

**TESCO**



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# Accelerating growth through our customer focused strategy

- **Strong UK core business** continues to grow
- **Non-food** growing market share
- **Following the customer** providing new products and services such as e-commerce and Tesco Personal Finance
- **International business** achieving real scale

## financial highlights

Group sales	up 9.8%
Group profit before tax <sup>†</sup>	up 8.4%
Earnings per share <sup>†‡</sup>	up 8.6%
Dividend per share	up 8.7%

	2000 52 weeks	1999 52 weeks	1998* 52 weeks (pro forma)
Group sales (including value added tax) (£m)	20,358	18,546	17,447
Group operating profit (prior to integration costs and goodwill amortisation) (£m)	1,043	965	895
Profit on ordinary activities before tax <sup>†</sup> (£m)	955	881	817
Group enterprise value (market capitalisation plus net debt) (£m)	13,591	13,528	12,556
Earnings per share <sup>†‡</sup> (p)	10.18	9.37	8.70
Dividend per share (p)	4.48	4.12	3.87
Number of stores	845	821	781
Retail selling area (000 sq ft)	24,039	21,353	18,254

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

<sup>‡</sup> Adjusted diluted.

\* 1998 was a 53 week year. For comparison purposes a pro forma 52 week profit and loss account has been used.

The Tesco Group has achieved another excellent set of results. Growth in all areas of our business contributed to an increase of 9.8% in Group sales, to £20.4bn. Group profit before tax is up by 8.4% to £955m and adjusted diluted earnings per share rose by 8.6% to 10.18p. The Board has recommended a final net dividend of 3.14p, making the total dividend for the year 4.48p, maintaining cover at 2.27 times.

These results demonstrate both focused strategy and innovative management. In markets characterised by some of the toughest ever trading conditions, Tesco is one of the very few major retailers to deliver continued profit growth.

We have four parts to our strategy:

**Strong UK core business** While the industry saw very little growth over the past year, Tesco continued to increase market share through our policy of getting cheaper, offering better value and providing more choice and convenience for our customers.

**Non-food business** Tesco has gained rapid share of a market worth £75bn in the UK where our goal is to be as strong in non-food as in food.

**Following the customer** As customers' shopping habits change – we change and respond by providing new products and services.

Our e-commerce business has grown rapidly and to continue its development we will give it additional focus through setting up tesco.com, a 100% subsidiary. Tesco Personal Finance continues to grow and develop excellent products offering value and choice. In recognition of its excellent value TPF recently won the Best Direct Credit Card award.

**International strategy** Tesco has been successful in opening up new growth markets in Central Europe and Asia. These, together with our growing business in the Republic of Ireland, raised the proportion of total Group space outside the UK to 30% last year.

We shall continue to pursue this strategy, believing that it is the best way forward for Tesco, and will accelerate our earnings growth.

Lesley James, our Human Resources Director, left the Group in April 1999, after 15 years with Tesco. We would all like to thank her for her contribution during that time. We also welcome Harald Einsmann, who was appointed as a Non-executive Director in April 1999.

For three of the last four years, Tesco was judged by its peers, to be the UK's most admired company. The judges said, 'the feeling about Tesco remains that its strategy is crystal clear, well understood by staff and customers.'

That accolade is due in no small measure to the efforts of the 220,000 Tesco people who are busy delivering that strategy. I would like to congratulate them all on another great year of progress, and to thank them for the part they have played, as individuals and teams, in making Tesco such a powerful force for growth.



## chairman's statement

The Tesco Group has delivered another set of excellent results driven by our determination to be number one for customers wherever we are. In the UK we continued to lower prices and increase service for customers gaining us further market share despite the industry seeing very little growth. Internationally, we accelerated our expansion programme adding 16 new hypermarkets in six countries.

John Gardiner Chairman

**CHIEF EXECUTIVE'S REVIEW**

growing the business to create value



Tesco is a successful growth company, and our success derives from simple principles. We work towards one core purpose: to create value for our customers, to earn their lifetime loyalty. This statement continues to be at the centre of all we do. Our two values drive the whole way we do business. 'No one tries harder than we do for customers' reflects our obsession with value and service. 'We treat people the way we like to be treated' expresses the consideration we give people within and outside the company.



Chief Executive Terry Leahy on one of his regular store visits, meets Store Manager Brian Burns, staff and customers at Tesco Extra, Kingston Park Centre, Newcastle upon Tyne.

## for customers to earn their lifetime loyalty

Our purpose, values and goals work together to create the culture and environment in which our strategy succeeds. The key elements of our strategy are:

Our strong **UK core business** has increased its market share to 15.5% because we understand better than others what customers want, and how best to provide it.

In 1999, we increased value further by reducing the prices of our customers' everyday shopping basket by £380m. This is the seventh successive year of price investment. Tesco prices, in real terms, are now 7.5% cheaper than they were four years ago. We improved service and convenience by opening 38 new stores of various formats across the UK and extending trading hours still further.

In **non-food** we are rapidly growing market share by bringing real value to customers. We have increased market share to 3% and we are confident that this strategy will continue to deliver further sales and earnings growth, doubling market share over the next four years.

We now have nine Extra stores, which stock our full range of non-food products. One of these, at Newcastle upon Tyne is our first UK store to reflect learning from our international hypermarket business. We also introduced non-food Worlds into 40 new or refurbished stores across the UK.

We **follow the customer** – by providing new products and services. This is another reason why we have developed e-commerce and Tesco Personal Finance.

Tesco grocery home shopping is the largest internet grocery business in the world. It has annualised turnover of £125m, is already profitable and is at least two years ahead of the next best. By the end of 2000 it will be available to 90% of the UK population with annualised turnover of £300m.

Tesco Personal Finance is our fast growing financial services business. We doubled the number of accounts this year to 1.5 million by offering value and choice to our customers.

Our **international business** is quickly developing capability, building scale and accelerating growth. Our formula is to develop a world-class hypermarket format with a common layout, common operations and common systems, overlaid with local marketing, local services, local staff and local management. We have operations in Europe and Asia, accessing 250 million people.

Last year in Central Europe we opened 11 new hypermarkets. In Thailand we opened three hypermarkets, and in South Korea we acquired two hypermarkets in a partnership with Samsung. In the Republic of Ireland, we continued to rebrand the stores acquired in 1997 and will open two new stores in 2000.

International space is now 30% of the Group total. This will increase rapidly and reach 45% by the end of 2002, showing the scale and pace of our development.

We have devoted a substantial amount of senior management time to the Competition Commission inquiry who are now expected to report to the Secretary of State in July 2000. They have already found what our customers know – that prices have fallen in real terms and that there are high levels of consumer satisfaction with supermarkets. Despite the demands of the inquiry we have not taken our eye off the ball.

