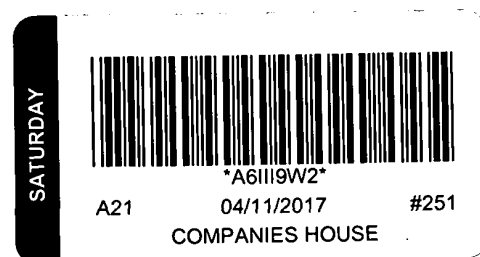


TESCO OVERSEAS ULC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017

Registered Number : 03684273



TESCO OVERSEAS ULC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017

The Directors present their report and audited financial statements of Tesco Overseas ULC (the "Company") for the 52 weeks ended 25 February 2017 (the prior financial period being the 52 weeks ended 27 February 2016 ("2016")).

Business Review and principal activities

The principal activity of the Company is to act as a finance company for Tesco Group entities. There has been no significant change in the nature of this activity during the period although the level of this activity has increased. The Directors do not expect this to change significantly throughout the next financial period.

Principal Risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Tesco PLC Group (the "Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include the Company, are discussed on page 26 to 31 of the Tesco PLC Annual Report 2017 which does not form part of this Report. For details on financial risk refer to Note 12.

Results and dividends

The results for the 52 weeks ended 25 February 2017 reflect a pre-tax profit of £42,244k (2016: profit of £12,409k) and an after tax profit of £33,795k (2016: profit of £9,916k).

The Directors do not recommend payment of an ordinary dividend for the 52 weeks ended 25 February 2017 (2016: £nil).

Future developments

The Company's future developments form a part of the Group's long term-strategy, which is discussed on pages 6 to 10 of the Tesco PLC Annual Report and Financial Statements 2017, which do not form part of this report.

Going concern

The Directors consider that the Company has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Research and development

The Company does not undertake any research and development activities (2016: none).

Political donations

There were no political donations for the period (2016: £nil) and the Company did not incur any political expenditure (2016: £nil).

Employees

The Company had no employees during the 52 weeks ended 25 February 2017 (2016: nil).

TESCO OVERSEAS ULC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

Directors

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

K Koch (Appointed 21 June 2016)
P Moore (Resigned 30 June 2016)
R Welch (Appointed 10 August 2016)
L Heywood (Appointed on 11 August 2016)
Tesco Services Limited

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

Strategic Report

The Directors have taken advantage of the exemption provided by section 414 (b) of the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013) from preparing a Strategic Report.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

TESCO OVERSEAS ULC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

Disclosure of information to the auditor

Each Director who is a Director of the Company at the date of approval of these financial statements confirms that:

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

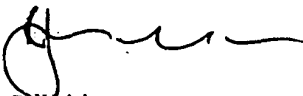
This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

Deloitte LLP, having indicated its willingness to continue in office, will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

On behalf of the Board

/O August 2017



R Welch

Director

Tesco Overseas ULC

Registered Number: 03684273

Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO OVERSEAS ULC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO OVERSEAS ULC

We have audited the financial statements of Tesco Overseas ULC for the year ended 25 February 2017, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 25th February 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

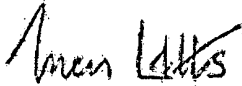
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements..

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.
- the directors were not entitled to take advantage of the small companies exemption in preparing a Strategic Report.



Simon Letts FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
St. Albans, United Kingdom

Date: 10/08/2017

TESCO OVERSEAS ULC

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017

| | | 52 weeks to 25 February 2017 £'000 | 52 weeks to 27 February 2016 £'000 |
|--|--------------|---|---|
| | Notes | | |
| Sundry income | | 19 | 300 |
| Operating Profit | | 19 | 300 |
| Interest receivable and similar income | 5 | 43,548 | 12,109 |
| Interest payable and similar costs | 6 | (1,323) | - |
| Profit on ordinary activities before taxation | | 42,244 | 12,409 |
| Tax charge | 7 | (8,449) | (2,493) |
| Profit for the period | | 33,795 | 9,916 |

There are no recognised gains or losses other than those shown in the profit and loss account above.

All operations are continuing for the financial period.

The Notes on pages 10 to 19 are an integral part of the financial statements.

