

Notes to the Group financial statements

Note 1 Accounting policies

General information

Tesco PLC is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 1985 (Registration number 445790). The address of the registered office is Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL, UK.

The financial year represents the 53 weeks to 28 February 2009 (prior financial year 52 weeks to 23 February 2008) and includes 53 weeks of trading for the UK, Republic of Ireland (ROI) and United States of America (US) businesses.

As described in the Report of the Directors, the main activity of the Group is that of retailing and financial services.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretation Committee (IFRIC) interpretations as endorsed by the European Union, and those parts of the Companies Acts 1985 and 2006 as applicable to companies reporting under IFRS.

Basis of preparation

The financial statements are presented in Pounds Sterling, rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pensions that have been measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

The Group financial statements consist of the financial statements of the ultimate Parent Company (Tesco PLC), all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

Where necessary, adjustments are made to the financial statements of subsidiaries, joint ventures and associates to bring the accounting policies used into line with those of the Group.

Subsidiaries

A subsidiary is an entity whose operating and financing policies are controlled, directly or indirectly, by Tesco PLC.

The accounts of the Parent Company's subsidiary undertakings are prepared to dates around the Group year end.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Joint ventures and associates

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

An associate is an undertaking, not being a subsidiary or joint venture, over which the Group has significant influence and can participate in the financial and operating policy decisions of the entity.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

Use of assumptions and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical estimates and assumptions are made in particular with regard to establishing uniform depreciation and amortisation periods for the Group, impairment testing (including loans), provisions for onerous leases and dilapidations, assumptions for measuring pension provisions and fair value of share-based payments, determination of the fair value of obligations to purchase minority interests and fair value of derivative financial instruments, classification of leases as operating leases versus finance leases (including on sale and leasebacks), the likelihood that tax assets can be realised and the classification of certain operations as held for sale.

Revenue

Retailing

Revenue consists of sales through retail outlets.

Revenue is recorded net of returns, relevant vouchers/offers and value-added taxes, when the significant risks and rewards of ownership have been transferred to the buyer. Relevant vouchers/offers include: money-off coupons, conditional spend vouchers and offers such as buy one get one free (BOGOF) and 3 for 2.

Commission income is recorded based on the terms of the contracts and is recognised when the service is provided.

Financial Services

Revenue consists of interest, fees and commission receivable.

Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method. This is the method of calculating the amortised cost of a financial asset or for a group of assets, and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that discounts the estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

Note 1 Accounting policies continued

Fees in respect of services are recognised on an accruals basis as service is provided. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable. Significant fee types include credit card related services fees such as interchange, late payment and balance transfer fees.

Insurance commission received by the Group is accrued over the term of the policy.

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 and redemption rate.

Computers for Schools and Sport for Schools and Clubs vouchers are issued by Tesco for redemption by participating schools/clubs and are part of our overall Community Plan. The cost of the redemption (i.e. meeting the obligation attached to the vouchers) is treated as a cost rather than as a deduction from sales.

Other income

Finance income, excluding income arising from financial services is recognised in the period to which it relates on an accruals basis. Dividends are recognised when a legal entitlement to payment arises.

Operating profit

Operating profit is stated after profit arising on property-related items but before the share of results of joint ventures and associates, finance income and finance costs.

Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value.

Property, plant and equipment assets are depreciated on a straight-line basis to their residual value over their anticipated useful economic lives.

The following depreciation rates are applied for the Group:

- 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; and
- Plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 9% to 50%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, over the term of the relevant lease.

All tangible fixed assets are reviewed for impairment in accordance with IAS 36 'Impairment of Assets' when there are indications that the carrying value may not be recoverable.

Borrowing costs

Borrowing 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. All other borrowing costs are recognised in the Group Income Statement in finance costs, excluding those arising from financial services, in the period in which they occur.

For Tesco Personal Finance Group Limited interest expense on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Investment property

Investment property is property held to earn rental income and/or for capital appreciation rather than for the purpose of Group operating activities. Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Leasing

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 Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group 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 Group Balance Sheet as a finance lease 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 Group Income Statement.

Rentals payable under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the relevant lease.

Sale and leaseback

A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately.

Following initial recognition, the lease treatment is consistent with those principles described above.

Business combinations and goodwill

All business combinations are accounted for by applying the purchase method.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair value. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The Group recognises intangible assets as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets acquired and the selection of an appropriate cost of capital. The useful lives of intangible assets are estimated, and amortisation charged on a straight-line basis.



Notes to the Group financial statements continued

Note 1 Accounting policies continued

Goodwill arising on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets/net liabilities of the acquired subsidiary, joint venture or associate at the date of acquisition. If the cost of acquisition is less than the fair value of the Group's share of the net assets/net liabilities of the acquired entity (i.e. a discount on acquisition) then the difference is credited to the Group Income Statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill. Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment.

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. The recoverable amount is the higher of fair value less costs to sell, and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Any impairment is recognised immediately in the Group Income Statement and is not subsequently reversed.

On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 29 February 2004 (the date of transition to IFRS) was retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been restated and will not be included in determining any subsequent profit or loss on disposal.

Intangible assets

Acquired intangible assets

Acquired intangible assets, such as software, pharmacy licences, customer relationships, contracts and brands, are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives, at 2%-100% of cost per annum.

Internally-generated intangible assets – Research and development expenditure

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward only if all the criteria set out in IAS 38 'Intangible Assets' are met, namely:

- an asset is created that can be identified (such as software or new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Following the initial recognition of development expenditure, the cost is amortised over the project's estimated useful life, usually at 14%-25% of cost per annum.

Impairment of tangible and intangible assets excluding goodwill

At each Balance Sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Other investments

Other investments in the Group Balance Sheet comprise equity investments and available-for-sale financial assets. Refer to the financial instruments accounting policy for further detail.

Equity investments are recognised at amortised cost and available-for-sale financial assets are recognised at fair value.

Inventories

Inventories comprise goods held for resale and properties held for, or in the course of, development and are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis.

Short-term investments

Short-term investments in the Group Balance Sheet consist of deposits with money market funds.

Cash and cash equivalents

Cash and cash equivalents in the Group Balance Sheet consist of cash at bank, in hand and demand deposits with banks together with short-term deposits with an original maturity of three months or less.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Pensions and similar obligations

The Group accounts for pensions and other post-employment benefits (principally private healthcare) under IAS 19 'Employee Benefits'.

In respect of defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised separately in the Group Income Statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group Statement of Recognised Income and Expense.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Note 1 Accounting policies continued**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 or rights over shares (equity-settled transactions) or in exchange for entitlements to cash payments based on the value of the shares (cash-settled transactions).

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. In accordance with IFRS 2 'Share-based payment', the resulting cost is charged to the Group Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation

The tax expense included in the Group Income Statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the Balance Sheet date. Tax is recognised in the Group Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is charged or credited in the Group Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set-off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Foreign currencies

Transactions in foreign currencies are translated 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 at the rates prevailing on the Balance Sheet date. All differences are taken to the Group Income Statement for the period.

The financial statements of foreign subsidiaries are translated into Pounds Sterling according to the functional currency concept of IAS 21 'The Effects of Changes in Foreign Exchange Rates'. Since the majority of consolidated companies operate as independent entities within their local economic environment, their respective local currency is the functional currency. Therefore, assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated at exchange rates prevailing at the date of the Group Balance Sheet; profits and losses are translated into Pounds Sterling at average exchange rates for the relevant accounting periods. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognised at trade date. Investments are classified as either held for trading or available-for-sale, and are recognised at fair value.

There are no investments classified as held for trading.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the period. Interest calculated using the effective interest rate method is recognised in the Group Income Statement. Dividends on an available-for-sale equity instrument are recognised in the Group Income Statement when the entity's right to receive payment is established.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include amounts due from customers and amounts due from other banks. The Group has no intention of trading these loans and advances and consequently they are not classified as held for trading or designated as fair value through profit and loss. Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any impairment losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the Group Income Statement.

Impairment of loans and advances

At each Balance Sheet date, the Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss. An impairment loss has been incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.



Notes to the Group financial statements continued

Note 1 Accounting policies continued

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing the provisions are the expected loss rates and the related average life. The portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Group Income Statement over the period of the borrowings on an effective interest basis.

Trade payables

Trade payables are non interest-bearing and are stated at amortised cost.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes, however if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the Balance Sheet date are disclosed as non-current.

Fair value hedging

Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Derivative financial instruments qualifying for fair value hedge accounting are principally interest rate swaps (including cross currency swaps).

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is removed from equity and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. The classification of the effective portion when recognised in the Group Income Statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

Derivative instruments qualifying for cash flow hedging are principally forward foreign exchange transactions and currency options.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Group Income Statement. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Group Income Statement.

Net investment hedging

Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in equity. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in equity are included in the Group Income Statement when the foreign operation is disposed of.

Derivative instruments qualifying for net investment hedging are principally forward foreign exchange transactions and currency options.

Note 1 Accounting policies continued**Treatment of agreements to acquire minority interests**

The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with minority shareholdings.

Under IAS 32 'Financial Instruments: Presentation', the net present value of the expected future payments are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the Group Income Statement within finance income or costs for the year. Where the liability is in a currency other than Pounds Sterling, the liability has been designated as a net investment hedge. Any change in the value of the liability resulting from changes in exchange rates is recognised directly in equity.

Securitisation transactions

During 2008/9 the Group has entered into a securitisation transaction and issued debt securities. The debt securities in issue and the loans and advances to customers are recorded on the Group's Balance Sheet within current borrowings and loans and advances to customers.

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease. Where material these leases are discounted to their present value. Provisions for dilapidation costs are recognised on a lease by lease basis.

Recent accounting developments**Standards, amendments and interpretations effective for 2008/9 or issued and early adopted:**

In preparing the Group financial statements for the current year, the Group has adopted the following new IFRS, amendments to IFRS and IFRIC Interpretations which have not had a significant impact on the results or net assets of the Group:

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures', effective from 1 July 2008. These amendments permit the reclassification of financial assets in particular circumstances. The adoption of the amendments to IAS 39 and IFRS 7 has had no impact on the results or net assets of the Group.
- IFRIC 11 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. This interpretation applies to public sector service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence the adoption of IFRIC 12 has had no impact on the results or net assets of the Group.

Standards, amendments and interpretations not yet effective, but not expected to have a significant impact on the Group:

- IFRS 8 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 'Segment Reporting' and requires segmental information to be presented on the same basis that management uses to evaluate performance of its reporting segments in its management reporting. We do not expect the adoption of IFRS 8 to have a significant impact upon the results or net assets of the Group.

- Amendment to IAS 23 'Borrowing Costs', effective for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. We do not expect the adoption of the amendment to IAS 23 to have a significant impact upon the results or net assets of the Group.
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after 1 January 2009 as endorsed by the EU. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 'Employee Benefits'. We do not expect the adoption of IFRIC 14 to have a significant impact upon the results or net assets of the Group.

Standards, amendments and interpretations not yet effective and under review as to their impact on the Group:

- Amendment to IAS 1 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009.
- Amendment to IAS 27 'Consolidated and Separate Financial Statements', effective for annual periods beginning on or after 1 July 2009.
- Amendment to IAS 32 'Financial Instruments: Presentation' and IAS 1 'Presentation of Financial Statements'– Puttable Instruments and Instruments with Obligations Arising on Liquidation, effective for annual periods beginning on or after 1 January 2009.
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement'– Eligible hedged items, effective for annual periods beginning on or after 1 July 2009.
- Amendments to IFRS 1 'First-time Adoption of IFRSs' and IAS 27 'Consolidated and Separate Financial Statements'– Cost of an Investment of a Subsidiary, Jointly Controlled Entity or Associate, effective for annual reporting periods beginning on or after 1 January 2009.
- Amendment to IFRS 2 'Share-Based Payment'– Vesting Conditions and Cancellations, effective for annual periods beginning on or after 1 January 2009.
- Amendments to IFRS 3 'Business Combinations', effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.
- IFRIC 13 'Customer Loyalty Programmes', effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- IFRIC 15 'Agreements for the Construction of Real Estate', effective for annual periods beginning on or after 1 January 2009.
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', effective for annual periods beginning on or after 1 October 2008.
- IFRIC 17 'Distributions of Non-Cash Assets to Owners', effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18 'Transfers of Assets from Customers', effective for transfers of assets from customers received on or after 1 July 2009.



Notes to the Group financial statements continued

Note 1 Accounting policies continued

Use of non-GAAP profit measures – underlying profit before tax

The Directors believe that underlying profit before tax and underlying diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. Underlying profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to IFRS measurements of profit.

The adjustments made to reported profit before tax are:

- IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements – Under IAS 32 and IAS 39, the Group applies hedge accounting to its various hedge relationships when allowed under the rules of IAS 39 and when practical to do so. Sometimes the Group is unable to apply hedge accounting to the arrangements, but continues to enter into these arrangements as they provide certainty or active management of the exchange rates and interest rates applicable to the Group. The Group believes these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting.

Where hedge accounting is not applied to certain hedging arrangements, the reported results reflect the movement in fair value of related derivatives due to changes in foreign exchange and interest rates. In addition, at each period end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the period, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify underlying business performance. During 2008/9, £10m (2007/8 – £nil) of the IAS 32/39 charge arose in the share of post-tax profit of joint ventures and associates, with the remainder in finance income/costs.

- IAS 19 Income Statement charge for pensions – Under IAS 19 'Employee Benefits', the cost of providing pension benefits in the future is discounted to a present value at the corporate bond yield rates applicable on the last day of the previous financial year. Corporate bond yield rates vary over time which in turn creates volatility in the Group Income Statement and Group Balance Sheet. IAS 19 also increases the charge for young pension schemes, such as Tesco's, by requiring the use of rates which do not take into account the future expected returns on the assets held in the pension scheme which will fund pension liabilities as they fall due. The sum of these two effects makes the IAS 19 charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund all future liabilities.

