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**TESCO**

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**CERTIFIED TRUE COPY**

.....*John*.....Director

.....*[Signature]*.....Secretary

**Tesco Stores (Holdings) Limited Board of Directors  
and main functional responsibilities**



**SIR JOHN COHEN**  
*Life President*



**LESLIE PORTER**  
*Chairman*



**IAN MACLAURIN**  
*Managing Director*



**DAVID BEHAR**  
*Non-Executive*



**MICHAEL DARNELL**  
*Non-Food Purchasing*



**DONALD HARRIS**  
*Computer & Administration*



**DAISY HYAMS**  
*Grocery Purchasing*



**HYMAN KREITMAN**  
*Non-Executive*



**FRANCIS KREJSA**  
*Property & Estates*



**RALPH TEMPLE**  
*Finance*



**GEORGE WOOD**  
*Fresh Food Purchasing*

# Tesco Stores (Holdings) Limited

## Directors

Sir John E. Cohen *Life President*  
Leslie Porter, Ph.D. (Hon.) *Chairman*  
Ian C. MacLaurin *Managing Director*

David Behar, F.S.V.A.  
Michael Darnell  
Donald G. Harris, B.A.  
Miss Daisy D. Hyams, O.B.E.  
Hyman Kreitman  
Francis R. N. Kresja, F.R.I.C.S.  
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

## Auditors

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

## Solicitors

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

## Registrars

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

## Bankers

Midland Bank Limited  
Barclays Bank Limited

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## Tesco Stores (Holdings) Limited

### Notice of Meeting

Notice is hereby given that the twenty-ninth Annual General Meeting of Tesco Stores (Holdings) Limited will be held at Great Eastern Hotel, Liverpool Street, London EC2P 2AN on Friday 29th July, 1977 at 12 noon for the following purposes viz:-

1. To receive and, if approved, adopt the directors' report and accounts for the 52 weeks ended the 26th February, 1977. (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. Behar. (Resolution 3)  
Mr. R. Temple. (Resolution 4)  
Mr. G. R. Wood. (Resolution 5)
4. To re-appoint 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 company.

By order of the Board  
M. J. BOXALL  
*Secretary.*

Tesco House,  
Delamare Road, Cheshunt, Herts.

Dated this 4th day of July, 1977.

### Notes

Any member of the company who is entitled to attend and vote at the above 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 4th day of July, 1977, until the date of the Annual General Meeting, all contracts of service of the directors with the company or any of its subsidiaries (other than contracts expiring or determinable by the company without payment of compensation within one year). 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

### *To Her Majesty The Queen*

*I am sure all our staff and shareholders will join me in congratulating Her Majesty on the occasion of Her Silver Jubilee.*

*25 glorious years.*

I am pleased to be able to report that turnover for the period under review increased from £634,831,000 (53 weeks) to £721,303,000 (52 weeks), an increase of £86,472,000. Profit before tax increased from £25,052,000 (53 weeks) to £30,187,000 (52 weeks), an increase of £5,135,000. Adjusting the previous year's figures to a 52 week basis shows a turnover increase of 16.81% and net profit increase of 22.82%. The improvement in gross margins which we achieved in the first half of the year was maintained throughout the second half. At the same time we were successful in limiting the increase in expenses, and particularly wage costs, in relation to turnover, so that there was an improvement in net margins. I am pleased also to report that our earnings per share increased from 3.68p to 4.49p.

The most important recent action your company has taken was the decision not to renew the contract with Green Shield Stamps when it ended on the 7th June 1977.

I would like to take the opportunity of expressing my thanks to the directors on arriving at this decision and successfully effecting its implementation.

It had become quite clear to us that, with inflation, more and more of our customers preferred instant lower prices to deferred and devalued savings in the future.

So now our trading policy is for products sold in our stores to reflect in their immediate price the biggest possible discount and so help our customers to keep the cost of living in check.

The first weeks have been very successful and sales exceeded budget forecasts.

The increase in sales area from new store openings, extensions and refits during the 1976/77 financial year totalled 230,000 sq. ft.

Apart from the conversions of some smaller units for other uses by the group, we closed 18 branches during the year which had become uneconomical or redundant through our opening a larger store in the locality.

At the beginning of this year there appeared, initially, to be signs of a change in attitude by the Department of the Environment towards superstore and hypermarket development, but recent events indicate that this attitude has changed dramatically. We would be delighted to have the opportunity to continue to work with all local authorities in furthering shopping needs.

It is perfectly natural that Councils and their planners should wish to safeguard heavy investment in town centres and their local shopkeeper element. But there is now a volume of independently sponsored research that indicates that community shopping is left relatively undisturbed by superstores. Our belief, often stated by officials of this company, that there will always be room for the efficient small independent retailer, is borne out in practice: the small shopkeeper in the catchment area of a superstore is affected least by its presence, and indeed is frequently assisted by the overspill of new business brought to the area by the attractions of a large store.

Our aim is to co-operate with and not confront, local authorities in the development of retail units designed individually for their area and in this respect we believe we can offer the greatest degree of versatility in types of stores than any other operator in this field.

The Maidstone branch featured the company's first Mercator system among its customer facilities. This is an ingenious means of transporting shopping trolleys between floors and an important step in overcoming an inhibition on first-floor sales of heavy merchandise.

