Directors' remuneration report

Remuneration Committee Chair's introduction

Deanna Oppenheimer
Remuneration Committee Chair

In this section

"Future arrangements continue to closely align to Tesco's long-term strategy"

Dear Shareholder,

I am pleased to introduce the Directors' remuneration report for 2015/16. The changes in this year's report are all within the existing policy approved by over 96% of voting shareholders at the 2015 AGM. Let me highlight the key remuneration outcomes and plans for the coming year.

2015/16 reward outcomes

Stretching 2015/16 annual bonus targets were set last year in the context of significant uncertainty and volatility for both Tesco and the retail sector, at a time when nearly all key indicators in the business were on a steep, negative trend. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and agreed management has reversed the negative trajectory and were making strong progress in delivering the turnaround plan. In particular, the Group has achieved increased volumes and positive like-for-like sales, reduced costs, increased cash flow, and completed significant disposals and business restructuring to strengthen the balance sheet.

As a result, financial targets for sales and operating profit, representing 80% of the bonus, were met almost fully for both Dave Lewis and Alan Stewart. In combination with strong performance against personal objectives from both of our Executive Directors (as detailed on page 55) this means the 2015/16 annual bonus will pay out at 95.7% of the maximum for the CEO and CFO respectively with 50% deferred into shares, in line with our policy. The Executive Directors believe that their remuneration should demonstrate their commitment to the business at this early stage of the turnaround. As such, for the 2015/16 bonus, they offered to defer a further 50% of their cash bonus into shares, vesting on the earlier of three years or the resumption of dividend payments. This increases to 75% the proportion of the bonus that is deferred into shares and creates a further direct alignment with shareholders through the link to resuming dividend payments and the long-term value creation opportunity of the business.

Remuneration framework for 2016/17

In the 2014/15 Directors' remuneration report, the Committee's stated intention was to undertake a further review of incentives in 2015/16 to ensure future arrangements continue to closely align to Tesco's long-term strategy and deliver value to shareholders and other key stakeholders.

We completed this review and, following discussions with our major shareholders, the Committee has decided that some changes to the remuneration of senior executives, including Executive Directors, were appropriate. These changes apply to the operation of the Performance Share Plan only and are within existing policy approved by shareholders at the 2015 AGM. They are summarised below:

Overall remuneration – There are no changes to the overall % levels of remuneration.

Annual bonus – The Committee believes that the current annual bonus plan measures, focused on sales, profit and individual measures, remain appropriate for 2016/17 and so no changes are to be made.

Performance Share Plan ('PSP') – The following changes have been made to the PSP for 2016/17 within the existing Remuneration Policy:

- We are changing the comparator group against which Total Shareholder Return ('TSR') will be measured to a sector-based index comprising constituents of the FTSE350 Food & Drug and FTSE350 General Retail sectors. This ensures our measurement of comparative TSR performance is more closely aligned to the competitive markets in which Tesco operates and reflects the intense focus the Board believes that Tesco needs to have within the challenging retail market at this time. This also reflects feedback from shareholders last year, which expressed a preference for the use of well-established industry classifications in the selection of peers.
- We have introduced a new component for the PSP relating to Tesco's key stakeholder metrics of customers, suppliers, and colleagues, with a 20% weighting. Building increased trust in these constituencies is critical to delivering our strategy and the importance of this focus is reflected in the Big 6 KPIs on which Tesco regularly reports to shareholders. The weighting of the relative TSR measure will therefore be reduced to 50% (previously 70%) as a result of this change.
- Retail cash generated from operations will be retained with a 30% weighting, as generating quality cash flow remains a key area of focus for the business and is a measure of performance that is critical to Tesco's position as a long-term, sustainable retailer.

These changes ensure that the remuneration arrangements are tightly connected to Tesco's strategic priorities. As such, they will be clear and motivating to management and will support the execution of the strategy in line with shareholder interests.

Other matters

The overall remuneration arrangements are summarised in the 'Remuneration at a glance' section of this report on page 50. The Remuneration Policy, as approved by shareholders at the 2015 AGM, is set out in full from page 64 onwards for information.

Byron Grote joined the Committee in July 2015 and Alison Platt joined in April 2016. Both bring considerable experience that further enhances the Committee going forward.

Due to the appointment of Deloitte as the Company's auditor during the year, the Committee conducted a review to replace Deloitte as the Committee's independent remuneration advisor. Following this review, the Committee appointed PricewaterhouseCoopers.

As the Company proceeds through a period of considerable change, the Committee, working with management, will continue to align incentive arrangements with Tesco's strategy, business results, and market demands. As always, we value your views as shareholders as part of this process.

Deanna Oppenheimer
Remuneration Committee Chair

Directors' remuneration report continued

Annual remuneration report

The following report outlines Tesco's remuneration framework, how the remuneration policy was implemented in 2015/16 and how the Committee intends to apply the policy in 2016/17.

Remuneration at a glance

The approach to remuneration throughout Tesco is guided by a framework of common principles, which are outlined 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 with 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

Overview of Executive Director remuneration

The table below summarises key information relating to our remuneration policy and how it was implemented during the year. The Remuneration Policy, which was approved at the AGM held on 26 June 2015, is reprinted in full for reference from page 64.

Remuneration element and link to strategy	Key features of policy	How we implemented the policy in 2015/16	How we will implement the policy in 2016/17
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy.	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.	Executive Director salaries for 2015/16 were as follows: • CEO – £1,250,000 • CFO – £750,000 No increases were made to salaries at the salary review date (1 July 2015).	Directors salaries are reviewed annually with an implementation date of 1 July. No increases will be made to salaries at the salary review date (1 July 2016).
Annual incentive Rewards Executive Directors for the delivery of annual financial, operational and strategic goals.	The annual bonus is normally delivered: • 50% in cash; and • 50% in shares deferred for three years. The 50% deferral into Company shares provides alignment with shareholders interests. The malus and clawback provisions enable the Company to mitigate risk.	Maximum opportunity was as follows: • CEO – 250% of base salary • CFO – 225% of base salary The performance measures were: • 50% sales; • 30% operating profit; and • 20% individual measures.	No changes are proposed for 2016/17.
Long-term incentive Rewards Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value and aligns the economic interests of Executive Directors and shareholders.	Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise). 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.	Maximum opportunity was as follows: • CEO – 275% of base salary • CFO – 250% of base salary The performance measures for the 2015/16 grant were: • 70% relative TSR performance compared with a retail group; and • 30% cumulative Retail Cash Generated from Operations.	Performance measures for the 2016/17 award will be: • TSR (50%) weighted index of FTSE350 Food & Drug retailers and FTSE350 General Retailers. • Cumulative Retail Cash Generated from Operations (30%). • Stakeholder metrics (new measure) (20%): customers, suppliers and colleagues.

