

Directors' report

The directors present their annual report to shareholders on the affairs of the Group together with the audited consolidated financial statements of the Group for the 52 weeks ended 27 February 1999. The comparisons against the previous year are for the 53 weeks to 28 February 1998.

Principal activity and business review

The principal activity of the Group is the operation of food stores and associated activities in the UK, Republic of Ireland, France, Czech Republic, Slovakia, Hungary, Poland and Thailand. A review of the business is contained in the Annual Review which is published separately and, together with this document, comprises the full Tesco PLC Annual Report and Accounts.

Group results

Group turnover excluding VAT rose by £706m to £17,158m, representing an increase of 4.3%. Group profit on ordinary activities before taxation, integration costs, loss on disposals and goodwill amortisation was £881m compared with £832m for the previous year, an increase of 5.9%. Including integration costs, loss on disposals and goodwill amortisation, Group profit on ordinary activities before taxation for the year was £842m. The amount allocated to the employee profit-sharing scheme this year was £38m as against £35m last year. After provision for tax of £237m and dividends, paid and proposed, of £277m, profit retained for the financial year amounted to £329m.

Dividends

The directors recommend the payment of a final dividend of 2.87p per ordinary share to be paid on 1 July 1999 to members on the Register at the close of business on 23 April 1999. Together with the interim dividend of 1.25p per ordinary share paid in December 1998, the total for the year comes to 4.12p compared with 3.87p for the previous year, an increase of 6.5%.

Tangible fixed assets

Capital expenditure amounted to £1,067m compared with £841m during the previous year. In the directors' opinion, the properties of the Group have a market value in excess of the book value of £6,032m included in these financial statements.

Acquisitions

During the year the Group acquired, for a consideration of £206m, a retailing business in Thailand. Details of acquisitions are set out in note 32 to the financial statements.

Post Balance Sheet event

On 23 March 1999 the Group announced it is to form a partnership company with Samsung Corporation to develop hypermarkets in South Korea. The Group will initially invest £80m in cash for 51% of the business and a further £50m for an additional 30% holding in June 1999.

Share capital

The authorised and issued share capital of the company, together with details of the shares issued during the period, are shown in note 23 to the financial statements. A bonus issue was made on 3 July 1998 on the basis of two new shares for every one held on that date.

Company's shareholders

The company is not aware of any ordinary shareholders with interests of 3% or more.

Directors and their interests

The names and biographical details of the present directors are set out in the separately published Annual Review.

Mr T P Leahy, Mr J Gildersleeve, Mr T J R Mason and Baroness O'Cathain retire from the Board by rotation according to the company's Articles of Association. Mr P A Clarke, Mr D T Potts, Mr C L Allen, being appointed during the year and Dr H Einsmann, appointed on 1 April 1999, will also retire. Being eligible, they all offer themselves for re-election.

The service contracts of Mr T P Leahy, Mr J Gildersleeve, Mr T J R Mason, Mr P A Clarke and Mr D T Potts are terminable on two years' notice from the company.

Baroness O'Cathain, Mr C L Allen and Dr H Einsmann do not have service contracts.

Directors' report continued

Directors and their interests continued

The interests of directors and their immediate families in the shares of Tesco PLC, along with details of directors' share options, are set out on pages 12 to 16.

At no time during the year did any of the directors have a material interest in any significant contract with the company or any of its subsidiaries.

Employment policies

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

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

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

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

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

Political and charitable donations

Contributions to community projects and to charity amounted to £1,301,000 (1998 – £1,259,000). There were no political donations.

Supplier payment policy

Tesco PLC is a signatory to the CBI Code of Prompt Payment. Copies of the Code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Payment terms and conditions are agreed with suppliers in advance. Tesco PLC has no trade creditors in its balance sheet. The Group pays its creditors on a timely basis which varies according to the type of product and territory in which the suppliers operate.

Auditors

On 1 July 1998, Price Waterhouse merged with Coopers & Lybrand. Price Waterhouse have resigned as auditors and the new merged firm, PricewaterhouseCoopers, have been appointed to fill the casual vacancy.

PricewaterhouseCoopers have expressed their willingness to continue in office. In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of PricewaterhouseCoopers as auditors of the company will be put to the Annual General Meeting.

Annual General Meeting

A separate circular accompanying the Annual Accounts explains the special business to be considered at the Annual General Meeting on 4 June 1999.

This report was approved by the Board on 12 April 1999.

By Order of the Board

Rowley Ager

Secretary

12 April 1999

Tesco PLC

Registered Number: 445790