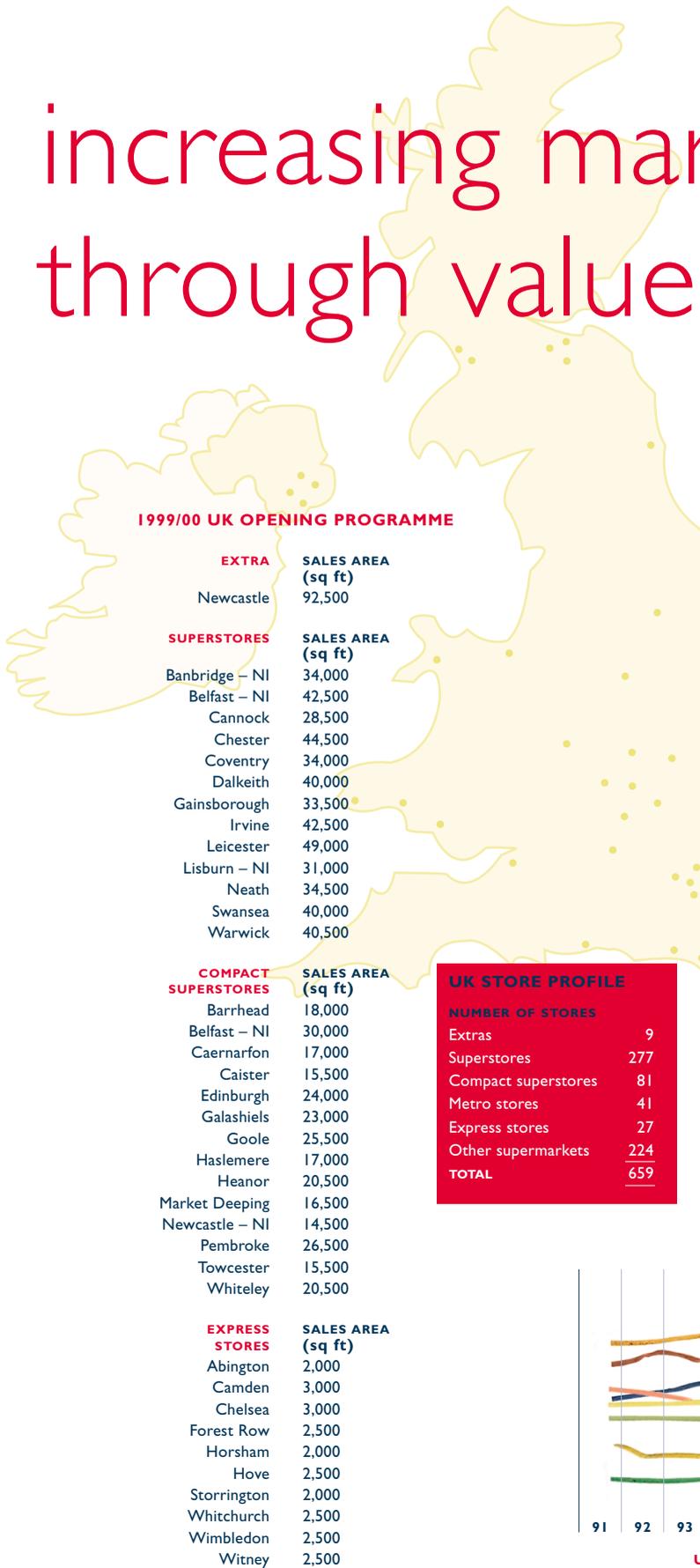
Momentum runs right across our business – food, non-food, home shopping, Tesco Personal Finance and internationally. We are moving from being a strong domestic player to an international retailer of real scale.

Overall, 3.5m sq ft of new space will open in the year ahead, two-thirds of it outside the UK. We expect our average annual earnings growth to reflect this in the next few years, particularly as our international business achieves economic scale and our e-commerce business continues to grow rapidly.

Terry Leahy Chief Executive

GROWTH IN THE UK BUSINESS

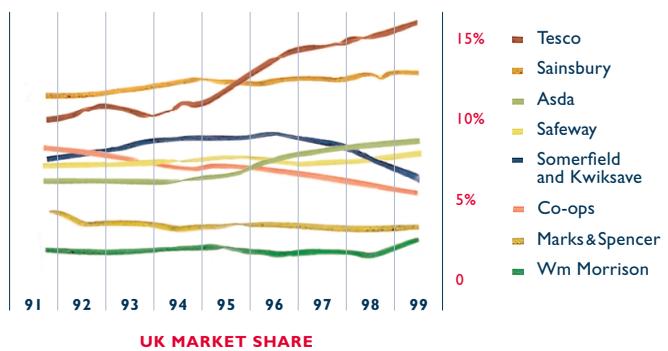
# increasing market share through value and service



**Focus on customers** is central to our strategy in the UK. Our customers tell us they want the best value and widest range of food, available in convenient locations and at times when they want to shop. By delivering this, we make sure that our customers continue to choose Tesco in preference to others.

**UK STORE PROFILE**

NUMBER OF STORES	
Extras	9
Superstores	277
Compact superstores	81
Metro stores	41
Express stores	27
Other supermarkets	224
<b>TOTAL</b>	<b>659</b>





Value means guaranteed low prices on everyday products plus the widest choice of quality across a huge range of lines.



Tesco Express brings convenience and value to many new locations.



Lowering prices even further is a key part of our UK strategy. In 1999, we invested £380m in five separate price campaigns, reducing prices on thousands of items, including many of the UK's biggest brands, by an average of nearly 10%. Shopping at Tesco is becoming continually and permanently cheaper, in real terms, and our typical basket of goods is the best value in Europe.

Customers want everyday products at guaranteed low prices, so we have added more products and bigger packs to our range. They also want top-quality products at excellent prices, from all of our ranges including Finest, Organics and Healthy Eating. Clubcard Deals also offer better value than ever: Customers can now choose between spending their vouchers in-store or on amazing deals – a flight to Amsterdam for £20, the best seats in the West End for £7.50 or a weekend on the French Riviera for £68.50.

**Convenience shopping** should be just that – convenient for our customers. That is why we now have nearly 200 stores trading 24 hours a day and in total, over half of our stores are open until 10pm. To improve the shopping experience we aim to offer the best service of any UK business – this year we launched an initiative to offer every customer help at the checkout.

In February 2000, we announced our three-year plan to create up to 150 new Tesco Express stores on Esso petrol station forecourts, which will bring the convenience and value of Tesco to a lot more localities.

GROWTH IN THE UK BUSINESS



investing in our customers  
through efficient operations

**Our change programmes** continue to reduce capital and operational costs allowing us to invest even more in price reductions and increased service for our customers.





Tesco Extra, at Kingston Park Centre, Newcastle upon Tyne, opened in November 1999. It has been built to our new hypermarket blueprint.

Tesco Brackmills Distribution Centre, Northampton, incorporates new supply chain processes to enhance the distribution of wines and spirits to our stores.

