

TESCO



CONTENTS

1	Financial highlights
2	Operating and financial review
7	Directors' report
9	Corporate governance
12	Report of the Directors on Remuneration
17	Statement of Directors' responsibilities
	Auditors' report
18	Group profit and loss account
19	Statement of total recognised gains and losses
	Reconciliation of movements in shareholders' funds
20	Balance sheets
21	Group cash flow statement
22	Accounting policies
24	Notes to the financial statements
40	Five year record

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

This publication includes the operating and financial review, the Directors' report, the corporate governance statement, the accounts and the auditors' report for the 52 weeks ended 26 February 2000. The Chairman's statement and review of the business are contained in a separate statement entitled Annual Review and Summary Financial Statement 2000.

These Annual Accounts together with the Annual Review and Summary Financial Statement 2000 comprise the full Annual Report and Accounts of Tesco PLC for 2000, in accordance with the Companies Act 1985. Copies may be obtained, free of charge, by writing to the Company Secretary, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL. Telephone 01992 632222.

financial highlights

Group sales	up 9.8%
Group profit before tax [†]	up 8.4%
Earnings per share ^{†‡}	up 8.6%
Dividend per share	up 8.7%

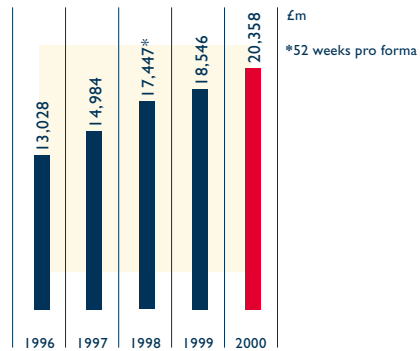
	2000 52 weeks	1999 52 weeks	1998* 52 weeks (pro forma)
Group sales (including value added tax) (£m)	20,358	18,546	17,447
Group operating profit (prior to integration costs and goodwill amortisation) (£m)	1,043	965	895
Profit on ordinary activities before tax[†] (£m)	955	881	817
Group enterprise value (market capitalisation plus net debt) (£m)	13,591	13,528	12,556
Adjusted diluted earnings per share^{†(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

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

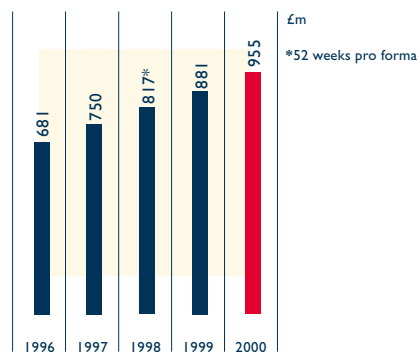
[‡] Adjusted diluted.

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

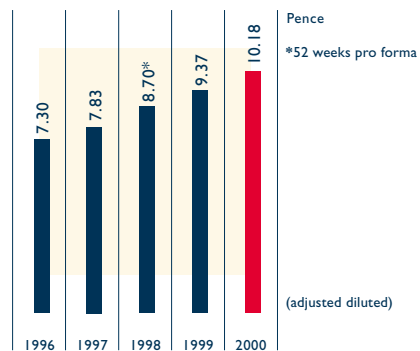
GROUP SALES



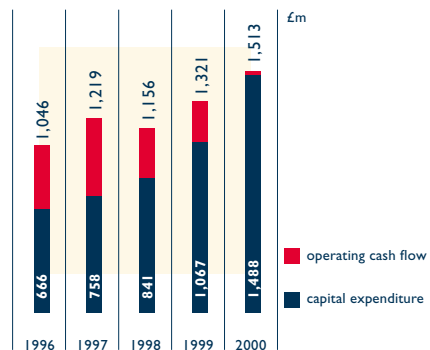
GROUP PROFIT BEFORE TAX



EARNINGS PER SHARE



OPERATING CASH FLOW AND CAPITAL EXPENDITURE



operating and financial review

Group summary	2000 £m	1999 £m	Change %
Group sales (including value added tax)	20,358	18,546	9.8
Group operating profit (prior to integration costs and goodwill amortisation)	1,043	965	8.1
Profit on ordinary activities before tax†	955	881	8.4
Adjusted diluted earnings per share†	10.18p	9.37p	8.6
Dividend per share	4.48p	4.12p	8.7

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

This operating and financial review analyses the performance of Tesco in the financial year ended 26 February 2000. It also explains certain other aspects of the Group's results and operations including taxation and treasury management.

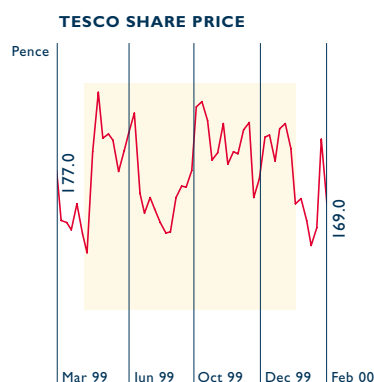
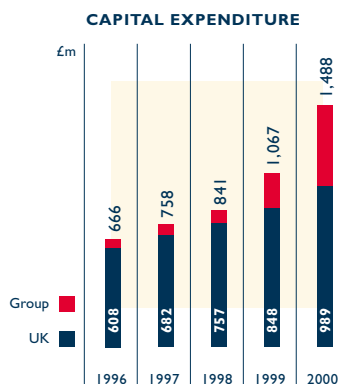
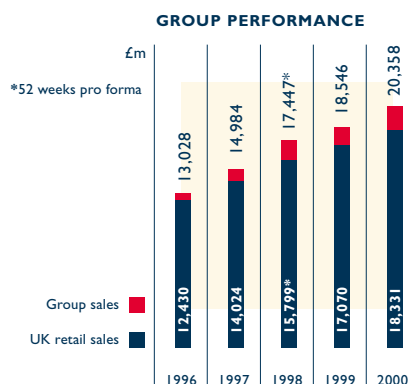
Group performance

Group sales including VAT increased by 9.8% to £20,358m (1999 – £18,546m).

Group profit before tax rose by 10.8% to £933m. Excluding the net loss on disposal of fixed assets, goodwill amortisation and integration costs, Group profit before tax increased 8.4% to £955m.

Group capital expenditure was £1,488m (1999 – £1,067m) with £989m in the UK, including £579m on new stores and £182m on extensions and refits. Total international capital expenditure was £499m including £186m in Asia. In the year ahead we see Group capital expenditure increasing to £1.6bn.

Group net debt in the year increased by £340m to £2,060m (1999 – £1,720m), with gearing increasing to 43% (1999 – 39%).



Group interest and taxation

Net interest payable was £99m (1999 – £90m). Interest on our additional borrowings, reflecting the cost of our investment plans, was partially offset by lower interest rates.

Corporation tax has been charged at an effective rate of 27.8% (1999 – 28.1%). Prior to accounting for the net loss on disposal of fixed assets, integration costs and goodwill amortisation, our underlying tax rate was 27.4% (1999 – 27.8%).

Shareholder returns and dividends

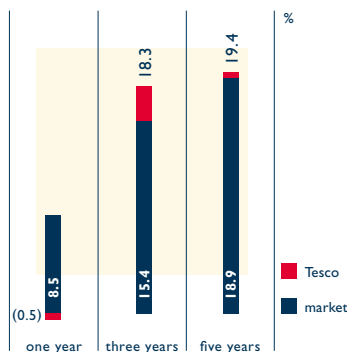
Adjusted diluted earnings per share (excluding the net loss on disposal of fixed assets, integration costs and goodwill amortisation) increased by 8.6% to 10.18p (1999 – 9.37p).

The Board has proposed a final net dividend of 3.14p giving a total dividend for the year of 4.48p (1999 – 4.12p). This represents an increase of 8.7% and dividend cover has been maintained at 2.27 times.

Shareholders' funds, before minority interests, increased by £387m. This was due to retained profits of £372m and issue of new shares less expenses of £51m, offset by losses on foreign currency translation of £36m. As a result, return on shareholders' funds was 20.9%.

Total shareholder return, which is measured as the percentage change in the share price plus the dividend, has been 19.4% over the last five years, compared to the market average of 18.9% and has been 18.3% over the last three years, compared to the market average of 15.4%. In the last year, total shareholder return in Tesco has been (0.5)% compared to the market average of 8.5%.

TOTAL SHAREHOLDER RETURN



UK

UK sales (excluding property development sales) grew by 7.4% to £18,331m (1999 – £17,070m) of which 4.2% came from existing stores and 3.2% from net new stores.

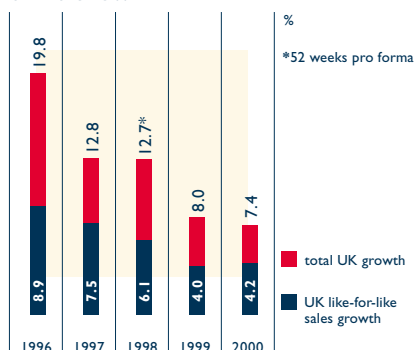
Inflation in our UK business totalled 1.0% for the year due entirely to duty increases on petrol, tobacco and alcohol. Through our significant price investment we have seen volume gains and deflation in our core business.

This year we experienced tough trading conditions. In this environment Tesco continues to perform well above the market and was one of the very few major retailers to deliver continued profit growth.

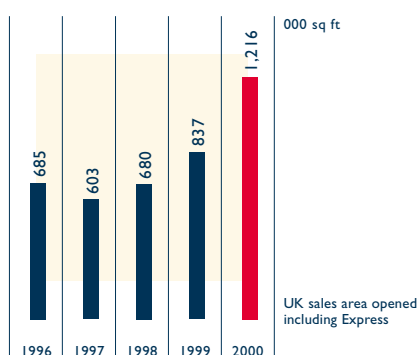
UK operating profit was 8.1% higher at £993m (1999 – £919m) with an operating margin held broadly flat at 5.9%.

Store development and capital expenditure UK capital expenditure included £579m on opening 38 new stores comprising one Extra, 13 Superstores, 14 Compact stores and ten Express stores. We also spent £182m on our refit and extension programmes. In total we opened 1.2m sq ft of new space and expect to open a similar amount in the current year.

SALES GROWTH



UK SALES AREA



UK fact file

POPULATION	59m
MARKET SHARE	15.5%
NUMBER OF STORES	659
SQUARE FOOTAGE 000s	16,895
STORES OPENED/SQ FT ADDED	38 / 1,216,500
CAPITAL EXPENDITURE £m	989
TURNOVER £m	18,331
OPERATING PROFIT £m	993

UK performance	2000 £m	1999 £m	Change %
Retail sales (including value added tax)	18,331	17,070	7.4
Operating profit	993	919	8.1

operating and financial review continued

	2000 £m	1999 £m	Change %
Rest of Europe performance			
Retail sales (including value added tax)	1,527	1,285	18.8
Operating profit	51	48	6.3

Rest of Europe fact file

POPULATION	68m
NUMBER OF STORES	167
SQUARE FOOTAGE 000s	4,887
STORES OPENED/SQ FT ADDED	11 / 1,264,000
CAPITAL EXPENDITURE £m	313
TURNOVER £m	1,527
OPERATING PROFIT £m	51

	2000 £m	1999 £m	Change %
Asian performance			
Retail sales (including value added tax)	497	170	192
Operating loss	(1)	(2)	50

Asian fact file

POPULATION	130m
NUMBER OF STORES	19
SQUARE FOOTAGE 000s	2,257
STORES OPENED/SQ FT ADDED	5 / 502,000
CAPITAL EXPENDITURE £m	186
TURNOVER £m	497
OPERATING LOSS £m	(1)

Europe

In the Rest of Europe total sales rose by 18.8% to £1,527m (1999 – £1,285m) and contributed an operating profit of £51m up from £48m last year.