Five in-store bakeries were added in the year, bringing the total number of branches enjoying this exceptionally popular feature to twenty-five. We are now introducing a special oven to produce French bread and rolls. This operates within our bakeries to great effect.

Our development, in the larger stores, of frozen food departments catering for the still growing home freezer market keeps us abreast of other groups in this profitable sector.

Our ranges in all departments are attracting an increasing number of customers. We have improved our merchandising methods, widened our range of goods and used extremely effective advertising.

The total sales area of the group is now over 5.25 million sq. ft. of which a growing proportion relates to larger, more cost effective branches in which the resultant efficiency of operation benefits shopper, shareholder and employee alike. It will be seen from the table on page 20 that whilst five years ago there were no stores with over 30,000 sq. ft. sales area, this type of store now accounts for 18% of the company's total sales area.

The major new branches and extensions opened during the year were at:—

Location	Resultant Net Sales Area (sq. ft.)
<b>New Stores</b>	
Edgware (food only)	12,000
Maidstone	49,700
Smethwick	20,000
Walsall (entirely non-food)	20,500

## Chairman's Statement *continued*

### *Extensions*

Cheshunt (food only)	15,500
Morriston	19,500
Potters Bar	25,000
Reading	34,600
Salisbury	26,500

Our current development programme is most encouraging. For the next two year period it provides for twenty-eight new stores plus extensions to existing stores which will increase the total net sales area by over one million sq. ft.

We have invested £75 m. in new stores and warehouses over the last five years and plan to spend a further £45 m. over the next two years. This massive investment of £120 m. is placing your company in a very strong position to go forward into the 1980s.

Whilst our company is, and always will be a forward looking one, I thought that in this year of the Queen's Silver Jubilee it would be interesting to reflect on how the group has progressed over the period of Her Majesty's reign. I hope that you too may find interest in the enclosed facsimile of our Annual Report and Accounts from 25 years ago.

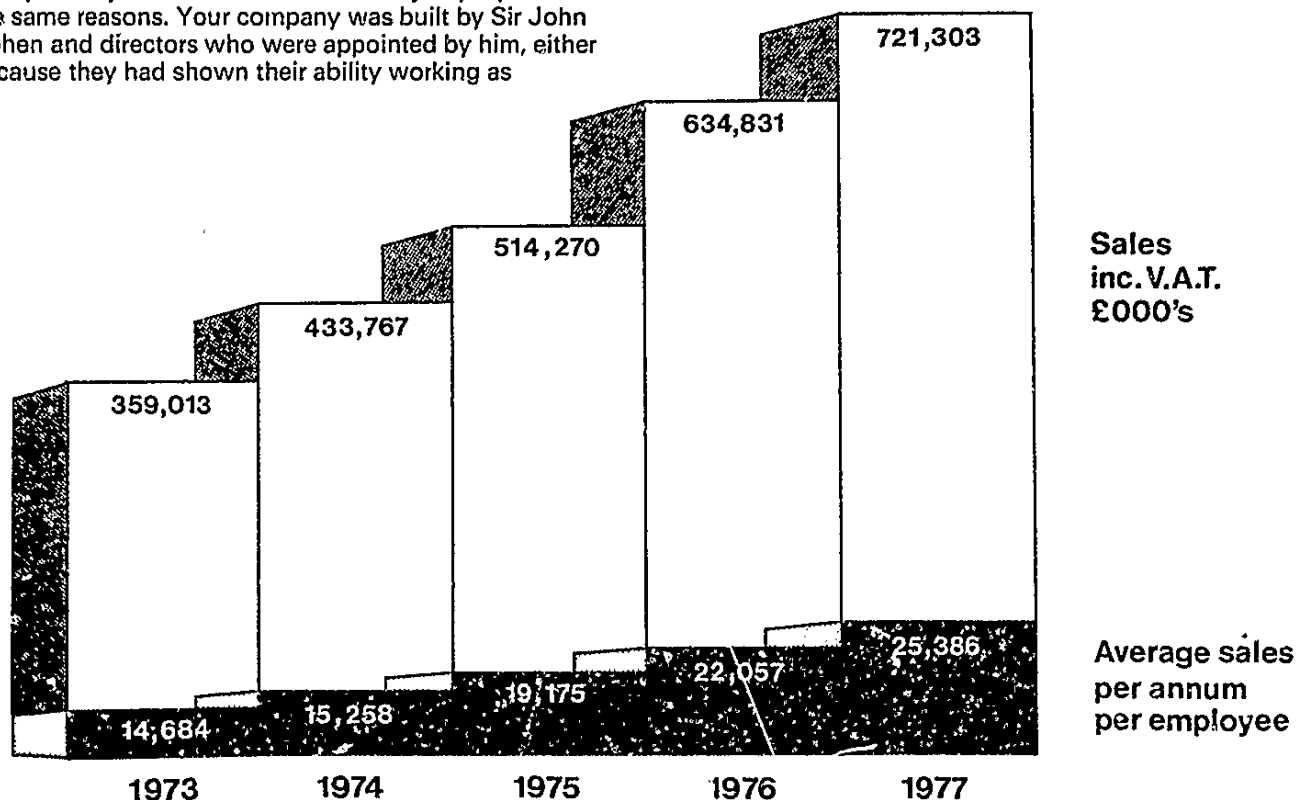
Much has been said about the Bullock Report. I wish to say that I join all the critics of the majority report for the same reasons. Your company was built by Sir John Cohen and directors who were appointed by him, either because they had shown their ability working as

executives for the company or were invited to join the company for their specialised knowledge. This was to assist the company, staff, customers and shareholders alike.

