TESCO AQUA (GP) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

REGISTERED NUMBER: 05721654

TESCO AQUA (GP) LIMITED

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

The Directors present their Annual Report and the audited financial statements of Tesco Aqua (GP) Limited (the "Company") for the 52 weeks ended to 24 February 2018 (prior period: 52 weeks period ended 25 February 2017 ("2017")).

Business review and principal activity

The principal activity of the Company is to act as a holding Company for the other entities in The Tesco Aqua Limited Partnership Group. There has been no significant change in the nature or level of this activity during the period and the Directors do not expect this to change significantly throughout the next financial period.

Results and dividends

The results for the 52 weeks ended 24 February 2018 show a profit before tax of £3,444 (2017: £48,864) and profit after tax of £5,744 (2017: £46,556).

The Group has net assets at the period end of £356,012 (2017: £350,268).

The Directors do not recommend payment of a dividend for the 52 weeks ended 2018 (2017: £nil).

Principal risks and uncertainties

From the perspective of the Group, the principal risks relate to the carrying value of investments that the Group holds. To manage this risk the Group periodically reviews the financial statements of the entities that it has investments in.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Tesco PLC Group and are not managed separately. Accordingly, the principle risks and uncertainties of the Tesco PLC Group, which include the Company, are discussed on pages 22 to 25 of the Tesco PLC Annual Report 2018, which does not form a part of this Report.

Business risk

On 29 March 2017, the government invoked Article 50, initiating the process of leaving the European Union within two years. This could cause disruptions and uncertainties which could have an adverse effect on our principal activity, financial results and operations.

Political donations

There were no political donations for the period (2017: £nil) and the Company did not incur any political expenditure (2017: £nil).

Future developments

On 2 June 2017, The Tesco Aqua Limited Partnership obtained a loan from Tesco Corporate Treasury Services PLC, a 100% owned-subsidiary of Tesco PLC to settle its obligation of £487,500,000 to the Tesco Aqua (Finco1) Limited, a Company which is 100% owned by Tesco Aqua (GP) Limited. Tesco Aqua (Finco1) Limited fully repaid its loan and debentures totalling £487,500,000 on 2 June 2017. As the loan has now been repaid the Tesco Aqua (Finco1) Limited does not expect to continue acting as a financing Company and will not generate any further profits.

The Company's performance is expected to continue throughout the next financial period and it is anticipated that the current performance levels will be maintained.

The Company's future developments form a part of the Tesco PLC's long-term strategy, which is discussed on pages 8 and 9 Tesco PLC Annual Report 2018, which do not form part of this report.

Key performance indicators (KPIs)

Given the straightforward nature of the business, the Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

The development, performance and position of the operations of the Tesco PLC Group, which includes the Company, are discussed on pages 10 and 11 of the Tesco PLC Annual Report 2018, which do not form a part of this Report.

TESCO AQUA (GP) LIMITED

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018 (continued)

Research and development

The Group and Company does not undertake any research and development activities (2017: none).

Employees

The Group and Company had no employees during the period (2017: none).

Strategic report

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

Going concern

The Group fully repaid its loan and debentures totalling £487,500,000 on 2 June 2017. On 2 June 2017, The Tesco Aqua Limited Partnership obtained a loan from Tesco Corporate Treasury Services PLC, a 100% owned-subsidiary of Tesco PLC to settle its obligation of £487,500,000 to the Group. As the loan has now been repaid the Tesco Aqua (Fincol) Limited, a 100% owned subsidiary of Tesco Aqua (GP) Limited, does not expect to continue acting as a financing Company and will not generate any further profits.

It is the current intention of Tesco PLC, (the Company's ultimate parent undertaking) to continue to finance the Company for the next year from the date of signing the Balance Sheet, so as to enable it to meet its liabilities as they fall due and to carry on its business without any significant curtailment of operations. Accordingly the financial statements have been prepared on a going concern basis. A letter of support for a period of 12 months has been received from Tesco PLC to the extent of £373,537 that it will not seek repayment of the existing intercompany payables.

Directors and their interests

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

A Clark
J Gibney
Tesco Services Limited

None of the Directors had any disclosable interests in the Group or Company during this period.

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 Tesco Services Limited, which is appointed to the Board of the Company) in respect of liabilities incurred as a result of their 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.

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 Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Group and the Company and of the profit or loss of the Company and Group 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 IFRSs as adopted by the European Union 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 and the Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to 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 Directors are aware, there is no relevant information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that ought to have been taken as a Director to be 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.

Independent 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.

Approved by the Board of Directors on 20 August 2018 and signed on its behalf by:

Robert Welch

Signed on 21 August 2018

R Welch, for and on behalf of Tesco Services Limited
Director
Tesco Aqua (GP) Limited
Registered Number: 05721654
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO AQUA (GP) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Tesco Aqua (GP) Limited (the 'parent' company) and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 24 February 2018 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group statement of comprehensive income;
- the group and company balance sheet;
- the group and company statement of changes in equity;
- the group and company cash flow statement;
- the group and company reconciliation of net cash flow movement in net debt;
- the statement of accounting policies; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO AQUA (GP) LIMITED (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions 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 group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO AQUA (GP) LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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; or
- *the Directors' were not entitled to take advantage of the small companies exemption in preparing the* strategic report.

We have nothing to report in respect of these matters.

Use of our report

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.

Simon Letts FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
St. Albans, United Kingdom
21 August, 2018

TESCO AQUA (GP) LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

	Notes	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Administrative expenses		(4,000)	(30)
Operating loss	4	(4,000)	(30)
Interest receivable and similar income	5	1,004,122	4,727,588
Interest payable and similar charges	6	(996,678)	(4,678,694)
Profit before taxation		3,444	48,864
Tax credit/(charge)	7	2,300	(2,308)
Profit for the financial period		5,744	46,556

There are no material differences between the profit before taxation and the profit for the period stated above and their historical cost equivalents.

There is no other comprehensive income/(loss) in the periods presented; therefore no Statement of Comprehensive Income has been prepared. Total comprehensive income is equal to profit for the current period and for prior period as well.

All operations are continuing for the financial period.

The notes on pages 12 to 21 are an integral part of these financial statements.

TESCO AQUA (GP) LIMITED

GROUP AND COMPANY BALANCE SHEET AS AT 24 FEBRUARY 2018

		Group		Company	
		24 February 2018	25 February 2017	**24 February 2018**	25 February 2017
	Notes	**£**	£	**£**	£
Non-current assets					
Investments	8	**291,500**	291,500	**291,601**	291,601
		291,500	291,500	**291,601**	291,601
Current assets					
Debtors: amounts falling due within one year	9	**1,000**	487,899,904	**33,673**	33,673
Cash at bank and in hand		**462,036**	450,407	**38,338**	38,963
		463,036	488,350,311	**72,011**	72,636
Current liabilities					
Creditors: amounts falling due within one year	10	**(398,524)**	(488,291,543)	**(397,414)**	(396,338)
Net current assets/(liabilities)		**64,512**	58,768	**(325,403)**	(323,702)
Total assets less current liabilities		***356,012***	*350,268*	***(33,802)***	*(32,101)*
Net assets/(liabilities)		**356,012**	350,268	**(33,802)**	(32,101)
Capital and reserves					
Called up share capital	11	**2,102**	2,102	**2,102**	2,102
Share premium account		**119,500**	119,500	**119,500**	119,500
Profit and loss account		**234,410**	228,666	**(155,404)**	(153,703)
Total equity		**356,012**	350,268	**(33,802)**	(32,101)

During the period the Company made a loss before tax of £1,701 (2017: £2,338).

