Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the year ended 25 February 2017 were approved by the Board of Directors on 11 April 2017 and the balance sheet was signed on the Board's behalf by Dave Lewis and Alan Stewart.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements

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

The financial year represents the 52 weeks to 25 February 2017 (prior financial year 52 weeks to 27 February 2016).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Presentation changes to the Parent Company balance sheet

The Parent Company balance sheet includes an additional line item to better reflect the current and non-current categorisation of receivables. In the prior year the balance was presented on one line in the balance sheet, with additional information on the current and non-current categorisation included within the note.

Short-term investments

Short-term investments are recognised initially at fair value, and subsequently at amortised cost. All income from these investments is included in the income statement as interest receivable and similar income.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

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

Financial liabilities and equity instruments

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

Interest-bearing borrowings

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

Payables

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

Derivative financial instruments and hedge accounting

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

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

Note 2 Accounting policies continued

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Fair value hedging

Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Company income statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the Company statement of comprehensive income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company income statement in the same period or periods during which the hedged transaction affects the Company income statement. The classification of the effective portion when recognised in the Company income statement is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company income statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

Pensions

The Company participates in defined benefit pension schemes and cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the period is based upon the cash contributions payable.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

Taxation

The tax expense included in the Company income statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Company income statement except to the extent that it relates to items recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, in which case it is recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, respectively.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Company income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Judgements and sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements

Critical judgements, apart from those involving estimations, are not applied in the preparation of the Company financial statements.

Sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of investments

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on three year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate.

Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 of the Group financial statements.

Note 4 Employment costs, including Directors' remuneration

	2017 £m	2016 £m
Wages and salaries*	15	21
Social security costs	2	2
Pension costs (Note 14)	3	2
Share-based payment expense (Note 13)	6	7
	26	**32**

* Wages and salaries include recharges from other Group companies for Tesco PLC related activities.

The average number of employees (all Directors of the Company) during the financial year was 11 (2016: 10).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 57 to 73.

Note 5 Dividends

For details of dividends see Note 8 in the Group financial statements.

Note 6 Investments

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 27 February 2016	16,403	9	16,412
Additions	32	–	32
Disposals	(9)	–	(9)
At 25 February 2017	**16,426**	**9**	**16,435**
Impairment			
At 27 February 2016	(3,074)	–	(3,074)
Charge for the year	(279)	–	(279)
At 25 February 2017	**(3,353)**	**–**	**(3,353)**
Net carrying value			
At 25 February 2017	**13,073**	**9**	**13,082**
At 27 February 2016	13,329	9	13,338

On 6 April 2017, the Company disposed of its £9m investment in a UK property joint venture. Refer to Note 17.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 158 to 165.

Note 7 Receivables

	2017 £m	2016 £m
Amounts owed by Group undertakings*	7,428	11,770
Amounts owed by joint ventures and associates	18	46
Other receivables	41	45
	7,487	**11,861**
Of which:		
Current	7,469	11,815
Non-current	18	46
	7,487	**11,861**

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

Note 8 Short-term investments

	2017 £m	2016 £m
Short-term investments	1,398	622

Note 9 Cash and cash equivalents

Included in cash and cash equivalents of £790m is an amount of £777m that has been set aside for completion of the merger with Booker Group PLC. This cash is not available to the Company and must be held in ring-fenced accounts until released jointly by the Company and its advisors on satisfaction of the completion terms of the merger as set out in the offering circular dated 27 January 2017. Until that time, or if the merger is not completed, it remains an asset of the Company, and at the balance sheet date it was invested with a single financial institution at a floating rate of interest.

Note 10 Payables

	2017 £m	2016 £m
Amounts owed to Group undertakings[a]	4,889	6,289
Other payables	50	45
Taxation and social security	1	2
Accruals and deferred income	6	6
Deferred tax liability[b]	32	8
	4,978	**6,350**

[a] Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship.
[b] The deferred tax asset/(liability) recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 27 February 2016	**(24)**	**16**	**(8)**
Charge to the income statement for the year	–	(10)	(10)
Movement in reserves for the year	(14)	–	(14)
At 25 February 2017	**(38)**	**6**	**(32)**

Note 11 Borrowings

Current

	Par value	Maturity	2017 £m	2016 £m
Bank loans and overdrafts			131	224
4% RPI MTN	£310m	Sep 2016	–	316
5.875% MTN	€1,039m	Sep 2016	–	877
2.7% USD Bond	$500m	Jan 2017	–	361
5.5% USD Bond	$850m	Nov 2017	709	–
			840	**1,778**

