



TESCO PLC

A COMPANY COMMITTED TO QUALITY

ANNUAL REPORT & ACCOUNTS 1991

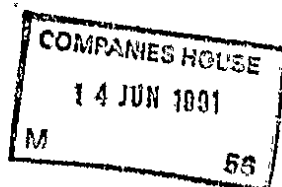
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Cover photograph:

The Great British Breakfast from Tesco matches our customers' interest in health, high quality and real flavour: Healthy Eating yoghurts and spreads, sausages and marmalades from our Traditional Range, freshly baked bread in many varieties, fruit, flowers and newspapers - a splendid start to the day!

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TESCO CARES

Tesco is one of Britain's best-known food retailers, with 384 stores throughout England, Scotland and Wales serving more than eight million customers every week. The strategy is to make our stores, our products and our people the very best in the business in the opinion of our customers.

Tesco is setting new standards for the retail food industry in terms of the quality of its own label products, the design of its stores, the facilities they provide, and the levels of service, cleanliness and hygiene to be found within them.

Tesco cares about the people it employs and is committed to developing their abilities and careers while rewarding them fairly, with equal opportunities for all.

Tesco is committed to the health and well-being of the community and the protection of the quality of our environment. Tesco shareholders will benefit from the growth in profitability which will accrue from its commitment to its investment in new stores, productivity and technology.

Tesco cares about customers and employees, shareholders and suppliers, and the quality of life. The company will continually seek to keep its place as a respected and successful company in the United Kingdom.

DIRECTORS AND ADVISERS

Directors

SIR IAN MacLAURIN †
Chairman

Sir Ian MacLaurin was appointed Chairman of Tesco in 1985. He joined Tesco as a management trainee in 1959 and was appointed to the Board in 1970. He became Managing Director in 1973 and Deputy Chairman in 1983. Sir Ian is currently President of the Institute of Grocery Distribution and is also a non-executive Director of Guinness PLC and National Westminster Bank PLC.

DAVID MALPAS
Managing Director

David Malpas was appointed Managing Director of Tesco in 1983. He joined Tesco in 1966 and was appointed to the Board in 1979. He is also a member of the Board of the Welsh Development Agency.

JOHN GILDERSLEEVE
Buying and Marketing Director

John Gildersleeve was appointed to the Board of Tesco in 1984. He joined the company in 1965 as a trainee manager. He is also a non-executive director of Town and Country Building Society.

MICHAEL DARNELL
Distribution Director

Michael Darnell was appointed to the Board of Tesco in 1975 with responsibility for the Home'n'Wear business. He joined the company in 1967 and has held a number of senior retail appointments. He became Distribution Director in 1982.

DETTA O'CATHAIN OBE * ‡

Detta O'Cathain was appointed a non-executive Director of Tesco in 1988. She is Managing Director of the Barbican Centre, and is also a non-executive Director of Sears PLC and Midland Bank plc.

JOHN GARDINER * ‡

John Gardiner was appointed a non-executive Director of Tesco in 1988. He is Chairman and Chief Executive of Laird Group PLC and is also a non-executive Director of Enterprise Oil PLC, The Securities & Investments Board Ltd, Power Gen PLC and is a part-time member of the Board of the United Kingdom Atomic Energy Authority.

VICTOR BENJAMIN † ‡
Deputy Chairman

Victor Benjamin was appointed a part-time executive Director of Tesco in 1982 and became Deputy Chairman in 1983. He has been associated with the company for more than 20 years as a partner in Berwin Leighton, the company's solicitors, and is also Deputy Chairman of Lex Service PLC.

DAVID REID †
Finance Director

David Reid was appointed to the Board of Tesco in 1985, having joined the company in the same year. He previously worked with Philips Industries and B.A.T Industries. He is a non-executive director of Westbury PLC.

DENNIS TUFFIN
Retail Director

Dennis Tuffin was appointed to the Board of Tesco in 1984. He joined the company in 1966 and was appointed Regional Managing Director in 1971 and joint Managing Director in charge of retail operations in 1980.

MICHAEL WEMMS
Personnel Director

Michael Wemms was appointed to the Board of Tesco in 1989. He joined the company in 1972 as a trainee manager. His previous appointments were in retail operations where he had been Regional Managing Director for the London area since 1984.

JOHN PADOVAN * † ‡

John Padovan was appointed a non-executive Director of Tesco in 1982. He is head of corporate business at, and Deputy Chairman of, BZW Ltd. He is also a Director of Mabey Holdings Ltd and of MS Instruments PLC.

FRANCIS KREJSA * †

Francis Krejsa was appointed a non-executive Director of Tesco in 1990. He joined the Company in 1968 and was appointed to the Main Board in 1974 as Estates and Property Director. He retired as an executive director in 1990. He now continues as Chairman of the company's property development subsidiary, Spen Hill Properties PLC.

Secretary and Registered Office
Rowley Ager
Tesco House
Delamare Road, Cheshunt
Hertfordshire EN8 9SL
Telephone 0992-32222

Principal Bankers
Midland Bank plc
Barclays Bank PLC
Kleinwort Benson Limited

Auditors
Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

Solicitors
Berwin Leighton
Adelaide House
London Bridge
London EC4R 9HS

Stockbrokers
UBS Phillips & Drew Securities
Limited
100 Liverpool Street
London EC2M 2RH

Registrars
Lloyds Bank Plc
Registrar's Department
Coring-by-Sea, Worthing
West Sussex BN12 6DA
Telephone 0903 502541

* Non-Executive Director
† Member of the Audit Committee
‡ Member of the Remuneration Committee

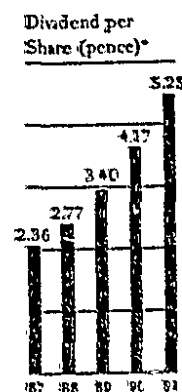
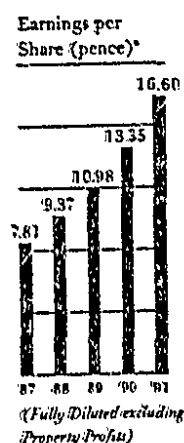
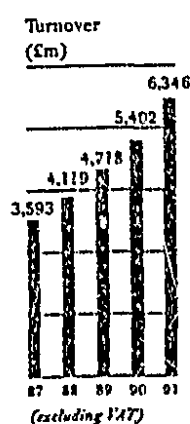
FINANCIAL HIGHLIGHTS

THIS YEAR

	1991	1990	% Increase
Turnover excluding value added tax - £m	6,346.3	5401.9	17.5
Net margin percentage	6.6	6.0	
Profit before property profits - £m	417.1	326.6	27.7
Fully diluted earnings per share (excluding property profits) - pence*	16.60	13.35	24.3
Dividends per share - pence*	5.25	4.17	25.9

LAST FIVE YEARS

	1991	1987	Compound % increase per annum
Turnover excluding value added tax - £m	6,346.3	3593.0	13.6
Net margin percentage	6.6	4.6	
Profit before property profits - £m	417.1	166.5	27.7
Fully diluted earnings per share (excluding property profits) - pence*	16.60	7.81	24.0
Dividend per share - pence*	5.25	2.36	22.9



*Interim Dividend, Earnings per share and Dividend comparatives have been restated in respect of the 1991 Rights Issue.
For further details please turn to the Five Year Record on page 45.

CHAIRMAN'S STATEMENT

TESCO - A WINNING BRAND

The Tesco Brand now occupies a position of great strength in the marketplace. Our customers all over the country find our brand, in all its aspects, highly acceptable and it continues to gain popular recognition.

To my mind, the concept of 'The Tesco Brand' embraces everything that customers think of when they hear the name Tesco - our people, our products, our stores. Each is equally important in winning new customers, in establishing Tesco as a retailing organisation of the highest quality, and in retaining the loyalty of the eight million people we already serve every week of the year.

1990/91 - ANOTHER EXCELLENT YEAR

Our financial performance this year has been strong, with sales up by 17.5% and profit before tax up by 28%, excluding property profits. Our earnings per share, on a fully diluted basis, have increased by 24%, and we are proposing a dividend increase of 26% to 5.25 pence per share.

INVESTING AND FINANCING NEW STORES

Our new stores opening programme is running at its highest level ever. We plan to open around 1,100,000 square feet of new selling space during 1991/92, and some 1,250,000 square feet during 1992/93. Our development programme will require an investment of about £1.4 billion over these two years, and is expected to create 15,000 new jobs.

Following a review of our substantial development programme, we decided that a Rights Issue was the most appropriate funding method. Accordingly we announced a Rights Issue on 29th January 1991, offering shareholders 2 ordinary shares for every 11 then held at a price of 197p each, in order to raise £572m to help fund our development programme. These funds have been received prior to the end of the year, giving us net funds of £177m.

WORKING WITH OUR SUPPLIERS

We have now forged close working partnerships with many of our suppliers, and have set up data links and delivery systems which mean that goods arrive at our warehouses precisely when they are needed, in first-class condition. This would not be possible without high levels of ingenuity, reliability and co-operation, and I am grateful to all the many companies which work with us in this way.

DEVELOPING OUR PEOPLE

Our people have again performed excellently this year. I particularly want to thank everyone in the company for the enthusiasm and cooperation they have shown as we have carried out two demanding programmes. The first has been a process of job evaluation, in which every job has been measured, specified and valued. The second has involved the examination of the way in which we do every task, from the largest to the smallest, in order to make sure that it is being done in the best possible way. These programmes are now paying off in terms of efficiency and reward.

TESCO... A BRAND OF THE HIGHEST QUALITY

Our profit-sharing scheme continues to underpin the partnership with staff, reducing staff turnover and enhancing the commitment to current and future productivity. The allocation in this fourth full year of operation will be £22m and some 38,000 staff will benefit.

I am glad that the greater productivity which is being driven through the company has enabled us to raise wage levels during the year.

CONTRIBUTING TO THE LIFE OF OUR COMMUNITIES

Tesco is committed to supporting, wherever possible, educational, environmental, enterprise and job-creation projects within the nationwide communities where we have stores. We allocated £350,000 to the Tesco Charity Trust for distribution, during the year, to a wide range of local and national charities.

During 1990/91 Tesco also 'adopted' two main charities - Birthright and the Order of St John - and each received donations from us of £150,000 as a result of fund raising by the company and our employees. We continued to support the Save the Children Fund and made a further contribution of £117,519. The energy, enthusiasm and resourcefulness which Tesco people devote to charitable work never ceases to impress and delight me.

FUTURE PROSPECTS

Over the last five years, we have invested £2,800m in our business in new stores, technology and distribution systems. The benefits of these investments are now being realised as sales gains and operating efficiencies allow us to increase our profitability.

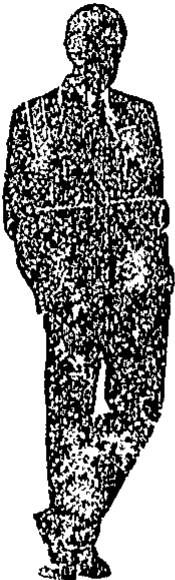
The successful Rights Issue provides us with a prudent financial base to continue this level of investment, such that future profit opportunities may be secured. Our new store opening programme is running at its planned level and there is a good supply of potentially profitable sites.

With regard to current trade, despite the economic climate, and lower food price inflation, our food sales are holding up well and we are maintaining our real volume growth.

Looking ahead, no business can be totally immune from the changed economic climate and our management will be facing this challenge during the year.

We are deeply committed to our retail controls, and our productivity and budgetary systems, which have helped us to many years of strong growth.

We are fortunate that food retailing is very resilient. I am confident that the strength of our brand, the healthy state of our company and the professionalism of our people will ensure we can look forward to another successful year.



SIR IAN MacLAURIN

FINANCIAL REVIEW

The Financial Results for 1991 show that our strong trading performance continues. They demonstrate our sustained ability to achieve excellent returns from investment in UK food retailing, despite an increasingly difficult economic climate prevailing in the second half of the year.

SALES PERFORMANCE

Sales have grown by 17.5% in the year; 8.5% of this increase comes from net new stores and 9% from existing stores. Our five year trend of compound sales growth in excess of 13% per annum is therefore enhanced.

OPERATING PROFITS

Operating profits have risen by 26%. Operating margin has risen from 6.2% to 6.6% – a particularly significant increase, largely due to the contribution from conforming stores; a term we use to describe our large, modern, single storey superstores. These stores achieve higher margins through their full product ranges, higher sales intensities and economies of scale. 68% of our sales currently come from conforming stores. This figure is expected to increase to 85% over the next five years, providing a base for continuing growth in our operating margin.



The benefits of our investments, totalling £190m, in scanning technology and distribution systems also continue to contribute to this growth in operating margin.

At the end of the Financial Year, over 80% of our turnover was processed through scanning systems and we expect all stores to be on scanning by October 1992.

Our investment in distribution systems has led directly to reduced distribution costs and we estimate that our productivity achieved was around 10% better than the previous year.

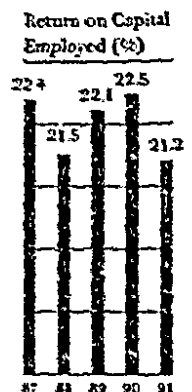
QUALITY OF EARNINGS

Earnings per share have grown by 24% – maintaining the compound growth over the last five years at 24% per annum.

The quality of earnings is enhanced by our continuing reinvestment in the business in terms of capital projects such as technology, and revenue investment such as training and quality control. While these reduce short-term profits, they are planned to sustain medium and long-term profit growth.

INVESTMENT AND RETURNS

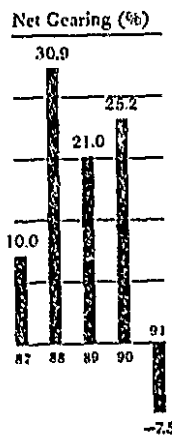
During the year, we have invested £761m in current and future new store



INVESTING IN QUALITY

development. Twenty new stores have opened, as well as two major extensions, creating just under 900,000 square feet of new sales area. The sales and profit trends on these stores are very encouraging and we expect them to achieve their hurdle rates of return. At the year-end, 23% of our total selling space has been opened within the last three years.

It is our policy only to develop quality sites which can deliver significant returns on investment. The return on capital being achieved in our conforming stores continues to underpin our substantial investment programmes and demonstrates our view that there is an adequate supply of potentially profitable sites for the foreseeable future.



