

See Page 14 for Signature

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TESCO



Tesco Stores (Holdings) Limited
Annual Report and
Accounts 1981



Directors

Directors

Leslie Porter, Ph.D. (Hon.) *Chairman and Chief Executive*

Ian C. MacLaurin *Managing Director*

Michael Darnell

Donald G. Harris, B.A.

Daisy D. Hyams, O.B.E.

Hyman Kreitman

Francis R. N. Krejsa, F.R.I.C.S.

Alfred D. Malpas, B.A.

Herbert F. Pennell

Ralph Temple, F.C.A.

George R. Wood

Secretary and Registered Office

Michael J. Boxall, A.C.I.I.
Tesco House,
Delamare Road, Cheshunt,
Hertfordshire EN8 9SL
Telephone: Waltham Cross 32222
Telex: Tesco Walx 24138

Registrars

Midland Bank Limited
Registrar's Department,
Courtwood House,
Silver Street Head,
Sheffield S1 3RD

Auditors

Hogg Bullimore & Co.
Chartered Accountants
Chile House,
20 Ropemaker Street,
London EC2Y 9BA

Solicitors

Berwin Leighton
Adelaide House,
London Bridge,
London EC4R 9HA

Principal Bankers

Midland Bank Limited
Barclays Bank Limited
National Westminster Bank Limited

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Notice of Meeting

Notice is hereby given that the thirty-third Annual General Meeting of Tesco Stores (Holdings) Limited will be held at the Connaught Rooms, Great Queen Street, London WC2B 5DA on Friday, 31st July, 1981 at 12 noon for the following purposes:

- 1 To receive and, if approved, adopt the directors' report and accounts for the 53 weeks ended 28th February, 1981. (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. D. G. Harris (Resolution 3)
Mr. H. Kreitman (Resolution 4)
Mr. A. D. Malpas (Resolution 5)
- 4 To reappoint Messrs. Hogg Bullimore & Co. as auditors to hold office until the conclusion of the next Annual General Meeting. (Resolution 6)
- 5 To authorise the directors to fix the remuneration of the auditors. (Resolution 7)
- 6 To transact any other ordinary business of the meeting.
- 7 As special business, to pass the following ordinary resolution:
(i) To approve the Savings-Related Share Option Scheme (1981) summarised in the circular

to shareholders accompanying the Annual Report and (ii) to authorise each director to vote as a director and be counted in the quorum at any meeting on any matter connected with the said Scheme, save in respect of his personal participation. (Resolution 8).

By Order of the Board
Michael J. Boxall
Secretary

Tesco House,
Delamare Road, Cheshunt, Herts.
Dated this 6th day of July, 1981

Notes

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 cards must be received at the office of the Registrars of the company not less than 48 hours before the time fixed for the meeting. In accordance with the listing agreement made with The Stock Exchange 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 the 6th day of July, 1981, 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.

Financial Diary

Year end	Last Saturday in February
Half year's results announced	Late November
Year's results announced	Mid-June
Dividends	
Interim: announced	Late November
paid	Early March
Final: announced	Mid-June
paid	Early August
Annual General Meeting held	Last Friday in July
Annual report and accounts despatched	Early July

Chairman's Statement

As many shareholders will know, 1981 is the 50th anniversary of Tesco's first year as a trading company and the achievement of those 50 years is a remarkable testimony to the foresight and business acumen of Sir John Cohen, Founder of the Company.

One Board member who has been with the Company for all those years, Miss Daisy Hyams, O.B.E. (Mrs. Guderley), joined the Company on 28th September, 1931 and as a "founder member" has contributed enormously to the development of Tesco into the Company it is today.

I wish to congratulate her on behalf of the shareholders and to thank her for her loyal and outstanding service.

Review of the year

Net profit before tax of £35.6M, is considered by your Board to be satisfactory against the background of a worsened economy and the unprecedentedly high level of interest rates.

Our programme of physical expansion has continued during the year, with the emphasis remaining on the introduction of larger store units, whilst we continue to close smaller outlets.

In order to reduce the effects of high interest charges and to provide additional capital for expansion, we had realised to the year-end £29M by way of sale and leaseback of properties and by the disposal of a small proportion of our investment property portfolio. Since the year-end further property sales have been contracted amounting to £10M. Additionally, we restructured our United Kingdom borrowings to include £100M unsecured bank loan facilities for a ten year period to underwrite our expansion programme.

The sheer economics of retailing today, particularly in supermarkets, indicate that the competition for consumers'

patronage by profitable retailers must be in many facets and not simply price alone. Your Company will continue to provide goods at the keenest prices, but the customer will be looking for more amenities than has necessarily been the case in the past. Tesco will be providing a shopping environment encompassing not only value for money, but also high quality combined with convenience.

The units to be built will, in the main, be superstores of 30,000 sq. ft. or more and, to achieve this ideal, we must take the opportunity of acquiring suitable sites when they become available, even if this means a short term adverse effect on our profits caused by high financing costs.

1980/81 has been a year of consolidation of trading activities. We have been looking very carefully at our overall operation and, currently, we are examining closely the extent of our product ranges in both food and non-foods, as well as the potential for introducing more of our own-label goods. During the year, we continued with our programme of improving productivity and substantial benefits were achieved, particularly during the second half of the year.

This summary has been a commentary on an exceedingly difficult year and, although interest rates have fallen since the year-end, there are as yet no indications that consumer spending will show any marked increase during the current year.

Current year

1981/82 is proving to be another challenging year particularly over costs beyond our control such as rates and energy. I am, however, confident that we will be in the forefront of companies which will receive full advantage from any improvement in the economy.

1980/81—The year in detail

Store development programme

During 1980/81 we opened 22 new stores with a total selling area of 714,500 sq. ft. as well as completing nine major extensions, adding a further 75,500 sq. ft. of new sales area. We disposed of 20 smaller units so that our net additional sales area was 630,000 sq. ft.

Overall the group was operating 6.840M sq. ft. at the end of the company year, excluding garden centres and petrol stations.

In 1981/82 we are planning to open 17 new stores (see details overleaf), thereby, with extensions, adding a further 609,000 sq. ft. of new selling space. The programme is well advanced and this Summer we are opening our first Tesco superstore in the Republic of Ireland at Dundalk with 36,500 sq. ft. of selling area.

As well as undertaking four major extensions at Bethnal Green, Kidlington, Oxford and Peterborough, we have embarked upon a £10M refitting programme of 75 stores, to bring them up to the current internal standards of our new developments.

It is important to remember, especially in times of high unemployment that each new store we open attracts not only additional consumer traffic to the town in which we open, but also increases employment opportunities in the area. The opportunities not only apply to people whom we need to employ within our stores (in 1980 we recruited over 3000 people to our new stores), but also indirectly to the construction and other industries that are essential to the building and fitting-out of our stores.

Finance

In the 53 week period under review total Group turnover increased by 19.6% from £1,602M to £1,916M, and although group net profit before tax, depreciation and interest rose to £71.5M, net profit before tax, but after interest, fell from £36.5M to £35.6M.

Chairman's Statement (continued)

Bearing in mind the recession and the rate of interest charges on borrowings which were higher than anticipated at the time our expansion programme was formulated, the results are considered to be reasonable.

Note 10 to the Accounts on page 18 shows that we have restructured our

borrowings to include unsecured United Kingdom bank loan facilities. This facility has been arranged through six banks and the balance sheet now shows that the major part of our borrowings at the year-end took the form of medium term loans. In addition, we have substantial overdraft facilities with three of the major clearing banks.

Net borrowings at the year-end were £63M against £62M for 1979/80. The Source and Application of Funds Statement, on page 15, shows that funds raised from the sale of investment property and sale and leaseback transactions amounted to £29M.

New Stores and Extensions 1980/81 (Total new sales area 790,000 sq. ft.)

