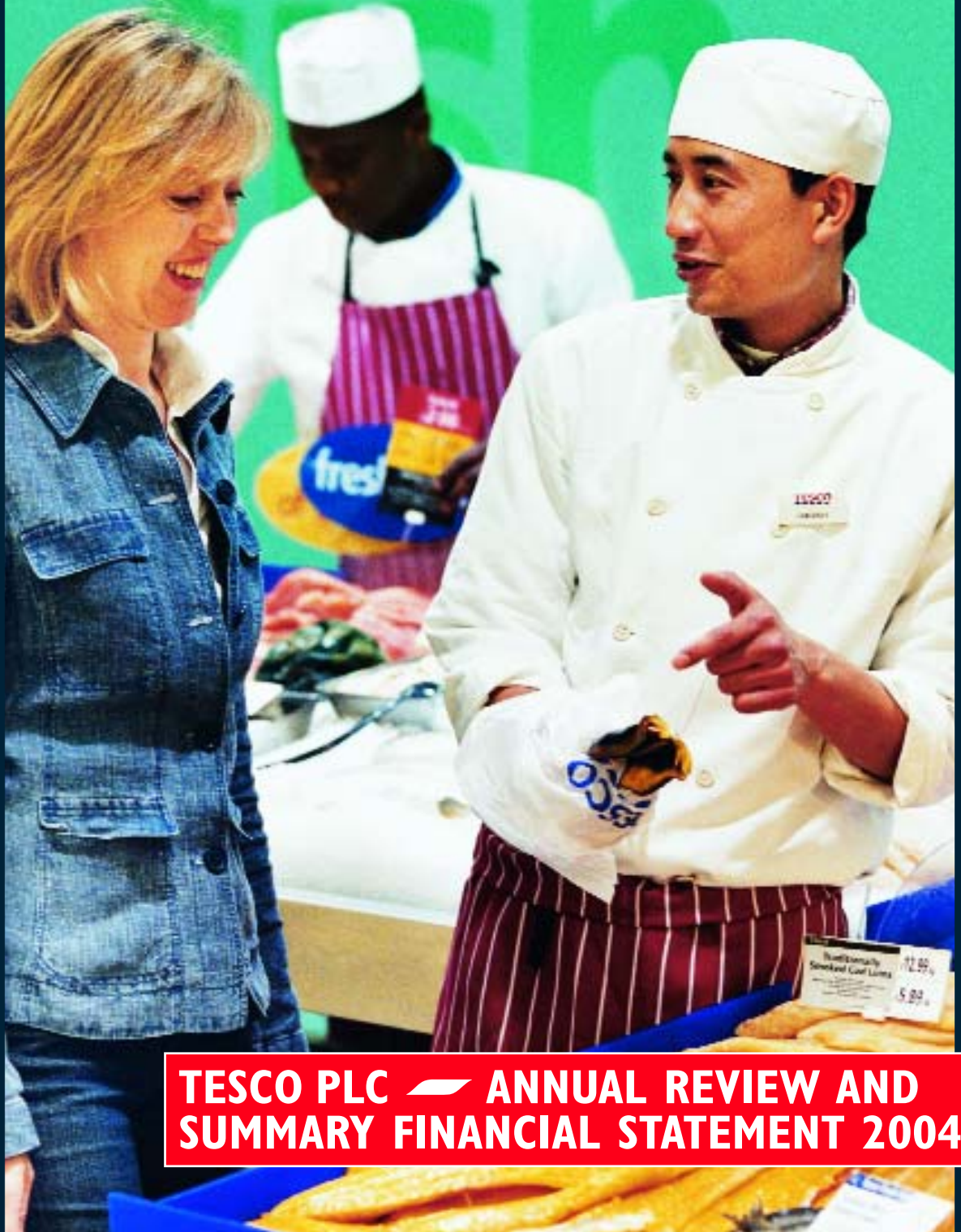




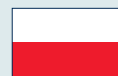
TESCO



**TESCO PLC — ANNUAL REVIEW AND  
SUMMARY FINANCIAL STATEMENT 2004**

# AROUND THE WORLD

UNITED KINGDOM • CZECH REPUBLIC •  
HUNGARY • POLAND • REPUBLIC OF IRELAND •  
SLOVAKIA • TURKEY • JAPAN • MALAYSIA •  
SOUTH KOREA • TAIWAN • THAILAND



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# OVERVIEW

NUMBER  
OF STORES

## EUROPE

### UNITED KINGDOM

Our core business is in the United Kingdom where over 237,000 people are committed to delivering 'Every little helps' for our customers making Tesco the UK's biggest private sector employer. We have 1,878 stores in the UK, including 910 T&S Stores.

1,878

### CZECH REPUBLIC

We serve over 1.2 million customers in our 16 hypermarkets and six department stores in the Czech Republic. We opened five new stores this year, employ 7,500 local people and have created over 1,000 new jobs.

22

### HUNGARY

Tesco moved into Hungary in 1994. Since then we have built up the business to become market leader with a market share of 14%. We currently have over 13,500 staff employed in our operation, serving 1.5 million customers each week.

60

### POLAND

This year we completed the integration of HIT stores. We are hypermarket leader and our 16,000 staff serve 1.9 million customers each week. This year we opened our first distribution centre near Warsaw.

69

### REPUBLIC OF IRELAND

The business was acquired in 1997. We continue to lead the way on price in the Republic of Ireland and our market share has grown. This year we opened eight new stores and our first Distribution Centre at Ballymun, Dublin.

82

### SLOVAKIA

We are market leader in Slovakia and opened six stores this year – more than any other retailer. Our market share is increasing and our 6,000 people serve one million customers each week.

23

### TURKEY

In November 2003 we bought Kipa, a small but successful business comprising of four modern hypermarkets in the city of Izmir on the Western coast of Turkey and one in the town of Denizli further inland. We currently employ 1,500 people.

5

### JAPAN

This year we acquired C Two-Network, which consists of 78 food stores located in and around Tokyo. Customers will benefit from the combination of our international retail experience and C Two-Network's local customer knowledge.

78

### MALAYSIA

We entered the market in 2002. This year we opened two more hypermarkets in Malaysia, bringing our total to five. One of our stores at Mutiara Damansara is our first store to open in the north of the country.

5

### SOUTH KOREA

We entered the market in 1999. This year we opened seven hypermarkets. Rapid expansion has meant that we now have a total of 28 hypermarkets serving over two million customers every week.

28

### TAIWAN

We moved into Taiwan in 2000 and since then have opened four stores. We employ 1,500 staff and serve around 20,000 customers every week. This year we opened the country's first mini hypermarket in Taipei.

4

### THAILAND

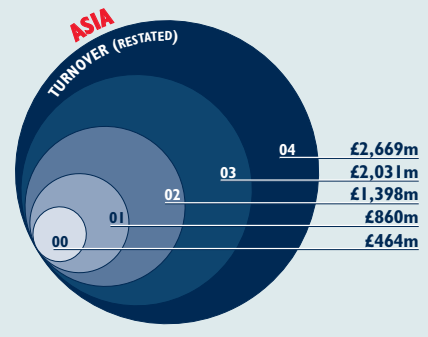
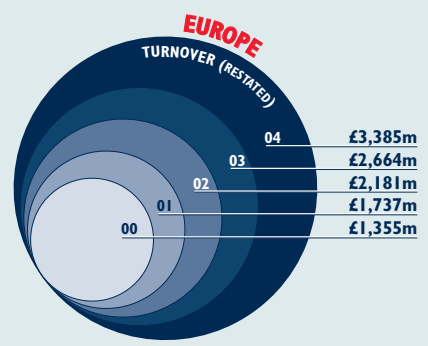
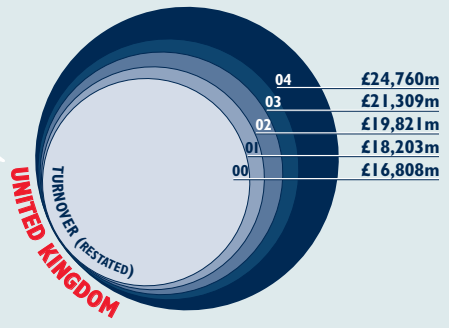
In the six years since we moved into Thailand the business has expanded rapidly and Tesco is the country's leading retailer. We employ 19,000 people in 47 hypermarkets and 17 Express stores. Each month 10 million customers shop with us.

64

2,318

## ASIA

SALES AREA	NEW STORES OPENED INC. ACQUISITIONS IN 2003/04	PLANNED OPENINGS IN 2004/05
23.3m sq ft	64	82
2.0m sq ft	5	3
3.0m sq ft	7	10
3.6m sq ft	4	10
1.9m sq ft	8	8
1.7m sq ft	6	6
0.4m sq ft	5	–
0.3m sq ft	78	2
0.5m sq ft	2	2
2.9m sq ft	7	4
0.4m sq ft	1	–
5.4m sq ft	12	57
45.4m sq ft	199	184





OUR CORE PURPOSE IS 'TO CREATE VALUE FOR CUSTOMERS TO EARN THEIR LIFETIME LOYALTY'. WE DELIVER THIS THROUGH OUR VALUES – 'NO-ONE TRIES HARDER FOR CUSTOMERS' AND 'TREAT PEOPLE HOW WE LIKE TO BE TREATED'.

MONIKA OTCOUSKÁ KARLOVY VARY, CZECH REPUBLIC



# FINANCIAL HIGHLIGHTS

<b>GROUP SALES</b>	<b>+ 18.7%</b>
<b>UNDERLYING GROUP PROFIT BEFORE TAX<sup>†</sup></b>	<b>+ 21.9%</b>
<b>GROUP PROFIT BEFORE TAX</b>	<b>+ 17.6%</b>
<b>UNDERLYING DILUTED EARNINGS PER SHARE<sup>†</sup></b>	<b>+ 16.7%</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>+ 11.3%</b>
<b>DIVIDEND PER SHARE</b>	<b>+ 10.3%</b>

	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>53 weeks</b>	<b>52 weeks pro forma</b>	
Group sales (£m) (including value added tax)	33,557	32,989	28,280 <sup>‡</sup>
Underlying Group profit before tax <sup>†</sup> (£m)	1,708	1,684	1,401
Group profit before tax (£m)	1,600	1,576	1,361
Underlying diluted earnings per share <sup>†</sup> (p)	16.31		13.98
Diluted earnings per share (p)	14.93		13.42
Dividend per share (p)	6.84		6.20
Group enterprise value (£m) (market capitalisation plus net debt)	23,866		16,896
Return on capital employed	10.5%		10.2%

<sup>†</sup>Excluding net loss on disposal of fixed assets, integration costs and goodwill amortisation.  
<sup>‡</sup>Restated as a result of FRS 5, Application Note G, 'Revenue Recognition'.

