# TESCO CORPORATE TREASURY SERVICES PLC

# ANNUAL REPORT AND FINANCIAL STATEMENTS

# FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

Company Registration Number: 08629715

# TESCO CORPORATE TREASURY SERVICES PLC

## STRATEGIC REPORT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

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

### 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.

### 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 8 to 10 of the Tesco PLC Annual Report 2018, which does not form part of this Report.

### Results and dividends

The results show a pre-tax loss of £34m (2017: pre-tax loss of £62m) driven largely by interest expense on external loans. Net assets remained positive at £88m (2017: £11m).
The Directors do not recommend payment of a dividend for the 52 weeks ended 24 February 2018 (2017: £nil).

### Capital structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in Note 15.

### Key performance indicators (KPIs)

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

The development, performance and position of the operations of the Tesco PLC Group (the "Group"), which includes the Company, is discussed on pages 10 to 12 of the Tesco PLC Annual Report 2018, which does not form part of this Report.

### 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 issuances, commercial paper and bank borrowings. The objective is to ensure continuity of funding. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements.

#### Interest rate risk management

Our objective is to limit the impact to our comprehensive income from rising interest rates. Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

## STRATEGIC REPORT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018 (continued)

**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 and its subsidiaries (the "Group") which includes the Company. These are not managed separately and, accordingly, we refer to pages 22 to 25 of the Tesco PLC Annual Report 2018, which does not form part of this Report.

On behalf of the Board

13 June 2018

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

# DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

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

## 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 (2017: none) and the Company did not incur any political expenditure (2017: 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 7 to 9 of the Tesco PLC Annual Report 2018, 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 any other Group company 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 10 to 15 of the Group's Annual Report 2018, which does not form part of this Report.

## Employees

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

L Heywood
A Stewart
Tesco Services Limited

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

## Directors Indemnities

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 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.

### Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Report. These statements should be treated with caution due to inherent risks and uncertainties underlying any such forward-looking information. A number of factors, including those in this document, could cause actual results to differ materially with those contained in any forward-looking statement.

### 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 PLC, 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 26 of the Tesco PLC Annual Report 2018, which does not form part of this Report.

**Other required disclosures**

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

### Statement of Directors' responsibilities

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.

### Statement of Directors' responsibilities (continued)

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions

### Disclosure of information to auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director to make themselves 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 13 June 2018

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

### Report on the audit of the financial statements

#### Opinion

**In our opinion the financial statements:**

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

We have audited the financial statements of Tesco Corporate Treasury Services PLC (the "company") 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, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• potential for manipulation of the reported fair values of derivative financial instruments which may result in Income Statement volatility; and<br>• potential for manipulation of credit and debit valuation adjustments ("CVA/DVA") to the reported fair values of derivative financial instruments which may result in Income Statement volatility. |
| **Materiality** | The materiality that we used in the current year was £25m which was determined on the basis of 0.31% of total assets. |
| **Scoping** | Our audit work to respond to the risks of material misstatement identified was performed directly by the audit engagement team. |

## Conclusions relating to going concern

| | |
|---|---|
| **Going concern**<br>We are required by ISAs (UK) to report in respect of the following matters where:<br>• the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or<br>• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. | **We confirm that we have nothing material to report, add or draw attention to in respect of these matters.** |

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| **Potential for manipulation of the reported fair values of derivative financial instruments which may result in Income Statement volatility** | |
|---|---|
| **Key audit matter description** | The majority of the derivative financial instruments to which the company is a party are valued using a third party valuation and market data tool, "Reval" (c46% of the gross derivative balance of £855m at year-end). A number of longer-dated derivative financial instrument positions, index-linked swaps (specifically, the Limited Price Index ("LPI") swaps), foreign currency and commodity derivative instruments are valued using valuation statements provided to the company by the counterparties to the derivative financial instrument transactions (c54% of the gross derivative balance at year-end). The process to record the mark-to-market ("MtM") of all these instruments, and associated transactions, in the company's accounting records is manual. In addition, the company has also entered into a number of internal, back-to-back derivative financial instruments with a number of other Tesco Group entities.<br><br>There is a risk that the methodologies used to record the mid-market values (i.e. excluding any adjustment to the reported fair values for the potential impact of counterparty and "own" credit risk) of the external and internal derivative financial instruments:<br>• are not appropriate;<br>• do not reflect the contractual terms of the instruments themselves; and or<br>• are not appropriately and consistently applied.<br><br>There is a risk that the mid-market valuations of both the external and internal derivative financial instruments recorded in the company's accounting systems:<br>• are not accurate; and/or<br>• that not all positions are captured, and therefore marked-to-market, due to the manual process of recording the transactions in the company's accounting systems.<br><br>All of the above pose a risk of manipulation which may result in Income Statement volatility. The risk of material misstatement has been identified as a potential area for fraud. |