New				Extensions	Additional Sales Area (sq. ft.)	Resulting Total Sales Area (sq. ft.)
	Sales Area (sq. ft.)		Sales Area (sq. ft.)			
Athlone, Republic of Ireland	14,000	Mansfield, Notts.	29,500	Abergavenny, Gwent	4,500	10,000
Borehamwood, Herts.	30,000	Poole, Dorset	43,500	Horwich, Greater Manchester	8,000	40,000
Camborne, Cornwall	16,500	Portslade, East Sussex	21,500	Walsall, West Midlands	20,500	38,000
Chester, Cheshire	45,000	Redditch, Hereford & Worcs.	43,500			
Cirencester, Glos.	24,000	Saltcoats, Strathclyde	11,000			
Cosham, Hampshire	16,500	Scarlsbrick, Lancs.	17,000			
Coventry, West Midlands	23,500	Ware, Herts.	14,500			
Dudley, West Midlands	41,000	Wokingham, Berks.	31,500			
Flitwick, Beds.	29,000					
*Gateshead, Tyne & Wear	115,500					
Gt. Yarmouth, Norfolk	21,000					
Hastings, East Sussex	41,500					
High Wycombe, Bucks	54,000					
Lee Mill, Devon	31,000					

plus three adjoining stores as Home 'n' Wear extensions in the Republic of Ireland and minor extensions in the United Kingdom.

*Home 'n' Wear only

Planned New Stores and Extensions 1981/82 (Total new sales area 609,000 sq. ft.)

New				Extensions	Additional Sales Area (sq. ft.)	Resulting Total Sales Area (sq. ft.)
	Sales Area (sq. ft.)		Sales Area (sq. ft.)			
Bedworth, Warwicks.	38,000	Hornchurch (Elm Park), Essex	21,000	Bethnal Green Road	9,500	16,500
Cardiff (The Hayes), South Glamorgan	28,000	Ryde, Isle of Wight	24,000	Kidlington, Oxon	3,500	12,000
Chatham, Kent	63,000	Sligo, Republic of Ireland	26,000	Oxford (Cowley Road), Oxon	6,000	17,000
Colchester (Highwoods), Essex	30,500	Southampton (Bursledon Towers), Hants.	40,000	Peterborough, Cambs.	21,000	25,500
Colchester (St. Johns St.), Essex	45,000	Stafford, Staffs.	28,000			
Coventry (Cannons Park), West Midlands	40,000	Sutton, Surrey	48,000			
Dundalk, Republic of Ireland	36,500	Whitchurch, Salop	19,000			
Falkirk, Central Scotland	24,000	Worthing (West Durrington), West Sussex	23,000			
		Yate, Avon	29,500			

Chairman's Statement (continued)

I have referred elsewhere in this report to the unprecedentedly high level of interest rates and the effect it had on our profits. Although interest rates generally have fallen since our year-end, they were at peak levels during the trading period under review. I stress again, that our strategy for the 1980s cannot be deflected because of the vagaries of short term interest rates.

It would seem appropriate, at this point, to refer to the latest valuation of the Group's property assets, set out in the Directors' Report on page eight, showing an excess over book value of £150M. The valuation at 25th February, 1978 showed an excess of £94M. Were this latest valuation to be incorporated in the accounts, the net asset value per share would be £1.16.

Hitherto, the Company has only taken into account, in its interim profits, discounts from suppliers becoming due for settlement within the interim accounting period. A substantial proportion of discounts relate to a year ended 31st December and have, therefore, been included in the second half year's profits. In order to improve the comparability of the profit attributed to each half year, it has been decided to incorporate in the interim accounts such sums as can be conservatively computed to have accrued at the interim stage.

This new policy which, it should be stressed, only affects the split of profits between the two halves of the year, will apply to the results for the 24 week period ending August 1981. The figures for the corresponding first half of 1980/81 will be restated and the amount involved is estimated at approximately £3M.

Trading—food

Despite the unfavourable trading conditions, food volume sales again increased with our Fresh Foods Division returning a particularly good performance. There has been little inflation in the price of fresh food and competition has remained very keen, but the volume increases recorded by the Division are ample evidence of customers' confidence in the high standard and quality of our products.

With the emphasis on quality and good value for money, we expect our Fresh Foods Division to continue to expand rapidly. To cater for the increasing volumes, we opened a new depot on a six-acre site at Corby in November and we are currently expanding our facilities at Cuffley, expecting this to be completed by next June.

At the year-end we had 102 in-store bakeries. Wherever we have included them in our stores they have been an instant success and so, as a matter of course, all new stores will have one. By producing bread in the old-fashioned way, and by using modern technology, we have successfully revitalised the skills of traditional bakers previously lost to the large plant bakeries.

The self-service restaurants within our stores are also proving to be highly popular and we are now operating 38 as opposed to 28 last year. Restaurants are an important part of superstores and are regarded as an additional service to our customers.

Sales of wines and spirits continue to be most satisfactory and the sales of our own-label spirits — gin, whisky and vodka, have fulfilled our best expectations. During the year we extended our range of own-label wines so that we now offer a full selection of good quality wines at very reasonable prices.

The price competition in branded grocery items is intense but we have successfully maintained our competitive edge. We are currently undertaking a rationalisation programme of our product range as well as increasing the number of items sold under our own-label. The development of these products will not be the development of existing brands, but of new products for which we believe there is a growing demand.

trading period was very slow in starting, but taking this and the general economic background into account, performance is considered to be acceptable.

The process of reducing Home 'n' Wear sales footage in some of our smaller stores continues. With new store openings and extensions, the sales area available to Home 'n' Wear sales increased by a net 14%. As with our grocery division, we are re-appraising our product range, and it is our intention to reduce this so that we will be providing high quality fast moving lines with popular appeal.

We are now successfully operating 14 garden centres, as well as selling gardening equipment in 200 stores. Our interest in the D.I.Y. market continues to expand and we now have departments in 220 stores.

Computers

I mentioned in my interim statement that we have decided to go ahead with the introduction of Electronic Point of Sale Equipment (E.P.O.S.) to our stores. The expenditure in this direction will involve a charge of about £4M against profit in the current year. No immediate savings are anticipated but substantial savings in costs will result later from this technological advancement.

The initial programme is for E.P.O.S. to be put into 15 large stores by next Spring, starting with our Edmonton store this October. We have placed orders with I.B.M. (U.K.) Limited and C.A.S.E. Limited for the equipment required, which it is our intention to lease.

Energy conservation

The ever-spiralling cost of basic fuels makes it even more important that everything is done to conserve as much energy as possible. But for our energy conservation measures, our energy bill in 1980/81 would have been £1.3M higher. Overall our accumulated savings since 1974 amount to £7.3M.

Trading—Home 'n' Wear

Trading conditions were even more difficult in the year under review than in 1979/80, but swift remedial action taken by the Division ameliorated the worst effects of the deepening recession. The important Christmas

Chairman's Statement (continued)

We are continually looking at areas where energy may be saved and during the year we continued our programme of installing power factor correctors, insulation, heat recovery, plant control and other energy saving devices. Our research has continued into operating our vehicles more efficiently and aerofoils have been fitted to most of our heavy transport fleet vehicles.

In the past decade, local government has been at the forefront of Britain's energy conservation programme, and in recognition of this we sponsored six Awards aimed at recognising the contribution made by individual authorities to energy conservation.

People

Staff

In times of high unemployment and economic stringency, pressures on staff increase but in spite of this, productivity within our stores has increased. I would, therefore, like to thank our employees, at all levels, for their continued support and achievement in very difficult times.

Suppliers

I would like to take this opportunity to thank them for their support and co-operation. I am in no doubt that their co-operation has

enabled us to maintain our position in the market place and to achieve record sales once again.

This year, Miss Hyams has spearheaded the Company's plan to mark its Jubilee year by raising at least £300,000 for charity. The first £20,000 was most generously donated by the Sir John and Lady Cohen Foundation. The charities to benefit will include Save the Children, Cystic Fibrosis, Cancer Relief, National Institution for the Blind, P.H.A.B. (Year of the Disabled) and the British Heart Foundation.

I wish to thank all suppliers, staff and business associates who have contributed so magnificently to this worthwhile enterprise.

Leslie Porter

6th July, 1981

*Chairman
and Chief Executive*

Directors' Report

To be presented at the thirty-third Annual General Meeting to be held at the Connaught Rooms, Great Queen Street, London WC2B 5DA, on Friday, 31st July, 1981 at 12 noon.

The directors submit their annual report together with the audited accounts of the company for the 53 weeks ended 28th February, 1981.

Profits

The consolidated profit and loss

account on page 12 shows the profit for the period and the retained profit to be carried to reserves. The current cost profit and loss account for the period is set out on page 22.

Principal activity

The principal activity of the company and its subsidiaries during the period was multiple retailing within the United Kingdom and the Republic of Ireland.