Much harm and loss of available time would result if directors were appointed who did not have the requisite experience to contribute to the running of the company and many bright young executives could be prevented from ever reaching the top.

Our Founder and Life President, Sir John Cohen continues to take a very active interest in the company and seldom a day passes without our receiving the benefit of his wise counsel arising from his long and deep experience of the trade. I am pleased to say that in addition to his many activities, Sir John Cohen has recently been appointed Master of the Worshipful Company of Carmen, one of the ancient City Livery Companies.

I am pleased to report that your company has been honoured by my being appointed President of the Institute of Grocery Distribution as successor to Lord Trenchard.



### Staff

The success of your company depends on a large number of factors, but one of the most important is the efforts, co-operation and hard work of the staff. This year at all levels they have done remarkably well, especially over our change in trading policy recently announced. To all of them we extend our thanks and appreciation and especially because many executives and staff worked very long hours during the Jubilee weekend, not only reducing prices but in changing all our branches to the new 'Operation Checkout' image. The enthusiasm and team spirit that permeated throughout was so invigorating that I am sure that all our shareholders will join me in saying an extra 'thank you' to our executives and staff.

### Suppliers

For suppliers also, the year was in some instances particularly difficult. They too were affected by the vagaries of the English summer and the extra and far-reaching demands we made on them. All have been bedevilled with rising costs in every sector of their businesses, particularly of raw materials and commodities but we have continued to enjoy their full co-operation throughout the year which helped to alleviate the full brunt of the price increases at retail level.

Our many and various suppliers have tried at all times to meet our very demanding requirements, and our relationships remain as friendly and as firm as ever. I would like to express my appreciation to them all for their efforts on our behalf and in particular for being extremely helpful over 'Operation Checkout' in delivering supplies at all hours because of the increased demand.



Chairman

## **Directors' Report**

To be presented at the twenty-ninth Annual General Meeting to be held at Great Eastern Hotel, Liverpool Street, London EC2P 2AN, on Friday 29th July, 1977 at 12 noon.

The directors submit their annual report together with the audited accounts of the company for the 52 weeks ended 26th February, 1977.

### **Profits**

The group profit and loss account on page 10 shows the profit for the period.

### **Principal activity**

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

### **Dividends**

An interim dividend of 0.5325p (gross equivalent 0.9730p) per share on account of the 52 week period ended 26th February, 1977 was paid on 2nd March, 1977 on the ordinary shares and the directors recommend the payment of a final dividend of 0.8267p (gross equivalent 1.2719p) per share.

### **Directors**

A list of directors is given on page 1.

Mr. D. Behar, Mr. R. Temple and Mr. G. R. Wood retire from the board by rotation in accordance with Article 85 and, being eligible, offer themselves for re-election.

### **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 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. The directors of your company and the number of 'A' ordinary shares that they presently hold are indicated under the heading Directors' shareholdings and interests.

### **Charitable and political contributions**

Charitable contributions totalled £7,000 (1976--£8,000) but no political contributions were made.



## Directors' shareholdings and interests

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

	26th February, 1977			28th February, 1976		
	Beneficial & Family Interests		Non Beneficial As Trustees	Beneficial & Family Interests		Non Beneficial As Trustees
	Ordinary Shares	'A' Ordinary Shares 1p Paid	Ordinary Shares	Ordinary Shares	'A' Ordinary Shares 1p Paid	Ordinary Shares
Sir John E. Cohen	4,816,857		718,956	4,816,857		718,956
Mr. L. Porter	6,989,829		8,882,145	6,989,829		8,882,145
Mr. I. C. MacLaurin	101,004	63,281		101,004	63,281	
Mr. D. Behar	411,291			668,705		
Mr. M. Darnell	—	25,312		—	25,312	
Mr. D. G. Harris	6,500	44,296		6,500	44,296	
Miss D. D. Hyams	121,287			121,287		
Mr. H. Kreitman	1,950,000		15,024,604	3,071,547		15,224,604
Mr. F. R. N. Krejsa	2,080	44,296		2,080	44,296	
Mr. R. Temple	—	44,296		7,468	44,296	
Mr. G. R. Wood	17,695	63,281		17,695	63,281	

5,270,378 ordinary shares, non-beneficial as trustee, are duplicated above; 718,956 (1976—718,956) shares by Sir John E. Cohen and Mr. H. Kreitman jointly and 4,551,422 (1976—4,551,422) by Mr. L. Porter and Mr. H. Kreitman jointly.

Apart from the directors and their family interests listed above there are no persons holding or, as far as the register of shareholders discloses, beneficially interested in any substantial part of the share capital of the company.

Between 27th February, 1977 and 4th June, 1977 there have been the following sales of ordinary shares:

Mr. H. Kreitman 1,825,000 (non-beneficial) and Mr. D. Behar 150,000.

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

### Market value of land held as fixed assets

A revaluation of the group properties was carried out by Messrs. Healey and Baker as at 30th November, 1972 and disclosed a surplus of approximately £37,400,000 over book value which has not been reflected in the balance sheet.

### Employees and their remuneration

The average number of employees per week during the period was 37,480 (1976—38,783)—full time equivalent 28,413 (1976—28,782). The aggregate remuneration paid to employees for the period was £65,047,000 (1976—£57,013,000).

