term incentive schemes	**9,327**	8,033

Retirement benefits are accruing for nine directors (2009 ten directors) under a defined benefit scheme During the 52 weeks ended 27 February 2010, all directors received or accrued shares under a long-term incentive scheme The number of directors who exercised options during the 52 weeks to 27 February 2010 was 9 (2009 2)

The total value of contributions to a defined benefit scheme on behalf of all directors of the company during the 52 weeks ended 27 February 2010 was £781,508 (2009 £685,562) No compensation was paid to directors for loss of office or retirement during the 52 weeks ended 27 February 2010 (2009 nil)

A. Highest paid director

	52 weeks to 27 Feb 2010 £'000	53 weeks to 28 Feb 2009 £'000
Aggregate emoluments (excluding shares) receivable under long term incentive schemes	**2,140**	2,009

Accrued pension per annum for the highest paid director, as at 27 February 2010 was £832,000 (2009 £775,000), with a lump sum entitlement at that date of £15,924,000 (2009 £12,130,000) The highest paid director made gains of £2,327,000 (2009 £260,000) on the exercise of share options granted as part of the executive share option scheme The highest paid director was granted 812,647 (2009 618,548) share options during the 52 weeks ended 27 February 2010 as part of the executive share option scheme and 1,326,686 (2009 1,318,951) shares were awarded as part of the Executive Incentive Plan, Performance Share Plan and Shares in Success The highest paid director was also granted 100,779 (2009 79,393) options as part of the Group New Business Incentive Plan

B. Share schemes

The company operates share schemes for directors of the company Awards are made in a combination of Tesco PLC ordinary shares of 5p, 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 27 February 2010 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 over a three year performance period

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 Vesting will normally be conditional on the achievement of specified performance targets related to the Return On Capital Employed targets over a three year performance period

5. DIRECTORS' EMOLUMENTS (continued)

Executive Incentive Scheme / Plan

Bonuses to senior directors are made each year in line with market practice For the 52 weeks ended 27 February 2010 awards were made up to 200% of salary split equally between cash and shares, with a compulsory deferral for three years on the part paid shares Awards are made annually based on the achievement of earnings per share targets, and total shareholder return targets and the achievement of strategic corporate objectives The share equivalent of dividends, which would have been paid on the shares, are added to the award during the deferral period

Bonuses to other directors are made annually up to 100% of salary based on earnings per share targets and the achievement of strategic corporate objectives 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 added to the award during the deferral period

Discretionary Share Option Plan

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 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 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 growth

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 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 Options will normally vest in four tranches four, five, six and seven years after the date of grant and will be exercisable for up to two years from the vesting dates 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 the seven-year plan

Shares In Success

Shares in the company are allocated to participants in the scheme up to HMRC approved limits (currently £3,000 per annum) The amount of profit allocated to the scheme is determined by the Board, taking account of company performance

Buy As You Earn

All employees are eligible to participate in Buy As You Earn which is an HMRC approved share purchase scheme under which employees invest up to a limit of £110 on a four-weekly basis to buy shares at the market value in Tesco PLC

5. DIRECTORS' EMOLUMENTS (continued)

Save As You Earn

All employees are eligible to participate in Save As You Earn which is an HMRC approved savings-related share option scheme under which employees save up to a limit of £250 on a four-weekly basis via a bank/building society with an option to buy shares in Tesco PLC at the end of a three-year or five-year period at a discount of up to 20% of the market value There are no performance conditions attached to SAYE options

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Interest receivable on bank deposits	**-**	16
Interest receivable from other loans	**-**	1
Interest receivable on loans to group undertakings	**57**	205
Foreign exchange net gain	**27**	-
	84	222

7. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Interest payable on overdrafts and bank loans	**12**	2
Interest payable on loans from group undertakings	**99**	176
Capitalised interest	**(119)**	(107)
Preference share dividend paid	**16**	16
Finance lease interest	**1**	8
Foreign exchange net loss	**-**	650
	9	745

During the period, a dividend was payable on the "A" Preference shares of £16m at 16 45p per share (2009 £16m at 16 45p per share) and £0 4m at 13 93p per share (2009 £0 4m at 13 93p per share) on the "B" Preference shares

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Factors that have affected the tax charge