Dividends

An interim dividend of 1.0p (gross equivalent 1.4286p) per share on account of the 53 week period ended 28th February, 1981 was paid on 2nd March, 1981 on the ordinary shares and the directors recommend the payment of a final dividend of 1.55p (gross equivalent 2.2143p) per ordinary share.

Directors' shareholdings and interests

Directors' shareholdings in the company and family interests as defined by the Companies Act 1967 (as amended) were as follows:

	28th February, 1981				23rd February, 1980			
	Beneficial & Family Interests			Non-Beneficial As Trustees	Beneficial & Family Interests			Non-Beneficial As Trustees
	Ordinary Shares	'A' Ordinary Shares 1p paid	Share Options*	Ordinary Shares	Ordinary Shares	'A' Ordinary Shares 1p paid	Share Options*	Ordinary Shares
Mr. L. Porter	6,989,829	—	—	8,282,145	6,989,829	—	—	8,282,145
Mr. I. C. MacLaurin	101,004	63,281	50,000†	—	101,004	63,281	50,000	—
Mr. M. Darnell	5,000	—	50,000†	—	5,000	—	50,000	—
Mr. D. G. Harris	18,000	44,296	50,000†	—	18,000	44,296	50,000	—
Miss D. D. Hyams	121,287	—	50,000†	1,056,806	121,287	—	50,000	1,056,806
Mr. H. Kreitman	1,000,000	—	—	6,632,064	1,000,000	—	—	7,380,648
Mr. F. R. N. Krejsa	2,080	44,296	50,000†	—	2,080	44,296	50,000	—
Mr. A. D. Malpas	1,000	12,656	30,000†	—	—	12,656	30,000	—
Mr. H. F. Pennell	600	25,312	30,000†	—	600	25,312	30,000	—
Mr. R. Temple	1,000	44,296	50,000†	—	1,000	44,296	50,000	—
Mr. G. R. Wood	17,695	38,281	50,000†	—	17,695	38,281	50,000	—

*Executive share option scheme.

†Each increased to 60,000 on 27th March, 1981.

3,951,422 (1980—3,951,422) ordinary shares, non-beneficial as trustee, are duplicated above in the holdings of Mr. L. Porter and Mr. H. Kreitman.

Apart from the directors and their family interests listed above there were, as at 6th June, 1981, no persons holding or, as far as the register of shareholders discloses, beneficially

interested in 5 per cent or more of the share capital of the company.

Between 1st March, 1981 and 6th June, 1981 there have been the following changes in the interests of the directors in the share capital of the company: the purchase by Mr. L. Porter of 5,000 ordinary shares and the sale of 180,200 ordinary shares from his non-beneficial interests, the sale of 100,000 ordinary shares from the

non-beneficial interests of Miss D. D. Hyams and the sale of 5,000 ordinary shares by Mr. M. Darnell.

None of the directors has had any material interest, at any time during the year, in any contract or arrangement with the company, or any of its subsidiaries, which was of significance in relation to the company's business.

Directors' Report (continued)

Directors

A list of directors, all of whom held office throughout the year, is given on page 1. Mr. D. G. Harris, Mr. H. Kreitman and Mr. A. D. Malpas retire from the board by rotation in accordance with Article 85 and, being eligible, offer themselves for re-election. Mr. D. G. Harris and Mr. A. D. Malpas each has a service contract with the company for a term of five years, which is currently from 1st January, 1981. Mr. H. Kreitman has a service contract with the company for a term expiring on 1st June, 1984.

Acquisition

On 14th March, 1980, the whole of the issued share capital of Brace-Pinhome Construction Company Limited was acquired for a consideration (including costs) of £1.01M.

Market value of land held as fixed assets

Freehold and leasehold land and buildings of the Group were valued by Messrs. Healey & Baker as at 28th February, 1981, on the basis of open market value for existing use at £443M. Deductions totalling £18M were considered appropriate by the directors to take into account buildings in course of construction and the resultant value of £425M showed an excess over book value of £150M.

Executive share scheme

There is presently subsisting an executive share scheme adopted by the company in extraordinary general meeting on 31st July, 1970. Details of the scheme were supplied to members by circular dated 8th July, 1970. By the terms of the scheme certain executives of the group were given the right to subscribe for 'A' ordinary shares of 5p each in your company. Such shares were allotted on the basis of a subscription price which exceeded by 5 per cent the average of the middle market quotations on The Stock Exchange of the fully-paid ordinary shares of the company for the period of 30 days immediately preceding the date of issue of the scheme shares. This subscription price was 61p per share subsequently adjusted to 48.2p to take into account bonus issues. 1p per share was payable on subscription and the balance payable in certain events. Following payment of the subscription monies in full, in accordance with the terms of the scheme, the 'A' ordinary shares are automatically converted into ordinary

shares for which an application for listing will be sought.

Executive share option scheme

On 27th March, 1973 your company adopted an executive share option scheme. The scheme was amended, with the approval of the members, on 28th July, 1978. Under the scheme, options to acquire such number of fully paid ordinary shares of 5p each of your company as may be determined by the board, may be granted to full time directors and employees of your company and its subsidiaries at a price of £1. An executive to whom an option is granted may exercise the option within the period between three and seven years from the date of the grant of the option. The subscription price payable in respect of each ordinary share shall be equal to the middle market quotation on The Stock Exchange of an ordinary share on the last dealing day prior to the date on which an executive accepts the offer of an option. On 15th December, 1978 options were granted to 529 executives in respect of 3,665,500 ordinary shares of 5p each at a subscription price of 52½p which was determined in the manner referred to above. On 27th March, 1981 options were granted to 343 executives in respect of 1,564,000 ordinary shares of 5p each at a subscription price of 59½p. The numbers of ordinary shares in respect of which options were granted to directors of your company are included in the column "Beneficial & Family Interests" under the heading "Directors' shareholdings and interests".

Charitable and political contributions

Charitable contributions totalled £11,000 (1980—£11,000). No political contributions were made.

Employees and their remuneration

The average number of employees per week during the period was 50,578 (1980—52,829)—full time equivalent 38,809 (1980—39,862). The aggregate remuneration payable to employees for the period was £170,785,000 (1980—£138,658,000).

Exports

Exports from the United Kingdom amounted to £1,467,000 (1980—£847,000). In addition to the above, sales to UK agents for subsequent export amounted to £1,617,000 (1980—£1,180,000).

Number of shareholders

The number of shareholders of the company at 28th February, 1981 was 59,263 (1980—62,798).

Capital gains tax

The market value of the shares in the company on the 6th April, 1965 was 16.932p per share after adjustment for subsequent capitalisation issues, but excluding scrip dividend elections where applicable, and assuming the one for twenty rights issue in 1968 was taken up in full.

Taxation status

The company is not a close company under the terms of the Income and Corporation Taxes Act 1970.

Auditors

The auditors, Messrs. Hogg Bullimore & Co., have expressed their willingness to continue in office. In accordance with Section 14 of the Companies Act 1976 a resolution proposing their reappointment as auditors of the company will be put to the Annual General Meeting.