FUNDING

During the year we reviewed our balance sheet and the effects of the further capital expenditure and cash flows on the financing options available. We concluded that a Rights Issue was the most appropriate method of providing the company with a prudent financial base to develop its food retailing business during the 1990's, while retaining gearing and interest cover at conservative levels.

The Rights Issue is underpinned by the excellent results being achieved in the stores that have opened over the last five years, and by our belief in the prospects of our development programme over the next three years.

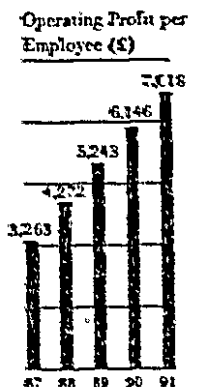
Prior to the Rights Issue, additional funds were secured through the successful issue of a £200m Convertible Capital Bond in July 1990.

Property financing, largely through sale and leasebacks, achieved proceeds of £162m during the year. We do not expect to use this market while existing high yields and adverse terms prevail. When the market recovers we would be happy to fund around 30% of our new store development by leasebacks, maintaining our freehold asset backing at around 70% in the longer term.

We expect that working capital which, in the current year, generated some £56m of funds, will continue to be a useful source of funds.

INVESTING IN PRODUCTIVITY

We have raised the pay of our retail staff to levels which puts them at the top end of the sector. This has been achieved without increasing the retail wage percentage to sales ratio through significant productivity improvements. Operating profit per employee rose by 14% in the current year. We will continue to drive for productivity enhancements in future years.



A COMPANY COMMITTED TO QUALITY

When a company pursues genuine quality as vigorously as Tesco, the results show up in a thousand surprising ways. Here are a few facts from last year which reflect the high standards we aim for in every area of our work, and the quality of the range of products we offer our customers.

Tesco was first in the field with Healthy Eating products, nutritional labelling, free nutritional information leaflets, ingredient labelling on non-food household products, an on-pack animal welfare code and alcohol-unit labelling on our own-label wines, spirits and beers.

.... offers a new range of 14 foods prepared with old-fashioned recipes and cooking methods. The Tesco Traditional range includes pies, sausages, farmhouse cheeses, relishes and sauces, scones and cakes.

.... stocks up to 50 Champagnes; 35 different malt whiskies; up to 400 table wines and 370 beers.

.... tastes over 30,000 fresh food products and nearly 20,000 grocery products every year in the search for even higher quality.

.... has 26,000 fresh food handlers who will have trained for the Essential Hygiene Certificate of the Royal Society of Health by April 1991.

.... won 250 accolades for our wines during 1990, including 130 from the International Wine Challenge mounted by Wine Magazine; and the *Supermarket Wine Retailer of the Year* award from the Sunday Express Magazine.

.... won the *Checkout Assistant of the Year* award for 1990, which went to Linda Brosnan at our Colney Hatch store. Also the *Store Manager of the Year* award was won by Alison Phillips of our Selby store – the first woman ever to win this top industry accolade.

... has a wine buying controller, Marcia Waters, who is one of only 17 female Masters of Wine in the world – and, at the age of 30, one of the youngest ever.

.... was placed in the first ten overall, and outright first in the food and grocery sector, in a survey commissioned by The Economist to discover which are *Britain's Most Admired Companies*.

.... was given one National and two Regional awards for energy management by British Gas during 1990.

.... was awarded the *Multiple of the Year* prize by the Delicatessen and Fine Food Association in 1990.

.... won the *Retailer of the Year* award from the Parents Against Tobacco campaign.

.... won the 1990 *Best Annual Report* award from Business Magazine and Price Waterhouse, and the *Best Employee Report of the Year* award from the Industrial Society and Accountancy Age.



The pursuit of quality affects every aspect of the company's operations.

TESCO

CREATING A FINE NEW PRODUCT

At any one time, there are 700 people within Tesco working on thousands of new product ideas. During 1990, this development programme led to over 1,000 new products being successfully launched.

Every one of those new products will have been through a rigorous process of development and customer approval. Our 60 product teams, each consisting of a Buyer, Marketing Manager, Technologist, Packaging Technologist and Home Economist, are responsible for developing new products following strict quality and financial disciplines.

FINDING NEW PRODUCT IDEAS

Ideas for new Tesco own-label products come from within the company, from discussion groups held with customers, or from new marketing opportunities. Today, we aim to be a leader in product innovations.

A new idea is first explored by the product team. If it shows promise, it is given a product brief, a development budget and a schedule. Packaging and design briefs are written. Product packaging and design development proceed simultaneously. A manufacturing company is appointed at this stage, from the select list of Tesco-approved suppliers. (Efficient, dedicated suppliers have played an increasing part in our business in recent years, and are essential to its success.)

The chosen manufacturer works with the product team through the process of development.

ASKING OUR CUSTOMERS

Then follows an intensive period of research. We repeatedly test the product with groups of customers as it steadily improves through the process of development which can take as long as a year.

Eventually, if the product reaches the required quality standards, it receives approval and goes on sale. Nothing is ever offered under the Tesco name until it has been proved in consumer tests to be exactly what our customers want, environmentally friendly, well packaged, with an appealing outer design which accurately communicates the nature of the product within.



1. **Concept Generation** - The appointed supplier submits a trial product to be evaluated by our teams of experts.



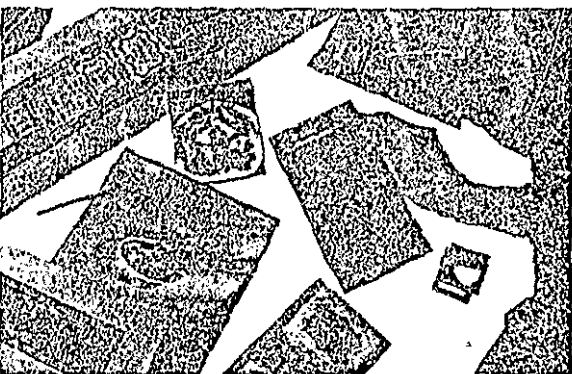
2. **Laboratory Test** - Selected new products undergo stringent tests at our Ware Laboratories.



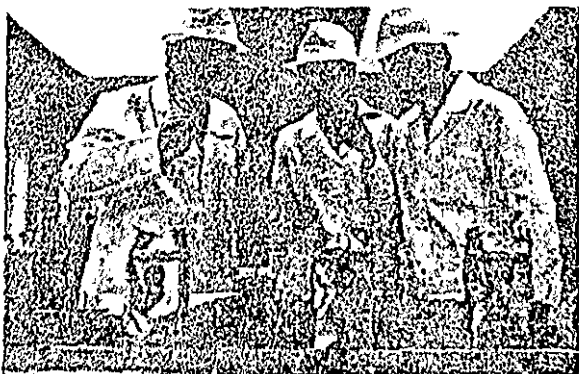
3. **Product Development** - Tests continue within the suppliers' own manufacturing areas.



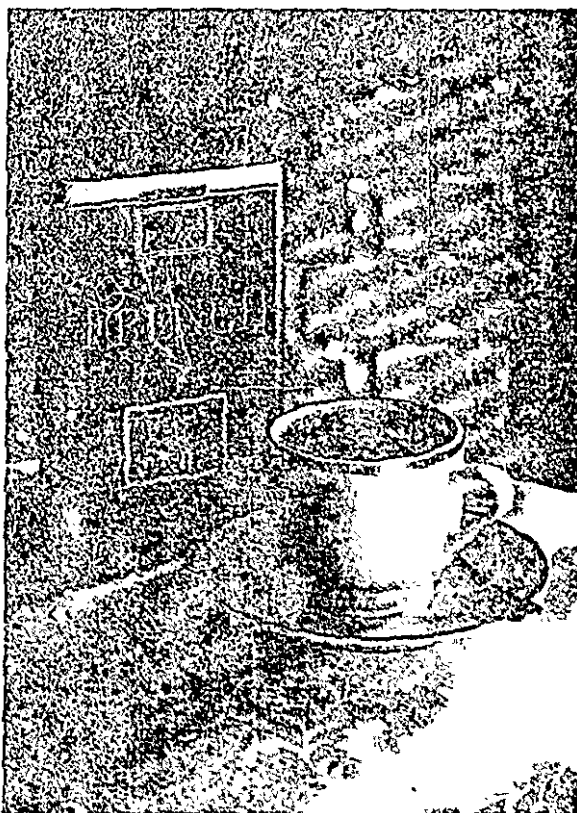
4. **Product Testing** - Promising new products are consumer researched and tasted at our in-store kitchens.



5. **On Pack Information** - Packaging of Tesco own-label products provides both nutritional and ingredient information.



6. **First Production Run** - The quality checking procedure is continued on the first production run.



7. **Product Launch** - This rigorous process guarantees that our customers get the perfect product to enjoy in their homes.

OUTSTANDING PRODUCT QUALITY DOES NOT HAPPEN BY ITSELF

Understanding is the key to product quality. Understanding what customers look for in a product; what distinguishes an outstanding product from one which is merely acceptable; how a product which is already excellent, can be improved still further.

CUSTOMERS SET THE STANDARDS

At Tesco, we write detailed specifications for all our meat, poultry, fish, cheese, fruit and vegetables; for all the bread and cakes that we make; for every food and non-food product that carries the Tesco name. These specifications are set by our customers in controlled tests of measurable quality attributes.

Freshness, taste, looks, performance, value - we seek our customers' views on these and other factors, and ask them to set standards for the company and our suppliers. No product that falls below those standards is allowed on sale. Every product is regularly tested to ensure that it is up to the defined specification.

Any Tesco product must, in the opinion of our customers, be at least equal to and preferably better than the best in the marketplace when directly compared with other, similar products offered by our competitors.

That rule governs everything we do at Tesco - the new products we approve, the suppliers we use, the quality standards we set. Of our 250 technologists, 70 specialise in sourcing. They go all over the world to check crops and factories; delivery systems and refrigeration plants; fish, meat, poultry and everything we buy, to make sure that it is up to the defined standards which our customers have set.

CONFIRMING THE QUALITY

When the fresh produce arrives at our warehouses, our 70 quality assurance people sample check products from every pallet on every delivery, and have the authority to reject the entire load if it falls below standard. It is therefore no surprise or accident to find that the food department which achieved the highest sales increase was produce.

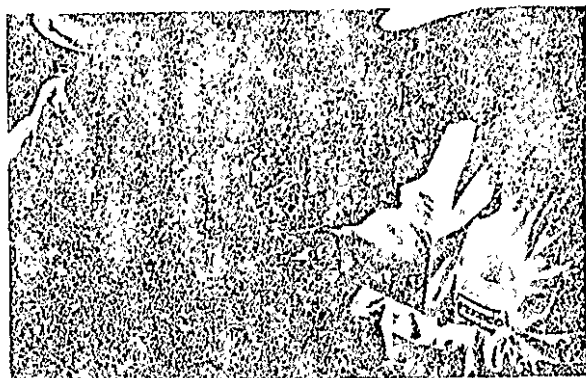
These are just some of the things we do to make sure that Tesco products are the best of their kind on the market. Tesco products consistently outperform the competition in blind tastings, and our reputation for high quality, as research shows, is growing all the time.



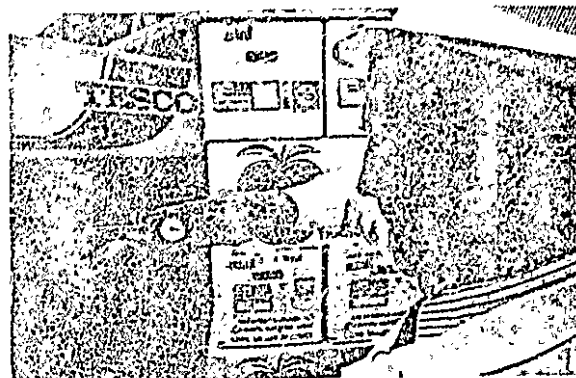
1. The Grower - We search the world for the very best produce for our customers.



2. Factory Cleanliness - Tesco people ensure that all suppliers' factories meet our own strict hygiene standards.



3. Production Line Check - Manufacturing processes are continually monitored at our suppliers' factories by our own technologists.



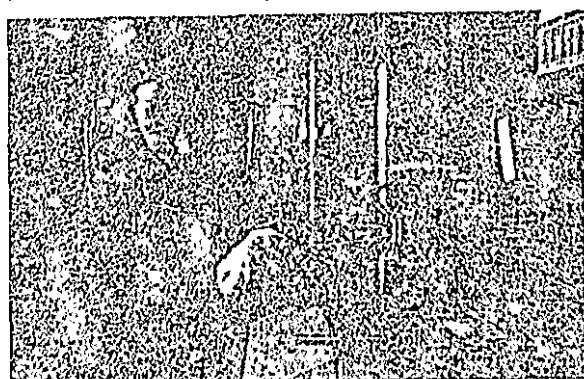
4. Distribution Depot - Produce is rigorously tested before it is accepted into our distribution depots.



5. Distribution Temperatures - Throughout the whole distribution chain we control and check temperatures.



6. Produce Manuals - Within each store all products are prepared and displayed according to strict specifications.



7. In Store Temperature - Before products are accepted into Tesco stores they are again closely checked for temperature.



8. Environmental Health Officer - Our in store Environmental Health Officers continually confirm that products are correctly chilled and displayed.

PRODUCTS, ANIMALS AND THE ENVIRONMENT

In the minds of our customers, environmental and health issues, questions of animal welfare and the availability of organic produce all assume an ever-growing importance.

Tesco policy in the area of conservation now influences all our operations. Our policy is governed by the concept of 'Sustainable Development' – that is, the principle that we should meet today's needs in ways which do not compromise the ability of people in the future to meet theirs.

FULFILLING OUR POLICY

Our policy of 'Sustainable Development' means minimising our use of materials and energy; using renewable and recyclable materials wherever we can; and minimising waste. We audit the environmental impact of the things we do; we set up improvement programmes, guided by steering groups, to ensure that environmental objectives are understood and acted upon.

CARING ABOUT ANIMALS

Environmental responsibility includes the subject of animal welfare, and we are working along two important lines in this area.

First, we are actively promoting the rearing of pigs, lambs, cows, chickens and rabbits in conditions which are as close as possible to their natural environments, and which allow them to behave in natural ways.

