

TESCO PROPERTY FINANCE 1 PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020
Registered Number: 05888925



TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020

The Directors present their Strategic Report of Tesco Property Finance 1 PLC (the "Company") for the 53 weeks ended 29 February 2020 (prior period: 52 weeks ended 23 February 2019 ("2019")).

Business review and principal activity

The principal activity of the Company is that of a financing party in a securitisation transaction set-up to acquire and lease a retail property portfolio occupied by Tesco PLC group companies.

The Company raised funds for the transaction through the issuance of bonds (the "Bonds") which are listed on the Irish Stock Exchange by way of a prospectus dated 22 June 2009 (the "Prospectus") and applied the proceeds in making two advances (the "Partnership Loan" and the "Teesport Partnership Loan", together the "Loans") to The Tesco Blue Limited Partnership (the "Blue Partnership") and to The Teesport Limited Partnership (the "Teesport Partnership"), (together the "Borrowers" or "Partnerships") respectively.

The partners of the Blue Partnership are:

- Tesco Blue (3LP) Limited incorporated on 15 April 2016 (formerly Tesco Blue (1LP) Limited which was dissolved on 1 June 2017) a wholly-owned indirect subsidiary of Tesco PLC;
- Tesco Blue Unit Trust the units of which are ultimately owned by Tesco Pension Trustees Limited; and
- Tesco Blue (GP) Limited (the "Blue General Partner") which is jointly owned by Tesco Property Holdings (No.2) Limited and Tesco Pension Trustees Limited.

Tesco Blue (3LP) Limited and Tesco Blue Unit Trust together the "Limited Partners".

Each of the above Limited Partners has a 49.95% interest in the Blue Partnership and the Blue General Partner has a 0.1% interest in the Blue Partnership.

The partners of the Teesport Partnership are:

- Teesport Unit Trust (the "Teesport Limited Partner") the units of which are ultimately owned by The Tesco Blue Limited Partnership, Blue Unit Trust and Tesco Blue (3LP);
- Teesport (GP) Limited (the "Teesport General Partner") which is owned by Tesco Blue (GP) Limited

The Teesport Limited Partner has a 99.9% interest in the Teesport Partnership and the Teesport General Partner has a 0.1% interest in the Teesport Partnership.

The Blue Partnership applied the proceeds of the Partnership Loan to acquire the long leases of:

- a distribution centre at Peterborough (the "Distribution Centre"); and
- retail stores known as Abergele, Carnforth, Chepstow, Dingwall, Edinburgh Colinton, Fraserburgh, Heanor, Hindley, Stockton Extra, Warrington Extra, St Austell and Westhill.

The Teesport Partnership applied the proceeds of the Teesport Partnership Loan to acquire the long lease of:

- a distribution centre at Teesport (the "Teesport Distribution Centre").

The Bonds are secured over all of the assets of the Company and the Loans are secured over the Property Portfolio pursuant to certain Partnership Security Documents as defined in the Prospectus. The Property Portfolio has been valued at a market value as at 23 February 2019 of £589,130,000 and again on 29 February 2020 of £590,030,000.

The Blue Partnership and the Company entered into two swap agreements (the "Partnership Swap") under which the Partnership pays to the Company amounts equal to the sum of the rent receivable by it under the Property Portfolio leases (the "Partnership Index Linked Legs") and the Company pays to the Blue Partnership fixed amounts equal to the scheduled interest and principal due to the Company under the Partnership Loan (the "Partnership Fixed Legs").

TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Business review and principal activity (continued)

The Teesport Partnership and the Company entered into a swap agreement (the "Teesport Partnership Swap") under which the Teesport Partnership pays to the Company amounts equal to the sum of the rent receivable by it under the Teesport Distribution Centre lease (the "Teesport Partnership Index Linked Legs") and the Company pays to the Teesport Partnership fixed amounts equal to the scheduled interest and principal due to the Company under the Teesport Partnership Loan (the "Teesport Partnership Fixed Legs").

The Company and Tesco PLC entered into three swap agreements (the "Issuer Swaps") under which the Company pays to Tesco PLC amounts equal to the aggregate of the amounts due to the Company under the Partnership Index Linked Legs and the Teesport Partnership Index Linked Legs and Tesco PLC pays to the Company fixed amounts equal to the scheduled interest and principal due to the Bondholders under the Bonds (the "Issuer Fixed Legs").

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

The financial statements of the Company have been prepared in accordance with the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

Results and dividends

The results for the 53 weeks ended 29 February 2020 show a profit before tax of £26,321 (2019: loss before tax of £217,602) and profit after tax of £21,571 (2019: loss after tax of £222,352).

The Company has net assets at the period end of £350,736 (2019: £329,165) and has net current assets of £182,839,706 (2019: £179,862,522) at the period end.

The Directors do not recommend the payment of dividend for the 53 weeks ended 29 February 2020 (2019: £nil).

In accordance with the Prospectus and pursuant to the Taxation of Securitisation Companies Regulations 2006, the Company is designed to retain a profit before tax of at least £6,250 quarterly. The Company will meet the shortage in requirement for retained profit in subsequent periods.

Key performance indicators (KPIs)

The Directors consider the key performance indicators of the Company to be the principal balances of the Partnership Loan, the Teesport Partnership Loan and the market value of the Property Portfolio.

The principal balances of the Partnership Loan and the Teesport Partnership Loan held by the Company decreased from £373,413,950 at 23 February 2019 to £365,710,826 at 29 February 2020 due to redemptions during the period.

The Property Portfolio has been valued at a market value on 29 February 2020 of £590,030,000 (2019: £589,130,000).

No impairment losses were recognised during the period (2019: £nil).

The development, performance and position of the operations of the Tesco PLC Group (the "Group"), which includes the Company, is discussed on page 12 of the Tesco PLC Annual Report and Financial Statements 2020, which does not form a part of this Report.