The notes on pages 12 to 21 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 20 August 2018.

They were signed on its behalf by:

Robert Welch

Signed on 21 August 2018

R Welch, for and on behalf of Tesco Services Limited
Director
Tesco Aqua (GP) Limited
Registered Number: 05721654
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO AQUA (GP) LIMITED

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

	Group			
	Called up share capital*	**Share premium account**	**Profit and loss account**	**Total**
	£	**£**	**£**	**£**
Balance as at 27 February 2016	2,102	119,500	182,110	303,712
Profit and total comprehensive income for the financial period	-	-	46,556	46,556
Balance as at 25 February 2017	2,102	119,500	228,666	350,268
Profit and total comprehensive income for the financial period	-	-	5,744	5,744
Balance as at 24 February 2018	***2,102***	***119,500***	***234,410***	***356,012***

	Company			
	Called up share capital*	**Share premium account**	**Profit and loss account**	**Total**
	£	**£**	**£**	**£**
Balance as at 27 February 2016	2,102	119,500	(151,365)	(29,763)
Loss and total comprehensive loss for the financial period	-	-	(2,338)	(2,338)
Balance as at 25 February 2017	2,102	119,500	(153,703)	(32,101)
Loss and total comprehensive loss for the financial period	-	-	(1,701)	(1,701)
Balance as at 24 February 2018	***2,102***	***119,500***	***(155,404)***	***(33,802)***

*See Note 11 for a breakdown of the share capital.

The notes on pages 12 to 21 are an integral part of these financial statements.

TESCO AQUA (GP) LIMITED

GROUP AND COMPANY CASH FLOW STATEMENT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

		Group	
		52 weeks ended 24 February 2018	52 weeks ended 24 February 2017
	Notes	**£**	£
Cash flows used in operating activities	12	**(4,000)**	(30)
Cash flows from investing activities			
Corporation tax paid		**(625)**	-
Interest received		**1,403,026**	4,866,543
Cash flows from financing activities			
Interest paid		**(1,386,772)**	(4,817,194)
Increase in cash	13	**11,629**	49,319
Cash and cash equivalents at the start of the period		**450,407**	401,088
Cash and cash equivalents at the end of the period		**462,036**	450,407

		Company	
		52 weeks ended 24 February 2018	**52 weeks ended 24 February 2017**
	Notes	**£**	**£**
Cash flows used in operating activities	12	**-**	(30)
Cash flows from investing activities			
Corporation tax paid		**(625)**	-
Cash flows from financing activities		**-**	-
Decrease in cash		**(625)**	(30)
Cash and cash equivalents at the start of the period		**38,963**	38,993
Cash and cash equivalents at the end of the period		**38,338**	38,963

The notes on pages 12 to 21 are an integral part of these financial statements.

TESCO AQUA (GP) LIMITED

GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		Group	
		52 weeks ended 24 February 2018	52 weeks ended 24 February 2017
	Notes	**£**	£
Increase in cash	13	**11,629**	49,319
Net movement in debt	13	**487,500,000**	-
Increase in net funds		**487,511,629**	49,319
Opening net debt	13	**(487,423,130)**	(487,472,449)
Closing net debt		***88,499***	***(487,423,130)***

		Company	
		52 weeks ended 24 February 2018	52 weeks ended 24 February 2017
	Notes	**£**	£
Decrease in cash	13	**(625)**	(30)
Decrease in net funds		**(625)**	(30)
Opening net funds	13	**38,963**	38,993
Closing net funds		**38,338**	*38,963*

1. Statement of compliance

The financial statements of Tesco Aqua GP Limited (the "Company") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are also prepared in accordance with the Companies Act 2006 as applicable to entities reporting under IFRS and are prepared under the historical cost convention.

2. General Information

Tesco Aqua (GP) Limited is a private Company incorporated in England and Wales under the Companies Act 2006 and limited by shares. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 1.

The financial statements are prepared on the going concern basis in accordance with the Companies Act 2006. The Company's principal accounting policies have been applied consistently during the period.

These financial statements are presented in Pound Sterling because that is the currency of the primary economic environment in which the Company operates.

3. Accounting policies

a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and of its subsidiary undertakings drawn up to 24 February 2018. The results of subsidiary undertakings acquired are included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. All subsidiaries highlighted in Note 8 have been fully consolidated into these financial statements.

As a consolidated Group Profit and Loss Account is published, a separate Profit and Loss Account for the parent Company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006.

b) Going concern

The Group fully repaid its loan and debentures totalling £487,500,000 on 2 June 2017. On 2 June 2017, The Tesco Aqua Limited Partnership obtained a loan from Tesco Corporate Treasury Services PLC, a 100% owned-subsidiary of Tesco PLC to settle its obligation of £487,500,000 to the Group. As the loan has now been repaid the Tesco Aqua (Finco1) Limited, a 100% owned subsidiary of Tesco Aqua (GP) Limited, does not expect to continue acting as a financing Company and will not generate any further profits.

It is the current intention of Tesco PLC, (the Company's ultimate parent undertaking) to continue to finance the Company for the next year from the date of signing the Balance Sheet, so as to enable it to meet its liabilities as they fall due and to carry on its business without any significant curtailment of operations. A letter of support for a period of 12 months has been received from Tesco PLC to the extent of £373,537 that it will not seek repayment of the existing intercompany payables. Accordingly the financial statements have been prepared on a going concern basis.

c) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The Directors do not consider that any of the estimates and judgements made within these financial statements are significant.

3. Accounting policies (continued)

d) Significant accounting policies

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. The expected maturity of the financial assets and liabilities is not considered to be materially different to their current and non-current classification.

Financial assets

Initial recognition and measurement

Financial assets are classified at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. The Company's financial assets include cash and short-term deposit, and trade and other receivables,

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the income statement. Losses arising from impairment are recognised in the income statement in other operating expenses.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

Loans and borrowings are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Such liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement. Losses arising from impairment are recognised in the income statement in other operating income. Loan and other payables is carried as loans and borrowings.

3. Accounting policies (continued)

d) Significant accounting policies (continued)

Financial instruments (continued)

De-recognition of financial instruments

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled: (b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset: or (c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expired.

Fixed asset investments

Fixed asset investments in subsidiaries and associates are stated at cost plus incidental expenses less appropriate provisions for impairment.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

Interest payable and receivable

Interest payable and receivable is calculated on an accruals basis.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the Balance Sheet date. The amount included in the Statement of Comprehensive Income is based on the profit on ordinary activities before taxation and is calculated at current local tax rates, taking into account timing differences and the likelihood of realisation of deferred tax assets and liabilities.

Group relief on taxation

The Company may receive or surrender group relief from Group companies without payment and consequently there may be no tax charge in the Profit and Loss Account.

Current tax and deferred tax for the period

Current and deferred tax are recognised in the Income statement, 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.