| | |
|---|---|
| | Further details are included within the Derivative financial instruments and hedge accounting note 2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter** | We obtained a detailed understanding and evaluated the design and implementation of controls over the existence and valuation of derivative positions and the reconciliation between valuation workings and the General Ledger.<br><br>We selected a sample of external and internal derivative trades and valued these positions independently using third party tools, including Bloomberg, Sungard FastVal and Reval. We compared our independent valuations against the valuations recorded in the General Ledger and assessed any resulting variances against thresholds we consider acceptable for these instruments.<br><br>We performed independent substantive testing to ensure that the mid-market valuations of internal and external derivative trades offset as expected. |
| **Key observations** | No uncorrected material misstatements were identified. |
| **Potential for manipulation of credit and debit valuation adjustments to the reported fair values of derivative financial instruments which may result in Income Statement volatility.** | |
| **Key audit matter description** | Management adjusts the reported fair values of external cross currency interest rate and inflation-linked swaps for bilateral CVA/DVA (representing c81% of the gross derivative balance at year-end). These adjustments are estimated by reference to observable, traded counterparty and Tesco PLC credit default swap ("CDS") spreads. For internal trades, management estimates CVA/DVA by reference to Tesco PLC CDS spreads only (as the counterparty is another Tesco Group entity). The mismatch between the CVA/DVA on external and internal derivative instruments creates volatility in the Income Statement.<br><br>Management uses Bloomberg in order to estimate CVA/DVA to cross currency interest rate swap positions (representing c28% of the gross, non-FX/commodity derivative balance of £695m at year-end); and manual Excel models populated with market data extracted from Bloomberg for the inflation-linked swaps (representing c72% of the gross, non-FX/commodity derivative balance at year-end).<br><br>Management uses an Excel model for the inflation-linked swaps because the pricing of credit adjustments to these positions is not supported in Bloomberg. We note that the inputs used in the Excel model, including cash flows, recovery rates and particularly the credit spreads used to estimate the probability of default for cash flows occurring beyond the maximum tenor (10 years) of observable CDS curves, are judgemental. The use of Excel models introduces a risk that CVA/DVA are calculated incorrectly since they rely on the periodic selection and consistent application of potentially subjective inputs and assumptions. The process of updating the Excel models is exposed to manual input error. The risk of material misstatement has been identified as a potential area for fraud. |
| **How the scope of our audit responded to the key audit matter** | We obtained a detailed understanding and evaluated the design and implementation of controls over the estimation of credit adjustments.<br><br>We selected a sample of external and internal derivative trades and recalculated the CVA/DVA on these trades independently. We compared the results of our independent CVA/DVA calculations to those recorded in the General Ledger, and assessed any resulting variances against thresholds we consider acceptable for these instruments. We assessed the methodology applied in management's Excel models, and assessed the reasonableness of the key inputs and assumptions used in the Excel models. |

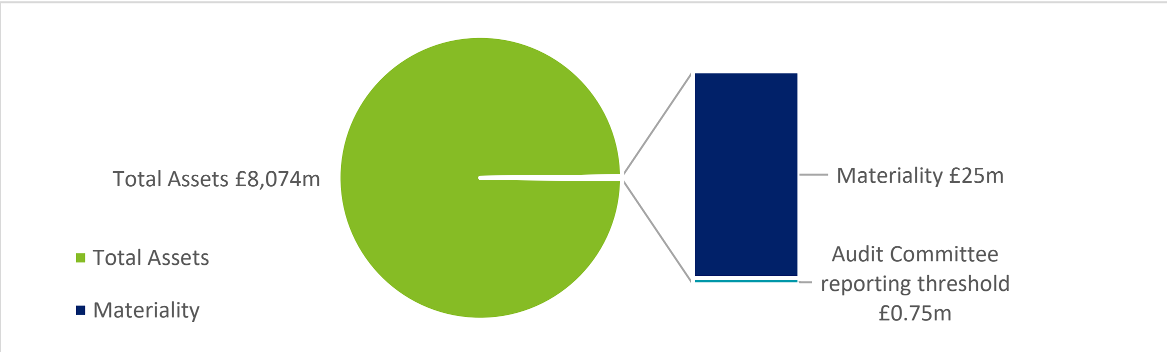
| | |
|---|---|
| **Key observations** | No uncorrected material misstatements were identified. |

