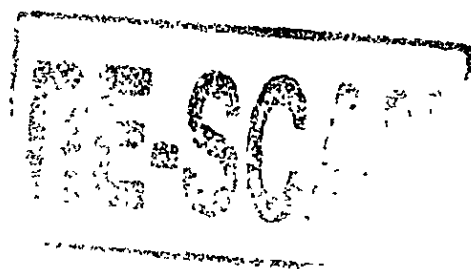


TESCO STORES LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012

Registered Number: 519500



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## **TESCO STORES LIMITED**

### **DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012**

The Directors present their report and the audited financial statements of Tesco Stores Limited (the "Company") for the 52 week period ended 25 February 2012 (Prior period 52 weeks ended 26 February 2011)

#### **Business review and principal activities**

The principal activity of the Company is operation of food stores and associated activities with 2,335 (2011 2,166) stores throughout England, Scotland, Wales and Northern Ireland

We have noticed that high petrol prices and falling real incomes affected customers' discretionary spending in the year. A slower than planned for like-for-like growth and a weakening in our performance relative to the wider industry, resulted in an acceleration of our plan to make improvements which has meant an adjustment to our expectations for growth in 2012/13. The acceleration of our plan and reset of expectations were announced with our Christmas trading update in January. Just after year end, a six point UK plan was launched to significantly invest in the business and reinvigorate performance.

The elements of the six point UK plan include service & staff, stores & formats, price & value, range & quality, brand & marketing and clicks & bricks. These changes will enhance the shopping trip for customers and represent a further substantial investment back into the business.

#### **Results and dividends**

The results for the period show a profit on ordinary activities before taxation of £2,126m (2011 £2,243m) and turnover (excluding VAT) of £41,981m (2011 £40,149m).

An interim dividend of £1,800m (2011 £1,500m) has been paid in respect of the 52 weeks ended 25 February 2012.

The Directors do not recommend payment of a final dividend for the 52 weeks ended 25 February 2012 (2011 £0).

The Company paid preference dividends amounting to £16m (2011 £16m).

Profit after tax (before payment of dividends) for the 52 weeks ended 25 February 2012 amounted to £1,630m (2011 £1,756m).

#### **Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The UK Operating Board has developed a UK Key Risk Register, and reviewed each of the key risk categories in December 2011. The most significant risks currently facing the UK business are considered to include, performance risk, competition risk, reputation risk and internal controls. Further discussion of these risks and uncertainties together with the controls and mitigating factors, in the context of the Tesco PLC Group (the "Group") as a whole, is provided on pages 40 to 47 of the Group's Annual Report which does not form part of this report.

#### **Charitable and political contributions**

Sponsorship and cash donations to charities (excluding cause-related marketing) amounted to £10.2m for the period (2011 £10.2m). Total contributions to community projects including cash, cause-related marketing, gifts-in-kind, staff time and management costs amounted to £29.7m (2011 £29.6m). There were no political donations for the period (2011 none).

## **TESCO STORES LIMITED**

### **DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

#### **Future outlook**

The Company's future developments form a part of the Group's long-term strategy for the UK core business, which is discussed on pages 4 to 27 of the Group's Annual Report for the 52 weeks ended 25 February 2012, which does not form part of this Report

#### **Post balance sheet events**

Refer to note 28

#### **Key performance indicators (KPI's)**

We operate a balanced scorecard approach to managing the business that is known internally as our 'Steering Wheel'. This unites resources and in particular focuses the efforts of our staff around our customers, people, operations, finance and the community. Its prime focus is as a management tool for the Company so there is appropriate balance between the different areas of focus in managing the business.

It therefore enables the business to be operated and monitored on a balanced basis with due regard to the needs of all stakeholders.

The development, performance and position of the UK operations of the Group, which includes the Company, is discussed on pages 29 to 36 of the Group's Annual Report which does not form part of this report.

#### **Research and development**

The Company undertakes research and development into products, information technology and systems to enhance the shopping trip for customers.

#### **Supplier payment policy**

The Company pays its suppliers directly.

The Company's ultimate parent company, Tesco PLC, is a signatory to the Prompt Payment Code in the UK. More information about the Code can be found at [www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk). Payment terms and conditions are agreed with suppliers in advance. The Company pays its creditors on a pay on time basis which varies according to the type of product.

Trade creditor days of the Company for the 52 weeks ended 25 February 2012 were 32 days (2011: 32 days), based on the ratio of Company trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

# **TESCO STORES LIMITED**

## **DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

### **Employees**

The Company depends on the skills and commitment of its employees in order to achieve its objectives and we strive to ensure that our company values are reflected in our policies

Ongoing training programmes seek to ensure that employees understand the Company's customer service objectives and strive to achieve them

The Company's selection, training, development and promotion policies ensure everyone is welcome and equal opportunities for all employees regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, or disability. All decisions are based on merit

Internal communications are designed to ensure that employees are well informed about the business of the Company

Employees are encouraged to become involved in the financial performance of the Company through a variety of voluntary schemes, principally the Tesco employee profit-sharing scheme (Shares in Success), the savings-related share option scheme (Save As You Earn) and the partnership share plan (Buy As You Earn)

The Company had 264,887 employees on average during the 52 weeks ended 25 February 2012 (2011 261,304)

### **Directors and their interests**

The following Directors served during the period and up to the date of signing the financial statements

R Brasher (resigned 15 March 2012)

P Clarke

G Fryett

A Higginson (resigned 29 February 2012)

T Leahy (retired 2 March 2011)

T Mason

L McIlwee

L Neville-Rolfe

D Potts (resigned 7 December 2011)

Save as set out below, none of the Directors had any disclosable interests in the Company during this period

R Brasher, P Clarke, A Higginson, T Leahy, T Mason, L McIlwee, L Neville-Rolfe and D Potts are also Directors, or former Directors, of Tesco PLC, the Company's ultimate parent company, and as such their disclosable interests in Tesco PLC are all declared in the financial statements of that company

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Tesco PLC Directors listed above and the Tesco PLC Company Secretary (who is also Company Secretary of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial period

### **Interests in land**

The Directors are of the opinion that the open market value of the Company's land and buildings is in excess of the net book value of £8,749m (2011 £8,133m) included in the financial statements. The market value of the land and properties is not disclosed as it can fluctuate with the market volatility and is market sensitive

## **TESCO STORES LIMITED**

### **DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

#### **Cautionary statement regarding forward-looking information**

Where this review contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

#### **Branches**

The Company has a branch in the Isle of Man.