Retail sales in the Republic of Ireland in local currency grew by 6.1%. We have now re-branded nearly 50 stores and our customers continue to benefit from the extended range, improved service and better value.

In Central Europe total sales at constant exchange rates were up 76.8%. This represents strong growth from our increasing number of hypermarkets in the region. We opened 11 new hypermarkets in the year giving us 19 in total with 2m sq ft.

Asia

Our Tesco Lotus business in **Thailand** now comprises 17 hypermarkets and has shown strong sales growth of 96% on last year to £357m. We currently have 2.1m sq ft of selling space in Thailand which will increase to 2.8m sq ft by the end of 2000.

On 23 March 1999 we announced we had formed a partnership with the Samsung Corporation to develop hypermarkets in **South Korea**. Tesco has now invested a total of £142m, including costs of £4m, for an 81% controlling interest. In the 32 weeks to 31 December 1999 the two acquired trading stores contributed £140m to Group sales.

In 1999, our Asian businesses contributed sales of £497m, nearly 200% up on the previous year and made a small loss of £1m (1999 – £2m loss). However, we anticipate Thailand moving into profit in 2000 with the region as a whole being profitable soon after as our development programme gathers pace.

We are continuing with our research in Taiwan and Malaysia and plan to open our first stores in Taiwan in 2001. New research projects are also underway in China and Japan.

Joint ventures

Our total share of profits from joint ventures was £11m compared to £6m last year.

Within this, Tesco Personal Finance has made good progress. We have increased the offer and value for our customers and incurred a small loss of £4m (1999 – £12m loss). Other joint ventures contributed an operating profit of £15m this year.

Treasury management and financial instruments

Group Treasury is formally authorised by the Board to manage the Group's treasury operations. The authority establishes the objectives of Group Treasury and the strategies and policies to be applied. It also defines limits to those operations, which are reviewed at least annually by the Board and formally monitored. Group Treasury activity is routinely reported to members of the Board and is subject to review by the internal and external auditors. In accordance with Group policy, Group Treasury does not engage in speculative activity.

The main financial risks faced by the Group relate to credit, liquidity, interest rates and foreign exchange. Objectives, strategies and policies for managing these risks are summarised below. These objectives, strategies and policies are consistent with those in the previous year. The balance sheet positions at 26 February 2000 are representative of the positions throughout the year.

Credit risk

The objective is to reduce the risk of loss arising from default by dealing counterparties. The strategy is to avoid high exposure to any single counterparty by spreading such risk across a number of banks or similar institutions of high credit quality. For each dealing counterparty, exposure limits, established normally by reference to the major credit rating agencies and by deal type, are reviewed at least annually by the Board. Mandates, defining the Group's dealing practices are agreed with these institutions prior to deals being arranged.

Liquidity and interest rate risk

The objective is to ensure continuity of funding at low cost and to avoid significant exposure to changes in interest rates. The strategy is to maintain a portfolio of debt that is commensurate with future cash generation and complements the Group's trading operations by reducing overall business risk.

Operating subsidiaries are financed by a combination of retained profits, bank borrowings, commercial paper, medium term notes, long-term debt market issues and leases.

Exposure to debt refinancing risk is managed through modest gearing and adequate interest cover; by arranging for short-term borrowings and commercial paper issuance to be fully backed by committed bank facilities; by limiting the amount of debt repayable in any one year; and by smoothing the debt maturity profile and extending it in line with increased gearing levels.

At the year end, undrawn committed bank facilities amounted to £765m (1999 – £510m) of which £110m (1999 – £25m) expire within one year, £55m (1999 – £210m) between one and two years and £600m (1999 – £275m) in more than two years.

Derivatives, predominantly forward rate agreements and interest rate swaps and caps, are used to establish our desired mix of fixed and floating rate debt. The policy is to fix or cap between 30% and 70% of the interest cost on outstanding debt although a higher percentage may be fixed within a 12 month horizon.

The average rate of interest paid during the year was 6.8% (1999 – 7.1%). A 1% rise in interest rates would reduce profit before tax by less than 2%.

Foreign currency risk

The objective is to reduce the risk to short-term profits of exchange rate volatility. Relevant short-term transactional currency exposures are therefore hedged.

The Group also seeks to mitigate the effect of structural currency exposures by borrowing, where cost effective, in the functional currencies of its main overseas operating units. In managing its structural currency exposures, the Group's objectives are to maintain a low cost of borrowing and retain some potential for currency related appreciation while partially hedging against currency depreciation.

Financial instruments used for these purposes are predominantly foreign currency borrowings, forward exchange rate transactions and swaps.

operating and financial review continued

Year 2000

Tesco has been working on the Year 2000 issue for over three years and we achieved our key objective of 'Shopping as Normal' for our customers over the millennium period. Additionally, there were no significant issues surrounding the recognition of the leap day at the end of February 2000.

The actual spend on the Year 2000 programme of £30m over three years was in line with the original budget.

Economic Monetary Union

Our aim is for all the relevant parts of the Group to be able to handle business in euros when required. Project teams continue to address the issues arising from EMU and current progress is in line with the timetable set by the Group.

We are gaining valuable experience of the EMU process from Tesco Ireland. We will draw upon this learning if and when other Group companies are impacted by the introduction of the euro.

Going concern

The Directors consider that the Group and the company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. As with all business forecasts the Directors' statement cannot guarantee that the going concern basis will remain appropriate given the inherent uncertainty about future events.

directors' report

The Directors present their annual report to shareholders on the affairs of the Group together with the audited consolidated financial statements of the Group for the 52 weeks ended 26 February 2000.

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. A review of the business is contained in the Annual Review which is published separately and, together with this document, comprises the full Tesco PLC Annual Report and Financial Statements.

Group results

Group turnover excluding VAT rose by £1,638m to £18,796m, representing an increase of 9.5%. Group profit on ordinary activities before taxation, integration costs, loss on disposal of fixed assets and goodwill amortisation was £955m compared with £881m for the previous year, an increase of 8.4%. Including integration costs, loss on disposal of fixed assets and goodwill amortisation, Group profit on ordinary activities before taxation was £933m. The amount allocated to the employee profit-sharing scheme this year was £41m as against £38m last year. After provision for tax of £259m and dividends, paid and proposed, of £302m, profit retained for the financial year amounted to £372m.

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 for the year comes to 4.48p compared with 4.12p for the previous year, an increase of 8.7%.

Tangible fixed assets

Capital expenditure amounted to £1,488m compared with £1,067m during the previous year. In the Directors' opinion, the properties of the Group have a market value in excess of the book value of £6,969m included in these financial statements.

Acquisitions

During the year, Tesco acquired for a consideration of £142m, a majority holding in a newly incorporated company in South Korea. Details of this acquisition are set out in note 32 to the financial statements.

Share capital

The authorised and issued share capital of the company, together with details of the shares issued during the period, are shown in note 23 to the financial statements.

Company's shareholders

The company is not aware of any ordinary shareholders with interests of 3% or more.

Directors and their interests

The names and biographical details of the present Directors are set out in the separately published Annual Review.

Mr J A Gardiner, Mr D E Reid, Mr R S Ager, Mr A T Higginson and Mr J W Melbourn retire from the Board by rotation.

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.

The service contracts of Mr D E Reid, Mr R S Ager and Mr A T Higginson are terminable on two years' notice from the company.

Mr J A Gardiner and Mr J W Melbourn do not have service contracts.

The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Report of the Directors on Remuneration set out on pages 12 to 16.

At no time during the year did any of the Directors have a material interest in any significant contract with the company or any of its subsidiaries.

directors' report continued

Employment policies

The Group depends on the skills and commitment of its employees in order to achieve its objectives. Company staff at every level are encouraged to make their fullest possible contribution to Tesco success.

A key business priority is to provide First Class Service to the customer. Ongoing training programmes seek to ensure that employees understand the company's customer service objectives and strive to achieve them.

The Group's selection, training, development and promotion policies ensure equal opportunities for all employees regardless of gender, marital status, race, age or disability. All decisions are based on merit.

Internal communications are designed to ensure that employees are well informed about the business of the Group. These include a staff magazine called 'Tesco Today', videos and staff briefing sessions.

Staff attitudes are frequently researched through surveys and store visits, and management seeks to respond positively to the needs of employees.

Employees are encouraged to become involved in the financial performance of the Group through a variety of schemes, principally the Tesco employee profit-sharing scheme, the savings-related share option scheme and the profit-related pay scheme.

Political and charitable donations

Contributions to community projects and to charity amounted to £1,485,000 (1999 – £1,301,000). There were no political donations.

Supplier payment policy

Tesco PLC is a signatory to the CBI Code of Prompt Payment. Copies of the Code may be obtained from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Payment terms and conditions are agreed with suppliers in advance.

Tesco PLC has no trade creditors in its balance sheet. The Group pays its creditors on a timely basis which varies according to the type of product and territory in which the suppliers operate.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office. In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of PricewaterhouseCoopers as auditors of the company will be put to the Annual General Meeting.

Annual General Meeting

A separate circular accompanying the Annual Accounts explains the special business to be considered at the Annual General Meeting on 15 June 2000.

This report was approved by the Board on 10 April 2000.

By Order of the Board

Rowley Ager

Secretary

10 April 2000

Tesco PLC

Registered Number: 445790

corporate governance

Statement of application of principles of the Combined Code

The Group is committed to high standards of corporate governance. This statement describes the manner in which the company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance which have been incorporated in the Listing Rules of the London Stock Exchange.

Directors

The Board of Tesco PLC comprises nine Executive Directors and six independent Non-executive Directors. The Board is chaired by Mr J A Gardiner, an independent Non-executive Director, who has primary responsibility for running the Board. The Chief Executive, Mr T P Leahy, has executive responsibilities for the operations, results and strategic development of the Group. Clear divisions of accountability and responsibility both exist and operate effectively for these positions. In addition, Mr G F Pimlott is the senior Non-executive Director. The Board structure ensures no one individual or group dominates the decision-making process.

The full Board meets ten times a year and, in addition, annually devotes two days to a conference with senior executives on longer term planning giving consideration both to the opportunities and risks of future strategy. The Board manages overall control of the Group's affairs by the schedule of matters reserved for its decision. Insofar as corporate governance is concerned, these include the approval of financial statements, major acquisitions and disposals, authority levels for expenditure, treasury policies, risk management policies and succession plans for senior executives. In order that the Board is able to make considered decisions, a written protocol exists and has been communicated to senior managers ensuring that relevant information is presented to all Board members five days before Board meetings. All Directors have access to the services of the Company Secretary and may take independent professional advice at the company's expense in the furtherance of their duties.

The Board delegates day-to-day and business management control to the Executive Committee which comprises the Executive Directors. This meets formally every week and its decisions are communicated throughout the Group on a regular basis. The Executive Committee is responsible for implementing Group policy, the monitoring and performance of the business and reporting to the full Board thereon.

The Executive Committee conducts a risk assessment to the achievement of the Group's objectives at least annually which is then discussed with the full Board and any appropriate actions taken.

Appointments to the Board for both Executive and Non-executive Directors are the responsibility of the Nominations Committee which is chaired by Mr J A Gardiner and whose members are set out in the table on page 11.