Second, we introduced during 1990 a new animal welfare code on the packaging of non-food products. This code shows whether products and their ingredients have been tested on animals; our aim is that none of our household or toiletry products, nor their ingredients, should have been tested on animals since 1985.

SPECIFYING NON-FOOD INGREDIENTS AND PACKAGING MATERIALS

During the year, we also introduced ingredient labelling. All packs of Tesco household and toiletry products now list the ingredients in each product, and – to facilitate recycling – state the materials that have been used in the packaging.

We see these important initiatives as the environmental equivalents of our nutritional labelling on food products. Together with our existing – and growing – ranges of healthy eating foods, organic produce and environmentally-friendly non-food products, they put us well ahead of the rest of the industry in this field.



Healthy eating means far more than avoiding additives. Traditional Norfolk pigs, reared in a natural environment, lead to an end-product that is healthy through and through.

MAKING TESCO QUALITY MORE WIDELY AVAILABLE

The Tesco name, and Tesco quality, do not mean products and services alone. They also include our stores and the shopping experience within them.

In 1990, we continued to make Tesco quality available to many more people. We have opened 20 new stores, from Dundee to Eastbourne and from Camborne to Hartlepool.

FINDING AND APPRAISING NEW SITES

In order to achieve this programme, we look at or consider more than 1,500 sites every year, and carry out detailed appraisals on over 400.

The process of building a new Tesco store starts when our research unit identifies a specific area of population which offers the right potential. Then our people search for candidate sites, and select those which offer good position, good road links, and good chances of securing planning permission.

The site is then appraised using a detailed computer model to forecast the critical figure of potential sales and profit for the store. If this is favourable we proceed to make an offer for the site.

Our Property and Estates Division works very closely with Local Planning Authorities, and takes a great deal of trouble to understand the needs and preferences of the communities we wish to serve. In several recent cases, we have helped to fund new roads and other facilities which were urgently needed by the local community.

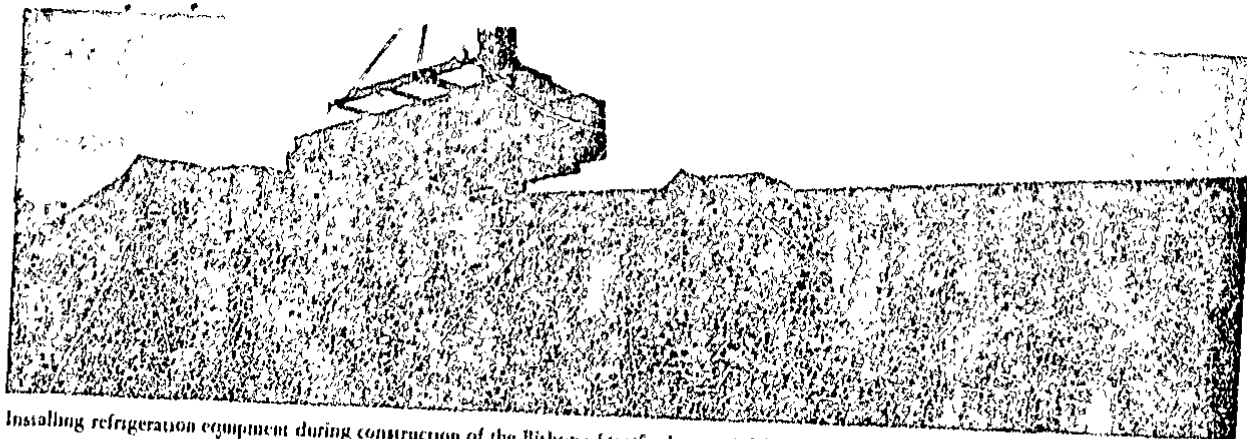
BUILDING TO THE HIGHEST STANDARDS

Our very strong internal design disciplines cover store layout, floor and car parking areas, operational requirements, architecture and landscaping.

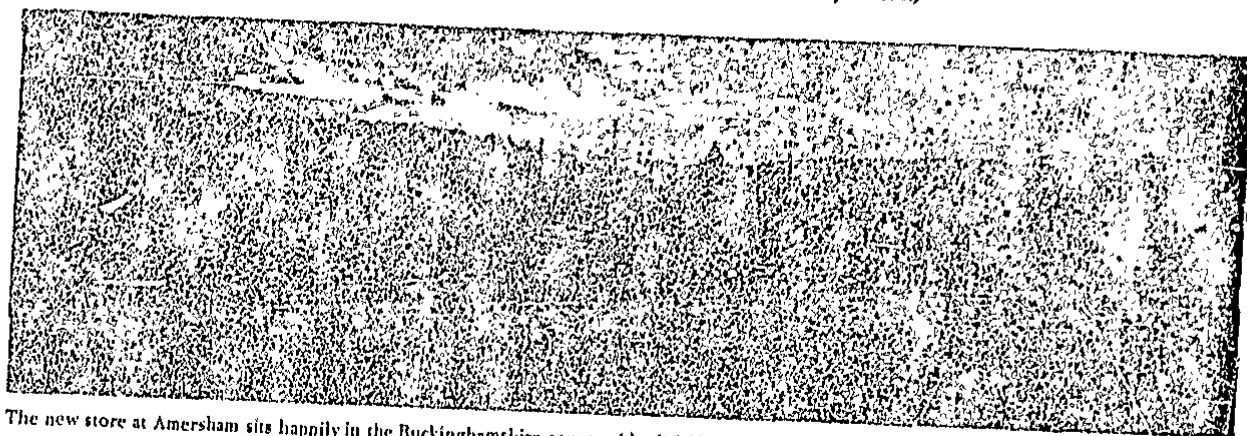
First-class contractors are employed to build Tesco stores. We manage them very closely, and specify the best materials – materials which will enhance the environment, retain their appeal and quality throughout the life of the store, and require minimum maintenance and replacement.

We set and maintain extremely high standards of insulation, refrigeration systems and energy-conservation.

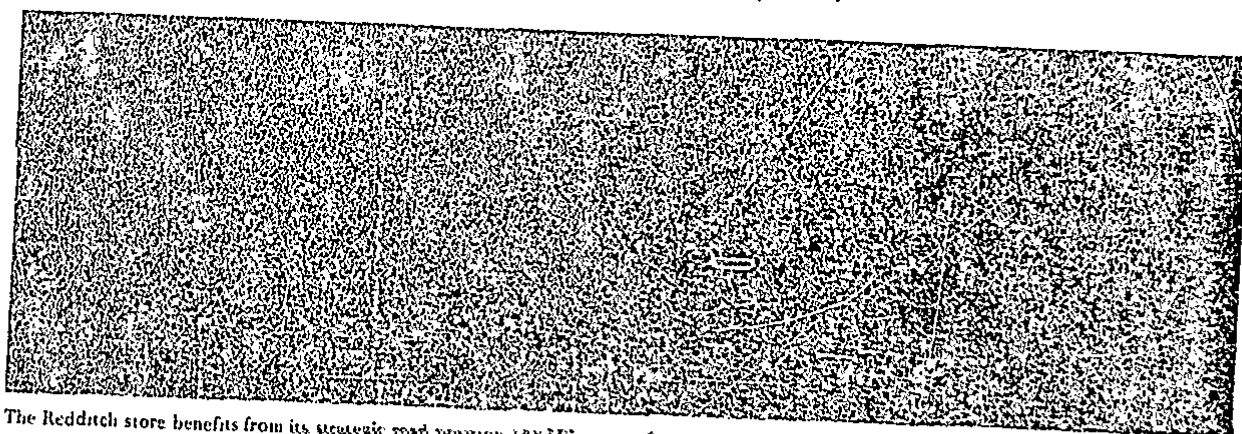
We know what works, we know what comes up to the Tesco standard, we know what our customers like, and we strive to ensure that every store will be acceptable to the local community and efficient in operation.



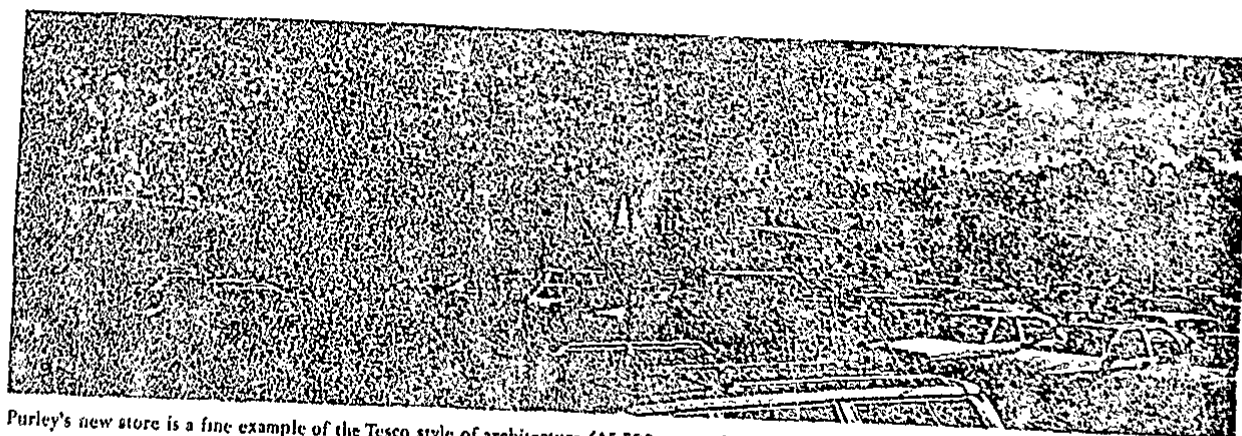
Installing refrigeration equipment during construction of the Bishop's Stortford store (41,600 square feet)



The new store at Amersham sits happily in the Buckinghamshire countryside. (40,000 square feet)



The Redditch store benefits from its strategic road position. (48,500 square feet)



Purley's new store is a fine example of the Tesco style of architecture (45,500 square feet)

ONLY PEOPLE CAN CREATE QUALITY

Tesco employs about 90,000 people altogether. The quality of our products, our stores and our services ultimately depends upon them. So it is a fundamental company aim constantly to raise standards of performance and morale. To achieve that, we must be willing to look at and, where possible, improve our management, training and recruitment policies.

MAXIMISING PERFORMANCE

Over the last few years, we have been managing rapid growth and change. Now, while growth continues, we are seeking to derive the best possible performance from the many changes and investments that have been made. That means broadening the experience and ability of all our managers. It means systematically looking at everything we do and defining the best way – the Tesco way – of doing it. It means raising our internal communications, our training programmes, our job evaluation and pay schemes and our standards of customer service to even higher levels.

PROVIDING EXCELLENT OPPORTUNITIES AND REWARDS

As Tesco grows and matures, we need more people every year. Over the next twelve months, we shall recruit thousands of new people to staff the 25 new stores we shall be opening. Our personnel policies are designed to enable those people, and our existing employees, to perform at their best.

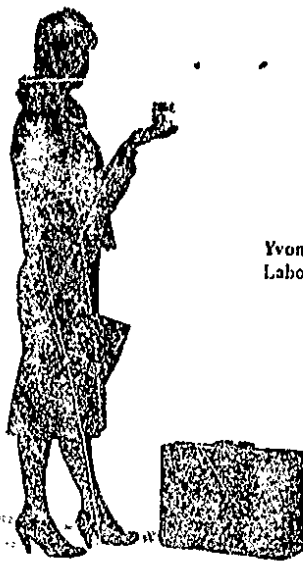
We aim to develop and give expression to the talents of our people through thorough training, and by matching their abilities to the needs of the business.

During 1990, some 5,000 people took part in Head Office induction and graduate training schemes; and in 'functional specific' training programmes such as management skills, computer operations and distribution techniques. Many thousands of our store staff underwent 'Customer First' training.

£22m will be shared by around 38,000 Tesco people under our profit-sharing scheme in respect of the current year, and the number of our employees who have been granted options to buy shares in the company grew to 25,000 – an increase of 7,000.

LOOKING AHEAD

Our goals are now to make Tesco stores even better and more efficient, continually to raise all our standards of management and working practice, and to ensure that enough well-trained, well-prepared people are in place to carry the business forward. We also aim to enable ideas and innovations to come through from all parts of the company, leading to sustained future growth.



Jo Timmerman
Food Technologist

Yvonne Stevens
Laboratory Analyst



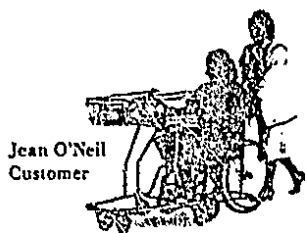
George Marston
Field Technician

Helen Anderson
Consumer Advice



Lorna Locke
Checkout Operator

Maureen Hamblin
Customer Service



Jean O'Neil
Customer



Simon Tidman
Department Manager

Steve Hanstock
Produce Department

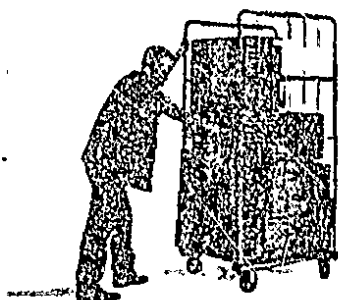


Dave Hamblin
Composite Driver

Debbie Brooks
In Store Stock Contr



Anthony Heath
In Store Stock Control



Danny Llewellyn
Composite Picker

Steve Jackson
Composite Quality Assurance



Jo Ann Ford
Marketing Manager



Jo Siffre
Staff Training



Andy Dan
Design Studio Artist



Andrew Pepper
Buyer



BROADCASTING THE QUALITY MESSAGE

Last year saw the launch of a new Tesco image advertising campaign. Why did we decide to embark on this?

Tesco has always been a high-profile company, and since 1980 we have transformed ourselves in full view of the public.

The transformation of Tesco from a price-driven retailer into an integrated group of the highest quality has been measured, discussed and commented on all along the way. We could probably say that there has never been a more public repositioning of a company's image than ours.

But people who haven't yet had the chance to shop in an up-to-the-minute Tesco store can only guess at our new standards of quality.

So it is hardly surprising that research shows there is still, for some people, a degree of uncertainty about what to expect from Tesco products and Tesco stores.

This uncertainty is a result of our history and the speed with which we have transformed ourselves. It is quickly dispelled by actual experience of Tesco shopping and Tesco products.