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Materiality** | £25m |
| **Basis for determining materiality** | The basis of materiality is total assets taking into account the Group materiality and it equates to approximately 0.31% of total assets. |
| **Rationale for the benchmark applied** | The company acts as a financing company for other Tesco entities and holds significant intercompany assets and liabilities. On a gross basis the assets and liabilities could move materially year-on-year. |




We agreed with the Audit Committee (the "Committee") that we would report to the Committee all audit differences in excess of £0.75m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

There were no changes to the scope of our audit since the prior year. Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work designed to respond to the risks of material misstatement was performed directly by the audit engagement team.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and the Directors' Report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### Responsibilities of directors

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

### Use of our report

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

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

## Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*

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 nothing to report in respect of these matters.***

*Directors’ remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors’ remuneration have not been made.

***We have nothing to report in respect of this matter.***

## Other matters

*Auditor tenure*

Following the recommendation of the Audit Committee, we were appointed by the Group’s shareholders on 26 June 2015 to audit the financial statements for the 52 weeks ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three periods of 52 weeks each, covering the years ending 27 February 2016 to 24 February 2018.

*Consistency of the audit report with the additional report to the Audit Committee*

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Stephen Williams, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
13 June 2018

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

| | Notes | **52 weeks to 24 February 2018 £m** | 52 weeks to 25 February 2017 £m |
|---|---|---|---|
| **Income Statement** | | | |
| Net impairment of receivables | 8 | **22** | (12) |
| Finance income | 5 | **102** | 94 |
| Finance costs | 6 | **(158)** | (144) |
| **Loss on ordinary activities before taxation** | | **(34)** | (62) |
| Tax on loss on ordinary activities | 7 | **-** | - |
| **Loss for the financial period** | | **(34)** | (62) |
| **Other comprehensive income** | | | |
| **Items that may subsequently be reclassified to profit/(loss)** | | | |
| Gains / (losses) on cash flow hedges | | | |
| Net fair value gains / (losses) | | **75** | 37 |
| Reclassified and reported in the Income Statement | | **(61)** | (37) |
| Deferred tax on cash flow hedge | | **(3)** | - |
| | | **11** | - |
| **Total comprehensive loss for the financial period** | | **(23)** | (62) |

The notes on pages 16 to 34 form part of these financial statements. The above results were derived from continuing operations.

## TESCO CORPORATE TREASURY SERVICES PLC

## BALANCE SHEET AS AT 24 FEBRUARY 2018

| | Notes | **24 February 2018 £m** | 25 February 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Derivative financial instruments | 13 | **302** | 224 |
| Receivables | 8 | **2,135** | 481 |
| Deferred tax asset | 11 | **-** | 2 |
| **Total non-current assets** | | **2,437** | 707 |
| **Current assets** | | | |
| Derivative financial instruments | 13 | **73** | 157 |
| Receivables | 8 | **5,010** | 6,483 |
| Short-term investments | 9 | **237** | 83 |
| Cash and cash equivalents | | **317** | - |
| **Total current assets** | | **5,637** | 6,723 |
| **Total assets** | | **8,074** | 7,430 |
| | | | |
| **Current liabilities** | | | |
| Borrowings | 12 | **(212)** | (871) |
| Derivative financial instruments | 13 | **(80)** | (147) |
| Payables | 10 | **(5,396)** | (4,114) |
| **Total current liabilities** | | **(5,688)** | (5,132) |
| **Net current (liabilities)/assets** | | **(51)** | 1,591 |
| **Total assets less current liabilities** | | **2,386** | 2,298 |
| **Non-current liabilities** | | | |
| Borrowings | 12 | **(1,933)** | (2,126) |
| Payables | 10 | **(170)** | - |
| Derivative financial instruments | 13 | **(194)** | (161) |
| Deferred tax liability | 11 | **(1)** | - |
| **Net assets** | | **88** | 11 |
| | | | |
| **Equity** | | | |
| Share capital | 15 | **100** | 100 |
| Share premium | 16 | **100** | - |
| Cash flow hedge reserve | | **3** | (8) |
| Retained earnings | | **(115)** | (81) |
| **Total equity** | | **88** | 11 |