Therefore, within underlying profit we have included the 'normal' cash contributions for pensions but excluded the volatile element of IAS 19 to represent what the Group believes to be a fairer measure of the cost of providing post-employment benefits.

- IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods – The amount charged to the Group Income Statement in respect of operating lease costs and incentives is expected to increase significantly as the Group expands its International business. The leases have been structured in a way to increase annual lease costs as the businesses expand. IAS 17 'Leases' requires the total cost of a lease to be recognised on a straight-line basis over the term of the lease, irrespective of the actual timing of the cost. The impact of this treatment in 2008/9 was an adverse charge of £27m (2007/8 – £18m) to the Group Income Statement after deducting the impact of the straight-line treatment recognised as rental income within share of post-tax profits of joint ventures and associates.

- IFRS 3 Amortisation charge from intangible assets arising on acquisition – Under IFRS 3 'Business Combinations', intangible assets are separately identified and valued. The intangible assets are required to be amortised on a straight-line basis over their useful economic lives and as such is a non-cash charge that does not reflect the underlying performance of the business acquired.
- Exceptional items – Due to their significance and special nature, certain other items which do not reflect the Group's underlying performance have been excluded from underlying profit. These gains or losses can have a significant impact on both absolute profit and profit trends; consequently, they are excluded from the underlying profit of the Group. There are no exceptional items in 2008/9 and 2007/8.

Segmental trading profit

Segmental trading profit is an adjusted measure of operating profit, which measures the performance of each geographical segment before profit/(loss) arising on property-related items, impact on leases of annual uplifts in rent and rent-free periods, amortisation charge from intangible assets arising on acquisition and replaces the IAS 19 pension charge with the 'normal' cash contributions for pensions.

Note 2 Segmental reporting

The Board has determined that the primary segmental reporting format is geographical, based on the Group's management and internal reporting structure. Secondary information is reported by business segments, which comprises retailing and financial services.

In 2007/8, the UK reporting segment included the start-up operations in the United States of America (US), which were not material. The results of the US business have been reported as a separate reporting segment within International in our results for 2008/9. The comparatives have been restated to reflect the US as a separate segment. The impact of this is to transfer sales of £16m and a loss of £67m from the UK segment to the US segment in 2007/8. In addition, the UK reporting segment includes the results for Tesco Personal Finance Group Limited (TPF) from the date of acquisition (see note 31).

The Rest of Europe reporting segment includes the Republic of Ireland, Hungary, Poland, the Czech Republic, Slovakia and Turkey.

The Asia reporting segment includes Thailand, South Korea, Malaysia, China, Japan and India. It also includes the results of Homever for 2008/9 from the date of acquisition (see note 31).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and taxation related assets/liabilities.

Inter-segment turnover between the geographical areas of business is not material.

Geographical segments

Year ended 28 February 2009	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Continuing operations					
Revenue					
Sales (excluding VAT) to external customers	38,191	8,862	7,068	206	54,327
Result					
Segment operating profit/(loss)	2,540	479	343	(156)	3,206
Share of post-tax profit/(loss) of joint ventures and associates	111	(2)	1	–	110
Net finance costs					(362)
Profit before tax					2,954
Taxation					(788)
Profit for the year					2,166

Reconciliation of operating profit to trading profit

	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Operating profit	2,540	479	343	(156)	3,206
Adjustments for:					
(Profit)/loss arising on property-related items	(263)	14	8	5	(236)
IAS 19 Income Statement charge for pensions	410	6	12	–	428
'Normal' cash contributions for pensions	(358)	(3)	(15)	–	(376)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	20	–	7	9	36
IFRS 3 Amortisation charge from intangible assets arising on acquisition	32	–	–	–	32
Trading profit/(loss)	2,381	496	355	(142)	3,090
Trading margin	6.2%	5.6%	5.0%	n/a	5.7%



Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	UK £m	Rest of Europe £m	Asia £m	US £m	Other/ unallocated £m	Total £m
Assets and liabilities						
Segment assets	29,913	6,953	6,242	768	2,115	45,991
Investments in joint ventures and associates	49	–	13	–	–	62
Total assets	29,962	6,953	6,255	768	2,115	46,053
Segment liabilities	(13,032)	(1,270)	(1,966)	(98)	(16,692)	(33,058)
Total net assets						12,995

Other segment information

Capital expenditure (including acquisitions through business combinations):

Property, plant and equipment	2,417	852	1,404	305	–	4,978
Investment property	–	48	152	–	–	200
Goodwill and other intangible assets	1,242	15	385	–	–	1,642
Depreciation:						
Property, plant and equipment	566	249	176	20	–	1,011
Investment property	–	9	16	–	–	25
Amortisation of intangible assets	131	16	6	–	–	153
Impairment losses recognised in the Group Income Statement	(21)	(41)	(4)	–	–	(66)
Reversal of prior period impairment losses through the Group Income Statement	21	50	17	–	–	88
Profit/(loss) arising on property-related items	263	(14)	(8)	(5)	–	236

Year ended 23 February 2008

Continuing operations

	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Revenue					
Sales (excluding VAT) to external customers	34,858	6,872	5,552	16	47,298
Result					
Segment operating profit/(loss)	2,164	400	294	(67)	2,791
Share of post-tax profit of joint ventures and associates	75	–	–	–	75
Net finance costs					(63)
Profit before tax					2,803
Taxation					(673)
Profit for the year					2,130

Reconciliation of operating profit to trading profit

	UK £m	Rest of Europe £m	Asia £m	US £m	Total £m
Operating profit	2,164	400	294	(67)	2,791
Adjustments for:					
(Profit)/loss arising on property-related items	(188)	(5)	3	2	(188)
IAS 19 Income Statement charge for pensions	446	5	10	–	461
'Normal' cash contributions for pensions	(328)	(3)	(9)	–	(340)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	18	–	6	3	27
Trading profit/(loss)	2,112	397	304	(62)	2,751
Trading margin	6.1%	5.8%	5.5%	n/a	5.8%

Note 2 Segmental reporting continued

	UK £m	Rest of Europe £m	Asia £m	US £m	Other/ unallocated £m	Total £m
Assets and liabilities						
Segment assets	18,949	6,093	4,247	296	274	29,859
Investments in joint ventures and associates	293	1	11	–	–	305
Total assets	19,242	6,094	4,258	296	274	30,164
Segment liabilities	(6,442)	(1,229)	(1,314)	(72)	(9,205)	(18,262)
Total net assets						11,902
Other segment information						
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment	2,359	696	662	189	–	3,906
Investment property	–	13	37	–	–	50
Goodwill and other intangible assets	219	18	22	–	–	259
Depreciation:						
Property, plant and equipment	532	188	136	4	–	860
Investment property	–	9	7	–	–	16
Amortisation of intangible assets	99	12	5	–	–	116
Impairment losses recognised in the Group Income Statement	(48)	(25)	(4)	–	–	(77)
Reversal of prior period impairment losses through the Group Income Statement	48	36	3	–	–	87
Profit/(loss) arising on property-related items	188	5	(3)	(2)	–	188

Business segments

The Group has two business segments, retailing and financial services.

Year ended 28 February 2009	Retailing £m	Financial Services £m	Total £m
Revenue	54,164	163	54,327
Segment assets	39,788	6,203	45,991
Segment liabilities	(27,557)	(5,501)	(33,058)
Capital expenditure (including acquisitions through business combinations)	6,537	283	6,820

Year ended 23 February 2008	Retailing £m	Financial Services £m	Total £m
Revenue	47,298	–	47,298
Segment assets	29,859	–	29,859
Segment liabilities	(18,262)	–	(18,262)
Capital expenditure (including acquisitions through business combinations)	4,215	–	4,215

Note 3 Income and expenses

From continuing operations	2009 £m	2008 £m
Profit before tax is stated after charging/(crediting) the following:		
Profit arising on property-related items	(236)	(188)
Rental income, of which £304m (2008 – £211m) relates to investment properties	(349)	(267)
Direct operating expenses arising on rental earning investment properties	91	54
Costs of inventories recognised as an expense	40,779	35,279
Stock losses	870	700
Depreciation of property, plant and equipment and investment property	1,036	876
Net reversal of impairment of property, plant and equipment and impairment of investment property	(22)	(10)
Amortisation of internally-generated development intangible assets	88	87
Amortisation of other intangibles	65	29
Operating lease expenses ^(a)	738	520

(a) Operating lease expenses include £81m (2008 – £88m) for hire of plant and machinery.



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Notes to the Group financial statements continued

Note 3 Income and expenses continued

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor, PricewaterhouseCoopers LLP, and network firms:

	2009 £m	2008 £m
Audit services		
Fees payable to the Company's auditor for the audit of the Parent Company and Group financial statements	0.6	0.6
Non-audit services		
Fees payable to the Company's auditor and network firms for other services:		
the audit of the accounts of the Company's subsidiaries pursuant to legislation	3.1	2.5
other services pursuant to such legislation	0.1	0.1
other services relating to taxation	0.8	1.2
other services relating to corporate finance transactions	1.3	0.3
all other services	0.6	0.3
Total auditor remuneration	6.5	5.0

In addition to the amounts shown above, the auditors received fees of £0.1m (2008 – £0.1m) for the audit of the main Group pension scheme.

A description of the work of the Audit Committee is set out in the Corporate Governance Report on page 46 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided by PricewaterhouseCoopers LLP.

Note 4 Employment costs, including Directors' remuneration

	2009 £m	2008 £m
Wages and salaries	4,707	4,246
Social security costs	410	349
Post-employment benefits (note 28)	439	470
Share-based payments expense (note 27)	242	228
	5,798	5,293

The average number of employees by geographical segment during the year was:

	2009	Average number of employees 2008*	2009	Average number of full-time equivalents 2008*
UK	286,392	282,199	194,419	193,187
Rest of Europe	86,760	83,705	78,914	77,267
Asia	92,773	77,554	88,099	74,570
US	2,583	669	2,583	730
Total	468,508	444,127	364,015	345,754

* The comparatives have been restated to reflect the US as a separate segment. In 2007/8, the US employees were included in the UK reporting segment.

Note 5 Finance income and costs

	2009 £m	2008 £m
Finance income		
Bank interest receivable and similar income on cash and cash equivalents	91	91
Net pension finance income (note 28)	25	47
Total finance income (on historical cost basis)	116	138
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	–	49
Total finance income	116	187
Finance costs		
Interest payable on short-term bank loans and overdrafts repayable within five years	(152)	(47)
Finance charges payable under finance leases and hire purchase contracts	(13)	(13)
7.5% 258m GBP MTN 2007	–	(8)
6% 125m GBP MTN 2008	(2)	(7)
5.25% 500m EUR MTN 2008	(4)	(18)
5.125% 192m GBP MTN 2009	(10)	(10)
6.625% 150m GBP MTN 2010	(10)	(10)
4.75% 750m EUR MTN 2010	(26)	(25)
3.875% 500m EUR MTN 2011	(14)	(13)
5.625% 1,500m EUR MTN 2012	(35)	–
5% 600m GBP MTN 2014	(1)	–
5.125% 600m EUR MTN 2015	(1)	–
4% RPI GBP MTN 2016 ^(a)	(23)	(20)
5.875% 1,500m EUR MTN 2016	(33)	–
5.5% 850m USD Bond 2017	(23)	(12)
5.5% 350m GBP MTN 2019	(20)	(19)
6.125% 900m GBP MTN 2022	(1)	–
5% 515m GBP MTN 2023	(21)	(18)
3.322% LPI GBP MTN 2025 ^(b)	(20)	(19)
6% 200m GBP MTN 2029	(12)	(12)
5.5% 200m GBP MTN 2033	(11)	(11)
1.982% RPI GBP MTN 2036 ^(c)	(14)	(11)
6.15% 1,150m USD Bond 2037	(35)	(18)
5% 300m GBP MTN 2042	(15)	(15)
5.125% 600m EUR MTN 2047	(21)	(21)
5.2% 500m GBP MTN 2057	(26)	(13)
Other MTNs	(9)	(13)
Capitalised interest	152	103
Total finance costs (on historical cost basis)	(400)	(250)
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	(78)	–
Total finance costs	(478)	(250)

(a) Interest payable on the 4% RPI GBP MTN 2016 includes £13m (2008 – £10m) of Retail Price Index (RPI) related amortisation.

(b) Interest payable on the 3.322% LPI GBP MTN 2025 includes £11m (2008 – £11m) of RPI related amortisation.

(c) Interest payable on the 1.982% RPI GBP MTN 2036 includes £10m (2008 – £7m) of RPI related amortisation.

Finance costs of £30m (2008 – £nil) resulted from hedge ineffectiveness.



Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group Income Statement

	2009 £m	2008 £m
Current tax expense		
UK corporation tax	673	853
Foreign tax	88	78
Adjustments in respect of prior years	(164)	(278)
Benefit of tax losses recognised – adjustments in respect of prior years	–	(56)
	597	597
Deferred tax expense		
Origination and reversal of temporary differences	119	54
Benefit of tax losses recognised – adjustments in respect of prior years	–	28
Adjustments in respect of prior years	97	63
Change in tax rate	(25)	(69)
	191	76
Total income tax expense	788	673

UK corporation tax is calculated at 28.2% (2008 – 30.0%) of the estimated assessable profit for the year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of effective tax charge

	2009 £m	2008 £m
Profit before tax	2,954	2,803
Effective tax charge at 28.2% (2008 at 30.0%)	(833)	(841)
Effect of:		
Non-deductible expenses	(189)	(180)
Differences in overseas taxation rates	111	41
Adjustments in respect of prior years	67	215
Share of results of joint ventures and associates	31	23
Change in tax rate	25	69
Total income tax charge for the year	(788)	(673)
Effective tax rate	26.7%	24.0%

Tax on items charged to equity

	2009 £m	2008 £m
Current tax credit on:		
Foreign exchange movements	199	250
Share-based payments	46	5
	245	255
Deferred tax credit/(charge) on:		
Share-based payments	14	(57)
Pensions	176	(75)
	190	(132)
Total tax on items credited to equity (note 30)	435	123

Note 6 Taxation continued**Deferred tax**

The following are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the current and prior year:

	Accelerated tax depreciation £m	Retirement benefit obligation £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	IAS 32 and IAS 39 £m	Other pre/post tax temporary differences £m	Total £m
At 24 February 2007	(1,019)	284	136	51	24	21	–	(503)
(Charge)/credit to the Group Income Statement	(83)	22	(3)	(2)	(13)	(8)	11	(76)
Charge to equity	–	(75)	(57)	–	–	–	–	(132)
Acquisition of subsidiaries	(18)	–	–	–	–	–	–	(18)
Foreign exchange translation	52	2	–	(24)	1	–	–	31
At 23 February 2008	(1,068)	233	76	25	12	13	11	(698)
(Charge)/credit to the Group Income Statement	(194)	7	(46)	61	1	(8)	(12)	(191)
Credit to equity	–	176	14	–	–	–	–	190
Acquisition of subsidiaries	12	–	–	(42)	–	42	–	12
Foreign exchange translation	3	1	–	(2)	3	–	7	12
At 28 February 2009	(1,247)	417	44	42	16	47	6	(675)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2009 £m	2008 £m
Deferred tax assets	21	104
Deferred tax liabilities	(696)	(802)
	(675)	(698)

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures, because the earnings are continually reinvested by the Group and no tax is expected to be payable on them in the foreseeable future. The temporary difference unrecognised at the year end amounted to £1,726m (2008 – £1,053m).

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

	2009 £m	2008 £m
Deductible temporary differences	12	2
Tax losses	192	38
	204	40

At the Balance Sheet date, the Group has unused trading tax losses of £744m (2008 – £146m) available for offset against future profits. A deferred tax asset has been recognised in respect of £58m (2008 – £9m) of such losses. No deferred tax asset has been recognised in respect of the remaining £686m (2008 – £137m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £32m (2008 – £39m in 2012) that will expire in 2013 and £647m (2008 – £57m in 2028) that will expire between 2014 and 2029. Other losses will be carried forward indefinitely.

In addition, the Group has UK capital losses of £310m (2008 – £350m).



Notes to the Group financial statements continued

Note 7 Non-current assets classified as held for sale

	2009 £m	2008 £m
Non-current assets classified as held for sale	398	308

The non-current assets classified as held for sale consist mainly of properties held for sale.

Note 8 Dividends

	2009 pence/share	2008 pence/share	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend for the prior financial year	7.70	6.83	603	541
Interim dividend for the current financial year	3.57	3.20	280	251
	11.27	10.03	883	792
Proposed final dividend for the current financial year	8.39	7.70	662	605

The proposed final dividend was approved by the Board of Directors on 20 April 2009 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 28 February 2009, in accordance with IAS 10 'Events after the balance sheet date'. It will be paid on 10 July 2009 to shareholders who are on the register of members on 1 May 2009.

Note 9 Earnings per share and diluted earnings per share

Basic earnings per share amounts are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year (adjusted for the effects of potentially dilutive options).

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 considers to have been earned.

All operations are continuing for the years presented.

	2009			2008		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit (£m)	2,161	–	2,161	2,124	–	2,124
Weighted average number of shares (millions)	7,859	53	7,912	7,881	102	7,983
Earnings per share (pence)	27.50	(0.19)	27.31	26.95	(0.34)	26.61

There have been no transactions involving ordinary shares between the reporting date and the date of approval of these financial statements which would significantly change the earnings per share calculations shown above.

Reconciliation of non-GAAP underlying diluted earnings per share

	2009		2008	
	£m	pence/share	£m	pence/share
Profit				
Earnings from operations	2,161	27.31	2,124	26.61
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	88	1.11	(49)	(0.61)
Total IAS 19 Income Statement charge for pensions	403	5.09	414	5.19
'Normal' cash contributions for pensions	(376)	(4.75)	(340)	(4.26)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	27	0.34	18	0.22
IFRS 3 Amortisation charge from intangible assets arising on acquisition	32	0.41	–	–
Tax effect of adjustments at the effective rate of tax (2009 – 26.7%; 2008 – 24.0%*)	(47)	(0.59)	(10)	(0.13)
Underlying earnings from operations	2,288	28.92	2,157	27.02

* In 2007/8, agreement was reached with HMRC on settling prior year tax items. Removing the one-off impact of settling prior year tax items with HMRC, the normalised tax rate was 28.9%.

Note 10 Goodwill and other intangible assets

	Internally generated development costs £m	Pharmacy and software licences £m	Other intangible assets £m	Goodwill £m	Total £m
Cost					
At 23 February 2008	691	278	48	1,927	2,944
Foreign currency translation	6	7	(4)	205	214
Additions	192	26	2	–	220
Acquisitions through business combinations	–	–	270	1,152	1,422
Reclassification across categories	(2)	–	2	–	–
Disposals	(8)	(1)	–	(1)	(10)
At 28 February 2009	879	310	318	3,283	4,790
Accumulated amortisation and impairment losses					
At 23 February 2008	340	163	7	98	608
Foreign currency translation	–	4	–	–	4
Amortisation for the year	88	31	34	–	153
Reclassification across categories	(1)	–	1	–	–
Disposals	(1)	(1)	–	–	(2)
At 28 February 2009	426	197	42	98	763
Net carrying value					
At 28 February 2009	453	113	276	3,185	4,027
At 23 February 2008	351	115	41	1,829	2,336
Cost					
At 24 February 2007	583	233	39	1,684	2,539
Foreign currency translation	2	18	–	151	171
Additions	128	29	2	22	181
Acquisitions through business combinations	–	–	8	70	78
Reclassification across categories	1	1	(1)	–	1
Disposals	(23)	(3)	–	–	(26)
At 23 February 2008	691	278	48	1,927	2,944
Accumulated amortisation and impairment losses					
At 24 February 2007	263	128	5	98	494
Foreign currency translation	–	9	–	–	9
Amortisation for the year	87	27	2	–	116
Reclassification across categories	1	–	–	–	1
Disposals	(11)	(1)	–	–	(12)
At 23 February 2008	340	163	7	98	608
Net carrying value					
At 23 February 2008	351	115	41	1,829	2,336
At 24 February 2007	320	105	34	1,586	2,045

There are no intangible assets, other than goodwill, with indefinite useful lives.



Notes to the Group financial statements continued

Note 10 Goodwill and other intangible assets continued

Impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs to sell. In 2008/9, recoverable amounts are based on value in use. Value in use is calculated from cash flow projections for five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. Given the current economic climate, a sensitivity analysis has been performed in assessing the recoverable amounts of goodwill. In the case of Japan, it is reasonably possible that a change in key assumptions would cause the goodwill to exceed its value in use. At 28 February 2009, there was headroom of £8m, incorporating a long-term growth rate of 1.5% and a pre-tax discount rate of 7.3% as key assumptions. A 0.2% reduction in the long-term growth rate or a 0.2% increase in the discount rate would cause goodwill to exceed its value in use. EBITDA margin is also assumed to increase in 2009/10 from 2008/9, where a 2.9% decrease in the forecast margin for 2009/10 would also cause goodwill to exceed its value in use. For Poland, with headroom of £84m and assuming an 11.3% pre-tax discount rate, a 0.4% increase in the discount rate would cause goodwill to exceed its value in use.

The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of generally 2%-10% (2008: 3%-4%).

The pre-tax discount rates used to calculate value in use range from 7%-24% (2008: 8%-24%). On a post-tax basis, the discount rates ranged from 5%-19% (2008: 5%-20%). These discount rates are derived from the Group's post-tax weighted average cost of capital as adjusted for the specific risks relating to each geographical region.

In February 2009 and 2008 impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Management determined that there has been no impairment.

The components of goodwill are as follows:

	2009 £m	2008 £m
UK	616	571
Tesco Personal Finance Group Limited	767	–
Thailand	153	124
South Korea	378	48
Japan	196	129
China	540	376
Malaysia	76	65
Poland	354	394
Czech Republic	47	44
Turkey	53	54
Other	5	24
	3,185	1,829

Note 11 Property, plant and equipment

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 23 February 2008	19,210	6,340	25,550
Foreign currency translation	434	191	625
Additions ^(b)	3,345	1,013	4,358
Acquisitions through business combinations	586	34	620
Reclassification across categories	(305)	45	(260)
Classified as held for sale	(74)	(8)	(82)
Disposals	(847)	(120)	(967)
At 28 February 2009	22,349	7,495	29,844
Accumulated depreciation and impairment losses			
At 23 February 2008	2,280	3,483	5,763
Foreign currency translation	55	103	158
Charge for the year	352	659	1,011
Reclassification across categories	(5)	–	(5)
Classified as held for sale	18	(3)	15
Disposals	(128)	(90)	(218)
Impairment losses	56	–	56
Reversal of impairment losses	(88)	–	(88)
At 28 February 2009	2,540	4,152	6,692
Net carrying value^{(c)(d)(e)}			
At 28 February 2009	19,809	3,343	23,152
At 23 February 2008	16,930	2,857	19,787
Capital work in progress included above^(f)			
At 28 February 2009	1,375	159	1,534

(a) Other assets consist of plant, equipment, fixtures and fittings and motor vehicles.

(b) Includes £152m (2008 – £103m) 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 year was 5.1% (2008 – 5.1%). Interest capitalised is deducted in determining taxable profit in the year in which it is incurred.

(c) Net carrying value includes:

(i) Capitalised interest at 28 February 2009 of £910m (2008 – £790m).

(ii) Assets held under finance leases which are analysed below:

	2009		2008	
	Land and buildings £m	Other ^(a) £m	Land and buildings £m	Other ^(a) £m
Cost	121	578	96	723
Accumulated depreciation and impairment losses	(22)	(390)	(20)	(441)
Net carrying value	99	188	76	282

These assets are pledged as security for the finance lease liabilities.

(d) The net carrying value of land and buildings comprises:

	2009 £m	2008 £m
Freehold	17,332	15,209
Long leasehold – 50 years or more	1,450	892
Short leasehold – less than 50 years	1,027	829
Net carrying value	19,809	16,930

(e) Carrying value of land and buildings includes £4m (2008 – £6m) relating to the prepayment of lease premiums.

(f) Capital work in progress does not include land.



Notes to the Group financial statements continued

Note 11 Property, plant and equipment continued

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 24 February 2007	16,540	5,389	21,929
Foreign currency translation	545	231	776
Additions ^(b)	2,802	925	3,727
Acquisitions through business combinations	153	26	179
Reclassification across categories	(50)	(95)	(145)
Classified as held for sale	(295)	(5)	(300)
Disposals	(485)	(131)	(616)
At 23 February 2008	19,210	6,340	25,550
Accumulated depreciation and impairment losses			
At 24 February 2007	1,942	3,011	4,953
Foreign currency translation	52	117	169
Charge for the year	353	507	860
Reclassification across categories	34	(40)	(6)
Classified as held for sale	(44)	(1)	(45)
Disposals	(47)	(111)	(158)
Impairment losses	77	–	77
Reversal of impairment losses	(87)	–	(87)
At 23 February 2008	2,280	3,483	5,763
Net carrying value^{(c)(d)(e)}			
At 23 February 2008	16,930	2,857	19,787
At 24 February 2007	14,598	2,378	16,976
Capital work in progress included above^(f)			
At 23 February 2008	1,058	112	1,170

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indications of impairment at the Balance Sheet date.

Recoverable amounts for cash-generating units are based on value in use, which is calculated from cash flow projections for five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimate discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

The forecasts are extrapolated beyond five years based on estimated long-term growth rates of generally 2%-10% (2008: 3%-4%).

The pre-tax discount rates used to calculate value in use range from 7%-24% (2008: 8%-24%) depending on the specific conditions in which each store operates. These discount rates are derived from the Group's post-tax weighted average cost of capital.

Note 11 Property, plant and equipment continued

The following amounts have been (charged)/credited to operating costs in the Group Income Statement during the current and prior year:

	2009 £m	2008 £m
Impairment losses		
UK	(21)	(48)
Rest of Europe	(31)	(25)
Asia	(4)	(4)
	(56)	(77)
Reversal of impairment losses		
UK	21	48
Rest of Europe	50	36
Asia	17	3
	88	87
Net reversal of impairment losses	32	10

The impairment losses relate to stores whose recoverable amounts (either value in use or fair value less costs to sell) do not exceed the asset carrying values. In all cases, impairment losses arose due to stores performing below forecasted trading levels.

The reversal of previous impairment losses arose principally due to improvements in stores' performances over the last year which increased the net present value of future cash flows.

Note 12 Investment property

	2009 £m	2008 £m
Cost		
At beginning of year	1,190	906
Foreign currency translation	24	93
Additions	114	50
Acquisitions through business combinations	86	–
Transfers	260	144
Classified as held for sale	(10)	–
Disposals	(4)	(3)
At end of year	1,660	1,190
Accumulated depreciation and impairment losses		
At beginning of year	78	50
Foreign currency translation	3	7
Charge for the period	25	16
Transfers	5	5
Impairment losses	10	–
At end of year	121	78
Net carrying value	1,539	1,112

The net carrying value at 24 February 2007 was £856m.

The following amounts have been charged to operating costs in the Group Income Statement during the current and prior year:

	2009 £m	2008 £m
Impairment losses		
Rest of Europe	(10)	–
Net impairment losses	(10)	–

The impairment losses relate to malls whose recoverable amounts (either value in use or fair value less costs to sell) do not exceed the asset carrying values. In all cases, impairment losses arose due to the malls performing below forecasted trading levels.

The estimated fair value of the Group's investment property is £3,196m (2008 – £2,265m). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.