### Exports

Exports from the United Kingdom amounted to £53,000 (1976—£3,000).

### Number of shareholders

The number of shareholders of the company at 26th February, 1977 was 73,293 (1976—76,481).

### 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 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,  
M. J. BOXALL,  
Secretary.

4th July, 1977.

## Ten Year Record of the Tesco Group

Year ended February	1968	1969	1970 (a)	1971	1972	1973	1974	1975	1976 (a)	1977
<i>£000's</i>										
Turnover	136,323	191,405	238,427	259,383	299,701	359,013	423,032(b)	500,789(b)	617,044(b)	701,291(b)
Net profit before tax	8,313	10,207	12,519	13,819	16,548	21,734	24,558	23,248	25,052	30,187
Taxation	3,716	4,676	5,850	5,338	6,678	8,780	12,695	12,621	13,412	16,003
Net profit after tax	4,597	5,531	6,669	8,481	9,870	12,954	11,863	10,627	11,640	14,184
Net surplus on sale of properties	120	349	357	442	406	418	380	274	84	649
Extraordinary items	—	(151)	—	—	—	—	(1,000)	879	168	250
Dividends (c)	2,011	2,239	3,371	3,923	4,643	3,577	3,493	3,842	4,195	4,614
Retained	2,706	3,490	3,655	5,000	5,633	9,795	7,750	7,938	7,697	10,469
Fixed assets including investments	25,272	36,083	41,440	49,034	53,928	58,092	71,516	80,435	89,978	102,453
Net current assets	(3,940)	254	67	(2,338)	555	8,335	6,234	13,908	17,781	23,931
Total net assets	17,099	29,980	33,668	38,853	44,501	54,296	59,986	68,771	76,595	81,056
<i>In Pence</i>										
Dividends per share (d)	0.71	0.76	1.08	1.26	1.49	1.04	1.13	1.22	1.33	1.46
Earnings per share (e)	1.63	1.88	2.14	2.73	3.17	4.17	3.82	3.42	3.68	4.49
Net profit before tax as % of turnover	6.09	5.33	5.25	5.32	5.52	6.05	5.81	4.64	4.06	4.30

(a) 53 week period.

(b) Exclusive of Value Added Tax.

(c) Amounts shown from 1973 inclusive are the amounts payable to shareholders. Prior to 1973 the gross amounts are shown.

(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.

## Auditors' Report

to the members of Tesco Stores (Holdings) Limited

We have examined the accounts and statement of source and application of funds set out on pages 9 to 13 and 15 to 19 which have been prepared under the historical cost convention.

In our opinion the accounts together give on this basis so far as concerns the members of the holding company a true and fair view of the state of affairs at 26th February, 1977, and of the profit for the 52 weeks ended on that date and comply with the Companies Acts, 1948 and 1967 and the statement on page 13 gives a true and fair view of the source and application of the group's funds for the 52 weeks ended on the 26th February, 1977.

HOGG BULLIMORE & CO.  
*Chartered Accountants.*

London  
22nd June, 1977.

## Accounting Policies

### 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 wholly owned.

### Associated companies

Associated companies are not subsidiaries but are companies in which members of the group hold not less than 20% of the equity voting rights. Particulars of these companies are provided in Note 12 to the accounts.

The attributable results of the associated companies are omitted from the accounts since the directors consider that the inclusion of such results would be misleading.

### Stocks

Stocks are valued on a consistent basis at the lower of cost or net realisable value at the beginning and end of the period of the accounts.

### Depreciation

Depreciation of plant, equipment, fixtures and fittings and vehicles is provided on an equal annual instalment basis over the anticipated useful working lives of the assets.

Leasehold properties are amortised on 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
No depreciation is provided on freehold properties.	

### Deferred taxation

Deferred taxation represents corporation tax at current rates on the amounts:

- (a) by which the accumulated taxation allowances on fixed assets exceed provisions for depreciation to date,
- (b) of relief in respect of increases in the value of stocks,
- (c) of other timing differences in corporation tax payable arising on income and expenditure.

Advance corporation tax on dividends paid and proposed, which is expected to be recoverable, is deducted from deferred taxation.

# Consolidated Profit and Loss and Appropriation Account

52 weeks ended 26th February, 1977

	Notes	1977 (52 weeks)	£000's	1976 (53 weeks)
<b>Sales to customers at net selling prices</b>		721,303		634,831
<i>Deduct Value Added Tax</i>		20,012		17,787
<b>Sales excluding Value Added Tax</b>		<u>£701,291</u>		<u>£617,044</u>
<b>Trading profits of the group</b>	1	34,820		29,532
<i>Add Interest and dividends</i>	2	2,783		2,569
		<u>37,603</u>		<u>32,101</u>
<i>Deduct</i>				237
Emoluments of directors of parent company	3	234		
Amortisation, amounts written off and depreciation of fixed assets	11	<u>7,182</u>	<u>7,416</u>	<u>6,812</u>
				<u>7,049</u>
<b>Net profit subject to taxation</b>			30,187	25,052
<i>Deduct Taxation</i>	4		<u>16,003</u>	<u>13,412</u>
<b>Net profit after taxation</b>			14,184	11,640
<i>Add Net surplus on sale of properties</i>			<u>649</u>	<u>84</u>
<b>Net profit after taxation before Extraordinary items</b>			14,833	11,724
<i>Add Extraordinary items</i>	5		<u>250</u>	<u>168</u>
<b>Net profit after taxation and Extraordinary items</b>			15,083	11,892
<i>Deduct Dividends</i>	6		<u>4,614</u>	<u>4,195</u>
<b>Retained profit added to reserves</b>				
Parent company		9,593		6,603
Subsidiary companies		<u>876</u>		<u>1,094</u>
			<u>£10,469</u>	<u>£7,697</u>
<b>Earnings per ordinary share</b>	7		<u>4.49p</u>	<u>3.68p</u>

Accounting policies and notes forming part of these accounts are on page 9 and pages 15 to 19.