Further details on the strategic alignment of these performance measures is provided overleaf.

Performance measures and strategy

The following table sets out how each of the performance measures within the annual bonus and PSP link to Tesco's strategy.

Variable pay element	Performance measure	Link to strategy
Annual bonus	Sales*	• To deliver turnaround performance, top-line revenue growth is fundamental and will be the foundation to ensuring sustainable levels of profit in the future.
	Operating profit*	• Incentivises the delivery of Tesco's strategy by encouraging the creation of shareholder value through profitable financial strategy.
	Individual	• Focuses on the delivery of critical operational and strategic goals of the business for the year.
PSP	TSR	• Directly aligns Executive Directors' interests with those of shareholders in delivering relative high share price growth and returns over the performance period.
	Cash from operations*	• Continues to be a key measure and reflects the need to protect and strengthen our financial position so that we can maintain the flexibility to invest in a better shopping experience for customers.
	Key stakeholder metrics** (2016/17 awards only)	• These metrics are critical to delivering Tesco's long-term strategy and the importance of this focus is reflected in the Big 6 KPIs, on which Tesco regularly reports to shareholders. Alongside improving our financial performance, we need to continue to improve stakeholder alignment, particularly in relation to the customer and supplier metrics.

* Big 6 financial measure. Measured on a constant currency basis.

** Customers, suppliers and colleagues are three of the Big 6 elements (see page 12 for further information). The PSP measures will, to the extent possible, be aligned with how these KPIs are measured for business performance management and reporting purposes.

Annual bonus performance against targets in 2015/16 (audited)

The table below sets out performance against the metrics applicable to 2015/16 annual bonus outcomes.

Measures	Underpin	Target performance			Actual performance	Payout (% maximum)
		Threshold	Target	Stretch		
Sales (50%)*	n/a	£48.0bn	£48.9bn	£49.8bn	£49.8bn	98%
Operating profit* (30%)	£549m	£589m	£711m	£853m	£954m	100%
Individual (20%)	n/a	–	–	–	–	83.5%

* Sales and operating profit for 2015/16 at constant exchange rates, with sales adjusted to exclude IFRIC13 (see page 95 for more details). A reconciliation with reported figures for operating profit are set out in Note 2 to the accounts.

Performance for the formulaic financial elements of the plan (sales and operating profit) has been strong with sales almost achieving the stretch target and operating profit exceeding the stretch target set at the beginning of the year. A Group operating profit underpin, set at the beginning of the year, also applies to the annual bonus, below which no portion of the annual bonus pays out. The underpin for the 2015/16 year of £549m was met. In relation to individual elements, the CEO and CFO both achieved 16.7% out of a maximum 20% and accordingly, the annual bonus will pay out at 95.7% of the maximum for Dave Lewis and Alan Stewart.

Further details of the individual metrics and the annual bonus performance against targets are included on page 52.

PSP performance against targets in 2015 /16 (audited)

No awards which have previously been granted to the Executive Directors vested in the year ended 27 February 2016.

The following report outlines the remuneration framework, and how the Committee intends to apply the remuneration policy in 2016/17. This annual remuneration report will be submitted to an advisory shareholder vote at the AGM on 23 June 2016.

Directors' remuneration report continued
Annual remuneration report

How the remuneration policy will be applied in 2016/17

	Element	Operation and opportunity	Performance measures
Fixed pay	Base salary	• CEO – £1,250,000. • CFO – £750,000. • Next review due 1 July 2017.	• n/a
	Pension (Cash in retirement)	• 25% of base salary cash allowance in lieu of pension.	• n/a
	Benefits	• Core benefits include car benefits, driver, security, life assurance, disability and health insurance, and colleague discount. • Executive Directors 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)	• CEO – stretch opportunity of 250% of base salary. • CFO – stretch 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.	• 50% based on sales • 30% based on profit • 20% based on individual measures • See below for further details
	Performance Share Plan (Three-year performance) (Shares)	• CEO – stretch award of 275% of base salary. • CFO – stretch 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.	• Shares vest in three years' time subject to performance targets being met. • For awards made in 2016/17, performance will be assessed based on Tesco's TSR performance compared with an index of retail companies, 30% on cumulative Retail Cash Generated from Operations and 20% based on key stakeholder metrics. • See below for further details.

Further details on Tesco's short- and long-term performance measures

Annual bonus

Performance measure	Weighting	Definition of measure
Sales growth	50%	Sales (exc. VAT, exc. fuel)
Profit	30%	Operating profit before exceptional items
Individual measures	20%	Delivery of operational and strategic goals in the year

Underpin
To ensure that we do not incentivise Executive Directors 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
Executive bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. We therefore do not publish details of the targets on a prospective basis but they will focus on the delivery of the operational and strategic goals of the business for the year. For 2016/17 these continue to include the delivery of the Big 6 alongside all colleagues.

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 that the bonus outcome is reported. In relation to exchange rates, the targets are set based on 2015/16 average exchange rates and then at the conclusion of the next financial year, are assessed on a constant currency basis.

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 2016/17 have been changed from those used in 2015/16. The priority is to have a plan aligned with three key strategic priorities:

- delivery of significant value to shareholders through share price and dividend performance;
- returning the business to be one that generates sustainable, quality cash flow; and
- building trust with key stakeholders (customers, suppliers, colleagues).

