

TESCO PROPERTY FINANCE 1 PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019
Registered Number: 05888925

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TESCO PROPERTY FINANCE 1 PLC

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019

The Directors present their Strategic Report of Tesco Property Finance 1 PLC (the "Company") for the 52 weeks ended 23 February 2019 (prior period: 52 weeks ended 24 February 2018 ("2018")).

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 (the "Blue Limited Partner") 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 "Other Limited Partner") 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.

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, Camforth, 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 24 February 2018 of £584,330,000 and again on 23 February 2019 of £589,130,000.

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 52 WEEKS ENDED 23 FEBRUARY 2019 (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 52 weeks ended 23 February 2019 show a loss before tax of £217,602 (2018: profit before tax of £20,771) and loss after tax of £222,352 (2018: profit after tax of £15,998).

The Company has net assets at the period end of £329,165 (2018: £551,517) and has net current assets of £179,862,522 (2018: £158,864,436) at the period end.

The Directors do not recommend the payment of a dividend for the 52 weeks ended 23 February 2019 (2018: £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 £380,664,112 at 24 February 2018 to £373,413,949 at 23 February 2019 due to redemptions during the period.

The Property Portfolio has been valued at a market value on 23 February 2019 of £589,130,000 (2018: £584,330,000).

No impairment losses were recognised during the period (2018: £nil).

The development, performance and position of the operations of the Tesco PLC Group (the "Group"), which includes the Company, is discussed on pages 16 and 17 of the Tesco PLC Annual Report and Financial Statements 2019, which do not form a part of this Report.

Future developments

The Company's future developments form a part of the Tesco PLC Group's (the "Group") long term strategy, which is discussed on pages 14 and 15 of the Tesco PLC Annual Report and Financial Statements 2019, which do 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 52 WEEKS ENDED 23 FEBRUARY 2019 (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.

Financial risk management

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

Business risk

Uncertainty around the UK's departure from the EU continues to grow as a result of the ongoing political deadlock. A failure to prepare for all eventualities, and any resulting disruption, could have an adverse impact on our primary business, 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 appropriate mitigation measures to address challenges as appropriate.

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 BB+ as at 23 February 2019 (2018: BB+).

As noted above, the Loans are secured on the Property Portfolio which has been valued at a market value as at 23 February 2019 of £589,130,000 (2018: £584,330,000) 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 (2018: £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 52 WEEKS ENDED 23 FEBRUARY 2019 (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.

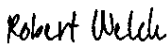
Interest rate risk

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.

Approved by the Board of Directors on 19 August 2019 and signed on behalf of the Board by:

DocuSigned 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

TESCO PROPERTY FINANCE 1 PLC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019

The Directors present their Report and the audited financial statements of Tesco Property Finance 1 PLC (the "Company") for the 52 weeks ended 23 February 2019 (prior period: 52 weeks ended 24 February 2018 ("2018")).

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 on the extent that 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. Following previous credit rating downgrades of Tesco PLC, there have been 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 'Ba1' by Moody's rating services. The Directors do not believe that this impacts the going concern of the Company. 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.

Political donations

There were no political donations for the period (2018: £nil) and the Company did not incur any political expenditure (2018: £nil).

Research and development

The Company does not undertake any research and development activities (2018: none).

Financial risk management

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

Employees

The Company had no employees during the period (2018: nil).

TESCO PROPERTY FINANCE 1 PLC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)

Directors

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

S Drewett
J Gibney
L Heywood
N Townson (Appointed on 4 March 2019)
Tesco Services Limited

W Taylor (Resigned 20 February 2019)

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 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)

Directors' Responsibilities Statement

The Directors are responsible for preparing the 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:

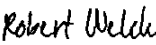
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements; 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

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 19 August 2019 and signed on behalf of the Board by:

DocuSigned by:

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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

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 23 February 2019 and of its loss for the 52 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 of the 'Company' 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 18.

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).

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.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year was:</p> <ul style="list-style-type: none"> • Recoverability of debtors from fellow group companies
Materiality	<p>The materiality that we used in the current year was £11 million which was determined on the basis of 2% of total assets.</p>
Scoping	<p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.</p>

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

Conclusions relating to going concern

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

We have nothing to report in respect of these matters.

- 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.

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.

