

## TESCO PLC BOARD REMUNERATION COMMITTEE

### TERMS OF REFERENCE

*The Remuneration Committee (the **Committee**) is a committee of the Board of Directors of Tesco PLC (the **Board**), from which it derives its authority and to which it regularly reports.*

### 1. CONSTITUTION AND PROCESS

#### 1.1 Membership

Membership will comprise at least three independent Non-executive Directors of Tesco PLC (“the Company”), to be nominated by the Board from time to time. The Chairman of the Company may also serve as a member if he or she was considered independent on appointment as Chairman.

#### 1.2 Quorum

The quorum of the Committee will be two members. In the event of difficulty in relation to achievement of a quorum, Non-executive Directors who are not members of the Committee may be co-opted as members for individual meetings. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### 1.3 Chairman

An independent Non-executive Director appointed by the Board will chair the Committee. Before appointment as Chairman of the Committee, the appointee will have served on a UK-based Remuneration Committee for at least 12 months. In the absence of the Chairman of the Committee, or an appointed deputy, the remaining members present will elect one of themselves to chair the meeting. The Chairman of the Board will not chair meetings of the Committee.

#### 1.4 Secretary

The Company Secretary or their nominee will attend meetings of the Committee and will provide all necessary support to the Committee. The Company Secretary or their nominee should ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of issues.

#### 1.5 Attendees

Only members of the Committee have the right to attend Committee meetings. The Group Chief Executive Officer, Chief People Officer, external advisors and others, as appropriate, may attend meetings at the invitation of the Committee.

No director or senior manager shall be involved in any decisions as to their own remuneration.

## **1.6 Meetings**

The Committee will normally meet four times a year. Ad hoc meetings may also be held. The Chairman or any member of the Committee or the Company Secretary may convene a meeting of the Committee at any time on reasonable notice to consider any matter falling within these Terms of Reference. The Committee may meet privately from time to time at the request of any member of the Committee.

Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other Non-executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

## **1.7 Minutes and Reporting**

The minutes of each meeting will be circulated to all directors and attendees as appropriate, taking into account any conflicts of interest which may exist. Reports will be made to the Board following each meeting of the Committee by the Chairman of that meeting.

## **1.8 Disclosure**

The Committee will ensure that applicable provisions under relevant laws and regulations relating to disclosure are fulfilled including, but not limited to, a Directors' Remuneration Report that will include a description of the work of the Committee, and the Company's Directors' Remuneration Policy ("Policy") (in years when the Policy is subject to a binding shareholder vote). The Directors' Remuneration Report, (excluding the Policy) will be subject to an annual advisory shareholder vote.

The Chairman of the Committee will be available at the Annual General Meeting of the Company to answer questions which relate to the work of the Committee.

## **1.9 Training**

The Committee, via the Company Secretary, will make available a suitable induction process and materials to new members of the Committee and, for existing members, ongoing training where appropriate and as discussed with the Committee.

## **1.10 Committee self-assessment**

The Committee will conduct an annual self-assessment of its performance and effectiveness, including its Terms of Reference, and report conclusions and recommendations to the Board.

## **2 SCOPE OF AUTHORITY**

The Committee is a committee of the Board to which it will report on a regular basis.

The Committee has authority to investigate any matters within its responsibilities and to have access to sufficient resource and to obtain such information as it may require from any director, officer or employee of the Group. The Committee has authority to obtain external legal or other professional advice at the Company's expense and will have the right to commission remuneration and benefits studies and any other relevant market data, at reasonable cost to the Company, which it considers necessary in the performance of its duties.

The Committee does not have any authority with respect to the remuneration of Non-executive Directors which is determined by the Board of the Company. The remuneration of the Chairman of the Board will be determined by the Remuneration Committee.

The Committee is authorised to determine the remuneration of the Chairman, Executive Directors and Senior Management, to exercise discretion to override formulaic outcomes from incentive arrangements where these are inconsistent with company performance or the experience of shareholders and to recover and/or withhold an unlimited portion of awards in circumstances where the Committee deem this to be appropriate.

## **3 RESPONSIBILITIES OF THE COMMITTEE**

In carrying out their responsibilities, Committee members must act in accordance with the statement of Directors' Duties set out in Sections 171-177 of the Companies Act 2006 and the UK Corporate Governance Code.