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

PSP measures

Performance measure	Weighting	Definition of measure
Relative TSR vs index comprising companies from FTSE350 Food & Drug Retailers and FTSE350 General Retailers indices	50%	Growth in share price plus dividends reinvested. These incorporate Tesco's key competitors within the FTSE350 Food & Drug Retailers and FTSE350 General Retailers indices. The groups are weighted towards the Food & Drug Retailers to reflect Tesco's long-term business split between food and general retail
Retail cash generated from operations	30%	Cumulative retail cash generated from operations +/- movement in working capital, excluding Tesco Bank
Key stakeholder measures	20%	Three stakeholder metrics: customers, suppliers and colleagues

Following a one-off amendment in 2015 (as explained in last year's report), the initial measurement period for the TSR calculation will be based on the three-month average share price of 1 December 2015 to 27 February 2016. This represents the three months immediately prior to the start of the three-year performance period. In 2015, the cumulative retail cash generated from operations element was also amended for the sale of the Korean business with the threshold and stretch targets being £6.6bn and £7.3bn respectively.

PSP targets

Performance measure		Definition	Weighting	Stakeholder Performance 2014/15	Threshold			Stretch	
					Vesting level	Performance required	Performance Description	Vesting level	Performance required
TSR		Relative TSR v a retail sector index	50%	–	25%	Performance equal to index	Performance equal to index of FTSE350 Food & Drug and General retailers	100%	8% (6%+2%) p.a. outperformance of the index – see notes below
Cash Generation		Cumulative retail cash generated from operations	30%	–	25%	£8.6bn	Cumulative retail cash generated from operations +/- movement in working capital, excluding Tesco Bank	100%	£9.4bn
Stakeholder measure	i) Customers	The proportion of customers recommending Tesco as a place to shop	6.66%	-6	0%	+2	Performance above that achieved in the financial year prior to grant	100%	+24
	ii) Suppliers	The proportion of suppliers scoring satisfaction at 7 or above (on a 10 point scale)	6.66%	59%	0%	70%	Performance above that achieved in the financial year prior to grant	100%	82%
	iii) Colleagues	The proportion of colleagues endorsing Tesco as a great place to work	3.33%	75%	0%	81%	Performance above that achieved in the financial year prior to grant	100%	84%
	iii) Colleagues	The proportion of colleagues recommending Tesco as a place to shop	3.33%	+22	0%	+41	Performance above that achieved in the financial year prior to grant	100%	+47

* Customers and Colleagues metrics for 'Great place to shop' scores range from -100 to +100. The prior year results for stakeholder metrics are shown for information.

Based on a review of FTSE100 outperformance hurdles in use, analysis of the historic performance of key retail peers, and forward-looking modelling, the level of TSR outperformance of the index equivalent to above upper quartile performance required for stretch vesting is determined to be 6% p.a. relative to the peer set. However, for the purpose of 2016/17 awards, the Committee wishes to signal Tesco's intention to grow returns to shareholders. As such, an additional 2% p.a. outperformance stretch will be applied to the normal 6% such that the TSR outperformance required for stretch vesting is 8% p.a. In relation to the Stakeholder measures, the base line at commencement is shown above.

Directors’ remuneration report continued

Annual remuneration report

What did we pay Executive Directors in the year?

The table below provides a summary ‘single total figure’ of remuneration for 2015/16 and 2014/15. Where necessary, further explanations of the values provided are included below. This table and all relevant explanation has been audited.

Single total figure of remuneration (audited)

Executive Directors

	Year	Salary (£’000)	Benefits (£’000)	Short-term annual bonus (£’000)	Long-term Performance Share Plan (£’000)	Pension (£’000)	Total before buyouts (£’000)	Buyouts[1] (£’000)	Total (£’000)
Dave Lewis	2015/16	1,250	80	2,989	–	313	4,632	–	4,632
	2014/15	570	97	–	–	143	810	3,323	4,133
Alan Stewart	2015/16	750	40	1,614	–	188	2,592	–	2,592
	2014/15	297	42	–	–	74	413	1,724	2,137

[1] The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis and Alan Stewart to compensate them for awards forfeited from their previous employers. The awards were made based on the expected value of the awards forfeited, taking into account performance at their previous employers and delivered in restricted shares, which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco’s performance in 2014/15. The awards have no impact on the single figure for 2015/16 nor any future years.
Alan Stewart received a payment in respect of his 2014/15 bonus forfeited based on the payment he would have received had he remained in post at his previous employer (pro-rated for time). The actual amount was unknown when the 2014/15 remuneration report was published, therefore an estimated amount of £400,000 was shown. The final amount was £236,232, therefore a negative adjustment of £(163,768) has been applied to the 2014/15 single figure.

Salary

Salaries are normally reviewed in July each year. The Committee considered the Chief Executive and Chief Financial Officer’s pay review in light of pay review budgets across the Group and for pay recommendations from the Chief Executive for Executive Committee members. As a result, the Committee determined that the salaries for the Chief Executive and the Chief Financial Officer would remain unchanged in 2015/16 and for 2016/17.

	Directors	
Salary	Dave Lewis	Alan Stewart
Increase in year (%)	None	None
Annual salary (£’000)	1,250	750
Salary received in year (£’000)	1,250	750

Benefits (audited)

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

		Directors	
Benefit	Description	Dave Lewis	Alan Stewart
Car benefits (£’000)	Company car or cash alternative and driver	55	39
Healthcare benefits (£’000)	Disability and health insurance	1	1
Security (£’000)	Installation of security measures to meet business standards	14	–
Other (£’000)	Membership fees and other costs	10	–
Total (£’000)		80	40

Annual bonus 2015/16 (audited)

	Directors	
Annual bonus 2015/16 (audited)	Dave Lewis	Alan Stewart
Stretch bonus opportunity (% of salary)	250%	225%
Actual bonus (% of salary)	239%	215%
Actual bonus (£’000)	2,989	1,614
Deferred into shares (75%) (£’000)	2,242	1,211

	Target performance					
Bonus measures	Underpin	Threshold	Target	Stretch	Actual performance	Payout (% maximum)
Sales (50%)*	n/a	£48.0bn	£48.9bn	£49.8bn	£49.8bn	98%
Operating profit (30%)*	£549m	£589m	£711m	£853m	£954m	100%
Individual (20%)	n/a	–	–	–	–	83.5%

* Sales and operating profit for 2015/16 at constant exchange rates, with sales adjusted to exclude IFRIC13 (see page 95 for more details). A reconciliation with reported figures for operating profit are set out in Note 2 to the accounts.

The table below details the Executive Directors' Individual Objectives in 2015/16.