**Our supply chain initiatives** are good examples of how we are releasing time and resources through smarter, more focused operations. Simply by using a different process to stock shelves we dramatically reduced our product replenishment costs. Through working with our suppliers in another important initiative, they can now deliver fast-moving merchandise, like carbonated drinks, in ready-for-display packs, which can be wheeled straight onto the shop floor and require no unpacking or shelf-filling. And, through the introduction of new paperless-picking technology we achieve greater efficiency and higher standards of accuracy in the deliveries our stores receive.

After three years of development we are updating our sales-based ordering system and in 150 stores have successfully moved from a batch ordering system to a continuous flow system. Products are automatically reordered as they are sold, using data captured hourly by our tills.

The changeover, to be completed during 2001, will reduce stock levels while significantly increasing the availability of merchandise.

**Building for the future** is our programme for the way we build, fit-out and operate our stores so that they are cheaper to build, more economic to run and environmentally sensitive. It breaks away from traditional construction practices and introduces ideas like building with low-cost steel frameworks and designing buildings around standard modules which can be purchased in volume.

We put the concept into action at our new Haverfordwest store, which opened just after the year end. The capital costs of this new superstore were 27% lower than for a store of the same size built the old way, with maintenance costs projected to fall by 15%. All this has been achieved without compromising store quality, customer convenience, service or our approach to energy reduction.

## GROWTH IN NON-FOOD RETAILING

# extending our sales into a new world of products



## Non-food retailing

is a major part of our strategy. We are increasing competition and offering customers real value and choice in all areas from sportswear to software, electricals to spectacles.

By introducing these ranges to more of our stores we also offer customers the convenience of shopping for great value non-food along with their food and household goods.

ADULTS' AND CHILDREN'S CLOTHING

BABY CARE

BATHROOM ACCESSORIES

BEDDING

BOOKS

COMPUTERS, GAMES AND SOFTWARE

COSMETICS

DOMESTIC APPLIANCES

FOOTWEAR

GREETINGS CARDS

JEWELLERY

KITCHEN ACCESSORIES

LAUNDRY PRODUCTS

MOBILE PHONES

MUSIC AND VIDEOS

NEWSPAPERS AND MAGAZINES

OPTICIANS

PHARMACIES

SOFT FURNISHINGS

SPORTS AND LEISURE EQUIPMENT

STATIONERY

TOYS

TV, VIDEO AND HI-FI

NON-FOOD

Sports World offers Tesco customers the latest sports clothing and equipment shown here at Tesco Extra, Newcastle upon Tyne.



personal care	14%	
health care	14%	
dispensary	1%	
baby consumables	19%	

#### HEALTH AND BEAUTY MARKET SHARE

**More choice in-store** includes many new lines for the home and garden, motoring and leisure, fashion and cosmetics. Opticians, mobile phones and health and beauty are examples of departments that have been expanded to meet customer demand. We relaunched our clothing range to offer better value, quality and choice.

We continue to bring our customers big names at competitive prices, whenever we can. Last year, for example, we sold 14-inch Bush TVs and Vodafone, Orange, One 2 One and Cellnet mobile phones at record low prices. Film and batteries came down by 30% and cuts of between 15% and 50% are being made on stationery, pet accessories, video tapes, CDs and DVDs and many other popular products.

The convenience of shopping for non-food alongside food is what we offer customers. At the start of the year we already had 50 stores trading with our full non-food offer in the UK. During the year we increased this to 90 through our extensions, refits and new store development programmes.

Through these programmes we now have nine Tesco Extra stores including our newest at Newcastle upon Tyne. It is our first UK store to be designed and built to our hypermarket blueprint, using many of the elements which we have found to be successful in our European and Asian stores. It has given us the opportunity to introduce a much wider range of non-food products to the UK, giving our customers even more choice when they shop at Tesco.



**from mouse...** just click on... your chosen product... add to your list... and send... to your local store...

#### TESCO ON-LINE

- ⤴ 450,000 registered internet service provider (ISP) users
- ⤴ over 28,000 deliveries per week
- ⤴ will be available to 90% of the UK population by the end of 2000
- ⤴ most visited UK supermarket site
- ⤴ [www.tesco.com](http://www.tesco.com) – Tesco home page for shopping and services
- ⤴ [www.tesco.net](http://www.tesco.net) – Tesco ISP

#### GROWTH IN GROCERY HOME SHOPPING CUSTOMERS



On-line shopping couldn't be simpler with Tesco direct – [www.tescodirect.com](http://www.tescodirect.com)  
Prince Okoroego, Hammersmith store, loading a Tesco direct customer order.

# opening



## GROWTH THROUGH E-COMMERCE



where your order... is hand-picked... into the trolley... boxed up... onto the van... which delivers... **to your house**

**Through innovating and investing** for our customers we are leading the way in new forms of retailing. We are the largest on-line grocer in the world, and through the rapid development of our e-business we are now offering customers real choice and value on the internet.

# up home shopping with the power of e-commerce



**tesco.com** is our new 100% subsidiary company that runs our e-commerce business, which is an important part of our future strategy. We want to ensure that it has a real focus, the relevant resources and can move quickly.

Our **grocery home shopping** business offers customers shopping on-line choice, value and convenience. Hundreds of new customers are registering every day and we have the capacity to grow this business at a significant rate.

**On the internet** we are not constrained by space as the store can be as large as you like. Our internet customers now have an exciting range of non-food offers beyond food shopping – just a few clicks away. Our new book store offers a choice of 1.2 million titles, with 50% off top lines and we have an entertainment store selling over 300,000 CD, video and DVD titles. Tesco Personal Finance is also on-line as well as our Baby and Toddler and home living ranges offered through our joint venture with Grattan.

## GROWTH THROUGH FINANCIAL SERVICES



SAVINGS ACCOUNT/ISA



TRAVEL INSURANCE



HOUSE INSURANCE



CONTENTS INSURANCE

LOANS/  
MOTOR INSURANCE

PET INSURANCE



VISA CARD

# growth in personal finance delivering great value for customers

**Tesco Personal Finance** is one of the fastest growing financial services businesses in the UK. This year we opened more than 750,000 new accounts and now have nearly 1.5 million customers. The hallmarks of our wide range of products are their customer focus, simplicity, value and convenience.

**Tesco Personal Finance** has followed our customers' growing demand for the same value and service in financial products as in consumer goods. We now have an established brand and the business is moving into profit – less than two and a half years after launch and with nearly one and a half million accounts.

**Fantastic value** is our promise on personal finance. Our popular Visa card offers one of the lowest interest rates in the UK and, in October, *The Times* newspaper assessed our loan rates as the most competitive on the market.

This year we added pensions, pet insurance and motor insurance to our existing home and travel policies.

**On-line banking** is the way of the future and our development on the internet is progressing rapidly. Our customers have the facility of on-line banking for Savings and Clubcard Plus and will soon be able to apply on-line for all personal finance products.