Capital management policy

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.

In managing the Group's capital, it must adhere to capital requirement, where the value of external debt must not rise above 90% of the fair value of the investment property, nor must rental income fall below net interest payable. The Group is complying with its objectives through a fixed rental stream until maturity of the debt as well as hedging net interest payable, thereby managing its cash flows. There have been no changes to how the Group manages its capital.

4. Operating loss

The Directors received no emoluments for their services to the Company (25 February 2017: £nil).

The Company had no employees during the period (25 February 2017: none).

4. Operating loss (continued)

The auditor's remuneration of £5,000 (25 February 2017: £5,000) for the current period and prior period was borne by The Tesco Aqua Limited Partnership. The company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group financial statements of its ultimate parent, Tesco PLC.

5. Interest receivable and similar income

	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Interest receivable from The Tesco Aqua Limited Partnership	**1,004,122**	4,727,588
Total	**1,004,122**	4,727,588

6. Interest payable and similar charges

	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Interest payable on other loans	**(996,678)**	(4,678,694)
Total	**(996,678)**	(4,678,694)

7. Tax on profit

(a) Factors that have affected the tax charge/(credit)

The standard rate of corporation tax in the UK was 20.00% from 1 April 2015, and was changed from 20.00% to 19.00% from 1 April 2017.

This gives an overall blended corporation tax rate for the Company for the full period of 19.09% (2017: 20%).

(b) Tax charge/(credit) in the total comprehensive income

	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Current tax:		
UK Corporation tax on profit for the period	**-**	-
Adjustment in respect of previous periods	**(2,300)**	2,308
Total current tax	**(2,300)**	2,308
Total deferred tax	**-**	-
Total income tax (credit)/charge	**(2,300)**	2,308

7. Tax on profit (continued)

(c) Reconciliation of the tax charge/(credit)

The differences between the total charge/(credit) shown above and the amount calculated by applying the blended rate of United Kingdom corporation tax to profit is as follows:

	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Profit before tax	**3,444**	48,864
Profit multiplied by the small companies rate in the UK 19.09% (2017: 20.00%)	**657**	9,773
Effects of:		
Expenses not deductible for tax purposes	**2,756**	16,196
Adjustments to tax charge in respect of previous periods	**(2,300)**	2,308
Group relief claimed without payment	**(4,420)**	(12,866)
Partnership income	**1,007**	(13,103)
Total tax (credit)/charge for the financial period	**(2,300)**	2,308

(d) Tax rate changes

The Finance Act 2016 included legislation to reduce the main rate of United Kingdom corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions are therefore included in the financial statements. Temporary differences have been re measured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

8. Investments

	Group £	**Company £**
Cost		
At 25 February 2017	495,037	495,138
At 24 February 2018	**495,037**	**495,138**
Provision for impairment		
At 25 February 2017	(203,537)	(203,537)
At 25 February 2018	**(203,537)**	**(203,537)**
Net book value		
At 25 February 2017	291,500	291,601
At 24 February 2018	**291,500**	**291,601**

TESCO AQUA (GP) LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018 (continued)

8. Fixed assets investments (continued)

The Directors believe that the carrying value of the investments is supported by their underlying net assets. The valuation of fixed asset investments is carried out annually by the Directors. In assessing the valuation of its fixed asset investments, the Directors review the underlying net assets of each subsidiary, its profit for the period as well as the future economic benefits to be generated from such net assets.

Related Undertakings — in accordance with The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, information on the Company's subsidiary and associated undertakings are set out below.

Details of the subsidiary undertakings at the period end are as follows:

Subsidiary undertakings	Place of incorporation	Registered office address	Immediate parent of subsidiary undertaking	% Shares held	Direct/ Indirect holding	Nature of business
Tesco Aqua (Nominee Holdco) Limited	England and Wales	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	Tesco Aqua (GP) Limited	100%	Direct	Holding Company
Tesco Aqua (Nominee 1) Limited	England and Wales	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	Tesco Aqua (Nominee Holdco) Limited	100%	Indirect	Nominee Company
Tesco Aqua (Nominee 2) Limited	England and Wales	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	Tesco Aqua (Nominee Holdco) Limited	100%	Indirect	Nominee Company
Tesco Aqua (Finco1) Limited	England and Wales	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	Tesco Aqua (GP) Limited	100%	Direct	Nominee Company

Details of the investments in other undertakings at the period end are as follows;

Investments in other undertakings	Country of incorporation	Registered office address	Type of entity	% Interest held	Nature of business
The Tesco Aqua Limited Partnership	England and Wales	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	Limited Partnership	0.2%	Property investment

9. Debtors: amounts falling due within one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Amounts owed from Group undertakings	-	-	**33,673**	33,673
The Tesco Aqua Limited Partnership	-	487,500,000	-	-
Subordinated Loan due to The Tesco Aqua Limited Partnership	**1,000**	1,000	-	-
Accrued interest receivable	-	398,904	-	-
	1,000	487,899,904	**33,673**	33,673

Amounts owed from Group undertakings and from The Tesco Aqua Limited Partnership are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The loan to The Tesco Aqua Limited Partnership of £487,500,000 incurred interest at a variable rate based on a 3-month average LIBOR + 46 basis points and has been repaid during the current year.

10. Creditors: amounts falling due within one year

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Accruals and deferred income	-	394,095	-	-
Amounts owed to Tesco PLC	**373,537**	373,537	**373,537**	373,537
Amounts owed to The Tesco Aqua Limited Partnership	**22,878**	18,877	**22,877**	18,876
Loan with Tesco Aqua (Finco1) Limited	-	-	**1,000**	1,000
Loans and debentures	-	487,500,000	-	-
Corporation tax	**2,109**	5,034	-	2,925
	398,524	488,291,543	**397,414**	396,338

Amounts owed to The Tesco Aqua Limited Partnership, Tesco PLC and to Tesco Aqua (Finco1) Limited are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

The loans and debenture which were repaid during the current year incurred interest at a variable rate based on a 3-month average LIBOR + 46 basis points.

11. Called up share capital

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Allotted, called up and fully paid				
1,051 Ordinary 'A' shares of £1 each	**1,051**	1,051	**1,051**	1,051
1,051 Ordinary 'B' shares of £1 each	**1,051**	1,051	**1,051**	1,051
	2,102	2,102	**2,102**	2,102

12. Cash used in operations

Reconciliation of operating loss to net cash used in operation:

	Group	
	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Operating loss	**(4,000)**	(30)
Net cash outflow from operating activities	**(4,000)**	(30)

	Company	
	52 weeks ended 24 February 2018 £	52 weeks ended 25 February 2017 £
Operating loss	**(4,000)**	(30)
Increase in creditors	**4,000**	-
Net cash outflow from operating activities	**-**	(30)

TESCO AQUA (GP) LIMITED

NOTES TO FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018 (continued)

13. Analysis of changes in net debt

		Group	
	27 February 2016	Net cash flow	25 February 2017
	£	£	£
Cash at bank and in hand	401,088	49,319	450,407
Debt due within one year	(487,873,537)	-	(487,873,537)
	(487,472,449)	49,319	(487,423,130)

	25 February 2017	**Net cash flow**	**24 February 2018**
	£	**£**	**£**
Cash at bank and in hand	**450,407**	**11,629**	**462,036**
Debt due within one year	**(487,873,537)**	**487,500,000**	**(373,537)**
	(487,423,130)	**487,511,629**	**88,499**

		Company	
	27 February 2016	Net cash flow	25 February 2017
	£	£	£
Cash at bank and in hand	38,993	(30)	38,963
	38,993	(30)	38,963

	25 February 2017	**Net cash flow**	**24 February 2018**
	£	**£**	**£**
Cash at bank and in hand	**38,963**	**(625)**	**38,338**
	38,963	**(625)**	**38,338**

14. Ultimate parent undertaking and controlling party

The Company's immediate parent undertaking is Tesco Property Holdings (No.2) Limited.