	Objective	Weighting	Min	Target	Stretch	FY 15/16 Result	Payout
Dave Lewis CEO	(i) Cash generation – deliver stock and cash targets	6.66%	£1.4bn	£1.5bn	£1.6bn	£2.2bn	16.7%
	(ii) Portfolio reshaping & debt reduction	3.33%	–	£5.0bn	–	£5.1bn	
	(iii) Supplier relationship – improvement ratings v 2014/15	6.66%	1% improvement in Supplier Viewpoint Survey lead question	5% improvement in Supplier Viewpoint Survey lead question	10% improvement in Supplier Viewpoint Survey lead question	18.91%	
Alan Stewart CFO	(i) Cash generation – deliver stock and cash targets	6.66%	£1.4bn	£1.5bn	£1.6bn	£2.2bn	16.7%
	(ii) Portfolio reshaping & debt reduction	3.33%	–	£5.0bn	–	£5.1bn	
	(iii) Deliver restructuring savings in line with announcements in January	6.66%	£200m	£250m	£300m	£372m	

Performance for the formulaic financial elements of the plan (sales and operating profit) has been strong with sales just under the stretch target and operating profit exceeding the stretch target set at the beginning of the year. These were on a constant currency basis and excluding IFRIC13 adjustment.

In relation to performance against individual objectives, the CEO and CFO had targets set for cash generation, portfolio reshaping and debt reduction. In addition, Dave Lewis was set a supplier relationship improvement measure and Alan Stewart was set a restructuring savings measure. These elements were achieved at 16.7% of the maximum 20% showing very good progress in these areas. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and agreed that management were making significant progress in delivering the turnaround plan. In particular the Group has achieved increased volumes and positive like-for-like sales, reduced costs, increased cash flow, and undertaken significant disposals and business restructuring to strengthen the balance sheet. A Group operating profit underpin applies to the annual bonus, below which no portion of the annual bonus pays out. The underpin for 2015/16 was met. On the basis of the above, the annual bonus will pay out at 95.7% of the maximum for Dave Lewis and Alan Stewart. The policy is that 50% of this will be deferred into shares for three years. Additionally, the Executive Directors offered for an additional 50% of the cash award to be deferred into shares, vesting at the earlier of three years or the resumption of dividend payments. This increases to 75% the proportion of bonus that is deferred into shares. The shares will be subject to malus per our normal policy.

Performance Share Plan

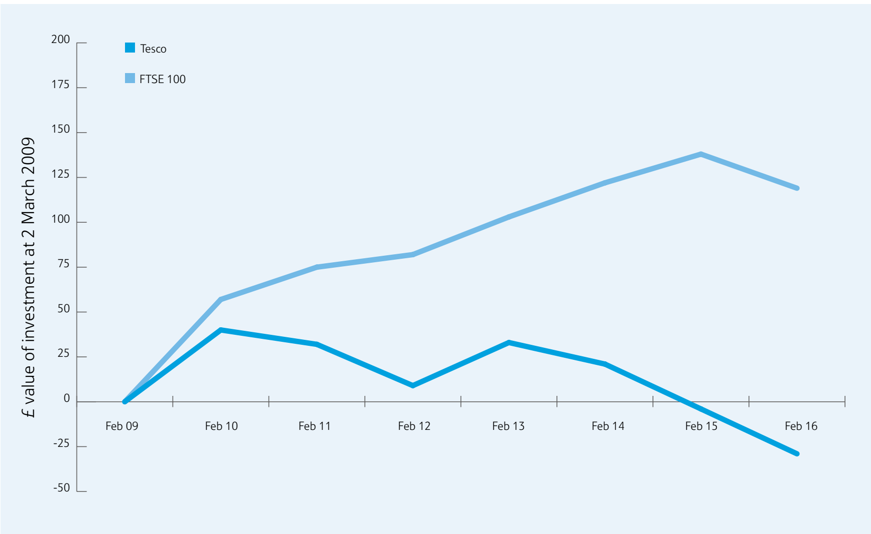
No Performance Share Plan awards were due to vest in the year for either Dave Lewis or Alan Stewart. Given their respective start dates, the first awards under the plan were made in 2015/16 and are due to vest on 24 July 2018.

Pension

Dave Lewis and Alan Stewart receive a cash allowance in lieu of pension. More information on pension arrangements is set out on pages 64 and 66.

	Directors	
Pension	Dave Lewis	Alan Stewart
Annual cash allowance in lieu of pension (% of salary)	25%	25%
Annual cash allowance in lieu of pension (£'000)	313	188
Cash in lieu of pension received in year (£'000)	313	188

Share price



Source: Datastream

This chart illustrates the performance of Tesco against the FTSE100, which is a broad market index of which Tesco is a constituent.

Directors' remuneration report continued

Annual remuneration report

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 stretch 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.

CEO remuneration history

	2010/11	2011/12	2012/13	2013/14[1]	2014/15[2]		2015/16
	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis	Dave Lewis
CEO single figure of remuneration (£'000)	7,150	4,595	1,280	1,634	764	4,133	4,632
Annual bonus vesting (% of stretch award)	75%	0%	0%	0%	0%	0%	95.7%
PSP vesting (% of stretch award)	75%	46.5%	0%	0%	0%	n/a	0%
Share option vesting (% of stretch award)	100%	100%	0%	n/a	n/a	n/a	n/a

1 Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014.
2 The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis to compensate him for awards forfeited from his previous employer. The awards were made based on the expected value of the awards forfeited, taking into account performance at his previous employer and delivered in restricted shares which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards have no impact on the single figure for 2015/16 nor any future years.

Shareholding guidelines and share ownership

Share ownership guidelines

The requirement for executives to hold shares in the Company are for the value of such shares to equate to:

CEO	Four times base salary for the CEO within five years of appointment
CFO	Three times base salary for the CFO within five years of appointment

The purpose is to create alignment with the interests of shareholders and 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.