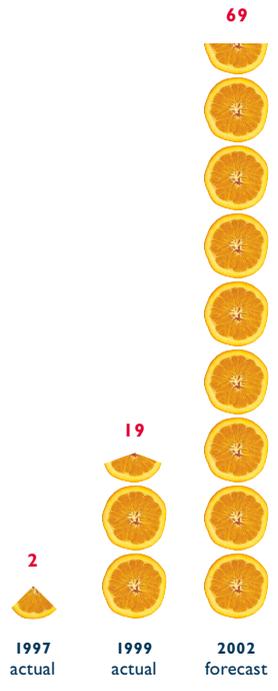
TOTAL NUMBER OF ACCOUNTS

# TESCO Personal Finance



The success of Tesco Personal Finance is attributable to simple products, offering outstanding value for money, convenience for our customers and a commitment to service.

Customers select from the wide range of produce offered in Tesco, Czestochowa, Poland.



NUMBER OF HYPERMARKETS IN CENTRAL EUROPE



127,000 sq ft Tesco supermarket at Czestochowa, Poland, which opened in July 1999.



## GROWTH IN INTERNATIONAL MARKETS



**Our European business** is focused on the Republic of Ireland and the four Central European countries of Hungary, Poland, the Czech Republic and Slovakia accessing a population of 68 million people. In Ireland the business is progressing well as we near completion of our rebranding programme. And in Central Europe we continue our rapid hypermarket roll-out opening 11 stores and 1.3 million square feet in the year.

# accelerating growth in European markets

**Regional focus** and market leadership is a key objective of our strategy in Central Europe. Tesco is the only retailer in all four countries – Hungary, Poland, the Czech Republic and Slovakia. Our portfolio now includes 19 hypermarkets totalling two million square feet of retail space. We are meeting and stimulating demand in these markets as customers begin to recognise the better choice, quality and value that Tesco offers.

We are pursuing an active programme of store openings which will take us to 69 hypermarkets by the end of 2002, and will make us the market leader across the region.

**The hypermarket blueprint** is the focus of our Central European activities. At 100,000 square feet or more, hypermarkets give us the space to offer our customers extensive food and non-food ranges at outstanding prices.

We are learning all the time. The format is internationally transferable and adaptable to different regions, and part of our success has been to supplement UK skills in grocery retailing and customer service with international expertise.

In the **Republic of Ireland** we continue to make good progress. Without the benefit of any new stores, sales increased by 6.1% in the year. Cumulative sales growth since acquisition is now 20%, moving our market share to 23.3%.

Ireland and Central Europe are already a significant part of the Group employing 27,000 people which will grow even further as we move forward.

**REPUBLIC OF IRELAND**  
number of stores 75  
sales area (sq ft) 1.6m



Customer Service Assistant Vera Woods offering a sample of typical Irish produce for tasting.

## GROWTH IN INTERNATIONAL MARKETS

### THAILAND

number of stores	17
sales area (sq ft)	2.1m
new stores opened in '99	3
planned openings in '00	7

### SOUTH KOREA

number of stores	2
sales area (sq ft)	0.2m
planned openings in '00	5

### TAIWAN

number of stores	0
sites identified	3
first store to open	2001

**Asia** is the second international region where we are expanding. The Tesco Lotus business in Thailand now has 17 hypermarkets and is well on the way to market leadership. In South Korea, through our partnership with Samsung, we now have two outstanding hypermarkets which are among the highest turnover stores in the Tesco Group. And in Taiwan we plan to open our first stores in 2001. These three markets give us access to 130 million people.



# expanding the business in selected Asian markets

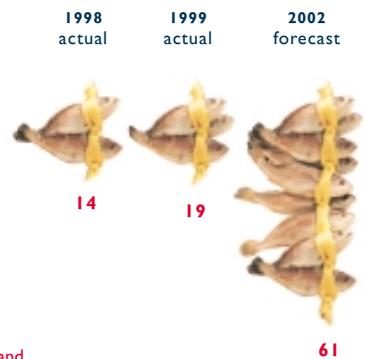
### THAILAND



Our new hypermarket under construction in Youngtong, South Korea, which will meet the needs of a densely populated urban area.



NUMBER OF HYPERMARKETS IN ASIA



Inside our new Tesco Lotus hypermarket in Srinakarin, Thailand, opened in September 1999.

Customer Assistant M S Jung at Tesco Homeplus store in Pusan, South Korea, serves a customer with the local delicacy Kimchi – a dish of pickled cabbage soaked in chilli peppers.



In Thailand, with its growing population of 61 million, Tesco Lotus is a successful business from which we have learnt a great deal about hypermarket retailing. In turn, we have introduced key skills from the UK, especially in fresh food and supply chain management.

We have worked hard in this market and will be market leader by December 2000. We opened our first new store in December 1998, added a further three in 1999 and have a number of prime sites for future development. Our intention is to have 34 hypermarkets by 2002, which will put us in a powerful competitive position against other international retailers.

In South Korea, a country where 50% of households own a PC and 78% a mobile phone, the retail industry has huge growth potential. In 1999 we invested £142m in a partnership with Samsung, which brought us two world-class hypermarkets operating under a top retail brand as well as a number of sites that we will now develop. We plan to expand to over 50 hypermarkets in five years.

We are now moving rapidly towards global sourcing, which will enable us to buy quality products at the best prices and deliver them at the lowest cost. We have already set up three sourcing centres in Hong Kong, India and Thailand. These now source 30% of Tesco non-food products (excluding Health and Beauty). We plan to move this to 50% in three years, with the opening of a fourth sourcing centre in Central Europe.

GROWTH IN THE TESCO TEAM

# developing our people



The great thing about... 1 – Geoff Barcroft and Chris Matthews, Watford... being Tesco people... 2 – Monika and Agnieszka, Czestochowa, Poland... is making customers happy... 3 – Mo Gowan, Newcastle... and enjoying a job...



5 – BY Lee and Y J Kim, Pusan, South Korea... never a dull moment... 6 – Arlene Gumban, Veronica Ramil, Lina Johnson and Clare Thompson, Hammersmith... and always something... 7 – David McGraine and Geraldine McKeon,



in all kinds of jobs... 9 – Karren Porrett, Newcastle... all over the world... 10 – D J Kim, Pusan, South Korea... we're here... 11 – Irene Davison, James Lumsden and Graham Brown, Newcastle

# into a world-class team



4 – Sylvia Morgan, Hammersmith... where there's...



Merrion Store, Ireland... to smile about... 8 – Jeanette Foreshaw, Watford...



11

... to help customers...



12

12 – Sandra Holloway, Watford

**Tesco is developing its people and its capabilities as a business to meet the demands of competitive markets and accelerating growth. Already, 10% of our sales come from outside the UK and this will increase rapidly. Our need for world-class people and operating capability has never been greater, and we are building the infrastructure to develop them.**

The Tesco team has doubled in size over the past ten years, while generating much higher increases in sales. Through change programmes such as Project Simple, our employees have made over 150 routine jobs more straightforward: from changing prices to receiving goods. They provide the principles and tools for solving a problem.

