

Directors' report

The Directors present their report, together with the audited accounts for the year ended 22 February 2014. Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Page
Future developments	1 to 25
Greenhouse gas emissions	19
Financial instruments and financial risk management	25, 99 to 108
Corporate governance report	26 to 40

The Company has chosen, in accordance with Section 414 C(ii) 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 25 of the Annual Report and Financial Statements 2014.

Group results*

Group revenue (excluding VAT) rose by £151 million to £63.6 billion, representing an increase of 0.2%. Group profit before tax increased by £202 million to £2,259 million. Profit for the year including discontinued operations was £970 million, of which £974 million was attributable to equity holders of the parent company.

Dividends

The Directors recommend the payment of a final dividend of 10.13p per ordinary share, to be paid on 4 July 2014 to members on the Register at the close of business on 2 May 2014. Together with the interim dividend of 4.63p per ordinary share paid in December 2013, the full-year dividend will be maintained at 14.76p per ordinary share (2012/13: 14.76p).

Fixed assets*

Capital expenditure (excluding business combinations) amounted to £2.7 billion compared with £2.7 billion the previous year.

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 116 of the Annual Report and Financial Statements 2014. 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 2013 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.

Company's shareholders

The Company has been notified of the following significant holdings of voting rights in its shares as at 22 February 2014 and as at the date of this report:

	% of issued share capital as at 22 February 2014	% of issued share capital as at the date of this report
Berkshire Hathaway Inc.	3.98	3.98
Norges Bank	6.09	7.002

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 Directors who served during the year were: Mark Armour; Sir Richard Broadbent; Gareth Bullock; Patrick Cescau; Stuart Chambers; Philip Clarke; Olivia Garfield; Ken Hanna; Laurie McIlwee; Deanna Oppenheimer; and Jacqueline Tammenoms Bakker. Laurie McIlwee stepped down as CFO and from the Board with effect from 4 April 2014. The biographical details of the Directors are set out on pages 26 and 27 of this Annual Report.

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 41 to 61.

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

Our core purpose is at the heart of our business: 'we make what matters better, together' applies to our colleagues as well as our customers and communities.

We believe it is essential for our colleagues to have a voice. Listening and connecting with colleagues enables us to understand what matters to them and to respond by taking action to make what matters better. We use a variety of communication channels to regularly engage, consult, inform and connect with our teams so that the views of our colleagues can be taken into account when key decisions are made that affect them.

Our Values underpin our development of fair and inclusive policies and encourage advocacy, engagement and loyalty so that our colleagues can be their best and help to deliver a fantastic customer experience. Collaboration and working as one team means we make a greater difference collectively rather than as individuals.

* Unless otherwise stated, all figures are reported on a continuing operations basis and exclude China and the United States which have been treated as discontinued.

We are committed to improving the skills, knowledge and wellbeing of our colleagues. 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 or trade union affiliation. All decisions are based on merit.

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

10

Political donations

The Group did not make any political donations (2012/13: £nil) or incur any political expenditure during the year (2012/13: £33,583).

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

11

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.

We are committed to treating our suppliers fairly and work in collaboration with them wherever possible. We have in place a Code Compliance Officer supported by a compliance team including a Code auditor. We have an audit plan and our approach enables us to identify any gaps in our processes so they can be quickly fixed. We also have in place an ongoing compliance training programme for our buying teams, with comprehensive training for relevant new starters and annual refresher training. We have strengthened our compliance in this area through the improvement of our e-learning tool to provide interactive online training for staff. We have also generated new mechanisms to improve our paperwork and agreements with our suppliers.

In the past year we have actively engaged and co-operated with the recently created Groceries Code Adjudicator (GCA), Christine Tacon, and her office. We have also focused on communication and dialogue with our suppliers.

Twelve Code-related complaints were raised by suppliers this year, all of which were resolved through discussion with the suppliers concerned. We have had two instances where complaints were referred to the Code Compliance Officer, although in neither of those instances was a formal dispute raised as both matters were resolved with the suppliers concerned. There was one instance in which an alleged breach was raised by a third party in relation to requests to a limited number of suppliers for funding associated with shelf positioning. The requests from suppliers were withdrawn and the matter was openly discussed with the GCA. Consequently, the GCA issued a GSCOP clarification in March 2014 on the issue. This provided guidance for suppliers and retailers on the interpretation of the GSCOP provisions relating to shelf positioning. The Code Compliance Officer regularly reports to our Compliance Committees and Audit Committee, which retain effective oversight of our compliance with the Code.

Going concern

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.

12

Events after the Balance Sheet date

On 21 March 2014, the Group entered into an agreement with Trent Limited, part of the Tata Group, to form a 50:50 joint venture in Trent Hypermarket Limited which operates the Star Bazaar retail business in India. The Group's investment is £85 million.

13

On 2 April 2014, the Group, through its subsidiary dunnhumby Limited, acquired Sociomantic Labs ('Sociomantic'), a Berlin-based global leader in digital advertising solutions, for £124 million. Sociomantic operates in 14 countries worldwide, with clients in retail, financial services and travel services.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company and the Group will be proposed at the 2014 AGM.

14

Directors' statement of disclosure of information to auditors

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 auditors are 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 auditors are 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.

15

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 20 to 25 of this Annual Report.

16

By order of the Board
Jonathan Lloyd
 Company Secretary
 2 May 2014