# TESCO STORES LIMITED

## DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

The Companies Act 2006 requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the Companies Act 2006, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Disclosure of information to auditors

Each Director who is a director of the Company at the date of approval of this Annual Report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he/she has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

The independent auditors of the Company, PricewaterhouseCoopers LLP, are proposed for reappointment.

On behalf of the Board *6 November*

2012

*Philip Clarke*  
P Clarke  
Director

Tesco Stores Limited

Registered Number 519500

Registered Office Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TESCO STORES LIMITED**

We have audited the financial statements of Tesco Stores Limited for the period ended 25 February 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 25 February 2012 and of its profit for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



David Beer (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
St Albans

7 November 2012

# TESCO STORES LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012

	Notes	52 weeks to 25 February 2012 £'m	52 weeks to 26 February 2011 £'m
<b>Turnover excluding value added tax</b>		<b>41,981</b>	40,149
Cost of sales		(38,085)	(36,232)
<b>Gross profit</b>		<b>3,896</b>	3,917
Administrative expenses		(1,851)	(1,839)
Other operating income		175	182
<b>Operating profit</b>	3	<b>2,220</b>	2,260
Net income from shares in group undertakings		1	1
Net loss on disposal of fixed assets	4	(40)	(39)
Interest receivable and similar income	6	94	58
Interest payable and similar charges	7	(149)	(37)
<b>Profit on ordinary activities before taxation</b>		<b>2,126</b>	2,243
Tax on profit on ordinary activities	8	(496)	(487)
<b>Profit for the financial period</b>	19	<b>1,630</b>	1,756

There are no material differences between the profit on ordinary activities before taxation and the profit for the period stated above and their historical cost equivalents

All operations are continuing for the financial period

The notes on pages 11 to 31 form part of these financial statements



# **TESCO STORES LIMITED**

## **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012**

	<b>2012</b>	<b>2011</b>
	<b>£'m</b>	<b>£'m</b>
Profit for the financial period	<b>1,630</b>	1,756
Adjustment in respect of prior years	-	7
<b>Total recognised gains in the financial period</b>	<b>1,630</b>	1,763

# TESCO STORES LIMITED

## BALANCE SHEET AS AT 25 FEBRUARY 2012

		25 February 2012 £'m	26 February 2011 £'m
	Notes		
<b>Fixed assets</b>			
Intangible assets	9	154	166
Tangible assets	10	10,836	10,160
Investments	11	495	495
		11,485	10,821
<b>Current assets</b>			
Stock	12	1,698	1,537
Debtors – amounts falling due within one year	13	15,270	4,818
Cash at bank and in hand		679	625
		17,647	6,980
Creditors – amounts falling due within one year	14	(21,394)	(9,955)
Provisions for liabilities	16	(2)	(47)
<b>Net current liabilities</b>		<b>(3,749)</b>	<b>(3,022)</b>
<b>Total assets less current liabilities</b>		<b>7,736</b>	<b>7,799</b>
Creditors – amounts due after more than one year	15	(264)	(283)
Provisions for liabilities	16	(424)	(396)
<b>Net assets</b>		<b>7,048</b>	<b>7,120</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,320	1,320
Profit and loss account	19	5,728	5,800
<b>Total equity shareholder's funds</b>	20	<b>7,048</b>	<b>7,120</b>

The financial statements on pages 8 to 10 were approved by the board of Directors on *6 November* 2012 and were signed on its behalf by



P Clarke  
Director  
Tesco Stores Limited  
Registered Number 519500

# **TESCO STORES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012**

### **1. ACCOUNTING POLICIES**

#### **Basis of preparation of financial statements**

The financial statements are prepared on the going concern basis, in accordance with applicable United Kingdom accounting standards, under the historical cost convention and in accordance with the Companies Act 2006. The Company's principal accounting policies have been applied consistently during the period except for the amendment set out below.

In accordance with FRS 2 "Accounting for Subsidiary Undertakings" and Section 400 of the Companies Act 2006, Group financial statements have not been prepared because the Company is a wholly owned subsidiary of Tesco PLC, incorporated in England and Wales.

#### **Cash flow statement**

The Company is a wholly owned subsidiary of Tesco PLC and is included in the consolidated financial statements of Tesco PLC which are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 "Cash Flow Statements".

#### **Tangible fixed assets and capitalised interest**

Tangible fixed assets are carried at historic purchase cost less accumulated depreciation. They include amounts in respect of interest paid on funds specifically related to the financing of assets and other costs incurred in bringing the asset to its working condition for its intended use. Interest is capitalised on a gross basis.

#### **Financial liabilities**

Financial liabilities are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss Account over the period of the borrowings using the effective interest method. Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised in the Profit and Loss Account as an interest expense.

#### **Finance costs**

Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use and from which future economic benefits are expected to arise. All other borrowing costs are recognised in the Profit and Loss Account on an accruals basis.

#### **Clubcard and loyalty initiatives**

The cost of Clubcard is treated as a cost of sale, with an accrual equal to the estimated fair value of the points issued recognised when the original transaction occurs. On redemption, the cost of redemption is offset against the accrual.

The fair value of the points awarded is determined with reference to the cost of redemption and considers factors such as redemption via Clubcard deals versus money off in-store redemption rate.

Computers for Schools and Sport for Schools and Club vouchers are issued for redemption by participating schools/clubs. The cost of the redemption (i.e. meeting the obligation attached to the vouchers) is treated as a cost.