# Consolidated Balance Sheet

26th February, 1977

	Notes	1977	£000's	1976
<b>Capital employed</b>				
<b>Issued capital of parent company</b>	8	15,829		15,829
<b>Reserves</b>	9	71,227		60,766
		<u>87,056</u>		<u>76,595</u>
<b>Total share capital and reserves</b>		32,942		25,118
<b>Deferred taxation</b>	10	<u>£119,998</u>		<u>£101,713</u>
<b>Employment of capital</b>				
<b>Fixed assets</b>	11	98,526		86,077
<b>Investments</b>	12	3,927		3,901
<b>Current assets</b>				
Stocks		84,208		66,152
Debtors		3,875		4,641
Cash and short term deposits		25,419		23,135
		<u>113,502</u>		<u>93,928</u>
<b>Deduct Current liabilities</b>				
Creditors and accrued expenses		76,609		64,544
Current taxation	4	8,348		7,408
Dividends		4,614		4,195
		<u>89,571</u>		<u>76,147</u>
<b>Net current assets</b>		23,931		17,781
		<u>126,384</u>		<u>107,759</u>
<b>Deduct Debentures secured on certain properties of a subsidiary company</b>	13	419		436
		<u>125,965</u>		<u>107,323</u>
<b>Deduct Corporation tax payable 1st January, 1978</b>	4	5,967		5,610
		<u>£119,998</u>		<u>£101,713</u>

L. PORTER  
J. E. COHEN } *Directors*

Accounting policies and notes forming part of these accounts are on page 9 and pages 15 to 19.

# Balance Sheet—Tesco Stores (Holdings) Ltd.

26th February, 1977

	Notes	1977		1976	
		Authorised	Issued	Authorised	Issued
<b>Capital employed</b>					
Share capital	8	<u>17,500</u>	15,829	<u>17,500</u>	15,829
<b>Reserves</b>	9		65,371		55,778
Total share capital and reserves			<u>81,200</u>		<u>71,607</u>
Deferred taxation	10		167		313
			<u>£81,367</u>		<u>£71,920</u>
<b>Employment of capital</b>					
Investments	12		3,824		3,898
Subsidiary companies	15				
Shareholdings at cost		4,390		4,390	
Add Net amount due from subsidiary companies		<u>65,385</u>	69,775	<u>53,685</u>	58,075
<b>Current assets</b>					
Debtors		471		698	
Cash and short term deposits		<u>17,878</u>		<u>18,091</u>	
		<u>18,349</u>		<u>18,789</u>	
<b>Deduct Current liabilities</b>					
Creditors and accrued expenses		902		525	
Current taxation		3,690		3,122	
Dividends		<u>4,614</u>		<u>4,195</u>	
		<u>9,206</u>		<u>7,842</u>	
<b>Net current assets</b>			9,143		10,947
			<u>82,842</u>		<u>72,920</u>
<b>Deduct Corporation tax payable</b>					
1st January, 1978			1,475		1,000
			<u>£81,367</u>		<u>£71,920</u>

L. PORTER }  
J. E. COHEN } *Directors*

Accounting policies and notes forming part of these accounts are on page 9 and pages 15 to 19.

# Consolidated Statement of Source and Application of Funds

52 weeks ended 26th February, 1977

	£000's	
	1977 (52 weeks)	1976 (53 weeks)
<b>Revenue funds</b>		
<b>Source of funds</b>		
Profit before tax	30,187	25,052
Adjustment for item not involving the movement of funds:		
Depreciation	<u>7,182</u>	<u>6,812</u>
	37,369	31,864
<b>Deduct</b>		
<b>Application of funds</b>		
Dividends paid	4,195	2,943
Taxation paid	6,882	3,702
Increase in stock	18,056	8,505
Decrease in debtors	(626)	933
Increase in creditors	<u>(12,945)</u>	<u>(7,762)</u>
	15,562	8,321
	21,807	23,543
<b>Capital funds</b>		
<b>Source of funds</b>		
Extraordinary items	250	168
Proceeds from sale of fixed assets	1,697	2,415
Disposal of quoted investments	<u>—</u>	<u>265</u>
	1,947	2,848
<b>Deduct</b>		
<b>Application of funds</b>		
Purchase of fixed assets	20,679	20,551
Investments	26	8
Additional costs applicable to previous acquisition	8	—
Debentures redeemed	17	51
Decrease in debtors	(140)	50
Decrease in creditors	<u>880</u>	<u>(1,050)</u>
	21,470	19,610
	(19,523)	(16,762)
<b>Movement in net liquid funds</b>		
Increase in cash and short-term deposits	<u>£2,284</u>	<u>£6,781</u>

## Inflation Accounting

The following figures are based on estimates and are unaudited. In view of the current debate upon the contentious proposals on current cost accounting set out in Exposure Draft 18 based on recommendations of the Morpeth Committee, it is considered inappropriate to produce more comprehensive figures than those set out below.