RAISING AWARENESS

It is clearly in the company's interests to make all our potential customers aware of the high quality reality of Tesco today.

To achieve that objective, following 18 months of creative research and testing, we launched in May 1990 our major television campaign featuring Dudley Moore.

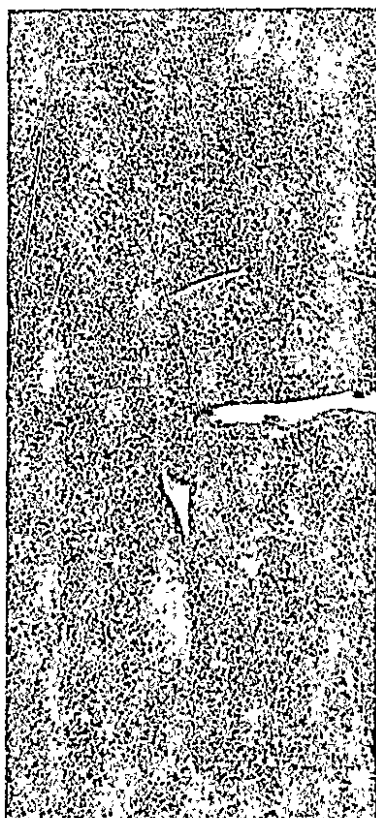
THE AIM OF THE CAMPAIGN

The essential objective of the campaign is to establish Tesco in the minds of the public as 'The leading quality food retailer in the United Kingdom today' in terms of quality, innovation, and product range.

This already-famous campaign is supported by national and local press advertising. The campaign's performance is constantly monitored by research; early signs indicate that *Our Man from Tesco*, even if he hasn't found his chickens yet, is well on the way to achieving his intended effect on the attitudes of the shopping public.



One of the elusive chickens casts a shadow as *Our Man* misses his chance yet again.



Caught in the act!



Dud relaxes while Segio Pigrattini receives a final grooming before the cameras roll.

STORE LOCATIONS

ENGLAND
ABINGDON
ALTRINCHAM
AMERSHAM
ANDOVER
ASHFORD
ATHERTON
AYLESBURY
BALDOCK
BANBURY
BARKHILL
BARKING
BARNLEY
BARNSTABLE
BARROW-IN-FURNESS
BASILDON
BASINGSTOKE
BATLEY
BEDFORD
BEDWORTH
BERKHAMSTED
BETHNAL GREEN
BEXHILL
BICESTER (2)
BIDSTON MOSS
BIRKENHEAD (2)
BIRMINGHAM
BLACKPOOL
BLACKBURN (2)
BOGNOR REGIS
BOOTLE
BOREHAMWOOD
BOSTON
BOW
BRACKNELL
BRADFORD
BRAINTREE
BRIDLINGTON
BRIGHOUSE
BRIGHTON
BRISTOL (3)
BRIXTON
BROADSTAIRS
BURCESS HILL (2)
BURTON-UPON-TRENT
BURY
CANNBORNE
CAMBRIDGE
CARLISLE
CASTLE BROMWICH
CATFORD
CHATHAM
CHELMSFORD
CHELTENHAM
CHESHUNT (2)
CHESTER (2)
CHESTERFIELD
CHICHESTER
CHORLEY
CIRENCESTER
CLACTON-ON-SEA
CLECKHEATON
CLEVELEYS
CLITHEROE
COBIAM
COLCHESTER
COLNEY HATCH
COSHAM
COVENTRY (3)
CRAWLEY
CROSSCATES
DEAL
DERBY (2)
DEVIZES
DONCASTER (2)
DORCHESTER
DOVER
DUDLEY
DUNSTABLE
EAST DIDSBUY
EAST MOLESEY
EAST RETFORD
EASTBOURNE (2)
EASTLEIGH
EDCWARE
EDMONTON
ECHAM
ELEPHANT & CASTLE
ELY (2)
EPPING
EVESHAM
EXETER
FALMOUTH
FAVERSHAM

FELIXSTOWE
FELTHAM
FERNDOWN
FINCHLEY
FLITWICK
FOLKESTONE
FORMBY
GARFORTH
GATESHEAD
CATWICK
GLOSSOP
GOODGE ST
GOODMAYES
GRAVESEND
GREAT YARMOUTH
GRENFORF
GRIMSBY
GUILDFORD
HACKNEY
HADLEIGH
HALIFAX
HANLEY
HARLOW
HARROW
HARTLEPOOL
HASTINGS
HATFIELD
HAVANT
HEMEL HEMPSTEAD
HENDON
HEREFORD (2)
HERTFORD
HESWALL
HIGH WYCOMBE
HORNCHURCH
HORSHAM
HORWICH
HOUNSLOW
HOVE
HUDDERSFIELD
HULL
HUNTINGDON
HYDE
ILKLEY
IPSWICH
IRLAM
IVYBRIDGE
KETTERING
KIDLINGTON
KING'S LYNN
KNOWLE
KNUTSFORD
LEAMINGTON SPA
LEEDS
LEICESTER (2)
LEWISHAM
LEYTON
LICHFIELD
LINCOLN (2)
LIVERPOOL (3)
LOUGHBOROUGH
LOWESTOFT
LUTON
LYMINGTON (2)
MACCLESFIELD
MAIDENHEAD
MAIDSTONE (3)
MALDON
MANSFIELD (2)
MARGATE
MKT HARBOROUGH
MELTON MOWBRAY
MEXBOROUGH
MIDDLETON
MITCHAM
MORECAMBE
MOSELEY
NEASDEN
NESTON
NEW ADDINGTON
NEW MALDEN
NEWBURY
NEWCASTLE-UPON-TYNE
NEWMARKET
NEWPORT
NEWTON ABBOT
NORTHAMPTON (2)
NORTHENDEN
NORTHFIELD
NORTHWICH
NORWICH (2)
NOTTING HILL
NOTTINGHAM (3)
OADB

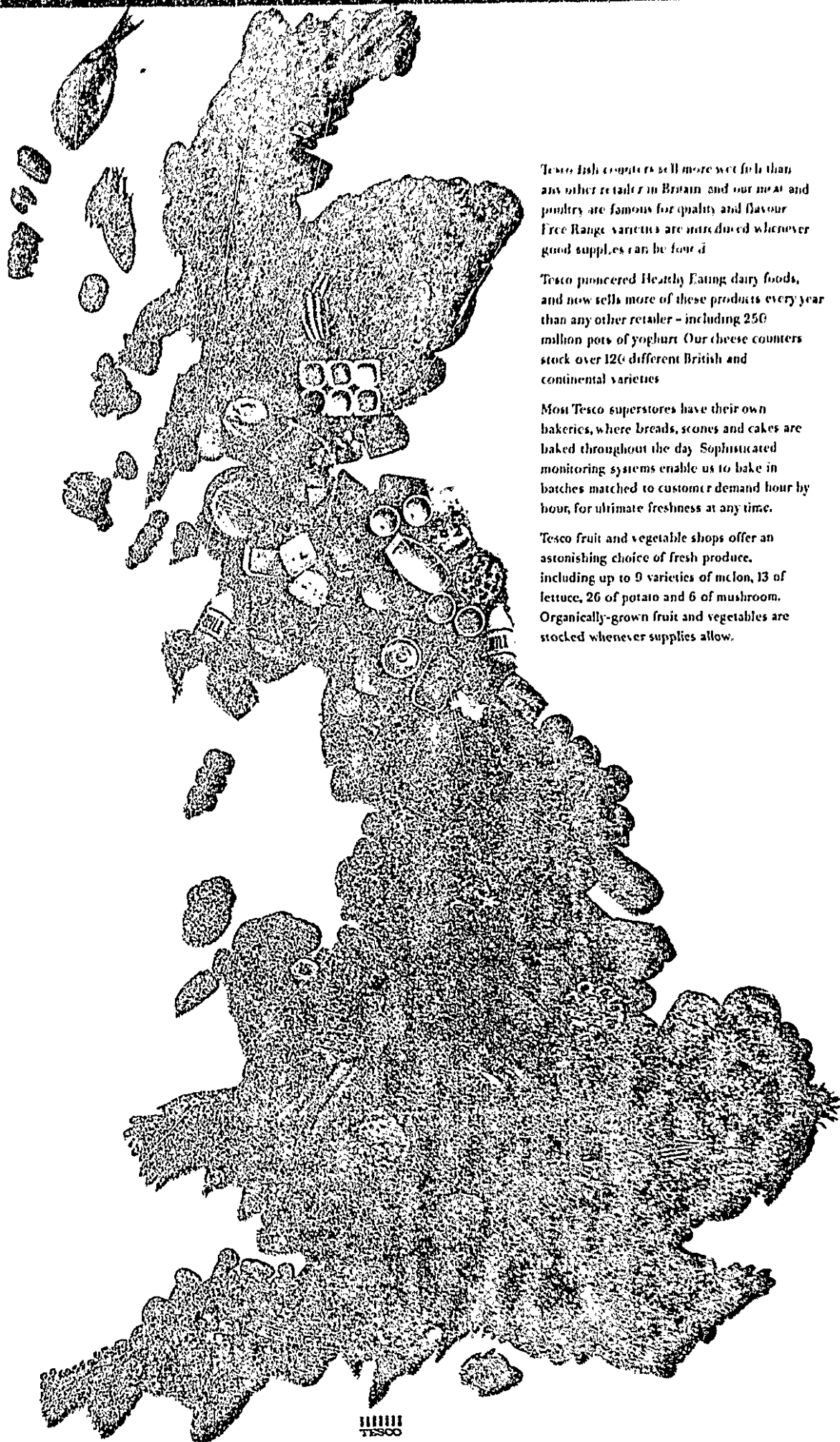
OLDHAM
ORMSKIRK
OXFORD
PADDINGTON
PAICNTON
PALMERS GREEN
PENZANCE
PETERBOROUGH
PLYMOUTH (2)
PONDER'S END
PONTEFRAC
POOLE (2)
PORTSLADE
PORTSMOUTH
POTTERS BAR
QUEDCELEY
RAINHAM (ESSEX)
RAINHAM (KENT)
RAMSGATE
RAYLEIGH
READING
REDOITCH (2)
REDRUTH
RICKMANSWORTH
ROCHDALE
ROMFORD (3)
ROTHERHAM
RUGBY
RUNCORN
RYDE
SALE
SALFORD
SALISBURY (2)
SANDHURST
SCARBOROUGH (3)
SCUNTHORPE
SELBY
SEVENOAKS
SHEERNESS
SHEFFIELD (3)
SHREWSBURY
SIDCUP
SKIPTON
SLOUGH
SMETHWICK
SOLIHULL
SOUTH TOTTENHAM
SOUTHAMPTON (2)
SOUTHPORT
SOUTHSEA
SPALDING
ST ALBANS
ST AUSTELL
STAFFORD
STAMFORD
STEVENAGE
STOKE-ON-TRENT
STOURPORT
STRATFORD-UPON-AVON
STREET
STRETFORD
STROOD
STROUD
STROUD GREEN
SUNDERLAND
SURREY QUAYS
SUTTON
SWINDON
TEDDINGTON
TEWKESBURY
THORNTON HEATH
TIVERTON
TROWBRIDGE
TRURO
TUNBRIDGE WELLS
UPTON PARK
UTTOXETER
UXBRIDGE
VICTORIA
WAKEFIELD
WALKDEN
WALSALL (2)
WANDSWORTH
WARE (2)
WATERLOOVILLE
WATFORD
WELLING
WELLINGBOROUGH (2)
WEST BROMWICH
WEST DUNNINGTON
WEST MALLING
WEST THURROCK
WESTON SUPER MARE
WEYNMOUTH

WHITCHURCH
WHITSTABLE
WHITTON
WIMBLEDON
WINTON
WISBECH
WITHAM
WOKINGHAM
WOLVERHAMPTON
WORCESTER
WORKINGTON
WORKSOP
YATE (2)
YEovil
YIEWSLEY
YORK (2)

SCOTLAND
ABERDEEN
AYR
DUNDEE
FALKIRK
GLASGOW
GREENOCK
IRVINE
KILMARNOCK
KIRKCALDY
PERTH (2)
RENFREW
SALTCOATS
STIRLING
WESTERHAILES

WALES
ABERDARE
ABERCAVENNY
BARRY
BLACKWOOD
BRIDGEND
CAERNARFON
CAERPHILLY
CARDIFF (4)
CARMARTHEN
EBBW VALE
HAVERFORDWEST
LLANELLI
MERTHYR TYDFIL
MOLD
NEATH
NEWPORT
PONTYPOOL
PONTYPRIDD
PORT TALBOT
RHYL
SHOTTON
SWANSEA (3)
TALBOT GREEN
TREDEGAR
WREXHAM

*Figures in brackets
indicate the number
of stores in each
location if greater
than one.*



Tesco fish counters sell more wet fish than any other retailer in Britain, and our meat and poultry are famous for quality and flavour. Free Range varieties are introduced whenever good supplies can be found.

Tesco pioneered Healthy Eating dairy foods, and now sells more of these products every year than any other retailer - including 250 million pots of yoghurt. Our cheese counters stock over 120 different British and continental varieties.

Most Tesco superstores have their own bakeries, where breads, scones and cakes are baked throughout the day. Sophisticated monitoring systems enable us to bake in batches matched to customer demand hour by hour, for ultimate freshness at any time.

Tesco fruit and vegetable shops offer an astonishing choice of fresh produce, including up to 9 varieties of melon, 13 of lettuce, 26 of potato and 6 of mushroom. Organically-grown fruit and vegetables are stocked whenever supplies allow.