The notes on pages 16 to 34 form part of these financial statements. The financial statements on pages 13 to 34 were approved and authorised for issue by the Board of Directors on 13 June 2018 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.
13 June 2018

## STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

| | Share Capital and Premium (i) £m | Cash flow hedge reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| **At 25 February 2017** | **100** | **(8)** | **(81)** | **11** |
| Loss for the financial period | - | - | (34) | (34) |
| Fair value gains on cash flow hedges (Cross currency swaps) in the year | - | 75 | - | 75 |
| Cumulative loss on cash flow hedges (Cross currency swaps) reclassified to the income statement | - | (61) | - | (61) |
| Deferred tax credit on cash flow hedge | - | (3) | - | (3) |
| **Total comprehensive loss** | - | **11** | **(34)** | **(23)** |
| Shares issued | **100** | - | - | **100** |
| **At 24 February 2018** | **200** | **3** | **(115)** | **88** |

| | Share Capital and Premium (i) £m | Cash flow hedge reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| **At 27 February 2016** | **100** | **(8)** | **(19)** | **73** |
| Loss for the financial period | - | - | (62) | (62) |
| Fair value gains on cash flow hedges (Cross currency swaps) in the year | - | 37 | - | 37 |
| Cumulative loss on cash flow hedges (Cross currency swaps) reclassified to the income statement | - | (37) | - | (37) |
| Deferred tax credit on cash flow hedge | - | - | - | - |
| **Total comprehensive loss** | - | - | **(62)** | **(62)** |
| **At 25 February 2017** | **100** | **(8)** | **(81)** | **11** |

(i) See Note 15 and 16 for a breakdown of the Share Capital and Premium.

# TESCO CORPORATE TREASURY SERVICES PLC

# NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 24 FEBRUARY 2018

## 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 24 February 2018 were approved by the Board of Directors on 13 June 2018 and the balance sheet was signed on the Board's behalf by A Stewart. Tesco Corporate Treasury Services PLC is a public limited company and 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). The financial statements have been prepared under the historical cost convention and the Companies Act 2006 as modified by the fair value measurement of derivatives.

## 2. ACCOUNTING POLICIES

### General information and Basis of preparation

Tesco Corporate Treasury Services PLC is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 14. The natures of the Company's operations and its principal activities are set out in the Strategic Report on page 2.

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 17 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.

**Going Concern**
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Director's report on pages 4 to 6.

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.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount. The Company considers that there is evidence of impairment if any of the following indicators are present: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments.

**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.

## 2. ACCOUNTING POLICIES (continued)

**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.

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.

## 2. ACCOUNTING POLICIES (continued)

**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 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.

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

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

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 or other equity, in which case deferred tax is also dealt with in other comprehensive income or other equity.

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.

## 2. ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective.**

At the date of authorisation of these financial statements, the Company has not applied the followings standards that have been issued but are not yet effective. The Company has not adopted any new or amended standards early.

**IFRS 9 'Financial Instruments'**
IFRS 9 replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard will be effective in the Company financial statements for the 52 weeks ending 23 February 2019. The Company intends to apply the classification and measurement and impairment requirements of the standard retrospectively at the transition date 25 February 2018 by adjusting the opening balance sheet, with no restatement of the comparative periods. Hedge accounting relationships within the scope of IFRS 9 will transition prospectively.

The standard covers three elements:
- Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial assets;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with a Companies underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The Company expects the following changes arising from IFRS 9:
- Classification and measurement: All financial instruments classified as loans and receivables under IAS 39 will be reclassified and measured at amortised cost under IFRS 9.
- Impairment: The new requirements of IFRS 9 require expected credit losses to be applied to amounts owed by related undertakings and by joint ventures and associates. The Company's assessment of the impact of impairment is still ongoing.
- Hedge accounting: All existing hedge relationships for the company will transition to IFRS 9 on adoption.

