TESCO TREASURY SERVICES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

Registered number: 07656305

The Directors present their Strategic Report of Tesco Treasury Services PLC (the "Company") for the 52 weeks ended 24 February 2018 ('2018') (the prior financial period being the 52 weeks ended 25 February 2017 ('2017')).

Business review and principal activities

The principal activity of the Company was to act as a financing company for certain Tesco Group subsidiaries, joint ventures and associates. This activity has now been transitioned to another company within the Tesco Group. As a consequence the company will no longer act as a financing company in relation to new funding activity. As a result the primary activity is now only in relation to borrowing and lending for certain Tesco Group subsidiaries.

Results and dividends

The results for the 52 weeks ended 24 February 2018 show a profit before tax of £24m (2017: profit of £17m) and profit after tax of £24m (2017: profit of £17m) driven largely by the reversal of a previous impairment of receivables.

The Company has net assets of £10m (2017: net liabilities of £14m) as at 24 February 2018.

The Directors do not recommend the payment of a dividend for the 52 weeks ended 24 February 2018 (2017: £nil).

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 Company, is discussed on pages 10 to 12 of the Tesco PLC Annual Report and Financial Statements 2018 which does not form a part of this Report.

Future outlook

The company's primary activity has now changed and therefore it is envisaged that there will be significantly lower level of activity.

Principal risks and uncertainties

The objective of the Company is to manage its financial risk and to minimise the adverse effects of fluctuations in the financial markets on the Company's financial assets and liabilities, on reported profitability and on the cash flows of the Company. The Company's activities expose it to a number of financial instrument risks including risk relating to the availability of funds to meet business needs, liquidity risk, interest risk, foreign currency risk and credit risk.

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

Funding and liquidity risk

The Company may finance its operations by a combination of borrowings from other Tesco Group subsidiaries, debt capital market issuances, commercial paper and bank borrowings. The objective is to ensure continuity of funding. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements.

Interest rate risk

The Company's activities expose it primarily to the financial risk of changes in interest rates. The objective of the Company is to limit the impact to its statement of Comprehensive Income from rising interest rates. Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

Foreign currency risk

The principal objective of the Company is to reduce the effect of exchange rate volatility on the Statement of Comprehensive Income. Currency exposures that could significantly impact the Statement of Comprehensive Income are managed using forward purchases or sales of foreign currencies and purchased currency options.

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 objective is to reduce the risk of loss arising from default by parties to financial transactions. The Company holds positions with an approved list of counterparties of good credit quality and these counterparties and their credit ratings are routinely monitored.

Other risks and uncertainties

Other risks and uncertainties are integrated with the principal risks of the Tesco PLC Group (the "Group") which includes the Company. These are not managed separately and, accordingly, we refer to pages 22 to 25 of the Tesco PLC Annual Report and Financial Statements 2018 which does not form a part of this Report.

On behalf of the Board 23 August 2018

Robert Welch

R Welch
Director
Tesco Treasury Services PLC
Registered number: 07656305
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA

The Directors present their Report and the audited financial statements of Tesco Treasury services PLC ('the Company") for the 52 weeks ended 24 February 2018 ('2018') (the prior financial period being the 52 weeks ended 25 February 2017 ('2017')).

Results and dividends

This is discussed in the Strategic Report on Page 1.

Future developments

This is discussed in the Strategic Report on Page 1.

Going concern

The Directors consider that the Company has adequate resources to remain in operation for a period of at least 12 months from the date of signing and have therefore continued to adopt the going concern basis in preparing the financial statements.

Political donations

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

Research and development

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

Employees

The Company had no employees during the period (2017: nil).

Financial risk management

This is discussed in the Strategic Report on Page 1 under financial risk and uncertainties.

Directors

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

L Heywood	
R Welch	
K Koch	(Resigned 6 October 2017)
A Stewart	

None of the Directors had any disclosable interests in the 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 each of the Tesco PLC Directors listed above and the Tesco PLC Company Secretary (who is also a Director 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.

