

Directors' remuneration report

Remuneration Committee Chair's introduction



Deanna Oppenheimer
Chair of the Remuneration Committee

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Dear Shareholders

I am pleased to introduce my first Directors' Remuneration Report as Chair of the Committee, having taken over the role from Stuart Chambers on 1 January 2015. Stuart chaired the Committee from 2010 and I would like to take this opportunity to thank him on behalf of the Board for his work as Chair and his thorough effort during our handover period.

2014/15 reward outcomes

Looking back to 2014/15, Tesco's performance and challenges have been reflected through the remuneration outcome. As a result, no annual bonus will be paid to either the new or departing Executive Directors as the Committee determined that satisfactory financial performance had not been achieved over the course of the year. The Earnings per Share (EPS) and Return on Capital Employed (ROCE) performance targets for the Performance Share Plan (PSP) awards granted in 2012 were not met and these awards will lapse.

Executive Director changes

As discussed elsewhere in this Annual Report, 2014/15 saw changes to the Executive team. Dave Lewis joined as CEO on 1 September 2014 and Alan Stewart joined as CFO on 23 September 2014. For both Dave and Alan, all pay and benefits have been set in-line with our remuneration policy that was approved by shareholders at the 2014 Annual General Meeting (AGM). You can find a summary of their remuneration arrangements on page 49. On leaving their previous employers, Dave and Alan forfeited outstanding incentive awards. These have been bought-out by Tesco in accordance with our approved remuneration policy and details of these awards have been summarised on pages 52, 54 and 55. Both of the Executive Directors have significant shareholding requirements to be built up over a five year period and both are on track to meet these requirements.

Changes to remuneration framework

With new Executive leadership in place, the Board has been working hard to develop a strategy to improve financial performance by building a more sustainable, customer-focused Tesco. The Committee believes that it is important that remuneration arrangements follow and support this strategy. Therefore we have proposed changes to Executive remuneration for 2015/16 to better focus performance measures on the areas that are important for shareholder value creation at this time. In February, Stuart Chambers and I met with the majority of our largest shareholders to discuss our remuneration framework and found these conversations and the feedback very helpful in shaping our proposals.

Annual bonus – The performance measures for the annual bonus will be focused on sales, profit and individual measures. The Committee wants the management team entirely focused on achieving the metrics which are vital to the early phase of the turnaround plan. Further details can be found on page 49.

Performance Share Plan – Since we are early in the turnaround phase of the business, the Committee considers it appropriate to base the 2015 award on a relative measure of Total Shareholder Return (TSR) to keep the focus on delivery of shareholder value through share price and dividend performance. A second metric, Retail Cash Generated from Operations, focuses on the business generating a sustainable, quality cash flow. The 2015 awards will be based 70% on relative TSR performance against a group of FTSE 100 consumer business and services companies, and 30% on cumulative Retail Cash Generated from Operations. Specifics of the plan were revised as a result of the discussions in our investor meetings. Further details can be found on pages 49 and 50.

Clawback – Clawback provisions will be introduced for the 2015/16 annual bonus and Performance Share Plan awards. Further details can be found on page 64.

As a result of these changes to our remuneration framework, it is necessary for us to seek shareholder approval for a revised remuneration policy which we will be doing at the 2015 AGM. The full revised Policy Report can be found on pages 62 and 63.

Payments to former Directors

After detailed legal advice and a rigorous review, the Board paid the legally binding contractual payments to former CEO Philip Clarke and former CFO Laurie McLlwee in February 2015. Details of their departure arrangements can be found on pages 56 and 57.

Changes to Committee membership

In addition to the change to the Committee outlined above, I would like to take this opportunity to welcome Mikael Olsson who joined the Committee on 2 December 2014, and thank Jacqueline Tammenoms Bakker for her services to the Committee until her retirement from the Board on 28 February 2015. I would also like to thank Stuart Chambers and Ken Hanna, who will not seek re-election to the Board at this year's AGM, for their services to the Committee. John Allan joined the Committee with effect from 20 April 2015.

Further review in 2015/16

As a Committee we have agreed to complete a further review of remuneration in 2015/16 to ensure that future arrangements are fully aligned to our long-term strategy to deliver value to shareholders and that the performance metrics used in our incentive plans are transparent and trackable with our business plans. This will be developed over the coming months and, although we anticipate that no further changes to our Remuneration Policy will be required as a result of this review, we will consult shareholders again once this review has been completed.

Deanna Oppenheimer

Chair of the Remuneration Committee

Directors' remuneration report continued

Annual remuneration report

The following report outlines our remuneration framework, how the remuneration policy was implemented in 2014/15 and how the Committee intends to apply policy in 2015/16. This Annual Remuneration Report will be submitted to an advisory shareholder vote at the AGM on 26 June 2015.

Remuneration strategy

Our approach to remuneration throughout Tesco is guided by a framework of common objectives and principles, which are outlined in the table below.

Reward objectives

Attract

- Enable Tesco to recruit the right people

Motivate

- Incentivise colleagues to deliver our business goals together

Recognise

- Acknowledge individual contribution and performance

Align

- Create shareholder value and support the achievement of business strategy

Retain

- Foster loyalty in Tesco so that colleagues want to stay with us

Reward principles

Competitive

- We assess competitiveness on a total reward basis
- Reward reflects an individual's role, experience, performance and contribution
- Reward is set with reference to external market practice and internal relativity

Simple

- Reward is simple, clear and easy to understand
- We avoid unnecessary complexity
- Reward is delivered accurately

Fair

- Policies are transparent and applied consistently and equitably
- Reward decisions are trusted and properly governed
- Reward is legal and compliant

Sustainable

- Reward is aligned to the business strategy, reflects our performance, and is affordable
- Our reward framework is flexible to meet the changing needs of the business
- We reward in a responsible way



The following chart and accompanying table provide a summary of how remuneration policy will be applied in 2015/16 to Executive Directors.

Key changes from last year

- Simplification of annual bonus to focus on fewer, more relevant measures
- Performance Share Plan measures changed to align with priorities to deliver significant value to shareholders and return the business to one that generates sustainable, quality cash flow
- Addition of clawback to ensure the Company is able to take back awards in the event that results are materially misstated or the participant has contributed to serious reputational damage

Fixed element

Salary + pension + benefits

c. 20% of total reward if maximum performance achieved

Performance-related element

Short-term performance

Cash bonus

Deferred share bonus (3 years)

50% Sales
30% Profit
20% Individual measures

Long-term performance

Performance Share Plan (3 years)

70% Relative TSR
30% Retail Cash
Generated from Operations

c. 80% of total reward if maximum performance achieved

How remuneration policy will be applied in 2015/16

	Element	Operation and opportunity	Performance measures
Fixed pay	Base salary	<ul style="list-style-type: none"> CEO – £1,250,000 CFO – £750,000 Next review due 1 July 2015. However, no changes to the CEO and CFO salaries will be made during 2015 	<ul style="list-style-type: none"> n/a
	Pension (Cash in retirement)	<ul style="list-style-type: none"> 25% of base salary cash allowance in lieu of pension 	<ul style="list-style-type: none"> n/a
	Benefits	<ul style="list-style-type: none"> Core benefits include car benefits, driver, security, life assurance, disability and health insurance, and colleague discount Executives are eligible to participate in the Company's all-employee share schemes, Sharesave and the Share Incentive Plan, on the same terms as UK colleagues. Sharesave is an HMRC approved savings related share option scheme. The Share Incentive Plan is an HMRC approved plan comprising free shares and partnership shares 	
Performance-related pay	Annual bonus (One-year performance) (Cash and shares)	<ul style="list-style-type: none"> CEO – maximum opportunity of 250% of base salary CFO – maximum opportunity of 225% of base salary 50% in cash 50% in shares, which are deferred for three years Malus applies to deferred shares to allow the Committee discretion to scale back awards made prior to the satisfaction of those awards in certain circumstances Clawback applies to cash payments to allow the Committee discretion to take back cash bonuses for a period of three years from payment in certain circumstances 	<ul style="list-style-type: none"> 50% based on sales 30% based on profit 20% based on individual measures <p>See below for further details</p>
	Performance Share Plan (Three-year performance) (Shares)	<ul style="list-style-type: none"> CEO – maximum award of 275% of base salary CFO – maximum award of 250% of base salary Malus provisions apply to awards, allowing the Committee discretion to scale back awards made prior to the satisfaction of awards in certain circumstances Clawback provisions also apply to allow the Committee discretion to take back exercised awards up to the fifth anniversary of the grant of awards in certain circumstances 	<ul style="list-style-type: none"> Shares vest in three years' time subject to performance targets being met For 2015 awards, performance will be assessed based 70% on relative TSR performance compared to a group of FTSE 100 consumer business and services companies and 30% on cumulative Retail Cash Generated from Operations <p>See below for further details</p>

How do performance measures link to strategy?

Annual bonus

Performance measure	Weighting	Definition of measure	Link to strategy
Sales growth	50%	Non-fuel sales (exc. VAT exc. Petrol Filling Stations)	To deliver turnaround performance, top-line revenue growth is fundamental and will be the foundation to ensuring sustainable levels of profit in the future. This is therefore the main focus of the business for 2015/16
Profit	30%	Trading profit	Incentivises the delivery of our strategy by encouraging the creation of shareholder value through profitable financial strategy
Individual measures	20%	n/a	Focuses on the delivery of the operational and strategic goals of the business for the year. For 2015/16 these will include working capital performance for the Executive Directors to ensure focus on the efficient use of cash resources

Underpin

To ensure that we do not incentivise Executives to grow sales at the expense of satisfactory profitability, an underpin will apply below which no portion of the bonus will be paid.

