

SUMMARY OF OTHER INTERNATIONAL ACCOUNTING STANDARDS

1 Standards that are disclosure only

IAS 1 Presentation of Financial Statements

- Sets out presentation requirements for P&L and balance sheet
- Our restated 04/05 numbers, due to be released in May 2005, will comply with IAS 1

IAS 7 Cash flow statements

- There are changes in the presentation of the cash flow - in particular, cash flows will be grouped into Operating, Investing and Financing
- Our restated 2004/05 cash flow will comply with the presentation requirements of IAS 7
- Although not required by IAS 7, we will continue to disclose a reconciliation of cash flows to net debt

IAS 14 Segmental Reporting

- We will continue to report in line with how we manage the business internally
- Our primary reporting segments will be geographical, split as currently between UK, Rest of Europe and Asia
- We will only report one secondary business segment, namely 'retail'

IFRS 1 First-time adoption of IFRS

- Our 2004/05 restatement, due to be released in May 2005, will comply with the UK GAAP to IFRS reconciliations required on transition to IFRS
- The key accounting options available on transition, along with our decisions, are set out in the 'key choices available under IFRS 1' document

IAS 24 Related party Disclosures

- This could mean some minor disclosure changes in our first full set of IFRS financial statements (i.e. the 05/06 Annual Report)

IAS 33 Earnings per share

- The calculation of EPS remains the same
- Our adjusted ('underlying') EPS measure can only be shown in the notes to the accounts and not on the face of the P&L

IAS 34 Interim financial reporting

- Sets out reporting requirements for Half Year IFRS accounts
- Our August 2005 interim accounts will comply with IAS 34

IAS 38 Intangible assets

- No change in accounting from UK GAAP, although we will now have to disclose intangibles separately from tangible fixed assets on the face of the balance sheet
- For Tesco, intangibles include licences and software development costs

IAS 40 Investment Property

- No change in accounting from UK GAAP, we will continue to hold investment properties at depreciated cost (as opposed to fair value accounting which is an option in the standard)
- We will now separately disclose investment property from tangible fixed assets on the face of the balance sheet
- For Tesco, investment property includes surplus land and the leased out element of malls

2 Standards with minimal impact or similar to UK GAAP

IAS 2 Inventories

- No change from current UK accounting rules - stock must be valued at lower of cost and net realisable value

IAS 8 Accounting policies, changes in accounting estimates and errors

- Stipulates accounting policies, treatment for material errors and changes in accounting policy

IAS 11 Construction Contracts

- No significant changes from current UK accounting rules, but in any case, a minor issue for Tesco

IAS 16 Property, plant and equipment

- As with UK GAAP, there is an accounting choice either to hold fixed assets at cost and depreciate or to adopt a policy of revaluation. We will continue to hold fixed assets at cost and depreciate - this is in line with our current accounting policy
- As required by IAS 16, a process is in place to review fixed asset residual values on an annual basis. However residual values are not expected to change materially year-on-year - since Tesco normally retains its assets, fixed assets are fully depreciated, hence the residual value is nil
- Principles for fixed asset capitalisation is similar to current UK accounting rules

IAS 18 Revenue

- IAS 18 is similar to current UK accounting rules. Introduction of FRS 5 Application Note G in 2003 brought UK revenue recognition guidance in line with IFRS
- No further accounting changes expected to Tesco group sales

IAS 20 Accounting for Government grants

- No change from current UK accounting rules - apply the matching principle

IAS 21 The effects of changes in foreign exchange rates

- No change in principles of accounting for transactions in foreign currency
- Cumulative forex movements on translation of foreign entities on consolidation will need to be disclosed separately within shareholders' funds

IAS 23 Borrowing costs

- As with UK GAAP, there is a choice either to capitalise interest where allowable (i.e. on borrowings directly related to store construction / purchase of fixed assets) or to fully expense in the P&L. We will continue to capitalise interest where allowable

IAS 26 Accounting and reporting by Retirement Benefit Plans

- Not applicable to Tesco Group Accounts

IAS 27 Consolidated financial statements

- Extends criteria for entities to be included in consolidated accounts because we will now have to consider options to increase shareholdings. However this is not likely to change the accounting for Tesco's existing investments

IAS 29 Financial reporting in hyperinflationary economies

- We already apply this where required i.e. for Turkey reporting

IAS 30 Disclosures in the financial statement of banks and similar financial institutions

