



TESCO | *Every little helps*

ANNUAL REVIEW AND SUMMARY FINANCIAL STATEMENT 2006

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Gülnur Avcı and Gülhan Isık TescoKipa, Cigili, Turkey

Tesco works hard to create value for customers to earn their lifetime loyalty. We do this in each of the four parts of our strategy: Core UK, International, Non-food and Retailing services.



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Every Little Helps is the way we do things at Tesco.

It means doing the little things that really matter for customers and staff, in every store, every day.

It's summed up in our Values – no-one tries harder for customers, and treat people how we like to be treated.

Every little helps

Three little words that help us to try and make Tesco a little bit better.

chairman's statement

We have continued to make strong progress with all four parts of our strategy – by keeping our focus on trying to improve what we do for customers.



I am delighted to be able to report that the business has made good progress in a more challenging year. I believe this reflects the strength of the Tesco strategy and the excellent progress the team has made to improve our offer for customers, which in turn drives our financial performance for shareholders.

For the full year on a 52-week basis, Group sales have increased by 13.2% to £41.8 billion and Group profit before tax has grown by 16.7% to £2.2 billion. New underlying profit is up 16.9% and ROCE has increased to 12.8% (UK GAAP-52 weeks), beating our target. The full year dividend is up 14.2% broadly in line with earnings per share.

UK Our sales performance in the UK core business has been strong, as we have invested in all parts of the customer offer. Sales were up 10.7% to £32.7 billion. Our operating profit was up 14.9% to £1,788 million.

International has delivered good growth in like-for-like sales, profits and returns. On a 52-week basis, sales are up 23.0% at actual rates to £9.2 billion, up 15.5% at constant exchange rates, with our operating profit up 17.4% to £465 million.

Our largest ever new store development programme delivered 5.4 million sq ft of sales area, with a further 6.6 million sq ft planned in the current year.

Non-food has again made strong progress, with UK sales up by over 13%, against the background of cautious consumer spending. Our established areas such as health and beauty (up 10%) have done well and newer departments such as consumer electronics (34% growth) and clothing (16% growth) have performed particularly strongly.

Retailing services have also had a good year with tesco.com delivering record results, Tesco Personal Finance (TPF) performing well in a challenging personal finance sector and good growth in telecoms. Tesco.com sales are up 31.9% to almost £1 billion and TPF delivered £139 million profit, of which Tesco's share was £70 million.

Delivering for shareholders The Directors propose a final dividend of 6.10 pence per share. This represents an increase of 15.7% and brings the full year dividend per share to 8.63 pence, up 14.2%, broadly in line with the growth in earnings per share.

16.9%New underlying
Group profit
before tax†**16.7%**Group profit
before tax**14.1%**New underlying
diluted earnings
per share†**13.9%**Diluted
earnings
per share**14.2%**Dividend
per share**FINANCIAL HIGHLIGHTS GROWTH ON 2005**

	2006 60 weeks	2006 52 weeks	2005 52 weeks
Group sales (£m) (including value added tax)	43,137	41,819	36,957
Group revenue (£m)	39,454	38,259	33,866
New underlying Group profit before tax† (£m)	2,277	2,251	1,925
Group profit before tax (£m)	2,235	2,210	1,894
New underlying diluted earnings per share† (p)	20.30	20.06	17.58
Diluted earnings per share (p)	19.92	19.70	17.30
Dividend per share (p)	8.63	–	7.56
Group enterprise value (£m) (market capitalisation plus net debt)	30,841	–	27,910
Return on capital employed	12.7%	12.6%	11.8%

† Adjusted for IAS 32, IAS 39 and the net difference between IAS 19 pension charge and 'normal' cash contributions for pensions.

13.2%

increase in Group sales

We are comfortable with the level of dividend cover that we have built over the last few years. We intend future dividend growth to be broadly in line with earnings per share.

We have great strength in our property portfolio in terms of its freehold base. We can still retain this strength whilst releasing funds through our property funding partnership. Some of the funds will be used to buy shares to offset the earnings per share dilution from issuance of share options and scrip dividends. The rest will mainly be used to fund the growth of the business.

Not only are we working hard for customers in our stores and on-line, but we are also working hard in the communities in which we operate and the environment at large. You will see in the ensuing months the continuing steps we are taking to deliver more for all.

Tesco continues to be a dynamic and innovative company; our entry into the USA with an exciting new format will add significant growth to our international business when we launch in 2007.

We know that Tesco cannot be a success unless our people are doing everything they can for customers. This is what Every Little Helps is all about; it is fundamental to how we run our business both in the UK and internationally. Concentrating on giving customers what they want is how every decision in Tesco is made, as we know that our success comes from customers choosing to shop with us.

I would like to thank all of our staff for their hard work and commitment in doing their very best day-in, day-out. I am delighted that our people are benefiting from £181 million from Shares in Success and Save As You Earn schemes.


David Reid Chairman

chief executive's review

We have invested more than £1 billion in price cuts over the last five years.



Tesco has again delivered strong results by improving the shopping trip for customers around the world, and every bit of the Group has played its part.

In our core Tesco range
in the Czech Republic
we have 1,405 lines.



Customers tell us they
like the Finest range
as they know it
represents great
quality and value.

Internationally we have
substantial, successful,
local businesses, such
as our Hymall joint
venture in China.



13 million
active Clubcard holders

People know that Tesco is a growth company with a clear strategy, and that won't change, but what is not always recognised is our commitment to disciplined growth – in other words, investing to improve the shopping experience for customers and at the same time delivering an economic return and tangible benefits for shareholders. The two go hand in hand at Tesco.

I believe the prospects for the long-term development of the business have never been better. We have come through a period of heavy investment in our four-part strategy. We have now laid the foundations for a truly international business and followed the customer successfully into big new markets in non-food and services.



chief executive's review

►
**Our Value
and Finest ranges**
enable customers
to shop within
their budgets.



focused on what matters

It has been a successful year for Tesco. We've again made good progress by staying focussed on and investing in the things that really matter to our customers around the world. Our growth has been broadly-based, with the four parts of our strategy – international, the core UK business, non-food and services – all playing their part. Tesco is about making the shopping experience better for customers and we've built our success and our growth by listening to them. Through this, we have created many new opportunities for long-term growth and we are pursuing them with increasing confidence. This growth is and will be disciplined growth and we are also improving the way shareholders benefit from it.

Over the last two years, through our joint ventures with Topland, Consensus and Morley, Tesco has developed an updated version of our property joint ventures. Our experience with them has been good. They have enabled us to fund our growth efficiently by releasing cash from our property base, develop a stream of material property profits and also enhance our returns. They allow us to run and improve our stores without always needing freehold ownership.

So we are going to do more of these joint ventures – up to £5 billion more over the next five years – and I believe it will also become more apparent as we do this programme just how valuable these appreciating assets have become.

We will keep a strong freehold asset base of over 70% going forward, but we can be more flexible now given the scope these deals allow us to operate our stores for customers. The scale of this programme means that we can fund the business comfortably from internal resources and also use some of the proceeds to benefit shareholders directly; first, from the conservation of our equity going forward and secondly, from higher income.

At least £1.5 billion, or more than twice our annual dividend payment of approaching £700 million, will be used to eliminate future earnings per share dilution by buying Tesco shares in the market to match scrip, option and staff share scheme issuance. We have employee share and option schemes, which are an important way of motivating our staff. Shareholders will also see an increase in income as we have moved to raising dividends almost in line with earnings, instead of building cover as we have been over the last couple of years.

Our growth has been broadly-based, with all four parts of our strategy playing their part.

disciplined growth around the world

In the early years of diversification, heavy investment held back returns as we built a platform to raise our sustainable growth rate to industry leading levels. Two years ago we said we had moved into a new phase where strong growth would be accompanied by rising returns. We set ourselves a demanding return on capital target then, and I am pleased to say we have hit it early.

We are renewing our commitment to stay focused on profitable growth and at the same time, we're also improving the way shareholders benefit from it. We're investing hard in our strategy and capital

expenditure will rise to be around £3 billion this year, partly due to our move into the United States. Just as our appetite for growth is still strong, so is our commitment to see returns rise. That is why we've set a new return on capital target.

We aim to raise our Group return on capital by another 200 basis points. In a competitive, capital-intensive business like ours, this will be a challenge. Further operational improvement across the business, and the changes to how we manage our capital invested in property, will both contribute.

►
We aim to offer
our customers
the convenience
of either large
or small stores.



19%
increase
in international space

non-food is still growing

The UK business made good progress in the year, attracting more than a million new customers. International also delivered a strong performance. Sales, profits and returns rose again. At a time when the number of retailers in our sector with international ambitions is shrinking, Tesco has defined a strategy for international growth which works well.

In non-food we've sustained good momentum in a subdued UK retail market, where consumers have been cautious. Our sales have grown by 13% and our market share has increased. Our 118 Extra hypermarkets are easily accessible to barely a quarter of UK households and so we are developing plans to enable more of our customers to buy our non-food through new channels – including improving our on-line service and trialling further non-food only stores. Our services businesses have continued to grow well. Tesco.com sales reached almost £1 billion as weekly orders rose above 200,000 a week, and we saw strong profit growth. Telecoms now has over 1.5 million customers and introduced more innovative new services. Tesco Personal Finance made progress in tough market conditions.

In 2005, we opened two million sq ft of new space in the UK and over 5.4 million sq ft of space outside the UK, across our 11 markets – our biggest ever programme. We'll open more in the current year and the Carrefour asset swap deal, which we announced in September, should add more than a million sq ft

to our Central Europe business. In total, net of the divestment of Taiwan, that will deliver 25% growth in space for International in 2006 and we plan to have a similar UK development programme as 2005.

In February, we announced that Tesco would enter the United States in 2007. We are developing a completely new format, modelled on Express, for the American consumer. It will be a local format and we're excited about it. We've put a good team together, led by Tim Mason who has now moved to the West Coast, and we are looking forward to getting our offer in front of customers next year.

We are also leading the way on the wider issues that are important to customers and communities. We have made significant new commitments in areas like nutritional labelling and the environment. For example, Tesco has created a new £100 million capital fund to be used for innovation in sustainable environmental technology and this will enable us to transform our investment in renewable energy, CO₂ emission reduction and recycling.

Terry Leahy Chief Executive

Every little helps



UNITED KINGDOM
REPUBLIC OF IRELAND

POLAND
CZECH REPUBLIC
SLOVAKIA
HUNGARY

TURKEY

◀ **The Steering Wheel** Throughout all our businesses across the world we measure our performance through the Steering Wheel, whether we work in distribution, the office or in stores. This helps maintain focus and balance in what counts to run each of our businesses successfully, be it wage costs or whether customers can get everything they want.

We talk about Every Little Helps a lot, but it's not just a catchphrase or marketing slogan, it represents everything we stand for. For our people and our customers, it's how we run our businesses from China to Chorley.

As Tesco has grown, so has the importance of Every Little Helps. Over time, we've gone from simply selling groceries to providing anything from loans to mobile phones. By setting out in all these new directions we ran the risk of losing our way. So, we have relied on Every Little Helps more and more over the years, to act as a common philosophy to bind us all together. Every operational decision we make in Tesco is judged against the principles of the shopping lists. Deceptively simple, but the key to understanding Tesco is to see that our obsession with delivering these promises is what we're all about. Unless it improves the basics of shopping, we're not interested.

I can get what I want A key priority for our managers and staff is that customers can always get what they want, on every shopping trip.