Future developments

The Company's future developments form a part of the Group's long term strategy, which is discussed on page 5 of the Tesco PLC Annual Report and Financial Statements 2020, which does not form a part of this Report. 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.

TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Principal risks and uncertainties

The objective of the Company is to manage its financial risk and to minimise the adverse effects of fluctuations in the financial markets on the Company's financial assets and liabilities, on reported profitability and on the cash flows of the Company. The Company's activities expose it to a number of financial instruments risks and uncertainties as summarised below and discussed in more detail in the Prospectus under the section Risk Factors. Risk management is predetermined based on the terms of the Prospectus and is also summarised below.

The Company's financial instruments comprise the Partnership Loan, the Teesport Partnership Loan, the Bonds, the Partnership Swap, the Teesport Partnership Swap and the Issuer Swaps.

Business risk

Uncertainty around the UK's future trading relationship with the EU and a failure to prepare for all eventualities could have an adverse effect on our primary business, its financial results and operations. The Tesco PLC Board will continue to assess and monitor the potential risks and impacts on the Company and its stakeholders as a whole, while taking mitigation measures to address challenges as appropriate.

Subsequent to the balance sheet date, the World Health Organisation declared a pandemic on 11 March. The nature of the Company's operations is such that COVID-19 does not have a material impact upon the business, because the entity is a financing party of Tesco PLC that has continued to operate during the pandemic.

Financial risk management

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The ability of the Blue Partnership and the Teesport Partnership to discharge their obligations under the Loans depends primarily on the ability of Tesco PLC to discharge its obligations under the Property Portfolio leases. The Standard and Poor's credit rating of Tesco PLC was BBB- as at 29 February 2020 (2019: BB+).

As noted above, the Loans are secured on the Property Portfolio which has been valued at a market value as at 29 February 2020 of £590,030,000 (2019: £589,130,000) by an external party surveyor. The value at which the properties would be realised, in a scenario where they would have to be sold as a result of Tesco PLC not being able to discharge its obligations, is uncertain.

Cash manager and associated bank account credit risk is managed through the review of the cash manager's credit rating as the cash manager is required to maintain minimum credit ratings and collateral in certain instances.

No impairment losses were booked against the loans during the current period (2019: £nil).

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities. The principal risks and uncertainties are related to the obligation to make payment against bonds when due.

The Bonds are limited recourse obligations of the Company and the assets of the Company are themselves limited. The ability of the Company to meet its obligations under the Bonds will be principally dependent on the receipt by it of funds from the Blue Partnership under the Partnership Loan Agreement and the Partnership Swap Agreement, the receipt by it of funds from the Teesport Partnership under the Teesport Partnership Loan Agreement and the Teesport Partnership Swap Agreement and the receipt of funds from Tesco PLC under the Issuer Swap Agreements. Other than the foregoing, prior to the enforcement of the security created pursuant to the Partnership Security Documents, the Company will not have any other significant funds available for it to meet its obligations under the Bonds and in respect of any payment ranking in priority to, or pari passu with, the Bonds.

TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Financial risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk; currency risk, interest rate risk and other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Currency risk

The Company is not exposed to currency risk as all its financial instruments are denominated in GBP.

Interest rate risk

Both the Loans and the Bonds are measured at amortised cost and bear interest at a fixed rate with equal and offsetting effective interest rate adjustments. Currently the effective interest rate adjustments are not equal and offsetting but the difference will unwind over the life of the Loans and Bonds. The swap agreements entered into are also equal and offsetting and therefore the Company is not deemed to be exposed to interest rate risk.

Other price risk

The fair value and future cash flows of the Partnership Swap, the Teesport Partnership Swap and the Issuer Swaps will fluctuate because of changes in the Retail Prices Index ("RPI"). The fluctuations in relation to the Partnership Swap, the Teesport Partnership Swap and those in relation to the Issuer Swaps are likely to offset each other. The effects on these financial instruments are detailed in Note 13.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires directors to have regard to, amongst other matters, the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging our section 172 duties we have regard to the factors set out above. In addition, we also have regard to other factors which we consider relevant to the decision being made.

Those factors for example include the interests and views of our shareholders, Bond holders, leaseholders, members of the Group and our relationship with our lenders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we aim to make sure that our decisions are consistent and appropriate in all the circumstances.

We delegate authority for day-to-day management of the Company to senior management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the directors consider the Company's activities and make decisions. As a part of those meetings the directors receive information in a range of different formats which includes information relevant to section 172 matters when making relevant decisions. For example, each year we make an assessment of the strength of the Company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends.

As the principal activity of the Company is that of a financing party in a securitisation transaction set-up to acquire and lease a retail property portfolio occupied by Group companies, the Company has had no employees, customers

TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Section 172(1) Statement (continued)

or suppliers during the period and as such the breadth of stakeholder considerations that would often apply in operating or to commercially trading companies have generally not applied to the decisions made by the directors. The Company's key stakeholders are its shareholders, Bond holders, Borrowers and creditors.

In accordance with requirements this section 172(1) statement will be published on the Tesco PLC website at www.tescopl.com.

Approved by the Board of Directors on 23 July 2020 and signed on behalf of the Board by:

Robert Welch

Robert Welch, for and on behalf of Tesco Services Limited

Director

Tesco Property Finance 1 PLC

Registered number: 05888925

Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO PROPERTY FINANCE 1 PLC

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020

The Directors present their Report and the audited financial statements of Tesco Property Finance 1 PLC (the "Company") for the 53 weeks ended 29 February 2020 (prior period: 52 weeks ended 23 February 2019 ("2019")).

Results and dividends

This is discussed in the Strategic Report on page 2.

Future development

Future development disclosures are strategic in nature and have been presented in the Strategic Report on page 2.