Bonus targets

Bonus targets are considered by the Board to be commercially sensitive as they would give away details of our budgeting to competitors. We therefore do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time the bonus outcome is reported.

The targets set are considered to be appropriately stretching taking into account the internal budget and external forecasts.

Performance Share Plan (PSP)

The performance measures for the PSP award for 2015 have been changed from those used in the last few years. The priority is to have a plan aligned to two key strategic priorities:

- Delivery of significant value to shareholders through share price and dividend performance; and
- Returning the business to be one that generates sustainable, quality cash flow.

Therefore, we will use a combination of relative Total Shareholder Return and Cumulative Retail Cash Generated from Operations to determine awards.

Directors' remuneration report continued

Annual remuneration report

PSP measures

Performance measure	Weighting	Definition of measure	Link to strategy
Relative TSR vs bespoke group of FTSE 100 consumer business and services companies	70%	Growth in share price plus dividends reinvested	Directly aligns Executives with shareholders in delivering relative high share price growth and returns over the performance period
Cumulative Retail Cash Generated from Operations	30%	Cumulative Retail Cash Generated from Operations +/- movement in Working Capital, excluding Tesco Bank*	Is a measure of business performance that is critical to a sustainable position as a retailer

* This measure will be fully transparent and be as reported in the Group's Report and Accounts.

The initial measurement period for the TSR calculation will be based on the three-month average share price of 1 October 2014 to 31 December 2014. This start period has been selected as a one-time approach to be aligned with the timing of the appointment of the new executive team and to recognise that both the CEO and CFO changed their plans and joined the business earlier, providing vital leadership during a challenging time for the business and taking immediate action to commence a significant change programme. The performance period will continue to the end of financial year 2017/18 to ensure that management is incentivised over three complete financial years and awards will not vest until three years following the date of grant. The final measurement period will be 1 December 2017 to 28 February 2018. It is anticipated that any future TSR initial measurement periods will revert to standard market practice, being the three months immediately prior to the start of the performance period.

PSP targets

Performance measure	Weighting	Threshold	Target	Maximum
Relative TSR vs bespoke group of FTSE 100 consumer business and services companies*	70%	Median performance (25% vesting)	Straight line vesting between threshold and maximum	Upper quartile performance (100% vesting)
Cumulative Retail Cash Generated from Operations	30%	£8.2bn	£8.6bn	£9.0bn

* This group will comprise the following companies: Associated British Foods, Compass, Diageo, Dixons Carphone, Kingfisher, M&S, Morrisons, Next, Reckitt Benckiser, SABMiller, J Sainsbury, Unilever and Whitbread.

What did we pay Executive Directors in 2014/15?

The table below provides a 'single figure' of remuneration. Where necessary, further explanations of the values provided are included below. This table and the relevant explanation has been audited.

Single total figure of remuneration Executive Directors

		Salary (£'000)	Benefits (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Pension (£'000)	Total before buyouts (£'000)	Buyouts (£'000)	Total (£'000)
Dave Lewis	2014/15	570	97	0	–	143	810	3,323	4,133
	2013/14	–	–	–	–	–	–	–	–
Alan Stewart	2014/15	297	42	0	–	74	413	1,888	2,301
	2013/14	–	–	–	–	–	–	–	–
Former Directors									
Philip Clarke*	2014/15	563	41	0	0	160	764	–	764
	2013/14	1,136	107	0	0	391	1,634	–	1,634
Laurie McLlwee**	2014/15	101	5	0	0	223	329	–	329
	2013/14	880	119	0	0	537	1,536	–	1,536

* Philip Clarke ceased to be a Director on 1 September 2014. Details of his leaving arrangements are provided on page 56.

** Laurie McLlwee ceased to be a Director on 4 April 2014. Details of his leaving arrangements are provided on pages 56 and 57.

Salary

Salaries are normally reviewed in July each year. Former Directors received no salary increase in July 2014.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McLlwee
Increase in year (%)	n/a	n/a	Nil	Nil
Annual salary (£'000)	1,250	750	1,145	886
Start date	1 September 2014	23 September 2014	–	–
Date stepped down from Board	–	–	1 September 2014	4 April 2014
Salary received in year (£'000)	570	297	563	101

Benefits

Benefits comprise core benefits and any taxable business expenses including the applicable tax.

Benefit	Description	Current Directors		Former Directors	
		Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Car benefits (£'000)	Company car or cash alternative, fuel and driver	16	20	33	5
Healthcare benefits (£'000)	Disability and health insurance	1	1	1	0
Security (£'000)	Installation of security measures to meet business standards	15	21	5	0
Share schemes (£'000)	Shares in Success awarded under the all-employee Share Incentive Plan	0	0	2	0
Other (£'000)	Legal fees and other costs in relation to appointment	65	–	–	–
Total (£'000)		97	42	41	5

Annual bonus 2014/15

Based on performance against targets, the bonus payout for 2014/15 calculated on a formulaic approach would have been 28% of maximum. However, the Committee determined that a satisfactory level of profit had not been achieved and therefore no bonus would be paid in respect of 2014/15.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Maximum bonus opportunity (% of salary)	250%*	225%*	250%	200%
Actual bonus (% of salary)	Nil	Nil	Nil	Nil
Actual bonus (£'000)	Nil	Nil	Nil	Nil

Measures		Actual performance	Target performance		
			Threshold	Target	Stretch
Profitability	Trading profit (50%)	£1,390m	£2,885m	£2,960m	£3,380m
Strategic financial	Group internet sales (10%)	£4,194m	£3,923m	£4,129m	£4,335m
	UK like-for-like sales growth vs IGD (8%)	(3)%	(1.5)%	(1.1)%	0%
	Group working capital improvement (8%)	£939m	£113m	£300m	£600m
Strategic non-financial	Group customer satisfaction (8%)	3.9	3.9	4.0	4.1
	Group colleague engagement (8%)	66.5%	65%	67%	70%
	Group CO ₂ reduction (8%)	41%	37%	37.5%	38%

* Pro-rated for time in employment.

Performance Share Plan

Awards granted in 2012 were subject to performance to the end of 2014/15. Targets were set as a matrix of stretching earnings growth and sustainable Return on Capital Employed targets.

The increase in undiluted EPS over three years from 2012/13 to 2014/15 and ROCE performance for 2014/15 were below threshold. No payout will therefore be made in respect of these awards and they will lapse on 30 July 2015.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Maximum PSP opportunity (% of salary)	n/a	n/a	275%	225%
Actual PSP vesting (%)	n/a	n/a	Nil	Nil
Actual PSP vesting (£'000)	n/a	n/a	Nil	Nil
Measures		% of initial award vesting		
		EPS growth targets		
		Threshold	Target	Stretch
ROCE Targets		5%	10%	12%
	14.6%	45%	Straight-line vesting between these points	100%
	13.6%	20%		85%

Dave Lewis and Alan Stewart did not receive PSP awards in 2014/15.

Directors' remuneration report continued

Annual remuneration report

Pension

Dave Lewis and Alan Stewart receive a cash allowance in lieu of pension.

For Philip Clarke and Laurie McIlwee, pension is calculated as the difference between the end-of-year defined benefit accrued pension and the beginning-of-year accrued pension increased by the September Consumer Price Index in the preceding tax year, multiplied by a factor of 20. More information on pension arrangements is set out on pages 55 and 56.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Annual cash allowance in lieu of pension (% of salary)	25%	25%	n/a	n/a
Annual cash allowance in lieu of pension (£'000)	313	188	n/a	n/a
Start/end date	1 September 2014	23 September 2014	1 September 2014	4 April 2014
Cash in lieu of pension received in year (£'000)	143	74	n/a	n/a
Value of increase in defined benefit accrued pension (£'000)	n/a	n/a	160	223

Buyouts

Awards forfeited on leaving a previous employer are bought out, taking into account the expected level of performance where appropriate. Awards vest over an equivalent period to awards forfeited. These awards are not subject to future performance conditions. Further details are set out on page 55.

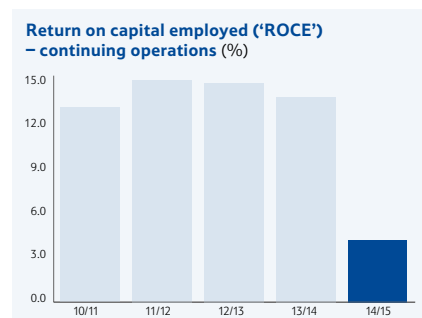
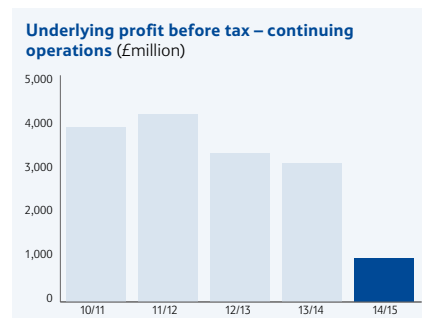
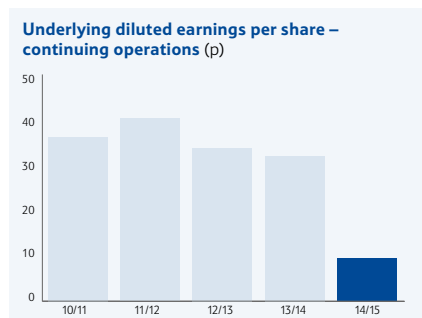
	Current Directors	
	Dave Lewis	Alan Stewart
Start date	1 September 2014	23 September 2014
Value of share awards forfeited (£'000)	3,819	1,691
Tesco share price over the four dealing days after joining (£)	2.3036	1.9169
Number of Tesco shares awarded	1,657,989	881,956
Award date	24 October 2014	24 October 2014
Share price on date of award (£)	1.6875	1.6875
Value at date of award (£'000)	2,798	1,488
Cash award in relation to 2014 bonus (pro-rata) (£'000)	525	–
Estimated award in relation to 2014/15 bonus (pro-rata) (£'000)*	–	400
Total value of buyout (£'000)	3,323	1,888

* Alan Stewart will receive a payment in respect of his 2014/15 bonus forfeited based on the payment he would have received had he remained in post (pro-rated for time). The actual amount is currently unknown and the estimated amount shown above will be adjusted in next year's Directors' Remuneration Report to show the actual value delivered.