As exemplified by the section on 'Directors and their interests' within the Directors' Report on pages 7 and 8, the company's Articles of Association ensure that on a rotational basis Directors resign every three years and, if so desire and being eligible, offer themselves for re-election.

The Board has also established a Compliance Committee whose purpose is to ensure that the Board discharges its obligations to avoid civil and criminal liability. The Committee, comprising two Executive Directors and three members of senior management, normally meets four times a year.

Directors' remuneration

The Board has a long-established Remuneration Committee, composed entirely of Non-executive Directors, now chaired by Mr C L Allen, with effect from 10 April 2000, in succession to Baroness O'Cathain. The members are set out in the table on page 11. The responsibilities of the Remuneration Committee together with an explanation of how it applies the Directors' remuneration principles of the Combined Code are set out in the Report of the Directors on Remuneration on pages 12 to 16.

Relations with shareholders

The Board attaches a high importance to maintaining good relationships with all shareholders and, primarily through the Investor Relations department, ensures that shareholders are kept informed of significant company developments. During the year, Directors have met with more than 65 of our leading shareholders representing over 45% of the issued shares of the company.

While the focus of dialogue is with institutional shareholders to whom regular presentations are made on company direction, care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time as in accordance with London Stock Exchange requirements.

The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourage participative dialogue. The Chairman, Executive Directors and chairpersons of the Audit and Remuneration Committees attend the Annual General Meeting and are available to answer questions from shareholders present.

corporate governance continued

Relations with shareholders continued

Each year end, every shareholder may choose to receive a full Annual Report and Financial Statements or an abbreviated Annual Review and Summary Financial Statement. At the half year, all shareholders receive an Interim Report. These reports, together with publicly made trading statements, are available on the company's website (www.tesco.co.uk).

Accountability and audit

The Group has an Audit Committee, chaired by Mr J W Melbourn and consisting entirely of Non-executive Directors, which meets a minimum of three times a year. Membership of the Audit Committee is set out in the table on page 11. Its terms of reference represent current best practice. The Audit Committee's primary responsibilities include monitoring internal control throughout the Group, approving the Group's accounting policies and reviewing the interim and annual financial statements before submission to the Board. In terms of financial reporting, an assessment of Group performance is set out in the Operating and Financial Review on pages 2 to 6.

Internal financial control

The Combined Code introduced a requirement upon Directors that they report on the effectiveness of the whole system of internal control, including financial and all other controls together with the risk management process. As permitted by the London Stock Exchange letter of 27 September 1999, the Board has decided to adopt the transitional arrangements in respect of principle D.2 of the Code. As a result, the Board will continue to report on internal financial control in accordance with the guidance to Directors issued by the Rutteman Working Group in December 1994. However, the Directors are of the view that they have established the procedures necessary to implement the requirements of the Combined Code relating to internal control as reflected in the September 1999 guidance 'Internal Control: Guidance for Directors on the Combined Code'.

The Board has overall responsibility for the systems of internal financial control. Implementation and maintenance of the internal financial control system is the responsibility of executive management. The Board, through the Audit Committee, has reviewed the effectiveness of the systems of internal financial control for the accounting year and the period to the date of approval of the financial statements. It should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The Group has an established framework of internal financial controls, the key features of which are as follows:

Organisational structure The responsibilities of the Board set out above are designed to ensure effective control over strategic, financial and compliance issues.

Financial framework The Group operates a comprehensive system of financial reporting to the Board and senior management, based upon an annual budget and regular forecasts. Weekly and periodic reports of actual results together with key performance indicators are produced. The Group monitors financial performance along with other non-financial objectives through a balanced scorecard approach ensuring overall alignment of goals and objectives.

Policies and procedures The Group employs 220,000 people including over 1,500 senior managers. Management control is formalised at all levels and is regulated by cascading limits of authority. Formal policies and procedures also exist for areas that are identified, by their nature, as being significant risk areas. Policies and procedures are regularly subject to compliance audits.

Quality and integrity of personnel The Group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruiting and promoting suitably experienced personnel with clearly defined accountabilities.

Investment appraisal The capital investment programme is subject to formalised review procedures with key criteria requiring to be met. All major initiatives require business cases to be prepared, normally covering a minimum period of five years. Post investment appraisals are also carried out.

Control monitoring Our external auditors, PricewaterhouseCoopers, contribute an independent perspective on certain aspects of the internal financial control system arising from their audit work and annually report their findings to the Audit Committee. The Group also maintains an internal audit function whose work is focused on areas of perceived high risk, as identified by risk analysis, and who regularly provide reports to the Audit Committee.

Pension fund

The assets of the pension funds established for the benefit of the Group's employees are held separately from those of the Group. Both the Tesco PLC Pension Scheme and the Tesco PLC Money Purchase Pension Scheme are managed by a trustee company. Its Board comprises one Executive Director, four senior managers and four members appointed from staff and pensioners. Management of the assets of the Tesco PLC Pension Scheme is delegated to a number of independent fund managers. Contributions to the Tesco PLC Money Purchase Pension Scheme are paid into insurance policies administered by the Equitable Life Assurance Society. There has been no self-investment in Tesco shares or property occupied by the Tesco Group. Details of pension commitments are set out in note 26 to the financial statements on page 37.

Statement of compliance with the Code Provisions in the Combined Code

Throughout the year ended 26 February 2000 the Group has been in compliance with all the Code Provisions set out in Section I of the Combined Code on Corporate Governance, except as with regard to provision B.1.7 on the length of Directors' service agreements. The Remuneration Committee considers that the current length of two years is both appropriate and necessary although it reviews the matter every year.

BOARD COMMITTEE MEMBERSHIP	Nominations Committee	Remuneration Committee	Audit Committee	Compliance Committee
Independent Directors				
Mr J A Gardiner	*	*	*	
Mr G F Pimlott	*	*	*	
Mr J W Melbourn	*	*	*	
Baroness O'Cathain	*	*		
Mr C L Allen	*	*	*	
Dr H Einsmann	*			
Executive Directors				
Mr T P Leahy	*			
Mr R S Ager				*
Mr P A Clarke				*

report of the directors on remuneration

Directors' remuneration policy

The remuneration packages, including contract periods, of Executive Directors are determined by the Remuneration Committee ('the 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. The remuneration of the Non-executive Directors is determined by the Board as a whole on the recommendation of the Executive Committee after considering external market research.

Compliance

The Committee is 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. The auditors' report set out on page 17 covers the disclosures referred to in this report that are specified for audit by the London Stock Exchange.

Details of Directors' emoluments and interests, including executive and savings-related share options, are set out on pages 13 to 16.

The following summarises the remuneration packages for Executive Directors. Copies of the Executive Directors' contracts of employment are available for inspection by shareholders as required.

Base salary and benefits

The base salary, contract periods, benefits (which comprise car benefits, life assurance, disability and health insurance) and other remuneration issues of Executive Directors and other senior executives, are normally reviewed annually by the Committee, having regard to competitive market practice supported by two external, independent surveys.

Profit-sharing

The Group operates an approved employee profit-sharing scheme for the benefit of all employees, including Executive Directors, with over two years' service with the Group at its year end. Shares in the company are allocated to participants in the scheme on a pro rata basis to base salary earned up to Inland Revenue approved limits.

Executive incentive scheme

The company operates performance-related award schemes designed to provide a growing element of variable reward to reflect the performance of the Group. The executive incentive scheme introduced in March 1993 was designed and introduced for this purpose.

Long-term share bonuses are awarded annually, based on improvements in earnings per share, achievement of strategic corporate goals and comparative performance against peer companies including total shareholder return. The maximum long-term bonus is 50% of salary. Shares awarded have to be held for a period of four years, conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

Short-term share bonuses are awarded annually, based on improvements in earnings per share and on the achievement of strategic corporate goals. The maximum short-term bonus payable is 25% of salary, which is augmented by up to a further 12.5% of salary if the participants elect for the trustees of the scheme to retain the fully paid ordinary shares awarded for a minimum period of two years, conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

The Committee sets performance targets annually for the incentive scheme for each of the criteria noted above, confirms achievement of performance and awards to be made under the scheme and directs the general administration of the scheme. The Executive Committee has adopted a policy of extending the Group Board executive incentive scheme to a wider body of senior executives within the Group. The scheme rules and awards of this extension are administered on a consistent basis as previously set out for the Executive Directors.

The holding period for both the long-term and short-term shares may be extended to seven and five years respectively by the scheme members. During this holding period, the shares held are increased by 12.5% at the beginning of each year based on the scheme shares held. This holding period may be extended only subject to personal share-holding targets set by the Committee being met by the scheme members and conditional upon continuous employment with the company.

Share options

Executive Directors are included in an approved executive share option scheme (ESOS), and are eligible to join the employees' savings-related share option scheme (SAYE) when they have completed one year's service.

Executive options granted since 1995 may be exercised only subject to the achievement of performance criteria related to growth in earnings per share, in accordance with ABI guidelines.

Pensions

Executive Directors are members of the Tesco PLC Pension Scheme which provides a pension of up to two-thirds of base salary on retirement, normally at the age of 60, dependent upon service. The scheme also provides for dependants' pensions and lump sums on death in service. The scheme is a defined benefit pension scheme, which is approved by the Inland Revenue.

Service agreements

Executive Directors have service contracts with entitlement to notice of 24 months. This notice period is renewed annually by the Remuneration Committee and is regarded as an essential part of the remuneration package, designed to retain key executives within the company.

Non-executive Directors

Non-executive Directors do not have contracts but each appointment is subject to review every three years. Non-executive Directors receive a basic fee plus an additional sum in respect of committee membership. Mr J A Gardiner and Baroness O'Cathain each have the benefit of the use of a company car.

TABLE 1 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.

report of the directors on remuneration continued

TABLE 2 Gains made on share options

	Number of shares at exercise price (pence)				Price at exercise (pence)	Value realisable	
	61.7	90.3	104.0	Total		2000 £000	1999 £000
Mr T P Leahy	–	–	–	–	–	–	–
Mr D E Reid	11,058	194,835	557,712	763,605	181.5	623	–
Mr R S Ager	–	–	–	–	–	–	386
Mr P A Clarke	–	–	–	–	–	–	153
Mr J Gildersleeve	–	–	–	–	–	–	781
Mr A T Higginson	–	–	–	–	–	–	–
Mrs L James	–	–	–	–	–	–	466
Mr T J R Mason	–	–	–	–	–	–	594
Mr D T Potts	–	–	–	–	–	–	410
Mr J M Wemms	–	–	566,603	566,603	188.5	479	232
Date of grant	27 May 1993	27 April 1995	13 October 1995				

The value realisable from shares acquired on exercise is the difference between the fair market value at exercise and the exercise price of the options, although the shares may have been retained. Where individual Directors exercised options on different dates and sold the shares, the price at exercise shown represents an average of the prices on these dates weighted to the number of options exercised. The market price of the shares at 26 February 2000 was 169p. The share price during the 52 weeks to 26 February 2000 ranged from 156p to 197p.