TESCO

NEW STORE OPENINGS

Twenty stores opened in 1990/91

New Stores	New Sales area (Square Feet)
Andover	35,500
Ayr	42,000
Barrow-in-Furness	42,500
Bicester	22,500
Bidston Moss	43,000
Blackpool	46,500
Camborne	22,500
Chorley	36,000
Dundee	39,500
Eastbourne	44,000
Formby	32,500
Guildford	40,000
Hartlepool	41,000
Kettering	45,500
Rainham	44,000
Redditch	48,500
Sandhurst	72,000
Slough	46,000
Stroud	24,500
York	63,000
Extensions	
Norwich (Phase II)	11,500
Baldock	24,000
Total Sales Area Gain	<u>866,500</u>
Average size of stores opened	41,500

Twenty-five stores to be opened in 1991/92*

New Stores	New Sales area (Square Feet)
Ashford (Kent)	44,500
Basildon	48,500
Bedford	51,500
Bishop's Stortford	40,000
Bournemouth	48,000
Bridgend	48,500
Dorchester	30,000
Evesham	25,500
Greenock	36,000
Leatherhead	26,000
Leighton Buzzard	29,000
Macclesfield	32,000
Maldon	29,500
Milton Keynes	56,500
New Oscott	46,500
Purley	45,500
Royston	36,500
Sunbury	46,000
Swindon	54,500
Telford	43,000
Thetford	55,500
Uckfield	23,000
Wisbech	25,500
Worcester	40,000
Yeovil	45,000
Extensions	
Crawley	13,500
West Durrington	12,000
Total Sales Area Gain	<u>1,032,000</u>
Average size of stores to be opened	40,200

*This list is based on the current
building programme and may change.

DIRECTORS' REPORT

The directors present their Annual Report on the affairs of the group together with the Accounts and Auditors' Report for the 52 weeks ended 23rd February 1991.

Results and Dividends

Group turnover including VAT increased by £1,005m to £6,731m, representing a gain of 17.5%.

Group profit before property profits and taxation for the year was £417.1m compared with £326.6m for the previous year, an increase of £90.5m. This represented a net margin of 6.6% compared with 6.0%.

The amount allocated to the employee profit sharing scheme this year was £22.0m compared with £17.2m for last year.

After provision for tax of £133.5m and dividends, paid and proposed, of £97.3m, profit retained for the financial year amounted to £205.4m.

An interim dividend of 1.65p (gross equivalent 2.20p) per ordinary share has been paid on account of the 52 week period ended 23rd February 1991. The directors recommend the payment of a final dividend of 3.60p (gross equivalent 4.80p) per ordinary share to be paid on 1st July 1991, making a total for the year on a restated basis of 5.25p (gross equivalent 7.00p) per ordinary share. The 1991 interim dividend paid of 1.70p (gross equivalent 2.27p) per ordinary share has been restated above to 1.65p for the effects of the Rights Issue.

Principal Activity and Business Review

The principal activity of the company and its subsidiary undertakings during the year was food retailing within the United Kingdom. For a detailed business review, please refer to pages 6 to 24.

Capital Expenditure

Capital expenditure amounted to £952m compared with £651m during the previous year.

A summary of the changes in fixed assets is shown in Note 8 to the Accounts. A professional valuation of the majority of the group's properties was carried out as at 27th February 1988 which showed a surplus of £219m over their net book value as at that date. This surplus has not been incorporated in the accounts.

Share Capital

On 29th January 1991 the company announced a rights issue which resulted in the issue of 297,024,548 new ordinary shares at 197p per share on the basis of 2 new ordinary shares for every 11 ordinary shares then held.

Shareholders were offered the option of ordinary shares in lieu of dividends during the year. As a result, the company allotted ordinary shares in lieu of the final dividend in respect of the 52 weeks ended 24th February 1990 and the interim dividend in respect of the 52 weeks ended 23rd February 1991, resulting in the issue of 2,566,826 ordinary shares.

In July 1990 the company issued £200,000,000 of 9% Convertible Capital Bonds 2005 which are ultimately convertible into ordinary shares.

Shares were again allotted and options granted under the company's share option schemes for employees.

During the year the company issued 61,320,584 ordinary shares of 5p each as a result of the conversion of £106.7m nominal of 4% convertible bonds 2002.

Since the year-end the authorised share capital of the company has been increased, details are given in Note 16.

Details of all share capital movements and options can be found in Notes 16 and 17 to the Accounts.

DIRECTORS' REPORT

Substantial Shareholdings

So far as the company is aware as at the date of this report Prudential Corporation, for itself and others, hold interests in 63,572,315 ordinary shares (3.3%). The company is not aware of any other interest in its ordinary shares of 3% or more.

Directors and their Interests

The names of the directors and their interests are shown below. Mr M Darnell, Mr J A Gardiner, Mr F R N Krejsa and Mr D E Reid retire from the Board by rotation in accordance with the company's Articles of Association and, being eligible, offer themselves for re-election.

Sir Leslie Porter retired on 10th July 1990. Mr F R N Krejsa retired as an executive director on 25th May 1990, he continues as a non-executive director. Directors' biographies are set out on page 2.

The service contracts of Mr D E Reid and Mr M Darnell are for terms of three years currently running from 1st January 1991 and 1st March 1991 respectively. Mr J A Gardiner and Mr F R N Krejsa do not have service contracts of more than one year's duration.

Directors' Interests

The disclosable interests of the directors and their families at the year-ends (including the Rights Issue shares taken up in the current year) were as follows:

Beneficial	Ordinary Shares	
	23rd February 1991	1990
Sir Ian MacLaurin	162,788	143,167
Mr V W Benjamin	99,648	86,127
Mr A D Malpas	76,676	60,318
Mr M Darnell	21,098	6,942
Mr J A Gardiner	16,655	13,784
Mr J Gildersleeve	47,778	32,796
Mr F R N Krejsa	134,093	115,150
Miss D O'Callaghan	3,792	3,139
Mr J M F Padovan	4,254	3,600
Mr D E Reid	53,184	38,373
Mr D C Tuffin	65,550	51,580
Mr J M Wemms	23,887	14,948
Non-Beneficial		
Sir Ian MacLaurin	93,075	90,000

Details of all directors' share options are given in Note 17 to the Accounts.

Between 23rd February 1991 and 2nd April 1991 there have been no changes in the interests of the directors in the share capital of the company. None of the directors had any material interest, at any time during the year, in any contract of significance with the company or any of its subsidiaries.

Employment of Disabled People

The group's policy in relation to the employment of disabled persons has developed over several years and remains unchanged. Full and fair consideration is given to the employment of applicants who are disabled persons, taking account of their aptitudes and abilities. Employees becoming disabled persons are retained in employment where practicable and fair regard is given to their training needs, career development and promotion potential.

DIRECTORS' REPORT

Employee Involvement

The group's employment policy encourages the provision of employment opportunities regardless of sex, race, disability or any other disadvantage.

We believe in close consultation with employees on matters of concern to them. Employees are encouraged to become aware of, and involve themselves in, the performance of the group.

Communication with employees individually is achieved through the in-house newspaper, information bulletins and other such publications. Consultative meetings are attended by senior trading managers with senior management on a weekly basis and other meetings of retail staff are held at regular intervals. These meetings not only allow information to be passed to employees and their representatives on matters affecting the business, but also provide a forum for employees to communicate with management.

There are several ways in which employees are encouraged to become involved in the group's financial performance. The principal schemes are ones in which shares in the company are appropriated to employees and in which they are invited to apply for options to acquire shares in the company.

Charitable and Community Support

Contributions to charity via the Tesco Charity Trust and to Community projects amounted to £453,000 (1990 - £399,000).

Political Contributions

No political contributions were made.

Number of Shareholders

The number of shareholders in the company at 23rd February 1991 was 109,425 (1990 - 90,795).

Close Company Status

The company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors

Price Waterhouse have expressed their willingness to continue in office. In accordance with section 384 of the Companies Act 1985 a resolution proposing the re-appointment of Price Waterhouse as auditors of the company will be put to the Annual General Meeting.

Annual General Meeting

A separate circular accompanying the Annual Report and Accounts explains the special business to be considered at the Annual General Meeting.

By Order of the Board

ROWLEY AGER

Secretary

2nd April 1991



Tesco PLC
Registered Number:
445790

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 weeks ended 23rd February 1991	Note	1991 £m	1990 £m
Sales to customers at net selling prices		6,730.7	5,726.2
Value added tax		384.4	324.3
Turnover excluding value added tax		6,346.3	5,401.9
Cost of sales	1	5,787.7	4,948.7
Gross profit		558.6	453.2
Administration expenses		138.6	119.2
Operating profit	1	420.0	334.0
Interest receivable less payable	3	19.1	9.8
Profit after interest		439.1	343.8
Employee profit sharing	4	22.0	17.2
Profit before net surplus on sale of properties		417.1	326.6
Net surplus on sale of properties	1	19.1	35.0
Profit on ordinary activities before taxation		436.2	361.6
Tax on profit on ordinary activities	5	133.5	107.8
Profit for the financial year		302.7	253.8
Dividends	6	97.3	67.3
Profit retained		205.4	186.5
 *Earnings per share		pence	pence
Excluding net surplus on sale of properties	7	17.21	13.68
Including net surplus on sale of properties	7	18.37	15.87
 *Fully diluted earnings per share			
Excluding net surplus on sale of properties	7	16.60	13.35
Including net surplus on sale of properties	7	17.67	15.39
 *Dividends per share	6	5.25	4.17

*Adjusted for effects of 1991 Rights Issue

Accounting policies and notes forming part of these accounts are on pages 31 to 4.

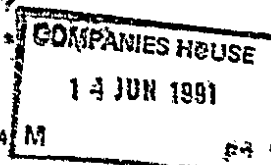
BALANCE SHEETS

23rd February 1991	Note	Consolidated		Tesco PLC	
		1991 £m	1990 £m	1991 £m	1990 £m
Fixed Assets					
Tangible assets	8	2,865.9	2,159.4	-	-
Investments	9	0.2	0.1	15.0	14.1
		<u>2,866.1</u>	<u>2,159.5</u>	<u>15.0</u>	<u>14.1</u>
Current Assets					
Stocks (goods for resale)		231.5	212.8	-	-
Debtors	10	74.7	36.3	1,597.2	1,106.8
Money market investments and deposits	11	203.6	1.2	203.5	1.2
Cash at bank and in hand		<u>298.3</u>	<u>25.1</u>	<u>215.5</u>	<u>17.1</u>
		808.1	275.4	2,016.2	1,125.1
Creditors					
Amounts falling due within one year	12	1,112.4	749.4	259.9	87.7
Net current (liabilities)/assets		<u>(304.3)</u>	<u>(474.0)</u>	<u>1,756.3</u>	<u>1,037.4</u>
Total assets less current liabilities		2,561.8	1,685.5	1,771.3	1,051.5
Creditors					
Amounts falling due after more than one year	13	163.5	413.1	290.7	287.9
Provisions for liabilities and charges	14	38.4	18.3	(0.1)	(6.7)
		<u>2,359.9</u>	<u>1,254.1</u>	<u>1,480.7</u>	<u>770.3</u>
Capital and Reserves					
Called up share capital	16	96.6	78.2	96.6	78.2
Share premium account	18	885.6	219.6	885.6	219.6
Other reserves	18	39.6	39.6	-	-
Profit and loss account	18	<u>1,138.1</u>	<u>916.7</u>	<u>498.5</u>	<u>472.5</u>
Convertible Capital Bond	19	200.0	-	-	-
		<u>2,359.9</u>	<u>1,254.1</u>	<u>1,480.7</u>	<u>770.3</u>

SIR IAN MacLAURIN
D E REID

Directors

Accounts approved by the Board 2nd April 1991.



Accounting policies and notes forming part of these accounts are on pages 31 to 44

TESCO

CONSOLIDATED STATEMENT OF SOURCE & APPLICATION OF FUNDS

52 weeks ended 23rd February 1991

	1991 £m	1990 £m
Funds generated from trading:		
Profit before property surplus, interest and taxation	398.0	316.8
Depreciation	99.8	85.5
Miscellaneous items	(21.8)	(15.0)
	<u>476.0</u>	<u>387.3</u>
Changes in working capital:		
Stocks - (increase)	(18.7)	(20.6)
Debtors - (increase)/reduction	(30.2)	6.2
Trade creditors - increase	46.8	72.3
Other creditors - increase	57.9	29.5
	<u>55.8</u>	<u>87.4</u>
Changes in fixed assets:		
Purchases of tangible assets	(952.4)	(651.3)
Sales of tangible assets	165.2	157.7
	<u>(787.2)</u>	<u>(493.6)</u>
Funds flow from operations	<u>(255.4)</u>	<u>(18.9)</u>
Interest (net)	19.1	9.8
Tax paid	(81.9)	(68.9)
Dividends paid	(68.5)	(54.6)
Funds flow after financing costs and tax	<u>(386.7)</u>	<u>(132.6)</u>
Shares issued including conversion of loan stock	112.4	32.4
Rights Issue	572.8	-
Issue of Convertible Capital Bond	194.6	-
Net inflow/(outflow) of funds	<u>493.1</u>	<u>(100.2)</u>
Net borrowings:		
Net borrowings at beginning of year	(316.6)	(216.4)
Net inflow/(outflow) of funds	493.1	(100.2)
Net funds/(borrowings) at end of year	<u>176.5</u>	<u>(316.6)</u>

The movement in net borrowings in the year represents the difference between the amounts shown in the opening and closing balance sheets.

Net borrowings comprise loans, overdrafts and finance lease commitments, less cash, deposits and investments.

Accounting policies and notes forming part of these accounts are on pages 31 to 44.

ACCOUNTING POLICIES

Basis of Accounts

The accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention, and are in accordance with the Companies Act 1985.

Basis of Consolidation

The consolidated profit and loss account and balance sheet consist of the accounts of the parent company and its subsidiary undertakings, all of which are made up to or around 23rd February 1991.

Any excess or deficiency of purchase consideration in relation to the fair value of attributable net assets of subsidiary undertakings at the date of acquisition is adjusted on reserves.

The group's share of associated undertakings' profits/losses is included in the consolidated profit and loss account and added to the cost of investments in the balance sheet.

Stocks

Stocks are valued on the basis of first in first out at the lower of cost and net realisable value. Stocks in stores are calculated at retail prices and reduced by appropriate margins to the lower of cost and net realisable value.

Money Market Investments

Money market investments are stated at market value. All income from these investments is included in the profit and loss account as interest receivable and similar income.

Fixed Assets and Depreciation

Fixed assets include amounts in respect of interest paid, net of taxation, on funds specifically related to the financing of assets in the course of construction.

Depreciation is provided on an equal annual instalment basis over the anticipated useful working lives of the assets, after they have been brought into use, at the following rates:

Plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 7% to 50%.
Leasehold properties with less than 125 years unexpired are amortised by equal annual instalments over the unexpired period of the lease.