Notes to the Group financial statements continued

Note 13 Group entities

Significant subsidiaries

The Group consolidates its subsidiary undertakings; the principal subsidiaries are:

	Business activity	Share of issued ordinary share capital, and voting rights	Country of incorporation
Tesco Stores Limited*	Retail	100%	England
One Stop Stores Limited	Retail	100%	England
Tesco Ireland Limited*	Retail	100%	Republic of Ireland
Tesco-Global Stores Privately Held Co. Limited*	Retail	99%	Hungary
Tesco Polska Sp. z o.o.*	Retail	100%	Poland
Tesco Stores Ā R a.s.*	Retail	100%	Czech Republic
Tesco Stores S R a.s.*	Retail	100%	Slovakia
Tesco Kipa Kitle Paza rlama Ticaret ve Gide Sanai A.Ş.	Retail	93%	Turkey
Samsung Tesco Co. Limited*	Retail	94%	South Korea
Homever Tesco Co. Limited*	Retail	100%	South Korea
Ek-Chai Distribution System Co. Limited*	Retail	86% ^(a)	Thailand
Tesco Stores Malaysia Sdn Bhd*	Retail	70%	Malaysia
Tesco Japan Co. Limited*	Retail	100%	Japan
Shanghai Kancheng Storage Co. Limited*	Retail	90%	Republic of China
Dobbies Garden Centres PLC*	Retail	100%	Scotland
Fresh & Easy Neighborhood Market Inc*	Retail	100%	USA
Tesco Personal Finance Group Limited	Financial Services	100%	Scotland
Tesco Distribution Limited*	Distribution	100%	England
Tesco Property Holdings Limited*	Property	100%	England
Tesco International Sourcing Limited*	Purchasing	100%	Hong Kong
dunnhumby Limited*	Data Analysis	84%	England
Tesco Insurance Limited*	Self-insurance	100%	Guernsey
Valiant Insurance Company Limited*	Self-insurance	100%	Republic of Ireland

* Held by an intermediate subsidiary.

(a) The Group has 86% of voting rights and 39% of issued ordinary share capital in Ek-Chai Distribution System Co. Limited.

All principal subsidiary undertakings operate in their country of incorporation.

The accounting period ends of the subsidiary undertakings consolidated in these financial statements are on or around 28 February 2009.

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

There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 1985.

Interests in joint ventures and associates

The Group uses the equity method of accounting for joint ventures and associates. The following table shows the aggregate movement in the Group's investment in joint ventures and associates:

	Joint ventures £m	Associates £m	Total £m
At 24 February 2007	304	10	314
Additions	8	–	8
Share of profit of joint ventures and associates	74	1	75
Income received from joint ventures and associates	(87)	(1)	(88)
Transferred to investment in subsidiary undertakings	(4)	–	(4)
At 23 February 2008	295	10	305
Foreign currency translation	4	–	4
Share of profit of joint ventures and associates	106	4	110
Income received from joint ventures and associates	(68)	(1)	(69)
Transferred to amounts owed by subsidiary undertakings	(37)	–	(37)
Transferred to investment in subsidiary undertakings	(251)	–	(251)
At 28 February 2009	49	13	62

Note 13 Group entities continued**Transferred to investment in subsidiary undertakings**

During the year ended 28 February 2009, the Group acquired the remaining 50% of the share capital of Tesco Personal Finance Group Limited, previously a joint venture, making the company a wholly-owned subsidiary entity which has been consolidated within the Group results from the date of acquisition onwards (see note 31).

During the year ended 23 February 2008, the Group purchased additional share capital in Nutri Centres Limited, making the company a wholly-owned subsidiary entity which has been consolidated within the Group results from the date of acquisition onwards.

Significant joint ventures

The Group's principal joint ventures are:

	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation and principal country of operation
Tesco Mobile Limited†	Telecommunications	50%	England
Shopping Centres Limited	Property Investment	50%	England
BLT Properties Limited	Property Investment	50%	England
Tesco British Land Property Partnership†	Property Investment	50%	England
Tesco Red Limited Partnership†	Property Investment	50%	England
Tesco Aqua Limited Partnership†	Property Investment	50%	England
Tesco Jade Limited Partnership†	Property Investment	50%	England
Tesco Coral Limited Partnership†	Property Investment	50%	England
Arena (Jersey) Management Limited†	Property Investment	50%	Jersey
The Tesco Property (No. 2) Limited Partnership†	Property Investment	50%	Jersey

† Held by an intermediate subsidiary.

The accounting period ends of the joint ventures consolidated in these financial statements range from 31 December 2008 to 28 February 2009. Accounting period end dates different from those of the Group arise for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group.

The share of the assets, liabilities, revenue and profit of the joint ventures, which are included in the consolidated financial statements, are as follows:

	2009 £m	2008 £m
Non-current assets	1,637	1,411
Current assets	281	4,277
Current liabilities	(426)	(3,888)
Non-current liabilities	(1,458)	(1,513)
Goodwill	1	1
Cumulative unrecognised losses	14	7
	49	295
Revenue	549	482
Expenses	(443)	(408)
Profit for the year	106	74

The unrecognised share of losses made by joint ventures in the year to 28 February 2009 was £7m (2008 – £nil).



Notes to the Group financial statements continued

Note 13 Group entities continued

Associates

At the Balance Sheet date, the Group's principal associate is:

	Business activity	Share of issued capital, loan capital and debt securities	Country of incorporation and principal country of operation
Greenergy International Limited†	Fuel Supplier	21%	England

† Held by an intermediate subsidiary.

Although the Group only holds a 21.3% non-voting shareholding in Greenergy International Limited it is treated as an associate as the Board of Greenergy International Limited requires the consent of Tesco on certain reserve matters as specified in the company's Articles of Association.

The share of the assets, liabilities, revenue and profit of the Group's associates, which are included in the consolidated financial statements, are as follows:

	2009 £m	2008 £m
Assets	163	115
Liabilities	(152)	(107)
Goodwill	2	2
	13	10
Revenue	540	325
Profit for the year	4	1

The accounting period ends of the associates consolidated in these financial statements range from 31 December 2008 to 31 January 2009. The accounting period end dates of the associates are different from those of the Group as they also depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent, other than those imposed by the Companies Act 1985.

Note 14 Other investments

	2009 £m	2008 £m
Equity investment	259	–
Available-for-sale financial assets	–	4
	259	4

The equity investment comprises an interest free subordinated loan made by Tesco Personal Finance Group Limited to Direct Line Group Limited. This loan has been classed as an equity investment as there is no interest receivable and no fixed repayment date.

No impairment charges were recognised on the loan since the date of acquisition.

Available-for-sale financial assets consist of ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of the unlisted available-for-sale investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices or rates. The fair value of the listed available-for-sale investments is based on quoted market prices at the Balance Sheet date.

The following table shows the aggregate movement in the Group's other investments during the year:

	2009 £m	2008 £m
At beginning of year	4	8
Acquisitions through business combinations	259	–
Revaluation through equity	–	(4)
IAS 32 and IAS 39 'Financial Instruments' – Fair value remeasurements	(4)	–
At end of year	259	4

Note 15 Inventories

	2009 £m	2008 £m
Goods held for resale	2,656	2,420
Development properties	13	10
	2,669	2,430

Note 16 Trade and other receivables

	2009 £m	2008 £m
Prepayments and accrued income	419	298
Finance lease receivables (note 37)	–	5
Other receivables	1,103	796
Amounts owed by joint ventures and associates (note 32)	276	212
	1,798	1,311

Included within trade and other receivables are the following amounts receivable after more than one year:

	2009 £m	2008 £m
Prepayments and accrued income	14	12
Other receivables	275	160
Amounts owed by joint ventures and associates (note 32)	262	173
	551	345

Trade and other receivables are generally non-interest bearing. Credit terms vary by geography and the nature of the debt and can be from 7 to 60 days.

Trade receivables are recorded at amortised cost, reduced by estimated allowances for doubtful debts.

Provision for impairment of receivables

	£m
At 24 February 2007	(34)
Foreign currency translation	(3)
Charge for the year	(15)
Uncollectible amounts written off	14
Recoveries of amounts previously written off	9
At 23 February 2008	(29)
Foreign currency translation	(2)
Charge for the year	(21)
Uncollectible amounts written off	3
Recoveries of amounts previously written off	5
At 28 February 2009	(44)

As at 28 February 2009, trade and other receivables of £45m (2008 – £31m) were past due and impaired. The amount of the provision was £44m (2008 – £29m). The ageing analysis of these receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	3	3
3 to 6 months past due	3	3
Over 6 months past due	39	25
	45	31



Notes to the Group financial statements continued

Note 16 Trade and other receivables continued

As at 28 February 2009, trade and other receivables of £97m (2008 – £103m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	71	79
3 to 6 months past due	15	13
Over 6 months past due	11	11
	97	103

No receivables have been renegotiated in the current or prior year.

Note 17 Loans and advances to customers

Tesco Personal Finance Group Limited has loans and advances to customers.

	2009 £m	2008 £m
Current	1,918	–
Non-current	1,470	–
	3,388	–

The maturity of these loans and advances is as follows:

	2009 £m	2008 £m
Repayable on demand or at short notice	1	–
Within three months	2,021	–
Greater than three months but less than one year	38	–
Greater than one year but less than five years	1,061	–
After five years	517	–
	3,638	–
Provision for impairment of loans and advances	(250)	–
	3,388	–

The securitised amount against loans and advances is £1,468m and the fair value of these are not materially different to the amortised cost value at which they are disclosed.

Provision for impairment of loans and advances

	£m
Acquisition through business combination*	(229)
Charge for the period	(130)
Uncollectible amounts written off	109
Recoveries of amounts previously written off	(7)
Unwind of discount	7
At 28 February 2009	(250)

* Tesco Personal Finance Group Limited was acquired on 19 December 2008.

At 28 February 2009, Tesco Personal Finance Group Limited's non-interest bearing loans were £291m. Loan impairment provisions of £250m were held against these loans. In the period between the date of acquisition and year end, the gross income not recognised but which would have been recognised under the original terms of non-interest bearing loans was £25m.

Note 17 Loans and advances to customers continued

At 28 February 2009, loans and advances to customers of £82m were past due but not impaired. The ageing analysis of these loans and advances is as follows:

	2009 £m	2008 £m
Up to one month past due	58	–
One to three months past due	15	–
Over three months past due	9	–
	82	–

No loans have been renegotiated between the date of acquisition and the year end that would otherwise have been past due or impaired.

Note 18 Loans and advances to banks and other financial assets

Tesco Personal Finance Group Limited has loans and advances to banks and other financial assets with the following maturity:

	2009 £m	2008 £m
Within three months	1,509	–
Greater than three months but less than one year ^(a)	591	–
Greater than one year but less than five years	29	–
	2,129	–

(a) Included within loans and advances to banks and other financial assets are treasury bills of £588m in respect of collateral held with the Bank of England.

There are no loans and advances which are past due and impaired.

Note 19 Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	2,112	1,542
Short-term deposits	1,397	246
	3,509	1,788

Note 20 Trade and other payables**Current**

	2009 £m	2008 £m
Trade payables	4,748	3,936
Other taxation and social security	334	324
Other payables	1,984	1,714
Amounts payable to joint ventures and associates (note 32)	162	116
Accruals and deferred income	1,294	1,187
	8,522	7,277

Non-current

	2009 £m	2008 £m
Other payables	68	42



Notes to the Group financial statements continued

Note 21 Borrowings

Current

	Par value	Maturity year	2009 £m	2008 £m
Bank loans and overdrafts		2009	3,014	1,458
Loan from joint ventures (note 32)		2009	20	10
6% MTN	£125m	2008	–	130
5.25% MTN	€500m	2008	–	392
5.125% MTN	£192m	2009	198	–
1.434% MTN – TPF	£295m	2009	295	–
1.684% MTN – TPF	£89m	2009	89	–
1.418% MTN – TPF	£204m	2009	204	–
Other MTNs	–	–	192	43
Finance leases (note 37)	–	–	47	51
			4,059	2,084

The loan notes issued as part of the securitisation are secured on portfolios comprising variable rate personal credit cards. The maturity date of the notes matches the maturity date of the underlying assets and are repayable within one year from the balance sheet date.

Non-current

	Par value	Maturity year	2009 £m	2008 £m
Finance leases (note 37)	–	–	196	215
5.125% MTN	£192m	2009	–	191
6.625% MTN	£150m	2010	154	153
4.75% MTN	€750m	2010	689	592
3.875% MTN	€500m	2011	476	387
5.625% MTN	€1,500m	2012	1,362	–
LIBOR + 1.33% Bond – TPF	£225m	2012	225	–
5% MTN	£600m	2014	592	–
5.125% MTN	€600m	2015	522	–
4% RPI MTN ^(a)	£263m	2016	268	254
5.875% MTN	€1,500m	2016	1,488	–
5.5% USD Bond	\$850m	2017	678	455
5.5% MTN	£350m	2019	351	350
6.125% MTN	£900m	2022	901	–
5% MTN ^(b)	£515m	2023	515	417
3.322% LPI MTN ^(c)	£265m	2025	267	255
6% MTN	£200m	2029	216	194
5.5% MTN	£200m	2033	216	192
1.982% RPI MTN ^(d)	£221m	2036	221	212
6.15% USD Bond	\$1,150m	2037	977	604
5% MTN	£300m	2042	306	305
5.125% MTN	€600m	2047	628	451
5.2% MTN	£500m	2057	500	499
Other MTNs	–	–	285	135
Other loans	–	–	358	111
			12,391	5,972

(a) The 4% RPI MTN is redeemable at par, indexed for increases in the Retail Price Index (RPI) over the life of the MTN.

(b) An additional bond issue increased the principal of this MTN from £415m to £515m in 2008/9.