TABLE 3 Pension details of the Directors

	Age at 26 Feb 2000	Years of service	Increase in accrued pension during the year (a) £000	Transfer value of increase during the year £000	Accrued total pension at 26 Feb 2000 (b) £000
Mr T P Leahy	44	21	38	407	229
Mr D E Reid	53	15	34	508	247
Mr R S Ager	54	14	18	274	180
Mr P A Clarke	39	25	4	39	76
Mr J Gildersleeve	55	35	24	379	281
Mr A T Higginson (c)	42	2	14	138	28
Mrs L James (d)	50	15	18	283	82
Mr T J R Mason	42	18	17	166	127
Mr D T Potts	42	27	5	47	96
Mr J M Wemms (e)	60	28	23	240	276

a The increase in accrued pension during the year excludes any increase for inflation.

b The accrued pension is that which would be paid annually on retirement at 60 based on service to 26 February 2000.

c Part of Mr A T Higginson's benefits, in respect of pensionable earnings in excess of the earnings limit imposed by the Finance Act 1989, are provided on an unfunded basis within a separate unapproved arrangement.

d Mrs L James took early retirement on 30 April 1999 and is receiving her pension. Transfer values do not apply in these circumstances. The value of increase during the year has been calculated on a basis consistent with transfer values. The accrued total pension shown is her pension immediately after retirement.

e Mr J M Wemms' pension commenced on 8 February 2000 at his normal retirement age.

TABLE 4 Share options held by Directors and not exercised at 26 February 2000**Executive share options schemes (1984), (1994) and (1996)**

Number of shares at exercise price (pence)

	61.7	61.7	70.0 (a)	81.0 (a)	66.0	90.3	104.0	98.3	117.7	Sub-total
Mr T P Leahy	62,211	51,150	417,144	471,372	–	398,523	248,256	523,728	–	2,172,384
Mr D E Reid	–	–	11,427	–	–	–	–	223,728	–	235,155
Mr R S Ager	–	51,153	75,714	–	106,833	–	–	250,170	94,335	578,205
Mr P A Clarke	–	–	–	–	–	–	–	165,504	–	165,504
Mr J Gildersleeve	–	–	–	–	–	–	–	122,034	–	122,034
Mr A T Higginson	–	–	–	–	–	–	–	–	–	–
Mrs L James (b)	–	–	–	–	42,813	–	–	113,646	–	156,459
Mr T J R Mason	–	–	–	–	–	–	–	284,745	–	284,745
Mr D T Potts	–	–	–	–	–	–	–	97,581	–	97,581
Mr J M Wemms	–	–	87,141	–	–	–	–	275,643	50,994	413,778
Date exercisable (d)	29 October 1995	27 May 1996	10 June 1997	12 August 1997	29 September 1997	27 April 1998	13 October 1998	3 July 1999	17 April 2000	
	Sub-total b/f	151.7	160.3	176.7	164.0	178.0	179.4 (c)	173.0 (c)	Total	
Mr T P Leahy	2,172,384	120,660	–	–	126,832	–	–	228,901	2,648,777	
Mr D E Reid	235,155	601,305	–	–	90,245	–	425,827	117,920	1,470,452	
Mr R S Ager	578,205	299,904	–	89,433	26,831	149,171	–	36,994	1,180,538	
Mr P A Clarke	165,504	76,281	–	17,718	29,946	146,991	–	277,170	713,610	
Mr J Gildersleeve	122,034	504,999	–	150,564	56,100	364,092	–	73,988	1,271,777	
Mr A T Higginson	–	–	411,642	373,584	63,415	–	–	76,301	924,942	
Mrs L James (b)	156,459	225,150	–	–	19,514	113,263	–	–	514,386	
Mr T J R Mason	284,745	198,669	–	149,076	63,415	255,796	–	87,861	1,039,562	
Mr D T Potts	97,581	119,238	–	–	38,756	288,730	–	199,827	744,132	
Mr J M Wemms	413,778	154,944	34,731	65,658	–	–	–	–	669,111	
Date exercisable (d)		7 October 2000	17 November 2000	21 May 2001	30 September 2001	28 January 2002	24 May 2002	30 November 2002		

a In the case of Mr T P Leahy 25% of the options, and in the case of Mr D E Reid and Mr R S Ager 100% of the options at 70.0p and 81.0p respectively may be exercised at 59.7p and 69.0p respectively as targets related to growth in earnings per share in accordance with ABI guidelines have been achieved.

b Position as at Mrs L James' retirement on 30 April 1999.

c Options granted in the year.

d Date of expiry is seven years from date exercisable, with the exception of the 98.3p, 117.7p, 151.7p and 160.3p options which expire four years from date exercisable.

report of the directors on remuneration continued

TABLE 5 Share options held by Directors and not exercised at 26 February 2000

	Savings-related share option scheme (1981)			Number of shares		Value realisable	
	As at 27 Feb 1999	Granted	Exercised	As at 26 Feb 2000	Exercise price pence	2000 £000	1999 £000
Mr T P Leahy	25,095	2,235	16,782	10,548	83.0-151.0	17	–
Mr D E Reid	19,575	2,235	5,592	16,218	83.0-151.0	7	–
Mr R S Ager	15,253	2,235	10,290	7,198	136.0-151.0	9	18
Mr P A Clarke	19,344	2,235	5,592	15,987	83.3-151.0	6	5
Mr J Gildersleeve	19,692	2,235	11,187	10,740	121.7-151.0	11	–
Mr AT Higginson	–	2,235	–	2,235	151.0	–	–
Mrs L James (a)	19,500	–	–	19,500	61.7-83.0	–	9
Mr T J R Mason	20,475	2,235	11,187	11,523	83.3-151.0	11	–
Mr DT Potts	20,700	–	–	20,700	83.3	–	–
Mr J M Wemms	25,095	2,235	16,782	10,548	83.0-151.0	17	–

a This shows the movement of options up to the date of Mrs L James' retirement on 30 April 1999.

The subscription price for the savings-related share option scheme granted during the year was 151.0p and the option matures in either 2003 (three-year scheme) or 2005 (five-year scheme). The shares relating to options exercised in the year were all retained.

Between 26 February 2000 and 10 April 2000 there have been no changes in the number of share options held by the Directors.

For further details on the company share option schemes see note 25.

TABLE 6 Disclosable interests of the Directors, including family interests

	26 Feb 2000		27 Feb 1999	
	Ordinary shares	Options to acquire ordinary shares	Ordinary shares	Options to acquire ordinary shares
Mr J A Gardiner	496,848	–	353,325	–
Mr T P Leahy	1,527,914	2,659,325	1,233,415	2,444,971
Mr D E Reid	1,689,528	1,486,670	1,418,418	1,709,885
Mr R S Ager	995,063	1,187,736	797,067	1,158,797
Mr P A Clarke	103,553	729,597	65,145	455,784
Mr J Gildersleeve	1,009,829	1,282,517	771,244	1,217,481
Mr AT Higginson	179,595	927,177	60,512	848,641
Mrs L James (a)	847,948	533,886	737,681	533,886
Mr T J R Mason	623,396	1,051,085	452,596	972,176
Mr J W Melbourn	9,690	–	6,570	–
Baroness O'Cathain	46,473	–	46,473	–
Mr G F Pimlott	26,724	–	26,134	–
Mr DT Potts	212,503	764,832	157,588	565,005
Mr J M Wemms	983,456	679,659	765,054	1,260,809

a Position at Mrs L James' retirement on 30 April 1999.

Options to acquire ordinary shares shown above comprise options under the executive share option schemes (1984), (1994), (1996) and the savings-related share option scheme (1981) (note 25).

Between 26 February 2000 and 10 April 2000 there were no changes in the number of shares held by the Directors.

directors' responsibilities for the preparation of the financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 18 to 39 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose, with reasonable accuracy, the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

auditors' report to the members of Tesco PLC

We have audited the financial statements on pages 18 to 39 which have been prepared under the historical cost convention and the accounting policies set out on pages 22 and 23, and the information on Directors' emoluments and share details included on pages 13 to 16.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described above, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 11 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether

the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at 26 February 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS 

Chartered Accountants and Registered Auditors
London 10 April 2000

group profit and loss account

52 weeks ended 26 February 2000

	note	2000 £m	1999 £m
Sales at net selling prices	1	20,358	18,546
Value added tax		(1,562)	(1,388)
Turnover excluding value added tax	1/2	18,796	17,158
Operating expenses			
– Normal operating expenses		(17,712)	(16,155)
– Employee profit-sharing	3	(41)	(38)
– Integration costs	2	(6)	(26)
– Goodwill amortisation	11	(7)	(5)
Operating profit	1/2	1,030	934
Net loss on disposal of fixed assets		(9)	(8)
Share of operating profit of joint ventures	1	11	6
Profit on ordinary activities before interest		1,032	932
Net interest payable	7	(99)	(90)
Profit on ordinary activities before taxation	4	933	842
Profit before integration costs, net loss on disposal of fixed assets and goodwill amortisation		955	881
Integration costs		(6)	(26)
Net loss on disposal of fixed assets		(9)	(8)
Goodwill amortisation		(7)	(5)
Tax on profit on ordinary activities	8	(259)	(237)
Profit on ordinary activities after taxation		674	605
Minority interest		–	1
Profit for the financial year		674	606
Dividends	9	(302)	(277)
Retained profit for the financial year	24	372	329
		Pence	Pence
Earnings per share	10	10.07	9.14
Adjusted for integration costs after taxation		0.06	0.27
Adjusted for net loss on disposal of fixed assets after taxation		0.13	0.12
Adjusted for goodwill amortisation		0.10	0.06
Adjusted earnings per share	10	10.36	9.59
Diluted earnings per share	10	9.89	8.93
Adjusted for integration costs after taxation		0.06	0.26
Adjusted for net loss on disposal of fixed assets after taxation		0.13	0.12
Adjusted for goodwill amortisation		0.10	0.06
Adjusted diluted earnings per share	10	10.18	9.37
Dividend per share	9	4.48	4.12
Dividend cover (times)		2.27	2.27

Accounting policies and notes forming part of these financial statements are on pages 22 to 39.

statement of total recognised gains and losses

52 weeks ended 26 February 2000

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit for the financial year	674	606	42	209
Loss on foreign currency net investments	(36)	(19)	(3)	–
Total recognised gains and losses relating to the financial year	638	587	39	209

reconciliation of movements in shareholders' funds

52 weeks ended 26 February 2000

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit for the financial year	674	606	42	209
Dividends	(302)	(277)	(302)	(277)
	372	329	(260)	(68)
Loss on foreign currency net investments	(36)	(19)	(3)	–
New share capital subscribed less expenses	30	147	54	256
Payment of dividends by shares in lieu of cash	21	22	21	22
Net addition/(reduction) to shareholders' funds	387	479	(188)	210
Shareholders' funds at 27 February 1999	4,382	3,903	2,699	2,489
Shareholders' funds at 26 February 2000	4,769	4,382	2,511	2,699

Accounting policies and notes forming part of these financial statements are on pages 22 to 39.

balance sheets

26 February 2000

	note	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	11	136	112	–	–
Tangible assets	12	8,140	7,105	–	–
Investments	13	79	102	5,200	5,001
Investments in joint ventures	13	172	234	124	252
		8,527	7,553	5,324	5,253
Current assets					
Stocks	14	744	667	–	–
Debtors	15	252	151	1,183	1,924
Investments	16	258	201	21	2
Cash at bank and in hand		88	127	–	–
		1,342	1,146	1,204	1,926
Creditors: falling due within one year	17	(3,487)	(3,075)	(2,525)	(3,292)
Net current liabilities		(2,145)	(1,929)	(1,321)	(1,366)
Total assets less current liabilities		6,382	5,624	4,003	3,887
Creditors: falling due after more than one year	18	(1,565)	(1,230)	(1,492)	(1,188)
Provisions for liabilities and charges	21	(19)	(17)	–	–
Total net assets		4,798	4,377	2,511	2,699
Capital and reserves					
Called up share capital	23	341	339	341	339
Share premium account	24	1,650	1,577	1,650	1,577
Other reserves	24	40	40	–	–
Profit and loss account	24	2,738	2,426	520	783
Equity shareholders' funds		4,769	4,382	2,511	2,699
Minority interest		29	(5)	–	–
Total capital employed		4,798	4,377	2,511	2,699

Accounting policies and notes forming part of these financial statements are on pages 22 to 39.