We are continually working on improving our availability. In the UK, we have introduced a new method for counting grocery products which has significantly reduced gaps in stores. In Central Europe, a project called Simple Ordering is under way which will deliver improved availability and this was trialled in Hungary last year.

The prices are good In China, we have now launched a price guarantee on key commodity products including rice, eggs and bread. This means that if our customers can buy these products for less from any of our local competitors, we will refund double the difference. The feedback from customers has been very positive.

An opportunity to get on As a world-class business we recognise that for us to constantly move forward, we need to have world-class leaders and world-class staff, building loyalty and encouraging ordinary people to achieve extra-



Our **Shopping Lists** determine what we strive to achieve every day:

- that no-one tries harder for customers
- we treat people how we like to be treated
- we are better for customers, simpler for staff and cheaper for Tesco.



Vanida S. Greenstore
Bangkok, Thailand.



2,900 managers
have been appointed this year

ordinary things. Throughout our business we run several development programmes for our staff and our managers, from graduate programmes to Options, to enable all our people to develop the skills they need to get on in their careers. It is a priority for us to develop leadership at every level in every part of our business. This year alone over 2,900 managers have been appointed in the UK, and thousands of members of staff promoted in Asia and Europe. We try actively to share our managers' knowledge as a company, and our people move not only roles but also countries to help broaden their depth of knowledge, and add value to their new role. Ryszard Tomaszewski is a great example of this. Previously Ryszard was the Operations Director in Poland. He has just completed a 12 month placement as Operations Director for Superstores North and is now part of our supply chain team. Likewise, Dennis Bryne who was a store manager in Manchester and then Gatwick Extra has moved to Korea as an international coach, working with the Korean team to develop a process which improves how stores manage their waste reduction policy.

I don't queue We constantly strive to improve our checkout service so that fewer customers have to queue. In the UK last year, many more customers enjoyed our 'one in front' service. In our international businesses, we are continuing to implement what we have learnt from the UK to improve how we manage our scheduling of staff for checkouts and we have already seen queues reduce.

The staff are great All of our staff throughout the world regularly receive refresher training on how to deliver great customer service. In the UK, all store staff are being trained in new skills to deliver even better service through a culture-change programme called Living Service. So far, we have covered 650 stores in total, with all of our people in these stores receiving training in the Living Service attitudes:

- know your stuff;
- show you care;
- share a smile.

international

► We have an excellent track-record in developing the best managers and growing local talent.



▲ We have introduced 'Would I buy it?' training to staff in Poland to ensure all of our products are of the best quality.

► We now have Express stores in six countries outside the UK.



▲ Selayang, Malaysia

► **Zhu Fengxia**
Sanmen,
Shanghai, China.

Over half of Tesco's selling space is now outside the UK and the population of markets we operate in adds up to more than two billion people, representing more than half of the world's wealth.



◀ This year we launched our **Cherokee** clothing brand in Poland, the Czech Republic and Slovakia.

165

international Express stores

With over a decade of international experience, we have developed a strategy which has given us the confidence to grow our existing businesses and invest in new markets. In those countries which formed the first part of Tesco's international expansion in the late 1990s, such as Thailand and Hungary, we now have substantial, successful, local businesses, which help us to develop the blueprint for new markets, such as our Hymall joint venture in China.

- ▶ We are **flexible**, adopting a slightly different approach, as every market is unique
- ▶ We have a **local** offer, in response to local cultures, local customers, local supply chains and local regulations
- ▶ International expansion requires **focus** – it's a long-term effort, not about planting flags
- ▶ No single format can reach the whole market, so we are **multi-format**
- ▶ It's not about scale, it's about skill – so we make sure we have **capability** through people, processes and systems
- ▶ We develop **brands** to enable us to build lasting relationships with customers



international: asia



◀ In South Korea, we launched the **MeliMelo** children's clothing brand.



◀ BEING LOCAL IN THAILAND

Many of our customers in Thailand are more used to shopping at local wet markets than supermarkets, so while we are bringing many of the benefits of modern retailing, such as improved hygiene, quality and availability, we have tried to make sure we understand local customers' needs. This means we sell the majority of fresh produce loose or in small quantities so customers can buy exactly the amount they want, even if it's just one clove of garlic. We have taken many items out of plastic packaging, so customers can touch, smell and feel the quality of their produce. We have also increased the number of staff on counters, so customers can enjoy the same interaction they are used to when doing their daily shopping.

39 stores
China

China In 2005, we introduced 500 economy products into our ranges for customers across China. In addition, for the first time, two waves of price cuts were launched where we cut the price on 33 everyday staple foods for customers, such as loose eggs, oil, rice etc and also the price on the top 650 branded grocery items. Hymall opened nine supermarkets this year and plans a further 12 next year. We have begun to accelerate our expansion programme beyond the Yangtse delta and have teams working to develop our network in Beijing, Shenzhen and Guangzhou. We have also invested in capability, bringing Tesco systems and know-how into the business, focusing particularly on improving store design, the supply chain and store replenishment.

111 stores
Japan

Japan Our new management team have had a challenging year, and we are continuing to learn about the Japanese market. In Japan, we operate discount convenience supermarkets, typically 3,000 sq ft in size. In the year, we complemented our organic growth programme, which added three stores, with a small acquisition in June of the Tanekin business. This comprised eight stores around Tokyo which are already trading under the Tsurukame format. We opened our first trial Express store in April 2006.

13 stores
Malaysia

Malaysia We are making good progress in Malaysia with an increase in sales, a stronger opening programme and improving profitability. We have a good pipeline of new space and we have been able to move to multi-format at an earlier stage than we have before, by building on our experience in other countries. We are trialling our Express format in Malaysia with three stores, situated mainly in the area around Kuala Lumpur. We also opened our first Value store, a 3,000 sq m store in Banting. By offering a tailored supermarket range in a smaller store which is cheaper to build, we have been able to bring a modern retail offer to a community which would not have been able to sustain a larger supermarket.



▶ This year we opened six new Culture Centres in our stores in South Korea.



◀ FIRST TESCO-DESIGNED STORE IN CHINA

In September, Hymall, our joint venture with Ting Hsing in China, opened a store in Sanmen, Shanghai. This is the first store which has been designed from scratch using a Tesco blueprint. While the design keeps the very best aspects of the existing Hymall stores, such as a strong local feel and an exciting and captivating fresh food market, it also brings key Tesco benefits to the store, including making it easier for customers to get around, making it simpler for staff to replenish the shelves and more standard merchandising of products. In its first month, almost 400,000 customers experienced an improved shopping trip thanks to the joint venture team working together.

◀ **Parimala Ganisanan** Shah Alam, Malaysia.

62 stores
South Korea

6 stores
Taiwan

219 stores
Thailand

South Korea We opened eight new hypermarkets in South Korea this year, including three compact hypers, which are around 60,000 sq ft instead of the more typical 100,000 sq ft. We also finished the conversion programme of the 12 stores we purchased from Aram-Mart. Nine of these stores were converted to Express, complementing our organic growth programme. We have further adapted our Express model in South Korea, enabling us to focus on the key products which customers want to be able to buy, close to where they live and work. During the year, we appointed In sook Kim as store manager of our Gajwa hypermarket. In sook is the first female store manager for our Homeplus business and is one of the first to benefit from our store manager development programme.

Taiwan It has been a challenging few months for our team in Taiwan, following the announcement of the asset swap deal with Carrefour in September 2005. Ahead of the transfer to Carrefour, they have held the performance of the business together remarkably well in difficult circumstances. We have been able to continue growing sales in Taiwan, despite tough competition, thanks to the efforts of the team in ensuring that our customers received the best possible service and a great all-round offer. This hard work will enable us to exit from Taiwan with minimal financial impact, allowing us to focus on investment in Central Europe and our other Asian businesses.

Thailand Customers in Thailand benefited from an exciting development this year – the launch of our ‘Talad’ format. Talad means market in Thai, and represents the fact that we have tailored our offer to customers who are used to shopping in local markets. We now have ten of these stores, which carry between 4,500 and 7,500 product lines in around 10,000 sq ft of selling space. Our Express format has proved extremely successful in Thailand and we now have over 139 stores with more to come next year, plus 14 Value stores and ten new supermarkets. We are opening a dedicated Express distribution centre in Bangkok next year, which will supply both fresh and ambient products.



international: europe

◀ Our **Value** range is proving very popular with customers right across our international network.

CARREFOUR DEAL

In September 2005, we announced an asset-swap with Carrefour. As part of the deal (which is subject to the usual regulatory approval), we will gain up to 11 Carrefour hypermarkets in the Czech Republic and four stores in Slovakia, strengthening our Central European business. Our business in Taiwan, which has been unable to grow sufficient scale will be passed to Carrefour. The swap is an innovative way of gaining the opportunity to grow our business substantially in the highly competitive Czech and Slovak markets.

◀ **Alelisandre Ochwat** Katowice, Poland.

35 stores
Czech Republic

Czech Republic Overall, our business in the Czech Republic has delivered strong sales and profit growth despite very competitive market conditions. We have also accelerated our new store development programme, adding 20% to our sales area during the year, with eight new compact hypermarkets. We opened the Group's first 1,000 sq m, or '1K' store, in Mikulov in the Czech Republic, close to the border with Slovakia. Over 8,000 customers, representing approximately the town's entire population, chose to visit the store on its opening day in June 2005. This format enables us to bring the Tesco offer to smaller towns, carrying a locally-tailored range of around 2,700 products. We opened our first Czech customer kitchen in Letnany store during the year, enabling us to gain crucial customer feedback into the quality and design of our products.

87 stores
Hungary

Hungary Customers are facing a more challenging economic and retail environment in Hungary, which has held back our growth but we have still made solid progress. Our customers have benefited from lower prices in store and from the roll-out of petrol stations, making it significantly cheaper to fill-up. We also opened 18 new stores in the year. In 2004/05, we opened our first 3,000 sq m or '3K' store and following its success we opened a further three this year. Combined, these stores added 22% to our total space in the year, with a further 30 new stores, representing an additional 880,000 sq ft of new space, planned this year.

105 stores
Poland

Poland Customers are showing signs of renewed confidence in Poland. The economic outlook is better and the response to an improving offer in our stores is encouraging. Customers love the convenience of our small format stores which bring many of the advantages of our larger hypermarkets closer to where they live and work. Our first purpose-built fresh food distribution centre, which we have built next door to our existing ambient distribution centre in Teresin, opened in March and will help us to further improve the availability and quality of our meat and produce ranges.



▲ Mikulov, Czech Republic.

91 stores
Republic of Ireland

Republic of Ireland We continue to invest in bringing prices down for our Irish customers, with price cuts of over €55 million this year alone. We are also focusing on extending our product ranges. With Finest growing in popularity, we have increased the number of lines in areas such as cheese, ready meals and wine. The Cherokee clothing range now includes men's and children's items. The business in Ireland has achieved strong growth in sales and profits. Sales growth has benefited from a good like-for-like performance and an acceleration in the growth of our space. We opened six new stores with over 100,000 sq ft of sales area during the year, with a further eight new stores planned in 2006.

▶ This year we opened a 161,000 sq ft state-of-the-art fresh food depot in Teresin, Poland.



▶ **Antalya, Turkey**
We have introduced Every Day Low Prices into our stores in Turkey.