Aligning pay with performance

The following charts illustrate performance at Tesco against key performance indicators. See the five year record on page 156 for more information.

The FTSE 100 index has been selected to compare Tesco's TSR against as it is a broad market index of which Tesco is a constituent.



The table below lays out the historical single figure data for the role of CEO as well as annual bonus and Performance Share Plan payout levels as a percentage of maximum opportunity for the CEO. In each year the award is shown based on the final year of the performance period, i.e. the year in which it is included in the single figure.

Six year remuneration history

	2009/10	2010/11	2011/12	2012/13*	2013/14	2014/15	
	Sir Terry Leahy	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis
CEO single figure of remuneration (£'000)	7,100	7,150	4,595	1,280	1,634	764	4,133
Annual bonus vesting (% of maximum award)	89%	75%	0%	0%	0%	0%	0%
PSP vesting (% of maximum award)	82.7%	75%	46.5%	0%	0%	0%	0%
Share option vesting (% of maximum award)	100%	100%	100%	0%	n/a	n/a	n/a

* Philip Clarke elected not to take a bonus for 2011/12. Other Executive Directors received a bonus of 13.54% of maximum.

The CEO single figure for Dave Lewis includes £3.3m in respect of buyout of incentives forfeited on leaving his former employer. See pages 52, 54 and 55 for further details.

Shareholding guidelines and share ownership

Share ownership guidelines

- Four times base salary for the CEO
- Three times base salary for the CFO
- The purpose is to create alignment with the interests of shareholders
- This requirement is at the upper end of typical market practice for similar-size companies

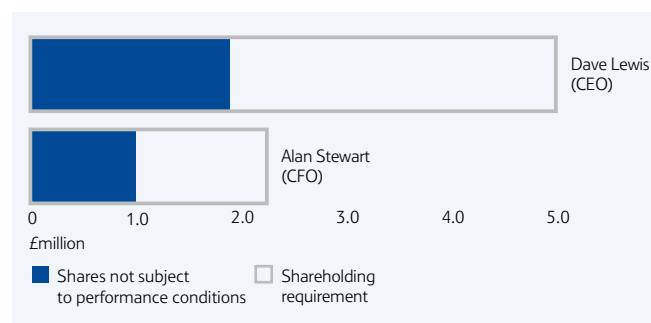
The Remuneration Committee believes that a significant shareholding by Executive Directors aligns their interests with shareholders and demonstrates their ongoing commitment to the business.

Shareholding guidelines policy

- **Shares included** – Shares held outright will be included in the calculation of shareholding guidelines, as will shares held by an Executive's connected persons. Shares held in plans which are not subject to forfeiture will be included (on a net of tax basis) for the purposes of calculating Executive Directors' shareholdings. Vested but unexercised market value share options are not included in the calculation.
- **Accumulation period** – New appointees will be expected to achieve this minimum level of shareholding within five years of appointment.
- **PSP participation** – Full participation in the PSP will generally be conditional upon maintaining the minimum shareholding.
- **Holding policy** – Where an Executive Director does not meet the shareholding requirement they will be required to hold, and not dispose of, at least 50% of the net number of shares that vest under incentive arrangements until they meet this requirement.

Given the importance of owning shares, the Executive Committee and a number of other senior managers are also required to build a holding of Tesco shares.

The chart below illustrates the value of Executive Directors' shareholdings, based on the three-month average share price to 28 February 2015 of 209.6p per share, compared to the shareholding guideline. Dave Lewis and Alan Stewart will be expected to meet the shareholding requirement by 1 September 2019 and 23 September 2019 respectively.



Directors' remuneration report continued

Annual remuneration report

Shares held by Executive Directors at 28 February 2015

This table has been audited.

Director	Shareholding guidelines (% of salary)	Shareholding guideline (number of shares)*	Actual net number/value of shares counted towards shareholding guideline	Guideline met?	Share category (see notes below)				
					Ordinary shares held at 28 February 2015	Share Incentive Plan shares, subject to conditions at 28 February 2015	Interests in vested options, not subject to performance conditions, at 28 February 2015	Interests in unvested options, not subject to performance conditions, at 28 February 2015	Interests in options, subject to performance conditions, at 28 February 2015
Dave Lewis	400%	2,385,785	885,256 £1.9m (1.5xsalary)	On target	151	Nil	452,265***	1,218,029***	Nil
Alan Stewart	300%	1,073,603	470,906 £1.0m (1.3xsalary)	On target	44	Nil	Nil	888,501***	Nil
Former Directors									
Philip Clarke**	400%	n/a	2,307,121 £4.8m (4.2xsalary)	n/a	1,832,483	1,074	2,833,393***	4,554	1,984,303***
Laurie McLlwee**	300%	n/a	344,756 £0.7m (0.8xsalary)	n/a	80,796	423	800,505***	215,486***	1,734,605***

* Based on a three-month average share price to 28 February 2015 of 209.6p.

** Figures on ceasing to be a Director of Tesco PLC (Philip Clarke – 1 September 2014, Laurie McLlwee – 4 April 2014). After ceasing to be Directors and before the end of the financial year, Philip Clarke and Laurie McLlwee exercised vested nil cost options granted under the PSP and Executive Incentive Plan over 935,727 and 500,549 shares respectively. Shares held by Philip Clarke and Laurie McLlwee under the Share Incentive Plan (SIP), 19,170 and 11,956 shares respectively, were transferred from the SIP Trust and each Director forfeited 1,074 of these shares, and Laurie McLlwee cancelled his Sharesave contracts lapsing options over 4,554 shares.

*** Includes dividend equivalents added since grant.

Share category	Shares / options included
Ordinary shares	<ul style="list-style-type: none"> Shares in the all-employee Share Incentive Plan, not subject to forfeiture Ordinary shares held by Director and connected persons
Share Incentive Plan shares, subject to conditions	<ul style="list-style-type: none"> Shares in the all-employee Share Incentive Plan, subject to forfeiture
Interests in vested options, not subject to performance conditions	<ul style="list-style-type: none"> Vested awards in the deferred bonus plan Vested awards in the PSP Vested buyout awards granted under L.R. 9.4.2 Vested market share options granted under the Discretionary Share Option Plan
Interests in unvested options, not subject to performance conditions	<ul style="list-style-type: none"> Share options granted under the Tesco Sharesave scheme Unvested awards in the deferred bonus plan Unvested buyout awards, granted under L.R. 9.4.2
Interests in options, subject to performance conditions	<ul style="list-style-type: none"> Unvested awards under the PSP, which remain subject to performance

Between 28 February 2015 and 4 May 2015, Dave Lewis acquired 95 and Alan Stewart acquired 95 partnership shares under the all-employee Share Incentive Plan. On 22 April 2015, Philip Clarke's discretionary share option granted in 2005 over 379,856 shares lapsed. There were no other changes of interests.

Share awards awarded during 2014/15

The following summarises buyout awards made to Dave Lewis and Alan Stewart in respect of awards forfeited on leaving their previous employment. An explanation of these awards is provided on the following page. This table has been audited.

Plan	Type of award	Date of awards	Gross number of shares	Face value* (£)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of vesting period
Dave Lewis	Awards were granted under listing rule 9.4.2	24 October 2014	448,933	£757,574	n/a	n/a	17 February 2015
			603,461	£1,018,340	n/a	n/a	18 February 2016
			605,595	£1,021,942	n/a	n/a	14 February 2017
			Total	1,657,989	£2,797,856		
Alan Stewart	Awards were granted under listing rule 9.4.2	24 October 2014	251,010	£423,579	n/a	n/a	18 June 2015
			324,676	£547,891	n/a	n/a	24 June 2016
			306,270	£516,831	n/a	n/a	23 June 2017
			Total	881,956	£1,488,301		

* The face value has been calculated using the average market price on grant (24 October 2014) of 1.6875p.

Philip Clarke and Laurie McLlwee were not granted any share incentive awards during the year.

Share dealing policy

Tesco has a share dealing policy in place for Executive Directors and for members of the Executive Committee. This policy prevents Executive Directors and Executive Committee members and their connected persons dealing in shares at times when this would be prohibited by the UK Listing Authority's Listing Rules. At all times, Executive Directors and Executive Committee members must seek advance clearance before dealing in shares on their own behalf or in respect of their connected persons.