Corporate governance considerations

Disclosures required under the Disclosure and Transparency Rules ("DTR")

Internal control and risk management systems

The Company acts as a financing company for certain Tesco Group subsidiaries, and therefore the internal control and risk management systems of the Company are aligned with those of the Group, which is discussed on pages 22 to 26 of the Tesco PLC Group Annual Report and Financial Statements 2018 which does not form part of this Report.

Other required disclosures

For the 52 weeks ended 24 February 2018, the Company did not have securities carrying voting rights admitted to trading on a regulated market and therefore disclosures required by paragraph 13 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) are not applicable.

Statement of Directors' responsibilities in respect of the financial statements

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), FRS 101 "Reduced Disclosure Framework".

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

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

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

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 auditors

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

On behalf of the Board 23 August 2018

Robert Welch

R Welch
Director
Tesco Treasury Services PLC
Registered number: 07656305
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE TESCO TREASURY SERVICES PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Tesco Treasury Services PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 24 February 2018 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 11.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including [Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 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 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE TESCO TREASURY SERVICES PLC

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE TESCO TREASURY SERVICES PLC

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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.

Stephen Williams (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

23 August 2018

TESCO TREASURY SERVICES PLC

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

	Notes	**52 weeks ended 24 February 2018 £ m**	52 weeks ended 25 February 2017 £ m
Reversal of impairment of receivables	6	**22**	20
Reversal of provisions		**2**	-
Interest payable and similar costs	4	**-**	(3)
Profit before taxation		**24**	17
Tax charge	5	**-**	-
Profit for the financial period		**24**	17
Total comprehensive income for the period		**24**	17

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.

The notes on pages 12 to 22 are an integral part of these financial statements.

BALANCE SHEET AS AT 24 FEBRUARY 2018

	Notes	24 February 2018 £m	25 February 2017 £m
Non – Current assets			
Debtors: Amount falling due after one year	6	-	8
		-	8
Current assets			
Debtors: Amounts falling due within one year	7	**852**	808
		852	808
Current liabilities			
Creditors: Amounts falling due within one year	8	-	(830)
Net current assets/ (liabilities)		**852**	(22)
Total assets less current liabilities		**852**	(14)
Non-Current liabilities			
Creditors: Amounts falling due greater than one year	8	**(842)**	-
Net assets/(liabilities)		**10**	(14)
Capital and reserves			
Called up share capital	10	**100**	100
Profit and loss account		**(90)**	(114)
Total shareholders' funds		**10**	(14)

The notes on pages 12 to 22 are an integral part of these financial statements.

The financial statements on pages 9 to 22 were approved by the Board of Directors on 23 August 2018 and signed on its behalf by:

Robert Welch

R Welch
Director
Tesco Treasury Services PLC
Registered number: 07656305
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

STATEMENT OF CHANGES IN EQUITY AS AT 24 FEBRUARY 2018

	Called up share capital *	Profit and loss account	Total
	£m	£m	£m
Balance as at 25 February 2017	100	(114)	(14)
Profit for the financial period	-	24	24
Balance as at 24 February 2018	100	(90)	10

	Called up share capital *	Profit and loss account	Total
	£m	£m	£m
Balance as at 27 February 2016	100	(131)	(31)
Profit for the financial period	-	17	17
Balance as at 25 February 2017	100	(114)	(14)

*See Note 10 for a breakdown of the Share Capital

The notes on pages 12 to 22 are an integral part of these financial statements.

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Tesco Treasury Services PLC (the "Company") for the 52 week period ended 24 February 2018 were approved by the Board of Directors on 23 August 2018 and the Balance Sheet was signed on the Board's behalf by Robert Welch. Tesco Treasury Services PLC is a public limited company and is incorporated and domiciled in United Kingdom and registered in England and Wales.