The Company's ultimate parent undertaking is Tesco PLC which is registered in England and Wales. The results of the Company are included in the consolidated financial statements of Tesco PLC, which is the smallest and largest group to consolidate these financial statements. Copies of the Tesco PLC Annual Report and financial statements are available from the Company Secretary at the registered address: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

15. Related party transactions

During the 52 week's period ended 24 February 2018 the Company entered into transactions with related parties, in the ordinary course of business. Transactions entered into, and balances outstanding at 24 February 2018, are as follows:

Entity	Relationship	Transaction
Tesco Aqua Limited Partnership	Other investment	1) Interest received from Tesco Aqua Limited Partnership at the end of the period £1,004,122 (25 February 2017: £4,727,588), 2) Accrued interest receivable from Tesco Aqua Limited Partnership at the end of the period £Nil (25 February 2017: £398,904), and 3) Loans receivable from Tesco Aqua Limited Partnership amounting to £Nil (25 February 2017: £487,500,000)
Tesco PLC	Ultimate parent undertaking	Amounts owed to Tesco PLC at the end of the period £373,537 (25 February 2017: £373,537).

THE TESCO AQUA LIMITED PARTNERSHIP

ANNUAL REPORT AND UNAUDITED FINANCIAL STATEMENTS

FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

REGISTERED NUMBER: LP011520

THE TESCO AQUA LIMITED PARTNERSHIP

STRATEGIC REPORT FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

Tesco Aqua (GP) Limited (the "General Partner") presents its Strategic Report of The Tesco Aqua Limited Partnership ("the Partnership") for the 60 weeks ended 24 February 2018 (prior period being the year ended 31 December 2016 ("2016")).

Business review and principal activity

The principal activity of the Partnership is to carry out property investment in retail stores and mixed use units for which rental income is received.

There has been no significant change in the nature or level of this activity during the period and the General Partner does not expect this to change significantly throughout the next financial period.

Results and distributions

The results for the period show a total comprehensive income of £21,880,748 (2016: comprehensive loss of £14,016,495) and rental income of £41,813,327 (2016: £35,917,696).

The partnership has net assets of £31,178,122 at the period end (2016: net assets of £9,297,374) and net current liabilities of £44,842,281 (2016: £539,571,435).

The partnership did not distribute any profits in the current and the previous period.

Key performance indicators (KPIs)

Given the straightforward nature of the business, the Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

The development, performance and position of the operations of the Tesco PLC Group (the "Group"), which includes the Partnership, is discussed on page 10 to 11 of the Tesco PLC Annual Report and Financial Statements 2018, which does not form part of this Report.

Future developments

The Partnership's future developments form a part of the Group long term strategy, which is discussed on pages 8 and 9 of the Tesco PLC Annual Report and Financial Statements 2018, which do not form a part of this report. The Partnership's performance is expected to continue throughout the next financial period and it is anticipated that the current performance levels will be maintained.

Principal risks and uncertainties

The Partnership's activities expose it to risks and uncertainties as summarised below. The Partnership's financial instruments comprise the Partnership Loans and RPI-linked swap arrangement.

The principal risks and uncertainties are related to property investment into the retail stores. These risks include the exposure to fluctuations in the open market value of the investment properties.

The property portfolio is managed to ensure its value is maximised.

Business risk

On 29 March 2017, the government invoked Article 50 to initiate the process of leaving the European Union within two years. This could cause disruptions and uncertainties which could have an adverse effect on our property business, financial results and operations.

Financial risk management

The main risks associated with the Partnership's financial assets and liabilities are set out below:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk posed by the Partnership's sole customer, Tesco Stores Limited who leases the property from the Limited Partnership, is determined to be low, yet the Partnership monitors the credit risk of Tesco PLC (ultimate parent of Tesco Stores Limited) to ensure their ability to discharge their obligations as lessee.

The Partnership's credit risk is also managed through the use of a RPI-rate swap contract to fix its cash inflows so that it is able to meet its fixed-rate interest and capital repayments along with its administrative costs.

Liquidity risk

Liquidity risk is the risk that the partnership will encounter difficulty in meeting its obligations associated with its financial liabilities. The principal risks and uncertainties are related to property investment in the retail stores and the obligation to make repayments against the loans when due. The Partnership uses an agent, who manages its occupational leases and actively manages the receipt of arrears for the Partnership.

Interest rate risk

Interest rate risk is the risk that the Partnership is exposed to movements in the 3-month/12-month average LIBOR, which could increase and cause difficulty in meeting its obligations if the level of interest is greater than the Partnership's rental income.

The Partnership manages these risks by fixing the interest payable on borrowings to ensure that future cash flows are sufficient to meet the obligations under the loan agreement. During the period, the partnership has settled the interest rate swap on 02 June 2017. See Note 14 for further information with regard to the risks identified.

The property portfolio is managed to ensure its value is maximised.

Cash flow risk

The Partnership's activities expose it primarily to the financial risks of changes in interest rates. The Partnership uses interest rate swap contracts to hedge these exposures. Interest bearing assets and liabilities are held at fixed rates to ensure certainty of cash flows.

Approved on 20 August 2018 and signed on behalf of the General Partner by:

Robert Welch

Signed on 21 August 2018

Robert Welch, for and on behalf of Tesco Services Limited, Director
For and on behalf of the General Partner
Tesco Aqua (GP) Limited
Registered Number: 05721654
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

THE TESCO AQUA LIMITED PARTNERSHIP

GENERAL PARTNER'S REPORT FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

Tesco Aqua (GP) Limited (the "General Partner") presents its report and the unaudited financial statements of The Tesco Aqua Limited Partnership (the "Partnership") for the 60 weeks ended 24 February 2018 (prior period: year ended 31 December 2016 ("2016")). During the period, Tesco Aqua (GP) Limited acted as the General Partner and Tesco Aqua Unit Trust and Tesco Aqua (3LP) Limited acted as limited partners of the Partnership.

The Tesco Aqua Limited Partnership was established on 14 August 2006 and is registered as a limited partnership in England and Wales under the Limited Partnership Act 1907.

As at the date of signing this report, the Partnership is a wholly-owned subsidiary of Tesco PLC. The Partnership was originally constituted under the Initial Partnership agreement, which was then superseded by the amended and restated Limited Partnership Agreement (the "Limited Partnership Agreement") on the 5 December 2006, 20 December 2006, 20 March 2007 and again on 28 August 2009.

Results and distributions

This is discussed in the Strategic Report on page 1.

