TESCO CORPORATE TREASURY SERVICES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

Registered Number: 08629715

TESCO CORPORATE TREASURY SERVICES PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

The Directors present their Report and the audited financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 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 profit of £42m (2014: pre-tax loss of £6m).

The Directors do not recommend payment of a dividend for the 53 weeks ended 28 February 2015 (2014: £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 profit and loss 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 22 to 25 of the Tesco PLC Group Annual Report for the 53 weeks ending 28 February 2015, which does not form part of this Report.

On behalf of the Board 26 August 2015

Shubhi S. Rao

S Rao
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

TESCO CORPORATE TREASURY SERVICES PLC

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

The Directors present their Report and the audited financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 53 weeks ended 28 February 2015 (prior 30 weeks ended 22 February 2014).

Political donations

There were no political donations for the period (2014: 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 5 to 9 of the Tesco PLC Annual Report 2015, which does not form part of this Report.

Key performance indicators (KPIs)

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

The development, performance and position of the operations of the Tesco PLC Group (the "Group"), which includes the Company, is discussed on pages 10 to 11 of the Group's Annual Report, which does not form part of this Report.

Research and development

The Company does not undertake any research and development activities (2014: none).

Employees

The Company had no employees during the period (2014: none).

Directors and their interests

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

M Iddon (Resigned 29 August 2014)
J Lloyd (Resigned 15 January 2015)
S Rao (Appointed 15 January 2015)
A Stewart (Appointed 11 November 2014)
D Surdeau (Appointed 29 August 2014)
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 Directors listed above and the Company Secretary (who are also Directors of the Company) in respect of liabilities incurred as a result of his office, to the extent permitted by law. In respect of those liabilities for which Directors and Officers may not be indemnified, Tesco PLC maintained a Directors' and Officers' liability insurance policy throughout the financial period and up to the date of signing the financial statements.

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 22 to 25, and pages 32 to 45 of the Group's Annual Report, which does not form part of this Report.

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015 (continued)

Other required disclosures
For the 53 weeks ended 28 February 2015, 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 Directors' 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 auditors

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 auditors are 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 auditors are 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 26 August 2015

Shubhi S. Rao

S Rao
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL

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

Report on the financial statements

Our opinion

In our opinion, Tesco Corporate Treasury Services PLC's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 28 February 2015 and of its profit for the 53 week period (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.

What we have audited

Tesco Corporate Treasury Services PLC's financial statements comprise:

- the Balance Sheet as at 28 February 2015;
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Changes in Equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Director's Responsibilities set out on page 4, 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 & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and financial statements 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.

David Beer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
26 August 2015

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

	Notes	**53 weeks to 28 February 2015 £m**	30 weeks to 22 February 2014 £m
Impairment of debtors	8	**(10)**	-
Interest receivable and similar income	5	**101**	-
Interest payable and similar costs	6	**(49)**	(6)
Profit/(loss) on ordinary activities before taxation		**42**	(6)
Tax on profit/(loss) on ordinary activities	7	**-**	-
Profit/(loss) for the financial period		**42**	(6)
Other comprehensive income			
Items that may subsequently be reclassified to profit/(loss)			
Net fair value losses		**(160)**	(10)
Reclassified and reported in the Income Statement		**148**	21
Deferred tax on cash flow hedge		**2**	(2)
Total comprehensive income for the financial period		**32**	3

The notes on pages 10 to 21 form part of these financial statements.

TESCO CORPORATE TREASURY SERVICES PLC

BALANCE SHEET AS AT 28 FEBRUARY 2015

	Notes	28 February 2015 £m	22 February 2014 £m
Current assets			
Derivative financial instruments falling due after more than one year	11	**122**	-
Debtors	8	**2,495**	938
		2,617	938
Current liabilities			
Borrowings	10	**(29)**	-
Derivative financial instruments	11	**(1)**	-
Net current assets		**2,587**	938
Total assets less current liabilities		**2,587**	938
Non-current liabilities			
Borrowings	10	**(2,183)**	(821)
Derivative financial instruments	11	**(269)**	(12)
Provision for liabilities	9	**-**	(2)
Net assets		**135**	103
Capital and reserves			
Share capital	13	**100**	100
Cash flow hedge reserve		**(1)**	9
Retained earnings		**36**	(6)
Total equity		**135**	103