TESCO IN A BOX

Growth in our international businesses is made possible by improving the capability of our people, processes and systems. 'Tesco in a Box' is a suite of bespoke systems that was developed in our Turkish business, working with members of our Korean, Indian and UK teams. Now it has been developed, it can be rolled out to our other businesses, providing them with all the necessary systems required to operate key Tesco processes, such as supply chain and replenishment. Tesco in a Box went live in the first store in Turkey in March 2005 and the team is in the process of rolling it out to our Japanese and Chinese businesses.

▼ In Turkey, the launch of Kipa Value brand has helped to grow our business.



37 stores
Slovakia

Slovakia In line with our other Central European businesses, Tesco Slovakia has introduced a price promise on 50 every-day items, guaranteeing that we won't be beaten by any local competitor – if customers find a cheaper price elsewhere, we'll give them twice the difference. The business has delivered another very strong performance, with sales and profits significantly up on last year. Our new store programme is now supported by the growth of our compact hypermarket format. We now have 18 such stores, with five more planned this year. Our new fresh foods central distribution centre at Beckov, measuring 500,000 sq ft, is fully operational and delivering significant benefits in lower costs and better product quality.

8 stores
Turkey

Turkey In Turkey, Kipa delivered a very strong performance. Sales rose strongly and profit doubled. We now have eight stores, serving over 250,000 customers every week. New stores in Canakkale, Bodrum and Antalya have all performed well. The Bodrum store was the first designed by Tesco and the pipeline for the future looks strong, with eight stores in the coming year which, will nearly double our space in Turkey. We successfully launched the Kipa Value brand in Turkey, with over 400 products so far and we plan to extend this in the coming year.

core uk

Huge on quality and low on price, our new **Naturally Good Food** range marks the new age of the ready meal.

We are committed to developing the capability of our people and helping to make Tesco a great place to work.



Finest is the premium Tesco brand with over 1,500 products, including non-food lines.



We work hard to create value for customers, to earn their lifetime loyalty. We try to deliver what customers want and we treat people – customers and our team – as we like to be treated.



◀
**Mikey Balfour
and Kim Moussi**
Bar Hill Extra,
United Kingdom.

▲
We have invested
over £10 million
in reducing prices in
organic lines this year.

30%

increase in organic fruit and vegetable sales

Our success depends on people – the people who shop with us and the people who work with us. We never forget that our customers have a choice and they come back to shop with us only because they like what we offer. We pride ourselves on our dedication to customers, seeking all the time to adapt and improve what we sell and how we sell it to reflect their needs. We don't always get it right but we try to make their shopping trip as easy as possible, reduce prices where we can to help them spend less and give them the convenience of shopping when and where they want – in small stores, large stores or on-line.

For example, over the last year we have worked to give customers even better value. We saw deflation of 1.8% in our stores as we invested in lowering prices for customers. We check our prices on 10,000 items every week and put them on our website so that our customers can make sure they are getting the best deal.

www.tesco.com/pricecheck



core uk



◀ Our first two Finest potato lines, Exquisa and Smile, were specifically selected to offer customers an enhanced taste.



NUMBER OF FRESH FRUIT AND VEGETABLE 'VALUE' LINES



HEALTHY LABELLING

◀ We know that health and fitness is a concern for many of our customers, so we're providing more ways to help people live a healthier life. We put a big effort into improving our chilled ready meal recipes, which now only use ingredients that customers can find in a Tesco store. We've also reduced sugar, salt and fat levels in hundreds of our products. Following extensive research to understand how best to help customers choose a balanced diet, we've also introduced our new 'signpost' labelling to our own-brand lines, providing simple, clear, front-of-pack information to 2,500 products so far, and by the end of this year the entire range will have been completed.

www.tesco.com/clubcard/healthyliving



1,898 stores
United Kingdom

giving customers what they want **24/7**

Ranges Because everyone is welcome at Tesco, we appreciate that our customers have different tastes and requirements. We work hard to give our customers a broad assortment of leading brands, a really good range of Tesco products – from Finest to Value lines – and lots of new ideas for feeding the family.

Finest is the premium Tesco brand with over 1,500 products across food and non-food and the majority of our customers regularly buy Finest. In 2005, we introduced over 200 new Finest products and saw sales grow rapidly, particularly at Christmas. We continue to lead the way in product development – for example, we launched the first two Finest potato lines – Exquisa and Smile last year. These varieties were specifically selected to offer customers an enhanced taste.

Our great tasting Healthy Living brand has been so popular with customers that we've added over 80 new products to the range and we've also launched a Kids' Healthy range of over 40 lines, which has been taste-tested and approved by children themselves. Our new Wholefoods range of 80 natural snack and cupboard lines, including nuts, dried fruits, seeds, pulses and grains are already being bought by over a million customers every month.

For many customers, organics are now everyday products and Tesco leads the market. We've invested over £10 million in reducing prices in these lines and continue to expand our range. Total organic sales grew by 26% in the year, including over 30% growth in meat, fish and poultry.

Instead of offering a standard product range everywhere, we have put a lot of effort into tailoring our offer for local customers. For example, our new Extra store in Slough,



A total of 1.5 million customers a week now choose to use our self-service checkouts.



Tesco own-label is our equivalent of the well-known brands at a fantastic price.



Our new Wholefoods range was introduced into our stores in October 2005.



Berkshire features over 900 speciality Asian products, from new vegetarian and Halal ready meals to extensive ranges of bulk-pack rice, and even Bollywood DVDs. This is currently one of our highest turnover Extras and the range has now been introduced in many more stores. It isn't just in our big stores where we're adapting our offer for local customers – in Express stores, we've also begun to adapt our ranges to suit different types of location.

Formats Our store formats are a way of meeting the different needs of our customers wherever they live and however they want to shop – in large stores, in small stores or on-line. Tesco Express brings great food and low prices into the heart of neighbourhoods and over seven million customers every week visit one of these stores. Metro offers the convenience of Tesco in town and city centres where people live and work. At Tesco Superstores, customers can find everything they need for their weekly shopping and at our Extra stores customers can not only find our full range of food and convenience lines, but also a comprehensive range of non-foods, including health and beauty, clothing, electricals, toys and homewares.

We have made further good progress with the development of new space and store formats. A total of two million sq ft of new sales area was opened during the year in all formats, of which over 660,000 sq ft was in extensions to existing stores, mainly for non-food.

With Extra and Express being our least mature formats and with both now delivering above-average investment returns, these are important drivers of our growth.

During the year, we opened another 18 Extra hypermarkets, most of them through extensions to existing stores, bringing the total to 118. Extra now represents 31% of our total sales area. The trading performance of the large Extra stores we opened in 2005 – in Bar Hill Cambridge, Talbot Green, Mid Glamorgan and Slough in Berkshire, all of which have more than 100,000 sq ft of sales area, have been significantly ahead of expectations.



core uk



Express stores bring better quality and lower prices to local neighbourhoods.



We regularly ask customers for ideas on how we can improve.



making it happen...

IMPROVING OUR STORES

We continue to build new stores and improve existing stores to better serve our customers.

Last year we completed the conversion of three Big W acquisitions to Tesco Extra Stores at Grimsby, Redruth and Coventry Crosspoint. Our Bar Hill store in Cambridge is receiving excellent customer feedback following a remodel and the introduction of a new mezzanine floor.

12,000 customers
attend our Customer Question Time each year

UK Distribution We have 30 depots throughout the UK, six of which are dedicated to non-food and clothing. We have invested more in getting the right product to the right store at the right time – this means new depots, new systems and new ways of running our distribution network.

We opened a new 370,000 sq ft fresh food depot at Peterborough last October, which boasts the latest technology, including paperless picking systems, which are now being introduced across the business. At Doncaster we took over the management of the depot from a third party provider and extended it by 110,000 sq ft. We also opened two purpose built non-food depots this year. The first, at Daventry, is our largest at over 780,000 sq ft and supports the growth of our clothing business. It will handle two million cases a week. The other, at Chesterfield, supports the growth of other non-food products such as household electrical items. The depot is performing well above target and over 400 people were recruited upon opening to keep ahead of increasing demand.

Better, Simpler, Cheaper We can invest in lower prices and improving customer service because we try to ensure that the way we work is better for customers, simpler for staff and cheaper for Tesco. We call the wide range of initiatives, which together created over £330 million of savings last year, our Step Change Programme.

For example, at most of our stores, customers can now buy their lottery tickets at the checkouts. This was the first service of its kind anywhere in the world and our customers can now pay for their lottery tickets and groceries together – without having to queue in two different places. More savings have come from the way we handle products. Over 15,000 of our product lines are now delivered to stores in shelf-ready packaging, which makes stock replenishment easier, quicker and cheaper. We have now introduced self-service checkouts to over 200 stores, offering customers a choice when they get to the tills, and freeing up staff to deal with customer service. More than 1.5 million customers per week now choose to use our self-service checkouts.



▶ **TWIST** – Tesco Week In Store Together ensures our managers, at every level, keep in touch with customers and staff.



the Tesco team

One of our core values is to treat people how we like to be treated. It is important to us that Tesco is a great place to work and that our staff are given the training and opportunity to get on. We have training schemes for every career stage and more than 80% of our management roles are filled internally.

Over 7,000 members of staff are on a development programme designed to give them the skills and experience to move to a bigger job. We invested in over 2,000 new management and 4,500 Team Leader roles at the checkouts last year to continue to deliver Every Little Helps for customers.

We try to ensure that people's jobs are interesting and fulfilling. We know each member of the team has different demands on their time. We support our people's needs through flexible working, part-time roles, job-sharing opportunities and shift swapping. This year we have achieved a 4% reduction in absence, resulting in over half a million extra staffing hours in the business to serve our customers better.

◀ **Vernon Knight** Slough Extra, United Kingdom.



Clubcard Tesco Clubcard celebrated its 10th birthday in 2005 with one million more customers than last year, bringing the total of active cardholders to over 13 million.

Clubcard is a world-leading loyalty programme which enables us to thank our customers for shopping with us and to better understand what our customers want. It's an important part of how we listen to customers and try to respond to their changing needs. Last year, we gave away over £320 million in Clubcard vouchers. For every pound spent in store, customers receive one Clubcard point, but through our new 'Deals Scheme', points are quadrupled and converted into Deals tokens, offering four times the value. This means that 250 points provide £10 worth of tokens, which customers can easily redeem for a wide range of things, from subscriptions to magazines to days out at theme parks, travel deals and even driving lessons.

We Share Our Success We share the success of the company with the whole Tesco team. As well as attractive salaries we offer our people a wide range of benefits and ways to make more of their money, safeguard their future and look after their health. For example, we offer Childcare Vouchers and two share schemes, Save As You Earn (SAYE) and Buy As You Earn (BAYE). SAYE is a great way for our staff to save for the future and benefit from the success of the company. Employees are invited to save an amount every four weeks and at the end of the scheme they have the opportunity to buy Tesco shares at up to a 20% discount from the share price when they joined. Through share ownership and share incentive schemes, over 165,000 of our people have a personal stake in Tesco.

Our award-winning and well-funded defined benefit pension scheme covers the majority of staff and allows members to build up a pension based on their earnings and service rather than final salary. This makes it an attractive scheme for part-time as well as full-time employees. Tesco pays in double the amount that staff contribute, making our scheme excellent value for money.

non-food



◀ **Health and Beauty**
One in ten women in the UK buy Tesco make-up.



