

Accounting policies

Basis of financial statements

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

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 its subsidiary undertakings are prepared to or around 27 February 1999 apart from Global T.H., Tesco Polska Sp. z o.o., Tesco Stores ČR a.s., Tesco Stores SR a.s. and Tesco Stores Thailand Limited which are prepared to 31 December 1998. In the opinion of the directors it is necessary for the above named subsidiaries to prepare financial statements to an accounting 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.

Provisions

The Group has adopted Financial Reporting Standard 12, 'Provisions, Contingent Liabilities and Contingent Assets'. This has involved restating the 1997/98 Ireland integration costs in the profit and loss account to that amount actually incurred in the year. For 1998/99 a further charge for integration costs has been incurred.

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

Fixed assets include amounts in respect of interest paid, net of taxation, on funds specifically related to the financing of assets in the course of construction.

Depreciation is provided on an equal annual instalment basis over the anticipated useful working lives of the assets, after they have been brought into use, at the following rates:

Land premiums 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

The Group has adopted Financial Reporting Standard 10, 'Goodwill and Intangible Assets' in its accounts this year. The standard does not require restatement for goodwill arising and taken to reserves in previous years. All goodwill which arose in previous years has been written off through reserves.

Goodwill arising on consolidation as a result of the acquisitions of subsidiaries or joint ventures after 1 March 1998 is capitalised under the heading Intangible Fixed Assets and amortised on a straight line basis over its useful economic life, up to a maximum of 20 years.

Impairment of fixed assets and goodwill

Tangible fixed assets, other than investment properties, are subject to review for impairment in accordance with Financial Reporting Standard 11, 'Impairment of Fixed Assets and Goodwill'. The carrying values of tangible fixed assets and goodwill are written down by the amount of any impairment, and the loss is recognised in the profit and loss account in the year in which this 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 taxation

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 scheme. 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 are taken to reserves, less exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

Financial instruments

Derivative instruments utilised by the Group are interest rate swaps and caps, cross currency swaps, forward rate agreements, interest rate swap options and forward exchange contracts.

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.

The disclosures required by Financial Reporting Standard 13, 'Derivatives and other Financial Instruments: Disclosures' have been followed.