# **TESCO STORES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Fixed asset investments**

Fixed asset investments in subsidiaries, associates and joint ventures are stated at cost plus incidental expenses less where appropriate provisions for impairment

#### **Depreciation**

Depreciation is provided to write off costs or valuation of tangible fixed assets less their residuals on a straight-line basis over the anticipated useful economic lives of the assets

The following depreciation rates were applied for the Company and are consistent with the prior period

- Freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost
- Leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease
- Plant, equipment, fixtures and fittings, motor vehicles, software and development costs – at rates varying from 10% to 33%
- Freehold land is not depreciated

#### **Foreign currencies**

Transactions in foreign currencies are translated into pounds sterling at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into pounds sterling at the exchange rates prevailing at the Balance Sheet date. All foreign exchange differences are taken to the Profit and Loss Account for the period.

#### **Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Company as a lessee*

Assets held under finance leases are recognised as tangible fixed assets of the Company at their fair value or if lower at the present value of the minimum lease payments each determined at the inception of the lease. The corresponding liability is included in the Balance Sheet as a finance obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Profit and Loss Account.

Rentals payable under operating leases are charged to the Profit and Loss Account on a straight line basis over the term of the relevant lease.

#### **Provisions**

Provisions for onerous leases are recognised when the Company believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

#### **Intangible assets**

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years. No amortisation is charged in the period of acquisition, with a full period charge in the period of disposal.

# **TESCO STORES LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

### **1. ACCOUNTING POLICIES (continued)**

#### **Impairment of fixed assets and goodwill**

At each balance sheet date the Company reviews the carrying amounts of the fixed assets and goodwill to determine whether there is any need for impairment in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". Any impairment is recognised in the Profit and Loss Account in the period in which it occurs.

#### **Pensions**

The Company participates in the Tesco PLC Pension Scheme, which is a multi-employer defined benefit scheme within the Tesco Group, but is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, as permitted by FRS 17 'Retirement Benefits', the Company has accounted for the scheme as if it were a defined contribution scheme, and the charge for the period is based upon the cash contributions payable. The pension scheme is valued every three years by a professionally qualified independent actuary who determines the rate of contributions payable.

#### **Share based payments**

Employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares, rights over shares (equity-settled transactions) or in exchange for cash.

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. In accordance with FRS 20 "Share-based payments", the resulting cost is charged to the Profit and Loss Account over the vesting period with a corresponding adjustment to equity. The value of the charge is adjusted to reflect the expected and actual levels of vesting.

Options awarded to employees are for share capital of Tesco PLC. This is treated as a capital contribution to the reserves of the Company.

#### **Stocks**

Stocks are valued at the lower of cost and net realisable value. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Stocks in stores are calculated at retail prices and reduced by appropriate margins to take into account factors such as obsolescence, seasonality and damage using the weighted average cost basis.

#### **Turnover**

Turnover consists of sales through retail outlets and intercompany sales with Ireland. Turnover is reported net of returns, vouchers and value added taxes. Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Commission income is recorded based on the terms of the contracts.

#### **Other operating income**

Other operating income largely consists of income from third parties, lottery sales income and income from advertising and vending machine operations.

#### **Current taxation**

The amount included in the Profit and Loss Account is based on the profit on ordinary activities before taxation and is calculated at current local tax rates, taking into account timing differences and the likelihood of realisation of deferred tax assets and liabilities.

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 1. ACCOUNTING POLICIES (continued)

#### Group relief on taxation

The Company may receive group relief from group companies and consequently there may be a reduced tax charge in the Profit and Loss Account

#### Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the Balance Sheet date.

### 2. SEGMENTAL REPORTING

The Company operates within one business segment being that of the operation of food stores and associated activities with business principally transacted in the United Kingdom.

### 3. OPERATING PROFIT

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
<b>Operating profit</b>	<b>2,220</b>	<b>2,260</b>
<b>Operating profit is stated after charging</b>		
Wages and salaries	3,357	3,193
Social security costs	186	190
Other pension costs	258	245
Share based payment expense	107	191
<b>Staff costs</b>	<b>3,908</b>	<b>3,819</b>
Depreciation of tangible fixed assets (note 10)		
- owned assets	566	538
- leased assets	35	46
Amortisation of goodwill (note 9)	12	12
Operating lease charges		
- plant and machinery	43	32
- other	650	568

The average number of UK employees (excluding Directors) per week during the 52 weeks ended 25 February 2012 was 264,887 (2011 261,304) and the average number of full-time equivalents was 176,351 (2011 173,219).

The auditors' remuneration for the current period was £65,000 (2011 £65,000).

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 4. NET LOSS ON DISPOSAL OF FIXED ASSETS

The net loss on sale of fixed assets for the 52 weeks ended 25 February 2012 was £40m (2011 £39m)

### 5. DIRECTORS' EMOLUMENTS

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Aggregate emoluments	5	10

Sir T Leahy retired on 2 March 2011 and was paid £60,398 in the 2011/12 year including accrued holiday pay. Retirement benefits are accruing for nine Directors (2011 nine Directors) under a defined benefit scheme. During the 52 weeks ended 25 February 2012, all Directors received or accrued shares under a long-term incentive scheme. The number of Directors who exercised options during the 52 weeks to 25 February 2012 was nine (2011 nine).

The total value of contributions to a defined benefit scheme on behalf of all Directors of the Company during the 52 weeks ended 25 February 2012 was £750,153 (2011 £819,278). No compensation was paid to Directors for loss of office or retirement during the 52 weeks ended 25 February 2012 (2011 nil). Details of the Directors that resigned will be provided in next year's Tesco PLC Annual Report and Financial Statements.

#### A. Highest paid Director

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Aggregate emoluments	1	2

Accrued pension per annum for the highest paid Director, as at 25 February 2012 was £573,000 (2011 £887,000), with a lump sum entitlement at that date of £9,727,000 (2011 £18,367,000). The highest paid Director made gains of £0 (2011 £5,173,000) on the exercise of share options granted as part of the executive share option scheme. The highest paid Director was granted 0 (2011 671,748) share options during the 52 weeks ended 25 February 2012 as part of the executive share option scheme and 963,975 (2011 1,065,296) shares were awarded as part of the Executive Incentive Plan, Performance Share Plan and Shares in Success. The highest paid Director was also granted 0 (2011 93,747) options as part of the Group New Business Incentive Plan.