Going concern

In order to form a view as to the most appropriate basis of preparation of these financial statements, the General Partner has assessed the likelihood of whether the Partnership will be able to continue principal business over a period of at least twelve months from the date of signing the financial statements versus the likelihood of either intending to or being forced to either cease trading or putting the Limited Partnership into liquidation.

The ability of the Partnership to meet its obligations on the loans and to meet its operating and administrative expenses is dependent on the extent that it receives the amounts due from its sole customer, Tesco Stores Limited and its ability to discharge its obligations under the Property Portfolio leases.

The General Partner has noted that, as at the Balance Sheet date the Limited Partnership is in a net current liabilities position, however that the loans due to Tesco PLC are repayable on demand. The company has received letters of comfort from Tesco PLC and Tesco Corporate Treasury Services confirming their intention not to recall their loan amounts of £33,384,211, and £497,420,262 respectively within a period of 12 months form the date of approval of these financial statements.

The Partnership had a loan with Tesco Aqua (Finco1) Limited of £487,500,000 which was repaid in full on 2 June 2017. The loan was repaid utilising funds provided by Tesco Corporate Treasury Services PLC, a 100% owned subsidiary of Tesco PLC. The loan from Tesco Corporate Treasury Services PLC to the Partnership is repayable on 2 June 2019. Therefore, the General Partner considers that the Partnership is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

Political donations

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

Future developments

This is discussed in the Strategic Report on page 1.

Research and development

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

Financial risk management

This is discussed in the Strategic Report on pages 1 to 2.

Employees

The Partnership had no employees during the period (2016: none).

Partners

The partners, including the General Partner, Tesco Aqua (GP) Limited, are set out in Note 15 of the financial statements.

General Partner's responsibilities statement in respect of the financial statements

The General Partner is responsible for preparing the Strategic Report and the General Partner's Report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 as applied to qualifying Partnerships by the Partnerships (Accounts) Regulations 2008 require the Partnership to prepare financial statements for each financial period. Under that law the General Partner has prepared the financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). Under The Companies Act 2006 as applied to qualifying partnerships the General Partner 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 Partnership and of the profit or loss of the Partnership for that period. In preparing these financial statements, the General Partner is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS, as adopted by the EU, 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 partnership will continue in business.

The General Partner is responsible for keeping adequate accounting records that are sufficient to show and explain the Partnership's transactions, disclose with reasonable accuracy at any time the financial position of the Partnership and to enable them to ensure that the financial statements comply with the Companies Act 2006 as applied to qualifying partnerships by the Regulations. They are also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The General Partner is required to act in the best interests of the Partnership and to perform its obligations under the Limited Partnership Agreement.

General Partner's responsibilities statement in respect of the financial statements (continued)

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

These responsibilities are exercised by the Board on behalf of the General Partner.

Approved on 20 August 2018 and signed on behalf of the General Partner by

Robert Welch

Signed on 21 August 2018

Robert Welch, for and on behalf of Tesco Services Limited, Director
For and on behalf of the General Partner
Tesco Aqua (GP) Limited
Registered Number: 05721654
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

THE TESCO AQUA LIMITED PARTNERSHIP

INCOME STATEMENT FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

	Notes	**60 weeks ended 24 February 2018**	Year ended 31 December 2016
		£	£
Rental income		**41,813,327**	35,917,696
Administrative expenses		**(8,407,140)**	(40,547,417)
Operating profit/(loss)	**5**	**33,406,187**	(4,629,721)
Interest receivable and similar income	**6**	**7,882**	22,452
Interest payable and similar cost	7	**(30,373,099)**	(28,149,290)
Profit/(loss) before taxation		**3,040,970**	(32,756,559)
Tax on profit/(loss)	**8**	**-**	-
Profit/(loss) for the financial period		**3,040,970**	(32,756,559)

There are no material differences between the profit/(loss) before taxation and the profit/(loss) for the financial period stated above and their historical cost equivalents.

All operations are continuing for the financial period.

The notes on pages 13 to 27 form part of these financial statements.

THE TESCO AQUA LIMITED PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

	60 weeks ended 24 February 2018	Year ended 31 December 2016
	£	£
Profit/(loss) for the period	**3,040,970**	(32,756,559)
Items that can be reclassified to profit or loss:		
Cash flow hedges		
Gains arising during the period	**18,839,778**	18,740,064
Total comprehensive income/(loss) for the period	**21,880,748**	(14,016,495)

The notes on pages 13 to 27 form part of these financial statements.

THE TESCO AQUA LIMITED PARTNERSHIP

STATEMENT OF FINANCIAL POSITION AS AT 24 FEBRUARY 2018

	Notes	**24 February 2018** £	31 December 2016 £
Non-current assets			
Investment properties	9	**564,030,719**	572,355,250
		564,030,719	572,355,250
Current assets			
Debtors: amounts falling due within one year	10	**260,120**	250,200
Cash at bank and in hand		**558,815**	27,038,225
Total current assets		**818,935**	27,288,425
Total assets		**564,849,654**	599,643,675
Current liabilities			
Other payables	11	**(45,660,216)**	(78,574,453)
Borrowings: amounts falling due within one year	12	**(1,000)**	(488,285,407)
Total current liabilities		**(45,661,216)**	(566,859,860)
Net current liabilities		**(44,842,281)**	(539,571,435)
Non-current liabilities			
Borrowings: due after more than one year	13	**(488,010,316)**	-
Derivative financial instruments	14	-	(23,486,441)
		(488,010,316)	(23,486,441)
Total liabilities		**(533,671,532)**	(590,346,301)
Total assets less total liabilities		**31,178,122**	9,297,374
Partners' interest			
Partners' capital accounts	15	**898,500**	898,500
Cash flow hedge reserve	15	-	(18,839,778)
Profit and loss account	15	**30,279,622**	27,238,652
Partners' interest		**31,178,122**	9,297,374

The notes on pages 13 to 27 form part of these financial statements.

For the period ended 24 February 2018, the Partnership was entitled to exemption from audit under section 479A of the Companies Act 2006 (the 'Act') relating to subsidiary companies.

General Partner's responsibilities:

- the partners have not required the company to obtain an audit of its accounts for the year in question in accordance with section 479A of the Act;
- the General Partner acknowledges his responsibility for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

STATEMENT OF FINANCIAL POSITION AS AT 24 FEBRUARY 2018 (continued)

The financial statements on pages 6 to 27 were approved by the General Partner and authorised for issue on 20 August 2018. They were signed on its behalf by:

Robert Welch

Signed on 21 August 2018

Robert Welch, for and on behalf of Tesco Services Limited, Director
For and on behalf of the General Partner
General Partner
Tesco Aqua (GP) Limited
Registered Number: 05721654
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

THE TESCO AQUA LIMITED PARTNERSHIP

STATEMENT OF CHANGES IN PARTNER'S INTEREST FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

	Partners' capital accounts	Cash flow hedge reserve	Profit and loss account	Total
	£	£	£	£
Balance as at 31 December 2015	898,500	(37,579,842)	59,995,211	23,313,869
Total comprehensive loss for the period	-	18,740,064	(32,756,559)	(14,016,495)
Balance as at 31 December 2016	**898,500**	**(18,839,778)**	**27,238,652**	**9,297,374**
Total comprehensive income for the period	-	18,839,778	3,040,970	21,880,748
Balance as at 24 February 2018	**898,500**	**-**	**30,279,622**	**31,178,122**

The notes on pages 13 to 27 form an integral part of these financial statements.

