The Directors present their report, together with the audited accounts for the year ended 25 February 2017.

### Group results

Group revenue (exc. VAT) increased by £2bn to £55.9bn, representing an increase of 3.7% (at actual rates). Group profit before tax was £145m from a profit before tax of £202m in 2015/16. The loss for the year including discontinued operations was £(54)m. £(40)m 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 25 February 2017. As we announced in January 2017, the Board has reviewed its dividend policy and intends to recommence paying dividends in respect of the 2017/18 financial year. The Board expects dividends to grow progressively from that financial year with the aim of achieving a target cover of around two times earnings per share over the medium term.

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 28 on page 143. 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 2016 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 and in line with the recommendations of the Pre-Emption Group.

Shares held by the Company's Share Incentive Plan Trust, International Employee Benefit Trust, Employees' Share Scheme Trust and Tesco Ireland Share Bonus 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 Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service and are 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 25 February 2017 and as at the date of this report:

| | % of total voting rights as at 25 February 2017 | % of total voting rights as at the date of this report |
|---|---|---|
| Norges Bank | 5.96 | 5.96 |
| BlackRock Inc | 5.01 | 5.01 |
| Schroders plc | 4.991 | 4.991 |
| GIC Private Limited | 3.0788 | 3.0788 |

### Articles of Association

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

### Directors and their interests

The biographical details of the current serving Directors are set out on pages 34 and 35. The Directors who served during the year were: John Allan; Mark Armour; Richard Cousins (stood down from the Board on 3 January 2017); Steve Golsby; Byron Grote; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; and Alan Stewart. 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 57 to 73.

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 maintained a 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.

Our Equal Opportunities, Diversity and Inclusion policies 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 (2015/16: £nil) or incur any political expenditure during the year (2015/16: £nil).

### Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (the Code)

The Code regulates aspects of the commercial relationship between the largest grocery retailers in the UK and their suppliers of grocery products, establishing an overarching principle that retailers must deal with their suppliers fairly and lawfully. Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA), Christine Tacon. Specific supplier protections under the Code include the obligation for retailers to give reasonable notice of changes or reduction in the volume of purchases, and 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.

At Tesco, we have made fundamental changes to the way we operate to ensure we build transparent, long-term partnerships with our suppliers, consistent with the principle of fair dealing under the Code. These changes are having a positive effect on our relationships with suppliers. In the GCA's annual supplier survey in 2016, Tesco ranked as the most improved retailer, with 65% of suppliers reporting an improvement in how we operate. The results of our own supplier survey, conducted twice each year, also show a marked improvement in how our suppliers view their relationship with Tesco. Suppliers to our UK grocery business rated their 'overall satisfaction' with Tesco at 78.3% in February 2017, an improvement of 10.6% since February 2016.

In the last financial year, part of our change programme has focused on implementing the recommendations made by the GCA, in her report into historic supplier issues at Tesco, published in January 2016. The GCA confirmed on 19 September 2016 that we had complied with her requirements, which she continues to monitor at six-monthly intervals.

Retailers are required to train all members of their buying teams on their obligations under the Code, both when colleagues join the business and annually thereafter. In addition to our buying teams, we train a wider set of colleagues across our Product and other functions in the UK and in Tesco Bengaluru. For the 2016/17 financial year, we trained 1,188 new starters and 2,690 colleagues received annual refresher training.

We continue to engage positively with the GCA and her office on other matters. We meet with the GCA each quarter, and were pleased to host members of the GCA's office team for a visit to our head office in Welwyn Garden City in October 2016.

This year, 18 Code-related complaints were raised by suppliers. As at 25 February 2017, we had resolved 11 of the concerns following further discussion between the buying team and the relevant supplier, or between the Code Compliance Officer and the supplier; we had also closed a further four issues due to the supplier not responding to our follow-up communications post-resolution. The three remaining concerns have all been resolved since the end of the reporting period, two following further discussion with the relevant supplier and one due to the supplier not responding to our follow up communications; however, we have also reopened one of the concerns resolved prior to the end of the reporting period at the request of the supplier involved, and we are working with that supplier to resolve the matter. In eight instances, the complaints were referred to our Code Compliance Officer, and seven of those eight 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 the GCA determined that she was not able to accept appointment as arbitrator and the supplier is no longer pursuing the dispute.

### Going concern and longer term viability statement

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 31.

### Events after the balance sheet date

On 1 March 2017, the Group announced the completion of the disposal of its 95.5% controlling stake in the Kipa business in Turkey following the receipt of all local regulatory approvals.

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 Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

On 6 April 2017, the Group unwound its joint venture with British Land Company PLC (British Land). The Group obtained sole control of BLT Properties Limited through the acquisition of British Land's 50% interest in the joint venture. The acquisition increased the Group's owned property portfolio by £0.2bn, comprising seven stores. British Land obtained sole control of one store and one retail centre, previously held in the joint venture.

### 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 Annual Report and Financial Statements. 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 26 to 30.

Neither the Group, nor any of the Directors, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Undue reliance should not be placed on these forward-looking statements. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

### Additional disclosures

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

| | Pages |
|---|---|
| Future developments | 1 to 31 |
| Research and development | 10 |
| Greenhouse gas emissions | 23 |
| Financial instruments and financial risk management | 125 to 135 |
| Corporate governance report | 32 to 56 |

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

| | Pages |
|---|---|
| Statement of capitalised interest | 107 and 116 |
| Allotment for cash of equity securities | 143 |
| Waiver of dividends | 74 |

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 1 to 31.

By order of the Board

**Robert Welch**
Group Company Secretary
11 April 2017