**This Tesco Way** forms the basis of a new approach to training, based on raising the level of skill and expertise with which our people deliver for our customers. In this context, development goals make sense to the business and staff alike. They form a fair and motivating basis for setting team and individual objectives and rewarding success. This new approach to training is also enabling us to learn faster, make improvements across the Tesco world and incorporate them quickly so we can get them into the hands of our people.

**World-class capability** is also being targeted through our £15m a year investment in developing frontline managers. At any one time, we have over 2,000 trainees world-wide on our Options Schemes for store staff, 500 on our Select Schemes for Section Managers and 130 graduates on our Excel Schemes to develop managers internationally. After 18 months on our Graduate Training Programme, Nicola Pluckrose became a Senior Manager. At 28 she was Manager of a store with 400 staff and a £35m annual turnover. Since joining, Nicola has had five promotions and now manages our Buckingham store.

## GROWTH IN THE COMMUNITY

# reinvesting our success

**Number one locally** means putting local people first in the way we run our business, support our communities and protect the environment. This is part of our environmental and social responsibility strategy aiming to meet the principles of sustainable development. Last year we launched six local partnerships throughout the UK to build stores in regeneration areas, creating 2,000 new jobs. We are working with partners to prepare the unemployed for work and to provide them with transport and childcare initiatives.



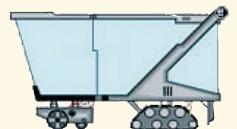
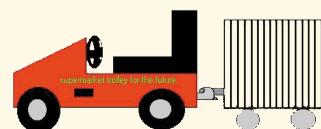
**Our environment programme** manages resources efficiently and reduces our impact on the environment through performance monitoring and risk management.

The programme includes:

- improving the energy efficiency of our stores by 9.5% per sq metre
- recycling 180,000 tonnes of cardboard and 10,000 tonnes of plastic annually
- saving 70,000 tonnes of packaging by using reusable trays for fresh and chilled items
- providing customer recycling facilities at 350 stores
- cutting lorry miles by three million and so reducing their carbon dioxide emissions by 40%
- building 85% of our new UK stores on brownfield sites
- encouraging our suppliers to follow best practice and use resources responsibly
- removing GMOs wherever possible from our own products

**Over 16,000 schools** and 115,000 pupils created 40,000 web pages for Tesco SchoolNet 2000 which is showcased in the Millennium Dome, Greenwich. This electronic 'Domesday Book' for the 21st century involved children, as part of their school work, investigating life in their local communities. The project is continuing this year. Meanwhile, our Tesco Computers for Schools programme is now in its ninth year. Last year, over 20,000 schools received £10.5m-worth of computer equipment.

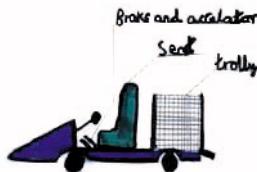
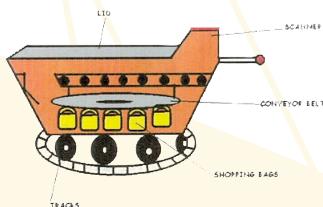
**We raised £1.1m** for our charity of the year, NCH Action for Children. The charity for 2000 is Macmillan Cancer Relief, who support people living with cancer across the UK. We also allocate money to every store, in the UK and internationally, to support local projects of their own choice.



# in people and places



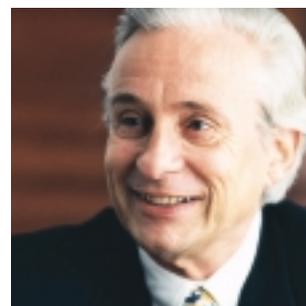
Tesco has sponsored the Learning zone in the Millennium Dome, Greenwich.



TESCO  
Computers  
for Schools

**£54.5 m**  
WORTH OF EQUIPMENT HAS BEEN  
DELIVERED IN EIGHT YEARS

# board of directors



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

**JOHN GARDINER**  
Non-executive Chairman ◆ ● ▲

John Gardiner, 63, was appointed a Non-executive Director in 1988, and Non-executive Chairman in 1997. He is Chairman of The Laird Group PLC and on the Board of *The Economist*.

**TERRY LEAHY**  
Chief Executive ●

Terry Leahy, 44, became Chief Executive in February 1997. He joined Tesco in 1979 and held a number of marketing and commercial positions prior to being appointed to the Board in 1992.

**DAVID REID CA**  
Deputy Chairman

David Reid, 53, became Deputy Chairman in 1996. He was appointed to the Board in 1985 as Finance Director, having joined Tesco in the same year. He is responsible for international operations and strategic planning. He is a Non-executive Director of DeVere Group plc.

**ROWLEY AGER**  
Company Secretary ■

Rowley Ager, 54, was appointed to the Board in 1992. He joined Tesco in 1986 and became Company Secretary in 1990. He is a Non-executive Director of Oasis Stores Plc.

**PHILIP CLARKE**  
IT and Logistics Director ■

Philip Clarke, 39, was appointed to the Board in 1998. He joined Tesco in 1981 as a graduate management trainee and held a number of roles in store operations, commercial and marketing. In 1995, he was appointed Regional Managing Director of Tesco Stores Limited.

**JOHN GILDERSLEEVE**  
Commercial and Trading Director

John Gildersleeve, 55, was appointed to the Board in 1984. He is a Non-executive Director of Gallaher Group Plc.

**ANDREW HIGGINSON**  
Finance Director

Andrew Higginson, 42, was appointed to the Board in 1997. He is a Non-executive Director of FirstGroup PLC and a member of the 100 Group of Finance Directors.

**TIM MASON**  
Marketing and E-commerce Director

Tim Mason, 42, was appointed to the Board in 1995. He joined Tesco in 1982.

**DAVID POTTS**  
Head of Operations in Northern Ireland and the Republic of Ireland

David Potts, 42, was appointed to the Board in 1998. He joined Tesco in 1973 and has held a number of store and Head Office positions.

**MICHAEL WEMMS**  
Retail Director

Michael Wemms, 60, became Retail Director in 1992. He was appointed to the Board in 1989, having joined Tesco in 1972. He is a Non-executive Director of House of Fraser plc.

**CHARLES ALLEN**  
Non-executive ◆ ● ▲

Charles Allen, 43, was appointed a Non-executive Director in 1999. He is Chief Executive of Granada Group Plc.

**JOHN MELBOURN CBE**  
Non-executive ◆ ● ▲

John Melbourn, 62, was appointed a Non-executive Director in 1996. He is Deputy Chairman of 3i Group Plc.

**BARONESS O'CATHAIN OBE**  
Non-executive ● ▲

Baroness O'Cathain, 62, was appointed a Non-executive Director in 1985. She is also a Non-executive Director of British Airways plc, BNP UK Holdings Ltd, South East Water plc, Thistle Hotels Plc, W M Baird plc and Allders plc.