Terry Leahy
 Andrew Higginson
 Directors

Financial statements approved by the Board on 10 April 2000.

group cash flow statement

52 weeks ended 26 February 2000

	note	2000 £m	1999 £m
Net cash inflow from operating activities	31	1,513	1,321
Returns on investments and servicing of finance			
Interest received		58	34
Interest paid		(188)	(162)
Interest element of finance lease rental payments		(1)	(1)
Net cash outflow from returns on investments and servicing of finance		(131)	(129)
Taxation			
Corporation tax paid (including advance corporation tax)		(213)	(237)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,296)	(1,032)
Receipts from sale of tangible fixed assets		85	27
Purchase of own shares		(18)	–
Net cash outflow for capital expenditure and financial investment		(1,229)	(1,005)
Acquisitions and disposals			
Purchase of subsidiary undertakings	32	(61)	(184)
Disposal of subsidiary undertaking		–	(4)
Net cash acquired with subsidiary undertaking		–	2
Received from/(invested in) joint ventures	30	62	(69)
Net cash inflow/(outflow) from acquisitions and disposals		1	(255)
Equity dividends paid		(262)	(238)
Cash outflow before use of liquid resources and financing		(321)	(543)
Management of liquid resources			
Increase in short-term deposits		(68)	(7)
Financing			
Ordinary shares issued for cash		20	42
Increase in other loans		322	719
New finance leases		29	–
Capital element of finance leases repaid		(20)	(15)
Net cash inflow from financing		351	746
(Decrease)/increase in cash in the period		(38)	196
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash in the period		(38)	196
Cash inflow from increase in debt and lease financing		(331)	(704)
Loans acquired with subsidiary undertaking		–	(19)
Cash used to increase liquid resources		68	7
Amortisation of 4% unsecured deep discount loan stock		(4)	(3)
Other non-cash movements		(30)	–
Foreign exchange differences		(5)	(6)
Increase in net debt		(340)	(529)
Net debt at 27 February 1999	33	(1,720)	(1,191)
Net debt at 26 February 2000	33	(2,060)	(1,720)

Accounting policies and notes forming part of these financial statements are on pages 22 to 39.

accounting policies

Basis of financial statements

These financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards and the Companies Act 1985.

The Group has adopted Financial Reporting Standard 15, 'Tangible Fixed Assets', and Financial Reporting Standard 16, 'Current Tax', during the year.

Basis of consolidation

The Group profit and loss account and balance sheet consist of the financial statements of the parent company, its subsidiary undertakings and the Group's share of interests in joint ventures. The accounts of the parent company's subsidiary undertakings are prepared to dates around 26 February 2000 apart from Global T.H., Tesco Polska Sp. z o.o., Tesco Stores ČR a.s., Tesco Stores SR a.s., Samsung Tesco Co. Limited and Ek-Chai Distribution System Co. Ltd which prepared accounts to 31 December 1999. In the opinion of the Directors it is necessary for the above named subsidiaries to prepare accounts to a date earlier than the rest of the Group to enable the timely publication of the Group financial statements.

The Group's interests in joint ventures are accounted for using the gross equity method.

Stocks

Stocks comprise goods held for resale and development properties, and are valued at the lower of cost and net realisable value. Stocks in stores are calculated at retail prices and reduced by appropriate margins to the lower of cost and net realisable value.

Money market investments

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

Fixed assets and depreciation

The Group has adopted Financial Reporting Standard 15, 'Tangible Fixed Assets', during the year.

Following the adoption, interest paid on funds specifically related to the financing of assets in the course of construction, which was previously capitalised net of tax relief, is now capitalised gross. The impact of this change in accounting policy on the current and prior year is not material, and accordingly prior period figures have not been restated.

Depreciation is provided on a straight line basis over the anticipated useful economic lives of the assets, at the following rates:

- Land premia paid in excess of the alternative use value on acquisition – at 4% of cost.
- Freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost.
- Leasehold properties with less than 40 years unexpired are amortised by equal annual instalments over the unexpired period of the lease.
- Plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 10% to 33%.

Goodwill

Goodwill arising from transactions entered into after 1 March 1998 is capitalised under the heading 'Intangible assets' and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years.

All goodwill from transactions entered into prior to 1 March 1998 has been written off to reserves.

Impairment of fixed assets and goodwill

Fixed assets and goodwill are subject to review for impairment in accordance with Financial Reporting Standard 11, 'Impairment of Fixed Assets and Goodwill'. Any impairment is recognised in the profit and loss account in the year in which it occurs.

Leasing

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

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

Leased assets are depreciated in accordance with the depreciation accounting policy over the anticipated working lives of the assets which generally correspond to the primary rental periods. The cost of operating leases in respect of land and buildings and other assets is expensed as incurred.

Deferred tax

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

Pensions

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

Post-retirement benefits other than pensions

The cost of providing other post-retirement benefits, which comprise private healthcare, is charged to the profit and loss account so as to spread the cost over the service lives of relevant employees in accordance with the advice of qualified actuaries. Actuarial surpluses and deficits are spread over the expected remaining working lifetimes of relevant employees.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the financial year end exchange rates. Profits and losses of overseas subsidiaries are translated into sterling at average rates of exchange. Gains and losses arising on the translation of the net assets of overseas subsidiaries, less exchange differences arising on matched foreign currency borrowings, are taken to reserves and disclosed in the statement of total recognised gains and losses. Gains and losses on instruments used for hedging are recognised in the profit and loss account when the exposure that is being hedged is itself recognised.

Financial instruments

Derivative instruments utilised by the Group are interest rate swaps and caps, cross currency swaps, forward rate agreements and forward exchange contracts and options. Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the profit and loss account.

Interest differentials on derivative instruments are recognised by adjusting net interest payable. Premia or discounts on derivative instruments are amortised over the shorter of the life of the instrument or the underlying exposure.

Currency swap agreements and forward exchange contracts are valued at closing rates of exchange. Resulting gains or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs or is extinguished.

notes to the financial statements

NOTE 1 Segmental analysis of sales, turnover, profit and net assets

The Group's operations of retailing and associated activities and property development are carried out in the UK, Republic of Ireland, France, Hungary, Poland, Czech Republic, Slovakia, South Korea and Thailand. The results for South Korea, Thailand and continental European operations are for the year ended 31 December 1999.

	2000				1999			
	Sales including VAT £m	Turnover excluding VAT £m	Profit £m	Assets £m	Sales including VAT £m	Turnover excluding VAT £m	Profit £m	Assets £m
Continuing operations								
Retailing – UK	18,331	16,955	993	5,685	17,070	15,814	919	5,392
Property development	3	3	–	28	21	21	–	32
Total UK	18,334	16,958	993	5,713	17,091	15,835	919	5,424
Retailing – Rest of Europe	1,527	1,374	51	771	1,285	1,167	48	522
Retailing – Asia	497	464	(1)	374	170	156	(2)	151
	<u>20,358</u>	<u>18,796</u>	<u>1,043</u>		<u>18,546</u>	<u>17,158</u>	<u>965</u>	
Integration costs			(6)				(26)	
Goodwill amortisation			(7)				(5)	
Operating profit			1,030				934	
Net loss on disposal of fixed assets			(9)				(8)	
Share of operating profit								
from joint ventures			11				6	
Net interest payable			(99)				(90)	
Profit on ordinary activities before taxation			<u>933</u>				<u>842</u>	
Operating margin (prior to integration costs and goodwill amortisation)			5.5%				5.6%	
Capital employed				6,858				6,097
Net debt (note 33)				(2,060)				(1,720)
Net assets				<u>4,798</u>				<u>4,377</u>

The analysis of capital employed by geographical area is calculated on net assets excluding net debt. Inter-segmental turnover between the geographical areas of business is not material. Turnover is disclosed by origin. There is no material difference in turnover by destination. The Group's share of sales in the joint ventures which is not included in the numbers above is £74m (1999 – £49m).

NOTE 2 Analysis of operating profit

	2000			1999		
	Continuing operations £m	Acquisitions £m	Total £m	Continuing operations £m	Acquisitions £m	Total £m
Turnover excluding VAT	18,666	130	18,796	17,002	156	17,158
Cost of sales	(17,242)	(123)	(17,365)	(15,695)	(155)	(15,850)
Gross profit	1,424	7	1,431	1,307	1	1,308
Administration expenses	(394)	(7)	(401)	(371)	(3)	(374)
Operating profit/(loss)	1,030	–	1,030	936	(2)	934

Cost of sales includes distribution costs and store operating costs. Integration costs, goodwill amortisation and employee profit-sharing are included within administration expenses.

The charge made for integration costs relating to our Irish businesses is £6m (1999 – £26m).

NOTE 3 Employee profit-sharing

This represents the amount allocated to the trustees of the profit-sharing scheme and is based on the UK profit after interest, before net loss on disposal of fixed assets and taxation.

NOTE 4 Profit on ordinary activities before taxation

	2000 £m	1999 £m
Profit on ordinary activities is stated after charging the following:		
Depreciation	428	401
Goodwill amortisation	7	5
Operating lease costs (a)	158	159
Auditors' remuneration (b)	1	1
Employment costs (note 5)	1,865	1,736

a Operating lease costs include £37m for hire of plant and machinery (1999 – £35m).

b Auditors' remuneration amounted to £0.8m (1999 – £0.7m) and includes £0.1m (1999 – £0.1m) for the company. The auditors also received £3.6m (1999 – £1.9m) in respect of non-audit services of which £2.0m (1999 – £1.1m) related to overseas operations. These fees were principally in respect of acquisitions, taxation advice and systems implementation and training.

NOTE 5 Employment costs

	2000 £m	1999 £m
Employment costs during the year		
Wages and salaries	1,677	1,558
Social security costs	106	105
Other pension costs (note 26)	82	73
	1,865	1,736

Number of persons employed

The average number of employees per week during the year was: UK 169,500 (1999 – 164,471), Rest of Europe 24,665 (1999 – 19,497), Asia 11,051 (1999 – 6,133) and the average number of full-time equivalents was: UK 108,409 (1999 – 104,772), Rest of Europe 18,573 (1999 – 16,489) and Asia 7,914 (1999 – 5,653).

notes to the financial statements continued

NOTE 6 Directors' emoluments and interests

Details of Directors' emoluments and interests are given in the Report of the Directors on Remuneration on pages 12 to 16.

NOTE 7 Net interest payable

	2000		1999	
	£m	£m	£m	£m
Interest receivable and similar income on money market investments and deposits		56		22
Less interest payable on:				
Short term bank loans and overdrafts repayable within five years	(73)		(46)	
Finance charges payable on finance leases	(7)		(8)	
4% unsecured deep discount loan stock 2006 (a)	(9)		(8)	
10¾% bonds 2002	(21)		(21)	
8¾% bonds 2003	(17)		(17)	
7½% bonds 2007	(25)		(21)	
5½% bonds 2009	(19)		(1)	
6% bonds 2029	(2)		–	
Medium term notes	(15)		(17)	
Interest capitalised	41		35	
Share of interest of joint ventures	(8)		(8)	
		(155)		(112)
		(99)		(90)

a Interest payable on the 4% unsecured deep discount loan stock 2006 includes £4m (1999 – £3m) of discount amortisation.