Going concern

In order to form a view as to the most appropriate basis of preparation of these financial statements, the Directors have assessed the likelihood of whether the Company will be able to continue trading for a period of at least 12 months from the date of signing the financial statements versus the likelihood of either intending to or being forced to either cease trading or putting the Company into liquidation.

The ability of the Company to meet its obligations on the Bonds and to meet its operating and administrative expenses is dependent to the extent it receives the amounts due on the Loans from the Borrowers and the ability of the Borrowers to discharge their obligations under the Loans depends primarily on the ability of Tesco PLC to discharge its obligations under the Property Portfolio leases. The Bonds are secured over all of the assets of the Company and the Loans are secured over the Property Portfolio.

The Bond holders have no further recourse to the Company should the receipts on the Loans and the proceeds from any enforcement action over the Loans be insufficient to meet these obligations.

During the period and after the balance sheet date, the Borrowers have continued to meet their liabilities to the Company as they fall due. While the securitisation structure is credit-linked to Tesco PLC and relies on rental receipts under the Occupational lease, any changes in Tesco PLC's credit rating are not expected to directly impact the Partnerships' ability to repay the Loans and consequently the Company's ability to repay the Bonds except in the event of default. Historical credit rating downgrades of Tesco PLC, resulted in no instances of missed or late interest and principal repayments and should this occur the Partnerships have a 14-day grace period to remedy the non-payment. The Directors have noted that, at the balance sheet date the Company is in a net asset position and the credit rating of the Bonds is rated at 'Baa3' by Moody's rating services. The Directors do not believe that this impacts the going concern of the Company. Management have produced an 18 month cash flow depicting the Company's ability to continue as a going concern.

Whilst COVID-19 is a threat to many businesses, management's assessment is that demand for the properties of the Partnerships financed by the Company is not expected to suffer, as primarily the tenants of the properties are grocery retailers, which have functioned as essential businesses throughout the pandemic and will continue to operate afterwards. The assessment is therefore that there is no threat to Going Concern.

Therefore, the Directors consider that the Company is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

Events after the reporting period

Details of events after the reporting period can be found in Note 19 to the financial statements.

Political donations

There were no political donations for the period (2019: £nil) and the Company did not incur any political expenditure (2019: £nil).

Research and development

The Company does not undertake any research and development activities (2019: none).

Financial risk management

This is discussed in the Strategic Report on pages 3 and 4.

TESCO PROPERTY FINANCE 1 PLC

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Employees

The Company had no employees during the period (2019: nil).

Directors

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

S Drewett
J Gibney
L Heywood
N Townson (Appointed on 4 March 2019)
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 Company Secretary (who is also a Director of Tesco Services Limited which is appointed to the Board of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors and officers may not be indemnified, Tesco PLC maintained a Directors' and Officers' liability insurance policy throughout the financial period and up to the date of signing the financial statements.

Disclosure of information to auditor

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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 the 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 from those contained in any forward-looking statement.

TESCO PROPERTY FINANCE 1 PLC

DIRECTORS' REPORT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the Company financial statements in accordance with FRS 102 "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" and applicable law.

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:

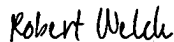
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements;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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities, in accordance with requirements this section 172(1) statement will be published on the Tesco PLC website at www.tescopl.com

Independent auditor

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

Approval by the Board of Directors on 23 July 2020 and signed on behalf of the Board by:



Robert Welch, for and on behalf of Tesco Services Limited
Director

Tesco Property Finance 1 PLC

Registered number: 05888925

Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Tesco Property Finance 1 Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 29 February 2020 and of its profit for the 53 week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Profit and Loss Account;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Cash Flows;
- the Reconciliation of Net Cash Flow to Movement in Net Debt; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion





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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

3. Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> Recoverability of debtors from fellow group companies. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
Materiality	The materiality that we used in the current year was £11 million which was determined on the basis of 2% of total assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team
Significant changes in our approach	There were no significant changes in our approach in the current year.

4. Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

5. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

5. Key audit matters (continued)

5.1. Recoverability of debtors from fellow group companies

Key audit matter description	<p>Debtors from fellow group companies are stated in the balance sheet at £366 million (2019: £373 million) excluding subordinated loans.</p> <p>There is judgement involved in determining the recoverability of these debtors from Tesco Plc group companies based on the financial position and future prospects of the group companies. This takes into consideration a number of factors such as the anticipated trading performance of the subsidiaries and the net asset or liabilities position as at the balance sheet date.</p> <p>Further details are included within the accounting policies note on page 25 of note 3 to the financial statements and within the loans and subordinated loans note on page 28 under note 9 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls related to the recoverability of debtors from fellow group companies.</p> <p>We challenged the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest audited financial information and evaluating balances against our understanding of the forecast trading performance allowing us to assess the ability of the counterparties to repay these amounts.</p>
Key observations	<p>Based on the work performed we concluded that debtors from fellow group companies are appropriately stated.</p>

6. Our application of materiality

6.1. 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.

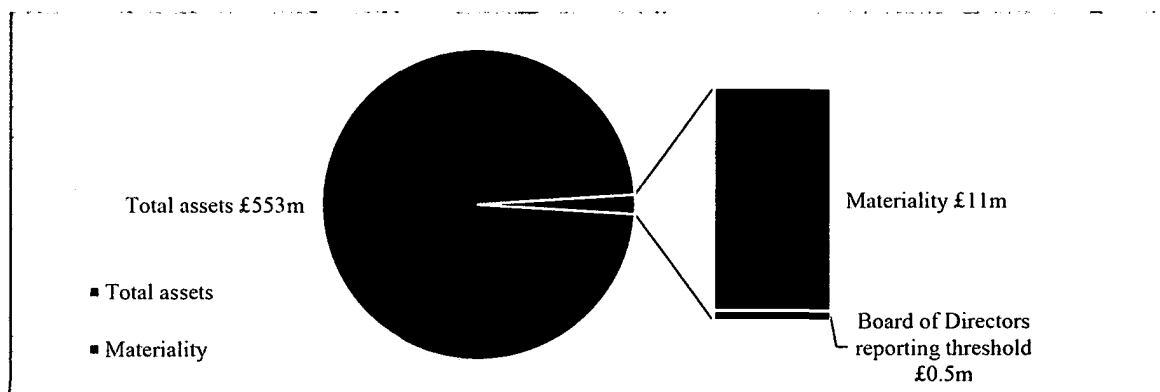
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£11 million (2019: £11 million)
Basis for determining materiality	2% of total assets (2019: 2% of total assets)
Rationale for the benchmark applied	We determined materiality based on total assets as this is the key metric used by management, investors, analysts and lenders to assess shareholder value.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