The financial statements on pages 7 to 21 were approved by the Board of Directors on 26 August 2015 and were signed on its behalf by:

Shubhi S. Rao

S Rao
Director
Tesco Corporate Treasury Services PLC

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF CHANGES IN EQUITY FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
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**
At 30 July 2013	-	-	-	-
Loss for the financial period	-	-	(6)	(6)
Net gain on cash flow hedges	-	11	-	11
Deferred tax charge on cash flow hedge	-	(2)	-	(2)
Total comprehensive income	**-**	**9**	**(6)**	**3**
Share issue transactions with owner	100	-	-	100
At 22 February 2014	**100**	**9**	**(6)**	**103**

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015

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 53 weeks ended 28 February 2015 were approved by the Board of Directors on 26 August 2015 and the balance sheet was signed on the Board's behalf by S Rao. Tesco Corporate Treasury Services PLC is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and in accordance with applicable accounting standards. The financial statements have been prepared on the going concern basis under the historical cost convention and the Companies Act 2006, except for certain financial instruments that have been valued at fair value.

The results of Tesco PLC, the immediate, ultimate and controlling party, are included in the consolidated financial statements of Tesco PLC which are available from Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL.

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.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 30 July 2013. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. Note 16 gives details of the impact of these amendments to the Company's previously adopted accounting policies in accordance with UK GAAP and a reconciliation of: (i) shareholders' equity determined in accordance with UK GAAP to shareholders' equity determined in accordance with FRS 101 as at 30 July 2013 and 22 February 2014; and (ii) profit or loss determined in accordance with UK GAAP to profit or loss determined in accordance with FRS 101 for the year ended 22 February 2014.

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 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)

Use of assumptions and estimates

The preparation of the financial statements require management to make judgements , estimates and assumptions that affect the application of policies and reported amounts of assets and 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 assumptions are reviewed on an ongoing basis.

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.

Debtors
Debtors 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 creditors
Other creditors 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)

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 falling due after more than one year.

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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Income Statement except to the extent that it relates to items recognised in the Statement of Comprehensive Income or directly in the Statement of Changes in Equity, in which case it is recognised in the Statement of Comprehensive Income or directly in the Statement of Changes in Equity, respectively.

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 Statement of Comprehensive Income.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Statement of Comprehensive Income. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015 (continued)

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 (2014: £nil).

The Company had no employees during the period (2014: none).

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2015 **£m**	2014 £m
Interest receivable	**1**	-
Net foreign exchange gain on net debt	**250**	-
Net foreign exchange loss on hedges	**(147)**	-
Net foreign exchange loss on bank accounts	**(6)**	-
Fair value gains on financial instruments :		
Index linked hedges – not in a formal hedge relationship	**3**	-
Total interest receivable and similar income	**101**	-

6. INTEREST PAYABLE AND SIMILAR COSTS

	2015 **£m**	2014 £m
Interest payable on medium term notes	**(36)**	(4)
Interest payable on derivatives	**(13)**	(2)
Total interest payable and similar costs	**(49)**	(6)

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

Factors that have affected the tax charge

The standard rate of Corporation Tax in the UK was changed from 23% to 21% with effect from 1 April 2014. This gives an overall blended Corporation Tax rate for the Company for the full year of 21.2 % (2014: 23.1%).

	2015 **£m**	2014 £m
Income tax:		
UK Corporation tax on profit/(loss) for the financial period	-	-
Deferred tax	-	-
Total income tax expense	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015 (continued)

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

The tax assessed for the period is lower (2014: higher) than the blended rate of corporation tax in the UK of 21.2% (2014: 23.1%). The differences are explained below:

	2015 **£m**	2014 £m
Profit/(loss) on ordinary activities before tax	**42**	(6)
Profit/(loss) on ordinary activities multiplied by blended rate in the UK 21.2% (2014: 23.1%)	**9**	(1)
Effects of:		
Expenses not deductible for tax purposes	**2**	-
Group relief (claimed)/surrendered without payment	**(11)**	1
Total income tax charge for the financial period	**-**	-

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

	2015 **£m**	2014 £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. DEBTORS

	2015 **£m**	2014 £m
Amounts owed by Group undertakings	**2,495**	938
	2,495	938

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

The amount above is after impairment of debtors of £10m (2014: £nil), which all relates to amounts owed by Euphorium, an associate of the Company as at the balance sheet date.