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from April 2008 The overall corporation tax rate for the company for the full year is 28% (2009 blended rate of 28 2%)

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Current tax:		
UK Corporation tax on profit for the financial period	**499**	361
Adjustments in respect of previous financial periods	**8**	(183)
Total current tax	**507**	178
Deferred tax.		
Current period tax	**(10)**	59
Prior period items	**77**	(42)
Change in tax rate	**-**	-
Total deferred tax	**67**	17
Tax on profit on ordinary activities	**574**	195

The tax assessed for the period is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 blended rate 28 2%) The differences are explained below

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Profit on ordinary activities before tax	**2,419**	1,748
Profit on ordinary activities multiplied by standard rate in the UK 28% (2009 28 2%)	**677**	493
Effects of		
Expenses not deductible for tax purposes	**45**	51
Deductions on employee share schemes	**(34)**	(12)
Profit on property disposals not taxable or available for tax relief	**(123)**	(46)
Accelerated capital allowances and other timing differences	**10**	(24)
Other short term timing differences	**10**	(28)
Group relief received without payment	**(86)**	(157)
Prior period items	**8**	(183)
Other items	**-**	84
Current tax charge for the financial period	**507**	178

Tax on items charged to equity:

	2010 £'m	2009 £'m
Current tax		
Share-based payments	**-**	(26)
Deferred tax	**-**	
Share-based payments	**-**	57
Total tax on items (charged) / credited to equity	**-**	31

9. DIVIDENDS

	52 weeks to 27 Feb 2010 £'m	53 weeks to 28 Feb 2009 £'m
Equity ordinary interim dividends paid £0 758 (2009 £0 758) per share	**1,000**	1,000

10. INTANGIBLE ASSETS

	Goodwill £'m
Cost	
At 28 February 2009*	233
Additions	-
At 27 February 2010	**233**
Provision for amortisation	
At 28 February 2009	44
Amortisation charge	11
At 27 February 2010	**55**
Net book value	
At 27 February 2010	**178**
At 28 February 2009	189

*Goodwill predominately relates to the conversion of One Stop stores from another Group company During 2010 the company converted 1 One Stop store to a Tesco Express store (2009 9)

11. TANGIBLE FIXED ASSETS

	Land and buildings £'m	Plant, equipment fixtures and fittings and motor vehicles £'m	Total £'m
Cost			
At 28 February 2009	9,210	4,503	13,713
Additions at cost (a)	877	451	1,328
Transfer (to) / from group undertakings (b)	(247)	(19)	(266)
Disposals (see note 4)	(830)	(41)	(871)
At 27 February 2010	**9,010**	**4,894**	**13,904**
Accumulated depreciation			
At 28 February 2009	951	2,575	3,526
Charge for the period	83	460	543
Transfer from group undertakings (b)	(28)	(14)	(42)
Disposals (see note 4)	(94)	(26)	(120)
At 27 February 2010	**912**	**2,995**	**3,907**
Net book value (c)			
At 27 February 2010	**8,098**	**1,899**	**9,997**
At 28 February 2009	8,259	1,928	10,187
Capital work in progress included above (d)			
At 27 February 2010	**783**	**48**	**831**
At 28 February 2009	823	69	892

The net book value of land and buildings comprise -

	2010 £'m	2009 £'m
Freehold	**7,398**	7,517
Leaseholds	**700**	742
	8,098	8,259

Notes

a) Additions at cost includes £119m (2009 £107m) 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 27 February 2010 was 5 1% (2009 5 1%)

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 £455m (2009 £380m)

d) Capital work in progress does not include land

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

11. TANGIBLE FIXED ASSETS (continued)

Assets held under finance leases and capitalised in plant and equipment	**2010 £'m**	2009 £'m
Cost	**717**	719
Accumulated depreciation	**(554)**	(503)
Net book value	**163**	216

The following amounts have been (charged) / credited to operating costs in the Profit and Loss Account during the 52 weeks ended 27 February 2010

Impairment of fixed assets	**£'m**
At 28 February 2009	**52**
Impairment losses	**(27)**
Reversal of impairment losses	**27**
At 27 February 2010	**52**

The company has determined that for the purposes of impairment testing, each store is a cash-generating unit Cash-generating units are tested for impairment if there are indications of impairment at balance sheet date