NOTE 8 Taxation

	2000 £m	1999 £m
UK taxation:		
Corporation tax at 30.1% (1999 – 31.0%)	287	257
Share of joint ventures	–	(2)
Prior year items	(40)	(32)
Deferred taxation (note 21) – current year	(1)	5
– prior year	–	2
	246	230
Overseas taxation:		
Corporation tax	10	7
Deferred taxation (note 21)	3	–
	259	237

NOTE 9 Dividends

	2000	1999	2000	1999
	Pence per share	Pence per share	£m	£m
Declared interim	1.34	1.25	90	83
Proposed final	3.14	2.87	212	194
	4.48	4.12	302	277

NOTE 10 Earnings per share and diluted earnings per share

Earnings per share and diluted earnings per share have been calculated in accordance with Financial Reporting Standard 14, 'Earnings per Share'. The standard requires that earnings should be based on the net profit attributable to ordinary shareholders. The calculation for earnings, including and excluding integration costs, net loss on disposal of fixed assets and goodwill amortisation, is based on the profit for the financial year of £674m (1999 – £606m).

For the purposes of calculating earnings per share, the number of shares is the weighted average number of ordinary shares in issue during the year of 6,693m (1999 – 6,627m).

The calculation for diluted earnings per share uses the weighted average number of ordinary shares in issue adjusted by the effects of all dilutive potential ordinary shares. The dilution effect is calculated on the full exercise of all ordinary share options granted by the Group, including performance based options which the Group consider to have been earned. The calculation compares the difference between the exercise price of exercisable ordinary share options, weighted for the period over which they were outstanding, with the average daily mid-market closing price over the period.

	2000	1999
Weighted average number of dilutive share options (million)	124	153
Weighted average number of shares in issue in the period (million)	6,693	6,627
Total number of shares for calculating diluted earnings per share (million)	6,817	6,780

NOTE 11 Intangible fixed assets

	2000 £m	1999 £m
Cost		
At 27 February 1999	117	–
Additions at cost	31	117
At 26 February 2000	148	117
Amortisation		
At 27 February 1999	5	–
Charge for the period	7	5
At 26 February 2000	12	5
Net carrying value		
At 27 February 1999	112	–
At 26 February 2000	136	112

Goodwill arising on the purchase of our businesses in South Korea and Thailand has been capitalised and amortised over 20 years in accordance with the provisions set out in Financial Reporting Standard 10, 'Goodwill and Intangible Assets'.

During the year, our Thailand business increased its share capital by rights issues and the Group purchased shares generating additional goodwill of £25m. As a result of this, the Group shareholding has increased from 75% to 93%.

notes to the financial statements continued

NOTE 12 Tangible fixed assets

	Land and buildings £m	Plant equipment fixtures and fittings and vehicles £m	Total £m
Cost			
At 27 February 1999	6,918	2,533	9,451
Currency translation	(32)	(22)	(54)
Additions at cost (a)	1,105	383	1,488
Purchase of subsidiary undertaking	80	7	87
	8,071	2,901	10,972
Disposals	(66)	(93)	(159)
At 26 February 2000	8,005	2,808	10,813
Depreciation			
At 27 February 1999	886	1,460	2,346
Currency translation	(3)	(10)	(13)
Charge for period	167	261	428
	1,050	1,711	2,761
Disposals	(14)	(74)	(88)
At 26 February 2000	1,036	1,637	2,673
Net book value (b) (c)			
At 26 February 2000	6,969	1,171	8,140
At 27 February 1999	6,032	1,073	7,105
Capital work in progress included above (d)			
At 26 February 2000	189	49	238
At 27 February 1999	124	21	145

a Includes £40m in respect of interest capitalised principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the period was 8.5%. In 1999 the amount of interest capitalised £24m is stated net of tax relief of £9m.

b Net book value includes capitalised interest at 26 February 2000 of £319m (1999 – £288m). The 1999 net book value includes capitalised interest net of tax relief.

Plant, equipment, fixtures and fittings and vehicles subject to finance leases included in net book value are:

	Cost £m	Depreciation £m	Net book value £m
At 27 February 1999	179	157	22
Movement in the period	97	70	27
At 26 February 2000	276	227	49

c The net book value of land and buildings comprises:

	2000 £m	1999 £m
Freehold	6,022	5,130
Long leasehold – 50 years or more	553	557
Short leasehold – less than 50 years	394	345
At 26 February 2000	6,969	6,032

d Capital work in progress does not include land.

NOTE 13 Fixed asset investments

	Group		Company		
	Joint ventures (b) £m	Own shares (c) £m	Share in Group undertakings (a) £m	Loans to Group undertakings £m	Joint ventures (b) £m
At 27 February 1999	234	102	2,001	3,000	252
Additions	40	11	199	–	44
Share of profit of joint ventures	3	–	–	–	–
Disposals	(105)	(34)	–	–	(172)
At 26 February 2000	172	79	2,200	3,000	124

a The company's principal operating subsidiary undertakings are:

	Business	Share of equity capital	Country of incorporation
Tesco Stores Limited	Retail	100%	Registered in England
Tesco Property Holdings Limited	Property Investment	100%	Registered in England
Tesco Insurance Limited	Insurance	100%	Guernsey
Tesco Distribution Limited	Distribution	100%	Registered in England
Spenn Hill Properties Limited	Property Development	100%	Registered in England
Tesco Ireland Limited	Retail	100%	Republic of Ireland
Global T.H.	Retail	99%	Hungary
Tesco Polska Sp. z o.o.	Retail	98%	Poland
Tesco Stores ČR a.s.	Retail	100%	Czech Republic
Tesco Stores SR a.s.	Retail	100%	Slovakia
Samsung Tesco Co. Limited	Retail	81%	South Korea
Ek-Chai Distribution System Co. Ltd	Retail	93%	Thailand
Tesco Stores Hong Kong Limited	Purchasing	100%	Hong Kong

All principal subsidiary undertakings, none of which are owned directly by Tesco PLC, operate in their country of incorporation.

b The Group's joint ventures are:

	Business	Share of issued share capital, loan capital and debt securities	Country of incorporation and principal country of operation
Shopping Centres Limited	Property Investment	50%	Registered in England
BLT Properties Limited	Property Investment	50%	Registered in England
Tesco BL Holdings Limited	Property Investment	50%	Registered in England
Tesco British Land Property Partnership	Property Investment	50%	Registered in England
Tesco Personal Finance Group Limited	Personal Finance	50%	Registered in Scotland
Tesco Personal Finance Life Limited	Personal Finance	50%	Registered in Scotland
Tesco Personal Finance Investments Limited	Personal Finance	50%	Registered in Scotland
Tesco Home Shopping Limited	Mail Order Retail	60%	Registered in England

The Group's share of gross assets and gross liabilities of the joint ventures is disclosed below:

	2000 £m	1999 £m
Gross assets	958	821
Gross liabilities	(786)	(587)
	172	234

c The investment in own shares represents 71 million 5p ordinary shares in Tesco PLC with a weighted average value of £1.11 each. These shares are held by a qualifying employee share trust (QUEST) in order to satisfy options under savings-related share option schemes which become exercisable over the next few years. The carrying value of £79m (market value £120m) represents the exercise amount receivable in respect of these shares subscribed for by the QUEST at market value. Funding is provided to the QUEST by Tesco Stores Limited, the company's principal operating subsidiary. The QUEST has waived its rights to dividends on these shares.

notes to the financial statements continued

NOTE 13 Fixed asset investments continued

	2000 £m	1999 £m
The net funds/(borrowings) of the joint ventures, as at 26 February 2000, were as follows:		
Cash and deposits	1,445	979
Debenture stock – repayable 2001	(40)	(38)
Term bank loan – repayable 2003	(135)	(134)
Other loans	(1,225)	(900)
	45	(93)

There is no recourse to Group companies in respect of the borrowings of the joint ventures, apart from £16m (1999 – £15m) which has been guaranteed by Tesco PLC (note 29).

Details of transactions and balances with the joint ventures are set out in note 30.

NOTE 14 Stocks

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Goods held for resale	636	595	–	–
Development property	108	72	–	–
	744	667	–	–

Additions to development property include £1m (1999 – £2m) of interest capitalised. Accumulated capitalised interest at 26 February 2000 was £15m (1999 – £14m).

NOTE 15 Debtors

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts owed by Group undertakings	–	–	705	1,690
Prepayments and accrued income	37	31	419	202
Other debtors	178	100	22	12
Amounts owed by undertakings in which the company has a participating interest	37	20	37	20
	252	151	1,183	1,924

NOTE 16 Investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Money market deposits	256	199	19	–
Bonds and certificates of deposit (market value £2m, 1999 – £2m)	2	2	2	2
	258	201	21	2

NOTE 17 Creditors falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans and overdrafts (a) (b)	832	811	1,327	1,341
Trade creditors	1,248	1,100	–	–
Amounts owed to Group undertakings	–	–	905	1,733
Other creditors	603	446	19	3
Corporation tax (c)	282	236	33	–
Other taxation and social security	78	92	1	–
Accruals and deferred income (d)	217	177	28	21
Finance leases (note 22)	15	19	–	–
Proposed final dividend	212	194	212	194
	3,487	3,075	2,525	3,292

- a Bank deposits at subsidiary undertakings of £746m (1999 – £767m) have been offset against borrowings in the parent company under a legal right of set-off.
- b Includes £111m (1999 – £9m) secured on various properties.
- c The prior year comparative includes relief for advance corporation tax recoverable within one year.
- d A gain of £45m, realised in a prior year, on terminated interest rate swaps is being spread over the life of replacement swaps entered into at the same time for similar periods. Accruals and deferred income include £6m (1999 – £6m) attributable to these realised gains with £6m (1999 – £12m) being included in other creditors falling due after more than one year (note 18).

NOTE 18 Creditors falling due after more than one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
4% unsecured deep discount loan stock 2006 (a)	90	87	90	87
Finance leases (note 22)	51	8	–	–
10% bonds 2002 (b)	200	200	200	200
8% bonds 2003 (c)	200	200	200	200
7% bonds 2007 (d)	325	325	325	325
5% bonds 2009 (e)	350	150	350	150
6% bonds 2029 (f)	200	–	200	–
Medium term notes (g)	127	226	127	226
Other loans (h)	16	22	–	–
	1,559	1,218	1,492	1,188
Accruals and deferred income (note 17)	6	12	–	–
	1,565	1,230	1,492	1,188

- a The 4% unsecured deep discount loan stock is redeemable at a par value of £125m in 2006.
- b The 10% bonds are redeemable at a par value of £200m in 2002.
- c The 8% bonds are redeemable at a par value of £200m in 2003.
- d The 7% bonds are redeemable at a par value of £325m in 2007.
- e The 5% bonds are redeemable at a par value of £350m in 2009.
- f The 6% bonds are redeemable at a par value of £200m in 2029.
- g The medium term notes are of various maturities and include foreign currency and sterling denominated notes swapped into floating rate sterling.
- h Secured on various properties.

notes to the financial statements continued

NOTE 19 Net debt

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Due within one year: Bank and other loans	832	811	1,327	1,341
Finance leases	15	19	–	–
Due within one to two years: Bank and other loans	266	137	127	127
Finance leases	13	4	–	–
Due within two to five years: Bank and other loans	272	477	272	465
Finance leases	11	4	–	–
Due wholly or in part by instalments after five years:				
Finance leases	27	–	–	–
Due otherwise than by instalments after five years:				
Bank and other loans	970	596	1,093	596
Gross debt	2,406	2,048	2,819	2,529
Less: Cash at bank and in hand	88	127	–	–
Money market investments and deposits	258	201	21	2
Net debt	2,060	1,720	2,798	2,527

NOTE 20 Financial instruments

An explanation of the objectives and policies for holding and issuing financial instruments is set out in the Operating and Financial Review on pages 2 to 6. Other than where these items have been included in the currency risk disclosures, short-term debtors and creditors have been excluded from the following analyses.