**CHAIRMAN'S STATEMENT I AM PLEASED TO REPORT THAT THIS YEAR THE TESCO GROUP HAS AGAIN DELIVERED AN EXCELLENT SET OF RESULTS. I BELIEVE THEY REFLECT THE STRENGTH OF THE TESCO STRATEGY AND THE TEAM'S ABILITY TO FOCUS AND EXECUTE WELL.**

For the full year on a 53 week basis, Group sales have risen by 18.7% to £33.6bn and underlying pre-tax profit is up 21.9% to £1,708m. Over the same period, pre-tax profit on a statutory basis is up 17.6% to £1,600m. Earnings per share is 16.31p, up 16.7%.

The Board proposes a final dividend of 4.77p, up 10.2% on last year. This, together with the interim dividend of 2.07p, gives a full year dividend of 6.84p, up 10.3%.

Our growth has again been driven by delivering a great shopping trip for customers wherever we operate. We have seen an exceptional performance in the UK this year, reflecting our investment in lower prices and all round customer offer.

Non-food is now a scale business, it goes from strength to strength, increasing the attractiveness of our stores in the UK and is also a key feature of our international hypermarkets.

Retailing services, with Tesco Personal Finance in the forefront, has had a very strong year.

Our international business has achieved another year of strong growth in sales, profits and market share gains.

We are delivering in all areas of our business. We have strong momentum and there is more to come.

I would like to thank each of the 326,000 employees in the Group for their contribution. Our people are the key to delivering for customers and our results reflect the excellent work of our staff at all levels. They will receive a record £148m in profit share this year. Our expansion programme will create more than 20,000 new jobs at home and abroad.

**BOARD CHANGES** Tesco have a good track record of well planned succession. This year has seen a number of changes to the Board. Rowley Ager – Company Secretary and John Gildersleeve – Commercial and Trading Director have both retired, we thank them both for their contribution and wish them well after many years of loyal service. I am pleased to announce that Richard Brasher has joined the Board as Commercial and Trading Director and Lucy Neville-Rolfe has been appointed as our new Company Secretary.

I have taken over Non-executive Chairmanship from John Gardiner. On behalf of the Board, I thank him for 16 years' service and wish him well in his retirement.

We have also announced that Mervyn Davies – CEO of Standard Chartered, and Ken Hydon – Financial Director at Vodafone have joined the Board as Non-executive Directors.

Looking ahead, next year will be as competitive as ever and we have an excellent plan to improve the shopping trip for our customers, particularly in light of the changes in the UK industry. Tesco welcomes new challenges and competition and we believe we will continue to deliver the best shopping experience for our customers.



A handwritten signature in black ink, appearing to read 'D Reid', written over a horizontal line.

**DAVID REID CHAIRMAN**



**IN THE UK, OUR CORE BUSINESS HAS DELIVERED OUTSTANDING FIGURES AND GAINED SHARE FROM ALL PARTS OF THE MARKET.**





# LEADING THE WAY

## CHIEF EXECUTIVE'S REVIEW

We have delivered an excellent performance this year and further developed all four parts of our growth strategy. This strategy was first set out seven years ago. At that time we had little or no experience in non-food, retailing services or international retailing.

As a business we have come through the period of greatest risk. We have established a strong and diverse business in the UK. We have grown our non-food business from almost nowhere and established some strong retailing services. We have moved from being the number three domestic retailer to being one of the top three international retailers in the world.

This year, our out-performance of the UK retail market has been the highest since records began. We have further improved our price position with nearly £200m investment this year; maintaining our position as the UK's best value retailer. We have seen a step change in non-foods growing market share from 5% to 6%. The number of retail services accounts has increased by 36%. Internationally, we are market leader in five countries, and achieved a 44% increase in profit.

We have an inclusive offer and everyone is welcome at Tesco. We have listened to our customers and delivered better product availability, clearer aisles, shorter queues, lower prices and great service. We have opened 21 Extra stores, 20 Superstores, four Metros and refreshed 71 stores this year.

We have further evidence that customers love our Express format. We now have 277 Express stores and the customer offer is the best in the convenience sector. The acquisition of T&S Stores has been a success. We have converted 138 T&S Stores to the Express format and the trading performance has been ahead of plan as customers enjoy the lower prices across a wider range of products.

**NON-FOOD** We have a substantial non-food business that is growing rapidly. We are achieving our goal of being as strong in non-food as we are in food. Highlights this year include being number one retailer in the baby goods market and achieving 60% sales growth in DVDs. We have completely rebuilt the clothing supply chain, investing in new distribution facilities, new supplier relationships and dedicated staff in store.

**RETAILING SERVICES** We have seen further exciting developments in the year. In total we have 5.2 million banking, Tesco.com and Telecoms accounts and we are opening nearly 50,000 new accounts each week.

**INTERNATIONAL** We are trading very well and have grown share in all our markets. This year we opened 37 hypermarkets giving us an additional 3m sq ft of sales space.

There is further growth to come by adding new formats such as compact hypermarkets and Express, complementing our existing store network. We are focusing on driving sales through price reductions and strong promotions. We have worked hard to lower our buying costs and store operating costs. As a result, operating margins have increased.

**SUMMARY** It has been an outstanding year for Tesco, because we have made shopping in a Tesco store, wherever we operate, better than it was last year.



**OUR STEP CHANGE PROGRAMME ENSURES EFFICIENCY SAVINGS ARE RE-INVESTED FOR CUSTOMERS. WE DELIVERED SAVINGS OF OVER £200M THIS YEAR.**

**CLUBCARD IS THE UK'S MOST POPULAR LOYALTY SCHEME. IN THE YEAR WE HAVE GIVEN OUR CUSTOMERS A RECORD £360M OF VOUCHERS.**

**THIS YEAR WE HAVE SUCCESSFULLY COMPLETED THE HIT INTEGRATION IN POLAND AND ACQUIRED THE C TWO-NETWORK IN JAPAN AND KIPA IN TURKEY.**



All of our people benefit from training and we are committed to sharing knowledge and giving everyone the chance to progress through the company. With flexible working, part time roles and shift swapping, we help our people balance their work and home life. Our industry-leading benefits package lets our staff share in the success they have help create.

**TRACY NEIL DUNDEE RIVERSIDE STORE**

# — WORLD LEADING TEAM

**THE EXTRA MILE** We know that the key to delivering our business strategy is our people. By building a world-class Tesco team we will ensure that we continue to serve our customers better than anyone. As the UK's largest private sector employer we have a responsibility to look after our 237,000 people so they can go the extra mile for our customers. We were very proud this year when their hard work was recognised with the 'Most Admired Company' award from Management Today magazine.

## GOING THE EXTRA MILE

**LIVING THE VALUES** At Tesco, our core purpose is, 'To create value for customers to earn their lifetime loyalty'. We deliver this through our Values, 'No-one tries harder for customers' and 'Treat people how we like to be treated'. The Values describe the way we work together. To help us celebrate the great work our people do every day for our customers and their colleagues we have Values Awards. This year we have issued over 360,000 Values Awards to our people throughout the business. The Values are also practised by our overseas businesses. At the Company Conference, for instance, a Values Award was presented to representatives of our Taiwan business for their outstanding efforts this year.

**EVERY LITTLE HELPS FOR OUR PEOPLE** We are committed to looking after our people and helping make Tesco a better place to work. We know what our people want – to be treated with respect, a manager who helps them, an interesting job and an opportunity to get on. Over the past year, we have worked hard to deliver these promises by developing our people and simplifying jobs. We have regular staff forums that allow our people to share ideas and discuss problems and twice a year all members of staff are invited to take part in our Viewpoint questionnaire, to tell us exactly how they feel about working for Tesco. We also have Viewpoint in most of our overseas businesses such as the Czech Republic and Slovakia. We use the feedback to improve our business further for our people.

**EVERY LITTLE HELPS FOR OUR CUSTOMERS** We are committed to making Tesco a better place to shop. By continually talking to our customers and listening to their needs, we know what they want – clear aisles, to be able to buy what they want, good prices, no queues and great staff. The delivery of these five simple things has been the focus of the UK business over the past 12 months. We are constantly trying to operate in a way that makes the shopping trip better for customers, work simpler for staff and the operation cheaper for Tesco.



**NICKY GRAY**  
MEADOWS EXTRA Sandhurst, UK



**MELAKA HYPERMARKET** Malaysia



**LETNANY HYPERMARKET**  
Prague, Czech Republic

# — WORLD LEADING TEAM



**RADKA ZAJICKOŮÁ AND  
MONIKA HLADIKOVÁ**  
KARLOVY VARY Czech Republic

## STAFF NUMBERS

### UNITED KINGDOM

237,000

### EUROPE

55,000

### ASIA

34,000



**MICHAEL TURNER**  
HOVE SUPERSTORE UK

**WORLD CLASS PEOPLE** At Tesco we are committed to developing our people to bring out the best in everyone. In all the countries where we operate we employ local people. We have less than 120 expatriates in all our overseas operations. By recruiting the best, we can be sure that no-one tries harder for customers. This year in Hungary, Anita Fazekas, one of our store directors won, 'Hypermarket Store Director of the Year'.

**SPOTTING OUR TALENT** By offering support and development we strive to attract and retain the best people. All of our staff have access to training programmes and everyone has a personal development plan to ensure they have the right skills to do their job. Through our Talent Spotting programme, staff have a career discussion with their line manager to plan their career in Tesco. Those identified as having the potential to move to bigger or different jobs are then put in a talent pool to match the right job for the right person. This helps individuals to make the most of the opportunities available to them.

**LET'S TWIST AGAIN** In the UK, this year saw the second stage of our TWIST (Tesco Week In Store Together) programme. Directors and managers from all parts of the business had the opportunity to work in our stores, listening to the views of staff and customers and seeing how to deliver initiatives simply and successfully. So far over 1,000 managers have gone back to the shopfloor through TWIST. We will be rolling out TWIST in Korea and Thailand next year. Through feedback from managers on TWIST and First Steps, our ideas capture programme, we have made step change savings of nearly £5m.