Recoverability of debtors from fellow group companies	
Key audit matter description	Debtors from fellow group companies are stated in the balance sheet at £373 million (2018: £381 million) excluding subordinated loans.
	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 trading performance of the subsidiaries and the net asset / liabilities position.
	Further details are included within the accounting policies note on page 19 of note 3 and within the loans and subordinated loans note on page 25 under note 9 to the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of the key controls related to the recoverability of debtors from fellow group companies.
	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.
Key observations	Based on the work performed we concluded that debtors from fellow group companies are appropriately stated.

In the prior year, we reported on management override of controls as a key audit matter. This was not identified as a key audit matter in the current year, however we discuss how the audit was capable of detecting irregularities, including fraud, later in this report.

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

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	£11 million (2018: £11 million)
Basis for determining materiality	2% of total assets (2018: 2%)
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.

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £0.5 million (2018: £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.

An overview of the scope of our audit

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.

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.

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.

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

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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 Financial Reporting Council's (FRS's) website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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, our procedures included the following:

- enquiring of management, including obtaining and reviewing supporting documentation, concerning the company's 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;
- discussing among the 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 part of this discussion, we identified potential for fraud in the following areas: posting of unusual journal entries and complex transactions; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, tax legislation.

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

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 relevant laws and regulations discussed above;
- 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

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.

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

Other matters

Auditor tenure

Following the recommendation of Tesco Plc Audit Committee, we were appointed by the Group's Shareholders 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 4 years, covering financial years ending 27 February 2016 to 23 February 2019.

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).

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
21 August 2019

TESCO PROPERTY FINANCE 1 PLC**PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019**

	Notes	52 weeks ended 23 February 2019 £	52 weeks ended 24 February 2018 £
Interest receivable and similar income	5	31,869,221	33,882,834
Interest payable and similar expenses	6	(32,116,607)	(33,887,064)
Net interest expense		(247,386)	(4,230)
Increase/(decrease) in the fair value of the Blue Partnership swap	7	17,444,415	(2,996,211)
Increase/(decrease) in the fair value of the Teesport Partnership swap	7	3,654,505	(363,525)
(Decrease)/increase in the fair value of the Issuer swaps	7	(21,098,920)	3,359,736
Administrative expenses		(77,536)	(77,764)
Other operating income		107,320	102,765
(Loss)/profit before tax		(217,602)	20,771
Tax charge	8	(4,750)	(4,773)
(Loss)/profit for the financial period		(222,352)	15,998

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

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

All operations are continuing for the financial period.

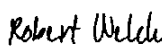
The notes on pages 18 to 32 form an integral part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC
BALANCE SHEET AS AT 23 FEBRUARY 2019

		23 February 2019	24 February 2018
	Notes	£	£
Fixed assets			
Loans	9	365,380,174	372,839,682
Subordinated loans	9	7,000	7,000
		<u>365,387,174</u>	<u>372,846,682</u>
Current assets			
Blue Partnership swaps		145,061,473	127,617,059
Teesport Partnership swaps		34,478,884	30,824,378
Loans	9	8,033,776	7,824,430
Debtors: amounts falling due within one year	10	3,375,342	3,730,993
Cash at bank and in hand		297,462	271,665
		<u>191,246,937</u>	<u>170,268,525</u>
Creditors: amounts falling due within one year	11	(11,384,415)	(11,404,089)
Net current assets		<u>179,862,522</u>	<u>158,864,436</u>
Total assets less current liabilities		<u>545,249,696</u>	<u>531,711,118</u>
Creditors: amounts falling due after more than one year	12	(544,920,531)	(531,159,601)
Net assets		<u>329,165</u>	<u>551,517</u>
Capital and reserves			
Called up share capital	14	50,000	50,000
Profit and loss account		279,165	501,517
Total shareholders' funds		<u>329,165</u>	<u>551,517</u>

The notes on pages 18 to 32 form an integral part of these financial statements.

The financial statements on pages 13 to 32 were approved by the Board of Directors on 19 August 2019 and signed on its behalf by:

DocuSigned by:

47E09118193A4A8...