#### B. Share schemes

The Company operates share schemes for Directors of the Company. Awards are made in a combination of Tesco PLC ordinary shares of 5p each, and cash. The plans, as operated for the Directors in the 52 weeks ended 25 February 2012, are described below.

##### Performance Share Plan (Three Year Performance)

The Performance Share Plan (PSP) for Directors provides the opportunity to earn rewards for achieving superior long term performance. For the 52 weeks ended 25 February 2012 awards were made over Tesco PLC shares with a maximum opportunity of 225% of base salary. The award will vest, together with dividend equivalents, subject to achievement of the performance measures which are an achievement of a combination of Return on Capital Employed and Earnings Per share Growth targets over a three year performance period. The Group CEO receives an award with a maximum opportunity of 275% of base salary measured using the same performance conditions as the Directors. Clawback applies to deferred shares to allow the Tesco PLC Remuneration Committee to scale back deferred share awards in the event that the results are materially misstated.

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 5. DIRECTORS' EMOLUMENTS (continued)

#### Executive Incentive Scheme / Plan

Bonuses for Directors are made each year in line with market practice. For the 52 weeks ended 25 February 2012 awards are made with a maximum opportunity of 200% of salary, split equally between cash and shares, with a compulsory deferral for three years on the part paid in shares. Awards are made annually measured with 70% based on the achievement of underlying profit performance and 30% based on the achievement of key strategic objectives. The share equivalent of dividends, which would have been paid on the shares, are added to the award during the deferral period. The Group CEO annual bonus has a maximum opportunity of 250% of salary and is measured using the same performance criteria as the other Directors. Clawback applies to deferred shares to allow the Tesco PLC Remuneration Committee to scale back deferred share awards in the event that the results are materially misstated.

Certain Directors also have historic deferred bonus share awards under the short term bonus scheme referred to in Note 22b. These deferred shares vest three years after award and are not subject to further performance conditions.

#### Shares In Success

Shares in Tesco PLC are allocated to participants in the scheme up to HMRC approved limits (currently £3,473 per annum). The amount of profit allocated to the scheme is determined by the Board of Directors of Tesco PLC, taking account of Company performance.

#### Buy As You Earn

All employees are eligible to participate in Buy As You Earn which is an HMRC approved share purchase scheme under which employees invest up to a limit of £110 on a four-weekly basis to buy shares at the market value in Tesco PLC.

#### Save As You Earn

All employees are eligible to participate in Save As You Earn which is an HMRC approved savings-related share option scheme under which employees save up to a limit of £250 on a four-weekly basis via a bank/building society with an option to buy shares in Tesco PLC at the end of a three-year or five-year period at a discount of up to 20% of the market value. There are no performance conditions attached to SAYE options.

#### Group New Business Incentive Plan

An option over 2.5 million shares was made to Sir T Leahy on 14 November 2007. Awards may be adjusted to take account of any dividends paid or that are payable in respect of the number of shares earned. Options will normally vest in four tranches: four, five, six and seven years after the date of grant and will be exercisable for up to two years from the vesting dates for nil consideration. The exercise of options will normally be conditional on the achievement of specified performance targets related to the return on capital employed over the seven-year plan.

#### Discretionary Share Option Plan

Options over shares with a value of up to 200% of salary may be granted to senior Directors and with a value of up to 100% of salary to other Directors on an annual basis. Options are granted with an exercise price equal to the market value at the date of grant and any gain is dependent on an increasing share price between the date of grant and exercise. Vesting of the options is conditional on the achievement of earnings per share growth against RPI growth. No awards were granted to the Directors under the Discretionary Share Option Plan in 2011/12.



# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 6. INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Interest receivable on loans to group undertakings	49	58
Foreign exchange net gain	9	-
Interest receivable other	36	-
	94	58

### 7. INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Interest payable on overdrafts and bank loans	5	7
Interest payable on loans from group undertakings	224	35
Capitalised interest	(96)	(35)
Preference share dividend paid	16	16
Foreign exchange net loss	-	14
	149	37

During the period, a dividend was payable on "A" Preference shares of £16m at 6 08p per share (2011 £16m at 6 08p per share) and £0 4m at 7 18p per share (2011 £0 4m at 7 18p per share) on the "B" Preference shares

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

#### Factors that have affected the tax charge

The standard rate of corporation tax in the UK was changed from 28% to 26% with effect from 1 April 2011. This gives an overall blended corporation tax rate for the Company for the full year of 26.2%.

	<b>52 weeks to 25 Feb 2012 £'m</b>	<b>52 weeks to 26 Feb 2011 £'m</b>
<b>Current tax:</b>		
UK Corporation tax on profit for the financial period	<b>551</b>	556
Adjustments in respect of previous financial periods	<b>(75)</b>	(38)
<b>Total current tax</b>	<b>476</b>	518
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<b>59</b>	(21)
Change in tax rate	<b>(32)</b>	(14)
Adjustments in respect of previous financial periods	<b>(7)</b>	4
<b>Total deferred tax</b>	<b>20</b>	(31)
<b>Tax on profit on ordinary activities</b>	<b>496</b>	487

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed for the period is lower (2011 lower) than the blended rate of corporation tax in the UK of 26 2% (2011 28%) The differences are explained below

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Profit on ordinary activities before tax	2,126	2,243
Profit on ordinary activities multiplied by blended rate in the UK 26 2% (2011 28%)	557	628
Effects of		
Expenses not deductible for tax purposes	57	60
Deductions on employee share schemes	(13)	3
Profit on property disposals not taxable or available for tax relief	26	11
Accelerated capital allowances and other timing differences	(42)	(18)
Other short term timing differences	(1)	(5)
Group relief received	(33)	(123)
Prior period items	(75)	(38)
<b>Current tax charge for the financial period</b>	<b>476</b>	<b>518</b>