Analysis of interest rate exposure and currency of financial liabilities

The interest rate exposure and currency profile of the financial liabilities of the Group at 26 February 2000 after taking into account the effect of interest rate and currency swaps were:

	Floating rate liabilities £m	Fixed rate liabilities £m	2000 Total £m	Floating rate liabilities £m	Fixed rate liabilities £m	1999 Total £m
Currency						
Sterling	1,186	512	1,698	1,172	487	1,659
Euro	104	147	251	16	162	178
Thai baht	235	–	235	190	–	190
Other	222	–	222	21	–	21
Gross liabilities	1,747	659	2,406	1,399	649	2,048

	Fixed rate financial liabilities			
	Weighted average interest rate 26 Feb 2000 %	2000 Weighted average time for which rate is fixed Years	Weighted average interest rate 27 Feb 1999 %	1999 Weighted average time for which rate is fixed Years
Currency				
Sterling	6.7	15	9.0	6
Euro	5.8	3	5.9	4
Weighted average	6.7	12	8.2	5

Floating rate liabilities bear interest at rates based on relevant national LIBOR equivalents. Borrowing facilities are shown in the Operating and Financial Review on pages 2 to 6. The interest rate profile of the Group has been further managed by the purchase of interest rate caps with an aggregate notional principal of £100m (1999 – £100m), an average strike price of 8.3% and a two year maturity. The current value of these contracts, if realised, is nil (1999 – nil).

NOTE 20 Financial instruments continued**Analysis of interest rate exposure and currency of financial assets**

The interest rate exposure and currency profile of the financial assets of the Group at 26 February 2000 were:

	Cash at bank and in hand £m	Short-term deposits £m	Other £m	2000 Total £m	Cash at bank and in hand £m	Short-term deposits £m	Other £m	1999 Total £m
Sterling	–	75	37	112	62	49	20	131
Other	88	183	–	271	65	152	–	217
Total financial assets	88	258	37	383	127	201	20	348

Other financial assets are in respect of amounts owed by undertakings in which the company has a participating interest, which attracts a rate of interest of 6.7%. Surplus funds are invested in accordance with approved limits on security and liquidity and bear rates of interest based on relevant LIBOR equivalents. Cash at bank and in hand includes non interest bearing cash and cash in transit.

Currency exposures

Within the Group, the principal differences on exchange arising which are taken to the profit and loss account, relate to purchases made by Group companies in currencies other than their reporting currencies. After taking into account hedging transactions, there were no significant balances on these exposures at year end. Rolling hedges of up to one year's duration are maintained against the value of investments and long-term intercompany borrowings in overseas subsidiaries, and to the extent permitted in SSAP20, differences on exchange are taken to the statement of total recognised gains and losses.

Fair values of financial assets and financial liabilities

	2000		1999	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Short-term borrowings	(847)	(847)	(830)	(830)
Long-term borrowings	(1,559)	(1,563)	(1,218)	(1,335)
Short-term deposits	258	258	201	201
Cash at bank and in hand	88	88	127	127
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps and similar instruments	–	4	–	24
Forward foreign currency contracts	(9)	(9)	(4)	(4)
Swap profit crystallisation	(12)	(12)	(18)	(18)
	(2,081)	(2,081)	(1,742)	(1,835)

Other significant financial instruments outstanding at the year end are £44m (1999 – £222m) nominal value forward foreign exchange contracts hedging the cost of foreign currency denominated purchases. On a mark-to-market basis, these contracts show a profit of nil (1999 – nil).

The fair values of the interest rate swaps, forward foreign currency contracts and long-term sterling denominated fixed rate debt have been determined by reference to prices available from the markets on which the instruments are traded. The fair values of all other items have been calculated by discounting expected future cash flows at prevailing interest rates.

Hedges

Unrecognised gains and losses on instruments used for hedging and those recognised in the year ended 26 February 2000 are as follows:

	Unrecognised		Total net gains/(losses) £m	Deferred		Total net gains/(losses) £m
	Gains £m	Losses £m		Gains £m	Losses £m	
At 27 February 1999	58	(34)	24	18	–	18
Arising in previous years and recognised in the year ended 26 February 2000	(17)	15	(2)	(6)	–	(6)
Arising in the period to be recognised in future years	(27)	9	(18)	–	–	–
At 26 February 2000 (a)	14	(10)	4	12	–	12
Expected to be recognised in the year ended 24 February 2001 (a)	(3)	2	(1)	(6)	–	(6)

a Gains and losses to be recognised through the profit and loss account.

notes to the financial statements continued

NOTE 21 Provisions for liabilities and charges

	Amount provided		Potential amount for deferred tax on timing differences	
	2000 £m	1999 £m	2000 £m	1999 £m
At 27 February 1999				17
Amount charged in the year				2
At 26 February 2000				19
Deferred taxation				
Excess capital allowances over depreciation	1	–	358	315
Capital gains deferred by rollover relief	–	–	(6)	(8)
Short-term timing differences	18	17	18	12
	19	17	370	319

Deferred taxation balances relate principally to short-term timing differences.

Where possible, taxation on capital gains has been or will be deferred by rollover relief under the provisions of the Taxation of Chargeable Gains Act 1992.

NOTE 22 Leasing commitments

Finance leases

The future minimum finance lease payments to which the Group was committed at 26 February 2000 and which have been guaranteed by Tesco PLC are:

	£m
Gross rental obligations	81
Less: finance charges allocated to future periods	(15)
	66

	2000 £m	1999 £m
Net amounts payable are:		
Within one year	15	19
Between one and five years	24	8
After five years	27	–
	66	27

Operating leases

	2000 £m	1999 £m
Group commitments during the 52 weeks to 24 February 2001, in terms of lease agreements expiring, are as follows:		
Within one year	4	4
Between one and five years	18	10
After five years	147	135
	169	149

NOTE 23 Called up share capital

	Ordinary shares of 5p each	
	Number	£m
Authorised at 27 February 1999	9,200,000,000	460
Authorised during the year	–	–
Authorised at 26 February 2000	9,200,000,000	460
Allotted, issued and fully paid:		
Issued at 27 February 1999	6,770,197,098	339
Scrip dividend election	11,286,890	–
Share options exercised	41,535,371	2
Issued at 26 February 2000	6,823,019,359	341

During the year, 52.8 million shares were issued for an aggregate consideration of £75m, which comprised £21m for scrip dividend and £54m for share options.

Between 26 February 2000 and 10 April 2000, options on 5,131,917 ordinary shares and 6,616,704 ordinary shares have been exercised under the terms of the savings-related share option scheme (1981) and the executive share option schemes (1984, 1994 and 1996) respectively.

As at 26 February 2000 the Directors were authorised to purchase up to a maximum in aggregate of 682,301,935 ordinary shares.

NOTE 24 Reserves

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Share premium account				
At 27 February 1999	1,577	1,528	1,577	1,528
Premium on issue of shares less costs	52	248	52	248
Bonus issue on 3 July 1998	–	(221)	–	(221)
Scrip dividend election	21	22	21	22
At 26 February 2000	1,650	1,577	1,650	1,577
Other reserves				
At 26 February 2000 and 27 February 1999	40	40	–	–
Profit and loss account				
At 27 February 1999	2,426	2,225	783	851
Loss on foreign currency net investments	(36)	(19)	(3)	–
Issue of shares	(24)	(109)	–	–
Retained profit for the financial year	372	329	(260)	(68)
At 26 February 2000	2,738	2,426	520	783

Other reserves comprise a merger reserve arising on the acquisition of Hillards plc in 1987.

In accordance with section 230 of the Companies Act 1985 a profit and loss account for Tesco PLC, whose result for the year is shown above, has not been presented in these accounts.

The cumulative goodwill written off against the reserves of the Group as at 26 February 2000 amounted to £718m (1999 – £718m). During the year, the qualifying share ownership trust (QUEST) subscribed for 21 million shares from the company. The amount of £24m shown above represents contributions to the QUEST from subsidiary undertakings.

notes to the financial statements continued

NOTE 25 Share options

Company schemes

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

- i The savings-related share option scheme (1981) permits the grant to employees of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from employees of an amount between £5 and £250 per month. Options are capable of being exercised at the end of the three and five year period at a subscription price not less than 80% of the middle market quotation of an ordinary share immediately prior to the date of grant.
- ii The executive share option scheme (1984) permitted the grant of options in respect of ordinary shares to selected executives. The scheme expired after ten years on 9 November 1994. Options were generally exercisable between three and ten years from the date of grant at a subscription price determined by the Board but not less than the middle market quotation within the period of 30 days prior to the date of grant. Some options have been granted at a discount of 15% of the standard option price but the option holder may take advantage of that discount only if, in accordance with investor protection ABI guidelines, certain targets related to earnings per share are achieved.
- iii The executive share option scheme (1994) was adopted on 17 October 1994. The principal difference between this scheme and the previous scheme is that the exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over any three year period. There will be no discounted options granted under this scheme.
- iv The unapproved executive share option scheme (1996) was adopted on 7 June 1996. This scheme was introduced following legislative changes which limited the number of options which could be granted under the previous scheme. As with the previous scheme, the exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over any three year period. There will be no discounted options granted under this scheme.
- v The international executive share option scheme was adopted on 20 May 1994. This scheme permits the grant to selected non-UK executives of options to acquire ordinary shares on substantially the same basis as their UK counterparts. Options are normally exercisable between three and ten years from their grant at a price of not less than the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the three dealing days immediately preceding their grant and will normally be conditional on the achievement of a specified performance target determined by the Remuneration Committee when the options are granted. There will be no discounted options granted under this scheme.