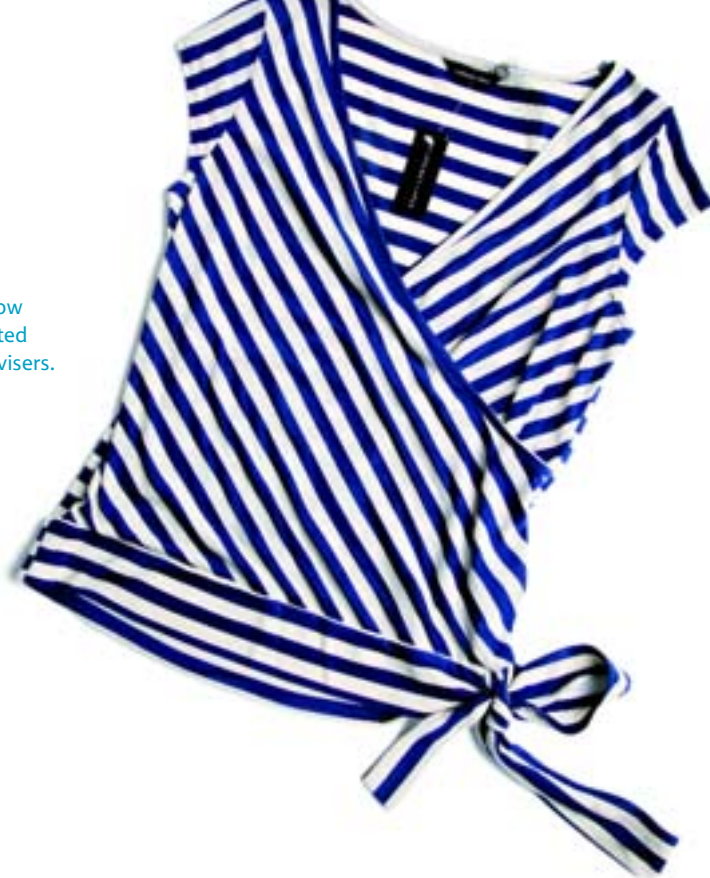
◀ **Home Living**
In April 2005, we refreshed our home textiles range and sales have increased by 30%.

▶ **Kaniz Fatema Rupa**
Slough Extra,
United Kingdom.

We have continued to grow our non-food business over the past year by expanding our offer to provide the value, choice and convenience our customers expect.



◀ In our larger stores, we now have dedicated electrical advisers.



◀ Over 1.4 million customers shopped in our 20% off clothing event in 2005.

Our customers buy one in three Fairtrade products sold in UK supermarkets.
▼



100

new Finest non-food products

Continuing to invest in our non-food offer

Our UK non-food business has continued to grow strongly – by over 13% – in a subdued retail market. The potential for growth is still big – Tesco has a small market share of around 7% in non-food and just a quarter of UK households can easily get to one of our 118 Extra stores.

To try and give customers more choice about how they buy our non-food items we are investigating ways of developing our on-line offer and we are extending our trial of non-food only stores.

Because we now source many of our products globally we can go to the best suppliers around the world and buy for less so that we can give our customers the best deals around.

www.tescocorporate.com

non-food

Cookshop



◀ Cookshop

In 2005, we sold five million Value glasses. An average of one in four families bought one last year.

450
2004

523
2005

578
2006



NUMBER OF NON-FOOD 'VALUE' LINES



NON-FOOD RANGE IS ELECTRIC

Customers have been telling us that they want the newest products and latest technology in home entertainment. To make it easier for customers to buy these products we linked up with top brands, including Samsung, Sony, Hitachi, Panasonic and JVC, to extend our range. We now stock a range of 17 different LCD and plasma TVs from the leading brands, across stores in the UK, offering our customers the very best in choice and value, whether they are shopping on a budget or want to buy the latest high-tech TV.

700
new Finest lines

offering great quality, range, price and service

Customers really like the prices, the quality and the variety of our non-food. More and more people are choosing to buy not just their household essentials but also bigger ticket items at Tesco, from clothing to TVs and fridges and from sports equipment to toys. They appreciate the convenience of being able to do all their shopping under one roof in our Extra stores. Because of this, our non-food business has again made very good progress. Sales growth, in the UK alone, was over 13% during the year with total non-food sales increasing to £6.8 billion. We cut prices, so volume growth was even higher again.

Our long-established product groups grew strongly, with health and beauty sales increasing by 10% and stationery, news and magazines by 17%. Clothing sales grew well in a difficult market, with our Cherokee brand of casual wear doing particularly well and we saw strong market share gains by volume and value. Some product groups, for which we have been able to provide more space in our larger Extra stores, did particularly well. For example, consumer electronics sales were up 34% and sports goods were up 31%. Newer areas like jewellery and MP3 players have been really popular with customers.

Homeliving
We sell three million mugs a year.



▲ An audiovisual demonstration area in the store at Bar Hill in Cambridge allows customers to sit and experience the latest in the home theatre market, alongside CD/DVD preview stations and interactive gaming demonstration pods.

▶ We offer 130 chart DVDs in-store with a full range of 32,000 products on-line.



▼ **Tesco Finest paint** is available in 138 stores with 11 colours to choose from.



taking non-food further

Even though we have 118 Extra's across the country, only a quarter of UK households are currently able to get to an Extra store easily, so we are looking at alternative ways for our customers to access our non-food offer in ways that are convenient for them:


Non-food on-line Building on both the success of tesco.com and our in-store non-food offer, we are investigating whether we can build a substantial on-line non-food business.

Homeplus We are pleased with the performance of the first of our Tesco Homeplus non-food only store trial, in Denton, Manchester, which opened in October 2005. We are going to expand the trial, and more stores will open shortly in Bristol, Southampton and Telford. These stores, which will trade from more than 30,000 sq ft of sales area, will stock a wide range of non-foods, similar to the offer in Extra hypermarkets.



non-food

► One in seven customers buy from our clothing department each week.



► We sold 100,000 cashmere jumpers in just two weeks.

kettles to cashmere

In non-food, electrical departments did really well, especially in our bigger stores where we can stock the full range. We sold approaching a million digital cameras and MP3 players, a huge increase on last year and we introduced SatNav products into 150 stores. We also opened our first Apple shop in our Milton Keynes Extra, stocking a comprehensive range of Apple products, including iPods and iMacs.



High fashion at low prices Tesco clothing has something for everyone, with prices to suit every pocket. Our total clothing sales in the year were over £750 million, up 16% on last year. Our brands, led by Florence + Fred and Cherokee, have been among the fastest growing in the whole UK market for several years, and especially so this year, when the overall clothing market hardly grew at all.

Sales volume growth in clothing was nearly 20%, well ahead of the market, making Tesco the UK's third largest clothing retailer in terms of the number of garments sold. For example, we sold nearly six million mens' t-shirts and over three million items of swimwear. We are also now market leader in boys' schoolwear.

Consumer electronics grew by 34% including our new Value electricals range, which now has 28 products from toasters and vacuum cleaners to kettles and microwaves. The latest product, launched in March 2006 was a Value DVD player for just under £18.

Our Christmas seasonal non-food ranges sold very well. Customers bought nearly 140 million cards, raising over £200,000 for charities, and we sold over 25 million Christmas crackers.

Since 2003, Tesco has reduced the price of low energy light bulbs by an average of almost 30%, with the price of the lowest priced bulb coming down by almost 60%. We sold over 1.3 million units this year, helping customers to save £4.5 million on their electricity bills.

This year, nearly 20% more of our customers shopped in our clothing departments on a weekly basis. Our cashmere sold even better this year, with 100,000 jumpers and cardigans – priced at an amazing £30 – selling out in just two weeks.

►

CHEROKEE GOES INTERNATIONAL

We launched Cherokee in the Czech Republic, Poland and Slovakia in February 2006 and we plan to launch in Hungary in the autumn. 100% of our Cherokee products are sourced from China, India and Turkey. The Cherokee range is available for women, men, kids and babies and we are planning to extend the range to footwear, accessories and nightwear.





Customers can buy everything under one roof in our Extra stores.



Extra, Extra...

During the year, we opened another 18 Extra hypermarkets, which stock our most comprehensive non-food ranges, most of them through extensions to existing stores, bringing the total to 118. Extra now represents 31% of our total sales area. Another 28 Extra stores are planned to open in the coming year, again mostly through the extension of existing superstores. The trading performance of the large Extra stores we opened in 2005 – in Bar Hill, near Cambridge; Talbot Green, Mid Glamorgan and Slough in Berkshire, all of which have more than 100,000 sq ft of sales area, have been significantly ahead of expectations. The success of Slough, where we knocked down a 70,000 sq ft Extra and rebuilt a new 100,000 sq ft store on stilts, with parking underneath on the same site, has encouraged us to do more projects of this kind. Our experience of trading multi-level hypermarkets in our International business, particularly in Asia, has helped us design these projects.

13% increase
in UK non-food sales

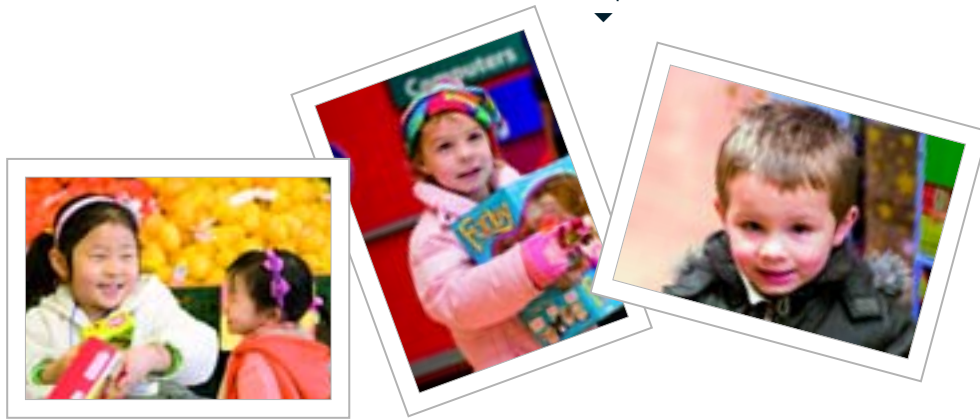
Sourcing Globally We currently source 35% of our hardline ranges for the UK through our International Sourcing Offices and 65% of our clothing.

This year we will be sharing what we have learnt about international sourcing with our colleagues in Ireland and Central Europe. We will be sourcing products that are common in all countries together as a group. Each country will retain the responsibility of identifying the local needs of their customers and sourcing those products from the appropriate suppliers within their respected country. Joint sourcing will give us the opportunity to further lower our cost of goods and as a result invest in lowering our prices for customers.

As we have become better at international sourcing, we have been able to reduce the amount of stock that we hold in our supply chain. Working together with distribution we have reduced stock from 13 to six weeks holding. The need for storage facilities in the UK to handle stock from overseas suppliers has now disappeared. This in turn frees up capital for investment in other areas as well as reducing handling costs in the supply chain.

retailing services

We launched our Tesco **On-line Photo Centre** last year, available through tesco.com, which caters for all our customers' photographic requirements.



Our customers in South Korea can now take advantage of our financial services.



By applying our approach to understanding customers and the way we work to retailing services, we have brought new levels of simplicity, value and choice to many markets.



◀
Divender Virdee
Slough Extra,
United Kingdom.

▲
Our **Tescodiets**
programme helps
customers to plan
flexible healthy
meals each week.