**GRAHAM PIMLOTT**  
Non-executive ◆ ● ▲

Graham Pimlott, 50, was appointed a Non-executive Director in 1993. He is Deputy Chairman of Hammerson plc.

**DR HARALD EINSMANN**  
Non-executive ●

Dr Harald Einsmann, 65, was appointed a Non-executive Director in 1999. He is also a Non-executive Director of the EMI Group Plc, and is on the Board of Stora Enso Oyj, part of the Wallenberg Group, and is a Director of British American Tobacco plc.

## summary directors' report

**Principal activity and business review** The principal activity of the Group is the operation of food stores and associated activities in the UK, Republic of Ireland, France, Hungary, Poland, Czech Republic, Slovakia, South Korea and Thailand. The business review is within the summary financial statement on pages 26 to 27.

**Dividends** The Directors recommend the payment of a final dividend of 3.14p per ordinary share to be paid on 30 June 2000 to members on the Register at the close of business on 25 April 2000. Together with the interim dividend of 1.34p per ordinary share paid in December 1999, the total dividend for the year comes to 4.48p, compared with 4.12p for the previous year, an increase of 8.7%.

**Directors** Details of the current members of the Board are shown on pages 22 and 23. Mr J A Gardiner, Mr D E Reid, Mr R S Ager, Mr A T Higginson and Mr J W Melbourn will retire from the Board by rotation. Being eligible, they offer themselves for re-election at the Annual General Meeting. Mr J M Wemms and Baroness O'Cathain will retire from the Board on 15 June 2000 and will not offer themselves for re-election. Mr D E Reid, Mr R S Ager and Mr A T Higginson have service contracts with two years' notice. Mr J A Gardiner and Mr J W Melbourn do not have service contracts.

**Corporate governance** The company has complied with all the provisions of the Combined Code of Best Practice except as with regard to the provision on the length of the Directors' service contracts. The Remuneration Committee considers that the current length of two years is both appropriate and necessary although it reviews the matter every year. The Board is committed to proper standards of corporate governance and will continue to keep procedures under review should the Code develop. The company has established a framework of internal financial control which is reviewed by the Audit Committee and has a separate Executive Committee, Remuneration Committee, Nominations Committee and Compliance Committee. A full corporate governance statement is contained in the Annual Report and Financial Statements 2000.

### Summary report of the Directors on remuneration

**Directors' remuneration policy** The remuneration packages, including contract periods, of Executive Directors are determined by the Remuneration Committee. It ensures that the remuneration package is appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group, the highly competitive industry of which the Group is part and the importance of recruiting and retaining management of the appropriate calibre.

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

A summary of Directors' emoluments and interests, including executive options, is set out on page 25. A more detailed analysis is provided in the Annual Report and Financial Statements 2000. Copies of the Executive Directors' contracts of employment are available for inspection by shareholders as required.

### Auditors' statement to the shareholders of Tesco PLC

We have examined the summary financial statement set out on pages 26 and 27 and the Directors' emoluments and share details included on page 25.

#### Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the annual review and summary financial statement. Our responsibility is to report to you our opinion on the consistency of the summary financial statement with the annual financial statements and Directors' report and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the annual review and summary financial statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

#### Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board.

#### Opinion

In our opinion the summary financial statement is consistent with the annual financial statements and the Directors' report of Tesco PLC for the year ended 26 February 2000 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PRICEWATERHOUSECOOPERS 

Chartered Accountants  
and Registered Auditors  
London 10 April 2000

## Directors' emoluments

	Salary £000	Profit sharing £000	Benefits £000	Incentive scheme		Total 2000 £000	Total 1999 £000
				Short-term £000	Long-term £000		
Mr J A Gardiner	300	–	5	–	–	305	300
Mr T P Leahy	648	8	41	231	245	1,173	901
Mr D E Reid	557	8	65	195	228	1,053	836
Mr R S Ager	379	8	18	131	162	698	590
Mr C L Allen	35	–	–	–	–	35	3
Mr P A Clarke	249	6	23	95	61	434	85
Dr H Einsmann (a)	24	–	–	–	–	24	–
Mr J Gildersleeve	504	8	66	174	212	964	782
Mr A T Higginson	378	–	46	134	86	644	553
Mrs L James (b)	303	–	4	–	–	307	427
Dr M G Jones (c)	–	–	–	–	–	–	10
Mr T J R Mason	381	8	22	134	135	680	567
Mr J W Melbourn	38	–	–	–	–	38	37
Baroness O'Cathain	33	–	7	–	–	40	44
Mr G F Pimlott	38	–	–	–	–	38	30
Mr D T Potts	314	8	13	104	66	505	116
Mr J M Wemms	422	8	48	146	177	801	658
	4,603	62	358	1,344	1,372	7,739	5,939

a Dr H Einsmann was appointed to the Board on 1 April 1999.

b Mrs L James retired from the Board on 30 April 1999. Included in her salary is a payment of £258,000 upon retirement.

c Former Director.

## Summary of executive share options and disclosable shareholdings

	Number of shares				Exercise price pence	Value realisable 2000 £000	Ordinary shares 26 Feb 2000
	Options held 27 Feb 1999	Granted (a)	Exercised	Options held 26 Feb 2000			
Mr J A Gardiner	–	–	–	–	–	–	496,848
Mr T P Leahy	2,419,876	228,901	–	2,648,777	61.7-173.0	–	1,527,914
Mr D E Reid	1,690,310	543,747	763,605	1,470,452	59.7-179.4	623	1,689,528
Mr R S Ager	1,143,544	36,994	–	1,180,538	59.7-178.0	–	995,063
Mr C L Allen	–	–	–	–	–	–	–
Mr P A Clarke	436,440	277,170	–	713,610	98.3-178.0	–	103,553
Dr H Einsmann	–	–	–	–	–	–	–
Mr J Gildersleeve	1,197,789	73,988	–	1,271,777	98.3-178.0	–	1,009,829
Mr A T Higginson	848,641	76,301	–	924,942	160.3-176.7	–	179,595
Mrs L James (b)	514,386	–	–	514,386	66.0-178.0	–	847,948
Mr T J R Mason	951,701	87,861	–	1,039,562	98.3-178.0	–	623,396
Mr J W Melbourn	–	–	–	–	–	–	9,690
Baroness O'Cathain	–	–	–	–	–	–	46,473
Mr G F Pimlott	–	–	–	–	–	–	26,724
Mr D T Potts	544,305	199,827	–	744,132	98.3-178.0	–	212,503
Mr J M Wemms	1,235,714	–	566,603	669,111	70.0-176.7	479	983,456

a Options granted in the year were at the exercise prices of 179.4p and 173.0p.

In addition, certain Directors held options under the company's savings-related share option scheme.

b Mrs L James retired from the Board on 30 April 1999.