THE TESCO AQUA LIMITED PARTNERSHIP

CASH FLOW STATEMENT FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

	Notes	**60 weeks ended 24 February 2018**	Year ended 31 December 2016
		£	£
Cash flows from operating activities	16	**(603,384)**	35,959,875
Cash flows from investing activities			
Interest received		**7,882**	22,452
Cash flows from financing activities			
Interest paid		**(25,883,908)**	(27,883,183)
Increase in cash		**(26,479,410)**	8,099,144
Cash and cash equivalents at the beginning of the period		**27,038,225**	18,939,081
Cash and cash equivalents at the end of the period		**558,815**	27,038,225

THE TESCO AQUA LIMITED PARTNERSHIP

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018

	Notes	60 weeks ended 24 February 2018	Year ended 31 December 2016
		£	£
(Decrease)/ increase in cash and cash equivalents	17	**(26,479,410)**	8,099,144
Net movement in loans	17	**(564,462)**	(256,492)
Movement in fair value of swap	17	**28,133,103**	13,920,423
(Decrease)/ increase in net debt	17	**1,089,231**	21,763,075
Opening net debt	17	**(488,540,732)**	(510,303,807)
Closing net debt		**(487,451,501)**	(488,540,732)

1. Statement of compliance

The financial statements of the Partnership have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are also prepared in accordance with the Companies Act 2006 as applicable to entities reporting under IFRS (and as required by the amended and restated Limited Partnership Agreement).

2. General information

The Partnership was established on 14 August 2006 and is registered as a Limited Partnership in England and Wales under the Limited Partnership Act 1907. The Partnership was originally constituted under the Initial Partnership Agreement, which was then superseded by the amended and restated Limited Partnership Agreement on 5 December 2006, 20 December 2006, 20 March 2007 and again on 28 August 2009.The Partnership is limited by Partners' capital.

The financial statements of the Partnership for the 60 weeks period ended 24 February 2018 were approved by the General partners on 20 August 2018 and the Balance Sheet was signed on the Partner's behalf by Tesco Aqua (GP) Limited on 21 August 2018.

The functional and presentational currency of the Partnership is Pound Sterling (£) because that is the currency of the primary economic environment in which the Partnership operates. The financials are rounded to the nearest Sterling Pound (£), except when otherwise stated.

The address of the registered office Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA. The nature of the partnership operations and its principal activities are set out in the Strategic Report on page 1.

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and to the preceding period, unless otherwise stated.

3. Accounting policies

a. Basis of preparation

The financial statements of The Tesco Aqua Limited Partnership have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are also prepared in accordance with the Companies Act 2006 as applicable to entities reporting under IFRS (and as required by the amended and restated Limited Partnership Agreement) and are prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit and loss.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Partnership accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3c.

b. Going concern

The General Partner has, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operation existence for a period of at least 12 months from the date of signing in the financial statements; thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is continued in General Partner's Report on page 3.

3. Accounting policies (continued)

c. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Partnership's accounting policies, which are described in Note 3(d), the General Partner is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

For the derivative instrument, management has applied its own internal estimations of future RPI movements. This has been benchmarked against market data for accuracy and is in line with the methodologies used by Tesco PLC in valuing their derivative instrument.

For investment properties, determining the value requires an estimation of expected open-market rental income as well as an expected yield to calculate its fair value.

There are no other judgements and estimates that have a significant effect on amounts recognised in the financial statements.

d. Significant accounting policies

Investment properties

Investment properties are carried at cost less accumulated depreciation and any recognised impairment in value. Investment properties are depreciated on a straight-line basis to their residual value over their anticipated useful economic life of 40 years.

Leases and rental income

The partnership exercises judgement in determining the classification of leases as finance or operating leases at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the property, whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

The properties owned by the Partnership are being leased out under operating leases. Rental income is recognised in the Profit and Loss Account when earned, with rent received in advance being deferred on the balance sheet.

The leases are subject to annual uplifts which are linked to the RPI, subject to a minimum annual increase of nil and a maximum annual increase of 5%.

100% of the rental Income generated during the period was generated in the United Kingdom by letting out properties which are located in the United Kingdom.

3. Accounting policies (continued)

d. Significant accounting policies (continued)

Capital Management Policy

The Partnership's objectives when managing capital (defined as net debt plus equity) are to safeguard the Partnership'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.

In managing the Partnership's capital, it must adhere to capital requirement, where the value of external debt must not rise above 90% of the fair value of the investment property, nor must rental income fall below net interest payable. The Partnership is complying with its objectives through a fixed rental stream until maturity of the debt as well as hedging net interest payable, thereby managing its cash flows. There have been no changes to how the Partnership manages its capital.

Amortisation of loan arrangement fee

The costs associated with the raising of long-term finance for the Partnership are netted off against the loan to which they relate. The costs are being amortised on a straight—line basis, in line with the period over which the loan will be repaid.

Interest payable and receivable

Interest payable and receivable is calculated on an accrual basis.

Financial instruments

Financial assets and financial liabilities are recognised when the Partnership becomes a party to the contractual provisions of the instrument.

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

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the Statement of Financial Position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Partnership intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

3. Accounting policies (continued)

d. Significant accounting policies (continued)

Financial instruments (continued)

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be £nil) less impairment.

De-recognition of financial instruments

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled: (b) the partnership transfers to another party substantially all of the risks and rewards of ownership of the financial asset: or (c) the partnership, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expired.

Derivative financial instruments and hedge accounting

The Partnership uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Partnership does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. Accounting policies (continued)

d. Significant accounting policies (continued)

Financial instruments (continued)

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

-Level 1 inputs are quoted prices (unadjusted) in active markets for identified assets or liabilities that the entity can access at the measurement date;

-Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

-Level 3 inputs are unobservable inputs for the asset or liability.

Hedge accounting

The Partnership designates certain derivatives as hedging instruments in cash flow. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Partnership determines and documents causes for hedge ineffectiveness.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Partnership revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Cash and net debt

Cash is represented by deposits held at call with banks. Any bank overdrafts are shown within borrowings. Net debt is comprised of loans advanced to the Partnership, the derivative used to manage the interest rate paid on the loans, cash and unamortised loan arrangement fees.

3. Accounting policies (continued)

d. Significant accounting policies (continued)

Allocation of profits and drawings

The net profits of the Partnership incurred in each period are divided between the partners in the following proportions:

Tesco Aqua (3LP) Limited	49.90%
Tesco Aqua Unit Trust	49.90%
Tesco Aqua (GP) Limited	0.20%

Any net losses of the Partnership in each period are borne by the partners in the same proportion that they share the balance of the net profits of the Partnership.

4. Principal activity

The purpose of the partnership is to carry out property investment.

5. Operating profit/(loss)

	60 weeks ended 24 February 2018	Year ended 31 December 2016
	£	£
Operating profit/(loss) is stated after charging		
Depreciation and impairment charge of investment property (Note 9) owned assets	**8,324,531**	40,488,811
Service provided by the Partnership's auditor		
Fee payable for audit	-	12,500

The General Partner received no emoluments for its services to the Partnership (2016: £nil).