## 3. AUDITOR'S REMUNERATION

The auditor's remuneration for the current period of £30k (2017: £30k) was borne by another Group company.

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

### 4. STAFF COSTS AND DIRECTORS' REMUNERATION

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

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

### 5. FINANCE INCOME

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Interest receivable on loans to group undertakings | **77** | 50 |
| Interest receivable | **4** | 4 |
| Gain from fair value changes for financial assets and liabilities held as fair value through profit and loss | **21** | 40 |
| **Total finance income** | **102** | 94 |

### 6. FINANCE COSTS

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Interest payable on loans from group undertakings | **(89)** | (77) |
| Interest payable on medium term notes | **(45)** | (45) |
| Interest payable on derivatives | **(13)** | (16) |
| Other interest payable | **(11)** | (6) |
| **Total finance costs** | **(158)** | (144) |

## 7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

### Factors that have affected the tax charge

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

| | **2018** **£m** | 2017 £m |
|---|---|---|
| **Income tax:** | | |
| UK Corporation tax on loss 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:

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Loss on ordinary activities before tax | **(34)** | (62) |
| Loss on ordinary activities multiplied by blended rate in the UK 19% (2017: 20%) | **(7)** | (12) |
| Effects of: | | |
| Expenses not deductible for tax purposes | **(4)** | 2 |
| Group relief surrendered without payment | **11** | 10 |
| **Total income tax charge for the financial period** | - | - |

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

| | **2018** **£m** | 2017 £m |
|---|---|---|
| Deferred tax charge/(credit) on: | | |
| Movement on cash flow hedges | **3** | - |
| **Total tax on items charged to Statement of Changes in Equity** | **3** | - |

## 8. RECEIVABLES

| Current assets | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Amounts owed by Group undertakings | **5,010** | 6,505 |
| Impairment Provision | **-** | (22) |
| | **5,010** | 6,483 |

The fair value is £5,043m (2017: £6,487m).

| Non-Current assets | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Amounts owed by Group undertakings | **2,107** | 453 |
| Amounts owed by Joint ventures | **28** | 28 |
| | **2,135** | 481 |

The fair value is £2,169m (2017: £485m).

Amounts owed by Group undertakings and Joint ventures are either interest-bearing (£5,186m) or non-interest bearing (£1,959m), depending on the type and duration of the debtor relationship with an interest rate between 0% to 2.8%.

At 24 February 2018, receivables past due and impaired were nil (2017: nil) and receivables past due and not impaired were nil (2017: nil).

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount. The Company considers that there is evidence of impairment if any of the following indicators are present: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments.

The current assets receivable balance above is after the reversal of an impairment of receivables of £22m due to the reassessment of the recoverability of a receivable (2017: £10m, which was triggered by the recovery of a receivable that had previously been provided for), and an impairment of a receivable of £nil (2017: £22m).

## 9. SHORT-TERM INVESTMENTS

| | **2018** | 2017 |
|---|---|---|
| | **£m** | £m |
| Short-term investments | **237** | 83 |
| | **237** | 83 |

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

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

### 10. PAYABLES

| Current | 2018 £m | 2017 £m |
|---|---|---|
| Amounts owed to Group undertakings | **5,396** | 4,114 |
| | **5,396** | 4,114 |

| Non-Current | 2018 £m | 2017 £m |
|---|---|---|
| Amounts owed to Group undertakings | **170** | - |
| | **170** | - |

Amounts owed to Group undertakings are either interest-bearing (£4,953m) or non-interest bearing (£613m) depending on the type and duration of creditor relationship. Included above are loans and outstanding interest due to Group undertakings totalling £4,953m with an interest rate of between 0% to 3.3%. The fair value is £5,629m (2017: £4,123m).