By Order of the Board

Michael J. Boxall

Secretary

6th July, 1981

Ten Year Record of the Tesco Group

Year ended February	1972	1973	1974	1975	1976(a)	1977	1978	1979	1980	1981 (a)
<i>£'000s</i>										
Turnover	299,701	359,013	423,032(b)	500,789(b)	617,044(b)	701,291(b)	952,994(b)	1,201,845(b)	1,530,608(b)	1,820,656 (b)
Net profit before tax	16,548	21,734	24,558	23,248	25,052	30,187	28,562	37,662	36,531	35,590
Taxation	6,678	8,780	12,695	12,621	13,412	15,178(f)	(538)(f)	1,102	1,370	5,452
Net profit after tax	9,870	12,954	11,863	10,627	11,640	15,009(f)	29,100(f)	36,560	35,161	30,138
Net surplus on sale of properties	406	418	380	274	84	649	189	346	367	19,943
Extraordinary items	—	—	(1,000)	879	168	250	(115)	229	72	—
Dividends(c)	4,643	3,577	3,493	3,842	4,195	4,614	5,153	6,471	8,164	8,498
Retained	5,633	9,795	7,750	7,938	7,697	11,294(f)	24,021(f)	30,664	27,436	41,583
Fixed assets including investments	53,928	58,092	71,516	80,435	89,978	102,453	124,599	185,689	267,377	342,223
Net current assets	555	8,335	6,234	13,908	17,781	23,931	17,049	(7,432)	(78,383)	(55,964)
Total net assets	44,501	54,296	59,986	68,771	76,595	87,056	134,213	180,428	196,867	237,523
<i>In Pence</i>										
Dividends per share (d)	1.49	1.04	1.13	1.22	1.33	1.46	1.63	1.98	2.45	2.55
Earnings per share (e)	3.17	4.17	3.82	3.42	3.68	4.76(f)	9.20(f)	11.51	10.58	9.04
Net profit before tax as % of turnover	5.52	6.05	5.81	4.64	4.06	4.30	3.00	3.13	2.39	1.95
Average number of full time equivalent employees	22,889	24,463	28,428	26,820	28,782	28,413	30,841	35,302	39,862	38,809
<i>In Pounds</i>										
Turnover per employee (g)	13,094	14,676	14,881(b)	18,672(b)	21,438(b)	24,682(b)	30,900(b)	34,045(b)	38,398(b)	46,913 (b)
Wages per employee (g)	1,055	1,160	1,315	1,712	1,981	2,289	2,504	2,868	3,478	4,401
Retail Price Index	83.3	89.9	101.7	121.9	149.8	174.1	190.6	208.9	248.8	279.8

(a) 53 week period.

(b) Exclusive of value added tax.

(c) Amounts shown prior to 1973 are gross.

(d) Adjusted for capitalisation and rights issues and from 1973 inclusive calculated on amounts payable to shareholders.

(e) Earnings after tax adjusted for capitalisation and rights issues.

(f) Restated after deferred taxation adjustment (profit and loss account only).

(g) Based on full time equivalent number of employees.

Principal Directors of Subsidiary Companies

D. R. Baker	<i>Supplies and Transport Director</i>	P. J. Shayer	<i>Assistant Managing Director (Non-Food Division)</i>
J. V. Bird	<i>Retail Regional Managing Director</i>	J. M. Smith	<i>Retail Regional Managing Director</i>
M. J. Boxall, A.C.I.I.	<i>Company Secretary</i>	S. C. Taylor, F.C.C.A.	<i>Deputy Chief Accountant</i>
R. E. Clark	<i>Retail Regional Managing Director</i>	N. A. Todd	<i>Retail Regional Managing Director</i>
J. Gildersleeve	<i>Retail Regional Managing Director</i>	B. J. Tree	<i>Personnel and Distribution Director</i>
C. J. Goodfellow	<i>Retail Joint Managing Director</i>	D. C. Tuffin	<i>Retail Joint Managing Director</i>
B. E. Grange	<i>Computer Director</i>	P. G. Uttley, F.I.I.C.	<i>Insurance and Pensions Director</i>
P. G. Herbert, F.C.A.	<i>Chief Accountant</i>	B. R. Williams	<i>Retail Joint Managing Director</i>
C. Longley	<i>Retail Regional Managing Director</i>	E. S. Williams	<i>Joint Managing Director (Non-Food Division)</i>
J. Marshom	<i>Retail Joint Managing Director</i>		
R. S. Parker	<i>Joint Managing Director (Fresh Foods Division)</i>		

Employment Report

At a time when there are nationally 2,500,000 people unemployed, your Company is able to give continuous employment to the equivalent of 39,000 full time employees—a slightly lower number than last year. This, however, has not been achieved by a diminution of standards of service but by the search for better methods.

Training

Many of you will know that, each week, one hour is specifically set aside to provide training in various aspects of the store's activities. This is in addition to the various craft courses which provide any employee with the will and the talent to learn, an opportunity to develop latent skills, earn more money and have a more interesting and responsible job. The increasing square footage given over to the sale of perishable items—traditionally meat and fruit and vegetables—but increasingly now bakeries, provisions, delicatessen and, most recently in a few stores, wet fish, creates a need for new style apprenticeships. Thus we are able to match modern shopping methods with traditional ideas of the skills needed and the service required. Each year within these craft departments, awards are offered. Competition is fierce and the standard increasingly rises. Our suppliers, helping in judging the candidates, are as delighted as we

that the presentation of their products to an increasingly discriminating public should continually improve.

The Distributive Industries Training Board makes a levy on employers which is then remitted if the training given matches their conception of the training needed. Our view is that the training given should match the needs of our customers and staff.

As well as providing a better service for customers, however, there is a requirement to provide a more productive service. Efforts continue to be made to package goods to enable them to be better and more cheaply presented to the purchaser. More suitable packaging reduces the labour effort in handling and reduces the cost of the container. Members of our staff have a programme of examining all goods to see how this process can be extended.

Industrial relations

This year has seen a continuation to the ever-active and invariably constructive discussions between the Company and the Union of Shop, Distributive and Allied Workers. There is no magic wand that can be waved to bring about good industrial relations. They come as a result of years of progressive negotiations based on a

mutual confidence in the goodwill of the participants.

This hard-won goodwill fosters the mutual desire to resolve problems when they arise and, perhaps more importantly, to plan and implement changes which can be developed for the benefit of the customer, the employee and the shareholder.

Health and safety at work

The high standards that were described last year are being improved wherever possible. We at Tesco have always been proud of the health and safety aspects of our business and the need to keep a caring eye on standards is one which is encouraged in all employees throughout the year.

Communication

Increasing importance is now being placed on communication at all levels and Tesco applauds the growing interest shown by employees in the way the Company is run. Particularly, there has been a major change during the latter part of the year with the re-introduction of the 'Tesco Times'. This newspaper, which is distributed to all employees, is designed to put a more human face on some of the aspects of our business as well as providing a forum for reporting on Group activities.

Accounting Policies

Basis of accounts

The accounts are prepared on the historical cost basis of accounting as modified by the revaluation of certain properties.

Basis of consolidation

The consolidated profit and loss account and balance sheet consist of the accounts of the parent company and its subsidiaries, all of which are made up to 28th February, 1981.

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

Associated companies

Associated companies are companies over which members of the Group exercise significant influence and hold not less than 20% of the equity voting rights. Particulars of these companies are provided in note 14 to the accounts.

The directors consider that the results of Direct Refrigeration Services Limited are not material, and that to include the results of the other associated companies in the Group accounts would be misleading. The attributable results of the associated companies are therefore omitted from the accounts.

Stocks

Stocks are valued on a consistent basis at the lower of cost or net realisable value. Stocks at branches are calculated at retail prices and reduced by appropriate margins to the lower of cost or net realisable value.

Depreciation

Depreciation is provided on an equal annual instalment basis over the anticipated useful working lives of the assets at the following rates:—
Plant, equipment, fixtures and fittings—at rates varying from 7% to 25%.

Motor vehicles—20%

Freehold buildings—2% Tesco Stores Ireland Limited
Remainder: nil
(see below)

Leasehold properties are amortised over the unexpired portions of the leases by equal annual instalments on the following basis:—

Term of lease

Up to 21 years—over period of the lease

22 to 42 years—over 21 years

43 to 150 years—over period of the lease

In excess of

150 years —nil

Buildings—Freehold and Leasehold (in excess of 150 years).

No depreciation is provided on freehold or leasehold buildings held on leases in excess of 150 years, for the following reasons:—

- (a) The Group follows a programme of regular refurbishment and maintenance of its properties, which includes the reinstatement of the fabric of buildings, where necessary, in order to maintain them to a high standard.
- (b) The properties were revalued by Messrs. Healey & Baker as at February 1981 at open market value for existing use and the valuation showed a considerable surplus over book value which has not been incorporated in the accounts.

Accordingly, in the opinion of the directors, the total realisable values of the land and buildings are considerably higher than book values and the total residual values of buildings will be at least equal to their book values.

Leasing

Plant, equipment and fixtures and fittings, which are the subject of

finance leases, are dealt with in the accounts as fixed 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 constant periodic rates of interest implicit in the leases.

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

Deferred taxation and advance corporation tax

Deferred taxation represents corporation tax at current rates on amounts provided for:—

- (1) accelerated capital allowances, except when the tax benefit can be expected with reasonable probability to be retained for the foreseeable future, and
- (2) other timing differences.

Advance corporation tax on dividends paid and proposed, which is expected to be recoverable is shown separately on the balance sheet as a deferred asset.