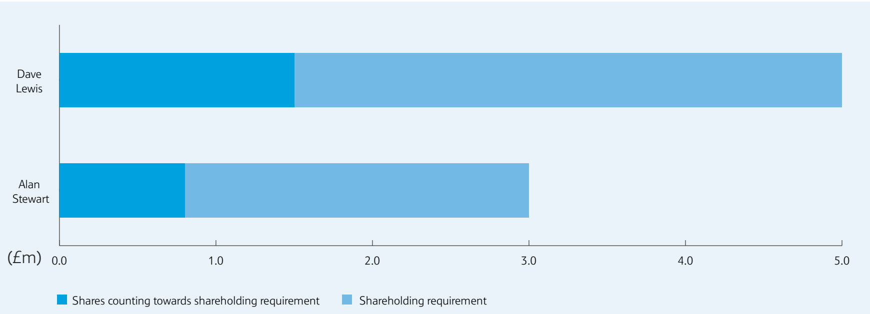
Shareholding guidelines policy

- Shares included – shares held outright and by an Executive Director's connected persons. Shares held in plans which are not subject to performance (such as vested buyout awards) will be included (on a net of tax basis).
- Shares not included – vested but unexercised market value share options and unvested awards (e.g. PSP). Share options (e.g. Sharesave) will not be included.
- 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 27 February 2016 of 161.3p per share, compared with the shareholding guideline.

Although the chart indicates that Dave Lewis and Alan Stewart have not yet met their shareholding guidelines, under the policy they have five years to do so (i.e. until 1 September 2019 and 23 September 2019 respectively). Since appointment, Dave Lewis and Alan Stewart have already made material progress towards meeting the guidelines and are expected to meet them within the allotted time period.



Shares held by Executive Directors at 27 February 2016 (audited)

Director	Share category	Shares counting towards shareholding guidelines			Shareholding guidelines				Additional shares not counting towards shareholding guidelines	
		Ordinary shares held at 27 February 2016	Share Incentive Plan shares, subject to conditions at 27 February 2016	Interests in vested options, not subject to performance conditions, at 27 February 2016	Net number of shares counted towards shareholding guideline	Shareholding guideline (number of shares)[1]	Shareholding guidelines (%)	Guideline met?	Interests in unvested options, not subject to performance conditions, at 27 February 2016	Interests in options, subject to performance conditions, at 27 February 2016
Dave Lewis	Ordinary shares[2]	100,893	–	–	100,893	–	–		–	–
	All-employee Share Incentive Plan (subject to forfeiture)	–	–	–	–	–	–		–	–
	Deferred Bonus plan	–	–	–	–	–	–		–	–
	PSP	–	–	–	–	–	–		–	1,566,987
	Buyout awards	–	–	1,670,294	885,256	–	–		–	–
	Sharesave	–	–	–	–	–	–		11,920	–
	Total	100,893	–	1,670,294	986,149	3,099,814	32	No	11,920	1,566,987
Alan Stewart	Ordinary shares[2]	50,837	–	–	50,837	–	–		–	–
	All-employee Share Incentive Plan (subject to forfeiture)	–	–	–	–	–	–		–	–
	Deferred Bonus plan	–	–	–	–	–	–		–	–
	PSP	–	–	–	–	–	–		–	854,720
	Buyout awards	–	–	945,451	501,089	–	–		–	–
	Sharesave	–	–	–	–	–	–		11,920	–
	Total	50,837	–	945,451	551,926	1,395,916	40	No	11,920	854,720

1 Based on a three-month average share price to 27 February 2016 of 161.3p. The requirement is for the CEO to hold shares to the value of 400% of salary and the CFO to hold 300% of salary within five years of appointment.
2 Ordinary shares held by Director and connected persons and shares in the all-employee Share Incentive Plan, not subject to forfeiture. Between 27 February 2016 and 11 April 2016, Dave Lewis acquired 72 and Alan Stewart acquired 71 partnership shares under the all-employee Share Incentive Plan.

The table above sets out shares held by the Executive Directors and whether these count towards the shareholding guidelines.

Share awards made during 2015/16 (audited)

The following summarises share awards made to Dave Lewis and Alan Stewart in 2015/16.

	Plan	Type of award	Date of awards	Gross number of shares	Face value[1] (£)	Threshold vesting (% of face value)	Stretch vesting (% of face value)	End of vesting period
Dave Lewis	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment.	24 July 2015	1,566,987	3,437,499	25%	100%	24 July 2018
Alan Stewart	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment.	24 July 2015	854,720	1,874,999	25%	100%	24 July 2018
	Awards were granted under listing rule 9.4.2	Nil cost options subject to continued employment only.	6 July 2015	56,950	118,114	n/a	n/a	6 July 2018

1 The face value has been calculated using the market price on grant of 219.37 pence (24 July 2015) and 207.40 pence (6 July 2015).

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. The policy has been reviewed for compliance with the Market Abuse Regulations.

Directors' remuneration report continued

Annual remuneration report

Further details of '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.

Alan Stewart

In the 2014/15 Report, it was disclosed that Alan Stewart would, during 2015/16, receive an award in respect of his 2014/15 Marks & Spencer Group PLC bonus forfeited. This was to be based on the payment he would have received had he remained at M&S (pro-rated for time) and was to be paid 50% in cash and 50% in Tesco shares deferred for three years. The final award was made in June 2015 under Listing Rule 9.4.2. and is set out in the table on the previous page. The value of this award is £236,232 (pro-rated for eight months), delivered half in cash (£118,116) and half through a grant of nil cost options over 56,950 shares on 6 July 2015, calculated with reference to a market price of 207.4 pence per share. This option will vest on 6 July 2018. Awards accrue dividend equivalents and are subject to malus, in the circumstances set out on page 66, until the shares are transferred.

Payments to former Directors (audited)

There were no payments made to former Directors that exceeded the de minimis threshold of £10,000 set by the Company. There were no payments for loss of office made to directors in the year.

Other policy information

Risk management

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk taking or inappropriate behaviours that are incompatible with Tesco's 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 Sky PLC and received fees of £92,500 during the year. Alan Stewart is a Non-executive Director of Diageo PLC and received fees of £85,750 in the year.

Funding of equity awards

Executive Director 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 2.7% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employee Share Schemes Trustees Limited or Tesco International Employee Benefit Trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 27 February 2016, the Trusts held 6,489,874 shares.

Other disclosures

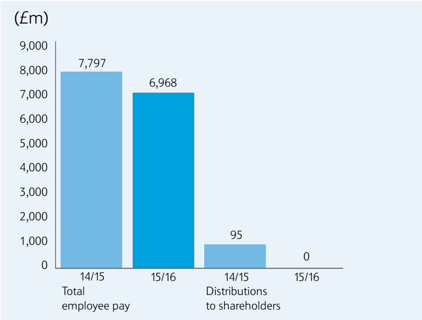
Change in CEO remuneration compared with changes in employee remuneration

The following table illustrates the change in CEO salary, benefits and bonus between 2014/15 and 2015/16 compared with other UK colleagues. The Committee decided to use other UK colleagues for the purpose of this disclosure as over half of Tesco's 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.