	Notes	£ millions	
		1977 (52 weeks)	1976 (53 weeks)
<b>Net profit subject to taxation (historical)</b>		30.2	25.0
<i>Deduct</i>			
Cost of sales adjustment	(a)	10.6	9.6
Depreciation adjustment	(b)	4.1	3.4
		<u>15.5</u>	<u>12.0</u>
<i>Add</i>			
Net monetary liabilities adjustment	(c)	9.2	10.1
<b>Inflation adjusted profit subject to taxation</b>		<u>£24.7</u>	<u>£22.1</u>

### Notes

- (a) The cost of sales adjustment has been made on the basis of the "averaging method" and has been calculated by reference to the appropriate Central Statistical Office indices.
- (b) The adjustment represents the additional amount which should be provided to cover the current cost of replacing fixed assets which is higher than the original cost upon which the historical depreciation charge has been computed. For the purpose of this statement, no depreciation has, however, been provided on freehold property.
- (c) The adjustment for net monetary liabilities has been made by reference to the Retail Price Index using the "averaging method" as applied to the cost of sales adjustment.  
The net monetary liabilities comprise creditors and accrued expenses, taxation, dividends payable and debentures, less debtors, cash and short-term deposits.



## Notes to be read as part of the Accounts

	1977	£000's	1976
<b>1. Trading profits of the group</b>			
are stated after charging:			
Auditors' remuneration	62		54
Debenture interest	25		28
Surplus on redemption of debentures	(1)		(18)
	<u>62</u>		<u>54</u>
<b>2. Interest and dividends</b>			
Interest receivable on short-term loans	2,749		2,380
Deduct interest payable on short-term loans	213		47
	<u>2,536</u>		<u>2,337</u>
Dividends receivable on quoted investments, including tax credit	247		232
	<u>£2,783</u>		<u>£2,569</u>
<b>3. Directors' emoluments</b>			
Fees for services as directors	1		1
Other emoluments, including pension contributions	233		236
	<u>£234</u>		<u>£237</u>

Emoluments waived by one director £18,500 (1976—£11,537)

Directors' emoluments and the emoluments of other employees in excess of £10,000, excluding pension contributions, fall within the following scales

	Number of directors		Number of other employees	
	1977	1976	1977	1976
Up to £2,500	—	1		
From £2,501 to £5,000	1	1		
" £10,001 to £12,500	1	1	13	8
" £12,501 to £15,000	1	1	2	2
" £15,001 to £17,500	2	1		
" £17,501 to £20,000	2	4		
" £20,001 to £22,500	2	1		
" £22,501 to £25,000	1	1		
" £25,001 to £27,500	1	1		

The emoluments of the Chairman amounted to £22,700 (1976—£22,700) and the highest paid director £25,613 (1976—£26,061)

## Notes (continued)

	1977	1976
<b>4. Taxation</b>		
Corporation tax at 52%	8,225	7,159
Deferred taxation, including that applicable to stock appreciation relief of £7,200,000 (1976—£3,000,000)	7,879	6,281
plan	16,104	13,440
Less: Overprovision for corporation tax in respect of previous periods	101	28
	<u>£16,003</u>	<u>£13,412</u>

The corporation tax payable on 1st January, 1978 is reduced by £2,258,000 (1976—£1,549,000) in respect of advance corporation tax.  
Current taxation has been reduced by group relief payments made to an associated company amounting to £4,508,000.

<b>5. Extraordinary Items</b>		
Overprovision for losses of a former subsidiary—following receipt of group relief payment	—	168
Goodwill realised on sale of bakeries	250	—
	<u>£250</u>	<u>£168</u>

<b>6. Dividends</b>		
Declared interim—0.6325p per share (1976—0.5750p)	2,000	1,818
Proposed final—0.8267p per share (1976—0.7516p)	2,614	2,377
	<u>£4,614</u>	<u>£4,195</u>

- 7. Earnings per ordinary share**  
The calculation of the earnings per ordinary share is based on £14,184,000 (1976—£11,640,000), being the net profit after taxation excluding net surpluses on the sale of properties and extraordinary items divided by the average number of ordinary 5p shares in issue during the year of 316,187,160 (1976—316,011,442).

<b>8. Issued Share Capital</b>				
Shares of 5p each				
Ordinary	"A" Ordinary		Ordinary (fully paid)	"A" Ordinary (1p paid)
316,187,160	2,018,643	Issued at 29th February, 1976 and 26th February 1977	£15,809	£20
<u>          </u>	<u>          </u>		<u>          </u>	<u>          </u>

## Notes (continued)

	Consolidated £000's		Tesco Stores (Holdings) Limited £000's	
	1977	1976	1977	1976
<b>9. Reserves</b>				
As at 29th February, 1976	60,766	53,145	55,778	48,479
Retained profit for the period	10,469	7,697	9,693	6,603
Provision for interim dividend in respect of the 52 weeks ended 22nd February, 1975 not required as a result of scrip dividend elections	—	899	—	899
Amount applied towards shares issued at nominal value in lieu of dividend paid 10th March, 1975	—	(203)	—	(203)
Additional cost applicable to previous acquisition	(8)	—	—	—
Depreciation adjustment in respect of previous years—net after deferred tax adjustment of £— (1976—£836,000)	—	(772)	—	—
As at 26th February 1977	<u>£71,227</u>	<u>£60,766</u>	<u>£65,371</u>	<u>£55,778</u>