97%

of UK households have access to [tesco.com](https://www.tesco.com)

Why customers choose us

As our customers' lifestyles change, we try to understand their changing needs and respond. That is why we began moving into new service markets, bringing the Tesco philosophy of simplicity, value and choice to sometimes complex products. Millions of customers now trust us to do the right thing for them in these new areas. For example, Tesco Personal Finance – which offers a range of products from home insurance to credit cards – has over five million customer accounts.

www.tescocorporate.com

retailing services

► Book sales on-line were over £4.5 million last year.



TESCO.COM

◀ We try to save customers time as well as money. Tesco.com now has 750,000 active customers with more than 200,000 orders a week.

During the Christmas period, Tesco.com delivered an amazing 750 tonnes of potatoes and 35,000 jars of cranberry sauce. During peak times, tesco.com took 5,000 orders an hour, helping to reduce the time pressures for customers during this hectic period.

www.tesco.com

200,000

orders placed online every week with [tesco.com](http://www.tesco.com)

making on-line shopping simple

Tesco.com is the most successful on-line grocery shopping service in the world. Sales continued to grow strongly in the year – up by 31.9%, to reach almost £1 billion. Profit increased by 54.9% to £56.2 million.

What is remarkable about our on-line business is the diversity of customers using it, from busy urban families to people in rural communities. It has also allowed many house-bound people to shop properly for the first time.

In south east London where we have fewer stores and some that are exceptionally busy, we have developed a tesco.com-only store. It opened in Croydon, south London in February 2006. This enables us to offer this service to more customers and builds on our existing capability as the warehouse is designed like a Tesco superstore inside.

Retailing services in Ireland continued to expand during the year with on-line grocery sales (www.tesco.ie) increasing by 15.8% to £18.8 million (including VAT). The on-line service is now operated from 17 stores nationally and the service reaches over 65% of the population. There are now over 170,000 registered customers.

Financial services offered by Tesco Personal Finance (TPF) in Ireland also expanded with growth in credit cards issued to 26,000 and the successful introduction of car insurance, with 2,600 policies in force. TPF is now understood to be the most active on-line provider of car insurance in Ireland. Demand for personal loans also grew strongly, following the introduction of new low interest rates.



▲ **Homeplus, South Korea** Our dot.com business in South Korea covers 31% of the country.

▶ 60,000 customers now use our on-line DVD service, giving them access to over 30,000 titles.



DVDs to your door 60,000 customers have now signed up to our DVDs to rent service, giving them access to the 30,000 titles that are available through our on-line DVD service. Customers simply go on-line and select which package (there are three available) they want; the DVDs are then delivered to their door. When the DVD has been watched, customers put the DVD into the pre-paid envelope and post it back to us free of charge. There are no fines for returning DVDs late and customers can now go on-line and reserve films before they are released.

Energy We have enabled tens of thousands of customers to save money on their gas and electricity bills.

All customers have to do is click on the section called Energy in tesco.com and complete a simple form. Once we have the customers details we compare over 6,000 different and constantly updated energy prices, from all the main suppliers in England, Scotland and Wales.

This service is fully comprehensive, fully independent and fully impartial. It is fast, friendly, secure and free – within ten minutes customers can save over £150 a year on energy bills.

Getting healthy on-line As more and more of us are focused on what and how much we are eating, our e-diets service is proving to be increasingly popular and is used by over 50,000 customers.

E-diets help customers to tailor their eating plans to what's right for them, taking into account lifestyles, food preferences and health recommendations. There are 15 different diets available to choose from. This year we have seen the Gi diet grow increasingly popular, with over half of all customers choosing this option. Nutritional specialists are on hand to offer ongoing support and advice to help customers achieve their goals.

retailing services

Customers have a choice of 21 financial products and services.



SIMPLE TRAVEL INSURANCE

Our customers tell us that they love the simplicity of our financial services. We have over five million active customer accounts, including 1.8 million credit card holders.

Take for example our travel insurance. If you're a Clubcard holder then all you need to do is pick up a pack in-store and take it to the checkout with the rest of your shopping. As soon as the insurance pack is scanned along with your Clubcard, you are insured for your trip.



5 million customer accounts
in Tesco Personal Finance

financial services that are simple

Tesco Personal Finance now offers 21 financial products and services from loans and savings accounts to credit cards and insurance. We are Britain's third largest online car insurer with over 1.4 million active car insurance policies.

We are continually trying to improve our offer for customers and now offer the opportunity to purchase travel money in-store, by providing kiosks in seven stores. To date, over 70,000 customers have used this service. We have also made the purchase of premium bonds much more convenient for customers. The partnership with National Savings & Investments (NS&I) and Tesco Personal Finance enables customers to pick up brochures for NS&I tax-free premium bonds, and its range of inflation-beating index-linked savings certificates, alongside their weekly shop.

In Thailand, the Tesco Lotus store card was introduced in May 2000; initially this card could only be used in Tesco Lotus Stores. In August 2004, we upgraded the card in a joint venture with Tesco Card Services and now this card is accepted by 24 million merchants world-wide, as well as in Tesco Lotus stores. 480,000 Thai customers now have a Tesco Visa card. We are also trialling Tesco Insurance in Thailand; our Thai customers can now purchase insurance for their home, health, travel and personal accident cover. We rolled this out to all stores in March 2006.



We have launched a new Tesco Bonus credit card and Tesco Clubcard credit card.



Tesco telecoms offers great value for money



TELECOMS

In the run up to Christmas 2005, Tesco was the third largest pay-as-you-go mobile retailer. We offer our customers a comprehensive range of landline phones, telecoms accessories, pay-as-you-go mobile phones and airtime. In December 2005, we launched our first dedicated telecoms centre in our Slough store. The success of this independent non-pressured sales environment, which gives our customers choice and expert advice, encouraged us to open a second centre, in Newcastle Extra, during February 2006. Tesco internet phone services gives our customers free calls to other internet phone customers anywhere in the world, and low-cost phone calls over the internet to local, national or international landlines and mobiles. Tesco internet phone was the first ever all-in-one plug-and-play internet phone service to be launched and its ease of use and simple flat-rate tariff is proving hugely popular with customers.

Tesco Mobile is a virtual network formed as a joint venture with O₂. Having a joint venture partner means that we do not need to invest directly into a network, Tesco itself brings low marketing costs – through stores, Clubcard, tesco.com and brand strength.

Customer service is as key to Tesco Telecoms as it is in our stores. In a market not normally associated with customer satisfaction, we make it a priority to ensure our customers receive excellent service. In June 2005, this effort into customer service was reflected in the CFI research into mobile user satisfaction, where we have come top for customer satisfaction for the sixth consecutive quarter. Tesco Mobile has just launched

its Extra tariff which offers 10 pence a minute calls and 5 pence texts for those customers who spend £15 or more a month on top-ups.

Mobile Club in Korea We launched Tesco Mobile Club in South Korea, where we now have 96,000 members and sales of over 1 million KRW. Customers can join by either completing a form on-line or visiting one of our stores. When our Korean customers sign up for this service they are awarded 5,000 points on their Family Card. Customers can also receive text messages to their mobile phone, telling them about promotions in-store.

corporate responsibility



▲ We've increased our range of Value fruit and vegetables with 26 new lines.



◀ 25,000 customers try Fairtrade products for the first time every week.



We want to be a good neighbour,
and run a business that is
responsible, honest and fair.

Organic sales have increased by 26%.



In September 2005 we launched Sport for Schools and Clubs.

£41,768,741

in donations, staff time and gifts in kind.

Our customers and other stakeholders want us to do our bit towards building a sustainable world and they want our stores to provide support for their community. We are responding to these concerns and changing the way we do business – from tackling climate change to sourcing more local products, introducing nutritional labelling and looking at ways to be a better neighbour.

To find out more about our approach to Corporate Responsibility, visit

www.tescocorporate.com



corporate responsibility

Over 2,500 products feature our new nutritional labelling – by the end of this year the entire range will have been completed.



playing our part in local communities

CULTURE CENTRES

This year, we opened six new Culture Centres in our stores in South Korea, which offer 300 different sorts of educational and cultural programmes including dancing, karate and cookery lessons. We now have 37 of these centres with 350,000 members and 2,300 instructors. We raised 114 million KRW through various events, including a charity bazaar and staff fundraising, and we donated 50,000 products worth 350 million KRW to various charities.

37 culture centres
in our stores in South Korea

reducing and recycling

Recycling with our customers is an area that we have invested in to make recycling easier and more attractive. In 2005 we invested over £600,000 in new automated recycling machines for customers at our stores in Winchester, Havant, Portsmouth, Southampton, Andover and Royston and we plan to install these at many more stores. We believe this will enable us to double the amount our customers bring for recycling and this additional material would account for around 10% of the total additional tonnage needed to meet the UK's EU packaging recycling targets by 2008.

Recycling in our operations has enabled us to increase the amount of store waste that is recycled from 65% to 71% in 2005, saving a total of 26,694 tonnes of waste from going to landfill. Over the last four years we have improved the amount we recycle from 55% to 71% saving 125,359 tonnes.

Reducing the amount of food waste going to landfill is another important area of work. We are testing aerobic digestion and gasification. We have reviewed a number of potential sites to see whether they would be suitable for housing a gasification unit, which turns food waste into energy and we aim to install our first unit in the coming year.



▶ Wind turbines on the roof of our Diss store power all 15 tills.



▶ We have energy champions in each store to raise awareness of the need to save energy.



a good neighbour

Our new store at Diss, which opened in November 2005 is to become a testbed for a whole series of environmental and cost-saving features. The store is one of the first in the country to showcase the latest energy-generating roof turbines, with five of them fitted above the store. The store also features a large area of translucent panels in the roof, which increase the natural light in the store therefore reducing the amount of artificial lighting needed. Staff areas have also been fitted with sunpipes to increase the amount of natural light and allow the fluorescent lighting to be dimmed accordingly. Various modifications have been made to the refrigeration cabinets, including improved cold air retention and cold air recycling. All the energy saving technologies employed have combined to cut the annual electricity consumption by over 20% compared to a standard store design.

Energy Our aim is to be the best UK supermarket for energy use. We want to cut the average energy use in our buildings (kwh/sqft) in half by 2010, delivering a huge reduction in carbon emissions. To achieve this target we are:

- ▶ setting up a £100 million fund which will be used for innovation in sustainable, environmental technology
- ▶ phasing out use of greenhouse gasses in refrigeration
- ▶ increasing the efficiency of our distribution fleets

◀ **Fethi Günes** Tesco Kipa, Cigili, Turkey.

Responsible Internationally All of our international businesses now report quarterly on energy, water and waste. Each business also has a further set of Corporate Responsibility KPIs which have been chosen in response to local community and stakeholder feedback. For example, in the Czech Republic, every Tesco store supports one local community project such as a children's home or an institution for the disabled, so our ten new stores this year have provided ten new community projects with total donations of 500,000 CZK.

Working Together The relationships that we have with our suppliers are vital to our success. We work in partnership and help their businesses to grow as we grow. We treat our suppliers as we like to be treated, in a fair, honest and responsible way, sharing our knowledge and helping them to develop new products that follow customer trends. In February 2006, we conducted our second supplier viewpoint survey to give us anonymous, confidential feedback on what it is like to work with Tesco. Our relationship with suppliers is so important that we have included a new supplier KPI in our Steering

Wheel. Over 90% of suppliers have reported that we are trustworthy, reliable, consistent, clear, helpful and fair, although there are always things we can do to improve. All our buyers are trained to understand and comply with the Supermarket Code of Conduct and the recent Office of Fair Trading audit of the code found no breaches at Tesco. One of the key issues is that of supplier confidence and to help increase confidence when raising concerns, we have appointed a Code Compliance Officer, independent from our commercial teams, to advise and help resolve complaints, confidentially if necessary.