No depreciation is provided on United Kingdom freehold buildings or leasehold buildings held on leases in excess of 125 years. The group follows a programme of regular refurbishment and maintenance of its properties, which includes the reinstatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard. Accordingly, in the opinion of the directors, any element of depreciation would be immaterial and no provision has been made.

Leasing

Plant, equipment and fixtures and fittings which are the subject of finance leases are dealt with in the accounts as tangible assets and equivalent liabilities at what would otherwise have been the cost of outright purchase.

Rentals are apportioned between reductions of the respective liabilities and finance charges, the latter being calculated by reference to the rates of interest implicit in the leases. The finance charges are dealt with under interest payable in the profit and loss account.

Leased assets are depreciated in accordance with the depreciation accounting policy over the anticipated working lives of the assets which generally correspond to the primary rental periods.

The costs of operating leases of land and buildings and other assets are expensed as incurred.

Deferred Taxation and Advance Corporation Tax

Deferred taxation is provided on accelerated capital allowances and other timing differences, only to the extent that it is probable that a liability will crystallise.

Provision for deferred taxation is made at the rate of corporation tax anticipated for the year in which the timing difference is expected to reverse (see Note 5).

Surplus advance corporation tax on dividends paid and proposed, which is expected to be recoverable, is included within debtors.

Pensions

The expected cost of pensions in respect of the group's defined benefit pension scheme is charged to the profit and loss account over the working lifetimes of employees in the scheme. Actuarial surpluses and deficits are spread over the expected remaining working lifetimes of employees.

NOTES TO THE ACCOUNTS

Note 1

PROFIT ON ORDINARY ACTIVITIES

	1991 £m	1990 £m
Operating profit is stated after charging the following:		
Depreciation and amortisation	99.8	85.5
Operating lease costs	61.2	37.6
Auditors' remuneration	0.2	0.2
Staff costs (Note 2a)	633.1	543.9

Cost of sales includes warehouse and transportation costs and all store operating costs.

Net surplus on sale of properties arises principally from sale-and-leaseback transactions on stores and depots.

Note 2

STAFF COSTS

	1991 £m	1990 £m
a) Employment costs during the year		
Wages and salaries	570.9	489.5
Social security costs	39.4	33.4
Other pension costs (Note 20)	22.8	21.0
	633.1	543.9

Included within staff costs is an accrual of £2.7m (1990 - £3.7m) for the directors' performance related incentive scheme. The amount due in respect of the performance for the second three year period from 1988/89 to 1990/91 has now been finalised at £1.8m. This amount is not included in the directors' emoluments analysed below, since the compensation is dependent upon the cumulative performance over a three year period and this entitlement to compensation will not vest until the 1991/92 financial year. A provisional amount of £2.3m has been accrued in respect of the scheme payments to be made in 1992/93 and 1993/94.

b) Number of persons employed

The average number of UK employees per week during the year was 87,691 (1990 - 83,224) - full-time equivalent 59,846 (1990 - 54,345).

c) Directors' emoluments

Aggregate emoluments of the directors of the parent company were as follows:

	Actual		Annualised	
	1991 £000	1990 £000	1991 £000	1990 £000
Directors' emoluments	2,414	2,243	2,414	2,243
Performance related incentive payments	4,326	-	1,442	1,442
	6,740	2,243	3,856	3,685

The performance related incentive payments of £4.3m represent the entitlement of directors vesting in 1990/91 and is related to the growth in earnings per share for the three year period from 1987/88 to 1989/90. Over this three year period, earnings per share grew by 71%. The amount of £4.3 million was charged against profit in those three years.

NOTES TO THE ACCOUNTS

Note 2 continued

STAFF COSTS

The annualised amounts shown above, in respect of the Chairman and in the range of emoluments of other directors shown below, include the yearly average of the first three years' incentive scheme amounts, all of which vested in 1990/91.

The emoluments of the Chairman, excluding pension contributions, who was also the highest paid director, are analysed as follows:

	Actual		Annualised	
	1991 £000	1990 £000	1991 £000	1990 £000
Emoluments	390	345	390	345
Performance related incentive payments	1,092	-	364	364
	1,482	345	754	709

Other directors' aggregate emoluments, excluding pension contributions but including, where appropriate, payments under the performance related incentive scheme, fall within the following scales:

			Actual		Annualised	
			Number of directors		Number of directors	
			1991	1990	1991	1990
From	£10,001 to	£15,000	1	-	1	-
From	£15,001 to	£20,000	3	3	3	3
From	£20,001 to	£25,000	-	1	-	1
From	£25,001 to	£30,000	-	2	-	1
From	£30,001 to	£35,000	-	-	-	1
From	£35,001 to	£40,000	1	1	1	-
From	£40,001 to	£45,000	-	2	-	-
From	£45,001 to	£50,000	-	-	1	-
From	£50,001 to	£55,000	-	2	-	-
From	£55,001 to	£60,000	-	-	1	-
From	£60,001 to	£65,000	1	-	-	-
From	£65,001 to	£70,000	-	-	-	1
From	£70,001 to	£75,000	-	1	-	-
From	£75,001 to	£80,000	-	-	-	1
From	£80,001 to	£85,000	-	-	1	-
From	£85,001 to	£90,000	-	-	-	1
From	£90,001 to	£95,000	-	-	1	-
From	£95,001 to	£100,000	-	-	-	1
From	£100,001 to	£105,000	-	-	-	-
From	£105,001 to	£110,000	-	-	-	-
From	£110,001 to	£115,000	-	-	-	-
From	£115,001 to	£120,000	-	-	-	-
From	£120,001 to	£125,000	-	-	-	-
From	£125,001 to	£130,000	-	-	-	-
From	£130,001 to	£135,000	-	-	-	-
From	£135,001 to	£140,000	-	-	-	-
From	£140,001 to	£145,000	-	-	-	-
From	£145,001 to	£150,000	-	-	-	-
From	£150,001 to	£155,000	-	-	-	-
From	£155,001 to	£160,000	-	-	-	-
From	£160,001 to	£165,000	-	-	-	-
From	£165,001 to	£170,000	-	-	-	-
From	£170,001 to	£175,000	-	-	-	-
From	£175,001 to	£180,000	-	-	-	-
From	£180,001 to	£185,000	-	-	-	-
From	£185,001 to	£190,000	-	-	-	-
From	£190,001 to	£195,000	-	-	-	-
From	£195,001 to	£200,000	-	-	-	-
From	£200,001 to	£205,000	-	-	-	-
From	£205,001 to	£210,000	-	-	-	-
From	£210,001 to	£215,000	-	-	-	-
From	£215,001 to	£220,000	-	-	-	-
From	£220,001 to	£225,000	-	-	-	-
From	£225,001 to	£230,000	-	-	-	-
From	£230,001 to	£235,000	-	-	-	-
From	£235,001 to	£240,000	-	-	-	-
From	£240,001 to	£245,000	-	-	-	-
From	£245,001 to	£250,000	-	-	-	-
From	£250,001 to	£255,000	-	-	-	-
From	£255,001 to	£260,000	-	-	-	-
From	£260,001 to	£265,000	-	-	-	-
From	£265,001 to	£270,000	-	-	-	-
From	£270,001 to	£275,000	-	-	-	-
From	£275,001 to	£280,000	-	-	-	-
From	£280,001 to	£285,000	-	-	-	-
From	£285,001 to	£290,000	-	-	-	-
From	£290,001 to	£295,000	-	-	-	-
From	£295,001 to	£300,000	-	-	-	-
From	£300,001 to	£305,000	-	-	-	-
From	£305,001 to	£310,000	-	-	-	-
From	£310,001 to	£315,000	-	-	-	-
From	£315,001 to	£320,000	-	-	-	-
From	£320,001 to	£325,000	-	-	-	-
From	£325,001 to	£330,000	-	-	-	-
From	£330,001 to	£335,000	-	-	-	-
From	£335,001 to	£340,000	-	-	-	-
From	£340,001 to	£345,000	-	-	-	-
From	£345,001 to	£350,000	-	-	-	-
From	£350,001 to	£355,000	-	-	-	-
From	£355,001 to	£360,000	-	-	-	-
From	£360,001 to	£365,000	-	-	-	-
From	£365,001 to	£370,000	-	-	-	-
From	£370,001 to	£375,000	-	-	-	-
From	£375,001 to	£380,000	-	-	-	-
From	£380,001 to	£385,000	-	-	-	-
From	£385,001 to	£390,000	-	-	-	-
From	£390,001 to	£395,000	-	-	-	-
From	£395,001 to	£400,000	-	-	-	-
From	£400,001 to	£405,000	-	-	-	-
From	£405,001 to	£410,000	-	-	-	-
From	£410,001 to	£415,000	-	-	-	-
From	£415,001 to	£420,000	-	-	-	-
From	£420,001 to	£425,000	-	-	-	-
From	£425,001 to	£430,000	-	-	-	-
From	£430,001 to	£435,000	-	-	-	-
From	£435,001 to	£440,000	-	-	-	-
From	£440,001 to	£445,000	-	-	-	-
From	£445,001 to	£450,000	-	-	-	-
From	£450,001 to	£455,000	-	-	-	-
From	£455,001 to	£460,000	-	-	-	-
From	£460,001 to	£465,000	-	-	-	-
From	£465,001 to	£470,000	-	-	-	-
From	£470,001 to	£475,000	-	-	-	-
From	£475,001 to	£480,000	-	-	-	-
From	£480,001 to	£485,000	-	-	-	-
From	£485,001 to	£490,000	-	-	-	-
From	£490,001 to	£495,000	-	-	-	-
From	£495,001 to	£500,000	-	-	-	-
From	£500,001 to	£505,000	-	-	-	-
From	£505,001 to	£510,000	-	-	-	-
From	£510,001 to	£515,000	-	-	-	-
From	£515,001 to	£520,000	-	-	-	-
From	£520,001 to	£525,000	-	-	-	-
From	£525,001 to	£530,000	-	-	-	-
From	£530,001 to	£535,000	-	-	-	-
From	£535,001 to	£540,000	-	-	-	-
From	£540,001 to	£545,000	-	-	-	-
From	£545,001 to	£550,000	-	-	-	-
From	£550,001 to	£555,000	-	-	-	-
From	£555,001 to	£560,000	-	-	-	-
From	£560,001 to	£565,000	-	-	-	-
From	£565,001 to	£570,000	-	-	-	-
From	£570,001 to	£575,000	-	-	-	-
From	£575,001 to	£580,000	-	-	-	-
From	£580,001 to	£585,000	-	-	-	-
From	£585,001 to	£590,000	-	-	-	-
From	£590,001 to	£595,000	-	-	-	-
From	£595,001 to	£600,000	-	-	-	-
From	£600,001 to	£605,000	-	-	-	-
From	£605,001 to	£610,000	-	-	-	-
From	£610,001 to	£615,000	-	-	-	-
From	£615,001 to	£620,000	-	-	-	-
From	£620,001 to	£625,000	-	-	-	-
From	£625,001 to	£630,000	-	-	-	-
From	£630,001 to	£635,000	-	-	-	-
From	£635,001 to	£640,000	-	-	-	-
From	£640,001 to	£645,000	-	-	-	-
From	£645,001 to	£650,000	-	-	-	-
From	£650,001 to	£655,000	-	-	-	-
From	£655,001 to	£660,000	-	-	-	-
From	£660,001 to	£665,000	-	-	-	-
From	£665,001 to	£670,000	-	-	-	-
From	£670,001 to	£675,000	-	-	-	-
From	£675,001 to	£680,000	-	-	-	-
From	£680,001 to	£685,000	-	-	-	-
From	£685,001 to	£690,000	-	-	-	-
From	£690,001 to	£695,000	-	-	-	-
From	£695,001 to	£700,000	-	-	-	-
From	£700,001 to	£705,000	-	-	-	-
From	£705,001 to	£710,000	-	-	-	-
From	£710,001 to	£715,000	-	-	-	-
From	£715,001 to	£720,000	-	-	-	-
From	£720,001 to	£725,000	-	-	-	-
From	£725,001 to	£730,000	-	-	-	-
From	£730,001 to	£735,000	-	-	-	-
From	£735,001 to	£740,000	-	-	-	-
From	£740,001 to	£745,000	-	-	-	-
From	£745,001 to	£750,000	-	-	-	-
From	£750,001 to	£755,000	-	-	-	-
From	£755,001 to	£760,000	-	-	-	-
From	£760,001 to	£765,000	-	-	-	-
From	£765,001 to	£770,000	-	-	-	-
From	£770,001 to	£775,000	-	-	-	-
From	£775,001 to	£780,000	-	-	-	-
From	£780,001 to	£785,000	-	-	-	-
From	£785,001 to	£790,000	-	-	-	-
From	£790,001 to	£795,000	-	-	-	-
From	£795,001 to	£800,000	-	-	-	-
From	£800,001 to	£805,000	-	-	-	-
From	£805,001 to	£810,000	-	-	-	-
From	£810,001 to	£815,000	-	-	-	-
From	£815,001 to	£820,000	-	-	-	-
From	£820,001 to	£825,000	-	-	-	-
From	£825,001 to	£830,000	-	-	-	-
From	£830,001 to	£835,000	-	-	-	-
From	£835,001 to	£840,000	-	-	-	-
From	£840,001 to	£845,000	-	-	-	-
From	£845,001 to	£850,000	-	-	-	-
From	£850,001 to	£855,000	-	-	-	-
From	£855,001 to	£860,000	-	-	-	-
From	£860,001 to	£865,000	-	-	-	-
From	£865,001 to	£870,000	-	-	-	-
From	£870,001 to	£875,000	-	-	-	-
From	£875,001 to	£880,000	-	-	-	-
From	£880,001 to	£885,000	-	-	-	-
From	£885,001 to	£890,000	-	-	-	-
From	£890,001 to	£895,000	-	-	-	-
From	£895,001 to	£900,000	-	-	-	-
From	£900,001 to	£905,000	-	-	-	-
From	£905,001 to	£910,000	-	-	-	-
From	£910,001 to	£915,000	-	-	-	-
From	£915,001 to	£920,000	-	-	-	-
From	£920,001 to	£925,000	-	-	-	-
From	£925,001 to	£930,000	-	-	-	-
From	£930,001 to	£935,000	-	-	-	-
From	£935,001 to	£940,000	-	-	-	-
From	£940,001 to	£945,000	-	-	-	-
From	£945,001 to	£950,000	-	-	-	-
From	£950,001 to	£955,000	-	-	-	-
From	£955,001 to	£960,000	-	-	-	-
From	£960,001 to	£965,000	-	-	-	-
From	£965,001 to	£970,000	-	-	-	-
From	£970,001 to	£975,000	-	-	-	-
From	£975,001 to	£980,000	-	-	-	-
From	£980,001 to	£985,000	-	-	-	-
From	£985,001 to	£990,000	-	-	-	-
From	£990,001 to	£995,000	-	-	-	-
From	£995,001 to	£1,000,000	-	-	-	-
From	£1,000,001 to	£1,005,000	-	-	-	-
From	£1,005,001 to	£1,010,000	-	-	-	-
From	£1,010,001 to	£1,015,000	-	-	-	-
From	£1,015,001 to	£1,020,000	-	-	-	-
From	£1,020,001 to	£1,025,000	-	-	-	-
From	£1,025,001 to	£1,030,000	-	-	-	-
From	£1,030,001 to	£1,035,000	-	-	-	-
From	£1,035,001 to	£1,040,000	-	-	-	-
From	£1,040,001 to	£1,045,000	-	-	-	-
From	£1					

NOTES TO THE ACCOUNTS

Note 3

INTEREST

	1991 £m	1990 £m
Interest receivable and similar income on Money Market investments and deposits	72.3	56.3
Deduct interest payable on:		
Short-term bank loans and overdrafts repayable within 5 years	(87.3)	(60.2)
Finance charges payable on finance leases	(9.0)	(4.5)
9% Convertible Capital Bond 2005	(11.0)	-
4% Unsecured deep discount loan stock 2006 (a)	(6.5)	(6.4)
4% Convertible bonds 2002 (including supplemental interest)	-	(10.2)
10½% Bonds 2015	(2.6)	(10.5)
Interest capitalised	63.2	45.3
	(53.2)	(46.5)
	19.1	9.8

a) Interest payable on the 4% unsecured deep discount loan stock 2006 includes £1.5m (1990 - £1.4m) of discount amortisation.