#### Factors affecting current and future tax charges

The Finance Act 2011 included legislation to reduce the main rate of corporation tax from 27% to 26% from 1 April 2011 and to 25% from 1 April 2012 The reduction from 27% to 25% was substantively enacted at the balance sheet date and has therefore been reflected in these financial statements

In addition to the changes in rates of corporation tax disclosed above, a number of further changes to the UK corporation tax system were announced in both the March 2011 and March 2012 UK Budget statements

A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24% from 1 April 2012 Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 has been included in the Finance Act 2012 Further reductions to the main rate are proposed to reduce the main rate to 22% by 1 April 2014 None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 9. INTANGIBLE ASSETS

	<b>Goodwill</b>
	<b>£'m</b>
<b>Cost</b>	
At 26 February 2011*	233
Additions	-
Disposals	-
<b>At 25 February 2012</b>	<b>233</b>
<b>Provision for amortisation</b>	
At 26 February 2011	67
Amortisation charge	12
Disposals	-
<b>At 25 February 2012</b>	<b>79</b>
<b>Net book value</b>	
<b>At 25 February 2012</b>	<b>154</b>
At 26 February 2011	166

\*Goodwill relates to the conversion of One Stop stores from another group company

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 10. TANGIBLE FIXED ASSETS

	Land and buildings	Plant, equipment, fixtures and fittings, motor vehicles, software and development costs	Total
	£'m	£'m	£'m
<b>Cost</b>			
At 26 February 2011	9,137	5,422	14,559
Additions at cost	1,178	538	1,716
Transfer (to) / from group undertakings	137	7	144
Disposals	(526)	(52)	(578)
<b>At 25 February 2012</b>	<b>9,926</b>	<b>5,915</b>	<b>15,841</b>
<b>Accumulated depreciation</b>			
At 26 February 2011	(1,004)	(3,395)	(4,399)
Charge for the period	(127)	(474)	(601)
Transfer from group undertakings	(78)	-	(78)
Disposals	32	41	73
<b>At 25 February 2012</b>	<b>(1,177)</b>	<b>(3,828)</b>	<b>(5,005)</b>
<b>Net book value</b>			
<b>At 25 February 2012</b>	<b>8,749</b>	<b>2,087</b>	<b>10,836</b>
At 26 February 2011	8,133	2,027	10,160
Capital work in progress included above			
<b>At 25 February 2012</b>	<b>410</b>	<b>84</b>	<b>494</b>
At 26 February 2011	467	99	566
<b>The net book value of land and buildings comprise.</b>			
	<b>2012</b>	<b>2011</b>	
	<b>£'m</b>	<b>£'m</b>	
Freehold	7,970	7,379	
Leaseholds	779	754	
	<b>8,749</b>	<b>8,133</b>	

#### Notes

- Additions at cost includes £96m (2011 £35m) 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 52 weeks to 25 February 2012 was 5.1% (2011 5.1%).
- Transfers of assets are made to/from other group companies throughout the 52 week period and are done at the net book value at the date of transfer.
- Net book value includes capitalised interest, less amounts transferred and written off on disposal, of £520m (2011 £424m).
- Capital work in progress does not include land.

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 10 TANGIBLE FIXED ASSETS (continued)

	2012 £'m	2011 £'m
Assets held under finance leases and capitalised in plant and equipment		
Cost	845	715
Accumulated depreciation	(731)	(599)
<b>Net book value</b>	<b>114</b>	<b>116</b>

### 11. FIXED ASSET INVESTMENTS

	Group companies £'m
<b>Cost</b>	
At 26 February 2011	507
<b>At 25 February 2012</b>	<b>507</b>
<b>Provision for impairment</b>	
At 26 February 2011	12
<b>At 25 February 2012</b>	<b>12</b>
<b>Net book value</b>	
<b>At 25 February 2012</b>	<b>495</b>
At 26 February 2011	495

The Directors believe that the carrying value of the other investments is supported by their underlying net assets

Details of the principal subsidiary undertakings at the period end are as follows

Subsidiary undertakings	Country of incorporation	% Shares held	Nature of business
Halesworth SPV Limited	England	100%	Property company
Horniton Wholesale Supplies Limited	England	100%	Property company
Telegraph Properties (Kirkby) Limited	England	100%	Property company
Nutri Centres Limited	England	100%	Complementary medicine

A full list of the Company's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House

Details of the principal associates at the period end are as follows

Investments in associated companies	Country of incorporation	% Shares held	Nature of business
Greenergy Fuels Holdings Limited	England	34.44%	Fuel supplier
Homeplus Tesco Co Limited	Korea	48.15%	Retailing

## TESCO STORES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

#### 11. FIXED ASSET INVESTMENTS (continued)

The Company's share of Greenergy Fuels Holdings Limited's net assets is £36m and of profit after tax is £14m

The Company's share of Homeplus Tesco Co Limited's net assets is £276m and of profit after tax is £42m  
The investment in Homeplus Tesco Co Limited has been reclassified from 'joint venture' to 'associate' following review of the control structure

#### 12. STOCK

	2012 £'m	2011 £'m
Goods for resale	1,698	1,537

#### 13. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'m	2011 £'m
Amounts owed by group undertakings	14,581	3,844
Prepayments and accrued income	98	84
Other debtors	591	890
	15,270	4,818

Included within amounts owed by group undertakings is an £8,000m (2011 £0m) unsecured, interest-free loan to Tesco Property Holdings Limited which is repayable on 24th February 2013

#### 14. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'m	2011 £'m
Bank loans and overdrafts	258	17
Trade creditors	3,376	3,220
Amounts owed to group undertakings	15,482	4,207
Corporation tax	293	288
Finance leases (note 17)	22	38
Other taxation and social security	348	419
Other creditors	1,100	1,112
Accruals and deferred income	515	654
	21,394	9,955

