

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. The Policy applies to payments made from this date.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> The Committee sets base salary taking into account: <ul style="list-style-type: none"> The individual's skills and experience and their performance Salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally Pay and conditions elsewhere in the Group Base salary is normally reviewed annually with changes effective from 1 July but may be reviewed more frequently if the Committee determines this is appropriate 	<ul style="list-style-type: none"> While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other colleagues in the Group However, increases may be above this level in certain circumstances such as: <ul style="list-style-type: none"> Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive 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	<ul style="list-style-type: none"> To provide an appropriate level of retirement benefit as part of a holistic benefit package 	<ul style="list-style-type: none"> Executive Directors receive a cash allowance in lieu of pension The Committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments the Board will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group Where pension is provided as a salary supplement or into a defined contribution scheme, it will not exceed the maximum amount stated in the next column. Where a defined benefit pension is provided, the value will vary reflecting the nature of such schemes 	<ul style="list-style-type: none"> Maximum cash in lieu of pension of 25% of base salary 	n/a

<p>Benefits</p>	<ul style="list-style-type: none"> To provide a market-competitive level of benefits for the Executive Directors 	<ul style="list-style-type: none"> The Committee sets benefit provision at an appropriate market-competitive level taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other 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 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 	<ul style="list-style-type: none"> The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit. When determining the level of benefits the Committee will consider the factors outlined in the 'Operation' column 	<p>n/a</p>
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<p>Annual bonus</p>	<ul style="list-style-type: none"> • The role of the annual bonus is to reward Executive Directors for the delivery of our annual financial, operational and strategic goals • The performance measures have been selected as they are considered to be key to delivering long-term shareholder value creation • Deferral into Company shares provides alignment with shareholders' interests • The malus and clawback provisions enable the Company to mitigate risk (see page 66) 	<ul style="list-style-type: none"> • The annual bonus is normally delivered: <ul style="list-style-type: none"> – 50% in cash – 50% in shares, which are deferred • Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules • The Committee may determine that a different balance of cash and deferred shares may apply • Performance is assessed over a financial year • The Committee determines the level of bonus taking into account performance against targets and the underlying performance of the business • The deferred shares will normally vest after three years (or an alternative period determined by the Committee) • Deferred shares are normally awarded in the form of nil cost options but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date of grant 	<ul style="list-style-type: none"> • Maximum annual bonus opportunity of 250% of base salary • For details of award levels for 2015/16, see the annual remuneration report on page 54 	<ul style="list-style-type: none"> • The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance • Any portion of the bonus based on 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
<p>Performance Share Plan ('PSP')</p>	<ul style="list-style-type: none"> • The role of the PSP is to reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value • To align the economic 	<ul style="list-style-type: none"> • Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise) • Awards will be calculated based on a percentage of 	<ul style="list-style-type: none"> • The maximum annual award that can be granted under the PSP is 350% of base salary • For details of award levels for 2015/16, see the annual remuneration report on page 57 	<ul style="list-style-type: none"> • Awards vest based on Total Shareholder Return, financial or strategic performance conditions (the satisfaction of

	<p>interests of Executive Directors and shareholders</p> <ul style="list-style-type: none"> • To act as a retention tool • The malus and clawback provisions enable the Company to mitigate risk (see page 66) 	<p>base salary and the market share price at grant in accordance with the rules</p> <ul style="list-style-type: none"> • 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 		<p>which is determined by the Committee). At least 50% of the PSP will be based on TSR and/or financial metrics</p> <ul style="list-style-type: none"> • 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
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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.