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 52 WEEKS ENDED
23 FEBRUARY 2019**

	Called up share capital*	Profit and loss account	Total
	£	£	£
Balance as at 25 February 2017	50,000	485,519	535,519
Profit and total comprehensive income for the financial period	-	15,998	15,998
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

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

The notes on pages 18 to 32 form an integral part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC**STATEMENT OF CASH FLOWS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019**

		52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	Notes	£	£
Net cash flows from operating activities	15	25,797	20,074
Net cash flows from investing activities		-	-
Net cash flows from financing activities		-	-
Net increase in cash and cash equivalents		25,797	20,074
Cash and cash equivalents at the beginning of the period		271,665	251,591
Cash and cash equivalents at the end of the period		297,462	271,665

The notes on pages 18 to 32 form an integral part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT FOR
THE 52 WEEKS ENDED 23 FEBRUARY 2019**

	Notes	52 weeks ended 23 February 2019 £	52 weeks ended 24 February 2018 £
Increase in cash	16	25,797	20,074
Decrease/(increase) in debt			
- On account of cash flow	16	7,250,163	6,907,690
- On account of non-cash flow	16	(21,220,427)	3,049,078
Opening net debt	16	(538,712,378)	(548,689,220)
Closing net debt	16	(552,656,845)	(538,712,378)

The notes on pages 18 to 32 form an integral part of these financial statements.

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019

1. Statement of compliance

The financial statements of Tesco Properties 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

Tesco Property Finance 1 PLC (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 is set out in the Strategic Report on page 1.

The financial statements of the Company for the 52 week period ended 23 February 2019 were approved by the Board of Directors on 19 August 2019 and the Balance Sheet was signed on the Board's behalf by Robert Welch.

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 also presented in Pound Sterling.

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 on the extent that it receives the amounts due on the Partnership Loan from the Borrower and the ability of the Borrower to discharge its obligations under the Partnership Loan 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 Partnership Loan is secured over the Property Portfolio.

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

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (continued)**

3. Accounting policies (continued)**b) Going concern (continued)**

During the period and after the balance sheet date, the Borrower has continued to meet its 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 Partnership Loan and consequently the Company's ability to repay the Bonds except in the event of default. Following previous credit rating downgrades of Tesco Plc, there have been 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 'Ba1' by Moody's rating services. The Directors do not believe that this impacts the going concern of the Company. 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 effects 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 52 WEEKS ENDED 23 FEBRUARY 2019 (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 52 WEEKS ENDED 23 FEBRUARY 2019 (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 52 WEEKS ENDED 23 FEBRUARY 2019 (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 ("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 accruals 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 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)****3. Accounting policies (continued)****d) Significant accounting policies (continued)****Interest payable and similar expenses**

Interest payable is calculated on an accruals 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 loss

The Directors received no emoluments in respect of its services to the Company (2018: £nil).

The Company has no employees during the period (2018: nil).

The auditor's remuneration amounting to £24,990 (2018: £24,990) in respect of audit services for the current period and prior period were borne on the Company's behalf by the Blue Partnership. Amounts paid for non-audit service provided during the current period are £nil (2018: £nil).

5. Interest receivable and similar income

	52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	£	£
Interest receivable on loans to associated undertakings	29,104,510	29,963,166
Interest receivable on bank deposits	792	71
Gross amount receivable on RPI-linked interest rate swap contracts	2,763,919	3,919,597
Total	31,869,221	33,882,834

6. Interest payable and similar expenses

	52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	£	£
Interest payable on bonds	29,352,683	29,967,467
Gross amount payable on RPI-linked interest rate swap contracts	2,763,924	3,919,597
Total	32,116,607	33,887,064

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 52 WEEKS ENDED
23 FEBRUARY 2019 (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% (2018: 19.09%).

(b) Tax charge in the Profit and Loss Account

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

	52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	£	£
Current income tax:		
- UK corporation tax on profit for the financial period	4,750	4,773
Total current income tax charge	4,750	4,773
Tax charge in the Profit and Loss Account	4,750	4,773

(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:

	52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	£	£
(Loss)/Profit before tax	(217,602)	20,771
Tax (credit)/charge at standard UK corporation tax rate of 19% (2018: 19.09%)	(41,334)	3,996
Effects of:		
- Accounting loss/(profit) non-deductible in accordance with SI 2006/3296	41,334	(3,996)
- Cash retained profit taxable in accordance with SI 2006/3296	4,750	4,773
Overall tax charge	4,750	4,773

(d) Tax rate changes

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were enacted by the Balance Sheet date and therefore included in these financial statements.