Foreign currency

Assets and liabilities of overseas subsidiary companies are translated into sterling at the rates of exchange ruling at the balance sheet date, but their operating results are translated at the average rate for the period. The exchange translation differences that arise are dealt with through reserves.

Foreign exchange profits and losses arising in the ordinary course of business during the year are included in trading profits.

Auditors' Report to the members of Tesco Stores (Holdings) Limited

We have audited the financial statements on pages 11 to 20 in accordance with approved auditing standards.

In our opinion the financial statements which have been prepared on the historical cost basis as modified by the revaluation of certain properties, give a true and fair view of the state of affairs of the Company and the

Group at 28th February, 1981, and of the profit and source and application of funds of the Group for the 53 weeks ended on that date, and comply with the Companies Acts 1948 to 1980.

We have also examined the abridged current cost accounts on pages 22 to 25 which, in our opinion, have been properly prepared in accordance with the bases set out therein to

provide the information required by the Statement of Standard Accounting Practice No. 16.

Hogg Bullimore & Co.
Chartered Accountants

London

17th June, 1981

Consolidated Profit and Loss Account

53 weeks ended 28th February, 1981 (1980—52 weeks)

	Notes	1981 £'000s	1980 £'000s
Sales to customers at net selling prices		1,916,407	1,601,529
<i>Deduct</i> Value added tax		95,751	70,921
Sales excluding value added tax		1,820,656	1,530,608
Trading profit	1	72,106	54,792
<i>Deduct</i>			
Interest payable less receivable	2	15,732	3,207
Emoluments of directors of parent company	3	543	444
Depreciation and amounts written off fixed assets.	12	20,241	14,641
		36,516	18,292
Net profit subject to taxation		35,590	36,500
<i>Deduct</i> Taxation	4	5,452	1,370
Net profit after taxation		30,138	35,130
<i>Add</i> Losses attributable to minority shareholders		—	31
Net profit after taxation attributable to members of company		30,138	35,161
<i>Add</i> Net surplus on sale of properties		19,943	367
Net profit after taxation before extraordinary items		50,081	35,528
<i>Add</i> Extraordinary items	5	—	72
Net profit after taxation and extraordinary items		50,081	35,600
<i>Deduct</i> Dividends	6	8,498	8,164
Retained profit added to reserves			
Parent company		20,373	27,635
Subsidiary companies		21,210	(199)
		£41,583	£27,436
Earnings per ordinary share	7	9.0p	10.6p

Accounting policies and notes forming part of these accounts are on page 11 and pages 16 to 20.

Consolidated Balance Sheet

28th February, 1981

	Notes	1981 £'000s	1980 £'000s
Capital employed			
Issued capital of parent company	8	16,678	16,677
Reserves	9	220,845	180,190
Total share capital and reserves		237,523	196,867
Medium term bank loans	10	55,857	—
		£293,380	£196,867
Employment of capital			
Fixed assets	12	345,276	267,096
Deduct Related leasing commitments	13	3,332	—
		341,944	267,096
Investments	14	279	281
Deferred asset			
Advance corporation tax recoverable		7,121	8,061
Current assets			
Stocks		158,243	178,839
Debtors	15	8,143	9,557
Cash and short term deposits		2,572	17,161
		168,958	205,557
Deduct Current liabilities			
Creditors and accrued expenses		197,620	188,163
Short term bank loans and overdrafts	10	9,498	79,301
Taxation	4	9,306	8,312
Dividends	6	8,498	8,164
		224,922	283,940
Net current liabilities		(55,964)	(78,383)
		293,380	197,055
Deduct Debentures secured on certain properties of a subsidiary company	16	—	188

L. Porter
I. C. MacLaurin

Directors

£293,380

£196,867

Accounting policies and notes forming part of these accounts are on page 11 and pages 16 to 20.

Tesco Stores (Holdings) Limited

Balance Sheet

28th February, 1981

	Notes	1981 £'000s	1980 £'000s
Capital employed			
Share capital	8	<i>Authorised</i> 20,000	<i>Issued</i> 16,677
Reserves	9	211,386	191,005
Total share capital and reserves		228,064	207,682
Medium term bank loans	10	50,000	—
		£278,064	£207,682
Employment of capital			
Investments	14	276	278
Subsidiary companies	17		
Shareholdings at cost		34,313	34,292
Add Net amount due from subsidiary companies		261,844	254,375
		296,157	288,667
Current assets			
Debtors		14	87
Deduct Current liabilities			
Creditors and accrued expenses		2,688	2,597
Bank overdrafts	10	2,976	66,510
Taxation		4,221	4,079
Dividends	6	8,498	8,164
		18,383	81,350
Net current liabilities		(18,369)	(81,263)

L. Porter
I. C. MacLaurin } Directors

L. Porter
I. C. MacLaurin

£278,064

£207,682

Accounting policies and notes forming part of these accounts are on page 11 and pages 16 to 20.

Consolidated Statement of Source and Application of Funds

53 weeks ended 28th February, 1981 (1980—52 weeks)

	1981 £'000s	1980 £'000s
Revenue funds		
Source of funds		
Net profit subject to taxation	35,590	36,500
Adjustment for item not involving the movement of funds:		
Depreciation and amortisation	20,241	14,641
Decrease in stock	20,596	(42,238)
Decrease in debtors	2,816	(4,767)
Increase in creditors	7,409	26,082
	86,652	30,218
Deduct		
Application of funds		
Dividends paid	8,164	6,471
Taxation paid	3,518	3,536
	11,682	10,007
	74,970	20,211
Capital funds		
Source of funds		
Medium term bank loans	55,857	—
Issue of shares	1	464
Premium received on issue of shares	8	5,214
Extraordinary items	—	72
Proceeds from sale of fixed assets	29,505	2,290
Reduction in loan to associated company	2	—
Increase in creditors and leasing commitments	5,378	9,447
Adjustment for items not involving the movement of funds:		
Foreign currency translation adjustments	1,946	568
Excess value of net assets over cost of acquisition of Brace-Pinhorne Construction Company Limited	146	—
	92,842	18,055
Deduct		
Application of funds		
Purchase of fixed assets	110,983	97,563
Minority shareholders' interests	—	3,421
Excess cost of prior acquisitions over value of net assets	27	17,932
Debentures redeemed	186	179
Increase in debtors	1,402	1,038
	112,598	120,133
	(19,756)	(102,078)
Movement in net liquid funds		
Decrease in cash and short term deposits	(14,589)	(12,259)
Decrease/(Increase) in short term bank loans and overdrafts	69,803	(69,608)
	£55,214	£(81,867)
Summary of acquisition of Brace-Pinhorne Construction Company Limited		
Fixed assets	£'000s	
Not current liabilities	1,496	
	(340)	
	1,156	
Excess value of net assets over cost of acquisition	(146)	
Cash paid (including expenses)	£1,010	