The Partnership had no employees during the year ended 24 February 2018 (2016: none).

6. Interest receivable and similar income

	60 weeks ended 24 February 2018	Year ended 31 December 2016
	£	£
Interest received on bank deposits	**7,882**	22,452
Total	**7,882**	22,452

7. Interest payable and similar cost

	60 weeks ended 24 February 2018	Year ended 31 December 2016
	£	£
Interest payable on loans	**30,318,953**	27,892,798
Amortisation of loan issue costs	**54,146**	256,492
Total	**30,373,099**	28,149,290

8. Tax on profit/(loss)

The financial information does not incorporate any charge or liability for taxation on the results of the Partnership, as the relevant income tax or tax on capital gains is the responsibility of the individual members.

9. Investment properties

Cost:	
At 1 January 2016	634,250,000
At 31 December 2016	634,250,000
At 24 February 2018	**634,250,000**
Accumulated depreciation and impairment:	
At 1 January 2016	21,405,939
Depreciation charge for the period	7,135,312
Impairment charge for the period	33,353,499
At 31 December 2016	61,894,750
Depreciation charge for the period	**8,324,531**
At 24 February 2018	**70,219,281**
Net book value:	
At 31 December 2016	572,355,250
At 24 February 2018	**564,030,719**

The estimated fair value of the Partnership's investment property is £599,650,000 (2016: £572,355,250) as at 24 February 2018. This fair value has been determined by an independent valuer, by applying an appropriate rental yield to the rentals earned by the investment properties. The fair value measurement would be classified as Level 3 within the fair value hierarchy as defined by IFRS 13.

The property has been valued on the basis of market value which the valuer confirms to be fair value, as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. This has been subject to any existing leases of guarantees; otherwise assuming vacant possession.

The average yield across the portfolio is 5.87% (2016: 5.91%) with an average market rent of £25.22 (2016: £24.44) per square foot.

There were no restrictions on the realisibility of investment property or the remittance of income and proceeds of disposal, nor were there any contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

10. Debtors: amounts due within one year

	24 February 2018	31 December 2016
	£	£
Amounts owed by Group undertakings	**259,828**	250,200
VAT	**292**	-
	260,120	250,200

Amounts owed by Group undertakings are unsecured, interest free and have no fixed date of repayment and are repayable on demand.

11. Other payables

	24 February 2018	31 December 2016
	£	£
VAT payable	**-**	1,806,047
Accruals	**44,919**	21,531
Deferred Income	**2,821,140**	8,362,665
Loan and other debt due to Tesco PLC	**33,384,211**	68,384,210
Loan interest due to Tesco Corporate Treasury Services PLC	**9,409,946**	-
	45,660,216	78,574,453

12. Borrowings: amounts falling due within one year

	24 February 2018	31 December 2016
	£	£
Loan due to Tesco Aqua (Finco1) Limited	**-**	488,284,407
Subordinated Loan due to Tesco Aqua (Finco1) Limited	**1,000**	1,000
	1,000	488,285,407

The loan with Tesco Aqua (Finco1) Limited was secured and had interest variable rate based on a 3-month average LIBOR +47 basis points and was fully repaid on 2 June 2017. The total value of the loan is £487,500,000 and unamortised issue costs of £54,149 have been netted off the total value of the loan.

The Tesco PLC loan is interest free and repayable on demand.

13. Borrowings: Amounts falling due after more than one year

	24 February 2018	31 December 2016
	£	£
Loan and other debt due to Tesco Corporate Treasury Services PLC	**488,010,316**	-
	488,010,316	-

The loan with Tesco Corporate Treasury Services PLC is secured and incurs interest at a variable rate based on a 12-month average LIBOR +2% and is fully repayable on 2 June 2019. The total value of the loan is £488,010,316.

THE TESCO AQUA LIMITED PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018 (continued)

14. Financial liabilities

	24 February 2018	31 December 2016
	£	£
Non-current		
Interest rate swap	-	23,486,441
Loan and other debt	488,010,316	-
Total non-current financial liabilities	488,010,316	23,486,441
Current		
Loan and other debt	42,795,157	556,669,617
Total current financial liabilities	42,795,157	556,669,617

Loans

Loan comprises the following	24 February 2018	31 December 2016
	£	£
Variable fixed rate loan	488,010,316	487,500,000
Interest-free partner loan	33,384,211	68,384,210
Interest-free subordinated loan	1,000	1,000
	521,395,527	555,885,210
Less: unamortised loan arrangement fees	-	(54,146)
	521,395,527	555,831,064

During the period, the partnership has settled the interest rate swap on 2 June 2017.

Both the interest rate swap and the loans are considered to be Level 2 financial liabilities under the fair value hierarchy, being that they are based on inputs other than quoted prices that are observable either directly or indirectly. There have been no transfers between levels in the fair value hierarchy.

Further details relating to these loans are given in Note 12 and 13.

The main financial risk faced by the Partnership relates to fluctuations in interest rates, the risk of default by counterparties to financial transactions, and the availability of funds to meet business needs. The management of these risks is outsourced as approved in the Partnership agreement. The outsourcing arrangements are monitored by the General Partner.

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 Limited Partnership's hedging policies are further described below.

14. Financial instruments (continued)

Cash flow hedges

The Partnership maintains interest rate swap contracts as cash flow hedges of the interest rate on floating rate debt. This is to mitigate any large fluctuations in interest rates that could lead to difficulty in meeting its obligations. Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in the Statement of Comprehensive Income, 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 Hedge Reserve. 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 Income Statement on an effective interest rate basis.

The hedged item itself fixed annual interest payment at 5.234% of the outstanding principal debt with Tesco Aqua (Finco1) Limited, of which holds a back to back arrangements with ING Bank B.V. This incurred interest at a variable rate based on 3-month average LIBOR +47 basis points. The fair value of the hedged item can be found in Note 12.

The valuation of the interest rate swap at period rate swap at period end is £nil (2016: £23,486,441)

Interest rate risk

Interest rate risk arises from long-term borrowings. Debt issued at variable rates, as well as cash deposits exposes the partnership to cash flow interest rate risk. Debt issued at fixed rates exposes the Partnership to fair value risk. The management of these risks is outsourced as approved in the Partnership Agreement.

The calculation used in valuing the derivative financial statements by discounting future expected cash flows arising from estimation in future interest rates. This is compared against the interest derived from the floating debt instrument to derive either a financial asset or liability. The valuation assumptions for the Level 2 instrument include future expectations of the 3-month LIBOR as well as the appropriate discount factor to use in present valuing the swap. There has been no change to the valuation technique applied in the prior period.

