The Directors present their report, together with the audited accounts for the year ended 27 February 2016. Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

<table>
<thead>
<tr>
<th>Future developments</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse gas emissions</td>
<td>23</td>
</tr>
<tr>
<td>Financial instruments and financial risk management</td>
<td>119 to 127</td>
</tr>
<tr>
<td>Corporate governance report</td>
<td>30 to 47</td>
</tr>
</tbody>
</table>

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

| Statement of capitalised interest | 103 and 110 |
| Allotment for cash of equity securities | 135 |
| Waiver of dividends | 71 |

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 01 to 27.

**Group results**

Group revenue (exc. VAT) decreased by £2,492m to £54,433m, representing a decrease of 4.4%. Group profit before tax was £162m from a loss before tax of £6,334m in 2014/15. The profit for the year including discontinued operations was £129m. £138m was attributable to equity holders of the parent company.

**Dividends**

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 27 February 2016.

Certain nominee companies representing our employee benefit trusts hold shares in the Company in connection with the operation of the Company’s share plans and evergreen dividend waivers remain in place on shares held by them that have not been allocated to employees.

**Share capital and control of the Company and significant agreements**

Details of the Company’s share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company’s ordinary shares are set out in Note 27 on page 135. No shareholder holds securities carrying special rights with regards to control of the Company. There are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2015 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting.

Shares held by the Company’s Employee Share Incentive Plan Trust, International Employee Benefit Trust, Tesco Ireland Share Bonus Scheme Trust and Tesco Employee Share Scheme Trust, rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company’s share plans may cause options and awards granted under such plans to vest on a takeover.

**Major shareholders**

Information provided to the Company by major shareholders pursuant to the FCA’s Disclosure and Transparency Rules (DTR) are published via a Regulatory Information Service and is available on the Company’s website. The Company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 27 February 2016 and as at the date of this report:

<table>
<thead>
<tr>
<th>% of issued share capital as at 27 February 2016</th>
<th>% of issued share capital as at the date of this report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norges Bank</td>
<td>6.19</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>5.28</td>
</tr>
<tr>
<td>BlackRock, Inc.</td>
<td>5.01</td>
</tr>
<tr>
<td>Schroders plc</td>
<td>5.003</td>
</tr>
</tbody>
</table>

**Articles of Association**

The Company’s Articles of Association may only be amended by special resolution at a general meeting of the shareholders.
Directors’ report continued

Directors and their interests
The biographical details of the current serving Directors are set out on pages 32 and 33. The Directors who served during the year were: John Allan; Mark Armour; Sir Richard Broadbent; Gareth Bullock; Patrick Cescau; Stuart Chambers; Richard Cousins; Byron Grote; Ken Hanna; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; and Alan Stewart. With effect from 1 April 2016, Simon Patterson, Alison Platt and Lindsey Powall joined the Board of Directors. The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors’ share options, are contained in the Directors’ remuneration report set out on pages 48 to 70.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries. A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors and the Company Secretary (who is also a Director of certain subsidiaries 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 may not be indemnified, the Company maintains Directors’ and Officers’ liability insurance policy throughout the financial year.

Employment policies
This year we have made significant progress in updating and revising our people policies to provide our colleagues with direct access to the information they need to help and support them at work. We are making it simpler for colleagues to put our customers first and serve Britain’s shoppers a little better every day by giving them easily accessible policies and information on our intranet. We recognise the importance of a fair, honest and transparent culture, and we are working together with our recognised trade union in the UK, Usdaw, to ensure our policies are right for our business and that they support our people. Further details can be found on page 21.

We have fully revised our Equal Opportunities, Diversity and Inclusion policies, to give both our managers and colleagues up-to-date information about working in, and supporting, a diverse environment recognising the talents that different colleagues bring to our business and supporting them as individuals. We pride ourselves on having an inclusive environment where colleagues are treated with dignity and respect. By encouraging diversity, and employing people with different experiences, backgrounds and talent, we aim to reflect the customers and communities we serve and strengthen and grow as a business. Our selection, training, development and promotion policies ensure equal opportunities for all colleagues regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability (including colleagues who become disabled during service) or trade union affiliation. All decisions are based on merit.

We are working continually to improve the communication channels we use to engage, consult, inform and connect with colleagues, both to enable awareness of the financial and economic factors affecting the Group’s performance and to ensure our colleagues’ voices are heard. Our colleagues’ feedback is important to us and we recognise that to drive our business forward we must respond to their feedback to ensure they are engaged in the decisions we make for the business.

We actively encourage colleagues to become involved in the financial performance of our business through a variety of voluntary share schemes.

Political donations
The Group did not make any political donations (2014/15: £nil) or incur any political expenditure during the year (2014/15: £nil).

Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (the ‘Code’)
The Code places obligations on grocery retailers with a turnover greater than £1 billion to maintain a Code compliance programme, which includes training staff and providing information to the Competition and Markets Authority. In addition, the Code sets out a number of provisions which relate to different aspects of the relationship between a retailer and supplier.

The Code establishes an overarching principle that retailers must deal with their suppliers fairly and lawfully. Specific obligations include giving reasonable notice in circumstances such as changes to supply chain procedures and when ceasing or significantly reducing purchases from a supplier. The Code also contains a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

In our last Annual Report we acknowledged our conclusion that there had been a number of instances of probable breaches of the Code which fell short of the high standards we expect to uphold in our dealings with our suppliers. The Groceries Code Adjudicator (GCA), Christine Tacon, made consistent findings in her report into historic supplier issues at Tesco, published in January 2016.
During the last year we have publicly apologised to our suppliers and fundamentally changed the way we work with them, addressing the historic practices referred to in the report. The GCA acknowledged that the overwhelming majority of suppliers she spoke to as part of her investigation are now more positive towards Tesco compared to the period under investigation. We are currently working on the implementation of the GCA’s recommendations.

Outside of the investigation and report, we have continued our positive engagement with the GCA and her office. Both our Group Chief Executive and Chief Product Officer have met with the GCA to share the changes we are making in our business, and our legal team have briefed their counterparts in the GCA’s office ahead of announcements such as publishing our payment terms for all suppliers.

Our Code Compliance Officer has also continued to take an active and visible role during the year and regularly reports to our Compliance Committees and Audit Committee.

This year, 16 Code-related complaints were raised by suppliers. As at 27 February 2016, all complaints had either been resolved through discussion with the suppliers concerned, or withdrawn, although one complaint has since been reopened after the supplier contacted us after the end of the reporting year. In 13 instances, the complaints were referred to our Code Compliance Officer, and 6 of those 13 cases were raised simultaneously with the supplier’s buying contact. A formal dispute was only raised in one matter and was referred to the GCA for arbitration, but resolved directly between us and the supplier before arbitration commenced.

**Going concern and viability**

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This Longer Term Viability Statement is set out on page 27.

**Events after the balance sheet date**

On 12 April 2016, the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. (‘Lazada’) to Alibaba Group Holding Limited (‘Alibaba’) for gross cash consideration of US$129m (£90m).

The Group’s investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved the issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following 12 to 18 months.

**Directors’ statement of disclosure of information to auditor**

Having made the requisite enquiries, the Directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group’s auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group’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. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Principal risks and uncertainties on pages 24 to 27.

By order of the Board

Paul Moore
Company Secretary
12 April 2016