6. Our application of materiality (continued)

6.1. Materiality (continued)



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered our risk assessment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.5 million (2019: £0.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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 to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

9. Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and Board of Directors about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and valuations specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

11. Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

11.1. Identifying and assessing potential risks related to irregularities (continued)

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO PROPERTY FINANCE 1 PLC (continued)

13. Matters on which we are required to report by exception

13.1. 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.

13.2. 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.

14. Other matters

14.1. Auditor tenure

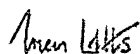
Following the recommendation of Tesco Plc Audit Committee, we were appointed by the Group's Shareholders at the AGM on 26 June 2015 to audit the financial statements for the year ended 24 February 2016 and subsequent financial periods for the Group and all relevant Tesco Plc group companies including specified associated companies not consolidated by the Group including Tesco Property Finance 1 Plc. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering financial years ending 27 February 2016 to 29 February 2020.

14.2. Consistency of the audit report with the additional report to the Board of Directors

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

15. Use of our report

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



Simon Letts FCA (Senior Statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
St Albans, United Kingdom
23 July 2020

TESCO PROPERTY FINANCE 1 PLC**PROFIT AND LOSS ACCOUNT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020**

	Notes	53 weeks ended 29 February 2020 £	52 weeks ended 23 February 2019 £
Interest receivable and similar income	5	31,242,192	31,869,221
Interest payable and similar expenses	6	(31,242,600)	(32,116,607)
Net interest expense		(408)	(247,386)
Increase in the fair value of the Blue Partnership swap	7	2,655,173	17,444,415
Increase in the fair value of the Teesport Partnership swap	7	631,094	3,654,505
(Decrease) in the fair value of the Issuer swaps	7	(3,286,267)	(21,098,920)
Administrative expenses		(79,411)	(77,536)
Other operating income		106,140	107,320
Profit/(loss) before tax		26,321	(217,602)
Tax charge	8	(4,750)	(4,750)
Profit/(loss) for the financial period		21,571	(222,352)

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

There is no other comprehensive income/(loss) in the periods presented, therefore no Statement of Comprehensive Income has been prepared. Total comprehensive income/(loss) is equal to profit/(loss) for the periods presented.

All operations are continuing for the financial period.

The notes on pages 21 to 35 form part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC
BALANCE SHEET AS AT 29 FEBRUARY 2020

		29 February 2020	23 February 2019
	Notes	£	£
Non-current assets			
Loans	9	357,046,933	365,380,174
Subordinated loans	9	7,000	7,000
		357,053,933	365,387,174
Current assets			
Blue Partnership swaps		147,716,647	145,061,473
Teesport Partnership swaps		35,109,977	34,478,884
Loans	9	8,663,893	8,033,776
Debtors: amounts falling due within one year	10	3,783,686	3,375,342
Cash at bank and in hand		319,034	297,462
		195,593,237	191,246,937
Creditors: amounts falling due within one year	11	(12,753,531)	(11,384,415)
Net current assets		182,839,706	179,862,522
Total assets less current liabilities		539,893,639	545,249,696
Creditors: amounts falling due after more than one year	12	(539,542,903)	(544,920,531)
Net assets		350,736	329,165
Capital and reserves			
Called up share capital	14	50,000	50,000
Profit and loss account		300,736	279,165
Total shareholders' funds		350,736	329,165

The notes on pages 21 to 35 form an integral part of these financial statements.

The financial statements on pages 16 to 35 were approved by the Board of Directors on 23 July 2020 and signed on its behalf by:

Robert Welch

Robert Welch, for and on behalf of Tesco Services Limited
 Director

Tesco Property Finance 1 PLC

Registered number: 05888925

Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO PROPERTY FINANCE 1 PLC**STATEMENT OF CHANGES IN EQUITY FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020**

	Called up share capital*	Profit and loss account	Total
	£	£	£
Balance as at 24 February 2018	50,000	501,517	551,517
Loss and total comprehensive expense for the financial period	-	(222,352)	(222,352)
Balance as at 23 February 2019	50,000	279,165	329,165
Profit and total comprehensive income for the financial period	-	21,571	21,571
Balance as at 29 February 2020	50,000	300,736	350,736

*See Note 14 for breakdown of the Called up share capital.

The notes on pages 21 to 35 form part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC**STATEMENT OF CASH FLOWS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020**

		53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	Notes	£	£
Net cash flows from operating activities	15	21,572	25,797
Net cash flows from investing activities		-	-
Net cash used in financing activities		-	-
Net increase in cash and cash equivalents		21,572	25,797
Cash and cash equivalents at the beginning of the period		297,462	271,665
Cash and cash equivalents at the end of the period		319,034	297,462

The notes on pages 21 to 35 form part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020**

	Notes	53 weeks ended 29 February 2020 £	52 weeks ended 23 February 2019 £
Increase in cash	16	21,572	25,797
Decrease/(increase) in debt			
- On account of cash flow	16	8,033,776	7,449,485
- On account of non-cash flow	16	(3,616,920)	(21,419,749)
Opening net debt	16	(552,656,845)	(538,712,378)
Closing net debt	16	(548,218,417)	(552,656,845)

The notes on pages 21 to 35 form part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020

1. Statement of compliance

The financial statements of Tesco Property Finance 1 PLC (the “Company”) have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and the Companies Act 2006.