		24 February 2018	
	Fixed	**Floating**	**Total**
	£	**£**	**£**
Cash and cash equivalents	-	**558,815**	**558,815**
Other receivables	**260,120**	-	**260,120**
Bank and other borrowings	**(33,385,211)**	**(488,010,316)**	**(521,395,527)**
	(33,125,091)	**(487,451,501)**	**(520,576,592)**

14. Financial instruments (continued)

		31 December 2016	
	Fixed	Floating	Total
	£	£	£
Cash and cash equivalents	-	27,038,225	27,038,225
Other receivables	250,200	-	250,200
Bank and other borrowings	(68,385,210)	(487,500,000)	(555,885,210)
Interest rate swaps	(487,500,000)	487,500,000	-
	(555,635,010)	27,038,225	(528,596,785)

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables and financial instruments. The management of these risks is outsourced as approved in the Partnership agreement. The counterparty exposure under derivative contracts is £nil (2016: £23,486,441).

The Partnership considers its maximum credit risk to be £533,671,532 (2016: £590,346,301), being the Partnership's total financial liabilities.

Liquidity risk

Liquidity risk is managed by short-term and long-term cash flow forecasts.

The Partnership is not exposed to any foreign currency volatility.

14. Financial instruments (continued)

Capital risk

The Partnership's objectives when managing capital (defined as net debt plus equity) are to safeguard the Partnership's ability to continue as a going concern in order to provide returns to shareholders and benefits or 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 Partnership manages its capital structure and makes adjustments to it in light of changes to economic conditions and the strategic objectives of the Partnership.

Financial assets and liabilities by category

The accounting classifications of each class of financial asset and liability as at 24 February 2018 and 31 December 2016 are as follows:

	Loans and receivables/ other financial liabilities	Fair value through other comprehensive income	Total
	£	£	£
At 24 February 2018			
Cash and cash equivalents	**558,815**	-	**558,815**
Other receivables	**260,120**	-	**260,120**
Long-term borrowings	**(488,010,316)**	-	**(488,010,316)**
Derivatives	-	-	-
Other payables	**(45,661,216)**	-	**(45,661,216)**
	(532,852,597)	-	**(532,852,597)**
At 31 December 2016			
Cash and cash equivalents	27,038,225	-	27,038,225
Other receivables	250,200	-	250,200
Long-term borrowings	-	-	-
Derivatives	-	(23,486,441)	(23,486,441)
Other payables	(566,859,860)	-	(566,859,860)
	(539,571,435)	(23,486,441)	(563,057,876)

14. Financial instruments (continued)

Financial assets and liabilities by category (continued)

There is no netting off in relation to any of the above financial assets and liabilities. During the financial period, there were no transfers (2016: None) between Level 1, Level 2 or Level 3 fair value measurements.

15. Cumulative Partners Accounts

Partners Accounts as at 24 February 2018	Capital contributions £	Cash flow hedge reserve £	Profit and loss account £	**Total** **£**
Tesco Aqua (3LP) Limited	303,500	-	15,109,531	**15,413,031**
Tesco Aqua Unit Trust	303,500	-	15,109,531	**15,413,031**
Tesco Aqua (GP) Limited	291,500	-	60,560	**352,060**
Total	**898,500**	-	**30,279,622**	**31,178,122**

The Partnership was formed on 14 August 2006. The Partnership was originally constituted under the Initial Partnership agreement, which was then superseded by the amended and restated Limited Partnership Agreement (the "Limited Partnership Agreement") on the 5 December 2006, 20 December 2006, 20 March 2007 and again on 28 August 2009.

16. Net cash flow from operating activities

Reconciliation of operating profit to net cash flow from operating activities is shown below:

	60 weeks ended 24 February 2018 **£**	Year ended 31 December 2016 £
Operating profit/(loss)	**33,406,187**	(4,629,721)
Adjustment for:		
Depreciation and impairment charge of investment properties	**8,324,531**	40,488,811
Movements for working capital:		
Change in debtors	**(9,919)**	-
Change in creditors	**(42,324,183)**	100,785
Net cash inflow from operating activities	**(603,384)**	35,959,875

NOTES TO THE FINANCIAL STATEMENTS FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018 (continued)

17. Analysis of changes in net debt

	31 December 2015	Cash movement	Non-cash movement	31 December 2016
	£	£	£	£
Cash at bank and in hand	18,939,081	8,099,144	-	27,038,225
Debt due within one period	-	-	(515,578,957)	(515,578,957)
Debt due after one period	(529,242,888)	-	529,242,888	-
	(510,303,807)	8,099,144	13,663,931	(488,540,732)

	31 December 2016	**Cash movement**	**Non-cash movement**	**24 February 2018**
	£	**£**	**£**	**£**
Cash at bank and in hand	**27,038,225**	**(26,479,410)**	-	**558,815**
Debt due within one period	**(515,578,957)**	**500,039,315**	**15,539,642**	-
Debt due after one period	-	**(488,010,316)**	-	**(488,010,316)**
	(488,540,732)	**(14,450,411)**	**15,539,642**	**(487,451,501)**

18. Receivables under operating lease

Total future minimum lease receivables under non-cancellable operating leases are as follows:

	24 February 2018	31 December 2016
	£	£
Within 1 year	**36,271,801**	2,126,543
2 to 5 years	**145,087,204**	588,430
After 5 years	**177,524,740**	866,970
	358,883,745	3,581,943

The leases all have a break clause with a break date in March 2017. The break clauses were not exercised and so the leases continue until January 2028.

19. Ultimate parent undertaking and controlling party

The immediate parent undertakings of the Partnership are Tesco Aqua (3LP) Limited, Tesco Aqua Unit Trust and Tesco Aqua (GP) Limited.

The ultimate parent undertaking is Tesco PLC which is registered in England and Wales and copies of the Tesco PLC financial statements can be obtained from the Company Secretary at its registered office: Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 60 WEEKS ENDED 24 FEBRUARY 2018 (continued)

20. Related party transactions and balances

During the 60 weeks period ended 24 February 2018 the Partnership entered into transactions with related parties, in the ordinary course of business. Transactions entered into, and balances outstanding at 24 February 2018, are as follows:

Entity	*Relationship*	*Transaction*
Tesco Stores Limited	Subsidiary of ultimate parent undertaking	The Partnership recognised rental income of £41,813,326 (2016: £35,917,696)
Tesco (Fincol) limited partnership	Subsidiary of ultimate parent undertaking	During the 60 weeks ended 24 February 2018 interest of £1,635,726 (2016: £4,923,719) was charged on loan from Tesco Aqua (Fincol) Limited. At 24 February 2018, The Tesco Aqua Limited Partnership had a loan payable to Tesco Aqua (Fincol) Limited of £nil (2016: £487,500,000), and interest payable on that loan totalled £nil (2016: £838,553).
Tesco PLC	Ultimate parent undertaking	The Partnership had a loan payable of £33,384,211 (2016: £68,384,210).
Tesco Corporate Treasury Services PLC	Subsidiary of ultimate parent undertaking	During the 60 weeks ended 24 February 2018 interest of £9,409,946 (2016: £nil) was charged on loan from Tesco Corporate treasury Services PLC. At 24 February 2018 The Partnership had a loan payable to Tesco Corporate treasury Services PLC of £488,010,316 (2016: £nil) and interest payable on that loan totalled £9,409,946 (2016: £nil).

21. Accounting period

The financial statements have been prepared for the 60 weeks ended 24 February 2018 due to change in accounting year-end from 31 December to 24 February. The comparatives presented are for the year ended 31 December 2016 and hence, not comparable to the current 60 weeks ended 24 February 2018.