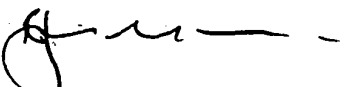
TESCO OVERSEAS ULC

BALANCE SHEET AS AT 25 FEBRUARY 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|---------------|---------------|
| Non-current assets | | | |
| Receivables: amounts falling greater than one year | 9 | 296,131 | - |
| | | 296,131 | - |
| Current assets | | | |
| Current Asset Investments | 8 | 389,100 | - |
| Receivables: amounts falling due within one year | 9 | 2,500,979 | 1,927,376 |
| Cash at bank and in hand | | 102 | - |
| Derivative financial instruments | 11 | 714 | - |
| | | 2,890,895 | 1,927,376 |
| Current liabilities | | | |
| Payables: amounts falling due within one year | 10 | (4,787) | - |
| Derivative financial instruments | 11 | (21,068) | - |
| | | (25,855) | - |
| Net current assets | | 2,865,040 | 1,927,376 |
| Total assets less current liabilities | | 3,161,171 | 1,927,376 |
| Net assets | | 3,161,171 | 1,927,376 |
| Equity | | | |
| Share capital | 13 | 1 | 1 |
| Share premium | | 3,115,110 | 1,915,110 |
| Other Reserves | | 11,827 | 11,827 |
| Profit and loss account | | 34,233 | 438 |
| Total shareholders' funds | | 3,161,171 | 1,927,376 |

The Notes on pages 10 to 19 are an integral part of the financial statements.

The financial statements on pages 7 to 19 were approved by the Board of Directors on ¹⁰ August 2017 and were signed on its behalf by:



R Welch
Director

Tesco Overseas ULC

Registered Number: 03684273

Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO OVERSEAS ULC

STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017

| | Share capital [1] | Share premium | Other reserves | Retained earnings | Total |
|------------------------------------|----------------------|------------------|-------------------|----------------------|-----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 28 February 2015 | - | 27,547 | 11,827 | (9,478) | 29,896 |
| Issue of Shares | 1 | 1,887,563 | - | - | 1,887,564 |
| Profit for the period | - | - | - | 9,916 | 9,916 |
| Balance at 27 February 2016 | 1 | 1,915,110 | 11,827 | 438 | 1,927,376 |
| Capital Injection | - | 1,200,000 | - | - | 1,200,000 |
| Profit for the period | - | - | - | 33,795 | 33,795 |
| Balance at 25 February 2017 | 1 | 3,115,110 | 11,827 | 34,233 | 3,161,171 |

[1] See Note 13 for a breakdown of the Share Capital.

Other reserves relate to a historic transfer of funds from share premium.

TESCO OVERSEAS ULC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Tesco Overseas ULC (the “Company”) for the period ended 25 February 2017 were approved by the Board of Directors on 1 August 2017 and the Balance Sheet was signed on the Board’s behalf by R Welch. Tesco Overseas ULC is a private company unlimited by shares and is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 “Reduced Disclosure Framework” (FRS 101). The financial statements have been prepared under the historical cost convention and the Companies Act 2006 as modified by the fair value measurement of derivatives.

2. ACCOUNTING POLICIES

General information and basis of accounting

Tesco Overseas ULC is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 4. The nature of the Company’s operations and its principal activities are set out in the directors’ report on pages 2 to 4.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) issued by the Financial Reporting Council.

The Company is a qualifying entity for the purposes of FRS 101. Note 14 gives details of the Company’s parent and from where its consolidated financial statements prepared in accordance with EU-adopted IFRS may be obtained.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IFRS 7 Financial Instruments: Disclosures;
- The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

Going Concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Directors’ report on pages 2 to 4.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

2. ACCOUNTING POLICIES (continued)

The principal accounting policies adopted by the Company are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

Judgements and key sources of estimation uncertainty

No critical estimates and assumptions are applied in the preparation of these financial statements.

Significant accounting policies

a) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. Tax provisions are recognised for uncertain tax positions where a risk of an additional tax liability has been identified and it is probable that the Company will be required to settle that tax. Measurement is dependent on subjective judgements as to the outcome of decisions by tax authorities in the various tax jurisdictions in which the Company operates. This is assessed on a case by case basis using in-house tax experts, professional firms and previous experience.

Current tax and deferred tax for the period

Current and deferred tax are recognised in the profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

b) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange arising from operating, financing and investing activities. The Company 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. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the profit and loss account. 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 Company is required to document from inception the relationship between the item being hedged and the hedging instrument. The Company 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.