## LOOKING AFTER OUR PEOPLE

**STAFF BENEFITS** Tesco has a comprehensive range of staff benefits and all staff in the UK who have been with the company for over a year receive an Annual Benefits Report, detailing their pay and benefits over the previous 12 months. Staff are eligible for a Privilegecard after one year's service, which entitles them to 10% discount at Tesco. Staff can take advantage of a 20% reduction on gym membership across the UK, 10% discount on holidays through our travel agent Freetime, childcare vouchers and reduced price BUPA membership. We also have an award-winning defined benefit pension scheme that currently has over 127,000 members.

**SAVE AS YOU EARN** Staff from all parts of the business can take part in our employee share ownership schemes – our profit share scheme Shares In Success, Save As You Earn (SAYE) and Buy As You Earn (BAYE). In February 2004 over 45,000 Tesco staff across the UK celebrated a £110m pay-out as two SAYE share schemes matured. Top investors netted nearly £30,000, while over 67% of staff chose to reinvest their shares and leave them to mature as a long-term investment in the business.

# CASE STUDY **LIVING SERVICE**

This year we have spent over £12 million on training. 850 managers have gone through our Stores Leadership Programme. We also launched **LIVING SERVICE** – a programme which introduces new skills to the whole team to help everyone give great service. Feedback has shown that Living Service helps our staff enjoy their job more, helps release more potential, energy and talent and live the Values 'No-one tries harder for customers' and 'Treat people how we like to be treated'.



Staff are encouraged to know their stuff, show they care and share a smile

- 1 **SCOTT CROWE** Living Service coach, using training techniques to demonstrate the importance of teamwork.
- 2 Staff are encouraged to analyse their behaviour in relation to the team and themselves.
- 3 An exercise in trust, teamwork and logistics as the participants, some blindfolded, try to solve a physical task.
- 4 24-year-old **CHRIS FOX**, took the 'Firefighter' course, part of the stores leadership programme. Chris has since successfully trained towards being a department manager.



In all our global operations we employ local people with the knowledge and experience to deliver for their local customers. They are supported by small teams from the UK to help share best practice. In addition to the UK stores, we have 179 stores in Asia and 261 in Europe.

**VLADIMIR TKÁČ** BENZINOL HYPERMARKET, SLOVAKIA

# CUSTOMER FOCUS

**SHARING KNOWLEDGE** Wherever in the world we operate we tailor our offer around the local customer. We share our experience, knowledge and best practice throughout the business to deliver a great shopping experience for customers. The skills we have learnt through our UK convenience stores were shared with our operation in Thailand, where we now have 10 Express stores and in the Republic of Ireland our first Express store opened at Ratoath in January 2004. Our teams in the Czech Republic have shared their produce expertise across Europe to help provide better, simpler and cheaper produce in all our stores.

**TRANSFER KNOW-HOW** This year we became the first retailer in Malaysia to offer permanent price cuts as part of our commitment to deliver unbeatable value for our customers, wherever we operate. The team carried out two price reduction programmes and we have permanently reduced prices on 2,000 popular grocery and household lines. Just as in the UK, a dedicated team checks over 10,000 prices each week to make sure we sell for less. This year also saw price reduction campaigns in Thailand and Korea, while we continued our programme of investing in price in our other established businesses.

**CLUBCARD** Tesco Clubcard is the UK's most popular loyalty scheme and there are currently over 10 million Clubcard holders. During the year, we sent out over £360 million in vouchers and coupons and in February 2004, we delivered our largest mailing so far, with £66 million in vouchers. Customers can collect AIR MILES with Clubcard and 242 million AIR MILES have been issued this year. There are now over 5,000 venues where customers can earn Clubcard points, including opticians Dolland & Aitchison, Marriott hotels and gas and electricity provider Powergen. Over 800,000 Clubcard holders are members of one of our clubs, such as World of Wine or Babyclub and are eligible for further discounts and special offers.

## SHARING KNOWLEDGE

**FAMILY CARD** Last year Tesco Homeplus launched their own loyalty card in Korea based on our successful Clubcard formula. Our customers receive points with a cash value to use against purchases in our stores. This year, subscription to the Korean Familycard, has grown significantly and there are currently 2.5 million cardholders, covering 77% of sales.

**FOLLOW THE CUSTOMER** We are continuing to expand and grow our international offer by building on the shared learning from our UK operations. This year we are planning to roll out insurance services and Tesco Mobile in South Korea. In Hungary we launched the 'Fitt' range with 50 new products to add to our 1,200 Value and Standard products. In February we successfully opened our first petrol filling station in Budapest.



LETNANY HYPERMARKET  
Prague, Czech Republic



We are committed to selling local fresh produce and buying from local suppliers wherever possible.



# CUSTOMER FOCUS



Listening to our customers  
**YOUNGDEUNGPO HYPERMARKET**  
South Korea

**INTERNATIONAL** Our aim is to develop a world-class team to look after our customers wherever we operate. By recruiting strong local management and by listening to our customers in the communities where our stores are based, we understand the marketplace and our customers' needs. In Europe, our sales are up 27.5% and profits up 30.5%, while in Asia sales are up 31.1% and profits up 71.8%. This year we have opened 22 stores in Asia and 22 stores in Central Europe. The key to our international growth is understanding our customers and building the best store networks in every country that we operate.

**LOCAL KNOWLEDGE** In the Czech Republic, we employ over 7,500 local people and have created over 1,000 new job opportunities this year. In Poland, we were voted 'Best Retail Employer of the Year' in a survey for Newsweek magazine. We created over 1,500 new jobs in Poland, mainly in rural areas where unemployment is high.



Keeping prices low  
**KLANG HYPERMARKET** Malaysia

**LOCAL PRODUCTS** Wherever we operate, we cater for local tastes, providing customers with the products they want. Local sourcing, wherever practicable, means many products are sourced from within each national market. For example, our stores in Scotland sell around 1,000 Scottish products from 183 Scottish companies. We sell around 800 Welsh lines in our Welsh stores. In Northern Ireland, we have 70 suppliers with 1,500 lines produced in the country.

## UNDERSTANDING CUSTOMER NEEDS

In the UK we carry out Customer Question Times. This year we held 177 sessions, interviewing 9,000 customers and 2,000 staff. The sessions allow our customers to express their opinion on our stores, products and Tesco as a company. In Hungary, we now measure customer satisfaction every month and we have launched a new service initiative at the check-out for customers so that they don't have to queue, in line with our Customer Reality Research and our 'One in Front' initiatives in the UK.



In 2003 our own-brand was  
voted the most popular retail  
brand in Slovakia.

**KNOWING THE CUSTOMER** In Slovakia we are the only retailer to have 24-hour opening. Customers can find more than 1,400 Tesco branded products in our stores. In Hungary our 60 stores serve 1.5 million customers a week. This year in Thailand we have opened our Value Store at Mukdaharn, a compact hypermarket format developed specifically to serve smaller regional communities in rural areas. The store offers customers a choice of around 15,000 products – slightly less than half the product range of a standard Thai hypermarket. In Thailand, to help us understand our local customers better, we visit their homes, talk to our customers and even go shopping with them!



# CASE STUDY SLOVAKIA

In Tesco we have a format to meet all our customers' needs, from Express, our convenience offer, to Extra, our hypermarkets. In Slovakia, where we have a market-leading position, we opened six stores this year. We have been leading the way in smaller town retailing, in addition to 120,000 sq ft and 50,000 sq ft hypermarkets, this year we have opened two 30,000 sq ft compact hypermarkets, developed to serve smaller regional communities.



- 1 **BENZINOL HYPERMARKET** A new 120,000 sq ft hypermarket on the outskirts of Bratislava.
- 2 **BENZINOL HYPERMARKET** The latest offering for customers, 24 hours a day.
- 3 **NOVÉ ZÁMKY HYPERMARKET** A new format 50,000 sq ft hypermarket offering the full range and customer service areas.
- 4 **NOVÉ ZÁMKY HYPERMARKET** The recent opening of a centralised produce distribution centre and the introduction of quality control in the centre has improved the freshness of the produce in the stores.
- 5 **DUBNICA NAD VÁHOM** Staff from the local area focus on value for the local community.
- 6 **DUBNICA NAD VÁHOM** A new compact 30,000 sq ft format, a destination store for the area offering a wide assortment of low cost, bulk stacked, value food and non-food products.



This year in the UK we have opened 21 Extras, eight new builds and 13 extensions giving us 83 in total, devoting more space than ever to non-food. We have also opened 20 Superstores, four Metros and converted 138 T&S Stores to our Express convenience format.

**DES CRAWFORD** MANAGER, WOOD GREEN EXPRESS



# INCLUSIVE OFFER

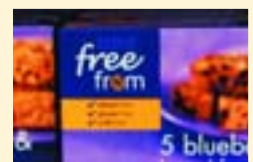
**UNBEATABLE RANGE** At Tesco we understand that all our customers have different tastes. To ensure that we cater for everyone, we have an inclusive offer ranging from Value to Finest products. We offer unbeatable quality, range and service and each week a dedicated team of price checkers compares prices of the contents of an everyday shopping basket to make sure that we sell for less.

**VALUE FOR EVERYONE** This year saw the tenth anniversary of the launch of our Value brand and our prices today are cheaper than a decade ago. The price of 41 lines in a shopping basket in 1993 was £19.31. Today that cost is just £12.59 – a saving of £6.72 or 35%. We have re-launched our Value packaging in a contemporary style and introduced new Cookshop, clothing, stationery and grocery lines. There are now 1,200 products in the Tesco Value range and 70% of Tesco customers buy from the Value brand.

**FINEST EXPANSION** Our Finest range continues to expand. This year we have launched 400 new lines. We now have over 1,200 products that are bought by over five million customers every month. Recent additions to the range include Finest sandwiches. Over Christmas we launched new convenience and limited edition party food lines including Cranberry and Filo parcels. Our Finest Vintage Christmas pudding was voted the best in a Which? magazine taste test and we sold 10 million individual mince pies. Over 37% of all our customers buy both Finest and Value products.

**ORGANIC GROWTH** We are the UK's largest organic retailer and are committed to developing organic alternatives to our standard lines. Our Organic range continues to grow, we now have over 1,245 lines in the organics range with most superstores stocking at least 600 lines. This year we sold 30 million organic bananas and over 46 million organic eggs.

**FAIRTRADE AND FREE FROM** Tesco supports the work of the Fairtrade Foundation to help give a better deal for third world producers. Over the past 12 months our sales of Fairtrade products have doubled and we are the market leader with 32% of the market. We stock over 90 Fairtrade products. Our pioneering Free From range offers a healthy choice for the growing number of people who suffer from a food allergy or intolerance. We now stock over 120 Free From branded items, including 40 own-brand products, and are market leader with over 40% market share.



catering for everyone...