Included within amounts owed to group undertakings is an £8,000m (2011 £0m) unsecured loan from Tesco Property Holdings Limited, on which interest is charged at 1 Year LIBOR (London Interbank Offered Rate) plus 1 0% and which is repayable on 24th February 2013. During the period, interest was payable on a loan with Armitage Finance Unlimited of PLN 1,336,004,000 (maturity date 19 March 2012) at WIBOR (Warsaw Interbank Offered Rate) plus 1 0% and on a loan amounting to PLN 75,626,000 (maturity date 19 March 2012) at WIBOR plus 0 8%

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 15. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £'m	2011 £'m
Finance leases (note 17)	-	19
“A” Preference shares of £1 each – 259,000,000 (2011 259,000,000)	259	259
“B” Preference shares of £1 each – 5,000,000 (2011 5,000,000)	5	5
	<b>264</b>	<b>283</b>

The Preference shares confer on the holder the right to receive a fixed dividend of 6.08% for the “A” Preference shares. Dividends for the “B” Preference shares are calculated based on the pre-determined formula of the Reference Gilt Rate plus 1.279% multiplied by the RPI ratio applicable to the month in which the dividend payment falls. As regards capital, on winding up the Company, the preference shares shall be redeemed in priority to ordinary shares, together with any arrears of dividend.

The “A” Preference shares became redeemable at any date after 22 May 2007 by service of a notice of redemption by the Company or the “A” Preference shareholders.

The “B” Preference shares are irredeemable.



# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 16. PROVISIONS FOR LIABILITIES

	Vacant properties £'m	Deferred taxation £'m	Total £'m
At 26 February 2011	47	396	443
Amount (released)/provided in the year	(37)	20	(17)
<b>At 25 February 2012</b>	<b>10</b>	<b>416</b>	<b>426</b>
Analysed as			
Current	2	-	2
Non – current	8	416	424
<b>Total</b>	<b>10</b>	<b>416</b>	<b>426</b>

#### Vacant properties

Vacant properties provision relates to obligation for future rents payable on onerous and vacant properties

#### Deferred taxation

	Deferred taxation £'m
At 26 February 2011	396
Charged to the Profit and Loss Account	
- In respect of the current period	59
- In respect of rate change	(32)
- In respect of prior periods	(7)
<b>At 25 February 2012</b>	<b>416</b>

#### Provision for deferred taxation

	2012 £'m	2011 £'m
Excess of capital allowances over depreciation	430	429
Other short term timing differences	(6)	2
Share-based payment	(8)	(35)
	<b>416</b>	<b>396</b>

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 17. LEASING COMMITMENTS

#### Finance lease commitments – Company as lessee

Future minimum lease payments under finance leases are as follows

	2012 £'m	2011 £'m
Gross rental obligations	22	57
Less future finance charges	-	-
<b>Present value of minimum lease payments</b>	<b>22</b>	<b>57</b>
Analysed as		
Within one year	22	38
Between two and five years	-	19
	<b>22</b>	<b>57</b>

The Company has finance leases for various items of plant, equipment, fixtures and fittings. The fair value of the Company's lease obligations approximate to their carrying value.

#### Operating lease commitments – Company as lessee

Annual commitments payable under non-cancellable operating leases are as follows

	Land and buildings		Other	
Expiring	2012 £'m	2011 £'m	2012 £'m	2011 £'m
Within one year	1	2	3	5
Between two and five years	103	69	18	15
After five years	665	622	10	9
	<b>769</b>	<b>693</b>	<b>31</b>	<b>29</b>

Operating lease payments represent rentals payable by the Company for certain, of its retail and office properties. The leases have varying terms, purchase options, escalation clauses and renewal rights.

### 18. CALLED UP SHARE CAPITAL

	2012 £'m	2011 £'m
Allotted and fully paid		
1,320,006,000 Ordinary shares of £1 each (2011: 1,320,006,000)	<b>1,320</b>	<b>1,320</b>

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 19. RESERVES

	£'m
As at 26 February 2011	5,800
Profit for the financial period	1,630
Dividends (note 21)	(1,800)
Share-based payment	98
<b>As at 25 February 2012</b>	<b>5,728</b>

### 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AS AT 25 FEBRUARY 2012

	2012 £'m	2011 £'m
Opening shareholders' funds	7,120	6,693
Total recognised gains in the financial period	1,630	1,763
Dividends (note 21)	(1,800)	(1,500)
Capital contribution from parent for share-based payments	98	164
Net additions to shareholders' funds	(72)	427
<b>Closing shareholders' funds</b>	<b>7,048</b>	<b>7,120</b>

### 21. DIVIDENDS

	52 weeks to 25 Feb 2012 £'m	52 weeks to 26 Feb 2011 £'m
Equity ordinary interim dividends paid £1 364 (2011 £1 136) per share	1,800	1,500

## **TESCO STORES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)**

#### **22. SHARE-BASED PAYMENTS**

The total Profit and Loss Account charge for the period recognised in respect of share-based payments is £107m (2011 £191m), which is made up of share option schemes and share bonus payments

##### **a) Share option schemes**

Tesco PLC had six share option schemes in operation during the 52 week period which were available to the employees of the Company, all of which are equity-settled schemes

- 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 four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date
- ii) The Approved Executive Share Option Scheme (1994) was adopted on 17 October 1994. The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme
- iii) The Unapproved Executive Share Option Scheme (1996) was adopted on 7 June 1996. The exercise of options granted under this scheme will normally be conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme
- iv) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. 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 a three-year period. There will be no discounted options granted under this scheme
- v) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant for nil consideration. The members of the Tesco PLC Executive Committee were first granted an award on 25 May 2012
- vi) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year period

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 22. SHARE-BASED PAYMENTS (continued)

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP)