Notes to be read as part of the Accounts

		1981 £'000s	1980 £'000s																																																		
1	Trading profit																																																				
	is stated after charging :																																																				
	Auditors' remuneration	105	90																																																		
	Debenture interest	9	15																																																		
	Deficit on redemption of debentures	1	(39)																																																		
2	Interest																																																				
	Interest payable on medium term bank loans	119	—																																																		
	Interest payable on short term bank loans and overdrafts	16,197	4,331																																																		
		<u>16,316</u>	<u>4,331</u>																																																		
	<i>Deduct</i> Interest receivable on short term deposits	584	1,124																																																		
		<u>£15,732</u>	<u>£3,207</u>																																																		
3	Directors' emoluments																																																				
	Fees for services as directors	1	1																																																		
	Other emoluments, including pension contributions	542	443																																																		
		<u>£543</u>	<u>£444</u>																																																		
	Emoluments waived by one director £20,000 (1980—£20,000)																																																				
	The emoluments of the Chairman, who was the highest paid director, amounted to £51,162(1980—£41,738), excluding pension contributions. The highest paid director in 1980 received £42,407, excluding pension contributions.																																																				
	Directors' emoluments and the emoluments of other employees in excess of £20,000, excluding pension contributions, fall within the following scales :																																																				
		<table><tr><td></td><td colspan="2">Number of directors</td><td colspan="2">Number of other employees</td></tr><tr><td></td><td>1981</td><td>1980</td><td>1981</td><td>1980</td></tr><tr><td>From £0 to £5,000</td><td>—</td><td>2</td><td></td><td></td></tr><tr><td>" £15,001 to £20,000</td><td>1</td><td>1</td><td></td><td></td></tr><tr><td>" £20,001 to £25,000</td><td>—</td><td>—</td><td>23</td><td>5</td></tr><tr><td>" £25,001 to £30,000</td><td>—</td><td>3</td><td>—</td><td>—</td></tr><tr><td>" £30,001 to £35,000</td><td>—</td><td>5</td><td>—</td><td>—</td></tr><tr><td>" £35,001 to £40,000</td><td>7</td><td>—</td><td>—</td><td>—</td></tr><tr><td>" £40,001 to £45,000</td><td>1</td><td>2</td><td>—</td><td>—</td></tr><tr><td>" £50,001 to £55,000</td><td>2</td><td>—</td><td>—</td><td>—</td></tr></table>			Number of directors		Number of other employees			1981	1980	1981	1980	From £0 to £5,000	—	2			" £15,001 to £20,000	1	1			" £20,001 to £25,000	—	—	23	5	" £25,001 to £30,000	—	3	—	—	" £30,001 to £35,000	—	5	—	—	" £35,001 to £40,000	7	—	—	—	" £40,001 to £45,000	1	2	—	—	" £50,001 to £55,000	2	—	—	—
	Number of directors		Number of other employees																																																		
	1981	1980	1981	1980																																																	
From £0 to £5,000	—	2																																																			
" £15,001 to £20,000	1	1																																																			
" £20,001 to £25,000	—	—	23	5																																																	
" £25,001 to £30,000	—	3	—	—																																																	
" £30,001 to £35,000	—	5	—	—																																																	
" £35,001 to £40,000	7	—	—	—																																																	
" £40,001 to £45,000	1	2	—	—																																																	
" £50,001 to £55,000	2	—	—	—																																																	
4	Taxation	1981 £'000s	1980 £'000s																																																		
	Corporation tax at 52%	1,560	—																																																		
	Overseas taxation	210	72																																																		
	Deferred taxation	—	(70)																																																		
	Corporation tax recoverable	—	(806)																																																		
	Advance corporation tax not recoverable in foreseeable future	3,682	2,174																																																		
		<u>£5,452</u>	<u>£1,370</u>																																																		

The corporation tax charged takes account of the provisions of the Finance Bill 1981 relating to stock relief. Taxation shown as a current liability on the consolidated balance sheet includes corporation tax payable on 1st January, 1982 of £660,000 (1980—£Nil) which has been reduced by advance corporation tax of £900,000. Taxation has been further reduced by group relief payments made to an associated company amounting to £8,581,000 (1980—£8,581,000). (See Note 19(c)).

Notes (continued)

5	Extraordinary items	1981	1980
		£'000s	£'000s
	Net profit on sale of quoted investments	—	£72

6	Dividends		
		1981	1980
	Declared interim—1.00p per share (1980—1.00p)	3,333	3,332
	Proposed final —1.55p per share (1980—1.45p)	5,165	4,832
		<u>£8,498</u>	<u>£8,164</u>

7	Earnings per ordinary share		
		1981	1980
	The calculation of the earnings per ordinary share is based on £30,138,000 (1980—£35,161,000), being the net profit after taxation and minority interests, excluding net surpluses on the sale of properties and extraordinary items, divided by the weighted average number of ordinary 5p shares in issue during the year of 333,252,495 (1980—332,379,717).		

8	Issued share capital		£'000s	£'000s
			Ordinary (fully paid)	"A" Ordinary (1p paid)
	Shares of 5p each			
	Ordinary	"A" Ordinary		
	333,235,352	1,566,587	16,662	15
	20,000	(20,000)	1	
		Issued at 24th February, 1980		
		Converted during year		
	<u>333,255,352</u>	<u>1,546,587</u>	<u>£16,663</u>	<u>£15</u>
		Issued at 28th February, 1981		

Options granted under the terms of the Executive share option scheme and outstanding at 28th February, 1981 related to 3,480,000 ordinary shares. The options were granted on 15th December, 1978 at 52½p per share. Further options, relating to 1,564,000 ordinary shares, were granted on 27th March, 1981 at 59½p per share.

Between 28th February and 17th June, 1981 15,312 "A" ordinary shares have been converted into ordinary shares under the terms of the Executive share scheme.

9	Reserves	Consolidated		Tesco Stores (Holdings) Limited	
		1981	1980	1981	1980
		£'000s	£'000s	£'000s	£'000s
	As at 24th February, 1980	180,190	164,215	191,005	158,156
	Premium on issue of shares less costs	8	5,214	8	5,214
	Excess value of net assets over cost of acquisition of Brace-Pinhome Construction Company Limited	146	—	—	—
	Excess cost of prior acquisitions over value of net assets	(27)	(16,170)	—	—
	Foreign currency translation adjustments	(1,055)	(505)	—	—
	Retained profit for the period	41,583	27,436	20,373	27,635
	As at 28th February, 1981	<u>£220,845</u>	<u>£180,190</u>	<u>£211,386</u>	<u>£191,005</u>
	The totals above are made up as follows:				
	Share premium account	14,018	14,010	14,018	14,010
	Capital reserve account	(b) 24,538	4,595	—	—
	Unappropriated profits	182,289	161,585	197,368	176,995
		<u>£220,845</u>	<u>£180,190</u>	<u>£211,386</u>	<u>£191,005</u>

Notes:

(a) After adjustment of £1,762,000 in respect of surplus arising on property revaluation.

(b) The balance on capital reserve represents realised surpluses on disposal of fixed assets, the liability to tax thereon, where applicable, being dealt with under the provisions of Sections 115 to 121 of the Capital Gains Tax Act 1979 and Section 276 of the Income and Corporation Taxes Act 1970.

Notes (continued)

10	Bank loans and overdrafts	Consolidated		Tesco Stores (Holdings) Limited	
		1981 £'000s	1980 £'000s	1981 £'000s	1980 £'000s
	Repayment terms of total borrowings are:				
	Medium term bank loans—				
	between 1 and 2 years	5,857	—	—	—
	beyond 5 years	50,000	—	50,000	—
		55,857	—	50,000	—
	Short term bank loans and overdrafts—				
	within 1 year	9,498	79,301	2,976	66,510
		£55,355	£79,301	£52,976	£66,510

At 28th February, 1981, an additional £50M was available to Tesco Stores (Holdings) Limited under the medium term loan agreements. Bank loans and overdrafts of overseas subsidiary companies included above of £9,028,000 have been guaranteed by Tesco Stores (Holdings) Limited.

11	Deferred taxation	Consolidated		Tesco Stores (Holdings) Limited	
		1981 £'000s	1980 £'000s	1981 £'000s	1980 £'000s
	Balance at 24th February, 1980	—	70	—	70
	Transfer to profit and loss account (Note 4)	—	(70)	—	(70)
		—	—	—	—

No provision has been made for accelerated capital allowances and the tax deferred for which provision is not considered necessary amounts to £48,000,000 (1980—£39,000,000). In view of the provisions of the Finance Bill, 1981, it is considered that the tax deferred in respect of stock appreciation relief, for which no provision has been made, of £53,000,000 (1980—£51,000,000), will not become payable.

12	Fixed assets	Notes	£'000s			Plant equipment fixtures & fittings & vehicles	Total
			Freeholds	Leaseholds 50 years or more	less than 50 years		
	Cost or at valuation						
	As at 24th February, 1980		106,222	67,612	16,654	145,735	336,223
	Currency translation adjustments	(a)	(2,476)	(173)	—	(490)	(3,139)
	Additions at cost		27,577	43,666	(1,653)	39,897	109,487
	Additions on acquisition of subsidiary		1,487	—	—	9	1,496
			132,810	111,105	15,001	185,151	444,067
	Deduct disposals		8,574	114	438	5,201	14,327
	As at 28th February, 1981	(b)	£124,236	£110,991	£14,563	£179,950	£429,740
	Depreciation						
	As at 24th February, 1980		144	1,248	3,864	63,871	69,127
	Currency translation adjustments		(36)	(2)	—	(101)	(139)
	Charge for period		175	450	803	18,813	20,241
			283	1,696	4,667	82,583	89,229
	Deduct disposals		—	1	281	4,483	4,765
	As at 28th February, 1981		£283	£1,695	£4,386	£78,100	£84,464
	Net book value at 28th February, 1981		£123,953	£109,296	£10,177	£101,850	£345,276
	Net book value at 23rd February, 1980		£106,078	£66,364	£12,790	£81,864	£267,096

Notes:

- (a) Includes plant, equipment and fixtures and fittings subject to finance leases amounting to £3,547,000 and acquisition costs of freehold title to existing leaseholds.
- (b) Includes properties at professional valuation (adjusted where appropriate for currency translations) during 1979—freeholds £16,439,000 and leaseholds over 50 years £1,063,000. Also includes, on the basis of open market value, in March 1980 by Messrs. Healey & Baker—a freehold £1,100,000.