9. PROVISION FOR LIABILITIES

	Deferred tax £m
As at 22 February 2014	**2**
Reversal of temporary timing differences:	
In respect of the current period	**(2)**
As at 28 February 2015	**-**

9. PROVISION FOR LIABILITIES (continued)

Provision for deferred tax comprises:

	2015 £m	2014 £m
Short term timing differences	-	2
Deferred tax provision	-	2

10. BORROWINGS

	Par Value	Maturity Year	2015 £m	2014 £m
Overdrafts			29	-
1.250% MTN	€500m	2017	362	410
1.375% MTN	€1,250m	2019	912	-
2.125% MTN	€500m	2020	362	411
2.5% MTN	€750m	2024	547	-
Total MTNs			2,183	821
			2,212	821

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

	2015 £m	2014 £m
Repayment analysis:		
Amounts falling due within one year	29	-
	29	-
Amounts falling due after more than one year:		
Amounts falling due between one and two years	-	-
Amounts falling due between two and five years	1,274	410
Amounts falling due after more than five years	909	411
	2,183	821
	2,212	821

11. 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 IAS39. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 28 FEBRUARY 2015 (continued)

11. 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. 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:

		2015		2014
	Asset	**Liability**	Asset	Liability
	£m	**£m**	£m	£m
Current	**-**	**(1)**	-	-
Non-current	**122**	**(269)**	-	(12)
Total	**122**	**(270)**	-	(12)

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

				2015				2014
	Asset		**Liability**		Asset		Liability	
	Fair value	**Notional**	**Fair value**	**Notional**	Fair value	Notional	Fair value	Notional
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Cash flow hedges								
Cross-Currency Swaps	**-**	**-**	**(162)**	**1,271**	-	-	(12)	823
Foreign forward currency contracts	**-**	**-**	**(1)**	**14**	-	-	-	-
Derivatives not in a formal hedge relationship								
Index-linked swaps	**122**	**1,723**	**(107)**	**1,723**	-	-	-	-
Total	**122**	**1,723**	**(270)**	**3,008**	-	-	(12)	823

As at 28 February 2015, the fixed interest rates vary from 2.0% to 7.6%. (2014 2.0% to 3.0%). Gains and losses recognised in the hedging reserve in equity on Cross Currency Swap contracts as of 28 February 2015 will be continuously released to the income statement within finance cost until repayment of the associated borrowing.

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	2015 Carrying value £m	2015 Fair value £m	2014 Carrying value £m	2014 Fair value £m
Assets				
Index linked swaps	122	122	-	-
	122	122	-	-
Liabilities				
Amortised cost: short-term borrowings	(29)	(29)	-	-
Amortised cost: long-term borrowings	(2,183)	(2,202)	(821)	(829)
Cross-currency swaps	(162)	(162)	-	-
Index linked swaps	(107)	(107)	-	-
Forward foreign currency contracts	(1)	(1)	-	-
Total financial liabilities	(2,482)	(2,501)	(821)	(829)

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 debtors (note 8) which have fair values equal to their carrying values.

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities as at 28 February 2015 and 22 February 2014 are as follows:

	Loans and receivables / cash and other financial liabilities £m	Derivatives used for hedging £m	Total £m
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)
At 22 February 2014			
Long-term borrowings	(821)	-	(821)
Cross-currency swaps	-	(12)	(12)
	(821)	(12)	(833)

Fair value measurement

All of the financial assets and liabilities that are measured at fair value at 28 February 2015 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).

11. 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 28 February2015	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	122	122	(57)	65
Total	**122**	**122**	**(57)**	**65**
Financial liabilities offset				
Borrowings	(29)	(29)	-	(29)
Derivative financial instruments	(270)	(270)	57	(213)
Total	**(299)**	**(299)**	**57**	**(242)**

At 22 February 2014 no financial assets and liabilities were subject to offsetting, enforceable master netting arrangements or similar agreements.