## VALUE, CHOICE AND CONVENIENCE

**PRICES ARE RIGHT** As Britain's best value supermarket we know that price is as important to our customers as range, availability and service. Over the past year we have invested nearly £200 million on price cuts to give our customers even better value. Every week we check over 10,000 prices against other supermarkets to make sure our prices are right.



# INCLUSIVE OFFER



**HELENKA CEPKOVA**  
DUBNICA NAD VÁHOM Slovakia

## STORE FORMATS

### UNITED KINGDOM

83 Extras  
447 Superstores  
161 Metro/High Street  
277 Express  
910 T&S

### EUROPE

110 Hypermarkets  
11 Department stores  
139 Supermarkets  
1 Express

### ASIA

84 Hypermarkets  
84 Supermarkets  
11 Express stores

**CONVENIENCE OFFER** We understand our customers' needs and continually listen to customer and staff feedback to improve our offer for everyone. We recognise that convenience is becoming increasingly important to our customers, as people's shopping habits change. We have a strong and accelerating organic growth strategy in the convenience market. Next year we will open 31 new stores and convert 194 T&S stores, giving us a total of over 500 convenience shops.

In January we announced we were acquiring 45 convenience stores from Adminstore Ltd. We will be converting most of these stores to our Express format. This allows us to accelerate our growth in Central London where we do not have many Express stores and bring lower prices, improved service and better ranges to even more customers.

**STORE FORMATS** We tailor our stores to meet our individual customers' requirements and all our formats provide a different shopping experience. Our portfolio of stores: Extra, Superstore, Metro and Express are all different store types but all offer outstanding value. We now have 83 Extras, 447 Superstores, 161 Metro and 277 Express stores in the UK. This year we have continued to develop different store types in our markets in Asia and Europe to suit our different customers' needs. Slovakia has opened two compact hypermarkets this year. In Budapest, Hungary, we opened our first petrol station. In the Republic of Ireland, we have opened our first Express Store at Ratoath and have also opened our first two petrol filling stations. In Taiwan, we opened the first compact hypermarket in the country at Taipei, while in Thailand we now have 10 Express stores offering convenient, neighbourhood shopping and plan to open a further 40 over the next two years.

**REFRESH AND EXTENSION** Our ongoing UK development plan combines our Refresh programme and extending our existing stores, modernising and improving the layout and size. Throughout 2003 we refreshed 71 stores and extended a further 28. Feedback shows that we increased customer satisfaction levels by 16% when we extend our stores and by 10% after a Refresh. At our Swansea store, 92% of customers were pleased with the new look store and praised the extended layout and non-food range.

## TAILORED TO LOCAL CUSTOMER NEEDS

**EXPANSION** This year in the UK we have opened 64 new stores – eight Extras, 20 Superstores, four Metros, 30 Express and two T&S Stores. Feedback from our recent openings at Warrington and Newton Aycliffe has seen customer satisfaction levels above 90%. Our Warrington Extra store offers new services, including an electrical service desk and new jewellery counter. New look 'Future' stores that make shopping better for customers and work simpler for staff are also being tested at Hove and Merthyr Tydfil.

**LOCAL CUSTOMER NEEDS** We now have 364 stores that are open 24 hours a day and are continually looking for new ways to serve our customers better. We are currently testing Self-Service checkouts in 21 stores, to help deliver even better service, especially on our Express checkouts, and are looking at a programme to simplify the way in which payment is handled and administered.



**MEADOWS EXTRA** Sandhurst, UK  
cameras for sale.

## CASE STUDY

# T&S STORES TO EXPRESS

Last year we acquired **T&S STORES** and their 870 convenience outlets. We are planning to convert around half of these to Express. This year we have carried out 138 T&S conversions. **EXPRESS** brings all the benefits of Tesco to neighbourhoods from the inner city to the country village. Customers benefit from lower prices and improved ranges including more fresh products. Our Express offer has seen widespread expansion in 2003 with an increase from 109 stores to 277, including 13 Express Refits. Listening to our customers has led us to improve our Express offer including the introduction of promotional lines and Value products.



### 1 MEIR HAY T&S STORE

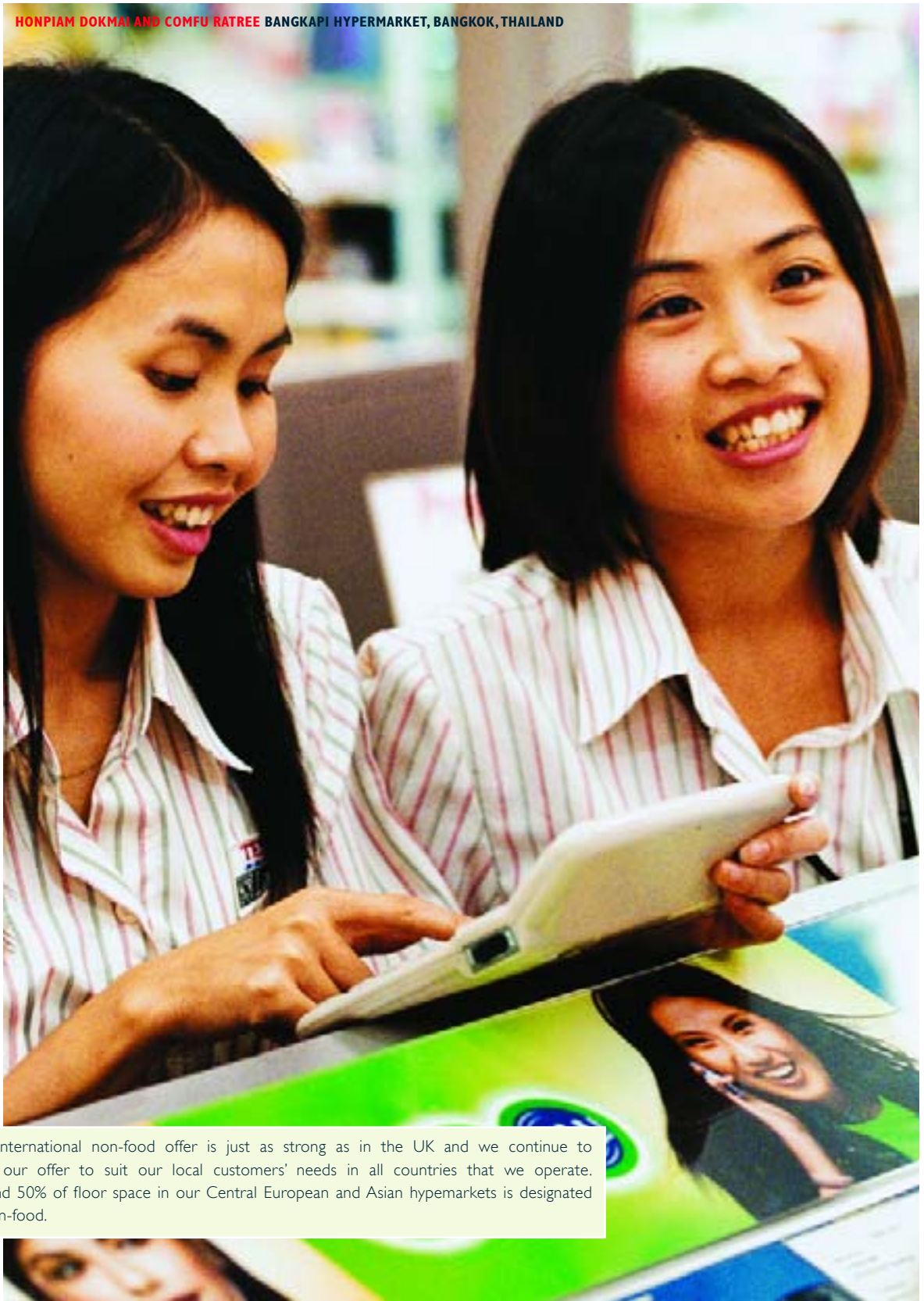
2 Before refurbishment – a friendly local store, but limited fresh food lines.

3 Local staff who already work in the T&S store, will retrain for the opening of the Express store.

4 The Tesco property team move in to refurbish the store.

The whole process takes four weeks from beginning to completion.

5 **MEIR HAY TESCO EXPRESS** opening day, 8 March 2004.



Our international non-food offer is just as strong as in the UK and we continue to tailor our offer to suit our local customers' needs in all countries that we operate. Around 50% of floor space in our Central European and Asian hypemarkets is designated as non-food.

# NON-FOOD

**NON-FOOD OFFER** An integral part of our four part strategy is to be as strong in non-food as we are in food. Our non-food business continues to grow rapidly. We now have a substantial business with sales across the Group in total of over £7 billion. We continue to expand our non-food offer in our Extra stores, Superstores and online through Tesco.com to provide the choice, value and convenience that our customers expect from Tesco. This year our share of the non-food markets we are in has risen from 5% to 6%.

**INTERNATIONAL** In Korea we sell over 42,000 non-food items. Customers can choose from a huge range of home furnishings and electrical items to CDs and leisure goods. All our Korean stores have dedicated jewellery counters with over 500 different items available in each store. Our customers like our non-food offer and in our Taiwan stores, Value tissues are the best selling item with four million unit sales this year. Electricals, clothing and home entertainment are available in all our stores in Central Europe. In Hungary our stores have aisles dedicated to selling tyres that customers can get fitted free of charge at a garage in the store car park.

## NEW RANGES, OWN BRANDS

**NEW RANGES** This year in the UK, we have expanded our ranges of non-food items across our entire shopping offer. You will now see Tesco own-brand, Value and even Finest across the non-food offer. New lines introduced this year include Value fitted sheets and duvet sets and Cookshop items including garlic presses and corkscrews. Customers like the value, choice and convenience of our entertainment offer and Tesco had 25% market share of the bestseller 'Harry Potter and The Order of the Phoenix' in the first four weeks of its launch. This year we have seen DVD sales increase by 60% compared to last year. Tesco now sells over 19% of all chart CDs sold in the UK.

**HEALTH AND BEAUTY** Our UK health and beauty ranges continue to grow as we improve the offer for our customers. We are the fastest growing skincare retailer in the market. This year we sold twice as many Christmas beauty gift sets as we did in 2002 and our Skin Wisdom range is now the second biggest skincare brand in Tesco. We have a volume market-leading position in both toiletries and healthcare and we are number one retailer in the baby goods markets. Across all our health and beauty ranges we continue to invest in price to deliver the value our customers expect and this year we invested £27 million on health and beauty pricing alone so that they can buy for less. We now have 19 stores with opticians and nearly 200 stores with pharmacies, helping customers with a 'one-stop shopping experience'.