Recoverable amounts for cash-generating units are mainly based on value in use, which is generally calculated from cash flow projections for five to twenty years using data from the company's latest internal forecasts, the results of which are reviewed by the Board The key assumptions for the value in use calculations are those regarding those discount rates, growth rates and expected changes in margins Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to cash-generating units Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market

The forecasts are extrapolated beyond five years based on estimated long-term growth rates of generally 1% to 4% (2009 2% to 10%)

The pre-tax discount rates used to calculate value in use range from 6% to 14% (2009 7% to 24%) depending on the specific conditions in which each store operates These discount rates are derived from the company's post-tax weighted average cost of capital

The reversal of previous impairment losses principally arose due to improvements in stores' performance over the last 52 weeks ended 27 February 2010 which increased the net present value of future cash flows

12. FIXED ASSET INVESTMENTS

	Group companies £'m
Cost	
At 28 February 2009	295
Additions	84
Disposals	(112)
At 27 February 2010	**267**
Provision for impairment	
At 28 February 2009	25
Impairment charge	(13)
At 27 February 2010	**12**
Net book value	
At 27 February 2010	**255**
At 28 February 2009	270

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

The disposals and impairments represent the dissolution of Buyright (London) Limited £98m and Waltham Abbey Developments Limited £5m

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

Investments in subsidiary undertakings	Registered in	% shares held	Nature of business
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
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
Tesco Homeplus Co Limited	Korea	47 94	Retailing

All of the shares held are £1 ordinary shares with the exception of 10p ordinary shares held in Nutri Centres Limited and KRW10,000 ordinary shares held in Tesco Homeplus Co Limited The company's share of the share capital and reserves of the principal associate Tesco Homeplus Co Limited was £59m and (£155m) respectively The company's share of the share capital and reserves of the principal associate Greenergy International Limited was £33,000 (2009 £33,000) and £15,533,000 (2009 £13,061,000) respectively

13. STOCK

	2010 £'m	2009 £'m
Goods for resale	**1,321**	1,292

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

14. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'m	2009 £'m
Amounts owed by group undertakings	**5,607**	6,261
Other debtors	**587**	639
Prepayments and accrued income	**101**	92
	6,295	6,992

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. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'m	2009 £'m
Bank loans and overdrafts	**6**	2,102
Trade creditors	**2,827**	2,941
Amounts owed to group undertakings	**5,934**	7,701
Corporation tax	**348**	232
Finance leases (note 18)	**37**	38
Other taxation and social security	**366**	239
Other creditors	**1,061**	999
Accruals and deferred income	**613**	557
	11,192	14,809

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 1,586,004,000 (2009 1,836,004,000) Polish zloty which is unsecured and accrues interest at WIBOR (Warsaw Interbank Offered Rate) plus 1 0% points with effect from 1 March 2009 This was repayable in November 2009 but the Company made use of the provision in the loan agreement to extend the terms to 2 November 2011

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

	2010 £'m	2009 £'m
Finance leases (note 18)	**57**	94
"A" Preference shares of £1 each – 259,000,000 (2009 259,000,000)	**259**	259
"B" Preference shares of £1 each – 5,000,000 (2009· 5,000,000)	**5**	5
	321	358

The authorised preference share capital of the company is as follows 259,994,000 "A" Preference shares of £1 each (2009 259,994,000) and 2,263,250,000 "B" Preference shares of £1 each (2009 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 Dividends for the "B" Preference shares are calculated based on a pre-determined formula of the Reference Gilt Rate plus 1 279% multiplied by the RPI ratio applicable to the month in which the dividend payment falls 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

The "A" Preference share became redeemable at any date after 22 May 2007 by service of a notice of redemption by the company or the "A" Preference shareholders

The "B" Preference shares are irredeemable

17. PROVISIONS FOR LIABILITIES

	Deferred taxation £'m
At 28 February 2009	373
Charged to the Profit and Loss Account	
- In respect of the current period	(10)
- In respect of prior periods	77
- Transferred to fixed assets	(14)
At 27 February 2010	426

		Amount provided
	2010 £'m	2009 £'m
Excess of capital allowances over depreciation	**460**	399
Other short term timing differences	**-**	2
Share-based payment	**(34)**	(28)
	426	373