(c) The 3.322% LPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

(d) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Borrowing facilities

The Group has the following undrawn committed facilities available at 28 February 2009, in respect of which all conditions precedent had been met as at that date:

	2009 £m	2008 £m
Expiring between one and two years	100	–
Expiring in more than two years	2,600	1,600
	2,700	1,600

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 22 Financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the maturity and other profiles of assets and liabilities.

Hedging policies using derivative financial instruments are further explained below. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes as described below.

Finance costs of £30m (2008 – £nil) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group Income Statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group Income Statement under the effective interest rate method.

A gain of £1,197m on hedging instruments was recognised during the year, offset by a loss of £1,227m on hedged items (in 2008, a gain of £261m on hedging instruments was offset by a loss of £261m on hedged items).

Cash flow hedges

The Group uses forward foreign currency contracts to hedge the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, mark-to-market gains and losses are deferred in equity.

The hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur and will affect the Group Income Statement within one year of the Balance Sheet date.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the Group Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Group Income Statement.

Net investment hedges

The Group uses forward foreign currency contracts, currency denominated borrowings and currency options to hedge the exposure of a proportion of its non-Sterling denominated assets against changes in value due to changes in foreign exchange rates.

The Group has a South Korean Won denominated liability relating to the future purchase of the minority shareholding of its subsidiary, Samsung Tesco Co. Limited. This liability has been designated as a net investment hedge of a proportion of the assets of Samsung Tesco Co. Limited.

The Group has a Chinese Yuan denominated liability relating to the future purchase of the minority shareholding of its subsidiary, Hymall. This liability has been designated as a net investment hedge of a proportion of the assets of Hymall.

Gains and losses accumulated in equity are included in the Group Income Statement on disposal of the overseas operation.

Financial instruments not qualifying for hedge accounting

The Group's policy is not to use derivatives for trading purposes; however, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is appropriate.

These instruments include caps, collars, interest rate swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group Income Statement within finance income or costs.

The Group has a liability relating to the future purchase of the minority shareholding of its subsidiary, dunnhumby Limited. Changes in the value of the liability are recognised immediately in the Group Income Statement within finance income or costs.

The fair value of derivative financial instruments have been disclosed in the Group Balance Sheet as follows:

	2009		2008	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	382	(525)	97	(443)
Non-current	1,478	(302)	216	(322)
	1,860	(827)	313	(765)



Notes to the Group financial statements continued

Note 22 Financial instruments continued

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2009				2008			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	6	307	(67)	2,123	2	125	(80)	657
Cross currency swaps	1,445	4,293	(40)	996	252	2,795	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	–	100	(66)	400	–	–	–	–
Cross currency swaps	1	21	–	–	–	–	(1)	17
Forward foreign currency contracts	101	1,762	(24)	348	19	811	(9)	387
Net investment hedges								
Forward foreign currency contracts	92	2,623	(194)	2,767	2	289	(218)	2,328
Future purchases of minority interests	–	–	(167)	–	–	–	(197)	–
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	1	774	(35)	3,740	6	3,668	(2)	189
Cross currency swaps	25	411	(47)	639	–	–	(16)	347
Forward foreign currency contracts	189	2,784	(154)	2,767	32	1,641	(207)	2,816
Future purchases of minority interests	–	–	(33)	–	–	–	(35)	–
Total	1,860	13,075	(827)	13,780	313	9,329	(765)	6,741

Carrying and fair value of financial assets and liabilities at financial year ending:

	2009		2008	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Finance leases (Group as lessor – note 37)	–	–	5	5
Cash and cash equivalents	3,509	3,509	1,788	1,788
Loans and advances to customers – TPF	3,388	3,388	–	–
Loans and advances to banks and other financial assets – TPF	2,129	2,129	–	–
Short-term investments	1,233	1,233	360	360
Other investments – TPF	259	259	–	–
Joint venture loan receivables (note 32)	262	262	173	173
Derivative financial assets:				
Interest rate swaps and similar instruments	7	7	8	8
Cross currency swaps	1,471	1,471	252	252
Forward foreign currency contracts	382	382	53	53
Total financial assets	12,640	12,640	2,639	2,639
Liabilities				
Short-term borrowings:				
Amortised cost	(3,779)	(3,778)	(1,511)	(1,516)
Bonds in fair value hedge relationships	(233)	(223)	(522)	(502)
Long-term borrowings:				
Amortised cost	(5,248)	(5,028)	(2,269)	(2,138)
Bonds in fair value hedge relationships	(6,947)	(6,147)	(3,488)	(3,261)
Finance leases (Group as lessee – note 37)	(243)	(243)	(266)	(266)
Customer deposits – TPF	(4,538)	(4,538)	–	–
Deposits by banks – TPF	(24)	(24)	–	–
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	(168)	(168)	(81)	(81)
Cross currency swaps	(87)	(87)	(18)	(18)
Forward foreign currency contracts	(372)	(372)	(434)	(434)
Future purchases of minority interests	(200)	(200)	(232)	(232)
Total financial liabilities	(21,839)	(20,808)	(8,821)	(8,448)
Total	(9,199)	(8,168)	(6,182)	(5,809)

Note 22 Financial instruments continued

The fair values of financial instruments have been determined by reference to prices available from the markets on which the instruments are traded. The fair value of all other items have been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes other receivables/payables, which have fair values equal to their carrying values.

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities as at 28 February 2009 and 23 February 2008 are as follows:

At 28 February 2009	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	3,509	–	3,509
Loans and advances to customers – TPF	3,388	–	3,388
Loans and advances to banks and other financial assets – TPF	1,541	588	2,129
Short-term investments	1,233	–	1,233
Other investments – TPF	259	–	259
Joint venture loan receivables (note 32)	262	–	262
Customer deposits – TPF	(4,538)	–	(4,538)
Deposits by banks – TPF	(24)	–	(24)
Short-term borrowings	(4,012)	–	(4,012)
Long-term borrowings	(12,195)	–	(12,195)
Finance leases (Group as lessee – note 37)	(243)	–	(243)
Derivative financial instruments:			
Interest rate swaps and similar instruments	–	(161)	(161)
Cross currency swaps	–	1,384	1,384
Forward foreign currency contracts	–	10	10
Future purchases of minority interests	–	(200)	(200)
	(10,820)	1,621	(9,199)

At 23 February 2008	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Finance leases (Group as lessor – note 37)	5	–	5
Cash and cash equivalents	1,788	–	1,788
Short-term investments	360	–	360
Joint venture loan receivables (note 32)	173	–	173
Short-term borrowings	(2,033)	–	(2,033)
Long-term borrowings	(5,757)	–	(5,757)
Finance leases (Group as lessee – note 37)	(266)	–	(266)
Derivative financial instruments:			
Interest rate swaps and similar instruments	–	(73)	(73)
Cross currency swaps	–	234	234
Forward foreign currency contracts	–	(381)	(381)
Future purchases of minority interests	–	(232)	(232)
	(5,730)	(452)	(6,182)



Notes to the Group financial statements continued

Note 23 Financial risk factors

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions, and the availability of funds to meet business needs. These risks are managed as described below. The Group Balance Sheet position at 28 February 2009 is representative of the position throughout the year, including the impact of acquisitions during the year.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The Board provides written principles for risk management, as described in the Business Review on pages 38 to 40.

Interest rate risk

Interest rate risk arises from long-term borrowings. Debt issued at variable rates exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk. Our interest rate management policy is explained on page 40.

The Group has RPI debt where the principal is indexed to increases in the RPI index. RPI debt is treated as floating rate debt. The Group also has LPI debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt.

For interest rate risk relating to Tesco Personal Finance Group Limited (TPF) please refer to the separate section on TPF financial risk factors.

During 2009 and 2008, net debt including TPF was managed using derivative instruments to hedge interest rate risk as follows:

	2009			2008		Total £m
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	
Cash and cash equivalents	–	3,509	3,509	–	1,788	1,788
Loans and advances to customers – TPF	3,388	–	3,388	–	–	–
Loans and advances to banks and other financial assets – TPF	–	2,129	2,129	–	–	–
Short-term investments	–	1,233	1,233	–	360	360
Other investments – TPF	259	–	259	–	–	–
Joint venture loan receivables	–	262	262	–	173	173
Finance leases	(84)	(159)	(243)	(73)	(188)	(261)
Bank and other borrowings	(11,540)	(4,667)	(16,207)	(5,745)	(2,045)	(7,790)
Customer deposits – TPF	–	(4,538)	(4,538)	–	–	–
Deposits by banks – TPF	–	(24)	(24)	–	–	–
Future purchases of minority interests	(200)	–	(200)	(232)	–	(232)
Derivative effect:						
Interest rate swaps	(415)	415	–	752	(752)	–
Cross currency swaps	4,524	(4,524)	–	2,778	(2,778)	–
Caps and collars	774	(774)	–	(876)	876	–
Total	(3,294)	(7,138)	(10,432)	(3,396)	(2,566)	(5,962)

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits with banks and financial institutions. The Group policy on credit risk is described on page 40.

The counterparty exposure under derivative contracts is £1,860m (2008 – £313m). The Group policy is to transact derivatives only with counterparties rated at least A1 by Moody's.

For credit risk relating to TPF please refer to the separate section on TPF financial risk factors.

Liquidity risk

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £2.7bn (2008 – £1.6bn), which mature between 2010 and 2014.

The Group has a European Medium Term Note programme of £15bn, of which £11bn was in issue at 28 February 2009 (2008 – £4.9bn), plus a Euro Commercial Paper programme of £2bn, of which £1.6bn was in issue at 28 February 2009 (2008 – £0.6bn), and a US Commercial Paper programme of \$4bn, none of which was in issue at 28 February 2009 (2008 – £nil).

For liquidity risk relating to TPF please refer to the separate section on TPF financial risk factors.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives.

The undiscounted cash flows will differ from both the carrying values and fair value. Floating rate interest is estimated using the prevailing rate at the Balance Sheet date. Cash flows in foreign currencies are translated using spot rates at the Balance Sheet date. For index linked liabilities, inflation is estimated at 3% for the life of the liability.

Note 23 Financial risk factors continued

At 28 February 2009	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non derivative financial liabilities						
Bank and other borrowings	(3,616)	(971)	(873)	(1,931)	(225)	(7,943)
Interest payments on borrowings	(560)	(549)	(514)	(486)	(411)	(5,045)
Customer deposits – TPF	(4,538)	–	–	–	–	–
Deposits by banks – TPF	(24)	–	–	–	–	–
Finance leases	(55)	(51)	(48)	(32)	(9)	(172)
Trade and other payables	(8,522)	(34)	(5)	(2)	(4)	(23)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	104	17	9	5	4	1
Net settled derivative contracts – payments	(245)	(30)	(19)	(23)	(13)	(112)
Gross settled derivative contracts – receipts	4,657	1,186	1,247	404	708	5,707
Gross settled derivative contracts – payments	(4,577)	(957)	(1,053)	(313)	(671)	(4,652)
Future purchases of minority interests	(93)	–	(87)	(20)	–	–
Total	(17,469)	(1,389)	(1,343)	(2,398)	(621)	(12,239)

At 23 February 2008	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non derivative financial liabilities						
Bank and other borrowings	(2,018)	(287)	(795)	(398)	(47)	(4,714)
Interest payments on borrowings	(298)	(272)	(229)	(211)	(198)	(4,906)
Finance leases	(62)	(54)	(50)	(46)	(30)	(130)
Trade and other payables	(7,277)	(14)	(13)	(2)	(6)	(7)
Derivative and other financial instruments						
Net settled derivative contracts – receipts	7	–	–	–	–	–
Net settled derivative contracts – payments	(230)	(16)	(9)	(9)	(9)	(172)
Gross settled derivative contracts – receipts	2,968	255	705	484	297	3,207
Gross settled derivative contracts – payments	(2,827)	(286)	(677)	(452)	(304)	(3,280)
Future purchases of minority interests	–	(70)	–	(166)	(34)	–
Total	(9,737)	(744)	(1,068)	(800)	(331)	(10,002)

Sensitivity analysis at 28 February 2009

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analysis, required by IFRS 7 'Financial Instruments: Disclosures', is intended to illustrate the sensitivity to changes in market variables, being UK interest rates, and foreign exchange risk.



Notes to the Group financial statements continued

Note 23 Financial risk factors continued

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- Transactional exposure, from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional exposures that could significantly impact the Group Income Statement are hedged. These exposures are hedged via forward foreign currency contracts which are designated as cash flow hedges. The notional and fair value of these contracts is shown in note 22.
- Net investment exposure, from the value of net investments outside the UK. We hedge the majority of our investments in our international subsidiaries via foreign currency transactions and borrowings in matching currencies, which are formally designated as net investment hedges.
- Loans to non-UK subsidiaries. These are hedged via foreign currency transactions and borrowings in matching currencies, which are not formally designated as hedges, as gains and losses on hedges and hedged loans will naturally offset.

The impact on Group financial instruments from foreign currency volatility is shown in the sensitivity analysis below.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However it does include the foreign exchange sensitivity resulting from all local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 28 February 2009.

It should be noted that the sensitivity analysis reflects the impact on income and equity due to all financial instruments held at the Balance Sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on the post hedge floating rate net debt exposure with no sensitivity assumed for LPI-linked debt;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group Income Statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group Income Statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group Income Statement;
- debt with a maturity below one year is floating rate for the interest payable part of the calculation; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the illustrative effect on the Group Income Statement and equity that would result from changes in UK interest rates, and in exchange rates:

	2009		2008
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m
			Equity gain/(loss) £m
Assets			
1% increase in GBP interest rates	(59)	–	(42)
25% appreciation of the Euro (2008 – 5%)	(22)	(22)	(5)
20% appreciation of the South Korean Won (2008 – 5%)	(1)	(222)	–
25% appreciation of the US Dollar (2008 – 5%)	(11)	218	(2)
25% appreciation of the Thai Baht (2008 – 5%)	–	(1)	–
25% appreciation of the Czech Koruna (2008 – 10%)	–	(204)	–
15% appreciation of the Polish Zloty (2008 – 15%)	14	–	1
20% appreciation of the Slovak Koruna (2008 – 20%)	–	–	2

The impact on equity from changing exchange rates results principally from foreign currency deals used as net investment hedges. The impact on equity will largely be offset by the revaluation in equity of the hedged assets. For changes in the USD/GBP exchange rate, the impact on equity results principally from forward purchases of USD as cash flow hedges.