ANSUN HYPERMARKET  
Seoul, South Korea



New lines introduced this year include Value Cookshop items.



Book sales have increased dramatically this year.

# CLOTHING



Our Value jeans that retail for £4 were singled out for extensive national press coverage



The Florence + Fred range was voted 'Best Supermarket Fashion' by Woman magazine



**BENZINOL HYPERMARKET** Slovakia

Our clothing offer, Cherokee, Florence + Fred, and Value, has shown remarkable growth in the past 12 months. Tesco market share of the total clothing market has increased by 26% and this growth has been in all areas. To put this in perspective, our clothing offer has expanded by six times the national rate. In the last four years clothing sales have doubled.

**NEW LOOK, NEW RANGE** We have an inclusive clothing offer ranging from Value to Finest and continue to innovate for our customers. Our Value jeans that retail for £4 were singled out for extensive national press coverage and our Florence + Fred range was voted 'Best Supermarket Fashion' by Woman magazine. Our latest clothing launches include a Finest menswear range featuring cashmere wool jumpers and Honeysoles footwear; a comfort adult shoe range exclusive to Tesco. Over 300 stores now stock our outerwear clothing range, that accounts for 90% of the clothing business and a further 70 stores have been refitted with new clothing equipment. By the end of next year we will have refitted nearly 300 stores. An additional 400 stores have our underwear 'Essentials' range. To ensure our clothing customers get the same service they expect from the rest of our shopping offer, there are dedicated clothing managers in our largest 190 stores. This year we will be rolling out kiddies essentials and baby basics in 450 stores.

**FASTWAY DISTRIBUTION** This year we have completely rebuilt the clothing supply chain, investing in new distribution facilities, new supplier relationships and dedicated staff in store. We opened Fastway, our dedicated clothing Distribution Centre at Daventry. Managed by Tippet and Britten, our fashion logistics partner, it has 256,000 sq ft of warehouse space – equivalent to six football pitches – and makes 1,500 store deliveries in an average week. All of our boxed clothing has been brought together to make delivery more efficient and there is additional capacity to enable non-food business growth. Deliveries are based on each stores' clothing sales. Getting the right product to the right store at the right time means customers benefit from more staff on the shopfloor, better presentation and availability of products.

**INTERNATIONAL** Our international clothing offer continues to expand, and in Korea our dedicated childrenswear range 'No.1 for Kids' has 1,500 items from 15 different brands. Drawing on the continued success of our UK clothing offer, our stores in Slovakia and the Czech Republic have launched their own Tesco clothing ranges.



# CASE STUDY CHEROKEE



Our exclusive Cherokee clothing range was launched in August 2002, combining high quality fashion with exceptional prices. Designed to suit the British market the brand was expected to increase our casual clothing business by 15%. However, it actually grew by over 30% and continues to expand. Cherokee provides a winning combination of style and affordability and has been well received by the fashion press. At the Prima High Street Fashion Awards 2003 fashion designer Jeff Banks presented Cherokee with the 'Brand to Watch' Award.



- 1 **DAVENTRY FASTWAY** A dedicated clothing distribution centre with Cherokee merchandise ready for dispatching.
- 2 **MENSWEAR** The Cherokee range offers great clothing for men.
- 3 **WOMENSWEAR** The range also includes maternity wear, a petite range as well as clothing for kids and babies.
- 4 **ADVERTISING** A shot from the autumn TV Cherokee campaign.



This year we launched a new phone ordering service for flowers and wine deliveries to anywhere in the UK. There are over 800 wines available that can be ordered by the case and can be delivered seven days a week. Customers can choose from exclusive wines and special offers that are not available in store and receive Clubcard points with their order.

**ALI GORDON DUNDEE RIVERSIDE STORE**

# DELIVERING VALUE

**OUR ONLINE OFFER** Tesco.com is the world's biggest online supermarket and this year we had total sales of over £577 million, an increase of 29% on last year. Every week in the UK we handle around 120,000 orders with our fleet of over 1,000 delivery vans. Over a million households nationwide have taken advantage of our online offer and we now operate in over 270 stores around the country, covering 96% of the UK.

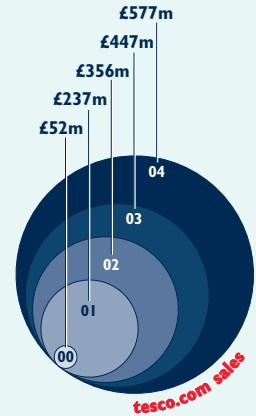
**ADDING EXTRA VALUE** To deliver even more value for our customers this year we have expanded our site into new ranges offering a larger choice than in our stores. Over 1.2 million books and 160,000 CD, video and DVD titles are now available, together with a huge range of electrical items from mobile phones and plasma televisions to washing machines and fridge-freezers. We have also linked up with online travel agent lastminute.com to provide holiday deals and travel offers worldwide. Customers can even make savings on their gas and electricity bills by using our price checker service on the internet. This year we bought the rest of iVillage UK (previously a joint venture with iVillage Inc.), the UK's largest website dedicated to women's issues ([www.iVillage.co.uk](http://www.iVillage.co.uk)).

**RECORD BREAKING SALES** Over Christmas we had record breaking sales, with half a million deliveries in December, which was more sales than we achieved in the whole of 1999. Our customers ordered 250 million items, buying one million mince pies, two million sprouts and enough champagne to fill 20 milk tankers.

**GLOBAL HOME DELIVERY** We continue to export our Tesco Home Shopping model overseas and this year expanded our USA joint venture to include Seattle. GroceryWorks, our partnership with Safeway Inc. in America, is now serving customers across the whole of California. In the Republic of Ireland the service now covers over 70% of the population. Last year we launched our first venture in our Asian markets when we launched our service in South Korea.

## TALK THE TALK

**COST EFFECTIVE TELECOMS** Building on the success of Tesco Personal Finance, this year we expanded our telecoms offer by launching Tesco Mobile, our mobile phone service in partnership with O<sub>2</sub> and our Home Phone service. Together with Tesco.net, our established internet access service, these services offer our customers the chance to take advantage of supermarket-style offers and pay less for their phone calls. Tesco Mobile and Home Phone offer simplicity and value from a trusted name. The straightforward tariffs make it easy and convenient for customers to switch to our service and earn Clubcard points with their calls. Tesco Mobile handsets can be bought in store or over the internet. Over half a million customers have now signed up with our telecom services.



We have launched a new phone ordering service for flowers and wine deliveries anywhere in the UK.



This year we launched Tesco Mobile.

# FOLLOW THE CUSTOMER



**CONVENIENCE AND CHOICE** Our retailing services continue to go from strength to strength and this year Tesco Personal Finance (TPF) alone made a pre-tax post minority profit of £160 million, of which Tesco's share is £80 million. TPF offers our customers the value, choice and convenience they expect from Tesco. This year our joint venture with the Royal Bank of Scotland Group opened 1.7 million new customer accounts, making a total of 4.2 million. There are currently 11 products available when and where our customers need them – online, over the telephone and in store. At the recent Advertising and Marketing Effectiveness Awards, TPF won a Gold medallion for our 'Talking Trolleys' campaign.

**SAVINGS AND LOANS** Customers can take advantage of competitive rates and the convenience of having instant access to their savings with cheque deposit facilities at checkouts and customer service desks. TPF has cut the cost of borrowing with a typical on-line loan rate of just 6.8%.

**CREDIT CARDS** In the first six months of this year we opened more credit card accounts than we did in the whole of last year. Over two million people now own a Tesco credit card and our customers earn Clubcard points with every purchase.



**INSURANCE** This year TPF reached the milestone of one million motor insurance policies, making it the fastest growing motor insurance provider ever. Our instant travel insurance allows Clubcard holders to buy their holiday insurance conveniently at the checkout. Our pet insurance now has over 330,000 cats and dogs covered, while our life insurance policy followed on from the success of last year, when we were voted 'The Most Competitive Life Insurance Provider' in the MoneyFacts Awards 2003.

**CASH MACHINES** There are now over 1,000 TPF cash machines at Tesco stores. Every time a withdrawal was made from one of our machines during a promotional period TPF donated 1p to our Charity of the Year, the Barnardo's Building Blocks Appeal. The promotion raised £165,000 for the charity.

## PRODUCTS

### FINANCE

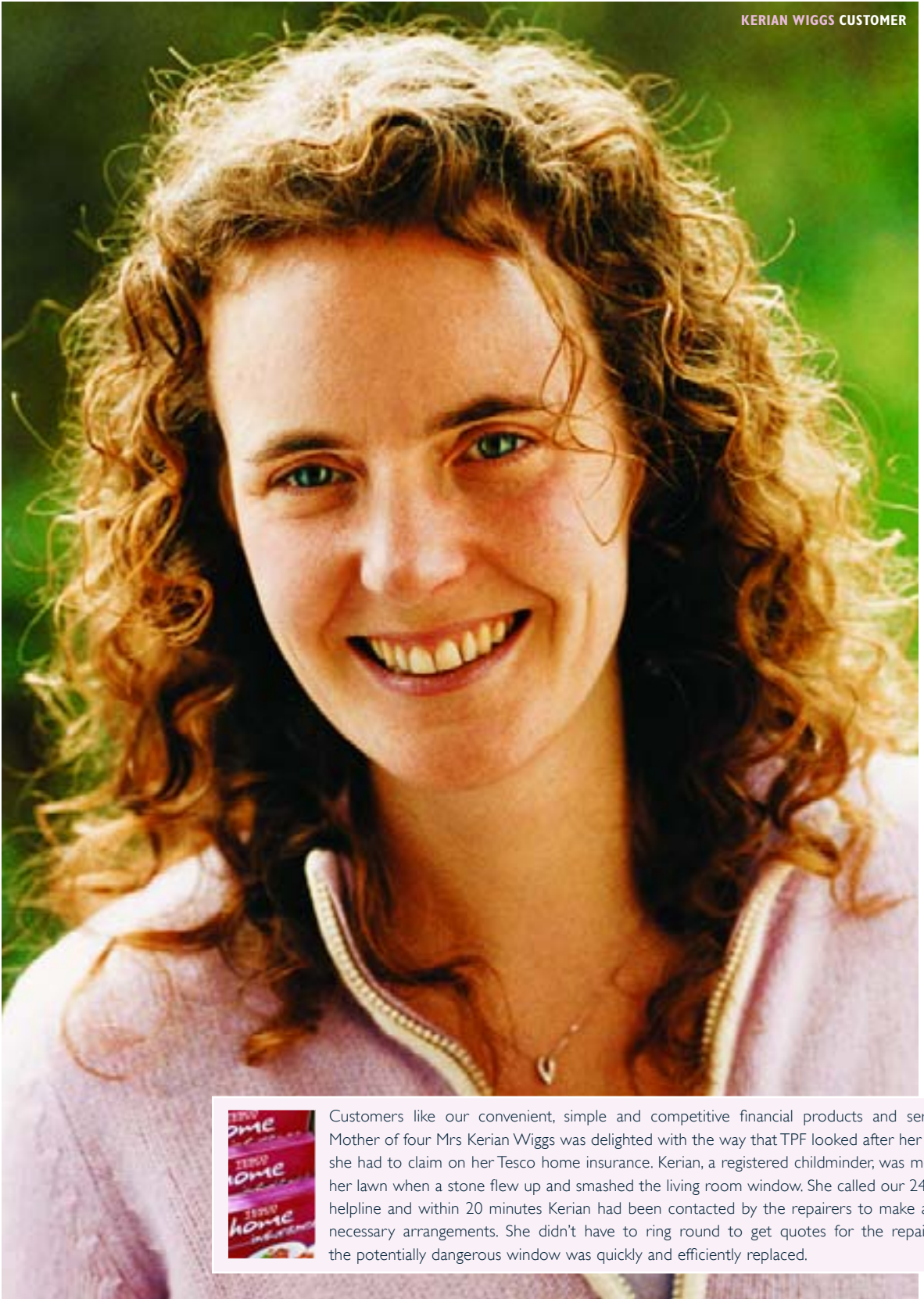
- Loans
- Credit Card
- Savings
- Flexible Mortgage
- Travel Money