Tesco has a history of paying store colleagues well. The Company has one of the highest established hourly rates in the industry which is significantly above both the National Minimum and National Living Wage, and pays employees the same regardless of age. Our total reward package for a typical customer assistant is ahead of the voluntary Living Wage on a national basis. The Company is committed to rewarding colleagues with a total reward package that they really value. Tesco is working on ways to provide more choice between cash and benefits so that employees can build a competitive and valuable package that suits them.

	Salary	Benefits	Bonus
CEO	0%	-18%	–
UK colleagues	0%	0%	58%

For UK employees, including the CEO and CFO, there were no increases in salary or benefits in line with the salary budget for the year. With regards to bonus, a Turnaround Bonus, where colleagues may be rewarded up to 5% of earnings should Tesco achieve its turnaround plan, was in the year awarded to colleagues below senior management. These were in the form of shares being awarded up to the value of 5% of their salary. The above table does not include the Turnaround Bonus amounts. For 2015/16, bonuses for UK eligible colleagues have paid out at an average of 84.65% of the maximum bonus opportunity, an increase of 58.41% compared to the prior year. The CEO bonus paid out at 95.7% of maximum, reflecting excellent performance which has laid the foundations for sustainable recovery. This also resulted in a significant year-on-year increase for colleagues. As the CEO did not receive a bonus in 2014/15, no % increase is shown. For the CEO, the bonus makes up a much greater proportion of total pay opportunity than for the general colleague population such that more pay is at risk and determined by overall Company performance. In 2014/15, no bonus was awarded to the CEO reflecting challenging trading conditions and an in-year appointment.



Relative importance of spend on pay

The chart on the left shows total colleague pay compared with distributions to shareholders. Tesco's colleagues are essential to how the Company does business and meets the needs of our customers. In 2015/16, we employed, on average, 482,152 colleagues across the Group (compared to 480,607 in 2014/15, excluding Korea).

Total employee pay includes wages and salaries, social security, pension and share-based costs (£6,968m in 2015/16 and £7,797m in 2014/15 – see Note 3 of the financial statements on page 100).

Distributions to shareholders include interim and final dividends paid in respect of each financial year (£95m in respect of 2014/15 and £nil in respect of 2015/16 (see Note 25 of the financial statements on page 129). The new management team identified protecting and strengthening the balance sheet as one of our three key turnaround priorities. This resulted in a number of steps to address our balance sheet leverage, one of which was the suspension of the dividend. There were no share buy-backs in 2014/15 or 2015/16.

Non-executive Director fees and responsibilities

Committee membership in 2015/16

The table below sets out the positions held by Tesco's Non-executive Directors as well as information on appointments and departures in the year.

Director	Title	Senior Independent Director (SID)	Remuneration Committee	Nominations Committee	Audit Committee	Corporate Responsibility Committee
John Allan	Joined as Chairman on 1 March 2015		◦	•		•
Mark Armour	Appointed to the Board on 2 September 2013				◦	
Richard Cousins	Appointed to the Board on 1 November 2014 Appointed to the Audit Committee on 2 December 2014 Appointed SID on 7 April 2015	X		◦	◦	
Mikael Olsson	Appointed to the Board on 1 November 2014 Appointed to the Remuneration Committee and to the Corporate Responsibility Committee on 2 December 2014		◦			◦
Deanna Oppenheimer	Appointed to the Board on 1 March 2012 and as Chair of the Remuneration Committee on 1 January 2015		•	◦		◦
Byron Grote	Appointed to the Board on 1 May 2015 Appointed Audit Committee Chairman on 26 June 2015 and member of the Remuneration Committee on 24 July 2015 and Nominations Committee on 1 December 2015		◦	◦	•	
Alison Platt	Appointed to the Board and the Remuneration Committee on 1 April 2016		◦			
Simon Patterson	Appointed to the Board and Audit Committee on 1 April 2016				◦	
Lindsey Pownall	Appointed to the Board and Corporate Responsibility Committee on 1 April 2016					◦
Gareth Bullock	Retired from the Board on 5 March 2015				◦	
Patrick Cescau	Retired from the Board and as SID on 7 April 2015	X		◦	◦	◦
Stuart Chambers	Retired from the Board on 26 June 2015		◦	◦		
Ken Hanna	Retired from the Board on 26 June 2015		◦	◦	•	

x Senior Independent Director
• Committee Chairman
◦ Committee member

Non-executive Director fee policy for 2015/16
There were no changes to Non-executive Directors' fees during the year.

Non-executive Director fees	
Basic fees	£70,000 p.a.
Additional fees	
Senior Independent Director	£26,000 p.a.
Chairman 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

Deanna Oppenheimer was appointed to the Board of Tesco Personal Finance Group Limited (Tesco Bank) in July 2012. She was 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. These fees are provided below for information.

Chairman fees
John Allan was appointed as Non-executive Chairman with effect from 1 March 2015. He receives 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 69.

Fees paid during 2015/16
The following table sets out the fees paid to the Non-executive Directors for the year ended 27 February 2016. 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 (audited)
The table below sets out the single figure of remuneration for Tesco's Non-executive Directors.

		Fees (£'000)		Taxable expenses (£'000)			
Director	Date	Tesco PLC	Tesco Bank	Tesco PLC	Tesco Bank	Benefits (£'000)	Total (£'000)
John Allan	2015/16	650	–	–	–	10	660
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Mark Armour	2015/16	82	–	–	–	–	82
	2014/15	82	–	–	–	–	82
Richard Cousins	2015/16	115	–	–	–	–	115
	2014/15	23	–	–	–	–	23
Mikael Olsson	2015/16	94	–	4	–	–	98
	2014/15	25	–	2	–	–	27
Deanna Oppenheimer	2015/16	119	82	25	7	–	233
	2014/15	96	82	56	8	–	242
Byron Grote	2015/16	85	–	1	–	–	86
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Bullock	2015/16	4	72	–	1	–	77
	2014/15	82	82	–	–	–	164
Patrick Cescau	2015/16	19	–	–	–	–	19
	2014/15	132	–	–	–	–	132
Stuart Chambers	2015/16	34	–	–	–	–	34
	2014/15	110	–	5	–	–	115
Ken Hanna	2015/16	45	–	–	–	–	45
	2014/15	124	–	3	–	–	127

The figures in this table show the amount receivable in the year and are from the date of appointment or until the date that each Director ceased to be a Director of Tesco PLC. Gareth Bullock, Patrick Cescau, Stuart Chambers and Ken Hanna left the Board during the year.