## summary financial statement

### Profit and loss account

This year was another successful trading year for the Group. Total sales increased by 9.8% to £20,358m and underlying pre-tax profit increased by 8.4% to £955m. Adjusted diluted earnings per share rose 8.6% to 10.18p. A final dividend of 3.14p per share is proposed, making the full year dividend 4.48p, an increase of 8.7% over last year.

UK retail sales have grown 7.4% to £18,331m. Like-for-like sales were 4.2% which consists of volume of 3.2% and inflation of 1.0%, with new stores continuing to perform well, contributing 3.2% to sales.

UK operating profit increased to £993m up 8.1% on last year. Our UK operating margin remained broadly flat at 5.9% in a year when we made substantial investments in price.

Our change programmes continue to deliver increasing levels of efficiencies enabling us to invest for customers and grow profits.

Sales in the rest of Europe accelerated with total sales up 18.8% to £1,527m and contributed an operating profit of £51m, up 6.3%. Sales in the Republic of Ireland in local currency are up 6.1%, reflecting the benefits of our store rebranding programme. In Central Europe sales are up 76.8% at constant exchange rates. Our 11 new hypermarkets across the region have all traded strongly since opening.

Our business in Thailand has seen good growth and the three new stores have contributed to sales of £357m up 96%. In South Korea, Tesco Homeplus achieved sales of £140m in the period since acquisition. In the Asian region we made a small operating loss of £1m.

Tesco Personal Finance has now been trading for nearly three years and our share of losses this year are £4m compared to a £12m loss last year.

Tax on underlying profit has been charged for the year at an effective rate of 27.4%.

Net interest payable for the year was £99m, an increase of £9m over the previous year reflecting the cost of our investment plans offset by lower interest rates.

The summary financial statement was approved by the Board on 10 April 2000.

Terry Leahy  
Andrew Higginson  
Directors

The summary financial statement on pages 26 and 27 and the summary Directors' report on pages 24 and 25 are a summary of information in the Annual Report and Financial Statements 2000. This summary financial statement does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the company and the Group.

The Directors' report, the accounts and Auditors' report on those accounts, which is unqualified, are contained in a separate publication entitled Annual Report and Financial Statements 2000. Copies may be obtained free of charge by writing to:

The Company Secretary,  
Tesco House,  
Delamare Road, Cheshunt,  
Hertfordshire EN8 9SL.  
Telephone 01992 632222.

Shareholders wishing to receive the Annual Report and Financial Statements as well as the Annual Review and Summary Financial Statement in future years should write to this address.

#### PROFIT AND LOSS ACCOUNT

	2000 £m	1999 £m
<b>Sales at net selling price</b>	20,358	18,546
<b>Turnover excluding value added tax</b>	18,796	17,158
Normal operating expenses	(17,712)	(16,155)
Employee profit-sharing	(41)	(38)
<b>Underlying operating profit †</b>	1,043	965
Profit from joint ventures	11	6
Interest	(99)	(90)
<b>Underlying pre-tax profit †</b>	955	881
Loss on disposal of fixed assets	(9)	(8)
Integration costs	(6)	(26)
Goodwill amortisation	(7)	(5)
<b>Profit before tax</b>	933	842
Tax	(259)	(237)
Minority interest	–	1
<b>Profit for the financial year</b>	674	606
Dividends	(302)	(277)
<b>Retained profit</b>	372	329
<b>Adjusted diluted earnings per share †</b>	10.18p	9.37p
<b>Dividend per share</b>	4.48p	4.12p

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

## Cash flow statement

Cash flow from operations was strong, generating £1,513m and covering capital expenditure. Interest and tax payments were £131m and £213m respectively for the year:

Group capital expenditure in the year was £1,488m. This included £313m in Europe and £186m in Asia. In the coming year we expect Group capital expenditure to increase to around £1.6bn as we step up our hypermarket development plans in Central Europe and Asia.

Net cash received from business changes was £1m. This included £61m used to acquire our interest in Tesco Homeplus in South Korea, offset by £62m net cash received from joint ventures.

Net debt at the year end was £2,060m, an increase of £340m on the previous year, and gearing was 43%. This increase mainly reflects investment to implement our international hypermarket development strategy.

### CASH FLOW STATEMENT

	2000 £m	1999 £m
<b>Cash from operations</b>	1,513	1,321
Interest	(131)	(129)
Tax	(213)	(237)
<b>Gross trading cash flow</b>	1,169	955
Net capital expenditure	(1,229)	(1,005)
Changes in financing	20	23
Dividends	(262)	(238)
<b>Normal cash flow</b>	(302)	(265)
Business changes	1	(255)
Non-cash movements	(39)	(9)
<b>Movement in net debt</b>	(340)	(529)
<b>Opening net debt</b>	(1,720)	(1,191)
<b>Closing net debt</b>	(2,060)	(1,720)

## Balance sheet

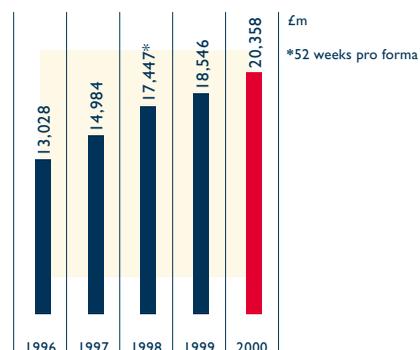
Total net assets have increased by £421m over last year to £4,798m.

Fixed assets increased by £974m, after charging depreciation of £435m an increase of £29m over last year.

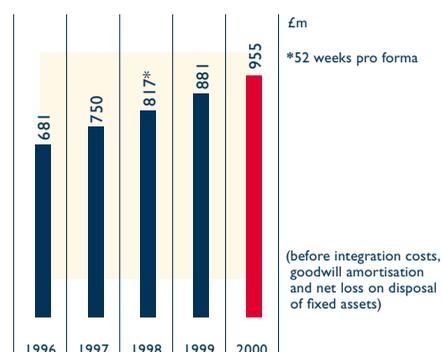
### BALANCE SHEET

	2000 £m	1999 £m
<b>Fixed assets</b>	8,527	7,553
Current assets	1,342	1,146
Short term creditors	(3,487)	(3,075)
<b>Net current liabilities</b>	(2,145)	(1,929)
<b>Total assets less current liabilities</b>	6,382	5,624
Long term creditors	(1,565)	(1,230)
Provisions	(19)	(17)
<b>Total net assets</b>	4,798	4,377