Further details on the 'buyout' awards

The Committee's policy is that where appropriate awards forfeited on leaving a previous employer should be 'bought out' taking into account the expected level of performance. Buyout awards should vest over an equivalent period to awards forfeited.

Dave Lewis

On leaving Unilever, Dave Lewis forfeited outstanding awards under the performance-related deferred bonus matching plan (MCIP) and under the long-term performance plan (GSIP). These awards were subject to performance and were capable of vesting between 0% and 200% of the initial award granted. Unilever does not disclose targets for long-term incentive awards and therefore it was not possible to estimate the level of vesting for outstanding awards. The Committee therefore decided that it was appropriate to buy out these awards assuming that performance was met at target (i.e. 100% vesting of the initial award). The Committee considered that this level of vesting was appropriate as the average vesting at Unilever over the past three years was 110% of target. These awards vest on the same date as the original Unilever awards would have vested.

Dave Lewis also received a cash payment of £525,000 reflecting the expected 2014 bonus, which was forfeited on leaving Unilever. This was a pro-rata payment based on time in employment during the Unilever financial year and the average payout received over the previous three years.

Alan Stewart

On leaving Marks & Spencer (M&S), Alan Stewart forfeited outstanding awards under the deferred bonus plan and the performance-related long-term incentive plan. Deferred bonus shares were not subject to future performance conditions and therefore these awards were bought out in full. The level of vesting for 2012, 2013 and 2014 PSP awards was estimated based on performance to date. The estimated levels of vesting were 12%, 25.8% and 42% respectively. If the 2014 M&S award vests at less than 42% then the corresponding buyout award will be reduced to reflect this. Awards vest on the same date as the original M&S awards.

Alan Stewart will also receive a further award in respect of his 2014/15 M&S bonus forfeited. This will be based on the payment he would have received had he remained at M&S (pro-rated for time) and will be paid 50% in cash and 50% in Tesco shares deferred for three years. The actual value of this award is currently unknown and therefore we have estimated that he would receive a target bonus. This equates to an amount of £400,000 which is included in the single figure table as an estimated value. This will be adjusted in next year's report to show the amount that was actually paid.

The buyout awards made to Dave Lewis and Alan Stewart on 24 October 2014 were granted under Listing Rule 9.4.2. The value of awards was calculated using the share prices of Tesco, Unilever and M&S (as relevant) over four dealing days immediately after joining Tesco. Awards were made over nil cost options and are subject to continued employment until the relevant vesting date. The buyout award in respect of Alan Stewart's 2014/15 M&S bonus will be made in June 2015 under Listing Rule 9.4.2. The value of this award will be calculated using the market price of Tesco shares at the date of grant. Awards accrue dividend equivalents and are subject to malus, in the circumstances set out on page 64, until the shares are transferred.

Pensions

This section has been audited.

Dave Lewis and Alan Stewart receive a cash allowance in lieu of pension of 25% of base salary.

Philip Clarke and Laurie McIlwee are members of the Tesco PLC Pension Scheme, which provides a pension of up to two-thirds of base salary on retirement, normally at age 60, dependent on service (final salary scheme).

Each year's pension earned before 1 June 2012 will be increased in line with the Retail Price Index up to a maximum of 5%, and pension earned after 1 June 2012 in line with the Consumer Price Index up to a maximum of 5%. Pension accrued before 1 June 2012 and drawn before age 60 will be actuarially reduced to reflect early retirement. Pension accrued from 1 June 2012 will be actuarially reduced if it is drawn before the age at which a full pension is paid (originally age 62 but subject to adjustment up or down to reflect unexpected changes in life expectancy).

Since April 2006, following implementation of the regulations contained within the Finance Act 2004, Executive Directors have been eligible to receive the maximum pension that can be provided from the registered Pension Scheme without incurring additional tax charges. The balance of any pension entitlement for Executive Directors is delivered through an unfunded retirement benefit scheme ('SURBS'). The SURBS is secured by using a fixed and floating charge over a cash deposit in a designated account.

Executive Directors who are members of the final salary scheme are required to contribute 10% of salary.

Directors' remuneration report continued

Annual remuneration report

Details of the rights under the Tesco pension scheme are set out below.

	Age at 28 February 2015	Years of Company service	Total accrued pension at 28 February 2015 ^{2,3} (£'000)	Increase in accrued pension during the year ⁴ (£'000)	Increase in accrued pension during the year (net of inflation) ⁵ (£'000)	Transfer value of increase in accrued pension (previous column) at 28 February 2015 (less Director's contributions) (£'000)	Transfer value of total accrued pension at 22 February 2014 (£'000)	Transfer value of total accrued pension at 28 February 2015 (£'000)	Increase in transfer value (less Director's contributions) (£'000)	Single figure pension value (£'000)
Philip Clarke ¹	54	40	658	25	18	293	11,482	13,694	2,212	160
Laurie Mcllwee ¹	52	14	381	21	18	257	5,669	6,665	996	223

¹ Laurie Mcllwee left the Scheme on 3 October 2014. Philip Clarke left the Scheme on 19 January 2015.

² The accrued pension is that which would be paid annually on retirement at 60 based on service to the member's date of leaving active service.

³ Some of the Executive Directors' benefits are payable from an unapproved pension arrangement. This is secured by a fixed and floating charge on a cash deposit.

⁴ The increase in accrued pension over the year is additional pension accrued during the year.

⁵ Inflation over the year has been allowed for using the September 2014 CPI inflation of 1.2%.

Payments to former Directors

This information has been audited.

There were no payments made to former Directors which exceeded the de minimis threshold of £10,000 set by the Company. Payments made to Philip Clarke and Laurie Mcllwee in respect of them ceasing employment are set out below.

Loss of office payments

This information has been audited.

Early in the investigation of the commercial income issue, the Company announced that it had suspended payment of the termination amounts due. The Company, with legal advice, then fully evaluated the available evidence relating to Philip Clarke and Laurie Mcllwee in relation to the commercial income issue. Under the relevant service contracts, payments were legally due and payable unless Tesco was able to establish a case of gross misconduct by the relevant Director. Having taken detailed legal advice, the Board determined that there was not any basis to continue to withhold payments, and that defending potential claims that may arise, in the absence of such a basis, would not be in the Company's best interests. Therefore, the payments have been made. However, if new information arises which would change this assessment, we have explicitly reserved the Company's rights to pursue recovery of these payments.

Leaving arrangements for Philip Clarke

Philip Clarke stepped down as CEO and as an Executive Director of Tesco PLC on 1 September 2014 when the new CEO, Dave Lewis, joined the Company. He remained with the Company and was available to provide support to the business until 19 January 2015. During this period he continued to receive his salary of £1,145,000 and relevant benefits.

On termination of employment, in accordance with the terms of his contract, Philip Clarke was entitled to receive a termination payment of £1,217,000 consisting of 12 months' base salary (£1,145,000) and benefits (£72,000 consisting of colleague discount, private healthcare and health insurance, and car and car-related benefits). No additional amount will be paid in respect of pension. The termination payment of this amount was made on 6 February 2015 and should it be determined in the future that there was gross misconduct the Company will seek recovery of the termination payment.

Philip Clarke did not receive a bonus in respect of 2014/15. On cessation, he did not have any unvested deferred bonus awards. He has until 19 January 2016 to exercise vested deferred bonus awards.

PSP awards granted to Philip Clarke in 2012 (1,074,643 shares) and 2013 (909,660 shares) lapsed upon him leaving the business. He may exercise vested PSP awards granted in 2008 (325,749 shares) and 2009 (188,521 shares) until 19 January 2016.

Philip Clarke may exercise vested discretionary share option awards granted in 2006 (404,896 shares), 2007 (298,844 shares), 2008 (353,114 shares) and 2009 (467,848 shares) until 19 January 2016, in accordance with the terms of the plan rules. These awards are, however, currently underwater. His 2005 option award (379,856 shares) lapsed on 22 April 2015.

The awards granted under the all-employee Sharesave scheme in 2009 (948 shares), 2010 (788 shares), 2011 (824 shares), 2012 (1,063 shares) and 2013 (931 shares) lapsed on termination. Shares held under the all-employee Share Incentive Plan (19,170 shares) were transferred from the Trust on 27 February 2015, in accordance with the rules of the plan.

The Company will pay for outplacement services and legal costs in connection with Philip Clarke's termination of employment up to a maximum of £75,000 and £10,000 excluding VAT respectively. In line with Company policy, he will also retain his staff discount for life.

Leaving arrangements for Laurie Mcllwee

Laurie Mcllwee resigned as CFO and as an Executive Director of Tesco PLC on 4 April 2014. He remained an employee of Tesco for a period of six months until 3 October 2014 and he was available to provide support to the business during this time. During this period he continued to receive his salary of £886,420 and relevant benefits.

On termination of employment, in accordance with the terms of his contract, Laurie Mcllwee was entitled to receive a termination payment of £970,880 consisting of 12 months' base salary (£886,420) and benefits (£84,460 consisting of colleague discount, private healthcare and health insurance, and car and car-related benefits). In addition, a payment of £15,000 net (£27,273 gross) was made to him in lieu of private medical benefits. The payment of this amount plus interest at the rate of 2% above the Barclays Bank Base Rate for the period from 31 October 2014 to the date of payment, totalling £1,004,853, was made on 6 February 2015. No additional amount will be paid in respect of pension. Should it be determined in the future that there was gross misconduct, the Company will seek recovery of the termination payment. Tesco also paid £47,000 towards Laurie Mcllwee's legal fees incurred in relation to the termination of his employment.