### INSURANCE

- Motor Insurance
- Home Insurance
- Life Insurance
- Pet Insurance
- Instant Travel Insurance
- Instant Breakdown Cover

## PRODUCTS AND SERVICES 24/7

**INNOVATION** After the success of instant travel insurance, this year TPF rolled out instant breakdown cover in our stores. Clubcard customers can pick up a leaflet, pay at the checkout and drive away covered. We recognise that our customers want to be able to access our products and services 24 hours a day and our internet sales continue to grow with over 30% of sales now on-line. Customers can even pay for their motor insurance premiums using their Clubcard on-line vouchers.



Customers like our convenient, simple and competitive financial products and services. Mother of four Mrs Kerian Wiggs was delighted with the way that TPF looked after her when she had to claim on her Tesco home insurance. Kerian, a registered childminder, was mowing her lawn when a stone flew up and smashed the living room window. She called our 24 hour helpline and within 20 minutes Kerian had been contacted by the repairers to make all the necessary arrangements. She didn't have to ring round to get quotes for the repair and the potentially dangerous window was quickly and efficiently replaced.



Wherever we operate, whether in the United Kingdom, Europe or Asia, our step change programme continually improves our operations by making them better, simpler and cheaper for both the business and our customers.

**SMAHAN HASSAN** FASTWAY DISTRIBUTION CENTRE, DAVENTRY

# OPERATIONAL EXCELLENCE

**BETTER, SIMPLER AND CHEAPER** In the UK, we have delivered savings of over £200 million this year through combining new processes and investing in new systems. Our industry leading Continuous Replenishment system orders products based on the continuous information from our checkouts, which means we can provide wider product ranges with better availability. Over 50% of our supplier volume is now handled by primary distribution, which improves the movement of goods from the factory to our distribution centres. This year we have opened a 256,000 sq ft dedicated clothing distribution centre at Daventry, servicing all of our stores in the UK.

**INNOVATIONS** We have delivered many new systems to the UK this year; all intended to make work simpler for staff and improve service for customers. All of our UK stores now have hand-held computers providing key information on the sales floor; simplifying our stock and order operation for our people. Our customer service desks have access to our intranet and we have automated all of the key processes. This has helped to improve the speed and quality of our responses to customer queries. This year we have tested self-service checkouts to help reduce queuing and congestion while offering greater choice to our customers. During Christmas over 371,000 customers used these checkouts in our 21 trial stores, scanning goods worth over £5 million. We have experimented with radio barcodes in our supply chain and in stores to improve availability for customers and make life easier for staff. These radio barcodes are able to carry more information than traditional barcodes, enabling staff to know where products are located, and when shelves need re-stocking.

## SUPPLY CHAIN

**INTERNATIONAL** As part of our programme for long-term growth we have invested throughout the supply chain in our European and Asian businesses this year. Based on our UK centralised distribution model, in March 2003 we opened the largest Distribution Centre (DC) in Asia. The 1.5 million sq ft centre in Mokchon has significantly improved our supply chain capability in Korea. In Poland we opened our first DC in Teresin, near Warsaw, creating 360 new jobs. In just three months we built the Jazlovce Distribution Centre in the Czech Republic. This 260,000 sq ft DC now supplies all of our stores in the country and has a capacity of 29,000 pallets. In Hungary we extended our central distribution warehouse at Herceghalom, which now supplies 80% of centrally allocated stock. We have introduced a new state-of-the-art system to improve productivity and are currently building a new fresh food DC, due to open in Hungary in August 2004. A new 209,000 sq ft Composite DC has opened at Ballymun near Dublin and will supply all of our stores in the Republic of Ireland. This completes the centralisation of all fresh food suppliers.



**NOVÉ ZÁNKY HYPERMARKET Slovakia**  
Products are ordered based on the continuous information from our checkouts.

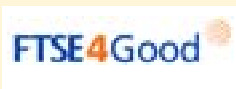


**HOVE SUPERSTORE UK**  
The introduction of self-service checkouts in some stores. 30% of our checkout bank in our new Hove store is self-service.



**HERCEGHALOM Hungary**  
Central Distribution warehouse

# EVERY LITTLE HELPS



**ACTING RESPONSIBLY** Our Corporate Social Responsibility (CSR) objective is to earn the trust of our customers by acting responsibly within the communities that we serve. We focus our CSR programme around three areas: Being a good employer by providing training and opportunities for all our staff; making a positive contribution to local communities; and minimising our environmental impact. We are a member of the 'Business in the Community 1% Club' by donating over 1% of our pre-tax profits to charity. We are one of the top companies in the Business in The Community (BiTC) Corporate Social Responsibility Index 2003 and listed in the FTSE4Good index of socially responsible companies.



**COMMUNITY** Each year we adopt a national charity with a strong community presence to be the Tesco Charity of the Year. This year we chose Barnardo's and thousands of staff have helped raise £2.5 million for the Tesco Building Blocks Appeal. Next year we will be working with Help the Hospices. The Charity of the Year provides a focus for staff fundraising and the money raised is topped up by 20% by the Tesco Charity Trust. During the year, the Charity Trust also made cash grants of nearly £650,000 to charities and presented 124 Community Awards to community-based projects.

**URBAN REGENERATION** Our nine regeneration schemes around the country have created over 3,200 jobs for the long-term unemployed. This year we opened new partnerships at Shettlestone, Warrington and Batley.



**RACE FOR LIFE** For the second year running we were main sponsor of Cancer Research UK's Race for Life. This year over 300,000 women took part in 130 events around the British Isles, raising £17.5 million to help fight the cancers that touch women's lives. As national presenting sponsor we were awarded the 'Hollis Sponsorship' award and the 'Marketing Week Effectiveness' award for ethical marketing. Race for Life and Computers for Schools were recognised by BiTC and received the 'Big Tick' award.



**ENVIRONMENT** We are committed to reducing the amount of waste that we produce and to recycling, with a comprehensive programme for ourselves and our customers. In the year we recycled over 80% of our cardboard and plastic waste that would otherwise have gone into landfill sites. We have reduced water and energy consumption in the last 12 months by over 4%. We are running solar and wind power trials to assess their financial viability. This year we have also introduced 100% biodegradable carrier bags and tested new recycling units for CDs and cardboard at Borehamwood, Royston and Watford stores.

**INTERNATIONAL** In Poland we have developed Tesco for Schools, using the successful UK Computers for Schools model, and have provided 35 schools across the country with multimedia equipment worth £100,000. Poland has also adopted Charity of the Year fundraising activities for Caritas Polska. In the Republic of Ireland we sponsored the Special Olympics 2003, where teams from 160 countries and 7,000 athletes, including three of our staff, participated.

For more information log on to [www.tesco.com/everylittlehelps](http://www.tesco.com/everylittlehelps)





Since launching Computers for Schools in 1992 we have given away computer equipment worth £84 million. Over two-thirds of all schools in the UK now participate in the scheme and this year over 1,000 new schools signed up. During the year, we gave away £7 million worth of equipment to 24,000 schools.

**KERRIE MCCARTHY** CAMBRIDGE EXTRA

# BOARD OF DIRECTORS



**1 DAVID REID 57**  
**NON-EXECUTIVE CHAIRMAN ●**  
 David Reid became Non-executive Chairman in April 2004. Prior to his appointment he was Deputy Chairman of Tesco PLC and served on the Tesco Board since 1985.

**2 RODNEY CHASE 60**  
**DEPUTY CHAIRMAN AND SENIOR NON-EXECUTIVE ●●▲**  
 Rodney Chase was appointed a Non-executive Director in 2002. He is also a Non-executive Director of Diageo plc and Computer Sciences Corporation.

**3 SIR TERRY LEAHY 48**  
**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 in 1992.

**BOARD CHANGES**  
 This year Tesco PLC announced a series of changes as part of the long-term development of its Board.  
 Following the retirement of John Gardiner, David Reid has taken over as Non-executive Chairman in April 2004.  
 Rowley Ager and John Gildersleeve both retired from the PLC in February. Richard Brasher has succeeded John Gildersleeve as Commercial and Trading Director. Lucy Neville-Rolfe has succeeded Rowley Ager as Company Secretary and joins the PLC Executive Committee.  
 Ken Hydon joined the Board in February 2004 as a Non-executive Director.

**4 RICHARD BRASHER 42**  
**COMMERCIAL AND TRADING DIRECTOR**  
 Richard Brasher was appointed to the Board in 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.

**5 PHILIP CLARKE 43**  
**INTERNATIONAL AND IT DIRECTOR**  
 Philip Clarke was appointed to the Board in 1998. Prior to his appointment he held a number of roles in store operations, commercial and marketing.

**6 ANDREW HIGGINSON 46**  
**FINANCE AND STRATEGY DIRECTOR**  
 Andrew Higginson was appointed to the Board in 1997. He is a member of the 100 Group of Finance Directors, Chairman of Tesco Personal Finance and Non-executive Director of C & J Clark Limited.