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (continued)****9. Loans and subordinated loans**

	23 February 2019	24 February 2018
	£	£
Subordinated loans	7,000	7,000
Loans carried at amortised cost	373,413,950	380,664,112
	373,420,950	380,671,112

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

	23 February 2019	24 February 2018
	£	£
Loans carried at amortised cost:		
- in one year or less	8,033,776	7,824,430
- in more than one year	365,380,174	372,839,682
Subordinated loans: in more than one year	7,000	7,000
	373,420,950	380,671,112

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

	23 February 2019	24 February 2018
	£	£
Unpaid share capital	37,499	37,499
Accrued income	3,328,153	3,683,804
Other debtors	9,690	9,690
	3,375,342	3,730,993

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (continued)****11. Creditors: amounts falling due within one year**

	23 February 2019	24 February 2018
	£	£
Amounts owed to group undertakings	17,736	17,736
Bonds	8,033,776	7,824,442
Corporation tax	4,750	4,773
Accruals	3,328,153	3,557,138
	11,384,415	11,404,089

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

	23 February 2019	24 February 2018
	£	£
Bonds	365,380,174	372,718,164
Issuer swaps	179,540,357	158,441,437
	544,920,531	531,159,601

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 £145,061,473 and Teesport Partnership swap of £34,478,884 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:

	23 February 2019		24 February 2018	
	Carrying value	Maximum exposure	Carrying value	Maximum exposure
	£	£	£	£
Assets:				
Loans and subordinated loans	373,420,950	379,164,592	380,671,112	386,614,077
Blue and Teesport Partnership swaps	179,540,357	179,540,357	158,441,437	158,441,437
Other debtors	3,375,342	3,375,342	3,730,933	3,730,933
	556,336,649	562,080,291	542,843,482	548,786,447

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (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 February 2019.

	23 February 2019		24 February 2018	
	Carrying value	Fair value of collateral	Carrying value	Fair value of collateral
	£	£	£	£
Loans and subordinated loans				
Neither past due nor impaired	373,420,950	589,130,000	380,671,112	584,330,000
	373,420,950	589,130,000	380,671,112	584,330,000

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 23 February 2019	Amount (£)	Rate (%)
Loans	373,420,950	7.6227%
Bonds	373,413,950	7.6227%

Balances at 24 February 2018

Loans	380,664,112	7.6227%
Bonds	380,542,606	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:

	23 February 2019		24 February 2018	
	Carrying value	Fair value	Carrying value	Fair value
	£	£	£	£
Assets:				
Loans	373,413,950	519,292,448	380,664,112	514,049,809
Subordinated loans	7,000	7,000	7,000	7,000
Swaps	179,540,357	179,540,357	158,441,437	158,441,437
	552,961,307	698,839,805	539,112,549	672,498,246
Liabilities:				
Bonds	373,413,950	519,292,448	380,542,606	514,049,809
Issuer Swaps	179,540,357	179,540,357	158,441,437	158,441,437
	552,954,307	698,832,805	538,984,043	672,491,246

TESCO PROPERTY FINANCE 1 PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)

13. Financial instruments (continued)

Fair value of financial assets and liabilities (continued)

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 £9,177,580 (2018: £9,177,659) 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. 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 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. 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.

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (continued)****13. Financial instruments (continued)****Liquidity risk (continued)**

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

As at 24 February 2018	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	380,542,606	386,614,077	1,809,973	5,639,512	36,117,388	343,047,204
Interest payable on Bonds	3,557,138	402,856,128	7,266,682	21,992,810	110,794,885	262,801,751
	384,099,744	789,470,205	9,076,655	27,632,322	146,912,273	605,848,955
Derivative financial instruments						
Issuer swaps	158,441,437	266,540,592	(915,182)	(1,903,716)	(2,180,780)	271,540,269
	158,441,437	266,540,592	(915,182)	(1,903,716)	(2,180,780)	271,540,269
Total	542,541,181	1,056,010,797	8,161,473	25,728,606	144,731,493	877,389,224

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)****14. Called up share capital**

	23 February 2019	24 February 2018
	£	£
Allotted, called up and fully paid: 1		
(2018: 1) Ordinary share of £1	1	1
Allotted, called up and partly paid: 49,999		
(2018: 49,999) Ordinary shares of £1 each – 25 pence paid	49,999	49,999
	<u>50,000</u>	<u>50,000</u>

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.