18. LEASING COMMITMENTS

Finance lease commitments – company as lessee

Future minimum lease payments under finance leases are as follows

	2010 £'m	2009 £'m
Gross rental obligations	**95**	143
Less future finance charges	**(1)**	(11)
Present value of minimum lease payments	**94**	132
Analysed as		
Within one year	**37**	38
Between two and five years	**57**	94
	94	132

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

18. LEASING COMMITMENTS (continued)

Operatmg lease commitments – company as a lessee

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

	Land and buildings		Other	
	2010	2009	**2010**	2009
Expiring	**£'m**	£'m	**£'m**	£'m
Within one year	**2**	2	**6**	5
Between two and five years	**50**	15	**18**	22
After five years*	**552**	480	**9**	-
	604	497	**33**	27

*The prior year commitments have been adjusted to include all applicable operating leases in line with the current year

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

19. CALLED UP SHARE CAPITAL

	2010	2009
	£'m	£'m
Authorised		
1,320,006,000 ordinary shares of £1 each (2009 1,320,006,000)	**1,320**	1,320
Allotted, called up and fully paid		
1,320,006,000 ordinary shares of £1 each (2009 1,320,006,000)	**1,320**	1,320

20. PROFIT AND LOSS RESERVE

	Total
	£'m
At 28 February 2009 as previously reported	**4,344**
Profit for the financial period	**1,845**
Dividends (note 9)	**(1,000)**
Share-based payment	**201**
Adjustment in respect of prior years - FRS 20 SBP*	**(17)**
At 27 February 2010	**5,373**

* The company adopted Amendments to FRS 20 'Share Based Payment' – Vesting Conditions and Cancellations The impact on the Company's result for the year ended 28 February 2009 is a reduction in profit of £17m This is considered immaterial and the accounts have not been restated

21. SHARE-BASED PAYMENTS

The total Profit and Loss Account charge for the penod recognised in respect of share-based payments is £206m (2009 £176m), which is made up of share option schemes and share bonus payments

a) Share option schemes

Tesco PLC had four 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 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

21. SHARE-BASED PAYMENTS (continued)

The followıng tables reconcıle the number of share optıons outstandıng and the weıghted average exercıse prıce (WAEP)

For the 52 weeks ended 27 February 2010

	Savıng-related share optıon scheme		Approved executıve share optıon scheme		Unapproved executıve share optıon scheme	
	Optıons	WAEP	Optıons	WAEP	Optıons	WAEP
Outstandıng at 28 February 2009	132,160,281	306 11	14,975,975	351 82	63,147,584	344 63
Granted	35,300,806	328 00	2,259,253	338 40	21,592,724	338 42
Forfeıted	(8,777,932)	315 43	(533,568)	409 75	(3,071,604)	409 29
Exercısed	(30,760,291)	257 20	(3,497,597)	286 54	(14,440,548)	273 16
Outstandıng at 27 February 2010	**127,922,864**	**323.27**	**13,204,063**	**364 47**	**67,228,156**	**355 03**
Exercısable as at 27 February 2010	5,824,286	266 10	5,679,556	282 29	25,579,554	280 29
Exercıse prıce range (pence)		195 00 to 307 00		197 50 to 388 75		197 50 to 415 50
Weıghted average remaınıng contractual lıfe (years)		0 18		4 26		4 53

For the 53 weeks ended 28 February 2009

	Savıng-related share optıon scheme		Approved executıve share optıon scheme		Unapproved executıve share optıon scheme	
	Optıons	WAEP	Optıons	WAEP	Optıons	WAEP
Outstandıng at 23 February 2008	141,942,369	281 27	15,327,401	324 87	61,426,953	308 47
Granted	35,715,916	311 00	3,221,139	426 79	15,268,660	426 79
Forfeıted	(9,597,430)	299 64	(877,444)	384 34	(2,695,993)	388 51
Exercısed	(35,900,574)	214 48	(2,695,121)	277 55	(10,852,036)	244 62
Outstandıng at 28 February 2009	**132,160,281**	**306.11**	**14,975,975**	**351 82**	**63,147,584**	**344 63**
Exercısable as at 28 February 2009	6,075,815	220 72	5,385,287	259 43	27,938,449	260 61
Exercıse prıce range (pence)		159 00 to 248 00		197 50 to 313 50		184 00 to 313 50
Weıghted average remaınıng contractual lıfe (years)		0 18		3 98		4 72