Note 23 Financial risk factors continued**Capital risk**

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while maintaining a strong credit rating and headroom whilst optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Company.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them or issue new shares. In April 2006, we outlined our plan to release cash from our property assets, via a sequence of property joint ventures and other transactions, and return significant value to shareholders, either through enhanced dividends or share buy-backs. The target for the value of share buy-backs was increased from £1.5bn to £3.0bn over a five-year period from April 2007. Whilst we continued with the policy at the beginning of 2008/9, we have subsequently used the proceeds from property divestment to pay down debt, following the two major acquisitions in the second half (Homever and Tesco Personal Finance Group Limited). Early in 2008/9 we purchased and cancelled £100m ordinary shares. In the financial year 2009/10 we expect to continue to use the proceeds from the sale of property to pay down debt.

The policy for debt is to ensure a smooth debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the current year with bonds redeemed of £524m and new bonds issued totalling £4,901m. The Group borrows centrally and locally, using a variety of capital market issues and borrowing facilities to meet the requirements of each local business.

Tesco Personal Finance Group Limited (TPF)**Interest rate risk**

Interest rate risk arises where assets and liabilities in TPF's banking activities have different repricing dates. TPF policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1.5% parallel movement in interest rates. Risk is managed through arm's length cash transactions.

Credit risk

Credit risk is the probability of customers and counterparties failing to meet their obligations to TPF and arises principally from TPF's lending activities but also from other transactions involving on and off-balance sheet instruments. Limits have been established for all counterparties based on their respective credit ratings. The limits and proposed counterparties are reviewed and approved by the Risk Management Committee (RMC) and Board of TPF.

Internal reporting and oversight of risk assets is principally differentiated by credit ratings. Internal ratings are used to assess the credit quality of borrowers. Customers are assigned credit ratings, based on various credit grading models that reflect the probability of default.

Liquidity risk

Liquidity risk is managed on a consolidated basis within TPF's banking activities and adheres to the liquidity requirements set by the Financial Services Authority (FSA) from time to time. In the UK, the FSA requires TPF to be able to meet its sterling obligations without recourse to the wholesale markets for a period of at least five business days. To meet regulatory requirements a diversified portfolio of high quality liquid and marketable assets is maintained. Cash flow commitments and marketable asset holdings are measured and managed on a daily basis. TPF has credit facilities sufficient to meet all foreseeable outflow requirements as they fall due and its liquidity risk is further mitigated by its well diversified retail deposit base.

Expressed as an annual probability of default, the upper and lower boundaries and the midpoint for each of the asset quality grades are as follows:

Asset quality grade	Annual probability of default			S&P equivalent
	Minimum %	Midpoint %	Maximum %	
AQ1	0.00	0.10	0.20	AAA to BBB-
AQ2	0.21	0.40	0.60	BB+ to BB
AQ3	0.61	1.05	1.50	BB- to B+
AQ4	1.51	3.25	5.00	B+ to B
AQ5	5.01	52.50	100.00	B and below

At 28 February 2009	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	Accruing past due £m	Non- accrual £m	Impairment provision £m	Total £m
Assets:									
Other investments	259	–	–	–	–	–	–	–	259
Loans and advances to customers	352	652	828	870	563	82	291	(250)	3,388
Loans and advances to banks and other financial assets	2,129	–	–	–	–	–	–	–	2,129
	2,740	652	828	870	563	82	291	(250)	5,776
Commitment	3,103	1,451	744	305	129	–	–	–	5,732
Total off balance sheet	3,103	1,451	744	305	129	–	–	–	5,732



Notes to the Group financial statements continued

Note 23 Financial risk factors continued

Insurance risk

TPF is exposed to insurance risk indirectly through its profit sharing commission arrangement with The Royal Bank of Scotland Group PLC. Insurance risk is the risk of fluctuations in the timing, frequency or severity of insured events, relative to the expectations at the time of underwriting.

The frequency and severity of claims and the sources of uncertainty for the key classes that TPF is exposed to are as follows:

Motor insurance

Claims experience is quite variable, due to a wide range of factors, but the principal ones are age, sex and driving experience, type and nature of vehicle, use of vehicle and area. There are many sources of uncertainty that will affect TPF's experience under motor insurance including operational risk, reserving risk, premium rates not matching claims inflation rates, the weather, the social, economic and legislative environment and reinsurance failure risk.

Property insurance

The major causes of claims for property insurance are theft, flood, escape of water, fire, storm, subsidence and various types of accidental damage. The major source of uncertainty is the volatility of weather.

Note 24 Customer deposits

	2009 £m	2008 £m
Customer deposits	4,538	–

Customer deposits are recorded at amortised cost and are repayable on demand.

Note 25 Deposits by banks

The Group has deposits by banks with the following maturity:

	2009 £m	2008 £m
Within three months	24	–
	24	–

Deposits by banks are recorded at amortised cost.

Note 26 Provisions

	Property provisions £m
At 23 February 2008	27
Foreign currency translation	3
Acquisitions through business combinations	59
Amount utilised in the year	(12)
At 28 February 2009	77

Property provisions comprise future rents payable net of rents receivable on onerous and vacant property leases, provisions for terminal dilapidations and provisions for future rents above market value on unprofitable stores. The majority of the provision is expected to be utilised over the period to 2020.

The balances are analysed as follows:

	2009 £m	2008 £m
Current	10	4
Non-current	67	23
	77	27

Note 27 Share-based payments

The Group has not taken advantage of the transitional provisions of IFRS 2 'Share-based payment' in respect of equity-settled awards but instead applied IFRS 2 retrospectively to all awards granted, but not vested, as at 28 February 2004.

The total Group Income Statement charge for the year recognised in respect of share-based payments is £242m (2008 – £228m), which is made up of share option schemes and share bonus payments. Of this amount £204m (2008 – £199m) will be equity-settled and £38m (2008 – £29m) cash-settled.

a) Share option schemes

The Company had nine share option schemes in operation during the year, 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 Irish Savings-related Share Option Scheme (2000) permits the grant to Irish 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 €12 and €320 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.
- iii) 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.
- iv) 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.
- v) The International Executive Share Option Scheme (1994) 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. The exercise of options granted under this scheme will normally be conditional on 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.
- vi) 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.
- vii) The Performance Share Plan (2004) was adopted on 5 July 2004 and amended on 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options granted before 29 June 2007 are normally exercisable between four and ten years from the date of grant for nil consideration. Options granted after 29 June 2007 are normally exercisable between three and ten years from the date of grant 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 a three-year period.
- viii) 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 on 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.
- ix) The Group New Business Incentive Plan (2007) was adopted on 29 June 2007. This scheme permits the grant of options in respect of ordinary shares to selected executives. 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.



Notes to the Group financial statements continued

Note 27 Share-based payments continued

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

For the year ended 28 February 2009

	Savings-related share option scheme		Irish savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		International executive share option scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 23 February 2008	153,361,820	281.40	5,083,009	300.71	16,229,846	324.45	77,043,605	307.00	36,970,259	333.22	10,838,238	0.00
Granted	38,531,375	311.00	1,642,089	311.00	3,308,213	426.79	18,297,370	426.82	13,664,591	422.88	3,591,855	0.00
Forfeited	(10,351,962)	299.64	(485,512)	293.84	(901,163)	384.34	(2,768,871)	388.51	(3,268,614)	327.65	–	–
Exercised	(38,731,136)	214.48	(820,683)	226.80	(2,767,976)	277.55	(11,272,220)	243.72	(3,468,031)	269.07	(106,385)	0.00
Outstanding at 28 February 2009	142,810,097	306.21	5,418,903	315.67	15,868,920	350.56	81,299,884	339.97	43,898,205	366.61	14,323,708	0.00
Exercisable as at 28 February 2009	6,553,484	220.72	398,093	233.61	5,574,827	259.54	36,205,357	260.09	12,340,929	268.72	2,048,225	–
Exercise price range (pence)		159.00 to 248.00		159.00 to 248.00		197.50 to 313.50		164.00 to 313.50		176.70 to 312.75		–
Weighted average remaining contractual life (years)		0.18		0.15		3.99		4.63		4.76		5.83

For the year ended 23 February 2008

	Savings-related share option scheme		Irish savings-related share option scheme		Approved share option scheme		Unapproved share option scheme		International executive share option scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 24 February 2007	173,103,108	236.12	4,927,409	250.27	16,855,033	276.19	82,526,915	267.70	33,128,105	280.68	5,810,007	0.00
Granted	30,284,995	410.00	1,333,621	410.00	3,675,200	473.75	14,355,638	473.66	10,127,935	466.57	5,113,574	0.00
Forfeited	(9,470,529)	253.96	(401,169)	241.75	(926,135)	336.21	(3,399,364)	355.17	(1,999,671)	310.13	–	–
Exercised	(40,555,754)	190.56	(776,852)	198.83	(3,374,252)	242.77	(16,439,584)	245.18	(4,286,110)	252.90	(85,343)	0.00
Outstanding at 23 February 2008	153,361,820	281.40	5,083,009	300.71	16,229,846	324.45	77,043,605	307.00	36,970,259	333.22	10,838,238	0.00
Exercisable as at 23 February 2008	7,761,557	192.99	245,709	201.21	4,968,637	232.22	33,091,974	230.57	9,412,295	225.27	–	–
Exercise price range (pence)		159.00 to 232.00		159.00 to 232.00		197.50 to 259.00		164.00 to 259.00		176.70 to 259.00		–
Weighted average remaining contractual life (years)		0.20		0.20		3.94		4.59		4.06		–

Note 27 Share-based payments continued

Share options were exercised on a regular basis throughout the year. The average share price during the year to 28 February 2009 was 372.06p (2008 – 443.59p).

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.

	2009			2008		
	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 (%)	3.3%	3.3%	0.0%	2.4%	2.4%	0.0%
Expected volatility (%)	25-30%	25%	25%	20-21%	24%	24-27%
Risk-free interest rate (%)	3.2-3.8%	3.2-4.9%	4.6-4.9%	4.8%	5.0-5.3%	4.7-4.9%
Expected life of option (years)	3 or 5	6	6	3 or 5	6	6-9
Weighted average fair value of options granted (pence)	89.28	93.90	418.09	116.35	119.96	469.17
Probability of forfeiture (%)	20-25%	10%	0%	20-25%	10%	0%
Share price (pence)	361.00	425.20	418.09	470.00	471.12	469.17
Weighted average exercise price (pence)	311.00	425.20	0.00	410.00	471.12	0.00

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 consider 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. Each year, shares are awarded 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 £33m (2008 – £26m).

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 in the US business also participate in the US Long-Term Incentive Plan (2007) which was adopted on 29 June 2007. The awards made under this Plan will normally vest in four tranches: four, five, six and seven years after the date of award, for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets related to the return on capital employed in the US business over the seven-year plan.

Eligible ROI employees are able to participate in a Share Bonus Scheme, an all-employee profit sharing scheme. Each year, employees receive a percentage of their earnings as either cash or shares.

The Executive Directors 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 Directors' Remuneration Report.

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 except for awards under the US Long-Term Incentive Plan.

The number and weighted average fair value (WAFV) of share bonuses awarded during the period were:

	2009		2008	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares in Success	21,295,232	431.05	18,019,768	470.45
Executive Incentive Scheme	10,996,677	415.68	10,012,950	456.11
Performance Share Plan	2,123,237	353.76	1,292,172	466.21
US Long-Term Incentive Plan	673,716	403.80	4,817,720	471.10



Notes to the Group financial statements continued

Note 28 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded defined contribution and funded and unfunded defined benefit schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK and the Republic of Ireland.

Defined contribution plans

The contributions payable for defined contribution schemes of £11m (2008 – £8m) have been fully expensed against profits in the current year.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme, which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by trustees. Watson Wyatt Limited, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2008, using the projected unit method.

At the date of the last actuarial valuation the actuarial deficit was £275m. The market value of the schemes' assets was £3,987m and these assets represented 94% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The One Stop Senior Executives Pension Scheme is a funded defined benefit scheme open to senior executives and certain other employees at the invitation of the Company. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 5 April 2004.

Overseas

The most significant overseas scheme is the funded defined benefit pension scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the scheme as at 1 April 2007.

The valuations used for IAS 19 have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The schemes' assets are stated at their market values as at 28 February 2009. Watson Wyatt Limited have updated the most recent Republic of Ireland valuation. The liabilities relating to retirement healthcare benefits have also been determined in accordance with IAS 19, and are incorporated in the following tables.

Principal assumptions

The valuations used have been based on the most recent actuarial valuations and updated by Watson Wyatt Limited to take account of the requirements of IAS 19 in order to assess the liabilities of the schemes as at 28 February 2009. The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2009 %	2008 %	2007 %
Rate of increase in salaries	3.7	5.0	4.5
Rate of increase in pensions in payment*	3.1	3.5	3.0
Rate of increase in deferred pensions*	3.2	3.5	3.0
Rate of increase in career average benefits	3.2	3.5	3.0
Discount rate	6.5	6.4	5.2
Price inflation	3.2	3.5	3.0

* In excess of any Guaranteed Minimum Pension (GMP) element.

The main financial assumption is the real discount rate i.e. the excess of the discount rate over the rate of price inflation. If this assumption increased/decreased by 0.1%, the UK defined benefit obligation would decrease/increase by approximately £110m and the annual UK current service cost would decrease/increase by approximately £11m.