### 11. DEFERRED TAX

| | Deferred tax £m |
|---|---|
| **As at 25 February 2017** | **2** |
| Reversal of temporary timing differences: | |
| In respect of the current period | **(3)** |
| **Deferred tax (liability) / asset** | **(1)** |

Provision for deferred tax comprises:

| | 2018 £m | 2017 £m |
|---|---|---|
| Short term timing differences | **(1)** | **2** |
| **Deferred tax (liability) / asset** | **(1)** | **2** |

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

## 12. BORROWINGS

| | Par Value | Maturity | **2018 £m** | 2017 £m |
|---|---|---|---|---|
| Overdrafts | | | **212** | 448 |
| 1.250% MTN | €500m | Nov 2017 | - | 423 |
| 1.375% MTN | €1,250m | Jul 2019 | **826** | 1,063 |
| 2.125% MTN | €500m | Nov 2020 | **441** | 423 |
| 2.5% MTN | €750m | Jul 2024 | **666** | 640 |
| Total MTNs | | | **1,933** | 2,549 |
| | | | **2,145** | 2,997 |

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

| | **2018 £m** | 2017 £m |
|---|---|---|
| **Repayment analysis:** | | |
| Amounts falling due within one year | **212** | 871 |
| | **212** | 871 |
| **Amounts falling due after more than one year:** | | |
| Amounts falling due between one and two years | - | - |
| Amounts falling due between two and five years | **1,267** | 1,486 |
| Amounts falling due after more than five years | **666** | 640 |
| | **1,933** | 2,126 |
| | **2,145** | 2,997 |

## 13. 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.

**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.

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

| | | **2018** | | 2017 |
|---|---|---|---|---|
| | **Asset** | **Liability** | Asset | Liability |
| | **£m** | **£m** | £m | £m |
| Current | **73** | **(80)** | 157 | (147) |
| Non-current | **302** | **(194)** | 224 | (161) |
| Total | **375** | **(274)** | 381 | (308) |

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

| | | | | **2018** | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| | **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 | **87** | **1,110** | **-** | **-** | 37 | 1,478 | - | - |
| **Derivatives not in a formal hedge relationship** | | | | | | | | |
| Cross-Currency Swaps | **49** | **207** | **(53)** | **207** | 56 | 731 | (56) | 331 |
| Foreign forward currency contracts | **68** | **3,029** | **(74)** | **4,421** | 112 | 3,019 | (104) | 3,347 |
| Index-linked swaps | **163** | **1,589** | **(139)** | **1,589** | 168 | 1,874 | (140) | 1,278 |
| Forward contracts | **8** | **54** | **(8)** | **54** | 8 | 57 | (8) | 57 |
| **Total** | 375 | **5,989** | **(274)** | **6,271** | 381 | 7,159 | (308) | 5,013 |

## 13. FINANCIAL INSTRUMENTS (continued)

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

| | **Carrying value £m** | **2018 Fair value £m** | Carrying value £m | 2017 Fair value £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Loans and other receivable** | | | | |
| Cash and cash equivalents | **317** | **317** | - | - |
| **Financial assets held as fair value through profit and loss** | | | | |
| Short-term investments | **237** | **237** | 83 | 83 |
| Cross-currency swaps | **136** | **136** | 93 | 93 |
| Index linked swaps | **163** | **163** | 168 | 168 |
| Forward foreign currency contracts | **68** | **68** | 112 | 112 |
| Forward Contracts | **8** | **8** | 8 | 8 |
| Total financial assets | **929** | **929** | 464 | 464 |
| **Liabilities** | | | | |
| **Financial liabilities held at amortised cost** | | | | |
| Amortised cost: short-term borrowings | **(212)** | **(213)** | (871) | (877) |
| Amortised cost: long-term borrowings | **(1,933)** | **(1,997)** | (2,126) | (2,211) |
| **Financial liabilities held as fair value through profit and loss** | | | | |
| Cross-currency swaps | **(53)** | **(53)** | (56) | (56) |
| Index linked swaps | **(139)** | **(139)** | (140) | (140) |
| Forward foreign currency contracts | **(74)** | **(74)** | (104) | (104) |
| Forward Contracts | **(8)** | **(8)** | (8) | (8) |
| Total financial liabilities | **(2,419)** | **(2,484)** | (3,305) | (3,396) |

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. All values shown above and those shown in note 8 and note 10 are considered to represent Level 2 valuations in the fair value hierarchy with the exception of the MTNs which are Level 1 being based on the traded prices for the relevant instruments. The above table excludes Receivables and Payables (note 8 and note 10) which have fair values equal to their carrying values, except for specific inter-company borrowing and lending (note 8 and note 10).