2. General information

The Company is a public limited company limited by shares, and is incorporated and domiciled in England and Wales under the Companies Act 2006.

The address of the registered office is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom. The nature of the Company’s operations and its principal activity are set out in the Strategic Report on page 1.

The financial statements of the Company for the 53 week period ended 29 February 2020 were approved by the Board of Directors on 23 July 2020 and the Balance Sheet was signed on the Board’s behalf by Robert Welch, for and on behalf of Tesco Services Limited.

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

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

3. Accounting policies

a) Basis of preparation

The financial statements of the Company are prepared on the going concern basis under the historical cost convention, modified by the recognition of certain financial assets and liabilities measured at fair value.

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

b) Going concern

In order to form a view as to the most appropriate basis of preparation of these financial statements, the Directors have assessed the likelihood of whether the Company will be able to continue trading for a period of at least 12 months from the date of signing the financial statements versus the likelihood of either intending to or being forced to either cease trading or putting the Company into liquidation.

The ability of the Company to meet its obligations on the Bonds and to meet its operating and administrative expenses is dependent to the extent it receives the amounts due on the Loans from the Borrowers and the ability of the Borrowers to discharge their obligations under the Loans depends primarily on the ability of Tesco PLC to discharge its obligations under the Property Portfolio leases. The Bonds are secured over all of the assets of the Company and the Loans are secured over the Property Portfolio.

The Bond holders have no further recourse to the Company should the receipts on the Loans and the proceeds from any enforcement action over the Loans be insufficient to meet these obligations.

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

3. Accounting policies (continued)

b) Going concern (continued)

During the period and after the balance sheet date, the Borrowers have continued to meet their liabilities to the Company as they fall due. While the securitisation structure is credit-linked to Tesco PLC and relies on rental receipts under the Occupational lease, any changes in Tesco PLC's credit rating are not expected to directly impact the Partnerships' ability to repay the Loans and consequently the Company's ability to repay the Bonds except in the event of default. Historical credit rating downgrades of Tesco PLC, resulted in no instances of missed or late interest and principal repayments and should this occur the Partnerships have a 14-day grace period to remedy the non-payment. The Directors have noted that, at the balance sheet date the Company is in a net asset position and the credit rating of the Bonds is rated at 'Baa3' by Moody's rating services. The Directors do not believe that this impacts the going concern of the Company. Management have produced an 18 month cash flow depicting the Company's ability to continue as a going concern.

Whilst COVID-19 is a threat to many businesses, management's assessment is that demand for the properties of the Partnerships financed by the Company is not expected to suffer, as primarily the tenants of the properties are grocery retailers, which have functioned as essential businesses throughout the pandemic and will continue to operate afterwards. The assessment is therefore that there is no threat to Going Concern.

Therefore, the Directors consider that the Company is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

c) Critical accounting judgements and key sources of estimation uncertainties

In the application of the Partnership's accounting policies, which are described in this note, the Company is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following is the Company's key sources of estimation uncertainty:

The carrying value of the loans of the Company are supported by the underlying value of investment properties in Blue Partnership and Teesport Partnership. Determining this value of investment properties, requires an estimation of expected open-market rental income as well as an expected yield to calculate its fair value. Given the current headroom of the fair value of properties over the carrying value of the loan no sensitivity analysis has been disclosed.

Judgements

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

d) Significant accounting policies

Financial instruments

Financial assets and financial liabilities are recognised on the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

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

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

3. Accounting policies (continued)

d) Significant accounting policies (continued)

Financial instruments (continued)

(i) Financial assets and liabilities

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

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

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

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

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

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

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

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

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

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

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

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

3. Accounting policies (continued)

d) Significant accounting policies (continued)

Financial instruments (continued)

(ii) Derivative financial instruments

The Partnership uses derivative financial instruments to reduce exposure to RPI-rate movements. The Partnership does not hold or issue derivative financial instruments for speculative purposes.

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

(iii) Fair value measurement

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

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

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

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

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

Impairment of fixed assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

If there is objective evidence that an impairment loss on a financial asset classified as loans and receivable has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset and the present value of estimated future cash flows from the asset discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are recognised in profit or loss and the carrying amount of the financial asset reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted on measuring impairment.

Bonds

The Bonds issued by the Company are initially recognised at fair value on the date of their issuance and are subsequently measured at amortised cost using the effective interest rate method.

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED 29 FEBRUARY 2020 (continued)

3. Accounting policies (continued)

d) Significant accounting policies (continued)

Loans

The loans are a non-derivative financial asset with fixed or determinable repayments and are not quoted in an active market. They are classified as loans and receivables. The Loans are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Profit and Loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the Effective interest rate computed at initial recognition. The interest payment date on the loan falls three days earlier than the interest payment date on the bonds.

As a result the first loan interest period was shorter than the first bond interest period meaning that the interest receivable on the first loan interest payment date was insufficient to meet the interest payable on the bonds. The Partnership paid a fee the "Partnership First Loan Interest Payment Date Fee" equivalent to three days of accrued interest to cover this shortfall. This was only relevant to the first bond interest payment date.

Cash at bank and in hand

Cash at bank and in hand in the Balance Sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Income taxes

The Company has elected into the securitisation regime and the tax charge has been calculated on this basis.

The Finance Act 2005 (the "Act") provided that Corporation Tax for a 'Securitisation Company' within the meaning of the Act would be calculated with reference to UK GAAP as applicable up to 31 December 2004 for accounting periods ending by 1 January 2008. Under the powers conferred by Finance Act 2005, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, Corporation Tax for a 'securitisation Company' will be calculated by reference to the profit of the securitisation Company required to be retained in accordance with the relevant capital market arrangement.