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

Savings-related share option scheme (1981)

Date of grant	Number of executives and employees	Shares under option 26 Feb 2000	Subscription prices (pence)
22 October 1993	5	14,136	53.7
26 October 1994	1,903	5,513,787	61.7
27 October 1995	15,288	32,043,763	83.3
31 October 1996	12,943	30,222,135	83.0
30 October 1997	33,377	43,007,253	121.7
29 October 1998	51,763	63,999,669	136.0
28 October 1999	55,501	49,059,538	151.0

Executive share option scheme (1984)

Date of grant	Number of executives	Shares under option 26 Feb 2000	Subscription prices (pence)
17 May 1991	4	60,000	91.3
29 May 1992	72	2,772,503	92.3
29 October 1992	2	78,663	72.3
27 May 1993	3	184,425	72.3
10 June 1994	137	3,117,726	70.0
12 August 1994	1	471,372	81.0
29 September 1994	9	346,242	77.3

NOTE 25 Share options continued**Executive share option scheme (1994)**

Date of grant	Number of executives	Shares under option 26 Feb 2000	Subscription prices (pence)
27 April 1995	7	741,954	90.3
13 October 1995	312	7,924,787	104.0

Executive share option scheme (1996)

Date of grant	Number of executives	Shares under option 26 Feb 2000	Subscription prices (pence)
3 July 1996	22	2,624,106	98.3
23 September 1996	593	16,018,351	99.7
17 April 1997	1,012	19,760,589	117.7
7 October 1997	40	4,662,588	151.7
17 November 1997	2	446,373	160.3
21 May 1998	1,287	21,859,618	176.7
30 September 1998	36	1,521,695	164.0
28 January 1999	1,358	22,025,669	178.0
24 May 1999	8	882,044	179.4
9 November 1999	43	2,356,085	184.0
30 November 1999	8	1,098,962	173.0

International executive share option scheme

Date of grant	Number of executives	Shares under option 26 Feb 2000	Subscription prices (pence)
7 October 1997	117	1,869,690	151.7
21 May 1998	284	2,775,000	176.7
28 January 1999	359	3,727,500	178.0
24 May 1999	18	520,746	179.4

NOTE 26 Pension commitments

The Group operates a funded defined benefit pension scheme for full-time employees in the UK, the assets of which are held as a segregated fund and administered by trustees. The total cost of the scheme to the Group was £60m (1999 – £55m).

An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme at 5 April 1999.

The assumptions that have the most significant effects on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions.

The key assumptions made were:

Rate of return on investments	7.25%
Rate of increase in salaries	4.50%
Rate of increase in pensions	2.75%

At the date of the latest actuarial valuation, the market value of the scheme's assets was £1,297m and the actuarial value of these assets represented 96% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The actuarial shortfall of £53m will be met via increased contributions over a period of 11 years, being the expected average remaining service lifetime of employed members.

The Group also operates a defined contribution pension scheme for part-time employees which was introduced on 6 April 1988. The assets of the scheme are held separately from those of the Group, being invested with an insurance company. The pension cost represents contributions payable by the Group to the insurance company and amounted to £19m (1999 – £17m). There were no material amounts outstanding to the insurance company at the year end.

The Group operates a number of pension schemes worldwide, most of which are defined contribution schemes. The contributions payable for non-UK schemes of £3m (1999 – £1m) have been fully expensed against profits in the current year. A defined benefit scheme operates in the Republic of Ireland. At the latest actuarial valuation carried out at 1 April 1998, the market value of the scheme's assets was £42m and the actuarial value of these assets represented 129% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

notes to the financial statements continued

NOTE 27 Post-retirement benefits other than pensions

The company operates a scheme offering post-retirement healthcare benefits. The cost of providing for these benefits has been accounted for on a basis similar to that used for defined benefit pension schemes.

The liability as at 24 February 1996 of £10m, which was determined in accordance with the advice of qualified actuaries, is being spread forward over the service lives of relevant employees and £1m (1999 – £1m) has been charged to the profit and loss account. An amount of £4m (1999 – £3m) is being carried in the balance sheet. It is expected that payments will be tax deductible, at the company's tax rate, when made.

NOTE 28 Capital commitments

At 26 February 2000 there were commitments for capital expenditure contracted for but not provided of £303m (1999 – £260m).

NOTE 29 Contingent liabilities

Certain bank loans and overdraft facilities of joint ventures have been guaranteed by Tesco PLC. At 26 February 2000, the amounts outstanding on these facilities were £16m (1999 – £15m).

The company has irrevocably guaranteed the liabilities as defined in Section 5(c) of the Republic of Ireland (Amendment Act) 1986 of various subsidiary undertakings incorporated in the Republic of Ireland.

NOTE 30 Related party transactions

During the year there were no material transactions or amounts owed or owing with any of the Group's key management or members of their close family.

During the year the Group traded with its eight joint ventures: Shopping Centres Limited, BLT Properties Limited, Tesco British Land Property Partnership, Tesco BL Holdings Limited, Tesco Personal Finance Group Limited, Tesco Personal Finance Life Limited, Tesco Personal Finance Investments Limited and Tesco Home Shopping Limited. The main transactions during the year were:

- i Equity funding of £42m (£41m in Tesco Personal Finance Group Limited and £1m in Tesco Home Shopping Limited).
- ii The sale of nine properties formerly held in the British Land Property Partnership to subsidiaries of Tesco BL Holdings Limited, a limited company owned 50:50 by Tesco PLC and British Land PLC. A bank loan of £210m was raised against the properties and the company received £105m, reducing the aggregate investment by Tesco in the Property Partnership and the new joint venture to £63m. Additionally, the Group made rental payments of £16m (1999 – £13m) to Tesco British Land Property Partnership.
- iii The Group made rental payments of £3m (1999 – £3m) and £11m (1999 – £11m) to Shopping Centres Limited and BLT Properties Limited respectively.
- iv The Group has charged Tesco Personal Finance Limited (a 100% subsidiary of Tesco Personal Finance Group Limited) an amount totalling £12m in respect of services, loan interest and assets transferred, of which £2m was outstanding at 26 February 2000. Tesco Personal Finance Limited received fees totalling £3m from the Group for managing certain financial products. In addition, an amount of £4m, the majority of which relates to group relief was outstanding at 26 February 2000.
- v The Group has charged Tesco Home Shopping Limited an amount totalling £3m in respect of services, loan interest and assets transferred, of which £1m was outstanding at 26 February 2000.
- vi The Group made loans totalling £17m (£10m to Tesco Personal Finance Group Limited and £7m to Tesco Home Shopping Limited).

NOTE 31 Reconciliation of operating profit to net cash inflow from operating activities

	2000 £m	1999 £m
Operating profit	1,030	934
Depreciation and goodwill amortisation	435	406
Increase in goods held for resale	(47)	(69)
(Increase)/decrease in development property	(40)	13
Increase in debtors	(45)	(12)
Increase in trade creditors	156	81
Increase/(decrease) in other creditors	24	(32)
Decrease/(increase) in working capital	48	(19)
Net cash inflow from operating activities	1,513	1,321

NOTE 32 Acquisitions

Effective 1 May 1999, Tesco acquired a 51% controlling interest in a newly incorporated company, Samsung Tesco Co. Limited for a cash consideration of £81m and incurred fees of £4m.

Subsequently the company paid £57m to increase its holding in Samsung Tesco Co. Limited to 81% on 30 June 1999. Net assets amounted to £138m. A subsequent fair value adjustment revised this to £136m. The impact of this acquisition on the results for the year was immaterial.

NOTE 33 Analysis of changes in net debt

	At 27 Feb 1999 £m	Cash flow £m	Other non cash changes £m	Exchange movements £m	At 26 Feb 2000 £m
Cash at bank and in hand	127	(34)	–	(5)	88
Overdrafts	(31)	(4)	–	–	(35)
	96	(38)	–	(5)	53
Money market investments and deposits	201	68	–	(11)	258
Bank and other loans	(780)	(19)	(4)	6	(797)
Finance leases	(19)	4	–	–	(15)
Debt due within one year	(799)	(15)	(4)	6	(812)
Bank and other loans	(1,210)	(303)	–	5	(1,508)
Finance leases	(8)	(13)	(30)	–	(51)
Debt due after one year	(1,218)	(316)	(30)	5	(1,559)
	(1,720)	(301)	(34)	(5)	(2,060)

five year record

Year ended February	1996	1997	1998 ¹	1999	2000
Financial statistics £m					
Turnover excluding VAT					
UK	11,560	13,118	14,971	15,835	16,958
Rest of Europe	534	769	1,481	1,167	1,374
Asia	–	–	–	156	464
	12,094	13,887	16,452	17,158	18,796
Operating profit²					
UK	713	760	875	919	993
Rest of Europe	11	14	37	48	51
Asia	–	–	–	(2)	(1)
	724	774	912	965	1,043
Operating margin²					
UK	6.2%	5.8%	5.8%	5.8%	5.9%
Rest of Europe	2.1%	1.8%	2.5%	4.1%	3.7%
Asia	–	–	–	(1.3)%	(0.2)%
Total Group	6.0%	5.6%	5.5%	5.6%	5.5%
Share of profit/(loss) from joint ventures	–	–	(6)	6	11
Net interest payable	(43)	(24)	(74)	(90)	(99)
Underlying profit³					
Ireland integration costs	–	–	(63)	(26)	(6)
Goodwill amortisation	–	–	–	(5)	(7)
Net loss on disposal of discontinued operations ⁴	–	–	(8)	–	–
Net loss on disposal of fixed assets	(6)	–	(1)	(8)	(9)
Profit before taxation	675	750	760	842	933
Taxation	(209)	(230)	(228)	(237)	(259)
Minority interest	–	–	–	1	–
Profit for the financial year					
Adjusted diluted earnings per share ³	7.30p	7.83p	8.84p	9.37p	10.18p
Adjusted earnings per share	7.50p	8.03p	9.05p	9.59p	10.36p
Dividend per share	3.20p	3.45p	3.87p	4.12p	4.48p
Net worth – £m ⁵	3,588	3,890	3,903	4,377	4,798
Return on shareholders' funds ⁶	20.4%	20.1%	21.3%	21.3%	20.9%
Return on capital employed ⁷	16.9%	17.1%	18.7%	17.2%	16.1%
Net assets per share ⁸	56p	60p	59p	65p	70p
UK retail productivity £					
Turnover per employee ⁹	143,3359	146,326	149,799	151,138	156,427
Profit per employee ⁹	8,841	8,478	8,755	8,771	9,160
Wages per employee ⁹	13,948	14,222	15,079	15,271	15,600
Weekly sales per sq ft ^{10/11}	18.31	19.74	20.48	21.05	21.43
UK retail statistics					
Market share in food and drink shops ¹²	13.4%	14.2%	14.8%	15.4%	15.5%
Number of stores	545	568	618	639	659
Total sales area – 000 sq ft ¹¹	13,397	14,036	15,215	15,975	16,895
Average store size (sales area – sq ft) ¹³	25,600	26,300	26,600	26,654	27,720
Full-time equivalent employees ¹⁴	80,650	89,649	99,941	104,772	108,409
Group statistics					
Number of stores	734	758	781	821	845
Total sales area – 000 sq ft	15,114	16,747	18,254	21,353	24,039
Full-time equivalent employees	84,918	98,463	119,127	126,914	134,896
Share price (pence)					
Highest	113	123	180	202	197
Lowest	82	88	113	157	156
Year end	90	116	172	177	169

notes

- 53 week period.
- Excludes integration costs and goodwill amortisation. Operating margin is based upon turnover exclusive of VAT.
- Underlying profit, adjusted and adjusted diluted, earnings per share excludes net loss on disposal of fixed assets, loss on disposal of discontinued operations, Ireland integration costs and goodwill amortisation.
- Represents loss on disposal of discontinued operations.
- Total capital employed at the year end.
- Underlying profit divided by weighted average shareholders' funds.
- Operating profit divided by average capital employed.
- Based on number of shares at year end.
- Based on turnover exclusive of VAT, operating profit and total staff cost per full-time equivalent employee.
- Based on weighted average sales area and turnover inclusive of VAT excluding property development.
- Store sizes exclude lobby and restaurant areas.
- Based on Tesco food, grocery, non-food and drink sales and Institute of Grocery Distribution/Office for National Statistics data for the year to the previous December.
- Average store sizes exclude Metro and Express stores.
- Based on average number of full-time equivalent employees in the UK.



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Front cover: Tesco Superstore, Hammersmith, London.