TESCO OVERSEAS ULC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

2. ACCOUNTING POLICIES (continued)

c) Interest receivable and similar income

Interest income is recognised as it accrues using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

d) Interest payable and similar costs

All borrowing costs are recognised in the profit and loss account on an accruals basis.

e) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

f) Receivables

Receivables including interest-bearing loans are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, Receivables including interest-bearing loans are stated at amortised cost with any difference between proceeds and redemption value being recognised in the profit and loss account over the period of the loans on an effective interest basis.

3 AUDITOR'S REMUNERATION

The auditors' remuneration for the current and prior period of £15,000 was borne by another Group company.

4 STAFF COSTS AND DIRECTORS' REMUNERATION

The Directors received no emoluments for their services to the Company (2016: £nil).

The Company had no employees during the year (2016: none).

5 INTEREST RECEIVABLE

| | 2017 | 2016 |
|---|---------------|---------------|
| | £'000 | £'000 |
| Other interest receivable/Interest receivable on cash deposits and short term investments | 637 | - |
| Interest income on loans to Group undertakings | 42,911 | 12,109 |
| Total interest receivable and similar income | 43,548 | 12,109 |

TESCO OVERSEAS ULC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

6 INTEREST PAYABLE

| | 2017 | 2016 |
|--|----------------|----------|
| | £'000 | £'000 |
| Financial instruments - fair value re-measurements | (1,322) | - |
| Other interest payable | (1) | - |
| Total interest payable and similar costs | (1,323) | - |

7 TAXATION

Factors that have affected the tax charge

The Finance Act 2015 included legislation to reduce the main rate of UK corporation tax to 20% from 1 April 2015 to 31 March 2017, and to 19% from 1 April 2017 to 31 March 2020. The tax rate for the period is therefore 20%. From 1 April 2020, the rate will be reduced to 17%, in accordance with Finance Act 2016.

(a) Tax charged in the profit and loss account

| | 2017 | 2016 |
|---|----------------|----------------|
| | £'000 | £'000 |
| Current income tax: | | |
| UK corporation tax | (8,449) | (2,493) |
| Total income tax charge in the profit and loss account | (8,449) | (2,493) |

(b) Reconciliation of the effective tax charge

| | 2017 | 2016 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Profit on ordinary activities before taxation | 42,244 | 12,409 |
| Profit on ordinary activities multiplied by tax rate in the UK 20% (2016: 20.1%) | (8,449) | (2,493) |
| Total income tax charge reported in the profit and loss account | (8,449) | (2,493) |

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these financial statements.

8 INVESTMENTS

| | 2017 | 2016 |
|-------------------------------|----------------|----------|
| | £'000 | £'000 |
| Short-term investments | | |
| Money market funds | 389,100 | - |
| At end of the period | 389,100 | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

9 RECEIVABLES

| | 2017 | 2016 |
|--|------------------|------------------|
| | £'000 | £'000 |
| Amounts owed by group undertakings - Non-current | 296,131 | - |
| Amounts owed by group undertakings - Current | 2,500,979 | 1,927,376 |
| Total Receivables | 2,797,110 | 1,927,376 |

Included within amounts owed by Group undertakings are the following:

Amounts owed by Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of the debtor relationship. Included in above are loans and outstanding interest due from Group undertakings that are not in Pound Sterling totalling £877m and have interest rates between 2.0% and 3.4%.

10 PAYABLES - AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2017 | 2016 |
|------------------------------------|---------|-------|
| | £'000 | £'000 |
| Amounts owed to group undertakings | (4,787) | - |

11 FINANCIAL INSTRUMENTS

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes and the Company's hedging policies are further described below.

| | 2017 | | 2016 | |
|--------------|------------|-----------------|----------|-----------|
| | Asset | Liability | Asset | Liability |
| | £'000 | £'000 | £'000 | £'000 |
| Current | 714 | (21,068) | - | - |
| Non-current | - | - | - | - |
| Total | 714 | (21,068) | - | - |

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

| | 2017 | | | | 2016 | | | |
|--|------------|----------------|-----------------|----------------|------------|----------------|------------|----------------|
| | Asset | | Liability | | Asset | | Liability | |
| | Fair Value | Notional Value | Fair Value | Notional Value | Fair Value | Notional Value | Fair Value | Notional Value |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Derivatives not in a formal hedging arrangement | | | | | | | | |
| Foreign forward currency contracts | 714 | 244,352 | (21,068) | 629,298 | - | - | - | - |
| Total | 714 | 244,352 | (21,068) | 629,298 | - | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