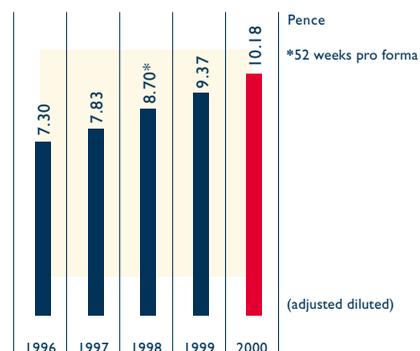
### GROUP SALES



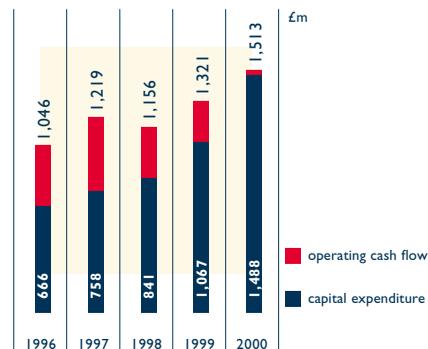
### GROUP PROFIT BEFORE TAX



### EARNINGS PER SHARE



### OPERATING CASH FLOW AND CAPITAL EXPENDITURE



## investor information

### SUMMARY FIVE YEAR RECORD

Year ended February	1996 £m	1997 £m	1998 52 weeks (pro forma) £m	1999 £m	2000 £m
<b>Turnover excluding VAT</b>					
UK	11,560	13,118	14,677	15,835	16,958
Rest of Europe	534	769	1,465	1,167	1,374
Asia	–	–	–	156	464
	12,094	13,887	16,142	17,158	18,796
<b>Underlying operating profit</b> (pre-integration costs and goodwill amortisation)					
UK	713	760	859	919	993
Rest of Europe	11	14	36	48	51
Asia	–	–	–	(2)	(1)
	724	774	895	965	1,043
<b>Underlying profit</b>	681	750	817	881	955
<b>Profit before tax</b>	675	750	745	842	933
<b>Adjusted diluted earnings per share</b>	7.30p	7.83p	8.70p	9.37p	10.18p
<b>Dividend per share</b>	3.20p	3.45p	3.87p	4.12p	4.48p
<b>Retail statistics</b>					
UK – Market share (%)	13.4	14.2	14.8	15.4	15.5
– Number of stores	545	568	618	639	659
– Total sales area (000 sq ft)	13,397	14,036	15,215	15,975	16,895
– Turnover per full-time employee (£)	143,335	146,326	146,857	151,138	156,427
– Weekly sales per sq ft (£)	18.31	19.74	20.48	21.05	21.43
International – Number of stores	189	190	163	182	186
– Number of hypermarkets	5	7	2	22	38
– Total sales area (000 sq ft)	1,717	2,711	3,039	5,378	7,144

### SHAREHOLDER PROFILE

	Number of holdings	%	Balance as at 26 Feb 2000	%
Analysis by type of shareholder				
Employees	81,335	33.91	191,837,989	2.81
Other individuals	125,544	52.33	523,526,276	7.67
Corporate institutions	32,997	13.76	6,107,655,094	89.52
	239,876	100.00	6,823,019,359	100.00
Analysis by size of shareholding				
1 – 1,000	121,395	50.61	31,810,868	0.47
1,001 – 10,000	99,278	41.38	342,349,096	5.02
10,001 – 100,000	17,177	7.16	395,794,568	5.80
100,001 – 1,000,000	1,431	0.60	437,543,111	6.41
above 1,000,000	595	0.25	5,615,521,716	82.30
	239,876	100.00	6,823,019,359	100.00

Corporate institutions such as banks, insurance companies and pension funds represent many thousands of people through their accounts, policies and memberships and therefore the company works in the interests of a rich variety of investors.

### Amalgamation of accounts

Shareholders who receive duplicate sets of company mailings owing to multiple accounts in their name should write to Lloyds TSB Registrars to have their accounts amalgamated.

### Low cost dealing

The company has arranged a low cost postal share dealing service through Lloyds TSB Registrars. For details and a share dealing form please telephone 0870 6003970.

### Individual Savings Account (ISA)

The ISA was introduced by the government on 6 April 1999 as the replacement for PEPs and Tax Exempt Special Savings Account (TESSA).

The ISA enables you to invest without paying tax – no personal income tax and no capital gains tax on any profits should you decide to sell your investment. You don't even need to show details of your ISA in your tax return.

The company has made arrangements for Lloyds TSB Registrars to operate a Tesco single company ISA, enabling shareholders to hold Tesco shares in a tax advantageous manner. For more details please contact: Lloyds TSB Registrars, ISA Team, The Causeway, Worthing, West Sussex BN99 6DA, telephone 0870 2424244.

### Corporate Personal Equity Plans (PEPs)

No new PEPs have been available since 6 April 1999, however, existing PEPs can continue to be held alongside an ISA. For details of your corporate PEP, please contact the Plan Manager, The Share Centre Limited, PO Box 1000, Tring, Herts HP23 5AN, telephone 01442 890800/890811.

The Share Centre Limited is regulated by the Personal Investment Authority.

### Tesco share price line

Up-to-the-minute share price and company information can be obtained by calling 0891 121200 (calls from within the UK cost 50p per minute).

### Capital gains tax

For the purpose of UK capital gains tax the market value of the company's ordinary shares on 31 March 1982 was 21p after adjustments for the rights issues in 1985 and 1991, and capitalisation issues in 1987 and 1998.

### A guide to Tesco PLC financial statements

The company has prepared a booklet to aid understanding of the financial statements included within the Tesco PLC Annual Report and Accounts. If you would like a free copy of this booklet please contact the Investor Relations department at the address shown in the panel above.

### Annual Report on internet

The 2000 Tesco PLC Annual Report and the 2000 Tesco PLC Annual Review and Summary Financial Statement are available via the internet at [www.tesco.co.uk](http://www.tesco.co.uk)

#### SECRETARY AND REGISTERED OFFICE

Rowley Ager, Tesco House,  
Delamare Road, Cheshunt,  
Hertfordshire EN8 9SL  
Telephone 01992 632222

#### REGISTRAR

Lloyds TSB Registrars,  
The Causeway, Worthing,  
West Sussex BN99 6DA  
Telephone 01903 502541

#### INVESTOR ENQUIRIES

Investor Relations department,  
Tesco House, Delamare Road,  
Cheshunt, Hertfordshire EN8 9SL  
Telephone 01992 646484

#### ANNUAL GENERAL MEETING

Royal Lancaster Hotel,  
Lancaster Terrace,  
London W2 2TY  
on Thursday 15 June 2000  
at 11.00 am.

#### FINANCIAL CALENDAR

	2000
Financial year end	26 February
Results announced	11 April
Final dividend: ex-dividend date	17 April
Final dividend: record date	25 April
Annual Report posted	12 May
AGM and trading statement	15 June
Final dividend pay date	30 June
Half year end	12 August
Interim results announced	late September
Interim dividend: ex-dividend date	late September
Interim dividend: record date	late September
Trading statement	mid November
Interim dividend pay date	early December
	2001
Trading statement	mid January
Financial year end	24 February
Results announced	mid April



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

Front cover: Customer Assistant Sun Oak Yum displaying fresh fish at the Tesco Homeplus store in Pusan, South Korea.