Laurie Mcllwee did not receive a bonus in respect of 2014/15. He has until 3 October 2015 to exercise vested deferred bonus awards. The 2012 award (39,775 shares) in respect of 2011/12 performance will vest on 25 May 2015 and he will have 12 months from this date to exercise this award. No deferred share awards were made in respect of 2012/13 or 2013/14.

The PSP award granted to Laurie Mcllwee in 2011 (524,719 shares) lapsed on 14 July 2014 as performance conditions were not met. PSP awards granted to him in 2012 (655,388 shares) and 2013 (554,498 shares) lapsed upon him leaving the business. He may exercise the vested PSP award granted in 2009 (136,067 shares) until 3 October 2015. He may exercise vested discretionary share option awards granted in 2007 (77,192 shares), 2008 (91,335 shares) and 2009 (325,059 shares) until 3 October 2015. These share option awards are, however, currently underwater.

Shares held under the all-employee Share Incentive Plan (11,956 shares) were transferred from the Trust on 20 October 2014 in accordance with the rules of the plan.

The Company will pay for outplacement services up to a maximum of £50,000 excluding VAT.

Other policy information

Risk management

When developing our remuneration structures, the Committee considered whether any aspect of these might encourage risk taking or inappropriate behaviours that are incompatible with our Tesco Values and the long-term interests of shareholders. If necessary, the Committee would take appropriate steps to address this.

Outside appointments

Tesco recognises that its Executive Directors may be invited to become Non-executive Directors of other companies. Such Non-executive duties can broaden a Director's experience and knowledge which can benefit Tesco.

Subject to approval by the Board, Executive Directors are allowed to accept Non-executive appointments, provided that these appointments are not likely to lead to conflicts of interest, and they may retain the fees received. Dave Lewis is a Non-executive Director of British Sky Broadcasting Group Plc and received fees of £98,500 during the year. Alan Stewart is a Non-executive Director of Diageo Plc and received fees of £42,625 during the year.

Funding of equity awards

Executive incentive arrangements are funded by a mix of newly issued shares and shares purchased in the market. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of discretionary plans is c.2.9% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees Share Schemes Trustees Limited, in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 28 February 2015 the Trust held 3,028,852 shares.

Other disclosures

Change in CEO remuneration compared to the change in colleague remuneration

The following table illustrates the change in CEO salary, benefits and bonus between 2013/14 and 2014/15 compared to other UK colleagues.

The Committee decided to use other UK colleagues for the purpose of this disclosure as over half of our colleagues are based in the UK and the CEO is also predominantly based in the UK (albeit with a global role and responsibilities). The Committee therefore considered that this is an appropriate comparator group given that pay changes across the Group depend on local market conditions.

	Salary	Benefits	Bonus
CEO	0%	(32)%*	0%
UK colleagues	1.5%	0%	0%

* Benefits exclude one-off costs in relation to appointment for Dave Lewis of £65,000 gross.

Directors' remuneration report continued

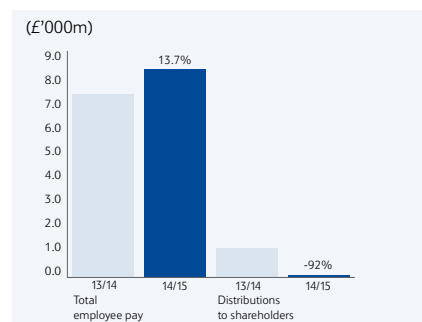
Annual remuneration report

Relative importance of spend on pay

The following chart shows total employee pay compared to distributions to shareholders. Our colleagues are essential to how we do business and how we meet our customers' needs. In 2014/15 we employed an average of 506,984 colleagues across the Group (510,444 in 2013/14).

Total employee pay includes wages and salaries, social security, pension and share-based costs (£7,271m in 2013/14 and £8,269m in 2014/15 – see Note 4 of the accounts on page 100).

Distributions to shareholders include interim and final dividends paid in respect of each financial year (£1,193m in respect of 2013/14 and £95m in respect of 2014/15 – see Note 8 of the accounts on page 104). There were no share buy-backs in 2013/14 or 2014/15.



Non-executive Director fees and responsibilities

Committee membership in 2014/15

		Senior Independent Director (SID)	Remuneration Committee	Nominations Committee	Audit Committee	Corporate Responsibility Committee
Sir Richard Broadbent	Resigned as Chairman 1 March 2015		o	•		o
Mark Armour					o	
Gareth Bullock	Resigned from Board 5 March 2015				o	
Patrick Cescau	Resigned from Board and as SID 7 April 2015	X		o	o	o
Stuart Chambers	Stepped down as Chair of Remuneration Committee 1 January 2015 (remained a member of Committee)		o	o		
Richard Cousins	Appointed to Board 1 November 2014 Appointed to Audit Committee 2 December 2014 Appointed SID 7 April 2015				o	
Olivia Garfield	Appointed to Audit Committee 1 April 2014 Resigned from Board 28 February 2015				o	
Ken Hanna			o	o	•	
Mikael Olsson	Appointed to Board 1 November 2014 Appointed to Remuneration Committee and CR Committee 2 December 2014		o			o
Deanna Oppenheimer	Appointed Chair of Remuneration Committee 1 January 2015		•			o
Jacqueline Tammenoms Bakker	Appointed Chair of CR Committee 1 March 2014 Resigned from Board 28 February 2015		o			•

x Senior Independent Director
 • Committee Chairman
 o Committee member

Non-executive Director fee policy for 2014/15

There were no changes to Non-executive Directors' fees during the year. The current Non-executive Directors' fees are as follows:

Non-executive Director fees	
Basic fees	£70,000 p.a.
Additional fees	
Senior Independent Director	£26,000 p.a.
Chairs of the Audit and Remuneration Committees	£30,000 p.a.
Membership of Audit, Corporate Responsibility, Nominations and Remuneration Committees	£12,000 p.a. for each Committee

Non-executive Director fees are due to be reviewed in July 2015.

Gareth Bullock and Deanna Oppenheimer were appointed to the Board of Tesco Personal Finance Group Limited in July 2012. They are paid a basic fee of £70,000 p.a. for this role and an additional fee for Committee membership of £12,000 p.a. in line with other members of the Board of Tesco Personal Finance Group Limited.

Chairman fees

John Allan was appointed as Non-executive Chairman with effect from 1 March 2015. He will receive a fee of £650,000 p.a. inclusive of all Board fees which is fixed for a period of three years. He is also eligible to receive benefits as set out in the policy for Non-executive Directors on page 68.

Fees paid during 2014/15

The following table sets out the fees paid to the Non-executive Directors for the year ending 28 February 2015. As the Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes, this information is not included in the table. This table has been audited.

Single total figure of remuneration – Non-executive Directors

		Fees (£'000)		Taxable travel expenses (£'000)		Benefits (£'000)	Total (£'000)
		Tesco PLC	Tesco Bank	Tesco PLC	Tesco Bank		
Sir Richard Broadbent	2014/15	625	–	0	–	81	706
	2013/14	625	–	0	–	81	706
Mark Armour	2014/15	82	–	0	–	0	82
	2013/14	36	–	0	–	0	36
Gareth Bullock	2014/15	82	82	0	0	0	164
	2013/14	82	82	1	0	0	165
Patrick Cescau	2014/15	132	–	0	–	0	132
	2013/14	132	–	0	–	0	132
Stuart Chambers	2014/15	110	–	5	–	0	115
	2013/14	112	79	3	1	0	195
Richard Cousins	2014/15	23	–	0	–	0	23
	2013/14	–	–	–	–	–	–
Olivia Garfield	2014/15	81	–	0	–	0	81
	2013/14	62	–	0	–	0	62
Ken Hanna	2014/15	124	–	3	–	0	127
	2013/14	124	–	2	–	0	126
Mikael Olsson	2014/15	25	–	2	–	0	27
	2013/14	–	–	–	–	–	–
Deanna Oppenheimer	2014/15	96	82	56	8	0	242
	2013/14	82	82	65	1	0	230
Jacqueline Tammenoms Bakker	2014/15	94	–	5	–	0	99
	2013/14	94	–	10	–	0	104

The figures in this table are from the date of appointment or until the date that each Director ceased to be a Director of Tesco PLC. Mark Armour was appointed on 2 September 2013. Richard Cousins and Mikael Olsson were appointed on 1 November 2014.

The figures in this table include fees paid to Gareth Bullock, Stuart Chambers and Deanna Oppenheimer in respect of their membership of the Board and Committees of Tesco Personal Finance Group Limited. Stuart Chambers stood down from the Board of Tesco Personal Finance Group Limited on 4 February 2014.

The Chairman's benefits are made up solely of car benefits, driver, security and medical insurance. The Non-executive Directors' benefits comprise taxable travel expenses. The benefit costs shown have been grossed up for tax.

Beneficial share ownership

There are no shareholding guidelines for the Non-executive Directors. The table below outlines the current interests of the Non-executive Directors in the Company. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors.

Director	Shares owned outright at 28 February 2015	Shares owned outright at 22 February 2014
Sir Richard Broadbent	63,996	63,996
Mark Armour	25,000	25,000
Gareth Bullock	25,000	25,000
Patrick Cescau	18,340	18,340
Stuart Chambers	25,000	25,000
Richard Cousins	0	n/a
Olivia Garfield	4,086	4,086
Ken Hanna	25,000	25,000
Mikael Olsson	0	n/a
Deanna Oppenheimer*	52,500	52,500*
Jacqueline Tammenoms Bakker	16,472	16,472

* Deanna Oppenheimer holds 17,500 ADRs equivalent to 52,500 ordinary shares.