15. Net cash flows from operating activities

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

	52 weeks ended 23 February 2019	52 weeks ended 24 February 2018
	£	£
(Loss)/profit before taxation	(217,602)	20,771
Net movement in loans receivable and related interest receivable	7,605,814	6,747,159
Net movement in borrowings and related interest payable	(7,357,642)	(6,742,856)
Net cash flows from operations	<u>30,570</u>	<u>25,074</u>
Tax paid	<u>(4,773)</u>	<u>(5,000)</u>
Net cash flows from operating activities	<u>25,797</u>	<u>20,074</u>

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 change in net debt

	24 February 2018	Cash flows	Non-cash changes*	23 February 2019
	£	£	£	£
Cash at bank and in hand	271,665	25,797	-	297,462
Bond falling due after more than one year	(372,718,164)	7,459,497	(121,507)	(365,380,174)
Issuer Swap falling due after more than one year	(158,441,437)	-	(21,098,920)	(179,540,357)
Bond falling due within one year	(7,824,442)	(209,334)	-	(8,033,776)
	<u>(538,712,378)</u>	<u>7,275,960</u>	<u>(21,220,427)</u>	<u>(552,656,845)</u>

*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 52 WEEKS ENDED 23 FEBRUARY 2019 (continued)****16. Analysis of change in net debt (continued)**

	25 February 2017	Net cash flow	Non- cash changes*	24 February 2018
	£	£	£	£
Cash at bank and in hand	251,591	20,074	-	271,665
Bond falling due after more than one year	(380,231,948)	7,824,442	(310,658)	(372,718,164)
Issuer Swap falling due after more than one year	(161,801,173)	-	3,359,736	(158,441,437)
Bond falling due within one year	(6,907,690)	(916,752)	-	(7,824,442)
	(548,689,220)	6,927,764	3,049,078	(538,712,378)

*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.'

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 2019 are available from the Company Secretary at its registered office: Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

18. Related party transactions

During the 52 weeks ended 23 February 2019 the company entered into transactions with related parties, in the ordinary course of business. Transactions entered into, and balances outstanding at 23 February 2019, are as follows:

Entity	Relationship	Transaction and balances
The Teesport Partnership Limited	Tesco Blue (GP) Limited owns 100% of Teesport (GP) who is the general partner of the Teesport Limited Partnership. Tesco Blue (GP) Limited is the parent company of Tesco Property Finance 1 PLC	The Company earned income of £20,469 (2018: £19,242) The Company was charged swap interest of £530,936 (2018: £752,935) The Company earned loan interest of £5,583,631 (2018: £5,627,966) Loan amounts due to the Company at period end amounted to £72,784,467 (2018: £73,168,116). Accrued interest at period end amounted to £632,322 (2018: £698,099)

TESCO PROPERTY FINANCE 1 PLC**NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED
23 FEBRUARY 2019 (continued)****18. Related party transactions (continued)**

The Blue Limited Partnership	Tesco Blue (GP) Limited is a parent company of Tesco Property Finance 1 and is the general partner of the Tesco Blue Limited Partnership	The Company earned income of £86,561 (2018: £83,523). The Company was charged swap interest of £2,232,988 (2018: £3,166,662) The Company earned loan interest of £23,677,205 (2018: 24,335,201) Loan amounts due to the Company at period end £300,665,953 (2018: £307,495,996) Accrued interest at period end amounted to £2,659,361 (2018: £2,985,705) Amount owed to Blue Limited Partnership at period end amounted to £12,161 (2018: £12,161)
Tesco Blue (GP) Limited	Parent company	Amount owed to Tesco Blue (GP) Limited at period end amounted to £4,575 (2018: £5,575)
Tesco PLC	Ultimate parent undertaking as a part of joint venture	Swap interest earned by the Company during the period £2,763,919 (2018: £3,919,597)
Kingfisher Property Partnerships Limited	Associate	Operator fee paid to during the period £nil (2018: £960)

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

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