UK mortality assumptions

The Company conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2008, the following assumptions were adopted for funding purposes:

Base tables:

- PMA92C00 for male members with cohort improvements to 2000 and members taken to be one year younger than actual age.
- PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

This assumption was used for the calculation of the pension liability as at 28 February 2009 for the main UK scheme.

As at 28 February 2009, the mortality assumptions have been strengthened. The base tables have been updated in line with medium cohort projections with a minimum improvement of 1% per annum from 31 March 2008 to 28 February 2009. In addition, the allowance for future mortality improvements has been changed to incorporate medium cohort projections with a minimum improvement of 1% per annum.

Note 28 Post-employment benefits continued

The mortality assumptions used for the calculation of the pension liabilities as at 24 February 2007 and 23 February 2008 were based on the previous triennial actuarial valuation as at 31 March 2005, which included the following assumptions for funding purposes:

Base tables:

PMA92C00 for male members with cohort improvements to 2000 and members taken to be two years older than actual age.

PFA92C00 for female members with cohort improvements to 2000 and members taken to be half a year older than actual age.

Additionally, at the 31 March 2005 valuation an allowance was built in for future mortality improvements via a 0.2% reduction to the discount rate.

The following table illustrates the expectation of life of an average member retiring at age 65 at the Balance Sheet date and a member reaching age 65 at the same date +25 years:

		2009 in years	2008 in years	2007 in years
Retiring at Reporting date at age 65:	Male	21.5	19.0	17.5
	Female	23.3	23.3	21.9
Retiring at Reporting date +25 years at age 65:	Male	23.9	20.6	18.4
	Female	25.8	24.7	23.0

Rates of return on scheme assets

The assets in the defined benefit pension schemes and the expected nominal rates of return were:

	2009		2008		2007	
	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m	Long-term rate of return %	Market value £m
Equities	8.9	1,482	8.9	2,205	8.1	2,420
Bonds	5.5	1,080	5.7	901	5.2	812
Property	7.3	342	7.3	351	6.7	343
Other (alternative assets)	8.9	383	8.9	512	8.1	384
Cash	3.7	133	4.5	120	4.0	48
Total market value of assets		3,420		4,089		4,007

The expected rate of return on assets is a weighted average based on the actual plan assets held and the respective returns expected on the separate asset classes. The expected rate of return on equities and cash have both been set having regard to expected returns over the medium term, as calculated by the Company's independent actuary. The expected rate of return on bonds was measured directly from actual yields for gilts and corporate bond stocks. The above rate takes into account the actual mix of UK gilts, UK corporate bonds and overseas bonds held at the Balance Sheet date.

Movement in pension deficit during the year

Changes in the fair value of defined benefit pension plan assets are as follows:

	2009 £m	2008 £m	2007 £m
Opening fair value of plan assets	4,089	4,007	3,448
Expected return	338	301	255
Actuarial (losses)/gains	(1,270)	(465)	82
Contributions by employer	376	340	321
Actual member contributions	8	7	7
Foreign currency translation	11	9	(2)
Benefits paid	(132)	(112)	(104)
Acquisitions through business combinations	-	2	-
Closing fair value of plan assets	3,420	4,089	4,007



Notes to the Group financial statements continued

Note 28 Post-employment benefits continued

Changes in the present value of defined benefit obligations are as follows:

	2009 £m	2008 £m	2007 £m
Opening defined benefit obligation	(4,927)	(4,957)	(4,659)
Current service cost	(428)	(461)	(466)
Interest cost	(313)	(254)	(221)
Gain on change of assumptions	760	672	71
Experience losses	(117)	(21)	(41)
Foreign currency translation	(13)	(8)	4
Benefits paid	132	112	104
Actual member contributions	(8)	(7)	(7)
Past service gains	–	–	258
Acquisitions through business combinations	–	(3)	–
Closing defined benefit obligation	(4,914)	(4,927)	(4,957)

The amounts that have been charged to the Group Income Statement and Group Statement of Recognised Income and Expense for the year ended 28 February 2009 are set out below:

	2009 £m	2008 £m	2007 £m
Analysis of the amount (charged)/credited to operating profit:			
Current service cost	(428)	(461)	(466)
Past service gains	–	–	258
Total charge to operating profit	(428)	(461)	(208)
Analysis of the amount credited/(charged) to finance income:			
Expected return on pension schemes' assets	338	301	255
Interest on pension schemes' liabilities	(313)	(254)	(221)
Net pension finance income (note 5)	25	47	34
Total charge to the Group Income Statement	(403)	(414)	(174)

In 2007, in line with changes to the Finance Act 2006, the scheme rules were amended from 6 April 2006 to allow employees to commute (convert) a larger proportion of their pension for a cash lump sum at retirement. Accordingly, the assumptions made in calculating the Group's defined benefit pension liability have been revised, resulting in a gain of £250m being recognised in Group operating profit in 2006/7. Revisions to this assumption will be reflected in the Group Statement of Recognised Income and Expense. Changes to scheme rules in the Republic of Ireland affecting early retirement have reduced pension liabilities by a further £8m, which was also shown as a past service gain in the Group Income Statement in 2006/7.

	2009 £m	2008 £m	2007 £m
Analysis of the amount recognised in the Group Statement of Recognised Income and Expense:			
Actual return less expected return on pension schemes' assets	(1,270)	(465)	82
Experience losses arising on the schemes' liabilities	(117)	(21)	(41)
Foreign currency translation	(2)	1	2
Changes in assumptions underlying the present value of the schemes' liabilities	760	672	71
Total (loss)/gain recognised in the Group Statement of Recognised Income and Expense	(629)	187	114

The cumulative losses recognised through the Group Statement of Recognised Income and Expense since the date of transition to IFRS are £1,001m (2008 – £372m).

Note 28 Post-employment benefits continued**Summary of movements in deficit during the year**

	2009 £m	2008 £m	2007 £m
Deficit in schemes at beginning of the year	(838)	(950)	(1,211)
Current service cost	(428)	(461)	(466)
Past service gains	–	–	258
Other finance income	25	47	34
Contributions by employer	376	340	321
Foreign currency translation	(2)	1	2
Actuarial (loss)/gain	(627)	186	112
Acquisitions through business combinations	–	(1)	–
Deficit in schemes at end of the year	(1,494)	(838)	(950)

History of movements

The historical movement in defined benefit pension schemes assets and liabilities and history of experience gains and losses are as follows:

	2009 £m	2008 £m	2007 £m	2006 £m
Total market value of assets	3,420	4,089	4,007	3,448
Present value of liabilities relating to unfunded schemes	(39)	(34)	(27)	(17)
Present value of liabilities relating to partially funded schemes	(4,875)	(4,893)	(4,930)	(4,642)
Pension deficit	(1,494)	(838)	(950)	(1,211)
Experience (losses)/gains on scheme assets	(1,270)	(465)	82	309
Experience losses on plan liabilities	(117)	(20)	(41)	(24)

Post-employment benefits other than pensions

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

The liability as at 28 February 2009 of £10m (2008 – £11m) was determined in accordance with the advice of independent actuaries. In 2008/9, £0.7m (2007/8 – £0.6m) has been charged to the Group Income Statement and £0.5m (2007/8 – £0.7m) of benefits were paid.

A change of 1.0% in assumed healthcare cost trend rates would have the following effect:

	2009 £m	2008 £m	2007 £m
Effect of a 1% increase in assumed healthcare cost trend rate on:			
Service and interest cost	0.1	0.1	0.1
Defined benefit obligation	1.6	1.6	1.3
Effect of a 1% decrease in assumed healthcare cost trend rate on:			
Service and interest cost	(0.1)	(0.1)	(0.1)
Defined benefit obligation	(1.3)	(1.3)	(1.3)

Expected contributions

A formal actuarial valuation is carried out triennially for the scheme trustees by a professionally qualified independent actuary. The purpose of the valuation is to agree a funding plan to ensure that present and future contributions should be sufficient to meet future liabilities. The actuarial valuation of approved schemes as at 31 March 2008 has been concluded and company contributions are increasing to 11.1% from 10.9%. On this basis the Group expects to make contributions of approximately £410m to defined benefit pension schemes in the year ending 27 February 2010.



Notes to the Group financial statements continued

Note 29 Called up share capital

	2009		2008	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Authorised:				
At beginning of year	10,858,000,000	543	10,858,000,000	543
Authorised during the year	–	–	–	–
At end of year	10,858,000,000	543	10,858,000,000	543
Allotted, called up and fully paid:				
At beginning of year	7,863,498,783	393	7,947,349,558	397
Share options	57,060,046	3	65,432,552	3
Share buy-back	(25,214,811)	(1)	(149,283,327)	(7)
At end of year	7,895,344,018	395	7,863,498,783	393

During the financial year, 57 million (2008 – 65 million) shares of 5p each were issued in relation to share options for aggregate consideration of £130m (2008 – £138m).

During the year, the Company purchased and subsequently cancelled 25,214,811 (2008 – 149,283,327) shares of 5p each, representing 0% (2008 – 2%) of the called up share capital, at an average price of £3.98 (2008 – £4.38) per share. The total consideration, including expenses, was £100m (2008 – £657m). The excess of the consideration over the nominal value has been charged to retained earnings.

Between 1 March 2009 and 17 April 2009, options over 3,120,922 ordinary shares have been exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 1 March 2009 and 17 April 2009, options over 324,991 ordinary shares have been exercised under the terms of the Executive Share Option Schemes (1994 and 1996) and the Discretionary Share Option Plan (2004).

As at 28 February 2009, the Directors were authorised to purchase up to a maximum in aggregate of 784.8 million (2008 – 793.4 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

Note 30 Statement of changes in equity

	Issued share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total equity attributable to equity holders of the parent £m	Minority interests £m	Total £m
At 23 February 2008	393	4,511	40	12	4	245	(204)	6,814	11,815	87	11,902
Foreign currency translation differences	–	–	–	–	–	(269)	–	–	(269)	(6)	(275)
Actuarial loss on defined benefit schemes	–	–	–	–	–	(2)	–	(627)	(629)	–	(629)
Tax on items taken directly to or transferred from equity	–	–	–	–	–	199	–	236	435	–	435
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	3	3	–	3
Gains on cash flow hedges	–	–	–	–	171	–	–	–	171	–	171
Purchase of treasury shares	–	–	–	–	–	–	(165)	–	(165)	–	(165)
Share-based payments	–	–	–	–	–	–	137	67	204	–	204
Issue of shares	3	127	–	–	–	–	–	–	130	–	130
Share buy-backs	(1)	–	–	1	–	–	–	–	–	–	–
Purchase of minority interest	–	–	–	–	–	–	–	–	–	(26)	(26)
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(3)	(3)
Fair value reserve arising on acquisition of TPF	–	–	–	–	–	–	–	(35)	(35)	–	(35)
Profit for the year	–	–	–	–	–	–	–	2,161	2,161	5	2,166
Equity dividends authorised in the year	–	–	–	–	–	–	–	(883)	(883)	–	(883)
At 28 February 2009	395	4,638	40	13	175	173	(232)	7,736	12,938	57	12,995
	Issued share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total equity attributable to equity holders of the parent £m	Minority interests £m	Total £m
At 24 February 2007	397	4,376	40	5	(33)	(39)	(154)	5,914	10,506	65	10,571
Foreign currency translation differences	–	–	–	–	–	33	–	–	33	5	38
Actuarial gain on defined benefit schemes	–	–	–	–	–	1	–	186	187	–	187
Tax on items taken directly to or transferred from equity	–	–	–	–	–	250	–	(127)	123	–	123
Decrease in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Gains on cash flow hedges	–	–	–	–	37	–	–	–	37	–	37
Purchase of treasury shares	–	–	–	–	–	–	(118)	–	(118)	–	(118)
Share-based payments	–	–	–	–	–	–	68	131	199	–	199
Issue of shares	3	135	–	–	–	–	–	–	138	–	138
Share buy-backs	(7)	–	–	7	–	–	–	(665)	(665)	–	(665)
Purchase of minority interest	–	–	–	–	–	–	–	47	47	(27)	20
Minority interest on acquisitions of subsidiaries	–	–	–	–	–	–	–	–	–	38	38
Profit for the year	–	–	–	–	–	–	–	2,124	2,124	6	2,130
Equity dividends authorised in the year	–	–	–	–	–	–	–	(792)	(792)	–	(792)
At 23 February 2008	393	4,511	40	12	4	245	(204)	6,814	11,815	87	11,902



Notes to the Group financial statements continued

Note 30 Statement of changes in equity continued

Share premium account

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares.

Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the movements in net investment hedges.

Treasury shares

The employee benefit trusts hold shares in Tesco PLC for the purpose of the various executive share incentive and profit share schemes. At 28 February 2009, the trusts held 51.1 million shares (2008 – 47.4 million), which cost £203m (2008 – £184m) and had a market value of £170m (2008 – £190m).

The voting rights in relation to the shares are exercisable by the Trustee, however, in accordance with investor guidelines the Trustee abstains from voting.

At 28 February 2009, the Group's Trustees also held 8.7 million (2008 – 7.8 million) unallocated shares in Tesco PLC which cost £29m (2008 – £20m).

Other reserves

The merger reserve arose on the acquisition of Hillards PLC in 1987.

Share buy-back liability

Insider trading rules prevent the Group from buying back Tesco PLC shares in the market during specified close periods (including the period between the year end and the annual results announcement). However, if an irrevocable agreement is signed between the Company and a third party, they can continue to buy back shares on behalf of the Company. In 2008, three such arrangements were in place at the year end and in accordance with IAS 32, the Company recognised a financial liability equal to the estimated value of the shares purchasable under these agreements. A liability of £100m was recognised within other payables for this amount. There were no such agreements in place in 2009.

Capital redemption reserve

Upon cancellation of the shares purchased as part of the share buy-back, a capital redemption reserve is created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

Other

The cumulative goodwill written off against the reserves of the Group as at 28 February 2009 amounted to £718m (2008 – £718m).