The totals above are made up as follows:

Share premium account	5,139	5,139	5,139	5,139
Capital reserve account	4,596	3,704	—	—
Unappropriated profits	61,492	51,923	60,232	50,639
	<u>£71,227</u>	<u>£60,766</u>	<u>£65,371</u>	<u>£55,778</u>

The balance on capital reserve includes £3,650,000 (1976—£3,001,000) realised surpluses on disposal of fixed assets, the liability to tax thereon, where applicable, being dealt with under the provisions of Section 33 of the Finance Act, 1965, and Section 276 of the Income and Corporation Taxes Act, 1970.

	Consolidated £000's		Tesco Stores (Holdings) Limited £000's	
	1977	1976	1977	1976
<b>10. Deferred taxation</b>				
Balance at 29th February, 1976	25,118	19,940	313	132
Transfer from current taxation	171	442	—	—
Transfer from profit and loss account (note 4)	7,879	6,281	(146)	181
Advance corporation tax transferred, deducted from corporation tax payable 1st January, 1978	2,258	1,549	—	—
	<u>35,426</u>	<u>28,212</u>	<u>167</u>	<u>313</u>
<i>Less</i>				
Advance corporation tax recoverable 1st January, 1979	2,484	2,258	—	—
Prior year adjustment due to change in basis of depreciation, transferred to reserves	—	836	—	—
	<u>£32,942</u>	<u>£25,118</u>	<u>£167</u>	<u>£313</u>

It is considered that, within the foreseeable future, out of the balance of £35,426,000 (1976—£28,212,000) the amount of £35,103,000 (1976—£26,907,000), being taxation deferred by reason of stock appreciation relief £21,109,000 (1976—£13,738,000) and capital allowances £13,994,000 (1976—£13,169,000) will not become payable.

## Notes (continued)

### 11. Fixed assets

	£000's				
	<i>Freeholds</i>	<i>Leaseholds 50 years or more</i>	<i>less than 50 years</i>	<i>Plant equipment fixtures &amp; fittings &amp; vehicles</i>	<i>Total</i>
<b>Cost</b>					
As at 29th February, 1976	36,281	12,122	9,044	66,718	124,165
Additions	8,091	3,782	1,702	7,104	20,679
	<u>44,372</u>	<u>15,904</u>	<u>10,746</u>	<u>73,822</u>	<u>144,844</u>
Deduct disposals	466	—	245	1,977	2,688
As at 26th February, 1977	<u>£43,906</u>	<u>£15,904</u>	<u>£10,501</u>	<u>£71,845</u>	<u>£142,156</u>
<b>Depreciation</b>					
As at 29th February, 1976		543	2,511	35,034	38,088
Charge for period		106	419	6,657	7,182
		<u>649</u>	<u>2,930</u>	<u>41,691</u>	<u>45,270</u>
Deduct disposals		—	80	1,560	1,640
As at 26th February, 1977	<u>—</u>	<u>£649</u>	<u>£2,850</u>	<u>£40,131</u>	<u>£43,630</u>
<b>Net book value at 26th February, 1977</b>	<u>£43,906</u>	<u>£15,255</u>	<u>£7,651</u>	<u>£31,714</u>	<u>£98,526</u>
<b>Net book value at 28th February, 1976</b>	<u>£36,281</u>	<u>£11,579</u>	<u>£6,533</u>	<u>£31,684</u>	<u>£86,077</u>

	<i>Consolidated £000's</i>		<i>Tesco Stores (Holdings) Limited £000's</i>	
	1977	1976	1977	1976
Unquoted, at cost less amounts written off (Directors' valuation £3,000 (1976—£3,000))	3	3	—	—
Quoted at cost (Market valuation £2,794,000 (1976—£3,539,000))	3,637	3,637	3,637	3,637
Associated companies (Directors' valuation £1,000 (1976—£1,000)—cost £100)	1	1	1	1
	<u>3,641</u>	<u>3,641</u>	<u>3,638</u>	<u>3,638</u>
Loan to associated company	286	260	286	260
	<u>£3,927</u>	<u>£3,901</u>	<u>£3,924</u>	<u>£3,898</u>

#### Investments in associated companies

	<i>Percentage of equity held</i>	<i>Registered in</i>
Bannergrade Limited	50	England
Vence Developments (Netherlands) B.V.	30	Netherlands
Vence Developpements (France) S.A.R.L.	30	France

## Notes (continued)

	£000's	
	1977	1976
<b>13. Debentures</b>		
6½% Debenture Stock 1975/80	43	56
Add Interest accrued	1	1
	44	57
6% Debenture Stock 1983/88	371	375
Add Interest accrued	4	4
	375	379
	<u>£419</u>	<u>£436</u>

- (a) The 6½% Debenture Stock 1975/80 is secured by way of a first mortgage on certain assets of Tesco Stores Limited under a Trust Deed dated 20th December, 1955, as amended by a Supplemental Trust Deed dated 10th April, 1972, and is redeemable
- by the application of a sinking fund established by annual instalments since 30th September, 1956 at a premium of 2%; or
  - at the company's option at any time after 30th September, 1975, at a premium of 2½%; or
  - if still outstanding at 30th September, 1980, at 102%.