Share optıons were exercısed on a regular basıs throughout the perıod The average share prıce durıng the 52 weeks ended 27 February 2010 was 380 05p (2009 372 06p)

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

21. 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

	2010		**2009**	
	Savings-related share option schemes	**Executive share option schemes**	Savings-related share option schemes	Executive share option schemes
Expected dividend yield (%)	**3.6%**	**3.6-3.9%**	3 3%	3 3%
Expected volatility (%)	**26-31%**	**25%**	25-30%	25%
Risk-free interest rate (%)	**2.0-2.8%**	**2 8-3.3%**	3 2-3 8%	3 2-4 9%
Expected life of option (years)	**3 or 5**	**6**	3 or 5	6
Weighted average fair value of options granted (pence)	**86.74**	**64.24**	89 28	93 90
Probability of forfeiture (%)	**14-16%**	**10%**	20-25%	10%
Share price (pence)	**378.00**	**345.23**	361 00	425 2
Weighted average exercise price (pence)	**328.00**	**338.58**	311 00	425 2

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 United Kingdom 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 who have completed a required service period and are dependent on the achievement of EPS and corporate targets The accrued cash element of the bonus at the Balance Sheet date is £22m (2009 £15m)

Selected senior management participate in the senior management Performance Share Plan 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

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 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 Tesco PLC Directors' Remuneration Report

21. SHARE-BASED PAYMENTS (continued)

The number and weighted average fair value (WAFV) of share bonuses awarded during the 52 weeks to 27 February 2010 was

	2010			2009
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	**26,986,530**	**349.66**	19,737,906	431 05
Executive incentive schemes	**8,251,847**	**356.05**	6,970,188	415 45
Performance share plan	**1,277,801**	**375.52**	1,871,222	353 76

22. 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 27 February 2010 is based upon the cash contributions payable

The total cost of the scheme to the UK Group was £414m (2009 £383m) 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 27 February 2010

The company expects to make contributions of approximately £397m to defined benefit pension schemes in the year ending 27 February 2011

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 27 February 2010 of £12m (2009 £10m), was determined in accordance with the advice of qualified actuaries, is being spread forward over the service lives of relevant employees and £0 7m (2009 £0 7m) has been charged to the Profit and Loss Account during the 52 weeks ended 27 February 2010

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

23. CAPITAL COMMITMENTS

At 27 February 2010 there were commitments for capital expenditure contracted for but not provided of approximately £262m (2009 £174m)

24. 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

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

25. CONTINGENT LIABILITIES

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 No contingent liabilities have been recognised in the current year

In September 2007, the Office of Fair Trading (OFT) issued its provisional findings in its Statement of Objections relating to the alleged collusion between certain large supermarkets and dairy processors On 30 April 2010, the OFT announced that it decided to drop the allegations against the company in relation to milk and butter in the dairy investigation The OFT agreed a discretionary penalty discount of 10% for the company not contesting the two remaining allegations which related to cheese The company has however made no admission of wrongdoing The discounted fine will become payable after the OFT issues it decision later this year and is immaterial and therefore no provision has been recognised

26. 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 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 in note 24

Transactions between the company and its associates are disclosed below

During the 52 weeks ended 27 February 2010, the company purchased £1,312m (2009 £1,171m) of fuel from its associate Greenergy International Limited

As at 27 February 2010, the company owes Greenergy International Limited £24m (2009 £156m) in respect of these transactions

27. POST BALANCE SHEET EVENTS

Since the balance sheet date, the company entered into several joint venture arrangements which involved the sale and leaseback of properties to and from these joint ventures and other third party companies The terms of these sale and leasebacks vary, however, common factors include, the sale of the properties to the joint venture at market value, options at the end of the lease for the company to repurchase the properties at market value, market rent reviews and 20-30 year lease terms

On May 17 2010, the Company acquired an extra 14 4% of Greenergy International Limited at a cost of £14 5m

