

Excerpts from the Notes to Tesco's Consolidated Financial Statements

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings £m	Plant, equipment, fixtures and fittings and motor vehicles £m	Total £m
Cost			
At 26 February 2005	14,247	4,298	18,345
Foreign currency translation	198	45	243
Additions	1,935	707	2,642
Acquisitions through business combinations	20	5	23
Reclassification across categories	(208)	11	(197)
Classified as held for sale	(74)	(15)	(89)
Disposals	(555)	(342)	(897)
At 25 February 2006	15,563	4,707	20,270
Accumulated depreciation and impairment losses			
At 26 February 2005	1,705	2,319	4,024
Foreign currency translation	9	19	28
Charge for the year	250	503	753
Reclassification across categories	(1)	1	0
Classified as held for sale	(5)	(6)	(11)
Disposals	(139)	(262)	(401)
Impairment losses	40	7	47
Reversal of impairment losses	(44)	(8)	(52)
At 25 February 2006	1,815	2,573	4,388
Net carrying value			
At February 2006	13,748	2,134	15,882
At February 2005	12,542	1,979	14,521

	Land and Buildings £m	Plant, equipment, fixtures and fittings and motor vehicles £m	Total £m
Cost			
At 28 February 2004	13,094	4,002	17,096
Foreign currency translation	302	81	383
Additions	1,655	592	2,247
Acquisitions through business combinations	46	2	48
Reclassification across categories	(78)	53	(25)
Disposals	(772)	(432)	(1,204)
At 26 February 2005	14,247	4,298	18,545
Accumulated depreciation and impairment losses			
At 28 February 2004	1,619	2,224	3,843
Foreign currency translation	23	37	60
Charge for the period	223	443	666
Reclassification across categories	1	1	2
Disposals	(161)	(386)	(547)
At 26 February 2005	1,705	2,319	4,024
Net carrying value			
At February 2005	12,542	1,979	14,521
At February 2004	11,805	1,448	13,253

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 estimates discount rates using pre-tax rates that reflect 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 (generally 3%-4%). The pre-tax discount rates used to calculate value in use range from 9%-11% (2005 and 2004: 10%-13%) depending on the specific conditions in which each store operates. This discount rate is derived from the Group's post-tax weighted average cost of capital. The Group's cash-generating units were reviewed for impairment on transition to IFRSs using the methodology and assumptions outlined above. This review resulted in impairment losses of £142m as at 29 February 2004. Due to movements in foreign exchange rates, the impairment losses increased to £152m as at 26 February 2005.

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 budgeted trading levels.

The reversal of previous impairment losses arose principally due to improvements in stores' performances over the last year and a reduction in the weighted average cost of capital, which increases the net present value of future cash flows.

In all cases, the impairment losses charged or reversed during the year have been measured relative to the value in use of the stores.

NOTE 31: LEASING COMMITMENTS

Finance lease commitments – Group as lessee

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 payment		Present value of minimum lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
Within one year	23	12	20	11
Between two and five years	37	32	27	23
After five years	132	126	57	54
Total minimum lease payments	192	170	104	88
Less future finance charges	(88)	(82)		
Present value of minimum lease payments	104	88		
Analysed as:				
Current finance lease payables	20	11		
Non-current finance lease payables	84	77		

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.

Operating lease commitments – Group as lessee

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

	2006 £m	2005 £m
Within one year	315	220
Between two and five years	1,105	771
After five years	3,795	2,808
Total minimum lease payments	5,215	3,799

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