The responsibilities of the Committee are:

3.1 to establish and keep under review a formal and transparent policy on executive remuneration and, in consultation with the Chairman of the Board and the Company's Chief Executive Officer, determine the remuneration packages of individual Executive Directors and Senior Management within this policy. For the avoidance of doubt, Senior Management shall include but is not limited to Executive Committee members and the Company Secretary. In doing so, the Committee shall ensure that remuneration packages (comprising base salary and short and long-term incentives, benefits, pension arrangements and service contracts):

- are appropriate in the context of each individual's responsibility and seniority;
- are consistent with the overall financial and business position of the Group and its position relative to other companies;
- are fair in the context of pay arrangements for the wider workforce; and

- take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and relevant guidance.

The objective of such a policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the long term success of the Company;

3.2 to ensure performance-related elements of remuneration have performance conditions that are transparent, stretching and rigorously applied, form a significant proportion of the total remuneration package, and are designed to align the Directors' and Senior Management's interests with those of shareholders and are designed to enable the use of discretion over outcomes and the recovery and/or withholding of awards in appropriate circumstances;

3.3 to approve new long term incentive schemes and significant changes to existing schemes, subject to shareholder approval and the design of incentive schemes, to set performance targets annually for all performance related incentive schemes (including share schemes), to confirm achievement of performance and awards to be made under the schemes and direct the general administration of the schemes;

3.4 to monitor compliance with the overall limits on the issue of the Company's shares for such schemes established from time to time by Institutional Investors' representative bodies;

3.5 to ensure that the remuneration relationship between the Executive Directors and Senior Management is appropriate. In particular, the Committee is to approve any individual remuneration arrangements below the Board (whether for new joiners or existing colleagues) that exceed 65% of the median for the Senior Management calculated on a total reward basis (salary, annual bonus and long-term incentives) considering the target or expected values of incentives provided. Furthermore, the Committee shall approve any specific sign-on payments for individual recruits below Board level that exceed a value of 200% of starting salary;

3.6 to approve the policy for executive pension arrangements, service contracts and terminations, and to reflect guidance on how to structure this in the UK Corporate Governance Code;

3.7 to consider on appointment the potential compensation commitments in the event of early termination and to approve the content of any termination package in respect of any departing Executive Directors, Senior Management and individuals with packages that exceed 65% of the median for Senior Management calculated on a total reward basis where

this is outside of the approved policy. The approach towards termination payments should be to avoid paying for poor performance whilst dealing fairly with cases where departure is not due to poor performance and to ensure that the duty to mitigate the loss is recognised;

3.8 to be responsible for any appointment of a remuneration consultant, disclosing details of this arrangement in the annual report and to exercise independent judgement when evaluating the advice of external third parties and when receiving views from Executive Directors and Senior Management;

3.9 to ensure that the Chairman of the Committee maintains contact as required with its principal shareholders about remuneration;

3.10 to review the ongoing appropriateness and relevance of the remuneration policy and review remuneration outcomes in each financial year to ensure that they are appropriate;

3.11 to review workforce remuneration and related policies and the alignment of incentives and rewards with culture within the Group through reports provided by the Company and then consider this when determining executive remuneration, explain to the workforce how decisions on executive pay reflect wider pay policy, and feedback to the Board on workforce reward, incentives and conditions to support the Board in its monitoring of whether company policies and practices support the Company's culture and strategy;

3.12 to engage as required with the wider workforce and shareholders on executive pay structures, with appropriate details disclosed in the annual report;

3.13 to establish and keep under review a formal and transparent policy on the remuneration of the Chairman that:

- reflects the time commitment and responsibilities of the role; and
- takes into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and relevant guidance.

3.14 to agree a policy for authorising claims for expenses from the Directors; and

3.15 to consider any other matters as referred to the Committee by the Board.

#### **4. OTHER MATTERS**

4.1 The Committee will give due consideration to the provisions of the UK Corporate Governance Code and all applicable laws and regulations, including the Companies Act 2006 and the requirements of the UKLA's Listing, Prospectus and Disclosure and Transparency Rules and appropriate Institutional Investor guidance.

Adopted 22 February 2019