The Directors are satisfied that this Company meets the definition of a 'securitisation Company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, deferred tax is no longer provided for.

The Directors have elected that this Company be taxed by reference to the profit required to be retained in accordance with the applicable capital market arrangement.

Interest receivable and similar income

Interest receivable is calculated on an accrual basis. Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Other operating income

Other operating income represents an amount charged during the period and on the closing date by the Company to the Blue Partnership and the Teesport Partnership in accordance with the Prospectus, equal to all the fees, costs and expenses incurred by the Company in connection with the making of the loans, the issue of the bonds, the entry into the Partnership Swap, the Teesport Partnership Swap and the Issuer Swap and the negotiation, preparation and execution of each issuer transaction documents, as defined in the Prospectus.

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

3. Accounting policies (continued)

d) Significant accounting policies (continued)

Interest payable and similar expenses

Interest payable is calculated on an accrual basis. Interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial liabilities and of allocating the interest expense over the expected life of the liability. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

4. Operating profit/(loss)

The Directors received no emoluments in respect of its services to the Company (2019: £nil).

The Company has no employees during the period (2019: nil).

The Auditor's remuneration of £24,990 (2019: £24,990) for the current period and prior period was borne by the Blue Partnership. The non-audit fees for the period is £nil (2019: £nil).

5. Interest receivable and similar income

	53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	£	£
Interest receivable on loans to associated undertakings	29,413,812	29,104,510
Interest receivable on bank deposits	1,327	792
Gross amount receivable on RPI-linked interest rate swap contracts	1,827,053	2,763,919
	31,242,192	31,869,221

6. Interest payable and similar expenses

	53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	£	£
Interest payable on bonds	29,415,542	29,352,683
Gross amount payable on RPI-linked interest rate swap contracts	1,827,058	2,763,924
	31,242,600	32,116,607

7. Movement in the fair value of derivative financial instruments

The movements in the fair values of the Issuer Swaps, the Partnership swap and the Teesport Partnership swap are based on the changes in the assumptions of future movements in market interest rates and the RPI.

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

8. Tax charge on profit/(loss)

(a) Factors that have affected the tax charge:

The standard rate of corporation tax in the UK is 19% from 1 April 2017, and 17% from 1 April 2020. This gives a corporation tax rate for the Company for the full period of 19% (2019: 19%). Post the balance sheet date, legislation has been substantively enacted to repeal the reduction of the main corporation tax rate, thereby maintaining the current rate at 19%. These financial statements do not reflect the impact of this change as it was not substantively enacted by the balance sheet date.

(b) Tax charge in the Profit and Loss Account

The analysis of the charge for the period is as follows:

	53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	£	£
Current income tax:		
- UK corporation tax on profit for the financial period	4,750	4,750
Total current income tax charge	<u>4,750</u>	<u>4,750</u>
Tax charge in the Profit and Loss Account	<u>4,750</u>	<u>4,750</u>

(c) Reconciliation of the tax charge

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

	53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	£	£
Profit/(Loss) before tax	<u>26,321</u>	<u>(217,602)</u>
Tax charge/(credit) at standard UK corporation tax rate of 19% (2019: 19%)	<u>5,001</u>	<u>(41,334)</u>
Effects of:		
- Accounting (profit)/loss (non-taxable)/non-deductible in accordance with SI 2006/3296	(5,001)	41,334
- Cash retained profit taxable in accordance with SI 2006/3296	4,750	4,750
Overall tax charge	<u>4,750</u>	<u>4,750</u>

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

9. Loans and subordinated loans

	29 February 2020	23 February 2019
	£	£
Subordinated loans	7,000	7,000
Loans carried at amortised cost	365,710,826	373,413,950
	365,717,826	373,420,950

The maturity profile of the loans and subordinated loans at the period end was as follows:

	29 February 2020	23 February 2019
	£	£
Loans carried at amortised cost:		
- in one year or less	8,663,893	8,033,776
- in more than one year	357,046,933	365,380,174
Subordinated loans: in more than one year	7,000	7,000
	365,717,826	373,420,950

The Loans bear interest at a fixed rate of 7.6227% and are secured by first charges over commercial properties as explained in more detail in the Strategic Report and the Directors' Report.

The subordinated loans are seven loans of £1,000 each advanced to companies owed by the Partnerships and are repayable on 13 July 2039.

10. Debtors: amounts falling due within one year

	29 February 2020	23 February 2019
	£	£
Unpaid share capital	37,499	37,499
Accrued income	3,736,497	3,328,153
Other debtors	9,690	9,690
	3,783,686	3,375,342

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

11. Creditors: amounts falling due within one year

	29 February 2020	23 February 2019
	£	£
Amounts owed to Group undertakings	17,736	17,736
Bonds	8,994,548	8,033,776
Corporation tax	4,750	4,750
Accruals	3,736,497	3,328,153
	12,753,531	11,384,415

Amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Refer to Note 12 for the terms and condition related to Bonds.

12. Creditors: amounts falling due after one year

	29 February 2020	23 February 2019
	£	£
Bonds	356,716,279	365,380,174
Issuer swaps	182,826,624	179,540,357
	539,542,903	544,920,531

The Bonds issued from the market incur interest at a fixed rate of 7.6227% per annum and amortised each year until on 13 July 2039 when they will be fully amortised. Issue costs of £6,533,125 were incurred and offset by the discount extended on the Partnership Loan and the Teesport Partnership Loan. These issue cost and discount amounts are unwound over the term of the Bonds and Loans via the effective interest rate adjustments.

The Issuer Swaps are held under a back-to-back arrangement and match off against the Blue Partnership swap of £147,716,647 and Teesport Partnership swap of £35,109,977 which are recognised as current assets.