Notes (continued)

13

Related leasing commitments

£3,332,000 represents amounts due for payment within the years ending February, 1982 to February, 1988 excluding finance charges.

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Investments

	Consolidated		Tesco Stores (Holdings) Limited	
	1981 £'000s	1980 £'000s	1981 £'000s	1980 £'000s
Unquoted, at cost less amounts written off (Directors' valuation £3,000 (1980—£3,000))	3	3	—	—
Associated companies (Directors' valuation £1,000 (1980—£1,000)—cost £100)	1	1	1	1
	4	4	1	1
Loan to associated company	275	277	275	277
	£279	£281	£276	£278

Investments in associated companies

	Percentage of equity held	Registered and operating in
Bannergrade Limited	50	England
Direct Refrigeration Services Limited	49	England
Vence Developments (Netherlands) B.V.	30	Netherlands
Vence Developpements (France) S.A.R.L.	30	France

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Debtors

Tesco Stores Hong Kong Limited acquired permanent export quota licences for the sum of £2,529,000 in the year ended 23rd February, 1980. This amount is being written off against profits during the three years to February 1983 by reference to the value of goods exported to the United Kingdom during that period. The written down value of the licences included in debtors at 28th February, 1981 was £1,565,000 (1980—£2,529,000).

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Debentures

	1981 £'000s	1980 £'000s
6% Debenture Stock 1983/88	—	186
Add Interest accrued	—	2
	—	£188

The authorised amount of the issue was £650,000 and the full amount had been redeemed by 28th February, 1981.

Notes (continued)

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Subsidiary companies

- (a) Tesco Stores Limited and Cartiers Superfoods Limited, both operated and registered in England, and Tesco Stores Ireland Limited, operated and registered in the Republic of Ireland, are the only subsidiary companies which, in the opinion of the directors, principally affected the amount of the profit or assets of the Group. The issued share capital of the three companies, which consists of £1, 20p and IR£1 ordinary shares respectively, is wholly owned by Tesco Stores (Holdings) Limited.

- (b) Amounts due from subsidiary companies
Deduct Amounts due to subsidiary companies

	1981 £'000s	1980 £'000s
	268,195	260,725
	6,351	6,350
	<u>£261,844</u>	<u>£254,375</u>

- (c) The accounts of Tesco Stores Ireland Limited (and certain other subsidiary companies which do not materially affect the consolidated accounts) were audited by firms other than Messrs. Hogg Bullimore & Co.

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Capital commitments

At 28th February, 1981

- (a) There were commitments for capital expenditure of approximately £76,143,000 (1980—£54,578,000).
- (b) Capital expenditure authorised by the Board but not contracted for amounted to £73,772,000 (1980—£77,229,000).

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Contingent liabilities

- (a) The consideration payable by the Company for the acquisition of the balance of the issued share capital of Tesco Stores Ireland Limited, which was completed on 26th March, 1979, has not been finally determined and is the subject of litigation. The liability, if any, cannot be quantified at this stage.

- (b) The Inland Revenue is maintaining its contention that the launch of Operation Checkout in the year ended 25th February, 1978 amounted to a major alteration in the conduct of the Group's trade and continues to seek to restrict the amount of Corporation Tax relief claimed for the increase in value of stocks for that year. An appeal has been made against the decision of H.M. Inspector of Taxes to refuse the claim for relief and the appeal is to be heard by the Special Commissioners of Income Tax at a date yet to be agreed. Leading Counsel is firmly of the opinion that the Group's claim for relief should succeed in full.

The Inland Revenue is presently seeking to reduce the stock relief claimed in the year ended 25th February, 1978 by approximately £8.75M in terms of Corporation Tax relief; although this figure is disputed, the net additional payment of Corporation Tax by the Group, if the Inland Revenue were wholly to succeed in its contention, will be reduced to approximately £2.5M through the utilisation of Advance Corporation Tax paid and other taxation reliefs presently available.

- (c) The Inland Revenue have refused to allow claims for group relief in respect of an associated company's capital allowances but the Group's appeal against the refusal has been upheld by the Special Commissioners of Income Tax. The Inland Revenue may yet enter an appeal against the decision but Leading Counsel are of the opinion that the claims for relief should succeed. Even if unsuccessful, the Group would be entitled to recover the group relief payments of £8,581,000 as referred to in Note 4.

Value Added Statement

53 weeks ended 28th February, 1981 (1980—52 weeks)

	1981 £'000s	%	1980 £'000s	%
Value added				
Sales including value added tax	1,916,407		1,601,529	
Sundry items including surplus on sale of properties and other investments	19,942		406	
	<u>1,936,349</u>		<u>1,601,935</u>	
Less: Cost of materials and services	1,566,187		1,328,336	
Interest payable less receivable	<u>15,732</u>		<u>3,207</u>	
	<u>1,581,919</u>		<u>1,331,543</u>	
	<u>£354,430</u>	<u>100.0</u>	<u>£270,392</u>	<u>100.0</u>
Applied as follows:				
Employees				
Wages, salaries and pension scheme costs	154,567	43.6	126,394	46.4
Less: Deduction for PAYE and employees' social security contributions	<u>29,436</u>	<u>8.3</u>	<u>22,332</u>	<u>8.3</u>
	<u>125,131</u>	<u>35.3</u>	<u>103,062</u>	<u>38.1</u>
Central and local government taxes and levies borne by the Group				
Corporation tax	5,462		1,370	
Contributions for social security	16,218		13,264	
Rates	<u>12,120</u>		<u>9,233</u>	
	<u>33,790</u>	<u>9.6</u>	<u>23,867</u>	<u>8.8</u>
Taxes and levies collected on behalf of government				
Value added tax on sales	95,751		70,921	
PAYE and social security contributions deducted from employers	<u>29,436</u>		<u>22,332</u>	
	<u>125,187</u>	<u>35.3</u>	<u>93,253</u>	<u>34.5</u>
	<u>158,977</u>	<u>44.9</u>	<u>117,120</u>	<u>43.3</u>
Providers of capital				
Dividends to shareholders	8,498	2.4	8,164	3.0
Reinvested in the business				
Depreciation	20,241		14,641	
Retained profit	<u>41,583</u>		<u>27,405</u>	
	<u>61,824</u>	<u>17.4</u>	<u>42,046</u>	<u>15.6</u>
	<u>£354,430</u>	<u>100.0</u>	<u>£270,392</u>	<u>100.0</u>

Note: Excise duty on wines and spirits and tobacco is included in the sales and cost of materials figures in the above statement.

Consolidated Current Cost Profit and Loss Account

53 weeks ended 28th February, 1981 (1980—52 weeks)

	C.C.A. Notes	1981 £ millions	1980 £ millions	†1980-restated £ millions
Turnover (including V.A.T.)		1916.4	1601.5	1877.5
Historic cost trading profit before interest		51.3	39.7	46.5
<i>Deduct</i> Current cost operating adjustments	2	6.9	*3.3	3.9
Current cost operating profit		44.4	36.4	42.6
<i>Deduct</i> Gearing	3	(1.1)	*(0.3)	(0.4)
Interest paid less received		15.7	3.2	3.8
		14.6	2.9	3.4
Current cost profit before taxation		29.8	33.5	39.2
<i>Deduct</i> Taxation		5.5	1.4	1.6
		24.3	32.1	37.6
<i>Add</i> Net surplus on sale of properties		9.1	(0.1)	(0.1)
Extraordinary items		—	0.1	0.1
		9.1	—	—
Current cost profit attributable to shareholders		33.4	32.1	37.6
<i>Deduct</i> Dividends		8.5	8.2	9.6
Retained current cost profit for the year		£24.9	£23.9	£28.0

Statistical information

Operating profit return on the net operating assets	8.5%	7.9%
Current cost earnings per share	7.3p	9.7p
Dividend cover, based on current cost attributable profit after taxation	3.9	3.9

†Comparative results restated and adjusted to a common price basis by reference to the movement in the index of retail prices during the year.