Note 4

EMPLOYEE PROFIT SHARING

This represents the amount allocated to the trustees of the profit sharing scheme and is based on the profit on ordinary activities before net surplus on sale of properties and taxation. The amount allocated ranges from nil, if the base profit is below 2.5% of sales, excluding VAT, to a maximum 5% if the base profit exceeds 6% of sales, excluding VAT. This year the maximum percentage has again been reached.

Note 5

TAXATION

	1991 £m	1990 £m
United Kingdom taxation		
Corporation tax at 35.0% (1990 - 35.0%)	113.6	100.8
Deferred taxation	19.8	6.7
Overseas taxation	133.4	107.5
Corporate taxes	0.1	0.3
	133.5	107.8

Where possible taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxes Acts (Note 14).

These figures do not incorporate the reduction in the rates of corporation tax proposed by the Chancellor in his budget of 19th March 1991.

NOTES TO THE ACCOUNTS

Note 6

DIVIDENDS

	1991 £m	1990 £m
Declared interim - 1.65p per share (1990 - 1.36p)	27.7	21.9
Proposed final - 3.60p per share (1990 - 2.80p)	69.6	45.4
	97.3	67.3

The interim dividend per share and comparative figures have been adjusted in respect of the 1991 Rights Issue.

Note 7

EARNINGS PER SHARE & FULLY DILUTED EARNINGS PER SHARE

a) The calculation of the earnings per ordinary share, including and excluding net surplus on sale of properties, is based on the profit on ordinary activities after taxation divided by the weighted average number of ordinary shares in issue during the year of 1,647,663,192 (1990 - 1,551,398,441).

b) The calculation of fully diluted earnings per share, including and excluding net surplus on sale of properties, is based on the profit on ordinary activities after taxation and after adding:

i) the savings of interest net of corporation tax on the 4% and 9% convertible bonds assuming that they were converted in full into ordinary shares on the first day of the financial year.

ii) the interest income net of corporation tax which would have arisen had all the various ordinary share options granted under the company's various schemes been exercised on the first day of the financial year, or at the date granted if later, and the proceeds invested in 2½% Consolidated Stock on that day.

The amount so derived has been divided by the number of ordinary shares in issue at the beginning of the year together with the weighted average number of ordinary shares assumed to have been issued as indicated above.

c) The comparative figures have been adjusted in respect of the 1991 Rights Issue.

NOTES TO THE ACCOUNTS

Note 8

TANGIBLE ASSETS

	Land and Buildings			Plant, Equipment, Fixtures & Fittings & Vehicles	Assets in Course of Con- struction	Total
	Freeholds	Leaseholds	Less than 50 years			
Cost	£m	50 years or more £m	£m	£m	£m	£m
As at 24th February 1990	971.3	336.5	35.3	776.9	389.8	2,509.8
Additions at cost (a)	2.2	1.2	1.3	70.7	877.0	952.4
Transfers	341.3	(12.1)	61.1	59.7	(450.0)	-
	1,314.8	325.6	97.7	907.3	816.8	3,462.2
Deduct disposals	121.2	4.1	0.6	67.9	6.2	200.0
As at 23rd February 1991	1,193.6	321.5	97.1	839.4	810.6	3,262.2
Depreciation						
As at 24th February 1990	-	14.0	7.4	329.0	-	350.4
Charge for period	-	3.0	2.6	94.2	-	99.8
Transfers	-	(0.4)	0.4	-	-	-
	-	16.6	10.4	423.2	-	450.2
Deduct disposals	-	0.7	-	53.2	-	53.9
As at 23rd February 1991	-	15.9	10.4	370.0	-	396.3
Net book value at 23rd February 1991 (b)	1,193.6	305.6	86.7	469.4	810.6	2,865.9
Net book value at 24th February 1990 (b)	971.3	322.5	27.9	447.9	389.8	2,159.4

Notes

a) Includes £41.4m (1990 - £29.5m) in respect of interest capitalised net of tax relief of £21.8m (1990 - £15.8m). Accumulated interest capitalised net of tax relief, included in the total cost above, amounts to £125.1m (1990 - £83.7m).

b) Includes plant, equipment, fixtures and fittings subject to finance leases:

	Cost £m	Depre- ciation £m	Net Book Value £m
As at 24th February 1990	121.8	38.8	83.0
Movement in the period	8.4	11.6	(3.2)
As at 23rd February 1991	130.2	50.4	79.8

Note 9

INVESTMENTS

	Consolidated		Tesco PLC	
	1991 £m	1990 £m	1991 £m	1990 £m
Subsidiary undertakings - shares at cost, less amounts written off (a)	-	-	14.9	14.0
Associated undertakings (b)	0.2	0.1	0.1	0.1
	0.2	0.1	15.0	14.1

NOTES TO THE ACCOUNTS

Note 9 continued

INVESTMENTS

a) The company's principal subsidiary undertakings are:

Tesco Stores Limited	Tesco Stores Hong Kong Limited
Tesco Insurance Limited	Tesco Capital Limited
Spen Hill Properties PLC	Tesco Property Holdings Limited

These subsidiary undertakings operate and are incorporated in the United Kingdom, with the exception of Tesco Insurance Limited which operates and is incorporated in Guernsey, Tesco Capital Limited, which is incorporated in Jersey and controlled and managed in the United Kingdom, and Tesco Stores Hong Kong Limited which operates and is incorporated in Hong Kong. The above subsidiary undertakings shares are all, directly or indirectly, owned by Tesco PLC.

b) The group has two associated undertakings, Shopping Centres Limited and Glaston Spen Hill Limited, whose main activities are property investment in which the group participates on a 50:50 basis. These companies operate and are incorporated in the United Kingdom.

An amount of £1.7m representing the unrealised 50% element of the profit on the sale of three of the group's properties to Shopping Centres Limited in the year 1988/89 (net of revaluation adjustments) has been offset above against the cost of the investment.

The net borrowings of Shopping Centres Limited, as at 23rd February 1991 were as follows:

	1991 £m	1990 £m
Cash and deposits	0.6	1.4
Term bank loan - repayable 1999	(48.0)	(48.0)
Debenture stock - repayable 2001	(25.6)	(23.8)
	(73.0)	(70.4)

There is no recourse to group companies in respect of the borrowings of the associated undertakings apart from £7.7m which has been guaranteed by Tesco PLC (Note 22).

Note 10

DEBTORS

	Consolidated		Tesco PLC	
	1991 £m	1990 £m	1991 £m	1990 £m
Amounts owed by group undertakings	-	-	1,572.6	1,106.4
Prepayments and accrued income	11.7	7.2	0.2	0.1
Advance corporation tax recoverable	23.3	15.1	-	-
Other debtors (a)	39.7	14.0	24.4	0.3
	74.7	36.3	1,597.2	1,106.8
Debtors falling due after one year included above:	24.7	16.9	700.0	-

(a) Other debtors includes £24.8m of net proceeds from the Rights Issue not received as at 23rd February 1991.

NOTES TO THE ACCOUNTS

Note 11

INVESTMENTS AND DEPOSITS

	Consolidated		Tesco PLC	
	1991	1990	1991	1990
	£m	£m	£m	£m
Money Market deposits	110.0	-	109.9	-
Bonds and certificates of deposit (original cost £93.6m - 1990 £1.2m)	93.6	1.2	93.6	1.2
	203.6	1.2	203.5	1.2

Note 12

CREDITORS

	Consolidated		Tesco PLC	
	1991	1990	1991	1990
	£m	£m	£m	£m
Amounts falling due within one year				
Bank loans and overdrafts (a)	144.7	2.1	138.1	2.1
Trade creditors	451.3	404.5	-	-
Amounts owed to group undertakings	-	-	-	11.1
Corporate taxation	173.3	85.8	23.2	15.5
Other taxation and social security	13.8	25.4	0.9	0.7
Other creditors	197.3	142.4	27.3	12.0
Accrued charges	57.4	43.8	0.8	0.9
Proposed final dividend	69.6	45.4	69.6	45.4
	1,112.4	749.4	259.9	87.7

a) Bank borrowings in a subsidiary undertaking of £781.6m (1990 - £385.6m) have been offset against deposit balances with the same bank under a legal right of set-off.

Note 13

CREDITORS

	Consolidated		Tesco PLC	
	1991	1990	1991	1990
	£m	£m	£m	£m
Amounts falling due after more than one year				
4% Unsecured deep discount loan stock 2006 (a)	67.2	65.6	67.2	65.6
4% Convertible bonds 2002 (b)	0.1	106.8	0.1	106.8
Finance leases (Note 15)	53.8	55.6	-	-
10½% Bonds 2015 (c)	5.6	99.6	5.6	99.6
Multi-Option Facility 1992	17.8	-	17.8	-
Other Loans 1992	19.0	-	-	-
	163.5	327.6	90.7	272.0
Corporate taxation	-	69.6	-	-
Amounts owed to group undertakings	-	-	200.0	-
Other creditors	-	15.9	-	15.9
	163.5	413.1	290.7	287.9

NOTES TO THE ACCOUNTS

Note 13 continued

CREDITORS

- a) The 4% unsecured deep discount loan stock is redeemable at a par value of £125m in 2006.
- b) During the year the company exercised its option to convert the 4% Convertible bonds 2002 to ordinary shares. The remaining unclaimed bonds are redeemable at a value of £0.1m.
- c) The 10½% bonds are redeemable at a par value of £5.7m in 2015. During the year the company purchased and cancelled £94m in nominal value of the 10½% bonds.

Note 14

PROVISIONS FOR LIABILITIES AND CHARGES

	Amount Provided		Potential amount for deferred tax on all timing differences	
	1991 £m	1990 £m	1991 £m	1990 £m
Deferred taxation				
Excess of capital allowances over depreciation	17.8	16.7	35.2	41.5
Capital gains deferred by rollover relief	—	—	40.9	34.4
Other	20.6	1.6	23.6	6.6
	<u>38.4</u>	<u>18.3</u>	<u>99.7</u>	<u>82.5</u>

Deferred taxation balances in Tesco PLC relate to short-term timing differences.

Note 15

LEASING COMMITMENTS

a) Finance Leases

The future minimum finance lease payments to which the group was committed at 23rd February 1991 and which have been guaranteed by Tesco PLC are:

	£m	
Gross rental obligations	79.9	
Deduct finance charges allocated to future periods	8.9	
	<u>71.0</u>	
	1991 £m	1990 £m
Net amounts payable are:		
Within one year, included in other creditors	17.2	13.2
Between one and five years	53.8	55.6
	<u>71.0</u>	<u>68.8</u>

NOTES TO THE ACCOUNTS

Note 15 continued

LEASING COMMITMENTS

b) Operating Leases

Group commitments during the year to 29th February 1992 in terms of lease agreements expiring are as follows:

	1991 £m	1990 £m
Within one year	0.2	0.2
Between one and five years	2.9	3.3
Beyond five years	66.0	49.0
	69.1	52.5

Note 16

CALLED UP SHARE CAPITAL

	Ordinary shares of 5p each Number	£m
Authorised: £104,000,000 (1990 - £104,000,000)		
Issued:		
Issued at 24th February 1990	1,564,384,678	78.2
Rights issue (a)	297,024,548	14.9
Conversion of 4% bonds 2002	61,320,584	3.1
Payment of dividends by shares in lieu of cash	2,566,826	0.1
Share options exercised (b)	5,585,498	0.3
Issued at 23rd February 1991	1,930,882,134	96.6

a) On 22nd February 1991 the company issued 297,024,548 new ordinary shares by means of a rights issue to the holders of ordinary shares on the basis of 2 new ordinary shares for every 11 ordinary shares held on 29th January 1991.

b) Between 23rd February and 2nd April 1991, options on 83,239 ordinary shares and 791,379 ordinary shares have been exercised under the terms of the Savings-Related Share Option Scheme (1981) and the Executive Share Option Scheme (1984) respectively.

As at 23rd February 1991 the directors were authorised to purchase up to a maximum in aggregate of 96,544,106 ordinary shares.

The authorised share capital of the company was increased from £104,000,000 to £135,500,000 by means of a Special Resolution passed at an Extraordinary General Meeting on 4th March 1991.