13. Financial instruments

Credit risk

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

	29 February 2020		23 February 2019	
	Carrying value	Maximum exposure	Carrying value	Maximum exposure
	£	£	£	£
Assets:				
Loans and subordinated loans	365,717,826	371,130,816	373,420,950	379,164,592
Blue and Teesport Partnership swaps	182,826,624	182,826,624	179,540,357	179,540,357
Other debtors	3,783,686	3,783,686	3,375,342	3,375,342
	552,328,136	557,741,126	556,336,649	562,080,291

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)****13. Financial instruments (continued)****Credit risk (continued)**

The table below sets out the carrying amount, impairment and the approximate fair value of the collateral held against the credit risk exposures to the Loans and the subordinated loans. The estimate of the fair value of the collateral is based on the most recent valuation performed in 29.02.2020.

	29 February 2020		23 February 2019	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
	£	£	£	£
Loans and subordinated loans				
Neither past due nor impaired	365,717,826	590,030,000	373,420,950	589,130,000
	365,717,826	590,030,000	373,420,950	589,130,000

The Loans are secured over commercial properties in the United Kingdom. The properties are not concentrated in any specific area. Impairment to date has been £nil as there have been no defaults on either the interest or principal repayments.

Market risk

Interest on the Loans and the Bonds is set at a fixed rate and is payable quarterly in arrears at the following rates:

Balances at 29 February 2020	Amount (£)	Rate (%)
Loans	365,717,826	7.6227%
Bonds	365,710,826	7.6227%

Balances at 23 February 2019

Loans	373,420,950	7.6227%
Bonds	373,413,950	7.6227%

Fair value of financial assets and liabilities

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

	29 February 2020		23 February 2019	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
Assets:				
Loans	365,710,826	552,476,442	373,413,950	519,292,448
Subordinated loans	7,000	7,000	7,000	7,000
Swaps	182,826,624	182,826,624	179,540,357	179,540,357
	548,544,450	735,310,066	552,961,307	698,839,805

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

13. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

	29 February 2020		23 February 2019	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
Liabilities:				
Bonds	365,710,827	552,476,442	373,413,950	519,292,448
Issuer Swaps	182,826,624	182,826,624	179,540,357	179,540,357
	548,537,451	735,303,066	552,954,307	698,832,805

The bonds are listed on the Irish Stock Exchange. The fair value of the bonds is based upon available market prices. Market prices of the bonds depend on how the loans are performing, therefore the fair values of the loans have been calculated as being in line with the total fair value of the Bonds, after allowing for the impact of the derivatives.

Due to the short term nature of accrued income, other debtors and corporation tax, their fair value is approximate to their carrying value.

Amounts receivable on the Partnership swaps and payable on the Issuer Swaps are variable with inflation. Fixed amounts payable total £9,177,659 (2019: £9,177,580) and the floating amounts payable are determined with reference to a total initial amount indexed for inflation. Amounts are payable on each loan payment date.

The swap valuations above, based on the discounted expected future cash flows associated with the swaps, are linked to future inflation levels as referenced by the RPI and this gives rise to inherent uncertainty as to their fair value. However, given that the structure has equal and opposite agreements in place, the net impact on net assets and the Profit and Loss account of any changes to underlying assumptions will be nil.

FRS 102 Section 11 in relation to the nature of the financial instruments that are measured in the Balance Sheet at fair value, requires them to be put into a fair value measurement hierarchy based on fair value measurement as detailed below:

- Quoted prices (unadjusted) in active market 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

If one or more of the significant inputs is not based on quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The only financial instruments included in the Company's Balance sheet that are measured at fair value are derivative transactions. As the fair value of such derivatives is calculated by discounting future cash flows using both appropriate observable market data and also unobservable data in relation to longer term inflation expectations, these fall within level 2 of the hierarchy.

Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at an unacceptably high cost. The Company's ability to meet payments on the bonds as they fall due is dependent on timely receipt of funds which may be delayed due to slow repayments on the loans.

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)****13. Financial instruments (continued)****Liquidity risk (continued)**

The table below reflects the undiscounted contractual cash flows of financial liabilities at the Balance Sheet date of both derivative and non-derivative financial instruments.

As at 29 February 2020	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Non-derivative financial instruments						
Bonds	365,710,827	371,130,816	2,105,033	6,558,862	42,005,221	320,461,700
Interest payable on Bonds	3,736,497	344,716,401	7,072,547	20,973,878	104,836,059	211,833,916
	369,447,324	715,847,217	9,177,580	27,532,740	146,841,280	532,295,616
Derivative financial instruments						
Issuer swaps	182,826,624	243,907,290	(403,602)	(458,637)	7,889,511	236,880,019
	182,826,624	243,907,290	(403,602)	(458,637)	7,889,511	236,880,019
Total	552,273,948	959,754,507	8,773,978	27,074,103	154,730,791	769,175,635

As at 23 February 2019	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Non-derivative financial instruments						
Bonds	373,413,950	379,164,592	1,951,936	6,081,840	38,950,210	332,180,606
Interest payable on Bonds	3,328,153	373,596,636	7,126,663	21,548,432	107,961,551	236,959,990
	376,742,103	752,761,228	9,078,599	27,630,272	146,911,761	569,140,596
Derivative financial instruments						
Issuer swaps	179,540,357	277,923,157	(616,246)	(1,024,563)	5,738,386	273,825,580
	179,540,357	277,923,157	(616,246)	(1,024,563)	5,738,386	273,825,580
Total	556,282,460	1,030,684,385	8,462,353	26,605,709	152,650,147	842,966,176

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

14. Called up share capital

	29 February 2020	23 February 2019
	£	£
Allotted, called up and fully paid:		
1 (2019: 1) Ordinary share of £1	1	1
Allotted, called up and partly paid:		
49,999 (2019: 49,999) Ordinary shares of £1 each – 25 pence paid	49,999	49,999
	50,000	50,000

The issued share capital consists of 49,999 ordinary shares of £1.00 each, of which £0.25 is paid up on each share in issue, and 1 ordinary share of £1.00, which is fully paid. £1.00 Ordinary: The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they confer rights of redemption. £1.00 Ordinary (£0.25 Paid): The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

15. Net cash flow from operating activities

Reconciliation of profit before taxation to net cash inflow from operating activities:

	53 weeks ended 29 February 2020	52 weeks ended 23 February 2019
	£	£
Profit/(loss) before taxation	26,321	(217,602)
Net movement in loans receivable and related interest receivable	7,294,780	7,605,814
Net movement in borrowings and related interest payable	(7,294,779)	(7,357,642)
Net cash flows from operations	26,322	30,570
Tax paid	(4,750)	(4,773)
Net cash inflow from operating activities	21,572	25,797

Movement in loans receivable, interest receivable, borrowings and interest payable are shown in operating activities as these cash flows represent routine operations for a financing company.