11 FINANCIAL INSTRUMENTS (continued)

The carrying value and fair value of financial assets and liabilities are as follows:

| | 2017 Carrying value £'000 | Fair Value £'000 | 2016 Carrying value £'000 | Fair Value £'000 |
|------------------------------------|------------------------------------|---------------------|------------------------------------|---------------------|
| Non-current assets | | | | |
| Amounts owed by group undertakings | 296,131 | 305,874 | - | 389,100 |
| Assets | | | | |
| Cash | 102 | 102 | - | - |
| Short-term investments | 389,100 | 389,100 | - | - |
| Forward foreign currency contracts | 714 | 714 | - | - |
| Amounts owed by group undertakings | 2,500,979 | 2,546,835 | 1,927,376 | 1,927,376 |
| Total financial assets | 3,187,026 | 3,242,625 | 1,927,376 | 2,316,476 |
| Liabilities | | | | |
| Forward foreign currency contracts | (21,068) | (21,068) | - | - |
| Amounts owed to group undertakings | (4,787) | (4,787) | - | - |
| Total financial liabilities | (25,855) | (25,855) | - | - |
| Total | 3,161,171 | 3,216,770 | 1,927,376 | 2,316,476 |

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates.

Financial instruments not qualifying for hedge accounting

The Company's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Statement of Comprehensive Income. These instruments include 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 Statement of Comprehensive Income.

Financial Assets and liabilities by category

| | Available- for-sale £'000 | Loans and receivables/ cash and other financial liabilities £'000 | Fair value through profit and loss £'000 | Total £'000 |
|--|---------------------------------|---|--|----------------|
| At 25 February 2017 | | | | |
| Cash | - | 102 | - | 102 |
| Short-term investments | - | 389,100 | - | 389,100 |
| Net amounts owed by group undertakings | - | 2,792,323 | - | 2,792,323 |
| Forward foreign currency contracts | - | - | (20,354) | (20,354) |
| | - | 3,181,525 | (20,354) | 3,161,171 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

11 FINANCIAL INSTRUMENTS (continued)

Financial instruments not qualifying for hedge accounting (continued)

Financial Assets and liabilities by category

| | Available- for-sale | Loans and receivables/ cash and other financial liabilities | Fair value through profit and loss | Total |
|--|------------------------|--|---|-----------|
| At 27 February 2016 | | | | |
| Cash | - | - | - | - |
| Short-term investments | - | - | - | - |
| Net amounts owed by group undertakings | - | 1,927,376 | - | 1,927,376 |
| Forward foreign currency contracts | - | - | - | - |
| | - | 1,927,376 | - | 1,927,376 |

The fair values of derivative financial instruments are measured using a discounted cash flow technique based on market data applied consistently for similar types of instruments.

Derivatives are used to hedge exposure to market risks. Derivatives may qualify as hedges for accounting purposes and the Company's hedging policies are further described below:

Fair value measurement

All of the Company's financial assets and liabilities that are measured at fair value at 25 February 2017 meet the definition of Level 2 of the fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Offsetting of financial assets and liabilities

No financial assets and liabilities are subjected to offsetting, enforceable master netting arrangements or similar agreements.

12 FINANCIAL RISK FACTORS

The main financial risks faced by the Company relate to fluctuations in interest and foreign exchange rates, the default by counterparties to financial transactions, and the availability of funds to meet business needs. The management of these risks is set out below.

Risk management is carried out by a central treasury department under policies approved by the Group Board of Directors. The Board provides written principles for risk management, as described in the Principal risks and uncertainties on pages 26 to 30 of the Tesco PLC Annual Report 2017 which does not form part of this Report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

12 FINANCIAL RISK FACTORS (continued)

Interest rate risk

Interest rate risk arises from cash deposits and Short-term investments

| | Fixed £'000 | Floating £'000 | 2017 £'000 | Fixed £'000 | Floating £'000 | 2016 £'000 |
|------------------------|----------------|-------------------|---------------|----------------|-------------------|---------------|
| Cash | - | 102 | 102 | - | - | - |
| Short-term investments | - | 389,100 | 389,100 | - | - | - |
| Total | - | 389,202 | 389,202 | - | - | - |

Credit risk

Credit risk arises from cash, Short-term investments, loans receivable and financial instruments with banks, financial institutions and related parties. To limit this risk where possible financial transactions take place with counterparties that have a strong credit rating and within defined exposure limits.