**7 TIM MASON 46**  
**MARKETING, E-COMMERCE, PROPERTY AND REPUBLIC OF IRELAND DIRECTOR**  
 Tim Mason was appointed to the Board in 1995. He joined Tesco in 1982. He is a Non-executive Director of Capital Radio PLC.

**8 DAVID POTTS 46**  
**RETAIL AND LOGISTICS DIRECTOR**  
 David Potts was appointed to the Board in 1998. He joined Tesco in 1973 and has held a number of store and Head Office positions. From 1997 he directed the integration of our businesses in Northern Ireland and the Republic of Ireland before returning to the UK in his current role in July 2000.

**9 CHARLES ALLEN CBE 47**  
**NON-EXECUTIVE DIRECTOR ●▲**  
 Charles Allen was appointed a Non-executive Director in 1999. He is Chief Executive of ITV PLC.

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

**10 E MERVYN DAVIES 51**  
**NON-EXECUTIVE DIRECTOR ●●**  
 Mervyn Davies was appointed a Non-executive Director in 2003. He is Group Chief Executive of Standard Chartered PLC.

**11 DR HARALD EINSMANN 70**  
**NON-EXECUTIVE DIRECTOR ●▲**  
 Dr Harald Einsmann was appointed a Non-executive Director in 1999. He is a Non-executive Director of EMI Group PLC, is on the Board of Stora Enso Oyj, part of the Wallenberg Group and is a Director of British American Tobacco PLC.

**12 KEN HYDON 59**  
**NON-EXECUTIVE DIRECTOR ●●**  
 Ken Hydon was appointed a Non-executive Director in 2004. He is the Financial Director of Vodafone Group Plc, a member of the Board of Representatives of the Verizon Partnership in the USA and a Non-executive Director of Reckitt Benckiser plc.

**13 VERONIQUE MORALI 45**  
**NON-EXECUTIVE DIRECTOR ●●**  
 Veronique Morali was appointed a Non-executive Director in 2000. She is Chief Operating Officer and Director of Fimalac S.A.

**14 GRAHAM PIMLOTT 54**  
**NON-EXECUTIVE DIRECTOR ●●▲**  
 Graham Pimlott was appointed a Non-executive Director in 1993. He is a Non-executive Director of Provident Financial PLC and Chairman of Export Credit Guarantee Department. He is Deputy Chairman of Hammerson PLC.

**LUCY NEVILLE-ROLFE 51**  
**COMPANY SECRETARY**  
 Lucy Neville-Rolfe was appointed Company Secretary in March 2004 in addition to her role as Group Corporate Affairs Director. She joined Tesco in 1997 from the Cabinet Office and is Non-executive Director of the Foreign Office and Deputy Chair of The British Retail Consortium.



## 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 2004 with the Annual Report and Financial Statements 2004, 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 28 February 2004 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 19 April 2004

## SUMMARY DIRECTORS' REPORT

**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, Hungary, Poland, Czech Republic, Slovakia, Thailand, South Korea, Taiwan and Malaysia. During the year we entered the Turkish and Japanese markets. The summary operating and financial review is on pages 34 to 35.

**DIVIDENDS** The Directors recommend the payment of a final dividend of 4.77p per ordinary share to be paid on 25 June 2004 to members on the Register at the close of business on 30 April 2004. Together with the interim dividend of 2.07p per ordinary share paid in November 2003 the total dividend for the year comes to 6.84p, compared with 6.20p for the previous year, an increase of 10.3%.

**DIRECTORS** Details of the current members of the Board are shown on pages 30 and 31. Mr C L Allen, Mr P A Clarke, Dr H Einsmann, Ms V Morali and Mr G F Pimlott retire from the Board by rotation and offer themselves for re-election at the Annual General Meeting (AGM). Mr R W P Brasher, Mr E M Davies, Mr K J Hydon and Mr D E Reid were appointed by the Board in the last 12 months and as required by the articles also offer themselves for election.

**CORPORATE GOVERNANCE** The company has complied with all the provisions of the 1998 Combined Code on Corporate Governance except with regard to the provision on the length of the Directors' service contracts. This has been reviewed and the Board is moving to one-year contracts. An assessment of the Revised Combined Code issued in 2003 confirmed the company is substantially compliant. The company is taking action in order to be fully compliant with the new code before it comes into effect next reporting year. The company has an established framework of internal control which is reviewed by the Audit Committee and has a separate Executive Committee, Remuneration Committee and Nominations Committee. A full corporate governance statement is contained in the Annual Report and Financial Statements 2004.

## SUMMARY REPORT OF THE DIRECTORS ON REMUNERATION

**DIRECTORS' REMUNERATION POLICY** The remuneration packages, including contract periods of Executive Directors, are determined by the Remuneration Committee. It ensures that the remuneration package is appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group, the highly competitive industry of which the Group is part and the importance of recruiting and retaining management of the appropriate calibre. As a result of this year's review of Executive Directors' remuneration, the Remuneration Committee has proposed a number of changes to short and long-term incentives. The changes seek to align the interest of Executive Directors and shareholders more closely in promoting the company's progress and are subject to shareholder approval at the AGM.

Executive Directors are members of the Tesco PLC Pension Scheme, which is a defined benefit scheme approved by the Inland Revenue.

**COMPLIANCE** The Remuneration Committee has been constituted and operated throughout the period in accordance with the principles outlined in the Financial Services Authority Listing Rules derived from Schedule A of the Combined Code. In framing the remuneration policy, full consideration has been given to the best practice provisions set out in Schedule B, annexed to the Listing Rules.

A summary of Directors' emoluments and interests, including executive options, is set out on page 33. A more detailed analysis is provided in the Annual Report and Financial Statements 2004. Copies of the Executive Directors' contracts of employment are available for inspection by shareholders as required.

The Group's total shareholder return performance can be found on page 35.

## DIRECTORS' EMOLUMENTS

	Fixed emoluments		Performance-related emoluments			Total 2004 £000	Total 2003 £000
	Salary £000	Benefits £000	Profit-sharing £000	Short-term £000	Long-term £000		
Mr J A Gardiner	396	35	–	–	–	431	427
Sir Terry Leahy	955	36	3	1,091	892	2,977	2,838
Mr D E Reid (c)	691	89	3	821	1,120	2,724	2,610
Mr R S Ager (b)	463	37	3	679	452	1,634	1,425
Mr C L Allen	47	–	–	–	–	47	41
Mr R F Chase	49	–	–	–	–	49	28
Mr P A Clarke	531	65	3	619	439	1,657	1,431
Mr E M Davies (a)	28	–	–	–	–	28	–
Dr H Einsmann	44	–	–	–	–	44	36
Mr J Gildersleeve (b)	614	96	3	851	597	2,161	1,928
Mr A T Higginson	538	37	3	619	462	1,659	1,513
Mr K J Hydon (a)	1	–	–	–	–	1	–
Mr T J R Mason	538	12	3	619	509	1,681	1,561
Ms V Morali	44	–	–	–	–	44	36
Mr G F Pimlott	72	–	–	–	–	72	59
Mr D T Potts	531	34	3	619	474	1,661	1,442
	5,542	441	24	5,918	4,945	16,870	15,375

(a) Appointed during the year.

(b) Retired from the Tesco Group in March 2004. Mr R S Ager and Mr J Gildersleeve were awarded bonuses of £150,000 each, which have been sacrificed in return for pension augmentation.

(c) Mr D E Reid has sacrificed an amount of £430,000 from his long-term bonus relating to overseas business growth in return for pension augmentation. Mr D E Reid resigned as an Executive Director in December 2003 and was appointed Non-executive Chairman in April 2004.

## SUMMARY OF EXECUTIVE SHARE OPTIONS AND DISCLOSABLE SHAREHOLDINGS

	Options held 22 Feb 2003	Granted(a)	Number of shares		Exercise price pence	Value realisable (b) 2004 £000	Ordinary shares 28 Feb 2004
			Exercised	Options held 28 Feb 2004			
Mr J A Gardiner	–	–	–	–	–	–	669,111
Sir Terry Leahy	3,336,781	939,747	523,728	3,752,800	104.0-259.0	610	4,915,893
Mr D E Reid	3,075,423	707,848	836,460	2,946,811	164.0-259.0	879	189,682
Mr R S Ager	1,820,226	455,696	–	2,275,922	151.7-259.0	–	1,971,071
Mr C L Allen	–	–	–	–	–	–	–
Mr R F Chase	–	–	–	–	–	–	50,000
Mr P A Clarke	1,520,545	501,266	–	2,021,811	164.0-259.0	–	983,778
Mr E M Davies	–	–	–	–	–	–	2,400
Dr H Einsmann	–	–	–	–	–	–	92,150
Mr J Gildersleeve	2,643,482	604,557	122,034	3,126,005	151.7-259.0	142	1,829,760
Mr A T Higginson	1,639,291	523,544	–	2,162,835	164.0-259.0	–	1,160,023
Mr K J Hydon	–	–	–	–	–	–	30,093
Mr T J R Mason	1,950,346	540,494	241,557	2,249,283	164.0-259.0	209	1,519,084
Ms V Morali	–	–	–	–	–	–	–
Mr G F Pimlott	–	–	–	–	–	–	33,418
Mr D T Potts	1,516,068	501,266	–	2,017,334	164.0-259.0	–	1,250,463

(a) Options granted in the year were at the exercise price of 197.5p. Options granted include new family interests that fall to be reported during the year. In addition, certain Directors held options under the company's savings-related share option scheme.

(b) 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

**PROFIT AND LOSS ACCOUNT** This was another successful trading year for the Group. Sales increased by 18.7% to £33,557m. Group underlying pre-tax profit, (excluding net loss on disposal of fixed assets, integration costs and goodwill amortisation), increased by 21.9% to £1,708m. Underlying diluted earnings per share rose 16.7% to 16.31p and diluted earnings per share rose 11.3% to 14.93p. A final dividend of 4.77p per share is proposed, making the full year dividend 6.84p, an increase of 10.3% over last year.

UK sales have grown 16.3% to £26,876m. On a 52-week basis, UK sales grew by 14.2% to £26,381m. Of this, 6.7% came from existing stores, including strong volume growth of 6.6% net. New stores continue to perform well, contributing 7.5% to sales growth. UK underlying operating profit increased to £1,526m up 17.7% on last year. Our UK operating margin remained broadly flat at 6.2% in a year when we again made substantial investments in price.

Our world-leading step change programmes continue to deliver increasing levels of efficiencies enabling us to invest for customers. We delivered savings of over £200m this year.