Note 17

SHARE OPTIONS

a) Company schemes

The company had two principal share option schemes in operation during the year:

i) The Savings-Related Share Option Scheme (1981) permits the grant to employees of options in respect of ordinary shares linked to a building society save-as-you-earn contract for a term of five years with contributions from employees of an amount between £10 and £150 per month. Options are capable of being exercised at the end of the five-year period at a subscription price not less than 80% of the middle market quotation of an ordinary share immediately prior to the date of grant.

NOTES TO THE ACCOUNTS

Note 17 continued

SHARE OPTIONS

ii) The Executive Share Option Scheme (1984) permits the grant of options in respect of ordinary shares to selected executives. Options are generally exercisable between three and ten years from the date of grant at a subscription price determined by the Board but not less than the middle market quotation within the period of 30 days prior to the date of grant.

The company has granted outstanding options in connection with the two schemes as follows:

Savings-Related Share Option Scheme (1981)

Date of grant	Number of executives and employees	Shares under option 23.02.91	Subscription price p
07.08.85	59	85,274	71.8
23.07.86	2,212	3,449,386	110.6
08.07.87	4,824	5,499,735	160.1
01.06.88	2,604	3,603,442	130.0
02.06.89	4,418	4,845,427	148.5
03.11.89	5,496	8,429,584	154.3
01.05.90	6,868	8,690,936	152.3

Executive Share Option Scheme (1984)

Date of grant	Number of executives	Shares under option 23.02.91	Subscription price p
17.12.84	185	2,115,861	68.2
02.08.85	21	123,668	79.2
16.12.85	18	167,981	95.4
21.07.86	24	621,105	122.8
01.12.86	1	30,916	129.1
06.07.87	617	6,501,754	177.9
03.06.88	44	1,500,850	143.6
31.10.88	1	46,143	130.0
02.06.89	34	1,245,916	165.0
01.11.89	2,849	15,900,804	192.1
29.05.90	31	990,301	190.2
22.10.90	7	371,573	214.5

The subscription price and numbers of shares have been adjusted as a result of the rights issues in 1985 and 1991 and the capitalisation issue in 1987 as appropriate.

NOTES TO THE ACCOUNTS

Note 17 continued

SHARE OPTIONS

(b) Directors' share options

Share Options granted to directors in the financial year

	Executive Share Option Scheme 1984 Number of Shares
Sir Ian MacLaurin	63,095
Mr V W Benjamin	42,063
Mr A D Malpas	52,579
Mr M Darnell	42,063
Mr J Gildersleeve	42,064
Mr D E Reid	63,095
Mr D C Tuffin	31,547
Mr J M Wemms	52,579

The subscription price was 190.2p and the options lapse in May 2000.

Share Options exercised by directors in the financial year

	Executive Share Option Scheme 1984 Number of Shares	Subscription price per share pence
Mr F R N Krejsa	112,650	126.6

Share Options held by directors and not exercised at 23rd February 1991

	Executive Share Option 1984 Number of Shares	Subscription price per share pence	Savings-Related Share Option Scheme 1981 Number of Shares	Subscription price per share pence
Sir Ian MacLaurin	808,671	143.6-192.1	8,008	110.6-154.3
Mr V W Benjamin	293,693	143.6-192.1	6,999	154.3
Mr A D Malpas	631,757	143.6-192.1	8,008	110.6-154.3
Mr M Darnell	327,501	130.0-192.1	8,008	110.6-154.3
Mr J Gildersleeve	439,180	143.6-192.1	8,008	110.6-154.3
Mr D E Reid	467,457	143.6-192.1	6,999	154.3-160.1
Mr D C Tuffin	353,838	143.6-192.1	8,008	110.6-154.3
Mr J M Wemms	290,065	143.6-192.1	7,090	148.5-154.3

Between 23rd February and 2nd April 1991 there have been no changes in the number of share options held by the directors.

NOTES TO THE ACCOUNTS

Note 18

RESERVES

	Consolidated		Tesco PLC	
	1991	1990	1991	1990
	£m	£m	£m	£m
a) Share premium account				
At 24th February 1990	219.6	185.5	219.6	185.5
Rights Issue less costs	557.9	-	557.9	-
Premium on issue of shares less costs	(0.1)	9.8	(0.1)	9.8
Conversion of 4% bonds	103.6	8.0	103.6	8.0
Profit sharing scheme	-	13.2	-	13.2
Scrip dividend election	4.6	3.1	4.6	3.1
At 23rd February 1991	885.6	219.6	885.6	219.6
b) Other reserves				
At 24th February 1990	39.6	39.6	-	-
At 23rd February 1991	39.6	39.6	-	-
c) Profit and loss account				
At 24th February 1990	916.7	729.4	472.5	438.2
Supplemental interest previously provided on 4% bonds subsequently converted	15.9	0.8	15.9	0.8
Gain on foreign currency translation	0.1	-	0.6	-
Profit retained	205.4	186.5	9.5	33.5
At 23rd February 1991	1,138.1	916.7	498.5	472.5

In accordance with section 228 of the Companies Act 1985 a profit and loss account for Tesco PLC, whose result for the year is shown above, has not been presented in these accounts.

Note 19

CONVERTIBLE CAPITAL BOND

In July 1990 the group issued £200,000,000 of 9% Convertible Capital Bonds. The Convertible Capital Bonds are convertible into fully paid 9% Exchangeable Redeemable Preference Shares due 2005 in Tesco Capital Limited which are guaranteed on a subordinated basis by, and are exchangeable for fully paid ordinary shares in, Tesco PLC at an exchange price of £2.51 per ordinary share (after adjustment to take account of the Rights Issue in February 1991).

Note 20

PENSION COMMITMENTS

The group operates a defined benefit scheme for full-time employees, the assets of which are held as a segregated fund, administered by trustees.

The pension cost relating to the scheme is assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial assessment of this scheme was at 6th April 1990. The assumptions which have the most significant effects on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9½% per annum with dividend growth of 5% per annum, that salary increases would average 7½% per annum and that pensions would increase at the rate of 5% per annum.

NOTES TO THE ACCOUNTS

Note 20 continued

PENSION COMMITMENTS

At the date of the latest actuarial valuation, the market value of the scheme's assets was £290m and the actuarial value of these assets represented 118% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Benefit improvements to members have been agreed with the trustees which have resulted in an increased company cost. This increasing ongoing cost has been offset by the amortisation of the surplus.

The total pension cost to the group was £19.6m (1990 - £18.7m).

The group also operates a defined contribution pension scheme for part-time employees which was introduced on 6th April 1988. The assets of the scheme are held separately from those of the group, being invested with an insurance company. The pension cost represents contributions payable by the group to the insurance company and amounted to £3.2m (1990 - £2.3m). There were no material amounts outstanding to the insurance company at the year-end.

Note 21

CAPITAL COMMITMENTS

At 23rd February 1991

a) There were commitments for capital expenditure of approximately £371m (1990 - £239m).

b) Capital expenditure authorised by the Board, but not contracted for, amounted to £668m (1990 - £635m).

Note 22

CONTINGENT LIABILITIES

Certain bank loans and overdraft facilities of subsidiary and associated undertakings have been guaranteed by Tesco PLC. At 23rd February 1991, the amounts outstanding on these facilities were £7.7m (1990 - £1.0m).

AUDITORS' REPORT

Auditors' report
to the members of Tesco PLC

We have audited the financial statements on pages 28 to 44 in accordance with *Auditing Standards*.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 23rd February 1991 and of the profit and source and application of funds of the group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse



Price Waterhouse

Chartered Accountants
London
2nd April 1991

FIVE YEAR RECORD

Year ended February	1987 ¹	1988	1989	1990	1991	Compound growth over five years
Financial Statistics £m						
Turnover excluding VAT	3,593.0	4,119.1	4,717.7	5,401.9	6,346.3	13.6%
Operating profit	147.7	214.4	276.5	334.0	420.0	32.2%
Operating margin ²	4.1%	5.2%	5.9%	6.2%	6.6%	
Interest receivable less payable	21.4	15.3	2.4	9.8	19.1	
Employee profit sharing	(2.6)	(10.7)	(13.6)	(17.2)	(22.0)	
Profit before property profits	166.5	219.0	265.3	326.6	417.1	27.7%
Net margin ³	4.6%	5.3%	5.6%	6.0%	6.6%	
Property profits	9.4	6.6	10.7	35.0	19.1	
Profit before taxation	175.9	225.6	276.0	361.6	436.2	27.2%
Taxation	(56.9)	(75.1)	(89.7)	(107.8)	(133.5)	
Profit after taxation	119.0	150.5	186.3	253.8	302.7	29.3%
Earnings per share ³	9.23p	10.37p	11.98p	15.87p	18.37p	21.9%
Fully diluted earnings per share (excluding property profits) ³	7.81p	9.37p	10.98p	13.35p	16.60p	24.0%
Dividends per share ³	2.36p	2.77p	3.40p	4.17p	5.25p	22.9%
Net worth - £m ⁴	690.1	867.4	1,031.3	1,254.1	2,359.9	32.0%
Return on shareholders' funds ⁵	26.0%	27.7%	27.9%	28.6%	27.1%	
Return on capital employed ⁶	22.4%	21.5%	22.1%	22.5%	21.2%	
Net assets per share ⁷ - p	54	59	67	80	122	20.5%
Productivity £						
Turnover per employee ⁸	79,386	82,067	89,449	99,400	106,044	6.6%
Profit per employee ⁸	3,263	4,272	5,243	6,146	7,018	24.0%
Wages per employee ⁸	7,355	7,809	8,695	10,009	10,579	8.9%
Weekly sales per sq ft ⁹	10.23	11.00	11.51	12.69	14.12	9.1%
Retail Statistics						
Market share in food and drink shops ¹⁰	7.1%	7.6%	8.2%	8.7%	9.2%	
Number of stores	337	379	374	379	384	
Total sales area - '000 sq ft	6,997	8,220	8,542	9,071	9,661	
Sales area opened in year - '000 sq ft	432	655	557	787	866	
Average store size (sales area) - sq ft	20,800	21,700	22,800	23,900	25,100	
Average sales area of stores opened in the year - sq ft	34,900	34,300	34,800	34,400	41,500	
Full-time equivalent employees ¹¹	45,260	50,192	52,742	54,345	59,846	
Share Price - pence						
Highest	156.3	206	169	216	246	
Lowest	110	139	129	151	194.5	
Year End	156.3	152	153	196	246	

Notes

- ¹ 53 week period.
- ² Based upon turnover exclusive of value added tax.
- ³ Adjusted in respect of 1991 Rights issue.
- ⁴ Total shareholders' funds at the year end.
- ⁵ Profit before property profits divided by weighted average shareholders' funds.
- ⁶ Profit before property profits and interest divided by average capital employed.
- ⁷ Based on the number of shares at the year end.
- ⁸ Based on full-time equivalent number of employees, turnover exclusive of value added tax and operating profit.
- ⁹ Based on weighted average sales area and turnover inclusive of value added tax.
- ¹⁰ Based on Tesco food, grocery non-food and drink sales and Department of Trade and Industry data. Figures exclude Hillards plc prior to 1988.
- ¹¹ Based on average number of full-time equivalent employees in the United Kingdom.

INVESTORS' INFORMATION

Shareholder profile as at 23rd February 1991

Analysis by type of shareholder	Number of shareholders	Percentage of number of shareholders	Number of ordinary shares	Percentage of ordinary shares
Individuals	89,773	82.0	251,014,677	13.0
Corporate, Institutional and Nominees	19,652	18.0	1,679,867,457	87.0
	109,425	100.0	1,930,882,134	100.0

Analysis by size of shareholding

1 ~ 1,000	59,739	54.6	14,867,792	0.8
1,001 ~ 5,000	37,305	34.1	100,985,136	5.2
5,001 ~ 10,000	6,485	5.9	53,485,435	2.8
10,001 ~ 50,000	4,418	4.0	101,564,400	5.2
50,001 ~ 100,000	480	0.5	41,127,789	2.1
Above 100,001	998	0.9	1,618,851,582	83.9
	109,425	100.0	1,930,882,134	100.0

Financial Diary

Year end

Last Saturday in February

Half-year's results announced

Late September

Year's results announced

Early April

Annual Report and Accounts despatched

Mid April

Annual General Meeting held

Late May

Dividend

Interim announced mid September and paid in late November

Final announced early April and paid in early July

Interest

Deep Discount Loan Stock paid 31st January and 31st July

10½% Bonds paid 22nd November

9% Convertible Bonds (2005) paid 12th February and 12th August

Scrip Dividend

The company offers shareholders the option to receive ordinary shares in lieu of dividends.

The Directors believe this offers a significant benefit to shareholders in enabling them to increase their shareholding in the company without paying any dealing costs, stamp duty or stamp duty reserve tax.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the forty-third Annual General Meeting of Tesco PLC will be held at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2 on Thursday 30th May 1991 at 2.30 pm for the following purposes:

1. To receive and adopt the directors' report and accounts for the 52 weeks ended 23rd February 1991 (Resolution 1).
2. To declare a final dividend on the ordinary share capital of the company (Resolution 2).
3. To re-elect the following directors: Mr M Darnell (Resolution 3), Mr J A Cardiner (Resolution 4), Mr F R N Krejsa (Resolution 5), Mr D E Reid (Resolution 6).
4. To re-appoint Price Waterhouse as auditors to hold office until the conclusion of the next Annual General Meeting (Resolution 7).
5. To authorise the directors to fix the remuneration of the auditors (Resolution 8).
6. To transact any other ordinary business of the meeting.
7. To consider and if thought fit to pass the resolutions set out in the enclosed notice of special business.

By Order of the Board
ROWLEY ACER
Secretary



Tesco House
Delamare Road
Cheshunt
Hertfordshire
EN8 9SL

Dated 18th April 1991

Notes

1. Any member of the company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. Such proxy need not be a member of the company. To be effective, proxy forms must be received at the office of the Registrars of the company not less than 48 hours before the time fixed for the meeting.
2. There will be available for inspection at the registered office of the company, Tesco House, Delamare Road, Cheshunt, Hertfordshire, during usual business hours (Saturdays excepted) from 18th April 1991, until the date of the Annual General Meeting, all contracts of service of the directors with the Company or any of its subsidiaries. The contracts of service will also be available for inspection during the Annual General Meeting and for at least 15 minutes before it begins.



TESCO P.L.C. TESCO HOUSE, DELAMARE ROAD, CHESHUNT, HERTFORDSHIRE EN8 5SL

TESCO