Non-current

	Par value	Maturity	2017 £m	2016 £m
5.5% USD Bond	$850m	Nov 2017	–	666
3.375% MTN	€750m	Nov 2018	641	595
5.5% MTN	£350m	Dec 2019	353	353
6.125% MTN	£900m	Feb 2022	896	896
5% MTN	£389m	Mar 2023	411	411
3.322% LPI MTN[a]	£323m	Nov 2025	326	320
6% MTN	£200m	Dec 2029	253	257
5.5% MTN	£200m	Jan 2033	255	259
1.982% RPI MTN[b]	£268m	Mar 2036	270	265
6.15% USD Bond	$1,150m	Nov 2037	1,063	1,035
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN	€600m	Apr 2047	522	486
5.2% MTN	£279m	Mar 2057	275	275
			5,440	**5,993**

[a] The 3.322% LPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
[b] The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

Note 12 Derivative financial instruments

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

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	155	–	83	(2)
Non-current	1,274	(466)	1,502	(614)
Total	**1,429**	**(466)**	**1,585**	**(616)**

	2017				2016			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	16	65	–	–	17	65	–	–
Cross currency swaps	386	791	(26)	408	280	1,377	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	–	–	–	–	(195)	400
Cross currency swaps	296	907	–	–	650	1,713	–	–
Index-linked swaps	162	591	–	–	117	890	–	–
Forward contracts	–	–	–	–	–	–	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	569	3,339	(440)	3,339	513	3,339	(419)	3,339
Forward contracts	–	–	–	–	8	232	(2)	65
Total	**1,429**	**5,693**	**(466)**	**3,747**	**1,585**	**7,616**	**(616)**	**3,804**

Note 13 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, see Note 26 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

For the year ended 25 February 2017

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2016	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**5,079,088**	**–**
Granted	–	–	–	–	–	–	5,511,106	–
Forfeited	–	–	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	(41,636)	–
Outstanding at 25 February 2017	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**10,548,558**	**–**
Exercisable at 25 February 2017	**–**	**–**	**–**	**–**	**–**	**–**	**2,250,252**	**–**
Exercise price range (pence)	–	–	–	–	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	–	–	–	–	7.68

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	**–**	**–**	**19,008**	**315.65**	**6,152,817**	**378.20**	**2,821,238**	**–**
Granted	23,840	151.00	–	–	–	–	2,478,657	–
Forfeited	–	–	(19,008)	315.65	(6,152,817)	378.20	–	–
Exercised	–	–	–	–	–	–	(220,807)	–
Outstanding at 27 February 2016	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**5,079,088**	**–**
Exercisable at 27 February 2016	**–**	**–**	**–**	**–**	**–**	**–**	**1,354,714**	**–**
Exercise price range (pence)	–	–	–	–	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	–	–	–	–	8.61

Note 14 Pensions

The total cost of participation in defined benefit pension schemes (now closed to future accrual and new members) to the Company was £nil (2016: £2.0m). The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £2.9m (2016: £0.1m). Further disclosure relating to all schemes can be found in Note 27 to the Group financial statements.

Note 15 Called up share capital

	2017 Ordinary shares of 5p each		2016 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**
Share options exercised	849,439	–	591,615	–
Share bonus awards issued	33,000,000	2	17,500,000	1
At end of the year	**8,174,932,553**	**409**	**8,141,083,114**	**407**

During the financial year, 0.8 million (2016: 0.6 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2016: £1m) and 33.0 million (2016: 17.5 million) ordinary shares of 5p each were issued in relation to share bonus awards.

Between 26 February 2017 and 5 April 2017, options over 110,014 ordinary shares were exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 26 February 2017 and 5 April 2017, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 25 February 2017, the Directors were authorised to purchase up to a maximum in aggregate of 814.1 million (2016: 812.3 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 32 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,534m (2016: £2,364m). These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed use retail developments.

The likelihood of the above items being called upon is considered remote.

The Company also has joint responsibility for the compensation scheme disclosed in Note 17.

Note 17 Events after the reporting period

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The expected costs of the compensation scheme of £85m are the joint responsibility of Tesco PLC and Tesco Stores Limited. These have been recorded in the financial statements of Tesco Stores Limited and therefore no provision has been recorded in the financial statements of Tesco PLC.

On 6 April 2017, the Company disposed of its 50% investment in a UK property joint venture. See Note 35 to the Group financial statements.