Between 28 February 2015 and 4 May 2015 John Allan, and his connected persons, acquired 31,082 ordinary shares. There were no other changes in share interests held by Non-executive Directors.

Directors' remuneration report continued

Annual remuneration report

The Committee

Membership of the Remuneration Committee and attendance at meetings

	Number of possible meetings	Actual meetings attended
Deanna Oppenheimer (Committee Chair)	5	5
Stuart Chambers	5	5
Sir Richard Broadbent	5	5
Ken Hanna	5	4
Mikael Olsson	2	2
Jacqueline Tammenoms Bakker	5	5

Deanna Oppenheimer took over from Stuart Chambers as Chair of the Committee with effect from 1 January 2015. Mikael Olsson joined the Committee with effect from 2 December 2014. John Allan joined the Committee with effect from 20 April 2015. Stuart Chambers and Ken Hanna will step down from the Board at the AGM on 26 June 2015.

The Committee also convenes on an ad hoc basis between formal meetings when necessary. The Directors' biographies can be found on pages 28 and 29 of this report. No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco.

Role of the Remuneration Committee

The Committee's key responsibilities are:

- To determine and recommend to the Board the remuneration policy for Executive Directors, Executive Committee members and the Chairman;
- To ensure the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors and Executive Committee members needed to run the Company while remaining appropriate in the context of the remuneration arrangements throughout the Group;
- To ensure that the structure of remuneration arrangements is aligned with the creation of sustainable returns for shareholders and that the level of reward received by Executives reflects the value delivered for shareholders; and
- To monitor the level and structure of remuneration of senior management below the Executive Committee.

As required by the Financial Conduct Authority (FCA), Tesco Bank has a separate independent remuneration committee. The Group Remuneration Committee is consulted on, and makes recommendations in relation to the remuneration arrangements for Tesco Bank colleagues, with the aim of encouraging consistency with Group remuneration policy, but it does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.

The Committee's terms of reference can be viewed at www.tescopl.com.

Remuneration Committee activities 2014/15

The following provides a summary of the key areas of focus at each of the Committee's meetings during the year and shortly following the end of the financial year:

	April 2014	July 2014	Sept 2014	Dec 2014	Feb 2015	April 2015 (following the year-end)
Strategy and policy						
Review of market trends						
Consideration of remuneration strategy and policy						
Discussion about approach to DRR/review of DRR						
Approval of DRR						
Review of shareholder feedback and votes from the AGM						
Salary review						
Review of salaries for Executive Directors and Executive Committee						
Annual bonus						
Review of performance						
Determination of bonus outcome						
Consideration of measures and targets						
Setting of measures and targets						
PSP						
Review of performance						
Determination of vesting levels						
Consideration of measures and targets						
Setting of measures and targets						
Other						
Report from Tesco Bank Remuneration Committee						
Review of reward below Board						
Review of pension benefits						
Committee effectiveness review and review of Terms of Reference						
Other issues as required						

Committee advisors

Remuneration Committee advisors are appointed by the Committee following a selection process and their roles are kept under review. During the year, Deloitte LLP have been retained by the Committee in their capacity as independent Remuneration Committee advisors. Fees for advice provided to the Remuneration Committee for the year were £144,276. Fees are charged on a time and materials basis.

Deloitte also provided advice to management in relation to the interpretation of the Remuneration Reporting Regulations, below Board remuneration and implementation of share plans. Separate teams within Deloitte provided unrelated advisory services in respect of corporate tax planning, technology consulting, risk management, share schemes, international taxation, corporate finance, treasury and forensic services to the Group during the year.

Deloitte is one of the founding members of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by Deloitte is objective and independent. The Committee is comfortable that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Tesco PLC that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Towers Watson also provided the Committee with benchmarking information during the year and fees on a time-spent basis for this were £16,000.

Paul Moore, the Company Secretary, is Secretary to the Committee. The Group CEO and the Group CFO attend meetings at the invitation of the Committee. They are not present when their own remuneration is being discussed. The Committee is supported by Alison Horner (Chief People Officer) as well as Reward, Corporate Secretariat and Finance functions.

Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority derived from the UK Corporate Governance Code. The auditors' report, set out on pages 75 to 82, covers the disclosures referred to in this report that are specified for audit by the Financial Conduct Authority.

The report has been drawn up in accordance with the UK Corporate Governance Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as updated in 2013) and the Financial Conduct Authority Listing Rules.

Shareholder voting

Tesco remains committed to ongoing shareholder dialogue and carefully reviews voting outcomes on remuneration matters. In the event of a substantial vote against a resolution in relation to Directors' remuneration, Tesco would seek to understand the reasons for any such vote, and would detail any actions in response to it in the Directors' remuneration report.

The following table sets out actual voting in respect of our remuneration arrangements in 2014.

% of votes	For	Against
2013/14 To approve the Directors' Remuneration Report (2014 AGM)*	98.62%	1.38%
2013/14 To approve the Directors' Remuneration Policy (2014 AGM)**	97.50%	2.50%

* 9,093,781 votes were withheld (0.11% of share capital).

** 37,508,831 votes were withheld (0.46% of share capital).

The Committee was pleased with the level of support for our remuneration arrangements in 2014.

Directors' remuneration report continued

Directors' remuneration policy

Policy table

The following sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be put forward for shareholder approval at the 2015 AGM on 26 June 2015 and will apply to payments made from this date. Until this time the Policy approved on 27 June 2014 will continue to apply.

Further details regarding the operation of the Policy for the 2015/16 financial year can be found on pages 49 and 50 of this report.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes from previous policy
Base salary	<ul style="list-style-type: none"> The role of base salary is to support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience 	<ul style="list-style-type: none"> The Committee sets base salary taking into account: <ul style="list-style-type: none"> The individual's skills and experience and their performance Salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally Pay and conditions elsewhere in the Group Base salary is normally reviewed annually with changes effective from 1 July but may be reviewed more frequently if the Committee determines this is appropriate 	<ul style="list-style-type: none"> While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other employees in the Group However, increases may be above this level in certain circumstances such as: <ul style="list-style-type: none"> Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive gains experience Where an Executive Director has been promoted or has had a change in responsibilities, salary increases in excess of the above limit may be awarded Where there has been a significant change in market practice 	n/a	<ul style="list-style-type: none"> No change from previous policy
Pension	<ul style="list-style-type: none"> To provide an appropriate level of retirement benefit as part of a holistic benefit package 	<ul style="list-style-type: none"> Executive Directors receive a cash allowance in lieu of pension The Committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments the Board will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group Where pension is provided as a salary supplement or into a defined contribution scheme it will not exceed the maximum amount stated in the next column. Where a defined benefit pension is provided, the value will vary reflecting the nature of such schemes 	<ul style="list-style-type: none"> Maximum cash in lieu of pension of 25% of base salary 	n/a	<ul style="list-style-type: none"> Policy amended to reflect the fact that new Executive Directors receive a cash payment in lieu of salary rather than participate in the defined benefit pension plan
Benefits	<ul style="list-style-type: none"> To provide a market-competitive level of benefits for our Executive Directors 	<ul style="list-style-type: none"> The Committee sets benefit provision at an appropriate market-competitive level taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other employees in the Group Core benefits – Benefits currently include but are not limited to a company car or car allowance, fuel, private use of a chauffeur, life assurance, disability and health insurance (for the Executive Director and his family), health screening, Directors' and Officers' liability insurance and provision of indemnity, security, club membership and staff discount on the same basis as other employees 	<ul style="list-style-type: none"> The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit When determining the level of benefits the Committee will consider the factors outlined in the 'Operation' column 	n/a	<ul style="list-style-type: none"> No change from previous policy