Community Plan Every year we produce an Annual Business Plan outlining the specific projects which the business will deliver over the following 12 months. This is based on the four segments of the Steering Wheel: Customer, People, Finance and Operations. From 2006, we have decided to launch, in addition, an annual Community Plan. This ensures that we provide the right resources, energy, focus and vigour to delivering the expectations of customers, communities and stakeholders.



corporate responsibility

Since 1992
Computers for Schools
have given out over

£100 million
worth of computers and IT equipment.



RACE FOR LIFE

In 2005, over half a million women, including over 21,000 Tesco staff, took part in the fourth Cancer Research UK Race for Life. Together we raised over £33 million for research into cancer. Tesco staff raised £857,000 which was topped up with an extra 20% by the Tesco Charity Trust. We also launched a series of 10km runs with Cancer Research UK, which encourage both men and women to participate and fund-raise. For children, we sponsored the Junior and Mini Great Runs at eight venues across the country. In July we launched the Tesco Great School Run with 110,000 children across the UK taking part in a five-week health and fitness awareness programme, culminating in a 2km run.

www.raceforlife.org

£857,000
raised by Tesco staff for 'Race for Life'



the little things that make a difference

Our Charity of the Year is a great way to bring staff and customers together, uniting them in one common goal – to make a difference to people's lives.

Since we started Charity of the Year in 1988, we have helped to raise over £23 million for some of the UK's great charities.

In 2005, we worked with Age Concern to raise over £2 million for projects including 'Fight the Freeze', which involves buying blankets and heaters for the elderly; 'Someone to Talk to' – paying for volunteers to regularly call the elderly to stop them from feeling isolated and lonely, and 'Lunch Clubs' – raising money to pay for meals and company for the elderly.

Staff in stores across the country took part in various fund-raising events including a sponsored silence, a 'Stars in your Eyes' evening and a sponsored walk in Dundee. Also in November 2005, Tesco Personal Finance donated 1p every time cash was withdrawn from our ATMs raising £210,000 for Age Concern.

Our Charity of the Year for 2006 is Whizz-Kidz. We are aiming to raise £1.5 million to enable Whizz-Kidz to provide the 391 disabled children on their waiting list with their own customised mobility equipment, including powered, manual and sports wheelchairs, bicycles and tricycles.

AGE
Concern

Whizz-kidz
move a life forward

Our Charity of the Year for 2006 is Whizz-Kidz.



SPORT FOR SCHOOLS & CLUBS

In September 2005, we launched 'Sport for Schools & Clubs' to encourage children to get active and try new sports. The vouchers collected by customers can be exchanged for free sports equipment and professional coaching sessions. During the eight weeks of the scheme we gave out 320 million vouchers – the equivalent of 50,000 coaching sessions or 60 million tennis balls.

"The Tesco Sport for Schools & Clubs is great because kids can benefit in so many ways. It encourages them to focus on something positive, is great for their health and it's fun."

Jason Robinson MBE former England Rugby Union Captain and World Cup Winner.

Our new range of health information leaflets are available in-store.



turning leeks into laptops

Computers for Schools was launched in 1992 and we have given schools over £100 million worth of computer equipment, including over 57,000 state-of-the-art computers and over 740,000 additional items of computer-related equipment. Tesco Computers for Schools is the UK's longest running schools promotion and for six consecutive years has been awarded the 'Mark of Excellence' from Business in the Community.

The scheme works on the 'Every Little Helps' principle, bringing people together in a joint effort, which delivers benefits for the whole community. Our customers receive one voucher for every £10 spent in a single transaction. This is then donated to a school of their choice, who then exchange their vouchers for free computer equipment.

In 2005, 3,000 new schools registered to take part, taking the total number of schools that participated to 30,000, 86% of all UK schools. Customers, staff and schools collected an amazing 390 million vouchers. This meant that we were able to provide schools with over £9 million worth of equipment, including 2,500 computers and 108,000 additional items of computer-related equipment.

For 2006, there are almost 600 items in the catalogue, including a new early years section, updated music section, energy efficiency kit and a greater variety of PCs and monitors.

the board

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1. DAVID REID 59

Non-executive Chairman ●
David Reid became Non-executive Chairman on 2 April 2004. Prior to his appointment he was Deputy Chairman of Tesco Plc and has served on the Tesco Board since 1985. David is a Non-executive Director of Reed Elsevier Group Plc, Kwik-fit Group and President of the IGD.

8. DAVID POTTS 48

Retail and Logistics Director#
David was appointed to the Board on 16 November 1998. He joined Tesco in 1973. From 1997 he directed the integration of our business in Northern Ireland and the Republic of Ireland before returning to the UK in his current role in July 2000.

2. RODNEY CHASE CBE 63

Deputy Chairman and Senior Non-executive ♦♦▲
Rodney Chase was appointed a Non-executive Director on 1 July 2002. He is Non-executive Chairman of Petrofac Limited and a Non-executive Director of Computer Sciences Corporation in Los Angeles and Nalco Company in Chicago. He also serves as Senior Advisor to Lehman Brothers both in the USA and Europe.

9. CHARLES ALLEN CBE 49

Non-executive Director ●▲
Charles Allen was appointed a Non-executive Director on 19 February 1999. He is Chief Executive of ITV Plc.

3. SIR TERRY LEAHY 50

Chief Executive ●
Terry Leahy became Chief Executive in 1997. Joining Tesco in 1979, he held a number of marketing and commercial positions prior to being appointed to the Board of Tesco Plc on 5 October 1992.

10. KAREN COOK 52

Non-executive Director ●▲
Karen Cook was appointed a Non-executive Director on 1 October 2004. She is a Managing Director and President of Goldman Sachs, Europe.

4. RICHARD BRASHER 44

Commercial and Trading Director*
Richard Brasher was appointed to the Board on 15 March 2004. He joined Tesco in 1986. He has held a number of marketing, commercial and store operations positions, most recently Non-food Commercial Director.

11. E MERVYN DAVIES CBE

53 Non-executive Director ♦♦▲
Mervyn Davies was appointed a Non-executive Director on 7 July 2003. He is Group Chief Executive of Standard Chartered Plc.

- ◆ Member of the Audit Committee
- Member of the Nominations Committee
- ▲ Member of the Remuneration Committee

David is also responsible for Tesco Ireland.
 * Richard is also responsible for UK Marketing.
 † Andrew is also responsible for our 'Services' business, including Tesco Personal Finance, tesco.com, Tesco Telecoms and Tesco Direct.

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5. PHILIP CLARKE 45

International and IT Director
 Philip Clarke was appointed to the Board on 16 November 1998. Prior to his appointment he held a number of roles in store operations, commercial and marketing. He is a Non-executive Director of Whitbread Plc.

12. DR HARALD EINSMANN 72

Non-executive Director ●▲
 Dr Harald Einsmann was appointed a Non-executive Director on 1 April 1999. He is on the Board of Calson Group of companies, Checkpoint Systems Inc. and Stora Enso Oy, part of the Wallenberg Group.

6. ANDREW HIGGINSON 48

Finance and Strategy Director†
 Andrew was appointed to the Board on 17 November 1997. He is a member of the 100 Group of Finance Directors and a Non-executive Director of BSKyB Plc.

13. KEN HYDON 61

Non-executive Director ●◆
 Ken Hydon was appointed a Non-executive Director on 23 February 2004. He is a Non-executive Director of Reckitt Benckiser Plc, the Royal Berkshire and Battle NHS Trust and Pearson Plc.

7. TIM MASON 48

Group Marketing Director and Chief Executive USA
 Tim Mason was appointed to the Board on 16 February 1995. He joined Tesco in 1982 and was appointed Chief Executive USA in early 2006.

14. CAROLYN McCALL 44

Non-executive Director ●◆
 Carolyn McCall was appointed a Non-executive Director on 1 March 2005. She is Chief Executive of Guardian Newspapers Limited and is also a Director of the Guardian Media Group Board. She chairs Opportunity Now, the UK's leading membership organisation working towards gender equality and diversity in the workplace.

15. LUCY NEVILLE-ROLFE

CMG 53 Company Secretary
 Lucy Neville-Rolfe was appointed Company Secretary to the Board on 15 March 2004 in addition to her role as Corporate and Legal Affairs Director. She is Deputy Chair of the British Retail Consortium, and a member of the China Britain Business Council and of the Secretary of State's Panel on Monitoring the Economy.

Summary Directors' Report

Independent auditors' statement to the members of Tesco Plc

We have examined the summary financial statement of Tesco Plc.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Review and Summary Financial Statement in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement, the Directors' emoluments and the summary of executive share options and disclosable shareholdings within the Annual Review and Summary Financial Statement 2006 with the Annual Report and Financial Statements 2006, the Directors' report and the Report of the Directors on Remuneration and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Annual Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement. This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 251 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 statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion In our opinion the summary financial statement is consistent with the Annual Report and Financial Statements and the Directors' report of Tesco Plc for the year ended 25 February 2006 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors

London 24 April 2006

Principal activity and business review The principal activity of the Group is retailing and associated activities in the UK, the Czech Republic, Hungary, Poland, the Republic of Ireland, Slovakia, Turkey, China, Japan, Malaysia, South Korea, Taiwan and Thailand. The summary financial statement and Operating and financial review is on pages 44 to 46.

Dividends The Directors recommend the payment of a final dividend of 6.10p per ordinary share to be paid on 14 July 2006 to members on the Register at the close of business on 5 May 2006. Together with the interim dividend of 2.53p per ordinary share paid in December 2005 the total dividend for the year comes to 8.63p, compared with 7.56p for the previous year, an increase of 14.2%.

Directors Details of the current members of the Board are shown on pages 40 and 41. Mr C L Allen, Mr R Brasher, Mr P A Clarke and Mr A T Higginson retire from the Board by rotation and, being eligible offer themselves for re-election at the Annual General Meeting (AGM).

Corporate governance Tesco Plc is committed to the highest standards of corporate governance. The Board considers that Tesco Plc complied in all respects with the 2003 Revised Combined Code on Corporate Governance for the year ended 25 February 2006. A full corporate governance statement is contained in the Annual Report and Financial Statements 2006.

Summary report of the Directors on remuneration

Directors' remuneration policy It is the role of the Remuneration Committee to determine and recommend to the Board the remuneration policy for the Chairman and Executive Directors. Tesco has a policy of rewarding talent and experience and seeks to provide incentives for delivering high growth and high returns for shareholders. The current remuneration strategy is tailored to reward the delivery of strong year-on-year earnings growth as well as sustained performance in the longer term.

Compliance The Remuneration Committee has been constituted and operated throughout the year in accordance with the principles outlined in the Listing Rules of the Financial Services Authority derived from Schedule A and B of the 2003 Revised Combined Code. In framing the remuneration policy full consideration is given to best practice. The Remuneration Report complies with the disclosures required by the Director Remuneration Report Regulations 2002.

A summary of Directors' emoluments and interests is set out on page 43. The full Remuneration Report is provided in the Annual Report and Financial Statements 2006.