#### For the 52 weeks ended 25 February 2012

	Savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		Nil cost share option schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 26 February 2011	130,638,774	345 30	13,081,095	392 81	73,035,341	375 86	0	0 00
Granted	26,232,748	364 00	7,274	402 75	2,495	402 75	1,704,482	0 00
Forfeited	(19,530,457)	376 08	(361,413)	385 94	(1,818,757)	384 93	0	0 00
Exercised	(15,591,951)	300 49	(729,593)	276 82	(3,124,054)	272 20	0	0 00
Outstanding at 25 February 2012	121,749,114	350 15	11,997,364	400 07	68,095,025	380 38	1,704,482	0 00
Exercisable as at 25 February 2012	15,522,416	309 18	7,675,796	402 06	35,861,342	380 11	0	0 00
Exercise price range (pence)		248 00 to 410 00		197 50 to 473 75		197 50 to 473 75		0 00
Weighted average remaining contractual life (years)		0 43		4 94		4 65		6 40

#### For the 52 weeks ended 26 February 2011

	Savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		Nil cost share option schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2010	127,922,864	323 27	13,204,063	364 47	67,228,156	355 03	-	-
Granted	27,637,183	386	3,156,609	419 85	16,915,605	419 81	-	-
Forfeited	(7,368,571)	328 09	(894,471)	395 79	(3,698,146)	401 52	-	-
Exercised	(17,552,702)	256 02	(2,385,106)	270 56	(7,410,273)	274 37	-	-
Outstanding at 26 February 2011	130,638,774	345 3	13,081,095	392 81	73,035,341	375 86	-	-
Exercisable as at 26 February 2011	14,363,859	366 48	5,920,867	375 33	27,131,525	348 13	-	-
Exercise price range (pence)		248 00 to 410 00		197 50 to 473 75		197 50 to 473 75		-
Weighted average remaining contractual life (years)		0 43		4 92		4 61		-

Share options were exercised on a regular basis throughout the period. The average share price during the 52 weeks ended 25 February 2012 was 385 43p (2011 417 80p)

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

# TESCO STORES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

### 22. SHARE-BASED PAYMENTS (continued)

	2012			2011		
	Savings-related share option schemes	Executive share option schemes	Nil cost option schemes	Savings-related share option schemes	Executive share option schemes	Nil cost option schemes
Expected dividend yield (%)	4.1%	4.1%	0.0%	3.5%	3.5%	-
Expected volatility (%)	23-27%	26%	26%	26-30%	25%	-
Risk-free interest rate (%)	1.5-1.8%	2.00%	2.60%	1.6-2.2%	2.3-3.2%	-
Expected life of option (years)	3 or 5	6	6	3 or 5	6	-
Weighted average fair value of options granted (pence)	69.85	62.91	407.19	93.41	77.86	-
Probability of forfeiture (%)	14-15%	10%	0%	14-15%	10%	-
Share price (pence)	404.00	402.75	407.19	436.00	419.89	-
Weighted average exercise price (pence)	364.00	402.75	0.00	386.00	419.89	-

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in Tesco PLC option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

#### b) Share bonus schemes

Eligible UK employees are able to participate in Shares in Success, an all-employee profit-sharing scheme. When an award is made, shares are normally awarded in Tesco PLC as a percentage of earnings up to a statutory maximum of £3,000.

Senior management also participate in performance-related bonus schemes. The amount paid to employees is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to eligible employees who have completed a required service period and depend on the achievement of corporate targets. The accrued cash element of the bonus at the balance sheet date is £2m (2011: £17m).

Selected senior management participate in the senior management Performance Share Plan. Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed over a three-year performance period.

Senior management participate in the selected senior management Performance Share Plan (2011). Awards made under this plan will normally vest three years after the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed and earnings per share over a three-year performance period.

The Executive Directors of Tesco PLC participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Tesco PLC Directors' Remuneration Report in the Tesco PLC Annual Report and Financial Statements 2012.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

## TESCO STORES LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2012 (continued)

#### 22. SHARE-BASED PAYMENTS (continued)

The number and weighted average fair value (WAFV) of share bonuses awarded during the 52 weeks to 25 February 2012 were

	2012		2011	
	Shares number	WAFV (pence)	Shares number	WAFV (pence)
Shares in Success	24,940,388	416 26	23,850,331	416 23
Executive Incentive Scheme	5,430,280	415 98	8,136,070	398 93
Performance Share Plan	9,436,561	387 50	995,620	396 23

#### 23. PENSIONS

The total cost of the pension scheme to Tesco Stores Limited was £375m (2011 £355m) Further disclosures relating to the Tesco PLC Pension Scheme can be found in note 26 of the Group financial statements for the 52 weeks ended 25 February 2012

#### 24. CAPITAL COMMITMENTS

At 25 February 2012 there were commitments for capital expenditure contracted for but not provided of approximately £24m (2011 £284m)

#### 25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is Tesco Holdings Limited

The Company's ultimate parent undertaking and controlling party is Tesco PLC, which is registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of the Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

#### 26. CONTINGENT LIABILITIES

A number of contingent liabilities can arise in the normal course of business which if realised are not expected to result in a material liability to the Company The Company recognises provisions for liabilities when it is more likely than not a settlement will be required and the value of such a payment can be reliably estimated

The Company has provided a fixed charge over a portfolio of several properties of up to £500m in favour of the Tesco PLC Pension Scheme in the event of the Company defaulting on its obligations to the scheme

#### 27. RELATED PARTY TRANSACTIONS

Transactions with other subsidiary companies within the Group are not disclosed as the Company has taken advantage of the exemption under paragraph 3(c) of FRS 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC, in which the Company is included, are available at the address noted in note 25

#### 28. POST BALANCE SHEET EVENTS

In August 2012, the Company sold its 34.4% interest in Greenergy Fuels Holdings Limited

THE TESCO CROWN LIMITED PARTNERSHIP  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 25 FEBRUARY 2012

Registered Number: LP008527



COMPANIES HOUSE



# **THE TESCO CROWN LIMITED PARTNERSHIP**

## **GENERAL PARTNER'S REPORT FOR THE PERIOD ENDED 25 FEBRUARY 2012**

Tesco Stores Limited (the "General Partner") presents its Report and the audited financial statements of The Tesco Crown Limited Partnership (the "Partnership") for the 52 week period ended 25 February 2012 (prior period 52 weeks ended 26 February 2011) During the period, Tesco Stores Limited acted as the General Partner and Tesco PLC acted as a limited partner of the Partnership