The figures in this table include fees paid to Gareth Bullock and Deanna Oppenheimer in respect of their membership of the Board and Committees of Tesco Personal Finance Group Limited (Tesco Bank).

The Chairman's benefits are made up of security costs and medical insurance. The Non-executive Directors' benefits comprise taxable travel expenses related to their role and the benefit costs shown have been grossed up for tax, where applicable.

Beneficial share ownership (audited)

There are no shareholding guidelines for the Non-executive Directors. The table below outlines the current share interests of the Non-executive Directors. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors and no shares were acquired between 27 February and 12 April 2016.

Director	Ordinary Shares held at 27 February 2016	Ordinary Shares held at 28 February 2015
John Allan[2]	194,349	n/a
Mark Armour	25,000	25,000
Gareth Bullock	–	25,000
Patrick Cescau	–	18,340
Stuart Chambers	–	25,000
Richard Cousins	17,357	–
Ken Hanna	–	25,000
Mikael Olsson	5,000	–
Deanna Oppenheimer[1]	103,500	52,500
Byron Grote[1]	143,700	n/a

1 Deanna Oppenheimer and Byron Grote held their shares in the form of American Depositary Receipts. Each ADR is equivalent to three ordinary shares.
2 John Allan also held 198,000 bonds in the Company.

The Committee

Role of the Remuneration Committee

The Committee's key responsibilities are:

- to determine and recommend to the Board the remuneration policy for Executive Directors, senior management and the Chairman;
- to ensure the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors and senior management needed to run the Company, and to ensure that the individual's contribution to the long-term success of the Company is rewarded in a manner that remains 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.

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.tescoplc.com.

Membership of the Remuneration Committee and attendance at meetings

	Number of possible meetings	Actual meetings attended
Deanna Oppenheimer (Committee Chair)	6	6
Stuart Chambers	1	1
Ken Hanna	1	1
Mikael Olsson	6	6
Byron Grote	4	4
John Allan	6	6

Byron Grote joined the Committee with effect from 24 July 2015. Alison Platt was appointed to the Tesco Board and joined the Committee on 1 April 2016. Stuart Chambers and Ken Hanna stepped down from the Board and the Committee at the 2015 AGM.

The Committee schedules meetings two years in advance with six meetings typically in a year. The Committee also convenes on an ad hoc basis between formal meetings when necessary. The Directors' biographies can be found on pages 32 and 33 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.

Directors' remuneration report continued

Annual remuneration report

Remuneration Committee activities 2015/16

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 2015	July 2015	Oct 2015	Dec 2015	Jan 2016	Feb 2016	April 2016 (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 senior management		■					■
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						■	
	Professional development updates	■						■
	Remuneration advisor selection		■	■				
	Regulatory developments				■			
	Shareholder consultation						■	
	Other issues as required	■	■	■	■	■	■	■

* Directors' remuneration report.

Committee advisors

Remuneration advisors are appointed by the Committee following a selection process and their roles are kept under review. During the year, PricewaterhouseCoopers LLP ('PwC') were appointed as independent Remuneration Committee advisors by the Committee. The previous advisors, Deloitte LLP ('Deloitte'), were required to step down as a result of their appointment as auditor of the Group. On Deloitte's appointment as auditor, a transition plan was put in place while a new advisor to the Committee was selected. This ensured that remuneration advice provided by Deloitte was consistent with ethical auditing guidelines and that their independence as auditor was not compromised. Fees for advice provided to the Remuneration Committee for the year were £148,337 and £51,825 for PwC and Deloitte respectively. Fees are charged on a time and materials basis. PwC provided advice to management in relation to the interpretation of the Remuneration Reporting Regulations, as well as wider market practice. Separate teams within PwC provided unrelated advisory services in respect of corporate tax planning, transfer pricing, technology consulting and internal audit services to the Group during the year.

Deloitte provided advice to management in relation to 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, pension, treasury and forensic services to the Group during the year. Deloitte were also appointed auditor at the AGM in June 2015.

PwC 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 PwC is objective and independent. The Committee is comfortable that the PwC 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 data and assessments during the year and fees for this were £9,000.

Paul Moore, the Company Secretary, is Secretary to the Committee. The CEO attends 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 the Reward, Corporate Secretariat and Finance functions.

Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice including investor guidelines. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority. The auditor's report, set out on pages 77 to 84, 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 taken in response in the next Directors' Remuneration Report.

The following table sets out the voting results in respect of remuneration at the 2015 AGM.

AGM Resolution % of votes	For	Against
To approve the Directors' Remuneration Report [1]	89.05%	10.95%
To approve the Directors' Remuneration Policy [2]	96.51%	3.49%

1 444,864,254 votes were withheld.
2 473,362,689 votes were withheld.
Votes withheld are not counted in the votes for or against a resolution but would be considered by the Committee in the event of a significant number of votes being withheld.

The Committee was pleased with the level of support for our remuneration arrangements at the 2015 AGM but noted that a number (10.95%) of shareholders voted against the Remuneration Report. Feedback received from shareholders as part of the subsequent consultation process identified two areas of focus. The first was the details of contractual payments made to former Directors. The second was the TSR group, with a preference stated for a TSR group more closely aligned with Tesco's operating activities. The feedback received in relation to TSR is reflected in the changes made to the TSR comparator group. This now includes Tesco's key retail competitors through the use of the FTSE350 Food & Drug Retailers Index and the broader retail market through the use of the FTSE350 General Retailers Index, with the groups weighted to reflect Tesco's split in food and general retail.

Directors' remuneration report continued
Remuneration Policy

Policy table
The following sets out the Directors' Remuneration Policy ('Policy'). The Policy was approved by shareholders at the 2015 AGM held on 26 June 2015 (a copy of which is available on the Tesco website at www.tescoplc.com). The Policy applies to payments made from this date.