- Not applicable to Tesco Group Accounts

IAS 37 Provisions, contingent liabilities and contingent assets

- No change from current UK accounting rules - provisions must only be recognised if there is a present obligation, which can be reliably be measured and is likely to be paid out

IAS 41 Agriculture

- Not applicable to Tesco Group Accounts

IFRS 4 Insurance contracts

- We do not expect any significant changes, since in most cases IFRS 4 allows us to continue to account for insurance contracts as we have done under UK GAAP

IFRS 5 Non-current assets held for sale

- Non-current assets held for resale are not depreciated and should be disclosed separately on the face of the balance sheet
- We will comply with the transitional requirements of IFRS 5 and only prospectively apply this standard from 2005/06 onwards (i.e. no impact on 2004/05 comparative)

IFRS 6 Exploration for & evaluation of mineral resources

- Not applicable to Tesco

3 IAS 32 & 39 - 2004/05 Exemptions

As allowed under IFRS 1 First Time Adoption of IFRS, we have elected to take a one-year exemption for IAS 32 and IAS 39. This means these standards only apply from 2005/06 onwards and will not be included in the 2004/05 IFRS comparatives.

We are currently quantifying the financial impact of these two standards on 2005/06 - see below for key principles.

IAS 32 Financial Instruments: Disclosure and Presentation

- This defines how transactions using equity instruments (shares, preference shares) should be classified between equity and liabilities

IAS 39 Financial Instruments: Recognition and measurement

- Financial derivatives, such as interest rate swaps, will be marked to market at the balance sheet date. Changes in fair value will go to the P&L, unless strict hedging criteria have been met in which case they may be deferred to reserves.

KEY CHOICES AVAILABLE AND DECISIONS MADE IN ACCORDANCE WITH IFRS 1 FIRST TIME ADOPTION OF IFRS

Para	Summary	Decision
15	<p><i>Business Combinations</i></p> <p>We can either apply prospectively to acquisitions with agreements dated on or after 31 March 2004; OR</p> <p>Apply retrospectively to previous acquisitions.</p>	<p>Apply prospectively to acquisitions on or after 31 March 2004.</p> <p>This avoids the need to revisit the treatment of previous acquisitions.</p>
16	<p><i>Fair value or revaluation as deemed cost</i></p> <p>We can elect to revalue any asset at the date of transition and use this as its deemed cost OR continue to hold at current depreciated cost</p>	<p>Continue to hold assets at current depreciated cost</p> <p>This is consistent with our current fixed asset accounting policy</p>
20	<p><i>Employee Benefits</i></p> <p>Under IAS19, we may elect to use a 'corridor approach' that leaves some actuarial gains and losses unrecognised. We can either apply this approach fully retrospectively OR recognise cumulative actuarial gains/ losses at the date of transition.</p>	<p>Recognise all cumulative actuarial gains/ losses at the date of transition.</p> <p>This is simpler and means the deficit brought on balance sheet on transition to IFRS at Feb 04 is in line with the known FRS 17 deficit, which was disclosed in our 2003/04 Annual Report.</p>
22	<p><i>Cumulative translation differences</i></p> <p>Under IAS21 we are required to disclose cumulative forex differences recognised through reserves. We can either apply retrospectively and disclose all historic translation differences OR set these to zero on transition to IFRS at Feb 04.</p>	<p>Set cumulative translation differences taken to reserves to zero at the date of transition.</p> <p>This is only a disclosure issue.</p>
25B	<p><i>Share-based payment transactions</i></p> <p>First time adopters are encouraged but not required to retrospectively apply IFRS 2 to equity instruments that were granted on or before 7 November 2002. Alternatively companies can prospectively apply the standards to schemes granted after 7 November 2002</p>	<p>Retrospectively apply IFRS 2 to pre November 2002 grants. As required by the standard, we will disclose the fair values of these awards <u>before</u> we adopt IFRS – these will be on the website from Fri 25 February.</p>
36A	<p><i>Exemption from the requirement to restate comparative information for IAS 32, IAS 39 and IFRS 4</i></p> <p>We can take a one year exemption on these standards, which means they do not impact the IFRS comparative year, which for Tesco is 2004/05.</p>	<p>Take exemption - therefore we will not apply these standards until 2005/06 (with no comparative information for 2004/05)</p>