### **Business review and principal activities**

The Partnership is dormant There has been no significant change in the nature or level of this activity during the period and the General Partner does not expect this to change significantly throughout the next financial period

The results for the period show a pre-tax profit of £nil (2011 £1,295,000) and sales of £nil (2011 £nil)

The Partnership has net assets at the period end of £127,391,000 (2011 £127,391,000)

### **Principal risks and uncertainties**

Given the dormant nature of the Partnership, the General Partner is of the view that there are no principal risks and uncertainties related to the partnership

### **Charitable and political donations**

There were no charitable or political donations for the period (2011 £nil)

### **Future outlook**

The Partnership is expected to remain dormant throughout the coming financial period

### **Key performance indicators**

Given the Partnership is dormant in the 52 week period ended 25 February 2012, the General Partner is of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business

### **Research and development**

The Partnership does not undertake any research and development activities

### **Employees**

The Partnership had no employees during the period (2011 none)

### **Partners**

The partners, including the General Partner, Tesco Stores Limited, are set out in note 4 of the financial statements

### **Supplier payment policy**

The Partnership does not have any direct supplier relationships

## **THE TESCO CROWN LIMITED PARTNERSHIP**

### **GENERAL PARTNER'S REPORT FOR THE PERIOD ENDED 25 FEBRUARY 2012 (continued)**

#### **Cautionary statement regarding forward-looking information**

Where this review contains forward-looking statements, these are made by the General Partner in good faith based on the information available to them at the time of their approval of this Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

# THE TESCO CROWN LIMITED PARTNERSHIP

## GENERAL PARTNER'S REPORT FOR THE PERIOD ENDED 25 FEBRUARY 2012 (continued)

### Statement of General Partner's responsibilities

The General Partner is required under the supporting Limited Partnership Agreement to prepare financial statements for each financial period in accordance with the requirements of the Limited Partnership Agreement

In preparing the financial statements the General Partner should

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards as specified in accordance with the Limited Partnership Agreement, have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business

The General Partner is responsible for keeping accounting records, which are sufficient to show and explain the Partnership's transactions, disclose with reasonable accuracy at any time, the financial position of the Partnership and enable them to ensure that the financial statements comply with the Limited Partnership Agreement. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities

The General Partner is required to act in the best interests of the Partnership and to perform its obligations under the Limited Partnership agreement

The financial statements have been prepared in accordance with part 15 of the Companies Act 2006 as required under statutory instrument 2008/569

On behalf of Tesco Stores Limited

23 November

2012



L McIlwee

For and on behalf of

General Partner

Tesco Stores Limited

Registered Number 519500

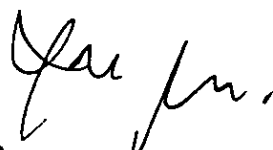
Registered Office Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL, United Kingdom

# THE TESCO CROWN LIMITED PARTNERSHIP

## BALANCE SHEET AS AT 25 FEBRUARY 2012

	Notes	25 February 2012 £'000	26 February 2011 £ 000
<b>Current assets</b>			
Debtors – amounts falling due within one year	3	127,391	127,391
<b>Net assets</b>		<b>127,391</b>	<b>127,391</b>
<b>Partners' interests</b>			
Partners' capital accounts	4	195,000	195,000
Profit and loss reserve	5	(67,609)	(67,609)
<b>Partners' interests</b>		<b>127,391</b>	<b>127,391</b>

The financial statements on pages 5 to 7 were approved by the General Partner on ~~23~~ <sup>23</sup> ~~March~~ <sup>March</sup> 2012 and were signed on its behalf by



L McIlwee  
For and on behalf of  
General Partner  
Tesco Stores Limited  
Registered Number 519500

# THE TESCO CROWN LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 25 FEBRUARY 2012

### 1 ORGANISATION AND CONTROL

The Partnership was established on 4 February 2003 and is registered as a Limited Partnership in England and Wales under the Limited Partnership Act 1907

### 2. ACCOUNTING POLICIES

#### Basis of accounting

The financial statements are prepared on the going concern basis in accordance with applicable United Kingdom accounting standards, under the historical cost convention, and in accordance with the Companies Act 2006, as required by the Limited Partnership Agreement. The principal accounting policies are set out below

#### Allocation of profits and drawings

The net profits of the Partnership incurred in each period are divided between the partners in the following proportions

Limited Partner (Tesco PLC)	5.3371%
General Partner (Tesco Stores Limited)	94.6629%

Any net losses of the Partnership in each period are borne by the Partners in the same proportion that they share the balance of the net profits of the Partnership

### 3. DEBTORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	25 February 2012 £'000	26 February 2011 £'000
Amounts owed by Group undertakings	127,391	127,391
	127,391	127,391

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand

### 4. CUMULATIVE PARTNERS' ACCOUNTS

Partners' Accounts as at 25 Feb 2012	Capital Contributions £'000	Profit for the period ended 25 Feb 2012 £'000	Distributions £'000	Total £'000
Tesco PLC	190,000	-	-	190,000
Tesco Stores Limited	5,000	-	-	5,000
Total	195,000	-	-	195,000

The Partnership was formed on 4 February 2003. The Partnership received a capital injection totalling £195,000,000

## THE TESCO CROWN LIMITED PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 25 FEBRUARY 2012 (continued)

#### 5. RESERVES

	Profit and loss reserve £'000
As at 26 February 2011	(67,609)
Profit for the financial period	-
As at 25 February 2012	(67,609)

#### 6. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertakings of the Partnership are Tesco Stores Limited and Tesco PLC

The Partnership's ultimate parent undertaking and controlling party is Tesco PLC, which registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, PO Box 18, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

#### 7. RELATED PARTY TRANSACTIONS

Transactions with other subsidiary companies within the group are not disclosed as the Partnership has taken advantage of the exemption under paragraph 3(c) of FRS 8 "Related Party Disclosures", as the consolidated financial statements of Tesco PLC, in which the Partnership is included, are available at the address noted above