Further details regarding the operation of the Policy for the 2015/16 financial year can be found on pages 50-51 of this report.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	• The role of base salary is to support the recruitment and retention of the 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	• The Committee sets base salary taking into account: – 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	• While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other colleagues in the Group • However, increases may be above this level in certain circumstances such as: – 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 Director 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
Pension	• To provide an appropriate level of retirement benefit as part of a holistic benefit package	• 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	• Maximum cash in lieu of pension of 25% of base salary	n/a
Benefits	• To provide a market-competitive level of benefits for the Executive Directors	• 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 colleagues 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 colleagues • 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	• 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

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits continued		• **Mobility policy** – Where an Executive Director is required to relocate to perform their role, the 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	• 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' interests • The malus and clawback provisions enable the Company to mitigate risk (see page 66)	• The annual bonus is normally delivered: – 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	• Maximum annual bonus opportunity of 250% of base salary • For details of award levels for 2015/16, see the annual remuneration report on page 54	• 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 stakeholder 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
Performance Share Plan ('PSP')	• 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 provisions enable the Company to mitigate risk (see page 66)	• 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	• 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 57	• 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

Information supporting the Policy table

Shareholding guidelines
Tesco also operates shareholding guidelines. See page 56 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 Plan 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 has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances 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.

Payments outside Policy
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion 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 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 ('PSP')
Performance measures for the PSP are selected to ensure that they incentivise Executive Directors to deliver long-term sustainable returns for shareholders.

Performance targets for both the annual bonus and PSP (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 are based on current practice, which may change during the life of the policy.

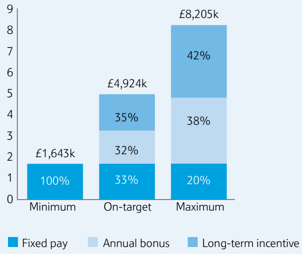
- Annual bonus – annual bonuses throughout the Group are linked to business success and individual performance and contribution. A profit underpin is set below which no bonus awards will be made under the Plan.
- Share incentives – currently our annual bonus is delivered in a mix of cash and deferred 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 and clawback provisions exist within our incentive plans.
- Pensions – pensions across the Group vary widely according to local market practice. In the UK, all Tesco colleagues had the opportunity to participate in a career-average defined benefit scheme. In 2015, we consulted with colleagues to close this scheme and replace it with a defined contribution plan. On 21 November 2015, the defined benefit scheme was closed and the new defined contribution plan launched. The changes to our defined benefit scheme have significantly reduced our pension risk – and in the long term will make our pension costs more stable.
- Colleagues as shareholders – it is an important part of our values at Tesco that all employees, not just management, have the opportunity to become Tesco shareholders. More than 300,000 colleagues participate in our all-employee share schemes. They hold more than 87 million shares in our Share Incentive Plan and more than 285 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.

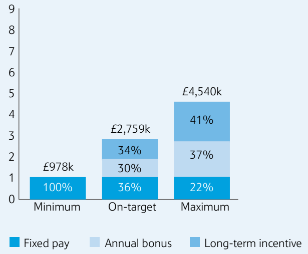
Remuneration outcomes in different performance scenarios

Tesco remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short and long-term goals that are aligned with our short and long-term strategic objectives and the creation of shareholder value. The Committee considers the level of remuneration that may pay out 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:

CEO – Dave Lewis (£million)



CFO – Alan Stewart (£million)



Performance scenarios

Maximum award opportunities (% of salary)	CEO	CFO
Annual bonus	250%	225%
PSP	275%	250%
Minimum	No bonus payout No vesting under the Performance Share Plan	
On-target performance	50% annual bonus payout 50% vesting under the Performance Share Plan	
Maximum performance	100% annual bonus payout 100% Performance Share Plan vesting	

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	80	313	1,643
CFO – Alan Stewart (£'000)	750	40	188	978

Remuneration policy for new hires

The Committee would generally seek to align the remuneration package offered to new Executive Directors with the 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.

Directors’ remuneration report continued
Remuneration Policy

To facilitate buyout awards, the Committee may grant awards to a new Executive Director under 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 69 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 the policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	• 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	• 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)	• 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 Director 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	• 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 Director 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 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 has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances above • Cash bonus payments can also be clawed back up to the third anniversary of payment in the circumstances described above

In addition to the information provided in the table above, clawback and malus provisions will apply to all awards. Further details are provided on page 66. 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)	• Unvested awards vest on death • Normally 12 months to exercise (if options)	• Unvested awards vest at cessation (Committee discretion to defer vesting to normal vesting date) • Normally 12 months to exercise (if options)	• Awards normally lapse
Performance Share Plan 2011	• 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	• Awards granted in the 12 months prior to leaving normally lapse (where more than one award has been made in the 12 month period in respect of different financial years the most recent award will lapse) • If a participant leaves holding three unvested awards (in respect of different financial years), the most recent granted award shall normally lapse • Other unvested awards normally continue until the normal vesting date. The Committee will determine the level of vesting taking into account performance • If awards are in the form of options, participants normally have 12 months from vesting (or leaving for vested options) to exercise or a longer period determined by the Committee of up to 10 years from grant	• 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	• Leaver provisions under all-employee share plans are as determined in accordance with HMRC-approved provisions		

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 2014 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.

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
• Fees for the 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: – 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 Chairman and Non-executive Directors may not exceed the aggregate limit of £2m set out in the Company's Articles of Association	• The Non-executive Director fees policy is to pay: – 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 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	• 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. They also have a 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 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 Directors' duties

Directors' remuneration report continued
Remuneration Policy

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 36. 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 Tesco colleagues are shareholders so are able to express their views in the same way as other shareholders.

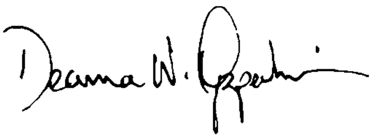
The Company undertakes an employee engagement survey, which occurs annually across Tesco's global operations and semi-annually for colleagues in the UK. This survey asks for feedback and comments on many aspects of employment with Tesco, including employee reward and benefits. This insight, combined 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
12 April 2016



Deanna Oppenheimer
Chair of the Remuneration Committee