Fair value reserve arising on acquisition of TPF

The share of fair value reserve has arisen on the acquisition of TPF and is made up of the reversal of previous profits recognised due to equity accounting of the joint venture and increase in fair value of the underlying identifiable assets since initial acquisition.

Note 31 Business combinations

The Group has made a number of acquisitions in the year, of which the most significant acquisitions have been disclosed separately and the remainder shown in aggregate.

The net assets and results of the acquired businesses are included in the consolidated accounts of the Group from the date of acquisition. Acquisition accounting has been applied and the goodwill arising has been capitalised and is subject to annual impairment testing.

The goodwill acquired in the business combinations listed below has been allocated to the single group of cash-generating units represented by the acquired businesses, as this is the lowest level within the Group at which the goodwill is monitored internally. Goodwill arising on acquisitions in the year is attributable mainly to location, the assembled workforce and the synergies expected to be achieved.

The fair values currently established for acquisitions made in the year to 28 February 2009 are provisional. Fair values will be reviewed based on additional information up to one year from the date of acquisition. The Directors do not believe that any net adjustments resulting from such a review would have a material effect on the Group.

Had all the combinations listed below taken place at the beginning of the financial year, with the exception of Dobbies Garden Centre PLC which became a subsidiary in 2007/8, the operating profit of the Group would have been £3,391m and revenue would have been £55,750m. The pro-forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

Tesco Personal Finance Group Limited (TPF)

On 19 December 2008, the Group acquired the remaining 50% of the share capital of its joint venture TPF, a provider of banking and other financial services in the United Kingdom, making it a wholly-owned subsidiary undertaking.

The fair value of the identifiable assets and liabilities of TPF as at the date of acquisition were:

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
Property, plant and equipment	24	(3)	21
Intangible assets	–	259	259
Loans and advances to banks and other financial assets	3	–	3
Loans and advances to customers	3,715	(347)	3,368
Other investments	259	–	259
Trade and other receivables	158	–	158
Deferred tax asset	12	40	52
Customer deposits	(3,175)	–	(3,175)
Bank overdraft	(92)	–	(92)
Borrowings	(226)	–	(226)
Trade and other payables	(177)	(18)	(195)
Net assets/(liabilities)	501	(69)	432
Fair value of acquired net assets of existing interest			(216)
Net assets acquired			216
Goodwill arising on acquisition			767
			983
Consideration:			
Cash consideration			955
Costs associated with the acquisition			28
Total consideration			983

From the date of acquisition, the acquired business has contributed £163m to revenue and £34m of operating profit to the Group.



Notes to the Group financial statements continued

Note 31 Business combinations continued

Homever

On 30 September 2008, the Group acquired 100% of the share capital of Homever, a retailer in South Korea.

The fair value of the identifiable assets and liabilities of Homever as at the date of acquisition were:

	Pre-acquisition carrying amounts £m	Adjustments to align accounting policies £m	Fair value adjustments £m	Recognised values on acquisition £m
Property, plant and equipment	643	2	37	682
Intangible assets	96	(2)	(83)	11
Other non-current assets	63	–	(3)	60
Deferred tax asset	1	–	(1)	–
Inventories	45	–	(8)	37
Trade and other receivables	32	–	(5)	27
Cash and cash equivalents	16	–	–	16
Trade and other payables	(204)	–	(16)	(220)
Provision for liabilities and charges	(5)	(2)	(52)	(59)
Bank and other borrowings	(611)	–	–	(611)
Deferred tax liability	(5)	(35)	–	(40)
Net assets/(liabilities) acquired	71	(37)	(131)	(97)
Goodwill arising on acquisition				362
				265
Consideration:				
Cash consideration				259
Costs associated with the acquisition				6
Total consideration				265

From the date of acquisition, the acquired business has contributed £326m to revenue and £18m of operating loss to the Group.

Dobbies Garden Centres PLC

On 31 July 2008, the Group completed the acquisition of the remaining 34.5% (2007/8 – 65.5%) of the share capital of Dobbies Garden Centres PLC (Dobbies), a retailer in the United Kingdom, for total consideration of £43m.

This resulted in additional goodwill of £18m, arising on acquisition during the year, based on Dobbies net assets of £77m.

Other acquisitions

The other acquisitions in the year include the trade and assets of Sandyholm Garden Centre and some smaller businesses. The companies acquired undertake retail activities.

Fair value adjustments of £2m were identified in addition to the £3m pre-acquisition carrying amounts of net assets, resulting in the recognition of £5m as the fair value of net assets acquired. With cash consideration of £10m, this has resulted in the recognition of £5m of goodwill arising on acquisition.

The post-acquisition contribution of the other acquisitions to the Group was £5m to revenue and £1m to operating profit.

Note 32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

i) Trading transactions

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Joint ventures	183	164	290	238	14	39	6	34
Associates	–	–	1,175	771	–	–	156	82

Sales to related parties consists of services/management fees and loan interest.

Purchases from related parties include £174m (2008 – £157m) of rentals payable to the Group's joint ventures, including those joint ventures formed as part of the sale and leaseback programme.

Note 32 Related party transactions continued

Purchases from associates include £1,171m (2008 – £766m) of fuel purchased from Greenergy International Limited.

ii) Non-trading transactions

	Sales to related parties		Loans to related parties		Loans from related parties		Injection of equity funding	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Joint ventures	465	652	262	173	20	10	–	8

Transactions between the Group and the Group's pension plans are disclosed in note 28.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships and Unlimited Companies (Accounts) Regulations 1993 ('Regulations') apply. The accounts for those partnerships have been consolidated into these accounts pursuant to Regulation 7 of the Regulations.

On 19 December 2008, the Group formed a property joint venture with Tesco Pension Trustees. The limited partnership contains three superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £199m to the joint venture which had a net book value of approximately £107m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2008/9.

On 15 August 2008, the Group formed a property joint venture with the Universities Superannuation Scheme. The limited partnership contains four superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £222m to the joint venture which had a net book value of £136m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2008/9. Another smaller transaction with BP Pension Trustees was completed in June 2008 where £44m of assets were transferred.

On 20 March 2007, the Group formed a property joint venture with The British Land Company PLC. The limited partnership contains 21 superstores which have been sold from and leased back to Tesco. The Group sold assets for net proceeds of £652m to the joint venture which had a net book value of approximately £350m. The Group's share of the profit realised from this transaction is included within profit arising on property-related items in 2007/8.

iii) Transactions with key management personnel

Only members of the Board of Directors of Tesco PLC are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group. Key management personnel compensation is disclosed in the audited part of the Directors' Remuneration Report.

Transactions on an arm's length basis with Tesco Personal Finance Group Limited which became a wholly-owned subsidiary on 19 December 2008 were as follows:

	Credit cards and personal loan balances		Saving deposit accounts	
	Number of key management personnel	£k	Number of key management personnel	£k
At 23 February 2008	2	39	2	19
At 19 December 2008	2	30	2	44
At 28 February 2009	2	30	2	77

During the year, there were no other material transactions or balances between the Group and its key management personnel or members of their close family.



Notes to the Group financial statements continued

Note 33 Reconciliation of profit before tax to net cash generated from operations

	2009 £m	2008 £m
Profit before tax	2,954	2,803
Net finance costs	362	63
Share of post-tax profits of joint ventures and associates	(110)	(75)
Operating profit	3,206	2,791
Depreciation and amortisation	1,189	992
Profit arising on property-related items	(236)	(188)
Profit arising on sale of non property-related items	3	–
Net reversal of impairment of property, plant and equipment	(22)	(10)
Adjustment for non-cash element of pensions charge	52	121
Share-based payments	204	199
Increase in inventories	(95)	(376)
Decrease/(increase) in trade and other receivables	79	(71)
Increase in trade and other payables	691	641
Increase in TPF loans and advances to customers	(20)	–
Increase in TPF loans and advances to banks and other financial assets	(2,126)	–
Increase in TPF customer deposits and other financial liabilities	2,053	–
Increase in working capital	582	194
Cash generated from operations	4,978	4,099

The increase in working capital includes the impact of translating foreign currency working capital movements at average exchange rates rather than period end exchange rates.

Note 34 Analysis of changes in net debt

	At 23 February 2008 £m	Cash flow £m	Acquisitions £m	Other non-cash movements £m	Elimination of TPF £m	At 28 February 2009 £m
Cash and cash equivalents	1,788	1,601	–	120	(37)	3,472
Short-term investments	360	873	–	–	–	1,233
Finance lease receivables	5	(5)	–	–	–	–
Joint venture loan receivables	173	242	(91)	(62)	–	262
Derivative financial instruments	313	(183)	–	1,730	(2)	1,858
Cash and receivables	2,639	2,528	(91)	1,788	(39)	6,825
Bank and other borrowings	(2,033)	(1,025)	(611)	(343)	588	(3,424)
Finance lease payables	(51)	23	–	(19)	–	(47)
Derivative financial instruments and other liabilities	(443)	941	–	(1,023)	42	(483)
Debt due within one year	(2,527)	(61)	(611)	(1,385)	630	(3,954)
Bank and other borrowings	(5,757)	(5,290)	–	(1,148)	222	(11,973)
Finance lease payables	(215)	–	–	19	–	(196)
Derivative financial instruments and other liabilities	(322)	53	–	(33)	–	(302)
Debt due after one year	(6,294)	(5,237)	–	(1,162)	222	(12,471)
	(6,182)	(2,770)	(702)	(759)	813	(9,600)

Note 35 Commitments and contingencies**Capital commitments**

At 28 February 2009 there were commitments for capital expenditure contracted for, but not provided, of £1,551m (2008 – £1,309m), principally relating to the store development programme.

Contingent liabilities

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.

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, see note 11.

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group. The Group 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.

In September 2007, the Office of Fair Trading issued its provisional findings in its Statement of Objections relating to the alleged collusion between certain large supermarkets and dairy processors. We continue to defend our case vigorously. No provision has been recognised in the Group's results.

Tesco Personal Finance Group Limited

At 28 February 2009, Tesco Personal Finance Group Limited (TPF) has commitments of formal standby facilities, credit lines and other commitments to lend, totalling £5.7bn. The amount is intended to provide an indication of the volume of business transacted and not of the underlying credit or other risks.

The Financial Services Compensation Scheme ('FSCS') compensates customers of UK financial institutions when those institutions are unable to pay out. Firms are being levied only for interest costs and management expenses of the scheme (and not for the capital repayments which will ultimately need to be made), but the amounts have increased significantly compared to prior years. The levy is calculated based on deposit balances held as at 31 December in each year and as such, this is seen as the 'trigger event' under accounting rules. TPF was a market participant at 31 December 2007 and 31 December 2008 and has accrued for its share of the 2008/9 and 2009/10 levy which was not material to the Group. Going forward further provisions in respect of these costs are likely, the ultimate cost of which remains uncertain.

Note 36 Capital resources

The following table shows the composition of regulatory capital resources of Tesco Personal Finance Group Limited at the Balance Sheet date:

	2009 £m	2008 £m
Tier 1 capital:		
Shareholders funds and minority interests	566	–
Tier 2 capital:		
Qualifying subordinated debt	205	–
Other interests in tier 2 capital	19	–
Supervisory deductions	(259)	–
Total regulatory capital	531	–

The movement of tier 1 capital from the date of acquisition to the Balance Sheet date is analysed as follows:

	2009 £m	2008 £m
At 19 December 2008*	559	–
Profit attributable to shareholders	7	–
At 28 February 2009	566	–

* Tesco Personal Finance Group Limited was acquired on 19 December 2008.

It is Tesco Personal Finance Group Limited's (TPF) policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, TPF has regard to the supervisory requirements of the Financial Services Authority ('FSA'). The FSA uses Individual Capital Guidance ('ICG') as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). TPF has complied with the FSA's capital requirements throughout the period between the date of acquisition and the Balance Sheet date.



Notes to the Group financial statements continued

Note 37 Leasing commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings which are held under finance leases. The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Within one year	55	62	47	51
Greater than one year but less than five years	140	181	114	156
After five years	172	130	82	59
Total minimum lease payments	367	373	243	266
Less future finance charges	(124)	(107)		
Present value of minimum lease payments	243	266		
Analysed as:				
Current finance lease payables	47	51		
Non-current finance lease payables	196	215		
	243	266		

Finance lease receivables – Group as lessor

In 2006, the Group entered into finance leasing arrangements with UK staff for certain of its electronic equipment as part of the Computers for Staff scheme. The average term of finance leases entered into was three years and these all expired in 2008. The interest rate inherent in the leases was fixed at the contract date for all of the lease term. The average effective interest rate contracted approximated to 2.6% per annum. The fair value of the Group's finance lease receivables at 23 February 2008 was £5m.

Future minimum lease receivables under finance leases together with the present value of the net minimum lease receivables are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2009 £m	2008 £m	2009 £m	2008 £m
Within one year	–	5	–	5
Net finance lease receivables	–	5	–	5

Note 37 Leasing commitments continued**Operating lease commitments – Group as lessee**

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2009 £m	2008 £m
Within one year	754	551
Greater than one year but less than five years	3,069	2,190
After five years	9,170	7,127
Total minimum lease payments	12,993	9,868

Operating lease payments represent rentals payable by the Group for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights.

Operating lease commitments with joint ventures

Since 1988, the Group has entered into several joint ventures and sold and leased back properties to and from these joint ventures. The terms of these sale and leasebacks vary, however, common factors include: the sale of the properties to the joint venture at market value, options at the end of the lease for the Group to repurchase the properties at market value, market rent reviews and 20-25 year lease terms. The Group reviews the substance as well as the form of the arrangements when making the judgement as to whether these leases are operating or finance leases; all of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor

The Group both rents out its investment properties and also sublets various leased buildings under operating leases. At the Balance Sheet date, the following future minimum lease payments are contractually receivable from tenants:

	2009 £m	2008 £m
Within one year	201	141
Greater than one year but less than five years	445	341
After five years	335	313
Total minimum lease payments	981	795