12. FINANCIAL RISK FACTORS

The main financial risks faced by the Company relate to fluctuations in interest and foreign exchange rates, the 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 Tesco PLC Annual Report 2015 which does not form part of this Report.

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

During 2015 and 2014, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed	**Floating**	**2015**	Fixed	Floating	2014
	£m	**£m**	**£m**	£m	£m	£m
Bank and other borrowings	**(2,183)**	**(29)**	**(2,212)**	(821)	-	(821)
Total	**(2,183)**	**(29)**	**(2,212)**	(821)	-	(821)

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

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 £65m (2014: £nil).The Company considers its maximum credit risk to be £2,560m (2014: £938m).

12. 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 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)**

At 22 February 2014	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	-	-	-	(412)	-	(412)
Interest payments on borrowings	(14)	(14)	(14)	(14)	(9)	(17)
Amounts owed by Group undertakings	938	-	-	-	-	-
Derivative and other financial liabilities						
Gross settled derivative contracts – receipts	14	14	14	425	9	429
Gross settled derivative contracts – payments	(21)	(21)	(21)	(441)	(13)	(445)
Total	917	(21)	(21)	(442)	(13)	(445)

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.

12. FINANCIAL RISK FACTORS (continued)

Capital risk

The Company's objectives when managing capital risk (defined as net debt plus equity) are aligned to those of the Tesco Group. These are outlined in the Tesco PLC Annual Report 2015.

Sensitivity analysis

The main interest sensitivity relates to interest rate changes which apply to cash and overdraft balances. The main sensitivity in relation to currency exchange relates to long term borrowings in Euros which have not been swapped back to GBP.

	2015 Income gain/(loss) £m	2014 Income gain/(loss) £m
1% increase in interest rates	**-**	-
10% appreciation of the Euro	**(82)**	-

13. SHARE CAPITAL

	2015 £m	2014 £m
Allotted, called up and fully paid:		
100,000,000 Ordinary shares of £1 each (2014: 100,000,000)	**100**	100

14. 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.

15. RELATED PARTY TRANSACTIONS

Amounts owed to the Company from associates of the Group are disclosed in Note 8.

16. EXPLANATION OF TRANSITION TO FRS 101

As stated in note 2, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the period ended 28 February 2015, the comparative information presented in these financial statements for the year ended 22 February 2014 and in the preparation of an opening FRS 101 balance sheet at 30 July 2013 (the Company's date of transition).

In preparing its opening FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from previously adopted UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

16. EXPLANATION OF TRANSITION TO FRS 101 (continued)

Reconciliation of equity

No differences identified with regards to the opening balance sheet as at 30 July 2013.

		22 February 2014 (date of last UK GAAP financial statements)		
	Note	UK GAAP £m	IAS 12 £m	FRS 101 £m
Current assets				
Debtors		938	-	938
Non-current liabilities				
Borrowings		(821)	-	(821)
Derivative financial instruments		(12)	-	(12)
Provision for liabilities	(a)	-	(2)	(2)
Net assets		**105**	**-**	**103**
Capital and reserves				
Share capital		100	-	100
Cash flow hedge reserve	(a)	11	(2)	9
Retained earnings		(6)	-	(6)
Total equity		**105**	**-**	**103**

Notes to the reconciliation of equity:

(a) Recognition of deferred tax liability under IAS 12. Recognition not required under previously adopted UK GAAP.

Reconciliation of total comprehensive loss

		22 February 2014		
	Note	UK GAAP £m	IAS 12 £m	FRS 101 £m
Interest payable and similar costs		(6)	-	(6)
Loss on ordinary activities before taxation		(6)	-	(6)
Tax on loss on ordinary activities		-	-	-
Loss for the financial period		**(6)**	**-**	**(6)**
Other comprehensive income				
Items that may be subsequently reclassified to profit/(loss)				
Net fair value losses		(10)	-	(10)
Reclassified and reported in the Income Statement		21	-	21
Deferred tax on cash flow hedge	(a)	-	(2)	(2)
Total comprehensive income for the financial period		**5**	**(2)**	**3**

Notes to the reconciliation of total comprehensive income:

(a) Recognition of deferred tax liability under IAS 12. Recognition not required under previously adopted UK GAAP.