Directors' emoluments

Directors' emoluments	Fixed emoluments		Performance-related emoluments				Total 2006 £000	Total 2005 £000
	Salary £000	Benefits (a) £000	Share Incentive Plan £000	Short-term £000	Short-term Deferred Shares £000	Long-term (b) £000		
Executive Directors								
Sir Terry Leahy	1,096	97	3	1,130	1,096	557	3,979	3,194
Mr R Brasher	499	36	3	550	534	–	1,622	1,268
Mr P A Clarke	628	83	3	645	626	234	2,219	1,791
Mr A T Higginson	628	86	3	645	626	312	2,300	1,812
Mr T J R Mason	628	42	3	645	626	312	2,256	1,824
Mr D T Potts	628	45	3	645	626	272	2,219	1,792
Non-Executive Directors								
Mr C L Allen	58	–	–	–	–	–	58	58
Mr R F Chase	100	–	–	–	–	–	100	100
Mrs K Cook	55	–	–	–	–	–	55	22
Mr E M Davies	60	–	–	–	–	–	60	57
Dr H Einsmann	55	–	–	–	–	–	55	55
Mr K J Hydon	58	–	–	–	–	–	58	58
Ms C McCall (c)	53	–	–	–	–	–	53	–
Mr G F Pimlott (d)	17	–	–	–	–	–	17	73
Mr D E Reid (Chairman)	500	86	–	–	–	–	586	539
Total	5,063	475	18	4,260	4,134	1,687	15,637	12,643

(a) Benefits are made up of car benefits, chauffeurs, disability and health insurance, staff discount and gym/leisure club membership.

(b) The long-term performance-related emoluments relate to the additional 12.5% enhancements allocated on long-term awards made in 2001 and short-term awards made in 2003 under the old bonus scheme. The long-term bonus awarded on 12 October 2005 under the Performance Share Plan was awarded in the form of nil cost options.

(c) Ms C McCall was appointed on 1 March 2005. The figures are calculated from the date of Ms McCall's appointment.

(d) Mr G Pimlott retired during the year.

Summary of share options and disclosable shareholdings

	Options held 26 Feb 2005	Granted	Number of shares		Exercise price of outstanding options (pence)	Value realisable (a) 2006 £000	Ordinary shares 25 Feb 2006
			Exercised	Options held 25 Feb 2006			
Executive Directors							
Sir Terry Leahy	4,711,465	1,283,842	249,960	5,745,347	0.00 – 312.75	498	6,073,840
Mr R Brasher	1,229,014	536,091	1,704	1,763,401	0.00 – 312.75	2	226,814
Mr P A Clarke	1,839,980	738,737	393,616	2,185,101	0.00 – 312.75	341	1,447,286
Mr A T Higginson	1,848,640	738,737	1,704	2,585,673	0.00 – 312.75	2	1,649,690
Mr T J R Mason	1,847,972	738,737	1,704	2,585,005	0.00 – 312.75	2	1,627,031
Mr D T Potts	1,747,663	738,737	629,484	1,856,916	0.00 – 312.75	385	1,791,777
Non-Executive Directors							
Mr C L Allen	–	–	–	–	–	–	–
Mr R F Chase	–	–	–	–	–	–	51,662
Mrs K R Cook	–	–	–	–	–	–	–
Mr E M Davies	–	–	–	–	–	–	2,400
Dr H Einsmann	–	–	–	–	–	–	158,673
Mr K Hydon	–	–	–	–	–	–	30,093
Ms C McCall	–	–	–	–	–	–	6,365
Mr G F Pimlott	–	–	–	–	–	–	34,212
Mr D E Reid (Chairman)	–	–	–	–	–	–	193,264

(a) The value realisable from shares acquired on exercise is the difference between the fair market value at exercise and the exercise price of the options, although the shares may have been retained.

Summary Financial Statement and Operating and Financial Review

Income statement Group sales, including VAT, increased by 16.7% to £43.1 billion (2005 – £37.0 billion). At constant exchange rates, sales grew by 15.0%. Group profit before tax increased by 18% to £2,235 million (2005 – £1,894 million). Underlying profit before tax (excluding IAS 32 and IAS 39 and the non-cash elements of IAS 19, which are replaced by the normal cash contributions) increased to £2,277 million, up by 18.3%. Underlying diluted earnings per share grew by 15.1% to 20.30p and diluted earnings per share increased by 15.1% to 19.92p.

A final dividend of 6.10p per ordinary share (2005 – 5.27p) is proposed. Together with the interim dividend of 2.53p (2005 – 2.29p) already paid, this brings the full year dividend to 8.63p (2005 – 7.56p) an increase of 14.2% on last year.

UK sales increased by 10.7% to £32.7 billion with like-for-like growth of 7.5% (including volume of 7.6%) and 3.2% from net new stores. Deflation overall was 0.1%, despite the effect of rising oil prices on our petrol business.

Through good cost control and productivity we have absorbed significant external cost increases during the year, particularly during the second half, arising mainly from higher oil-related costs and increases in local business taxes. Consequently, UK operating profit was 14.9% higher at £1,788m (last year £1,556 million). The UK pre-property operating profit rose 10.6% to £1,698 million, leaving the operating margin unchanged at 5.7%. Using our pre-IFRS underlying profit definition, operating profit increased by 9.7% to £1,858 million (last year £1,694 million).

Record efficiency savings of £330 million were delivered by our Step-Change programmes, which bring together many initiatives to make what we do better for customers, simpler for staff and cheaper for Tesco.

Total international sales grew by 40.7% to £10.5 billion. On a comparative 52-week basis, sales increased by 23.0%. International operations contributed £492 million to operating profit, up 24.2% (up 17.4% on a 52-week basis, to £465 million).

In the rest of Europe, sales rose by 33.8% to £5.8 billion (2005 – £4.3 billion). On a comparative 52-week basis, sales rose 20.6%, to £5.2 billion. Operating profit increased to £263 million, up 8.2%, and on a 52-week basis to £265 million. In Asia, sales increased to £4.7 billion on a 52-week basis up 50.5%, £3.9 billion, up 26.4% on a 52-week basis. Operating profit was up 49.7%, to £229 million, £200 million on a 52-week basis.

Total profit (net of tax and interest) from joint ventures and associates for the year was £82 million compared to £74 million last year. Tesco Personal Finance profit was £139 million, of which our share was £70 million.

Net finance costs for the year were £127 million (2005 – £132 million). Tax has been charged at an effective rate of 29.0% (2005 – 28.6%).

The summary financial statement on pages 45 and 46 and the summary Directors' report on pages 42 and 43 are a summary of information in the Annual Report and Financial Statements 2006. This summary financial statement does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the company and the Group.

The Directors' report, the accounts and Auditors' report on those accounts, which is unqualified, are contained in a separate publication entitled Annual Report and Financial Statements 2006. Copies may be obtained free of charge by writing to:

The Company Secretary,
Tesco PLC,
Tesco House,
Delamare Road,
Cheshunt,
Hertfordshire EN8 9SL.

Telephone 01992 632222.

Shareholders wishing to receive the Annual Report and Financial Statements as well as the Annual Review and Summary Financial Statement in future years should write to this address.

The summary financial statement was approved by the Board on 24 April 2006.

Terry Leahy
Andrew Higginson
Directors

Summary Group Income Statement

Year ended 25 February 2006*

	2006 £m	2005 £m
Continuing operations		
Revenue (Sales excluding VAT)	39,454	33,866
Cost of sales	(36,426)	(31,231)
Gross profit	3,028	2,635
Administrative expenses	(825)	(732)
Profit arising on property related items	77	49
Operating profit	2,280	1,952
Share of post-tax profits of joint ventures and associates	82	74
Finance income	114	103
Finance costs	(241)	(235)
Profit before tax	2,235	1,894
Taxation	(649)	(541)
Profit for the period for continuing operations	1,586	1,353
Discontinuing operation		
Loss for the period from discontinuing operation	(10)	(6)
Profit for the period	1,576	1,347
Attributable to:		
Equity holders of the parent	1,570	1,344
Minority interests	6	3
	1,576	1,347
Earnings per share from continuing and discontinuing operations		
Basic	20.07p	17.44p
Diluted	19.79p	17.22p
Earnings per share from continuing operations		
Basic	20.20p	17.52p
Diluted	19.92p	17.30p
New underlying profit	£m	£m
Profit before tax (excluding discontinued operation)	2,235	1,894
Adjustments for:		
IAS 32 and IAS 39	9	–
Total IAS 19 Income Statement charge	303	268
'Normal' cash contributions for pensions	(270)	(237)
	2,277	1,925
Underlying diluted EPS	20.30p	17.58p

* Results for the year ended 25 February 2006 includes 52 weeks for the UK and Republic of Ireland and 14 months for the majority of the remaining international businesses.

Summary Financial Statement and Operating and Financial Review continued

Summary Group balance sheet

25 February 2006

	25 Feb 2006 £m	26 Feb 2005 £m
Non-current assets	18,644	16,931
Current assets (including assets held for sale)	3,919	3,224
Current liabilities	(7,518)	(5,680)
Net current liabilities	(3,599)	(2,456)
Total assets less current liabilities	15,045	14,475
Non-current liabilities	(5,601)	(5,821)
Net assets	9,444	8,654
Equity attributable to equity holders of the parent	9,380	8,603
Minority interests	64	51
Total equity	9,444	8,654

Summary Group cash flow statement

Year ended 25 February 2006*

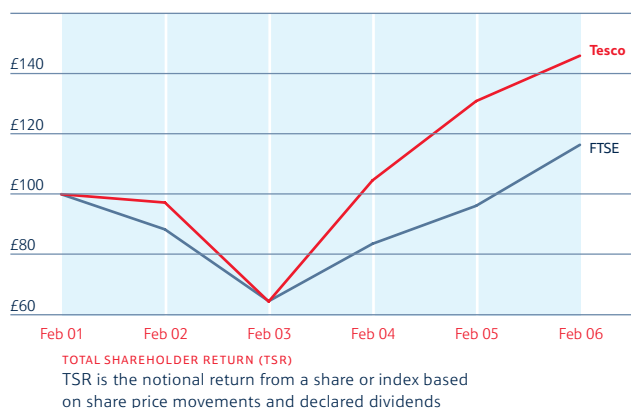
	2006 £m	2005 £m
Cash generated from operations	3,412	3,009
Interest paid	(364)	(350)
Corporation tax paid	(429)	(483)
Net cash from operating activities	2,619	2,176
Net cash used in investing activities	(1,962)	(1,501)
Cash flows from financing activities		
Dividends paid	(441)	(448)
Other net cash flows on financing activities	(51)	(203)
Net cash used in financing activities	(492)	(651)
Net increase in cash and cash equivalents	165	24
Cash outflow from decrease in debt and lease financing	115	206
Loans and finance leases acquired with subsidiaries	–	(17)
Net debt included within disposal group	55	–
Other non-cash changes	(357)	11
Decrease in net debt in the period before the impact of IAS 32 and IAS 39	(22)	224
IAS 32 and IAS 39 adjustments to net debt	(588)	–
(Increase)/decrease in net debt	(610)	224
Opening net debt at beginning of period	(3,899)	(4,123)
Closing net debt at end of period	(4,509)	(3,899)

Balance sheet Net assets have increased by £790 million to £9,444 million. Non-current assets increased by £1,713 million, after charging depreciation and amortisation of £838 million.