The net counterparty exposure under derivative contracts is £714k (2016: £nil).

The Company considers its maximum credit risk to be £3,193,326k (2016: £1,927,376k).

Liquidity risk

Liquidity risk arises from the maturity profile associated with derivatives that are in a liability position. This risk is managed by ensuring that the Company has access to liquid funds.

| At 25 February 2017 | Due within 1 year £'000 | Due between 1 and 2 years £'000 | Due between 2 and 3 years £'000 | Due between 3 and 4 years £'000 | Due between 4 and 5 years £'000 | Due beyond 5 years £'000 |
|--------------------------------------|----------------------------------|--|--|--|--|-----------------------------------|
| Derivative liabilities | | | | | | |
| Gross settled derivative contracts | | | | | | |
| - receipts | 608 | - | -- | | - | - |
| Gross settled derivative contracts - | | - | | | | |
| - payments | (629) | - | -- | | - | - |
| Total | (21) | - | - | - | - | - |

At 27 February 2016

| | | | | | | |
|--------------------------------------|----------|----------|----------|----------|----------|----------|
| Derivative liabilities | | | | | | |
| Gross settled derivative contracts | | | | | | |
| - receipts | - | - | -- | | - | - |
| Gross settled derivative contracts - | | | | | | |
| - payments | - | - | -- | | - | - |
| Total | - | - | - | - | - | - |

Foreign exchange risk

Foreign exchange risk arises principally from loans to Group undertakings not in Sterling. To mitigate this risk the Company enters derivative contracts with matching notional values where appropriate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

12 FINANCIAL RISK FACTORS (continued)

Capital risk

The Company's objectives when managing capital risk (defined as net debt plus equity) are aligned to those of the Tesco Group. These are outlined in the Tesco PLC Annual Report 2017.

Sensitivity analysis

The following table shows the illustrative effect in the Profit and Loss Account at the balance sheet date from changes in interest rates that are reasonably possible where there have recently been significant movements. The main interest sensitivity relates to interest rate changes which apply to cash and short-term investments.

| | 2017 | 2016 |
|-------------------------------|-----------------------------|-----------------------------|
| | Effect on profit before tax | Effect on profit before tax |
| | £'000 | £'000 |
| 1% increase in interest rates | 3,892 | - |

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

13 SHARE CAPITAL

| | 2017 | 2016 |
|--|--------------|--------------|
| | £ | £ |
| Allotted, called up and fully paid: | | |
| 516,000,000 "A" Ordinary shares of £0.00000025 each (2016: 516,000,000 shares of £0.00000025 each) | 129 | 129 |
| 172,000,000 "B" Ordinary shares of £0.00000025 each (2016: 172,000,000 shares of £0.00000025 each) | 43 | 43 |
| 220,000,000 "C" Ordinary shares of £0.00000025 each (2016: 220,000,000 shares of £0.00000025 each) | 55 | 55 |
| 4,000,000 "D" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "E" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 1,207,111,189 "F" Ordinary shares of £0.00000025 each (2016: 1,207,111,189 shares of £0.00000025) | 302 | 302 |
| 1,207,111,189 "G" Ordinary shares of £0.00000025 each (2016: 1,207,111,189 shares of £0.00000025) | 302 | 302 |
| 1,207,111,189 "H" Ordinary shares of £0.00000025 each (2016: 1,207,111,189 shares of £0.00000025) | 302 | 302 |
| 1,207,111,189 "J" Ordinary shares of £0.00000025 each (2016: 1,207,111,189 shares of £0.00000025) | 302 | 302 |
| 4,000,000 "K" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "L" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "M" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "N" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "O" Ordinary shares of £0.00000025 each (2016: 4,000,000 shares of £0.00000025) | 1 | 1 |
| 4,000,000 "P" Ordinary shares of £0.00000025 each | 1 | - |
| | 1,443 | 1,442 |

All classes of shares rank pari passu in all respects.

During the year, the Company's immediate parent undertaking increased its investment in the Company resulting in an increase in Share capital and Share premium.

TESCO OVERSEAS ULC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2017 (continued)

14 ULTIMATE GROUP UNDERTAKING

The Company's immediate parent undertaking is Tesco Holdings BV, a company registered in the Netherlands. The Company's ultimate parent undertaking and controlling party is Tesco PLC, a Company registered in England and Wales, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom, the registered offices of Tesco PLC.