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes from previous policy
Benefits continued		<ul style="list-style-type: none"> The Committee may remove benefits that Executive Directors receive or introduce other benefits if it is considered appropriate to do so Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as UK colleagues Mobility policy – Where an Executive Director is required to relocate to perform their role, our policy is that they may be offered some or all of the following: a relocation allowance, location allowance, cost of living allowance, disturbance allowance, housing benefit, flight budget, assistance with school fees, international family healthcare, pension allowance, spousal allowance and tax advice, assistance and equalisation. The level of such benefits would be determined based on the circumstances of the individual and typical market practice 			
Annual bonus	<ul style="list-style-type: none"> The role of the annual bonus is to reward Executive Directors for the delivery of our annual financial, operational and strategic goals The performance measures have been selected as they are considered to be key to delivering long-term shareholder value creation Deferral into Company shares provides alignment with shareholders The malus and clawback provision enables the Company to mitigate risk (see page 64) 	<ul style="list-style-type: none"> The annual bonus is normally delivered: <ul style="list-style-type: none"> – 50% in cash – 50% in shares which are deferred Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules The Committee may determine that a different balance of cash and deferred shares may apply Performance is assessed over a financial year The Committee determines the level of bonus taking into account performance against targets and the underlying performance of the business The deferred shares will normally vest after three years (or an alternative period determined by the Committee) Deferred shares are normally awarded in the form of nil cost options but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date of grant 	<ul style="list-style-type: none"> Maximum annual bonus opportunity of 250% of base salary For details of award levels for 2015/16 see the Annual Remuneration Report on page 49 	<ul style="list-style-type: none"> The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance Any portion of the bonus based on non-financial measures will be subject to meeting a financial underpin The Committee determines the exact metrics each year depending on the key goals for the forthcoming year Normally around 30% of the bonus is paid for threshold performance, around 50% of the bonus is paid if target levels of performance are delivered with the full bonus being paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set The Committee sets bonus targets each year to ensure that they are appropriately stretching in the context of the business plan 	<ul style="list-style-type: none"> The policy has been amended to reflect the introduction of individual performance metrics into the bonus plan The policy has been amended to reflect the introduction of clawback to future awards
Performance Share Plan	<ul style="list-style-type: none"> The role of the PSP is to reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value To align the economic interests of Executive Directors and shareholders To act as a retention tool The malus and clawback provision enables the Company to mitigate risk (see page 64) 	<ul style="list-style-type: none"> Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise) Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules The Committee has the discretion to amend the final vesting level if it does not consider that it reflects the underlying performance of the Company PSP awards are normally awarded in the form of nil cost options over shares but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date at grant 	<ul style="list-style-type: none"> The maximum annual award that can be granted under the PSP is 350% of base salary For details of award levels for 2015/16 see the Annual Remuneration Report on page 49 	<ul style="list-style-type: none"> Awards vest based on Total Shareholder Return, financial or strategic performance conditions (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on TSR and/or financial metrics For threshold levels of performance up to 25% of the award vests, increasing to 100% of the award for stretching performance The Committee sets targets each year so that targets are stretching and represent value creation for shareholders while remaining motivational for management 	<ul style="list-style-type: none"> The policy has been amended to reflect the changes in performance condition, targets and vesting levels and to allow more flexibility for measures to evolve further in future years The policy has been amended to reflect the introduction of clawback to future awards

Directors' remuneration report continued

Directors' remuneration policy

Information supporting the policy table

Shareholding guidelines

Tesco also operates shareholding guidelines. See page 53 of the Annual Remuneration Report for further details.

Dividend equivalents

Awards may incorporate the right (in cash or shares) to receive the value of dividends between grant and exercise in respect of the number of shares that vest. The calculation of dividend equivalents may assume reinvestment of those dividends in Company shares on a cumulative basis.

Clawback and malus provisions

The Committee has the discretion to scale back deferred share awards and performance share awards prior to the satisfaction of awards in the event that results are materially misstated or the participant has contributed to serious reputational damage of the Company or one of its business units or their conduct has amounted to serious misconduct or fraud.

Where Performance Share Plan awards are settled prior to the fifth anniversary of the grant of the award, the Committee shall have the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstance described above.

Cash bonus payments can also be 'clawed back' in the circumstances described above up to the third anniversary of payment.

Cash payments

If the Committee considers it to be appropriate, it may determine that share awards may be settled in cash.

Terms of share awards

The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans.

For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion affect the current or future value of awards, the number of shares subject to an award may be adjusted.

The Committee may amend performance targets in accordance with the terms of an award or if a transaction occurs which causes the Committee to consider (taking into account the interest of shareholders) that an amended performance condition would be more appropriate and would continue to achieve the original purpose.

Discretionary Share Option Plan

Prior to 2011, Executive Directors were granted market value options under the Company's 2004 Discretionary Share Option Plan. Outstanding awards are no longer subject to performance and may be exercised until the tenth anniversary of the date of award. No further awards will be made under this plan.

Defined benefit pension

Former Executive Directors, Philip Clarke and Laurie McIlwee, participated in a defined benefit pension plan which provides for a pension of up to two-thirds of base salary at retirement with a minimum 10% of salary per annum employee contribution. Pension benefits are provided through registered arrangements up to approved HMRC limits, with the remainder provided through a secured unfunded arrangement. In the event that an Executive Director retires early there will be no augmentation of pension benefits.

Payments outside policy

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration, and an award over shares is 'agreed' at the time the award is granted.

Minor changes

The Committee may make minor changes to this Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without seeking shareholder approval for that amendment.

Selection of performance measures

Annual bonus

The annual bonus performance measures have been selected to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and incentivising them to achieve specific strategic and operational objectives. The particular bonus metrics are selected by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months.

Performance Share Plan

Performance measures for the PSP are selected to ensure that they incentivise Executive Directors to deliver long-term sustainable returns for all of our shareholders.

Performance targets for both the annual bonus and Performance Share Plan (where financial measures are used) are set, taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

Remuneration arrangements throughout the Group

Remuneration arrangements throughout the Group are based on the same principle: that reward should be sufficient to attract and retain high-calibre talent without paying more than is necessary and that reward should support the creation of long-term shareholder value and promote the long-term success of the Company.

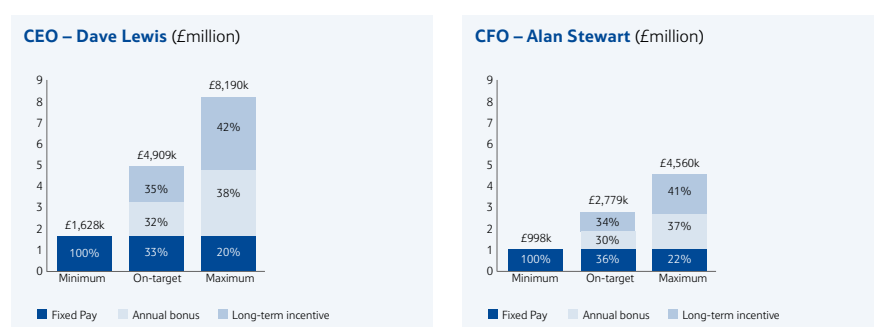
Tesco is one of the largest public company employers in the world. Our colleagues undertake a variety of roles reflecting the countries we operate in and the range of skills we need to run our various businesses. Reward packages therefore differ taking into account location, seniority and level of responsibility but they are all built around the common reward objectives and principles outlined previously. The following is based on current practice which may change during the life of the policy.

- Annual bonus – Annual bonuses throughout the Group are linked to business success and individual performance and contribution. A profit underpin is set below which no bonus awards will be made under the Plan.
- Share incentives – Currently our annual bonus is delivered in a mix of cash and deferred shares to create alignment with shareholder interests. We have a shareholding policy for the Executive Committee and the next level of management within the business.
- Clawback and malus – Malus provisions exist within our incentive plans to adjust awards prior to release and we will be introducing clawback provisions into all our executive incentive plans.
- Pensions – Pensions across the Group vary widely according to local market practice. In the UK all Tesco colleagues currently have the opportunity to participate in a career-average defined benefit scheme. We communicated in January 2015 that we will consult colleagues on plans to close this scheme and to replace it with an alternative defined contribution plan. This consultation began in April 2015.
- Colleagues as shareholders – It is an important part of the Tesco Values that all colleagues, not just management, have the opportunity to become Tesco shareholders. More than 200,000 of our colleagues participate in our all-employee schemes and hold more than 119 million shares in our Share Incentive Plan and more than 127 million options over shares in our Sharesave scheme.

When determining Executive Director remuneration arrangements, the Committee takes into account pay conditions throughout the Group to ensure that the structure and quantum of Executive Directors' pay remains appropriate in this context.

Remuneration outcomes in different performance scenarios

Tesco remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short-term and long-term goals that are aligned with our short-term and long-term strategic objectives and the creation of shareholder value. The Committee considers the level of remuneration that may payout in different performance scenarios to ensure that this is considered appropriate in the context of the performance delivered and the value added for shareholders. The charts below show hypothetical values of the remuneration package for Executive Directors under three assumed performance scenarios:



Performance scenarios

Maximum award opportunities (% of salary)	CEO	CFO
Annual bonus	250%	225%
PSP	275%	250%
Minimum	<ul style="list-style-type: none"> No bonus payout No vesting under the Performance Share Plan 	
On-target performance	<ul style="list-style-type: none"> 50% annual bonus payout 50% vesting under the Performance Share Plan 	
Maximum performance	<ul style="list-style-type: none"> 100% annual bonus payout 100% Performance Share Plan vesting 	

Directors' remuneration report continued

Directors' remuneration policy

No share price growth or the payment of dividend equivalents has been assumed. Potential benefits under all employee share schemes have not been included.

Fixed pay is based on current values as set out in the table below:

	Salary	Benefits*	Pension	Total fixed pay
	From appointment		25% of salary	
CEO – Dave Lewis (£'000)	1,250	65	313	1,628
CFO – Alan Stewart (£'000)	750	60	188	998

* Benefits are calculated based on forecast full-year benefits excluding one-off costs. The actual benefits for 2014/15 were Dave Lewis – £97,000 and Alan Stewart – £42,000.

Remuneration policy for new hires

The Committee would generally seek to align the remuneration package offered to new Executives with our remuneration policy outlined in the table above. When determining appropriate remuneration arrangements, the Committee will take into account all relevant factors including the experience and calibre of the candidate, the candidate's current reward opportunity, and the jurisdiction the candidate was recruited from.

In respect of an Executive Director's appointment, the Committee may offer variable remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual (subject to the maximum variable limit outlined below).

Variable remuneration awarded in respect of an Executive Director's appointment shall be limited to the current aggregate annual and PSP award policy of 600% of base salary. This limit includes awards granted under the normal policy outlined above but excluding any awards made to compensate the Executive Director for awards forfeited from their previous employer.

The Committee may make awards when appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested.