Sales in the Rest of Europe increased to £3,834m, up 27.5% and contributed an underlying operating profit of £184m, up 30.5%. In Asia, sales were up 31.1% to £2,847m and we made an underlying operating profit of £122m, up 71.8% on last year. International profit has grown from £212m to £306m, up 44%. International operating margins increased to 5.1% from 4.5%.

Total profit from joint ventures and associates for the year was £99m, before goodwill amortisation of £2m, compared to £72m last year. Tax has been charged at an effective rate of 31.1% compared to 30.5% last year.

Net interest payable for the year was £223m, an increase of £43m over the previous year.

The summary financial statement on pages 34 and 35 and the summary Directors' report on pages 32 and 33 are a summary of information in the Annual Report and Financial Statements 2004. 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 2004. 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 19 April 2004.

**Terry Leahy**  
**Andrew Higginson**  
Directors

	Continuing operations		2004 £m	2003 restated £m
	2004 £m	Acquisitions 2004 £m		
<b>SUMMARY PROFIT AND LOSS ACCOUNT</b>				
Sales at net selling prices	33,418	139	33,557	28,280
Turnover including share of joint ventures	30,919	131	31,050	26,197
Less: share of joint ventures' turnover	(236)	–	(236)	(193)
Group turnover excluding value added tax	30,683	131	30,814	26,004
Normal operating expenses	(28,804)	(121)	(28,925)	(24,444)
Employee profit-sharing	(57)	–	(57)	(51)
Integration costs	(45)	–	(45)	(4)
Goodwill amortisation	(48)	(4)	(52)	(21)
Operating profit	1,729	6	1,735	1,484
Profit from joint ventures and associates	97	–	97	70
Net loss on disposal of fixed assets	(9)	–	(9)	(13)
Interest	(223)	–	(223)	(180)
Profit before tax	1,594	6	1,600	1,361
Underlying profit before net loss on disposal of fixed assets, integration costs and goodwill amortisation			1,708	1,401
Net loss on disposal of fixed assets			(9)	(13)
Integration costs			(45)	(4)
Goodwill amortisation			(54)	(23)
Tax			(498)	(415)
Profit after tax			1,102	946
Minority interests			(2)	–
Profit for the financial year			1,100	946
Dividends			(516)	(443)
Retained profit			584	503
Earnings per share			15.05p	13.54p
Underlying diluted earnings per share <sup>†</sup>			16.31p	13.98p
Diluted earnings per share			14.93p	13.42p
Dividend per share			6.84p	6.20p

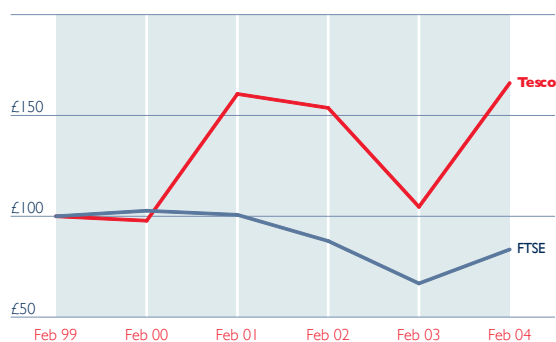
<sup>†</sup> Excluding net loss on disposal of fixed assets, integration costs and goodwill amortisation.

## SUMMARY BALANCE SHEET

	2004 £m	2003 £m
Fixed assets	15,423	14,061
Current assets	3,139	2,440
Short-term creditors	(5,618)	(5,372)
Net current liabilities	(2,479)	(2,932)
Total assets less current liabilities	12,944	11,129
Long-term creditors	(4,368)	(4,049)
Provisions	(586)	(521)
Net assets	7,990	6,559
Equity shareholders' funds	7,945	6,516
Minority interests	45	43
Total capital employed	7,990	6,559

## SUMMARY CASH FLOW STATEMENT

	2004 £m	2003 £m
Cash from operations	2,942	2,375
Net interest	(61)	(218)
Tax	(326)	(366)
Gross trading cash flow	2,555	1,791
Net capital expenditure	(2,228)	(2,052)
Changes in financing	868	73
Dividends	(303)	(368)
Normal cash flow	892	(556)
Business changes	(217)	(597)
Non-cash movements	(28)	(24)
Movement in net debt	647	(1,177)
Opening net debt	(4,737)	(3,560)
Closing net debt	(4,090)	(4,737)



### TOTAL SHAREHOLDER RETURN (TSR)

TSR is the notional return from a stock or index based on share price movements and declared dividends

**BALANCE SHEET** Net assets have increased by £1,431m last year to £7,990m. Fixed assets increased by £1,362m, after charging depreciation and goodwill amortisation of £754m.

Group capital expenditure was £2,285m. UK capital expenditure was £1,520m, including £735m on new stores and £272m on extensions and refits. Total international capital expenditure was £765m, £322m in Asia and £443m in Europe. In the year ahead we forecast Group capital expenditure to be around £2.4bn.

**CASH FLOW STATEMENT** Cash inflow from operations increased by 23.9% to £2,942m. Net interest paid includes cash received on sale of financial instruments of £235m.

Changes in financing is significantly higher than last year due to net proceeds of £773m from the share placing. Business changes primarily consists of consideration paid for the C Two-Network and Kipa acquisitions.

Net debt at the year end was £4,090m, a reduction of £647m on the previous year. Gearing decreased to 51% from 73% last year.

**PERFORMANCE GRAPH** The Group's total shareholder return performance (i.e. share price movements plus dividends reinvested) over the last five financial years relative to the FTSE 100 index of companies is shown below. 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.

# INVESTOR INFORMATION

## SUMMARY FIVE YEAR RECORD

Year ended February	2000 £m	2001 £m	2002 £m	2003 £m	2004 £m <sup>†</sup>
Group sales *	20,189	22,585	25,401	28,280	33,557
Turnover excluding VAT *					
UK	16,808	18,203	19,821	21,309	24,760
Rest of Europe	1,355	1,737	2,181	2,664	3,385
Asia	464	860	1,398	2,031	2,669
	18,627	20,800	23,400	26,004	30,814
Underlying operating profit <sup>#</sup>					
UK	993	1,100	1,213	1,297	1,526
Rest of Europe	51	70	90	141	184
Asia	(1)	4	29	71	122
	1,043	1,174	1,332	1,509	1,832
Group underlying profit before tax <sup>#</sup>	955	1,070	1,221	1,401	1,708
Group profit before tax	933	1,054	1,201	1,361	1,600
Underlying diluted earnings per share <sup>‡</sup>	10.18p	10.66p	12.14p	13.98p	16.31p
Dividend per share	4.48p	4.98p	5.60p	6.20p	6.84p
Return on capital employed	11.3%	11.0%	10.8%	10.2%	10.5%
Retail statistics					
UK – Number of stores	659	692	729	1,982	1,878
– Total sales area (000 sq ft)	16,895	17,965	18,822	21,829	23,291
– Turnover per full-time employee (£)*	155,042	159,678	163,443	160,157	162,459
– Weekly sales per sq ft (£)*	21.27	21.75	22.43	21.86	22.48
International – Number of stores	186	215	250	309	440
– Number of hypermarkets	38	68	102	152	194
– Total sales area (000 sq ft)	7,144	10,397	13,669	18,115	22,111

<sup>#</sup> Excluding net loss on disposal of fixed assets, integration costs and goodwill amortisation.

<sup>†</sup> 2004, 2003, 2002 and 2001 statistics have been calculated based on the adoption of FRS 19, 'Deferred Tax'.

\* Sales and turnover have been restated as a result of the implementation of FRS 5, Application Note G, 'Revenue Recognition'.

<sup>‡</sup> 53 week year.

## SHAREHOLDER PROFILE

	Number of holdings	%	Balance as at 28 Feb 2004	%
Analysis by type of shareholder				
Employees <sup>‡</sup>	95,204	33.41	234,645,421	3.05
Other individuals	166,423	58.42	455,889,801	5.94
Corporate institutions <sup>†</sup>	23,267	8.17	6,989,622,833	91.01
	284,894	100.00	7,680,158,055	100.00
Analysis by size of shareholding				
1 – 1,000	172,279	60.47	43,054,512	0.56
1,001 – 10,000	95,736	33.60	314,994,508	4.10
10,001 – 100,000	14,832	5.21	345,613,980	4.50
100,001 – 1,000,000	1,431	0.50	461,910,851	6.01
above 1,000,000	616	0.22	6,514,584,204	84.83
	284,894	100.00	7,680,158,055	100.00

<sup>†</sup> 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.

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



### REGISTRAR AND SHAREHOLDING ENQUIRIES

Administrative enquiries about the holding of Tesco PLC shares (other than ADRs) and enquiries in relation to the scrip dividend scheme should be directed to:

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

### LOW COST DEALING

The company has arranged a low cost postal share dealing service through Lloyds TSB Registrars. For details and a dealing form please telephone 0870 600 3970.

### TESCO WEBSITES

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

Tesco information, including the Annual Report and Financial Statements 2004, is available on the internet at: [www.tesco.com/corporateinformation](http://www.tesco.com/corporateinformation)

### SHAREHOLDER INFORMATION ONLINE

Tesco shareholders have the option of viewing the Annual Report through the internet.

The information will be exactly the same as the printed version, but using the internet has clear advantages such as lowering our costs and reducing environmental waste.

### CUSTOMER SERVICES

Tesco Customer Services  
Freepost SCO2298  
Baird Avenue, Dundee DD1 1YP  
Telephone 0800 505555  
e-mail [customers.service@tesco.co.uk](mailto:customers.service@tesco.co.uk)

### INVESTOR RELATIONS

Investor Relations Department  
Tesco PLC, Tesco House,  
Delamare Road, Cheshunt,  
Hertfordshire EN8 9SL  
Telephone 01992 646484  
e-mail [investor:relations@uk.tesco.com](mailto:investor:relations@uk.tesco.com)

### SECRETARY AND REGISTERED OFFICE

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

### FINANCIAL CALENDAR

2004	
Financial year end	28 February
Results announced	20 April
Final dividend: ex-dividend date	28 April
Final dividend: record date	30 April
Annual Report posted	14 May
AGM and trading statement	18 June
Final dividend pay date	25 June
Half year end	14 August
Interim results announced	mid September
Interim dividend: ex-dividend date	29 September
Interim dividend: record date	1 October
Trading statement	mid November
Interim dividend: pay date	26 November
2005	
Financial year end	26 February
Results announced	mid April



COVER: HARISH THAPA AND ALEX BOATENG ABREFA, SANDHURST EXTRA

Tesco PLC, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL