TESCO CORPORATE TREASURY SERVICES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

Company Registration Number: 08629715

TESCO CORPORATE TREASURY SERVICES PLC

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

The Directors present their Strategic Report of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2016 (prior period 53 weeks ended 28 February 2015).

Review of the business

The principal activity of the Company is to act as a financing company for certain Tesco Group subsidiaries, joint ventures and associates. The Company issues debt under medium term note programs and provides funding to Tesco Group companies, joint ventures and associates.

Results and dividends

The results for the period show a pre-tax loss of £55m (2015: pre-tax profit of £42m) driven largely by interest expense on external loans.

The Directors do not recommend payment of a dividend for the 52 weeks ended 27 February 2016. (2015: £nil).

Principal risks and uncertainties

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

Funding and liquidity
The Company finances its operations by a combination of debt capital market issues, 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 management
Our objective is to limit the impact to our income statement 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 management
Our principal objective 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
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 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 24 to 27 of the Tesco PLC Group Annual Report for the 52 weeks ending 27 February 2016, which does not form part of this Report.

On behalf of the Board 25 August 2016

A Stewart
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

TESCO CORPORATE TREASURY SERVICES PLC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

The Directors present their Annual Report and the audited financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2016 (prior period 53 weeks ended 28 February 2015).

Results and dividends

Details of results and dividends can be found in the strategic report.

Political donations

There were no political donations for the period (2015: none).

Future outlook

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 Group's long-term strategy, which is discussed on pages 6 to 8 of the Tesco PLC Annual Report 2016, which does not form part of this Report.

Going concern

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. The going concern basis has been adopted based on the expectation that it is not the current intention of the other Group companies to withdraw funding.

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 12 to 13 of the Group's Annual Report, which does not form part of this Report.

Employees

The Company had no employees during the period (2015: none).

Directors and their interests

The following Directors served during the period and up to the date of signing the financial statements, except as noted.

D Surdeau (Resigned 30 October 2015)
S Rao (Resigned 8 April 2016)
L Heywood (Appointed 11 August 2016)
A Stewart
Tesco Services Limited

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 the Tesco PLC Director listed above and the Company Secretary (who is a Director of Tesco Services Limited) in respect of liabilities incurred as a result of his office, to the extent permitted by law. In respect of those liabilities for which Directors and Officers may not be indemnified, Tesco PLC maintained a Directors' and Officers' liability insurance policy throughout the financial period and up to the date of signing the financial statements.

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, joint ventures and associates only, and therefore the internal control and risk management systems of the Company are aligned with those of the Group, which is discussed on pages 24 to 27, and pages 30 to 47 of the Group's Annual Report, which does not form part of this Report.

Other required disclosures
For the 52 weeks ended 27 February 2016, 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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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 Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He/she has taken all the steps that he/she ought to have taken as a director to make himself/herself 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.

On behalf of the Board 25 August 2016

A Stewart
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

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

We have audited the financial statements of Tesco Corporate Treasury Services PLC for the 52 weeks ended 27 February 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 "Reduced Disclosure Framework".

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

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

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 27 February 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the 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 and the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO CORPORATE TREASURY SERVICES PLC (continued)

Matters on which we are required to report by exception

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

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

Stephen Williams (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

26 August 2016

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

	Notes	**52 weeks to 27 February 2016 £m**	53 weeks to 28 February 2015 £m
Income Statement			
Impairment of receivables	8	**-**	(10)
Finance income	5	**33**	101
Finance costs	6	**(88)**	(49)
(Loss)/profit on ordinary activities before taxation		**(55)**	42
Tax on (loss)/profit on ordinary activities	7	**-**	-
(Loss)/profit for the financial period		**(55)**	42
Other comprehensive income			
Items that may subsequently be reclassified to profit/(loss)			
Gains / (losses) on cash flow hedges			
Net fair value gains / (losses)		**98**	(160)
Reclassified and reported in the Income Statement		**(107)**	148
Deferred tax on cash flow hedge		**2**	2
		(7)	(10)
Total comprehensive (loss)/income for the financial period		**(62)**	32

The notes on pages 11 to 24 form part of these financial statements. The above results were derived from continuing operations.

TESCO CORPORATE TREASURY SERVICES PLC

BALANCE SHEET AS AT 27 FEBRUARY 2016

	Notes	27 February 2016 £m	28 February 2015 £m
Non-current assets			
Derivative financial instruments	13	**117**	122
Deferred tax asset	11	**2**	-
Current assets			
Derivative financial instruments	13	**44**	-
Receivables	8	**5,665**	2,495
Short-term investments	9	**301**	-
Cash and cash equivalents		**728**	-
Total current assets		**6,738**	2,495
Total assets		**6,857**	2,617
Current liabilities			
Borrowings	12	**(597)**	(29)
Derivative financial instruments	13	**(30)**	(1)
Payables	10	**(3,629)**	-
Net current assets		**2,482**	2,465
Total assets less current liabilities		**2,601**	2,587
Non-current liabilities			
Borrowings	12	**(2,373)**	(2,183)
Derivative financial instruments	13	**(155)**	(269)
Net assets		**73**	135
Equity			
Share capital	15	**100**	100
Cash flow hedge reserve		**(8)**	(1)
Retained earnings		**(19)**	36
Total equity		**73**	135

The notes on pages 11 to 24 form part of these financial statements.

The financial statements of Tesco Corporate Treasury Services PLC, registration number: 08629715 on pages 8 to 24 were approved and authorised for issue by the Board of Directors on 25 August 2016 and were signed on its behalf by:

A Stewart
Director
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.
25 August 2016

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 28 February 2015	**100**	**(1)**	**36**	**135**
Loss for the financial period	-	-	(55)	(55)
Net loss on cash flow hedges	-	(9)	-	(9)
Deferred tax credit on cash flow hedge	-	2	-	2
Total comprehensive income	-	**(7)**	**(55)**	**(62)**
At 27 February 2016	**100**	**(8)**	**(19)**	**73**
At 22 February 2014	100	9	(6)	103
Profit for the financial period	-	-	42	42
Net loss on cash flow hedges	-	(12)	-	(12)
Deferred tax credit on cash flow hedge	-	2	-	2
Total comprehensive income	-	**(10)**	**42**	**32**
At 28 February 2015	**100**	**(1)**	**36**	**135**

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016

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

The financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2016 were approved by the Board of Directors on 26 August 2016 and the balance sheet was signed on the Board's behalf by A Stewart. Tesco Corporate Treasury Services PLC is incorporated and domiciled in the 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") and incorporating the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016.

The Directors have taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements as it is a wholly owned subsidiary of Tesco PLC. The results of the company are included in the consolidated financial statements of Tesco PLC which are available from Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101, *Reduced Disclosure Framework* ("FRS 101") and the Companies Act 2006 (the "Act"). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 1 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

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

- 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.

The financial statements have been prepared on the going concern basis under the historical cost convention and the Companies Act 2006 and applicable accounting standards in the United Kingdom, except for certain financial instruments that have been valued at fair value.

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

2. ACCOUNTING POLICIES (continued)

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies 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 have reviewed the estimates and assumptions used in the preparation of the financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to the changes on the estimates or assumptions.

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.

Receivables
Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Borrowings
Interest-bearing borrowings and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

Other payables
Other payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its own and the Group's exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Statement of Comprehensive Income. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the items being hedged.

2. ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)
In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each 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.

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 accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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 re-measuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is removed from equity and recognised in the Statement of Comprehensive Income in the same period during which the hedged transaction affects the Statement of Comprehensive Income. The classification of the effective portion when recognised in the Statement of Comprehensive Income is the same as the classification of the hedged transaction. Any element of the re-measurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Statement of Comprehensive Income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting or is de-designated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Statement of Comprehensive Income. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Statement of Comprehensive Income.

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

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 Income Statement.

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 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.

2. ACCOUNTING POLICIES (continued)

Deferred tax (continued)
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 asset 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 income statement, except when it relates to items charged or credited in other comprehensive income, in which case deferred tax is also dealt with in other comprehensive income.

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.

3. AUDITOR'S REMUNERATION

The auditor's remuneration for the current and prior period was borne by another Group company.

4. STAFF COSTS AND DIRECTORS' REMUNERATION

The Directors received no emoluments for their services to the Company (2015: £nil).

The Company had no employees during the period (2015: none).

5. FINANCE INCOME

	2016	2015
	£m	£m
Interest receivable on loans to group undertakings	**20**	-
Interest receivable	**2**	1
Financial instruments – fair value re-measurements	**11**	100
Total finance income	**33**	101

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2016 (continued)

6. FINANCE COSTS

	2016 £m	2015 £m
Interest payable on loans from group undertakings	**(25)**	-
Interest payable on medium term notes	**(41)**	(36)
Interest payable on derivatives	**(19)**	(13)
Other interest payable	**(3)**	-
Total finance costs	**(88)**	(49)

7. TAXATION ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Factors that have affected the tax charge

The Finance Act 2013 included legislation to reduce the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The blended tax rate for the period is therefore 20.1%.

	2016 £m	2015 £m
Income tax:		
UK Corporation tax on (loss)/profit for the financial period	**-**	-
Deferred tax	**-**	-
Total income tax expense	**-**	-

The charge for the year can be reconciled to the profit in the Income Statement as follows:

	2016 £m	2015 £m
(Loss) / Profit on ordinary activities before tax	**(55)**	42
(Loss) / Profit on ordinary activities multiplied by blended rate in the UK 20.1% (2015: 21.2%)	**(11)**	9
Effects of:		
Expenses not deductible for tax purposes	**-**	2
Group relief surrendered/(claimed) without payment	**11**	(11)
Total income tax charge for the financial period	**-**	-

Tax on items credited directly to the Statement of Changes in Equity

	2016 £m	2015 £m
Deferred tax charge/(credit) on:		
Movement on cash flow hedges	(2)	(2)
Total tax on items charged to Statement of Changes in Equity	(2)	(2)

8. RECEIVABLES

	2016 £m	2015 £m
Amounts owed by Group undertakings	**5,665**	2,495
	5,665	2,495

Amounts owed by Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of debtor relationship.
The amount above is after no impairment of Receivables (2015: £10m).

9. SHORT TERM INVESTMENTS

	2016 £m	2015 £m
Short-term investments	**301**	-
	301	-

The above short-term investments are secured deposits held with banks.

10. PAYABLES

	2016 £m	2015 £m
Amounts owed to Group undertakings	**3,629**	-
	3,629	-

Amounts owed to Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of creditor relationship.

11. DEFERRED TAX

	Deferred tax £m
As at 1 March 2015	-
Reversal of temporary timing differences:	
In respect of the current period	**2**
As at 27 February 2016	**2**

Provision for deferred tax comprises:

	2016 £m	2015 £m
Short term timing differences	**2**	-
Deferred tax asset	**2**	-

11. DEFERRED TAX (continued)

The rate of corporation tax was reduced to 21% from 1 April 2014 following the enactment of the Finance Act 2013, which also resulted in a further reduction in the rate of corporation tax from 21% to 20% from 1 April 2015. The Finance (No. 2) Act 2015 enacted a reduction in the rate of UK corporation tax to 19% from 1 April 2017 and to 18% from 1 April 2020. The Finance Bill 2016 proposed a further reduction in the rate of Corporation Tax to 17% effective from 1 April 2020. This had not been substantively enacted at the balance sheet date. Deferred tax has been recognised at a rate of 18%, reflecting the expected period of realisation of these assets.

12. BORROWINGS

			2016 £m	2015 £m
Overdrafts			**597**	29
	Par Value	Maturity		
1.250% MTN	€500m	Nov 2017	**394**	362
1.375% MTN	€1,250m	Jul 2019	**990**	912
2.125% MTN	€500m	Nov 2020	**394**	362
2.5% MTN	€750m	Jul 2024	**595**	547
Total MTNs			**2,373**	2,183
			2,970	2,212

All MTNs are listed and guaranteed by the ultimate parent company Tesco PLC.

	2016 £m	2015 £m
Repayment analysis:		
Amounts falling due within one year	**597**	29
	597	29
Amounts falling due after more than one year:		
Amounts falling due between one and two years	**394**	-
Amounts falling due between two and five years	**1,384**	1,274
Amounts falling due after more than five years	**595**	909
	2,373	2,183
	2,970	2,212

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

Cash flow hedges

The Company uses Cross Currency Swaps to hedge cash flows on fixed rate debt denominated in foreign currencies. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. Cash flows in respect of Cash flow hedges will take place over the lifetime of the hedged items being the MTNs and will recognised in the profit and losses over the same period.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

These instruments include index linked swaps and forward contracts for diesel to hedge the future purchase of diesel for use within the Tesco group. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

Financial instruments not qualifying for hedge accounting

The fair value of derivative financial instruments has been disclosed in the balance sheet as:

	2016 Asset £m	**2016** Liability £m	2015 Asset £m	2015 Liability £m
Current	**44**	**(30)**	-	(1)
Non-current	**117**	**(155)**	122	(269)
Total	**161**	**(185)**	122	(270)

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

	2016 Asset Fair value £m	**2016** Asset Notional £m	**2016** Liability Fair value £m	**2016** Liability Notional £m	2015 Asset Fair value £m	2015 Asset Notional £m	2015 Liability Fair value £m	2015 Liability Notional £m
Cash flow hedges								
Cross-Currency Swaps	**14**	**180**	**(73)**	**1,559**	-	-	(162)	1,271
Foreign forward currency contracts	**-**	**-**	**-**	**68**	-	-	(1)	14
Derivatives not in a formal hedge relationship								
Foreign forward currency contracts	**28**	**1,265**	**(8)**	**432**	-	-	-	-
Index-linked swaps	**119**	**2,055**	**(99)**	**1,681**	122	1,723	(107)	1,723
Forward contracts			**(5)**	**25**				
Total	**161**	**3,500**	**(185)**	**3,765**	122	1,723	(270)	3,008

As at 27 February 2016, the fixed interest rates vary from 2.0% to 4.0%. (2015: 2.0% to 7.6%). Gains and losses recognised in the hedging reserve in equity on Cross Currency Swap contracts as of 27 February 2016 will be continuously released to the income statement within finance cost until repayment of the associated borrowing.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2016 Carrying value £m	**2016 Fair value £m**	2015 Carrying value £m	2015 Fair value £m
Assets				
Cash and cash equivalents	**728**	**728**	-	-
Short-term investments	**301**	**301**	-	-
Cross-currency swaps	**14**	**14**	-	-
Index linked swaps	**119**	**119**	122	122
Forward foreign currency contracts	**28**	**28**	-	-
	1,190	**1,190**	122	122
Liabilities				
Amortised cost: short-term borrowings	**(597)**	**(597)**	(29)	(29)
Amortised cost: long-term borrowings	**(2,373)**	**(2,301)**	(2,183)	(2,202)
Cross-currency swaps	**(73)**	**(73)**	(162)	(162)
Index linked swaps	**(99)**	**(99)**	(107)	(107)
Forward foreign currency contracts	**(8)**	**(8)**	(1)	(1)
Forward Contracts	**(5)**	**(5)**	-	-
Total financial liabilities	**(3,155)**	**(3,083)**	(2,482)	(2,501)

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes Receivables (note 8) which have fair values equal to their carrying values.

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities as at 27 February 2016 and 28 February 2015 are as follows:

	Loans and receivables / cash and other financial liabilities £m	Derivatives used for hedging £m	Total £m
At 27 February 2016			
Cash and cash equivalents	**728**	**-**	**728**
Short term investments	**301**	**-**	**301**
Short term borrowings	**(597)**	**-**	**(597)**
Long –term borrowings	**(2,373)**	**-**	**(2,373)**
Cross-currency swaps	**-**	**(59)**	**(59)**
Index-linked swaps	**-**	**20**	**20**
Forward foreign currency contracts	**-**	**20**	**20**
Forward contracts		**(5)**	**(5)**
	(1,941)	**(24)**	**(1,965)**
At 28 February 2015			
Short term borrowings	(29)	-	(29)
Long –term borrowings	(2,183)	-	(2,183)
Cross-currency swaps	-	(162)	(162)
Index-linked swaps	-	15	15
Forward foreign currency contracts	-	(1)	(1)
	(2,212)	(148)	(2,360)

Fair value measurement

All of the financial assets and liabilities that are measured at fair value at 27 February 2016 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).

13. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Offsetting of financial assets and liabilities
The following table shows those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 27 February 2016	Gross amount of recognised financial assets/ (liabilities)	Net amount presented	Related amounts not set off in the Balance Sheet Financial Instruments	Net amount
	£m	£m	£m	£m
Financial assets offset				
Derivative financial instruments	161	161	(40)	131
Total	**161**	**161**	**(40)**	**131**
Financial liabilities offset				
Derivative financial instruments	(185)	(185)	40	(184)
Total	**(185)**	**(185)**	**40**	**(184)**
At 28 February 2015				
Financial assets offset				
Derivative financial instruments	122	122	(57)	65
Total	**122**	**122**	**(57)**	**65**
Financial liabilities offset				
Derivative financial instruments	(270)	(270)	57	(213)
Total	**(270)**	**(270)**	**57**	**(213)**

14. 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 24 to 27 of the Tesco PLC Annual Report 2016 which does not form part of this Report.

Interest rate risk
Interest rate risk arises from long term debt, cash deposits and overdrafts.

During 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed	**Floating**	**2016**	Fixed	Floating	2015
	£m	**£m**	**£m**	£m	£m	£m
Cash and cash equivalents	**-**	**728**	**728**	-	-	-
Short-term investments		**301**	**301**	-	-	-
Bank and other borrowings	**(2,373)**	**(597)**	**(2,970)**	(2,183)	(29)	(2,212)
Total	**(2,373)**	**432**	**(1,941)**	(2,183)	(29)	(2,212)

All Cross-currency swaps are fixed to fixed and therefore do not change the fixed floating components within net debt.

14. FINANCIAL RISK FACTORS (continued)

Credit risk

Credit risk arises from cash and cash equivalents, loans receivable and financial instruments with banks and financial institutions. To limit this risk where possible financial transactions take place with counterparties who have a strong credit rating and within defined exposure limits.

The net counterparty exposure under derivative contracts is £131m (2015: £65m).The Company considers its maximum credit risk to be £6,815m (2015: £2,560m).

14. FINANCIAL RISK FACTORS (continued)

Liquidity risk

Liquidity risk arises from the maturity profile associated with the borrowings in issuance. This risk is managed via a pooling agreement between the company, other Tesco subsidiaries and financial institutions. The overall liquidity risk is aligned to those of the Tesco Group. These are outlined in the Group Annual Report.

At 27 February 2016	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due beyond 5 years
	£m	£m	£m	£m	£m	£m
Bank and other borrowings	**(597)**	**(394)**	**-**	**(985)**	**(394)**	**(591)**
Interest payments on borrowings	**(42)**	**(42)**	**(37)**	**(37)**	**(23)**	**(59)**
Amounts owed by Group undertakings	**5,665**	**-**	**-**	**-**	**-**	**-**
Amounts owed to Group undertakings	**(3,629)**	**-**	**-**	**-**	**-**	**-**
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	**30**	**12**	**10**	**9**	**9**	**238**
Net settled derivative contracts - payments	**(40)**	**(17)**	**(15)**	**(14)**	**(24)**	**(172)**
Gross settled derivative contracts – receipts	**1,511**	**612**	**23**	**23**	**417**	**650**
Gross settled derivative contracts – payments	**1,399**	**(639)**	**(36)**	**(36)**	**(456)**	**(684)**
Total	**4,297**	**(468)**	**(55)**	**(1,040)**	**(471)**	**(618)**

At 28 February 2015	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due beyond 5 years
	£m	£m	£m	£m	£m	£m
Bank and other borrowings	(29)	-	(363)	-	(908)	(908)
Interest payments on borrowings	(38)	(38)	(38)	(34)	(34)	(76)
Amounts owed by Group undertakings	2,495	-	-	-	-	-
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	23	38	18	15	14	138
Net settled derivative contracts - payments	(23)	(38)	(18)	(15)	(14)	(120)
Gross settled derivative contracts – receipts	38	26	389	21	21	984
Gross settled derivative contracts – payments	(59)	(45)	(465)	(36)	(36)	(1,141)
Total	**2,407**	**(57)**	**(477)**	**(49)**	**(957)**	**(1,123)**

14. FINANCIAL RISK FACTORS (continued)

Foreign exchange risk

Foreign exchange risk arises principally from borrowings issued in currencies other than sterling. To mitigate this risk the Company enters derivatives contracts with matching notional values where appropriate.

Capital risk

The Company's objectives when managing capital risk (defined as net debt plus equity) are aligned to those of the Tesco Group. These are outlined in the Tesco PLC Annual Report 2016.

Sensitivity analysis

The following table shows the illustrative effect on the Income Statement at the balance sheet date, from changes in interest rates and currency exchange rates that are reasonably possible where there have recently been significant movements. The main interest sensitivity relates to interest rate changes which apply to cash and overdraft balances.

	2016 Income gain/(loss) £m	2015 Income gain/(loss) £m
1% increase in interest rates	**(5)**	-
10% appreciation of the Euro	**(51)**	(82)
10% appreciation of the US Dollar	**(8)**	-
10% appreciation of the Polish Zloty	**(2)**	-
5% appreciation of the Czech Koruna	**24**	-

15. SHARE CAPITAL

	2016 £m	2015 £m
Allotted, called up and fully paid:		
100,000,000 Ordinary shares of £1 each (2015: 100,000,000)	**100**	100

16. ULTIMATE GROUP UNDERTAKING

The Company's immediate parent undertakings are Tesco PLC and Tesco Holdings Limited.

The Company's ultimate parent undertaking and controlling party is Tesco PLC. The results of the Company are only included in the consolidated financial statements of Tesco PLC, which is the smallest/largest group and are available from Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

17. POST BALANCE SHEET EVENTS

The Company entered into a financial guarantee to guarantee the indebtedness of a group undertaking amounting to £382m.