16. Analysis of changes in net debt

	23 February 2019	Net cash flow	Non-cash movement*	29 February 2020
	£	£	£	£
Cash at bank and in hand	297,462	21,572	-	319,034
Debt due within one year	(8,033,776)	8,033,776	(8,994,548)	(8,994,548)
Debt due after one year	(544,920,531)	-	5,377,628	(539,542,903)
	(552,656,845)	8,055,348	(3,616,920)	(548,218,417)

*Non-cash movements represent effective interest rate adjustments to the 'Bonds falling due after more than one year' and adjustments to fair values of 'Issuer Swap falling due after more than one year'.

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

16. Analysis of change in net debt (continued)

	24 February 2018	Net cash flow	Non-cash movement*	23 February 2019
	£	£	£	£
Cash at bank and in hand	271,665	25,797	-	297,462
Debt due within one year	(7,824,442)	7,449,485	(7,658,819)	(8,033,776)
Debt due after one year	(531,159,601)	-	(13,760,930)	(544,920,531)
	(538,712,378)	7,475,282	(21,419,749)	(552,656,845)

*Non-cash movements represent effective interest rate adjustments to the 'Bonds falling due after more than one year' and adjustments to fair values of 'Issuer Swap falling due after more than one year'.

The presentation of Analysis of changes in net debt has been changed to include borrowings and derivatives as part of debt movement, in line with FRS 102. This did not impact the balance sheet and profit and loss account presented.

17. Ultimate parent undertaking

The immediate parent undertakings of the Company are Tesco Property Finance 1 Holdco Limited and Tesco Blue (GP) Limited.

The Company's ultimate parent undertaking and controlling party is Tesco PLC. The results of the Company are only included in the consolidated financial statements of Tesco PLC, which is the smallest and largest group to consolidate these financial statements. Copies of the Tesco PLC Annual Report and Financial Statements 2020 are available from the Company Secretary at the registered office: Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

18. Related party transactions

During the 53 weeks ended 29 February 2020 the company entered into transactions with related parties, in the ordinary course of business. Transactions entered into, and balances outstanding at 29 February 2020, are as follows:

Entity	Relationship	Transaction and balances
The Teesport Limited Partnership	Tesco Blue (GP) Limited owns 100% of Teesport (GP) Limited who is the general partner of the Teesport Limited Partnership. Tesco Blue (GP) Limited is one of two parent companies.	The Company earned income of £20,545 (2019: £20,469) from the Partnership for ongoing fees for the period. The Company was charged swap interest of £350,969 (2019: £530,936) The Company received loan interest of £5,508,670 (2019: £5,583,631) Loan amounts due to the Company at period end amounted to £71,320,805 (2019: £72,784,467). Accrued interest at period end amounted to £701,702 (2019: £632,322)

TESCO PROPERTY FINANCE 1 PLC
NOTES TO THE FINANCIAL STATEMENTS FOR THE 53 WEEKS ENDED
29 FEBRUARY 2020 (continued)

18. Related party transactions (continued)

The Blue Limited Partnership	Tesco Blue (GP) Limited is a parent company of Tesco Property Finance 1 PLC and is the general partner of the Tesco Blue Limited Partnership	The Company earned income of £85,595 (2019: £86,561). The Company was charged swap interest of £1,476,089 (2019: £2,232,988) The Company received loan interest of £23,166,145 (2019: £23,677,205) Loan amounts due to the Company at period end £294,390,022 (2019: £300,665,953) Accrued interest at period end amounted to £2,951,152 (2019: £2,659,361) Amount owed to Blue Limited Partnership at period end amounted to £12,161 (2019: £12,161)
Tesco Blue (GP) Limited	Parent company	Amount owed to Tesco Blue (GP) Limited at period end amounted to £4,575 (2019: £4,575)
Tesco PLC	Ultimate parent undertaking as a part of joint venture	Swap interest earned by the Company during the period £1,827,053 (2019: £2,763,919)

Refer Note 9 and Note 11 for the terms and conditions associated with the related party balances.

Crestbridge Property Partnerships Limited had two Directors who served on the Tesco Property Finance 1 PLC board during the period.

19. Events after the reporting period

In light of the COVID-19 pandemic, the Company has considered whether any adjustments are required to reported amounts in the financial statements. As at the balance sheet date, no global pandemic had been declared, the UK was still in the 'containment' phase, large global share price falls had not yet occurred, and larger-scale outbreaks had not occurred in countries where the company operates. The full ramifications of COVID-19, and the extent of Government interventions in response, were not apparent.

Subsequent to the balance sheet date, the World Health Organisation declared a pandemic on 11 March, the UK government moved to a 'delay' phase on 12 March, announced social distancing measures on 16 March, and unprecedented 'stay at home' restrictions on 23 March. The first large falls in stock markets occurred in early March, and Tesco introduced a '3 items only' limit on purchases on 19 March in response to customer demand. The Company has therefore concluded that the necessity for large scale Government interventions in response to COVID-19 only became apparent after the balance sheet date and therefore that the consequences of such interventions represent non-adjusting post balance sheet events.