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

## 13. FINANCIAL INSTRUMENTS (continued)

**Financial assets and liabilities by category**

The accounting classifications of each class of financial assets and liabilities as at 24 February 2018 and 25 February 2017 are as follows:

| | Loans and receivables / financial liabilities held at amortised cost £m | Financial assets held as fair value through profit and loss £m | Total £m |
|---|---|---|---|
| **At 24 February 2018** | | | |
| Cash and cash equivalents | **317** | - | **317** |
| Short term investments | **237** | - | **237** |
| Short term borrowings | **(212)** | - | **(212)** |
| Long term borrowings | **(1,933)** | - | **(1,933)** |
| Cross-currency swaps | - | **83** | **83** |
| Index-linked swaps | - | **24** | **24** |
| Forward foreign currency contracts | - | **(6)** | **(6)** |
| Forward contracts | - | - | - |
| | **(1,591)** | **101** | **(1,490)** |
| **At 25 February 2017** | | | |
| Cash and cash equivalents | - | - | - |
| Short term investments | 83 | - | 83 |
| Short term borrowings | (871) | - | (871) |
| Long term borrowings | (2,126) | - | (2,126) |
| Cross-currency swaps | - | 69 | 69 |
| Index-linked swaps | - | (4) | (4) |
| Forward foreign currency contracts | - | 8 | 8 |
| Forward contracts | - | - | - |
| | (2,914) | 73 | (2,841) |

**Fair value measurement**

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

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

## 13. 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 24 February 2018 | 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 | 375 | 375 | (118) | 257 |
| Receivables | 7,145 | 7,145 | - | 7,145 |
| **Total** | **7,520** | **7,520** | **(118)** | **7,402** |
| **Financial liabilities offset** | | | | |
| Derivative financial instruments | (274) | (274) | 118 | (156) |
| Payables | (5,566) | (5,566) | - | (5,566) |
| **Total** | **(5,840)** | **(5,840)** | **118** | **(5,722)** |
| **At 25 February 2017** | | | | |
| **Financial assets offset** | | | | |
| Derivative financial instruments | 381 | 381 | (115) | 266 |
| Receivables | 6,964 | 6,964 | - | 6,964 |
| **Total** | **7,345** | **7,345** | **(115)** | **7,230** |
| **Financial liabilities offset** | | | | |
| Derivative financial instruments | (308) | (308) | 115 | (193) |
| Payables | (4,114) | (4,114) | - | (4,114) |
| **Total** | **(4,422)** | **(4,422)** | **115** | **(4,307)** |

## 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 22 to 25 of the Tesco PLC Annual Report 2018 which does not form part of this Report.

**Market rate risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and investments.

**14. FINANCIAL RISK FACTORS (continued)**

**Interest rate risk**

Interest rate risk arises from long term debt, cash deposits and overdrafts.
During 2018 and 2017 net debt was managed using derivative instruments to hedge interest rate risk as follows:

| | **Fixed £m** | **Floating £m** | **2018 £m** | Fixed £m | Floating £m | 2017 £m |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **-** | **317** | **317** | - | - | - |
| Short-term investments | **-** | **237** | **237** | | 83 | 83 |
| Bank and Other Borrowings | **(1,933)** | **(212)** | **(2,145)** | (2,549) | (448) | (2,997) |
| Amounts owed to Group undertakings | **(3,859)** | **(1,094)** | **(4,953)** | (3,513) | (548) | (4,061) |
| Amounts owed by joint ventures | **28** | **-** | **28** | 28 | - | 28 |
| Amounts owed by Group undertakings | **4,215** | **943** | **5,158** | 3,186 | 463 | 3,649 |
| **Total** | **(1,549)** | **191** | **(1,358)** | (2,848) | (450) | (3,298) |

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 £257m (2017: £266m).The Company considers its maximum credit risk to be £7,956m (2017: £7,331m).