The Committee's key principle is that buyout awards will generally be made on a comparable basis to those forfeited.

To facilitate buyout awards outlined above, in the event of recruitment, the Committee may grant awards to a new Executive Director under the Listing Rule 9.4.2, which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, or under other relevant company incentive plans.

The Company will pay legal fees incurred by any new Executive Directors in respect of their appointment.

In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

In the event of the appointment of a new Chairman or Non-executive Director, remuneration arrangements will normally reflect the policy outlined on page 68 for Chairmen and Non-executive Directors.

Executive Director service agreements and policy on Executive Directors leaving Tesco

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

The following table summarises our policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	<ul style="list-style-type: none"> 12 months' notice by the Company and six months' notice by the Executive Director For new appointments, the Committee reserves the right to vary this period to 24 months for the initial period of appointment and for the notice period to then revert to 12 months after the initial 12 months of employment
Expiry date	<ul style="list-style-type: none"> Dave Lewis and Alan Stewart entered into service agreements with Tesco PLC on 19 July 2014 and 9 July 2014 respectively These are rolling service agreements with no fixed expiry date
Termination payments (does not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	<ul style="list-style-type: none"> If the Company terminates a Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company then the Executive has the right to a termination payment to reflect the unexpired term of the notice Any termination payment in lieu of notice will be based on base salary and benefits only Benefits comprise car-related benefits, healthcare and health insurance and staff discount No account will be taken of pension when determining termination payments Termination payments will normally be subject to mitigation and paid in instalments to facilitate this (other than for long-serving Executive Directors or in the event of a change of control of the Company where the termination payment is made in full on departure) Where an Executive Director has less than eight years of continuous service then any termination payment will normally be made in 13 equal four-weekly payments. Where an Executive Director has more than 15 years' continuous service then the termination payment is made in full on departure. For periods of continuous service between eight years and 15 years, termination payments will normally be split between initial payments and phased payments Payment in full on termination on change of control arises if the Company terminates or gives notice within 12 months after a change of control Where an Executive Director retires from the business they will not normally receive a termination payment The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment In the event of termination, an Executive Director may have an entitlement to compensation in respect of statutory rights under employment protection legislation in the UK and potentially elsewhere
Other information	<ul style="list-style-type: none"> The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance. Where an Executive leaves by reason of death, disability or ill-health, they, or in the case of death their personal representatives, are entitled to a pro-rata performance-based bonus for the year of leaving In the event that an Executive Director retires from the Company, they shall be entitled to retain their private medical cover and annual medical examinations in retirement. Any Executive Directors appointed from 24 February 2013 will not be entitled to this benefit Under the employment agreements, while in employment Executive Directors are also entitled to sick pay, paid holiday, maternity and paternity leave Where appropriate, the Company will meet an Executive Director's reasonable legal fees in connection with the termination of his employment and/or the reasonable cost of outplacement services

The service agreements are available to shareholders to view at the Company's registered office.

Share plan rules – leaver provisions

The treatment of outstanding share awards in the event that an Executive Director leaves is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans. In specific circumstances, the Committee may exercise its discretion to modify the policy outlined to the extent that the rules of the share plan allow such discretion. The Committee will not exercise discretion to allow awards to vest where the participant is dismissed for gross misconduct.

Death	Good leavers as determined by the Committee in accordance with the plan rules	Leavers in other circumstances (other than summary dismissal)
	'Good leavers' are: injury, ill-health or disability, redundancy, retirement, the entity which employs the Executive ceasing to be part of the Group or any other reason determined by the Committee taking into account the circumstances of departure and performance	
Executive Incentive Plan 2014 (deferred bonus shares)	<ul style="list-style-type: none"> Unvested awards vest on death. Normally 12 months to exercise (if options) 	<ul style="list-style-type: none"> Awards normally lapse
Performance Share Plan 2011	<ul style="list-style-type: none"> Unvested awards normally vest on death. The level of vesting is determined by the Committee taking into account performance and the time elapsed between grant and death If awards are in the form of options, the personal representatives of the participant will normally have 12 months from the date of death to exercise or a longer period as determined by the Committee of up to 10 years from grant 	<ul style="list-style-type: none"> Unvested awards normally lapse unless the Committee determines otherwise If awards are in the form of options, participants normally have 12 months from cessation to exercise vested options or a longer period as determined by the Committee of up to 10 years from grant
All-employee share plans	<ul style="list-style-type: none"> Leaver provisions under all-employee share plans are as determined in accordance with HMRC approved provisions 	

Directors' remuneration report continued

Directors' remuneration policy

Legacy plans

Deferred bonus shares awarded prior to 2014 were granted under the 2004 Executive Incentive Plan. Under this plan, in the event that a participant leaves for 'good leaver' reasons (death, injury, ill-health, disability, redundancy, retirement, the entity which employs the Executive Director ceasing to be part of the Group or any other reason determined by the Committee) awards will vest at leaving and participants will normally have 12 months from cessation to exercise awards in the form of options. If a participant leaves in other circumstances (other than in circumstances of gross misconduct) awards will normally vest at the normal vesting date and participants will normally have 12 months from vesting to exercise awards in the form of options.

Philip Clarke and Laurie McIlwee hold vested options under the 2004 Discretionary Share Option Plan and 2004 PSP. Under these plans, when participants leave, they have 12 months from leaving to exercise options.

Other vesting circumstances

Awards may also vest early if:

- (i) a participant is transferred to a country, as a result of which the participant will suffer a tax disadvantage or become subject to restrictions on his award (under the PSP and 2004 Executive Incentive Plan); or
- (ii) in the event of a takeover, winding-up or other corporate event affecting the Company, which may affect the value of share awards (such as a demerger or special dividend).

The number of shares under an award which vest in these circumstances will be determined by the Committee. In the case of the PSP, when determining the level of vesting the Committee will consider performance and the time elapsed since grant. In the case of the deferred bonus shares (under the 2004 and 2014 Executive Incentive Plan) awards will vest in full.

Where an Executive Director leaves as a result of summary dismissal they will forfeit outstanding share incentive awards.

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items
<ul style="list-style-type: none"> Fees for the Non-executive Chairman and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary Fees are set taking into account the following factors: <ul style="list-style-type: none"> The time commitment required to fulfil the role Typical practice at other companies of a similar size and complexity to Tesco Non-executive Directors' fees are set by the Board and the Chairman's fee is set by the Committee (the Chairman does not take part in any discussion about his fees) Fees are reviewed by the Board at appropriate intervals (normally once every two years) Fees paid to the Non-executive Chairman and Non-executive Directors may not exceed the aggregate limit of £2m set out in the Company's articles of association 	<ul style="list-style-type: none"> Non-executive Director fees policy is to pay: <ul style="list-style-type: none"> A basic fee for membership of the Board An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role An additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate Non-executive Directors of Tesco PLC may also serve on the Board of Tesco Personal Finance Group Limited Such Non-executive Directors also receive a basic fee for serving on this Board and additional fees for Committee membership in line with other members of this Board. Fees for membership of the Board of Tesco Personal Finance Group Limited are determined by the Board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals The Non-executive Chairman of Tesco PLC receives an all-inclusive fee for the role Where significant travel is required to attend Board meetings, additional fees may be paid to reflect this additional time commitment 	<ul style="list-style-type: none"> The Non-executive Directors are not entitled to participate in the annual bonus or Performance Share Plan The Non-executive Directors have the benefit of Directors' and Officers' liability insurance and provision of indemnity and staff discount on the same basis as other employees. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so The Non-executive Chairman may have the benefit of a company car and driver, home security, staff discount and healthcare for himself and his partner. The Committee may introduce additional benefits for the Chairman if it is considered appropriate to do so The Company reimburses the Chairman and Non-executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these The Company will pay reasonable legal fees for advice in relation to terms of engagement If a Non-executive Director was based overseas then the Company would meet travel and accommodation expenditure as required to fulfil Non-executive duties

Non-executive Director letters of appointment

Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. The unexpired term of Non-executive Directors' appointments can be found on page 35. In line with the UK Corporate Governance Code, all Non-executive Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors' appointments can be terminated by either party without notice. Non-executive Directors have no entitlement to compensation on termination.

The letters of appointment are available for shareholders to view at the Company's registered office.

Considering colleagues' views

The Committee does not consider that it is appropriate to consult colleagues directly when developing the Directors' Remuneration Policy. A significant portion of our colleagues are shareholders so are able to express their views in the same way as other shareholders.

The Company undertakes an employee engagement survey, which occurs annually across Tesco's global operations and semi-annually for colleagues in the UK. This survey asks for feedback and comments on many aspects of employment with Tesco, including employee reward and benefits. This insight, combined with feedback gleaned from social media channels, forms a key part of shaping future plans and taking action to improve.

The Committee reviews information regarding the typical remuneration structure and reward levels for other UK-based employees to provide context when determining executive remuneration policy.

Considering shareholders' views

The Committee believes that it is very important to maintain an open dialogue with shareholders on remuneration matters. The Committee regularly consults significant shareholders regarding potential changes to remuneration arrangements and the views of shareholders are important in determining any final changes. Going forward, the Committee will continue to liaise with shareholders regarding remuneration matters more generally and Tesco arrangements as appropriate. It is the Committee's intention to consult major shareholders in advance of making any material changes to remuneration arrangements for Executive Directors.

Approved by the Board

5 May 2015

Deanna Oppenheimer

Chair of the Remuneration Committee