The authorised amount of the issue is £200,000 and £157,439 has been redeemed to date at a premium of 2%. The interest payable was increased by the said Supplemental Trust Deed to 6½% per annum. Under the said Supplemental Trust Deed the parent company has acted as surety for Tesco Stores Limited.

- (b) The 6% Debenture Stock 1983/88 is now secured by way of a first mortgage on certain assets of Tesco Stores Limited under a Trust Deed dated 3rd July, 1963, as amended by a Supplemental Trust Deed dated 10th April, 1972, and is redeemable

- by the application of a sinking fund to be established by annual instalments commencing during the year ended 30th June, 1968;
- at par, at the company's option, at any time after 30th June, 1983;
- by purchase through the market or by tender at a price not exceeding par plus accrued interest; or
- if still outstanding at 30th June, 1988, at par.

The authorised amount of the issue is £650,000 and £278,709 has been redeemed to date by purchase through the market.

Under the said Supplemental Trust Deed the parent company has acted as surety for Tesco Stores Limited.

## 14. Capital commitments

At 26th February, 1977

- There were commitments for capital expenditure of approximately £30,400,000 (1976—£9,953,000)
- Capital expenditure authorised by the Board but not contracted for amounted to £14,500,000 (1976—£11,980,000)

## 15. Subsidiary companies

- Tesco Stores Limited, operated and registered in England, is the only subsidiary company which, in the opinion of the directors, materially affected the amount of the profit or assets of the group. The issued share capital of the company which consists of £1 ordinary shares is wholly owned by Tesco Stores (Holdings) Limited.

	£000's	
	1977	1976
(b) Amounts due from subsidiary companies	145,124	223,245
Deduct Amounts due to subsidiary companies	79,739	169,560
	<u>£65,385</u>	<u>£53,685</u>

## Analysis of Store Sizes

An updated analysis of stores by size for each of the six years ended February 1977 is set out below together with projections for the two following years. The substantial increase in the number of stores over 20,000 sq. ft. as well as the reduction in the very small units is in accordance with the company's declared policy.

At Feb	Up to 2,000 sq. ft.	2,000 to 5,000 sq. ft.	5,000 to 10,000 sq. ft.	10,000 to 15,000 sq. ft.	15,000 to 20,000 sq. ft.	20,000 to 30,000 sq. ft.	Over 30,000 sq. ft.	Total
1972	274	245	180	58	11	23	—	791
1973	237	252	176	64	19	23	2	773
1974	222	250	179	69	18	28	7	773
1975	202	236	179	64	23	31	12	747
1976	195	223	178	68	26	32	22	744
1977	179	212	179	70	28	34	24	726
1978*	154	202	179	70	30	37	30	702
1979*	129	191	178	73	34	39	40	684

\*Projected

## Sales Area Analysed Under Size of Stores

An analysis of sales area under store size classification indicating the percentage that each classification bears in terms of net sales area to the whole is given below. Of particular significance is that whilst at February 1977 391 stores out of a total of 726 (54%) were below 5,000 sq. ft. they accounted for only 17% of the total sales area. At February 1972, stores below 5,000 sq. ft. accounted for not less than 30% of the total sales area.

At Feb	Thousands square feet														Total
	Up to 2,000 sq. ft.	%	2,000 to 5,000 sq. ft.	%	5,000 to 10,000 sq. ft.	%	10,000 to 15,000 sq. ft.	%	15,000 to 20,000 sq. ft.	%	20,000 to 30,000 sq. ft.	%	Over 30,000 sq. ft.	%	
1972	221	6	878	24	1,219	33	704	19	216	6	467	12	—	—	3,705
1973	215	6	882	22	1,276	32	715	18	322	8	467	12	61	2	3,938
1974	208	5	872	20	1,271	29	824	19	298	7	629	15	227	5	4,329
1975	192	4	847	19	1,270	28	800	17	379	8	666	15	419	9	4,573
1976	190	4	793	16	1,258	25	835	16	438	8	716	14	869	17	5,099
1977	168	3	755	14	1,266	24	872	17	477	9	764	15	936	18	5,238
1978*	143	2	731	13	1,268	23	872	16	517	9	839	15	1,211	22	5,581
1979*	118	2	702	11	1,270	21	910	15	583	10	882	14	1,648	27	6,110

\*Projected

## Principal Directors (other than Parent Board Directors)

M. J. Boxall, A.C.I.I. *Company Secretary*

R. E. Clark *Retail Regional Managing Director*

C. J. Goodfellow *Retail Regional Managing Director*

P. G. Herbert, F.C.A. *Chief Accountant*

B. C. Hewitt *Retail Managing Director (Food Stores Division)*

A. D. Malpas *Retail Joint Managing Director*

C. Longley *Retail Regional Managing Director*

R. S. Parker *Assistant Managing Director (Fresh Foods Division)*

H. F. Pennell *Deputy Managing Director (Grocery Wholesale Division)*

J. Russell *Joint Managing Director (Non-Food Division) —Furniture*

B. J. Tree *Distribution and Industrial Relations Director*

D. C. Tuffin *Retail Regional Managing Director*

P. G. Uttley, F.I.I.C. *Personnel Services Director*

B. R. Williams *Retail Regional Managing Director*

E. S. Williams *Joint Managing Director (Non-Food Division) —Purchasing*