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

The Company's financial statements are presented in Sterling and all values are rounded to the nearest million (£m), except when otherwise indicated.

2. Accounting policies

a) General information

Tesco Treasury Services PLC is a Company incorporated in United Kingdom under the Companies Act 2006. The address of the registered office is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 1.

b) Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company is a qualifying entity for the purposes of FRS 101. Note 11 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

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

The Company is a financial institution for the purposes of FRS 101 and therefore may not take advantage of the exemptions from IFRS 7 Financial Instruments: Disclosures, paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, and paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements.

2. Accounting Policies (continued)

c) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

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

e) Significant accounting policies

Foreign currencies

The Company's financial statements are presented in sterling, which is also the Company's functional currency, as this is an extension of the UK based parent company for which the functional currency is sterling.

Transactions in foreign currencies are translated into pounds sterling at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into pounds sterling at the exchange rates prevailing at the balance sheet date. All foreign exchange differences are taken to the statement of comprehensive income for the period.

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 within the scope of IAS 39 are classified as financial assets 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 deposits, trade and other receivables, loan notes, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit of loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognised in finance revenue or finance expense in the income statement.

2. Accounting Policies (continued)

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 within the scope of IAS 39 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:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. Interest bearing loans and borrowing obligations are recognised when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

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.

Derivative financial instruments and hedge accounting

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

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in Profit and Loss account. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception the relationship between the item being hedged and the hedging instrument.

2. Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each financial reporting date to ensure that the hedge remains highly effective.

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

Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Statement of Changes in Equity until the forecast transaction occurs or the original hedged item affects the Profit and Loss account.

If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Statement of Changes in Equity is reclassified to the Profit and Loss account.

Income Taxes

Current tax, including United Kingdom (UK) corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Profit and Loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

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.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised

2. Accounting Policies (continued)

Deferred tax (continued)

if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the Profit and Loss account, except when it relates to items charged or credited directly in equity or other comprehensive income, in which case deferred tax is also recognised in equity or other comprehensive income, respectively.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the period

Current and deferred tax are recognised in the Profit and Loss account, 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.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Interest payable and similar costs

Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised.

Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use and from which future economic benefits are expected to arise. All other borrowing costs are recognised in the Profit and Loss account in finance costs in the period in which they occur.

3. Operating profit

The Company has no employees during the period (2017: nil).

The Directors received no emoluments in respect of its services to the Company (2017: £nil).

The auditors' remuneration of £10,000 (2017: £10,000) were borne on the Company's behalf by another group company.

4. Interest payable and similar costs

	52 weeks ended 24 February 2018	52 weeks ended 25 February 2017
	£m	£m
Fair value losses in financial instrument		
– Derivative hedging commercial paper and currency	-	(3)
Total	-	(3)

5. Taxation

(a) Factors that have affected the tax expense/ (credit) included in profit or loss:

The standard rate of corporation tax in the UK was 20% from 1 April 2015, and was changed from 20% to 19% from 1 April 2017. This gives an overall blended rate for the company for the full period of 19.1%.

(b) Tax charged in P&L Account

	52 weeks ended 24 February 2018	52 weeks ended 25 February 2017
	£m	£m
Current income tax:		
UK Corporation tax on profit for the financial period	-	-
Total current income tax (charge)/ credit	-	-
Total tax expense/ (credit) for the period	-	-

5. Taxation (continued)

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

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

	52 weeks ended 24 February 2018	52 weeks ended 25 February 2017
	£m	£m
Profit before tax	**24**	17
(c) Reconciliation of effective tax charge/ (credit)		
Profit multiplied by blended tax rate in the UK of 19.1% (2017: 20.0 %)	**(5)**	(3)
Effects of:		
Income not taxable in period	-	15
Expense not deductible for tax purposes	-	(11)
Group relief claimed/(surrendered) without payment	5	(1)
Total tax charge/ (credit) for the period	-	-

(d) Tax rate changes

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were enacted by the Balance Sheet date and therefore included in these consolidated financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

6. Debtors : Amount falling due after one year

	24 February 2018	25 February 2017
	£m	£m
Loan receivable	-	8
	-	**8**

The amount above is after reversal of impairment of receivables £22m (2017: £20m).

7. Debtors: Amounts falling due within one year

	24 February 2018	25 February 2017
	£m	£m
Amount owed by group undertakings	**852**	808
	852	**808**

Amounts owed by group undertakings are interest bearing or non-interest bearing depending on the type and duration of the debtor relationship. The fair value is £852m (2017: £816 m).

8. Creditors

	24 February 2018	25 February 2017
	£m	£m
Amounts falling due within one year		
Amount owed to group undertakings	-	829
Bank overdrafts	-	1
	-	830
Amounts falling due greater than one year		
Amount owed to group undertakings	842	-
	842	-

Amounts owed to group undertakings of £842m (2017: £Nil) are unsecured, interest bearing at 2.6% and have a fixed date (28th February 2019) of repayment. Prior year ending 25 February 2017, amounts owed to group undertakings were non-interest bearing and repayable on demand.

9. Financial instruments

The following table shows the carrying value and fair value of Company's financial assets and liabilities:

	24 February 2018		25 February 2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Assets:				
Amount owed by group undertakings	**852**	**852**	808	816
Loan receivable	-	-	8	8
	852	**852**	816	824

9. Financial instruments (continued)

	24 February 2018		25 February 2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Liabilities:				
Amount owed to group undertakings	**(842)**	**(859)**	(829)	(829)
Short term loans	**-**	**-**	(1)	(1)
	(842)	**(859)**	(830)	(830)

All of the Company's financial assets and liabilities that are measured at fair value at 24 February 2018 meet the definition of Level 2 of the fair value hierarchy:

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

Offsetting of financial assets and liabilities

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

Financial risk factors

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

Risk management is carried out by a central treasury department under policies approved by the Group Board of Directors. The Board provides written principles for risk management, as described in the Principal risks and uncertainties on pages 22 to 25 of the Group's Annual Report, which does not form part of this Report.

9. Financial instruments (continued)

Interest rate risk

Interest rate risk arises from cash deposits, long term loans receivable/payable and overdrafts.

	24 February 2018			25 February 2017		
	Fixed	**Floating**	**Total**	Fixed	Floating	Total
	£m	**£m**	**£m**	£m	£m	£m
Loan receivable	-	-	-	8	-	8
Bank overdrafts	-	-	-	-	(1)	(1)
Amounts owed to Group undertakings	(842)	-	(842)	-	-	-
	(842)	-	**(842)**	**8**	**(1)**	**7**

Credit risk

Credit risk arises from loans receivable and amount owed by group undertaking. To limit this risk where possible financial transactions take place with counterparties who have a strong credit rating and within defined exposure limits. The Company considers its maximum credit risk to be £852m (2017: £816m).

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below:

	24 February 2018		25 February 2017	
	Carrying value	**Maximum exposure**	Carrying value	Maximum exposure
	£m	**£m**	£m	£m
Assets:				
Loans receivable	-	-	8	8
Amount owed by group undertakings	**852**	**852**	808	808
	852	**852**	816	816

9. Financial instruments (continued)

Capital risk

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

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. This risk is managed via a pooling agreement between the Company, other Tesco subsidiaries and financial institutions.

10. Called up share capital

	24 February 2018	25 February 2017
	£m	£m
Allotted, called up and fully paid:		
100,000,000 (2017:100,000,000) ordinary shares of £1 each	**100**	100
	100	100

11. Ultimate parent undertaking and controlling party

The Company's immediate and 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 largest/smallest group and are available from Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom the registered offices of Tesco PLC.

Copies of the Tesco PLC financial statements can be obtained from the Company Secretary, Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.