### 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. Expected maturity of undiscounted cash flows is consistent with the contractual maturities shown below.

| At 24 February 2018 | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due between 3 and 4 years £m | Due between 4 and 5 years £m | Due beyond 5 years £m |
|---|---|---|---|---|---|---|
| Bank and other borrowings | **(212)** | **(819)** | **(440)** | - | - | **(660)** |
| Interest payments on borrowings | **(37)** | **(37)** | **(26)** | **(17)** | **(17)** | **(33)** |
| Amounts owed by Group undertakings | **5,072** | **2,162** | - | - | - | - |
| Amounts owed to Group undertakings | **(5,491)** | **(163)** | - | - | - | - |
| Amounts owed by joint ventures | **1** | **29** | - | - | - | - |
| **Derivative and other financial liabilities** | | | | | | |
| Net settled derivative contracts – receipts | **15** | **5** | **5** | **4** | **2** | **422** |
| Net settled derivative contracts – payments | **(24)** | **(13)** | **(31)** | **(32)** | **(49)** | **(120)** |
| Gross settled derivative contracts – receipts | **113** | **51** | **489** | **100** | **17** | **693** |
| Gross settled derivative contracts – payments | **(130)** | **(61)** | **(480)** | **(108)** | **(24)** | **(637)** |
| **Total** | **(693)** | **1,154** | **(483)** | **(53)** | **(71)** | **(335)** |

### 14. FINANCIAL RISK FACTORS (continued)

| At 25 February 2017 | Due within 1 year £m | Due between 1 and 2 years £m | Due between 2 and 3 years £m | Due between 3 and 4 years £m | Due between 4 and 5 years £m | Due beyond 5 years £m |
|---|---|---|---|---|---|---|
| Bank and other borrowings | (871) | - | (1,055) | (422) | - | (633) |
| Interest payments on borrowings | (45) | (39) | (39) | (24) | (16) | (48) |
| Amounts owed by Group undertakings | 6,546 | 462 | - | - | - | - |
| Amounts owed to Group undertakings | (4,191) | - | - | - | - | - |
| Amounts owed by joint ventures | 1 | 29 | - | - | - | - |
| **Derivative and other financial liabilities** | | | | | | |
| Net settled derivative contracts – receipts | 29 | 15 | 13 | 14 | 12 | 410 |
| Net settled derivative contracts – payments | (29) | (15) | (13) | (34) | (37) | (319) |
| Gross settled derivative contracts – receipts | 970 | 54 | 55 | 477 | 90 | 681 |
| Gross settled derivative contracts – payments | (974) | (66) | (66) | (487) | (98) | (660) |
| **Total** | 1,436 | 440 | (1,105) | (476) | (49) | (569) |

**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.

## 14. 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 2018.

For the purpose of the Company's capital management, capital includes issued ordinary shares and other equity reserves attributable to the equity shareholders of the parent. The primary objective of the company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any financial covenants. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital or issue new shares.

During the year the company issued additional share capital, details of which are included in Note 15.

No changes were made in the objectives, policies or processes for managing capital during the 52 weeks ended 24 February 2018 and 25 February 2017.

### 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.

| | **2018 Income gain/(loss) £m** | 2017 Income gain/(loss) £m |
|---|---|---|
| 1% increase in interest rates | **2** | (4) |
| 10% appreciation of the Euro | **3** | (37) |
| 10% appreciation of the US Dollar | **6** | - |
| 5% appreciation of the Hungarian forint | **2** | (2) |
| 5% appreciation of the Czech Koruna | **2** | 9 |

### 15.SHARE CAPITAL

| | 2018 £m | 2017 £m |
|---|---|---|
| Authorised share capital: | | |
| 100,00,001 ordinary shares of £1 each (2017: 100,000,000) | **100** | 100 |

| | 2018 £m | 2017 £m |
|---|---|---|
| Allotted, called up and fully paid: | | |
| 100,000,001 ordinary shares of £1 each (2017: 100,000,000) | **100** | 100 |

On 26 May 2017 the Company issued for cash £1 ordinary Share with a share premium of £99,999,999.

### 16. SHARE PREMIUM ACCOUNT

| | 2018 £m | 2017 £m |
|---|---|---|
| At 25 February 2017 | - | - |
| Premium on issue of ordinary shares | 100 | - |
| At 24 February 2018 | 100 | - |

### 17. ULTIMATE GROUP UNDERTAKING

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