*Restated for changed bases of calculation

Notes forming part of these accounts are on pages 24 and 25

Consolidated Current Cost Balance Sheet

28th February, 1981

	C.C.A. Notes	1981 £ millions	1980 £ millions
Capital employed			
Share capital & reserves			
Share capital		16.7	16.7
Current cost reserve	4	201.9	176.5
Other reserves and retained profits		195.3	171.3
		413.9	364.5
Medium term bank loans		55.9	—
		469.8	364.5
Debenture		—	0.2
		£469.8	£364.7
Employment of capital			
Fixed assets	5	520.1	431.7
<i>Deduct Related leasing commitments</i>		3.3	—
		516.8	431.7
Investments		0.3	0.3
Deferred asset			
Advance corporation tax recoverable		7.1	8.1
Net current assets		159.7	181.8
Stock		(158.2)	(162.6)
Net monetary working capital		1.5	19.2
Total working capital		(8.5)	(8.2)
Dividends		(47.4)	(86.4)
Other current liabilities (net)			
		(54.4)	(75.4)
		£469.8	£364.7

Notes forming part of these accounts are on pages 24 and 25

Notes to be read as part of the Current Cost Accounts

1 General principles of current cost accounts

The current cost accounts on pages 22 and 23 have been prepared in accordance with the principles of SSAP 16.

2 Current cost operating adjustments

	1981 £ millions	1980 £ millions
Cost of sales	16.4	13.6
Monetary working capital	(16.9)	(15.2)
Depreciation	7.4	4.9
	<u>£6.9</u>	<u>£3.3</u>

3 Gearing adjustment

The gearing adjustment represents the proportion of the current cost operating adjustments financed by borrowing and therefore this adjustment has been added back to profits in determining the current cost profit attributable to shareholders.

4 Current cost reserve

The movement in the current cost reserve for the period is shown below:

	£ millions
As at 23rd February, 1980	176.5
Revaluation surpluses reflecting price changes	
Land and buildings	13.9
Fixtures, fittings and vehicles	14.6
Stock	14.9
Monetary working capital adjustment	(16.9)
Gearing adjustment	(1.1)
	<u>25.4</u>
As at 28th February, 1981	<u>£201.9</u>

5 Fixed assets and depreciation

The gross current cost of fixed assets has been derived as follows:

Fixtures, fittings and motor vehicles have been restated using appropriate Government indices applied to historical costs.
Land and buildings have been included as valued by Messrs. Healey & Baker as at 28th February, 1981.

Depreciation has been provided on the gross current cost of fixed assets as calculated above. However, no depreciation has been provided on United Kingdom freehold properties, nor any additional amortisation on the excess of net replacement cost over the net book value of leasehold properties.

The same asset lives have been used in the historic cost and current cost accounts. The value of fixed assets in the current cost balance sheet is set out below:

	Gross £ millions	1981 Depreciation £ millions	Net £ millions
Land and buildings (at valuation)	392.1	—	392.1
Fixtures, fittings and vehicles	319.7	191.7	128.0
	<u>£711.8</u>	<u>£191.7</u>	<u>£520.1</u>

Notes to Current Cost Accounts (continued)

6 Working capital

Two adjustments have been made to allow for the impact of price changes on working capital, one on stock and one on monetary working capital which comprises net trade and expense creditors. The adjustments have been calculated quarterly and by reference to appropriate Government indices.

7 Financing of net operating assets

The following is the net current replacement cost of the net operating assets as at 28th February, 1981, together with the method by which they were financed.

	1981 £ millions	1980 £ millions
Fixed assets (net)	516.8	431.7
Investments	0.3	0.3
Deferred asset—advance corporation tax recoverable	7.1	8.1
Working capital	1.5	19.2
Net operating assets	£525.7	£459.3
Share capital and reserves	413.9	364.5
Dividends	8.5	8.2
Total shareholders' interest	422.4	372.7
Medium term bank loans	55.9	—
Debenture stock	—	0.2
Other current liabilities (net)	47.4	86.4
Net borrowing	103.3	86.6
	£525.7	£459.3

Shareholder Profile

28th February, 1981

Size of Shareholding	Number of Shareholders	Percentage of number of Shareholders	Number of Ordinary Shares	Percentage of Ordinary Shares
250,000 and over	199	0.3	216,116,720	64.8
100,000—249,999	135	0.2	20,019,440	6.0
50,000 — 99,999	121	0.2	7,875,380	2.4
10,000 — 49,999	1,331	2.2	23,407,922	7.0
5,000 — 9,999	2,464	4.2	16,197,199	4.9
2,000 — 4,999	7,671	13.0	22,862,780	6.8
1,000 — 1,999	10,321	17.4	13,869,679	4.2
500 — 999	11,066	18.7	7,561,146	2.3
100 — 499	20,383	34.4	5,095,548	1.5
1 — 99	5,572	9.4	249,538	0.1
	59,263	100.0	333,255,352	100.0
Type of Owner				
Private individuals	55,885	94.3	94,579,852	28.4
Banks and nominee companies	1,045	1.8	111,362,343	33.4
Pension Funds	1,208	2.0	126,930,484	38.1
Others	1,125	1.9	382,673	0.1
	59,263	100.0	333,255,352	100.0

These figures do not reveal how many shares are held by nominees on behalf of private individuals.

Analysis of store sizes

At February	Up to 5,000 sq. ft.	5,000 to 10,000 sq. ft.	10,000 to 25,000 sq. ft.	Over 25,000 sq. ft.	Total Stores
1972	518	180	87	5	790
1973	488	176	102	6	772
1974	471	179	107	14	771
1975	437	179	113	16	745
1976	417	178	117	28	740
1977	390	179	121	32	722
1978	340	172	123	38	673
1979	235	166	123	47	571
1980	189	163	147	53	552
1981	177*	160	151	66	554

*46 Home'n'Wear only.

Sales Area analysed under size of stores

At February	Up to 5,000 sq. ft.		5,000 to 10,000 sq. ft.		10,000 to 25,000 sq. ft.		Over 25,000 sq. ft.		Total sales area
	sq. ft.	%	sq. ft.	%	sq. ft.	%	sq. ft.	%	
1972	1,096	30	1,219	33	1,245	33	142	4	3,702
1973	1,094	28	1,276	32	1,393	36	172	4	3,935
1974	1,077	25	1,271	29	1,536	36	428	10	4,312
1975	1,036	23	1,270	28	1,765	38	485	11	4,556
1976	980	19	1,258	25	1,784	35	1,035	21	5,057
1977	920	18	1,266	24	1,794	35	1,216	23	5,196
1978	865	16	1,210	22	1,902	36	1,423	26	5,400
1979	704	12	1,175	21	1,873	33	1,898	34	5,650
1980	604	10	1,152	19	2,315	37	2,139	34	6,210
1981	562	8	1,147	17	2,420	35	2,711	40	6,840

Sales Area analysed between Grocery and Home'n'Wear

At February	Grocery		Home'n'Wear		Total H'n'W		Grand Total Sales Area
	Total Grocery	%	Ground Floor	%	Other Floors	%	
1974	2,885	67	801	19	626	14	4,312
1975	3,027	66	879	20	650	14	4,556
1976	3,186	63	1,116	22	755	15	5,057
1977	3,227	62	1,121	22	848	16	5,196
1978	3,360	62	1,163	22	877	16	5,400
1979	3,554	63	1,273	22	823	15	5,650
1980	4,102	66	1,260	20	848	14	6,210
1981	4,440	65	1,395	20	1,005	15	6,840

'Grocery' includes all items sold by the traditional grocer including meat, produce, wines and spirits and cigarettes.

At 28th February, 1981, Tesco Stores Ireland Limited provided a total sales area of 252,000 sq. ft., comprising 13 Grocery stores each with sales areas between 10,000 sq. ft. and 25,000 sq. ft. and four Home'n'Wear stores averaging 9,000 sq. ft., all of which are included in these charts.

Petrol stations and garden centres are not included in these charts.