Group capital expenditure was £2.8 billion. UK capital expenditure was £1.8 billion, including £760 million on new stores and £404 million on extensions and refits. Total international capital expenditure rose to £1.0 billion, £0.4 billion in Asia and £0.6 billion in Europe. In the year ahead we forecast Group capital expenditure to be around £3.0 billion.

Cash flow statement The Group generated net cash of £165 million during the year, benefiting from strong cash flow from operating activities of £3.4 billion and the net proceeds of £346 million from our property joint venture with Consensus. Net debt, at £4.5 billion at the year end, was higher than last year, primarily due to IAS 32 and IAS 39. Excluding the impact of IAS 32 and IAS 39, net debt was broadly unchanged at £3.9 billion. Gearing was 48%.

* Results for the year ended 25 February 2006 includes 52 weeks for the UK and Republic of Ireland and 14 months for the majority of the remaining international businesses.



Performance graph The Group's total shareholder return performance (ie. share price movements plus dividends reinvested) over the last five financial years relative to the FTSE 100 index of companies is shown here. This index has been selected to provide an established and broad-based comparator group of retail and non-retail companies of similar scale to Tesco, against which the Group's TSR performance can be measured.

There has also been a very strong performance in TSR over the last three and five years against a comparator group of our major retail competitors in the UK, Europe and the US.

Investor information

Summary five year record

	UK GAAP				IFRS	
	2002	2003	2004 53 wks	2005	2005 ¹	2006 ²
Financial statistics						
Group sales	25,401	28,280	33,557	37,070	36,957	43,137
Revenue excluding VAT						
UK	19,821	21,309	24,760	27,146	27,146	29,990
Rest of Europe	2,181	2,664	3,385	3,818	3,818	5,095
Asia	1,398	2,031	2,669	3,010	2,902	4,369
	23,400	26,004	30,814	33,974	33,866	39,454
Operating profit³						
UK	1,215	1,289	1,486	1,666	1,556	1,788
Rest of Europe	90	134	171	249	243	263
Asia	17	69	121	149	153	229
Total Group	1,322	1,492	1,778	2,064	1,952	2,280
Underlying profit – UK GAAP ⁴	1,221	1,401	1,708	2,029	NA	NA
New underlying profit – IFRS ⁵	NA	NA	NA	NA	1,925	2,277
Diluted earnings per share ⁶	11.86p	13.42p	14.93p	17.50p	17.30p	19.92p
Basic earning per share ⁶	12.05p	13.54p	15.05p	17.72p	17.52p	20.20p
Dividend per share ⁷	5.60p	6.20p	6.84p	7.56p	7.56p	8.63p
Return on capital employed ⁸	10.8%	10.2%	10.4%	11.5%	11.8%	12.7%
Group statistics						
Number of stores ⁹	979	2,291	2,318	2,334	2,334	2,672
Total sales area – 000 sq ft ^{9/10}	32,491	39,944	45,402	49,135	49,135	55,215
Full-time equivalent employees	171,794	188,182	223,335	242,980	242,980	273,024
UK retail statistics						
Number of stores	729	1,982	1,878	1,780	1,780	1,898
Total sales area – 000 sq ft ¹⁰	18,822	21,829	23,291	24,207	24,207	25,919
Revenue per employee ¹¹	163,443	160,157	162,459	166,534	166,534	170,923
Weekly sales per sq ft ¹²	22.43	21.86	22.48	23.89	23.89	25.06

¹ The 2005 IFRS financial statistics have been restated to remove the Taiwanese business which is held for sale.

² Results for the year ended 25 February 2006 include 52 weeks for the UK and ROI and 14 months for International.

³ Operating profit includes integration costs and profit/(loss) arising on sale of property related items.

⁴ UK GAAP underlying profit excluded net profit/(loss) on disposal of fixed assets, integration costs and goodwill amortisation.

⁵ IFRS underlying profit excludes IAS 32 and IAS 39 and the IAS 19 charge for defined benefit pension schemes, which is replaced by the normal cash contributions.

⁶ Diluted and basic earnings per share are on a continuing operations basis.

⁷ Dividend per share relating to the interim and proposed final dividend.

⁸ The numerator is profit before interest, less tax. The denominator is the calculated average of net assets plus net debt plus dividend creditor less net assets held for sale.

⁹ In addition there are 39 stores operated by our Hymall joint venture in China, which have 3,505,000 sq ft of sales area.

¹⁰ Store sizes exclude lobby and restaurant areas.

¹¹ Based on average number of full-time equivalent employees in the UK, and revenue exclusive of VAT.

¹² Based on weighted average sales area and sales excluding property development.

Investor information continued

Shareholder profile

	Number of holdings	%	Balance as at 25 Feb 2006	%
Analysis by type of shareholder				
Employees†	54,104	18.45	132,940,558	1.68
Other individuals	220,369	75.15	460,695,824	5.84
Corporate institutions‡	18,778	6.40	7,300,840,535	92.48
	293,251	100.00	7,894,476,917	100.00
Analysis by size of shareholding				
1 – 1,000	187,957	64.09	44,415,814	0.56
1,001 – 10,000	90,877	30.99	289,404,960	3.67
10,001 – 100,000	12,677	4.32	291,943,442	3.70
100,001 – 1,000,000	1,128	0.38	367,976,858	4.66
above 1,000,000	612	0.21	6,900,735,843	87.41
	293,251	100.00	7,894,476,917	100.00

† Corporate institutions such as banks, insurance companies and pension funds represent many thousands of people through their accounts, policies and memberships and therefore the company works in the interests of a variety of investors.

‡ Employees excludes shares held in nominee accounts on behalf of employees for Shares In Success.

inside Tesco



United Kingdom

Number of stores	1,898
Sales area	25.9m sq ft
Year of entry	1924
New stores opened	139
Planned openings 06/07	153
Number of staff	261,142



Republic of Ireland

Number of stores	91
Sales area	2.7m sq ft
Year of entry	1997
New stores opened	6
Planned openings 06/07	8
Number of staff	10,456



Czech Republic

Number of stores	35
Sales area	2.0m sq ft
Year of entry	1996
New stores opened	10
Planned openings 06/07	44
Number of staff	8,785



Slovakia

Number of stores	37
Sales area	2.3m sq ft
Year of entry	1996
New stores opened	7
Planned openings 06/07	10
Number of staff	7,838



Poland

Number of stores	105
Sales area	4.8m sq ft
Year of entry	1995
New stores opened inc. acquisitions in 05/06	27
Planned openings 06/07	39
Number of staff	20,357



Hungary

Number of stores	87
Sales area	4.3m sq ft
Year of entry	1994
New stores opened	18
Planned openings 06/07	30
Number of staff	15,754



China

Number of stores	39
Sales area	3.5m sq ft
Year of entry	2004
New stores opened	9
Planned openings 06/07	12
Number of staff	16,400



South Korea

Number of stores	62
Sales area	4.1m sq ft
Year of entry	1999
New stores opened inc. acquisitions in 05/06	27
Planned openings 06/07	47
Number of staff	10,787



Japan

Number of stores	111
Sales area	0.3m sq ft
Year of entry	2003
New stores opened inc. acquisitions in 05/06	11
Planned openings 06/07	10
Number of staff	3,285



Turkey

Number of stores	8
Sales area	0.6m sq ft
Year of entry	2003
New stores opened	3
Planned openings 06/07	12
Number of staff	2,560



Malaysia

Number of stores	13
Sales area	0.9m sq ft
Year of entry	2001
New stores opened	7
Planned openings 06/07	4
Number of staff	4,365



Thailand

Number of stores	219
Sales area	6.8m sq ft
Year of entry	1998
New stores opened	112
Planned openings 06/07	207
Number of staff	27,529

Registrar and Shareholding Enquiries

If you have administrative enquires about your holding of Tesco PLC shares (other than ADRs) please contact:

Lloyds TSB Registrars
The Causeway, Worthing,
West Sussex BN99 6DA
Telephone 0870 600 3970

Introduction of Consolidated Tax Vouchers

The new consolidated tax voucher will be sent to each shareholder in December each year at the time that the interim dividend is paid and will cover both the dividend payments for the tax year. This will help when completing your tax return. This does not affect your dividends or the tax that you pay in any way and will help us to protect the environment and save money by using less paper.

If your dividend is not currently paid directly to your bank or building society account and you would like to benefit from this service please contact Lloyds TSB Registrars on 0870 600 3970 and they will be pleased to arrange this for you. By choosing to receive your dividends in this way you can avoid the risk of cheques getting lost in the post and ensure you receive your dividends on the payment day.

Note: Consolidated Tax Vouchers are not available to institutional shareholders.

This new service will start for the 2006/07 tax year. If you would prefer to receive a tax voucher with each dividend payment rather than one consolidated tax voucher each tax year, please call our shareholder helpline on 0870 600 3970.

If your dividend is paid directly into your bank or building society account you will receive one tax voucher each year rather than two.

Tesco Website

The Directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under relevant accounting standards and legislation.

Tesco information, including the Annual Report and Financial Statements 2006 and our Corporate Responsibility Review 2006, is available on our website: www.tesco.com/corporate

Shareholder Information On-line

You have the option of viewing and downloading the Annual Report and other documents via the internet. The information is identical to the printed version, however using the internet has clear advantages such as reducing environmental waste and lowering our costs.

Electronic communications

You can register for Shareview, a free on-line share information and dealing service operated by Lloyds TSB Registrars.

Once you have registered you can:

- check your shareholding
- access shareholder information
- elect to receive information electronically, get quick access to these important documents and help to save the environment by reducing the amount of paper used and
- vote on the resolutions at the Annual General Meeting.

To register, log on to www.shareview.co.uk and click on 'register now'. Your rights as a shareholder will not be affected in any way. If you have any questions about the service, please call 0870 600 3970.

Shareview Dealing

The Company has arranged a share dealing service through Lloyds TSB Registrars. You can buy or sell shares on the internet by logging on www.shareview.co.uk/dealing or by calling 0870 850 0852 between 8.30am and 4.30pm Monday to Friday.

Security reminder

Under the Companies Act we are obliged to hold all shareholders' names and addresses on a register of members and give a copy of this list to the Registrar of Companies every year.

The Registrar of Companies makes this list available to anyone who requests it and many companies use this information (sometimes matching it to telephone records) to market their services. Tesco PLC has no relationship with and does not endorse any of the services offered by these companies.

If you are concerned about any direct mailing or telephone calls purporting to be from Tesco, please contact us by writing to the Company Secretary, New Tesco House, Delamare Road, Cheshunt, Herts EN8 9SL or by calling us on 01992 632222.

Customer Services

Tesco Customer Services
Freepost SCO2298, Dundee DD1 9NF
Telephone 0800 505555

Investor Relations

Investor Relations Department
Tesco PLC, Tesco House, Delamare Road,
Cheshunt, Herts EN8 9SL
Telephone 01992 646484

Secretary and Registered Office

Miss Lucy Neville-Rolfe
Tesco PLC, Tesco House, Delamare Road,
Cheshunt, Herts EN8 9SL
Telephone 01992 632222

Financial Calendar

	2006
Financial year end	25 February
Results announced	25 April
Final dividend: ex-dividend date	3 May
Final dividend: record date	5 May
Annual Report posted	26 May
Trading statement	mid June
AGM	7 July
Final dividend pay date	14 July
Half year end	26 August
Interim results announced	3 October
Interim dividend: ex-dividend date	11 October
Interim dividend: record date	13 October
Trading statement	early December
Interim dividend: pay date	22 December



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