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 As at 27 February 2010 the rate changes were not substantively enacted and, therefore, are not included in these financial statements The overall effect of the changes from 27% to 24%, if these applied to the deferred tax balance at 27 February 2010 would be to reduce the deferred tax liability by £61m

THE TESCO CROWN LP

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

Registered Number: LP008527

THESE PARTNERSHIP ACCOUNTS FORM PART OF THE ACCOUNTS OF COMPANY No. 519500

STATEMENT OF PARTNERS' RESPONSIBILITIES

The Partners' responsibilities in preparing the Partners' financial statements are set out in clause 22 of the Partnership Deed dated 31st January 2003 ("the Partnership Deed") In fulfilling their responsibilities hereunder, the Partners have decided to prepare financial statements that give a true and fair view of the state of affairs of the Partnership at the end of the financial period and of the profit or loss of the Partnership for each financial period In preparing those financial statements the Partners accept responsibility for

- selecting suitable accounting policies and then applying them consistently,
- making judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- preparing the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business

The Partners accept responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Partnership and enable it to ensure that the financial statements comply with the Partnership Deed They also accept responsibility for the system of internal control and for safeguarding the assets of the Partnership and hence taking reasonable steps for the prevention and detection of fraud and other irregularities

THE TESCO CROWN LP

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

	Note	2010 £'000	2009 £'000
Income from charges to group undertakings		-	17,423
Net interest receivable from charges to group undertakings		**4,808**	6,344
Charges from group undertakings		-	-
Profit for the financial period	4	**4,808**	23,767

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

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

THE TESCO CROWN LP

BALANCE SHEET AS AT 27 FEBRUARY 2010

	Notes	2010 £'000	2009 £'000
Current assets			
Debtors – due within one year	3	**125,871**	121,063
Cash at bank		**225**	225
Net assets		**126,096**	121,288
Represented by:			
Amounts due to Partners	4	**126,096**	121,288
Total Partners' funds	4	**126,096**	121,288

The financial statements on pages 3 and 4 were approved on behalf of the Partners on 24 November 2010 and were signed on its behalf by

Richard Brasher

General Partner
For and on behalf of the Tesco Stores Limited
Registered number 00519500

The notes on pages 5 and 6 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010

1 ACCOUNTING POLICIES

Basis of accounting

The accounts of the Partnership have been prepared on the accruals basis in Sterling under the historical cost convention and in accordance with UK generally accepted accounting practice including applicable accounting standards of the Accounting Standards Board except where such convention, practice or standards conflict with the specific accounting policies set out below The Partnership has taken advantage of sections 4 to 6 of The Partnerships (Accounts) Regulations 2008 whereby the Partnership is exempt from audit because it is included in the consolidated financial statements of Tesco PLC, which are publicly available

Assets contributed

No value shall be attributed to assets, other than cash or other marketable securities that are contributed to the Partnership by Partners

Loans

Loans made shall be stated at face value less provisions for bad and doubtful debts

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 prices prevailing on the Balance Sheet date All differences are taken to the Profit and Loss account for the period

Income received under deduction of tax

Income received or to be received under deduction of tax is included in income in the Profit and Loss account at the gross amount before deduction of such tax

2 OPERATING PROFIT

The Partnership had no employees during the period The General Partner received no remuneration for its services to the Partnership

3 DEBTORS – DUE WITHIN ONE YEAR

	2010	2009
	£'000	£'000
Amounts owed by group undertakings	**125,871**	121,063

Amounts owed by group undertakings are unsecured, bear interest at LIBOR plus 1% and have no fixed date of repayment

THE TESCO CROWN LP

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2010 (continued)

4 AMOUNTS DUE TO PARTNERS

Partners Accounts as at 27 Feb 2010	Capital Contributions £'000	Profit for the period £'000	Distributions £'000	**Total £'000**
Tesco PLC	190,000	4,685	(71,822)	**122,863**
Tesco Stores Limited	5,000	123	(1,890)	**3,233**
Total	**195,000**	**4,808**	**(73,712)**	**126,096**

5 ULTIMATE PARENT UNDERTAKING

The immediate parent undertakings of the Partnership are Tesco Plc and Tesco Stores Limited The parent undertaking is Tesco Plc The registered office is Tesco House, Delamare Road, Cheshunt, EN8 9SL