Directors' remuneration policy – at a glance.

This part of the report and the Directors' remuneration policy section commencing on page 50 set out the Remuneration Policy and have been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

What are the key elements of remuneration packages for 2018/19

Summary of key elements of 2018/19 remuneration packages

A summary of the proposed 2018/19 remuneration packages for the Executive Directors is set out below.

Element of remuneration	Dave Lewis	Alan Stewart	Charles Wilson
Base salary	£1,250,000	£750,000	£575,000
Pension	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 20% of base salary
Annual bonus	Maximum of 250% of base salary	Maximum of 225% of base salary	Maximum of 200% of base salary
Annual bonus deferral	50% of bonus awarded deferred into Tesco shares for three years		
Performance Share Plan (PSP)	Maximum of 275% of base salary	Maximum of 250% of base salary	Maximum of 225% of base salary
PSP term	Three year performance period and two year post-vest holding period		
Shareholding requirement	400%	300%	200%

How our proposed Remuneration Policy differs from our current policy

Summary of Remuneration Policy and proposed amendments

A summary of the proposed Remuneration Policy and its changes is shown below. The full policy is set on pages 50 to 55.

	Base salary	Benefits	Pension	Annual bonus	Performance Share Plan (PSP)	Shareholding requirements
Main features of proposed policy	– Executive Directors receive a base salary based on the size and scope of their responsibilities and their experience. – Salaries are normally reviewed annually, with changes being effective from 1 July. – Pay decisions are informed, but not driven, by external benchmarking and market data.	– Executive Directors receive a number of core benefits such as company car, life assurance and health care insurance.	– Executive Directors receive a cash allowance in lieu of pension, the maximum opportunity is 25% of base salary for current Executive Directors and 15% for new joiners.	– Executive Directors can be awarded an annual bonus of up to 250% of base salary. – 50% of any bonus earned is deferred into Tesco shares for three years. – Performance is measured against financial metrics and non-financial metrics. – Clawback and malus provisions apply.	– Executive Directors can participate in a PSP with a maximum grant value of 350% of base salary (2018/19 grants are 275% for the Group Chief Executive, 250% for the Chief Financial Officer and 225% for the CEO, UK & ROI). – Performance is measured against financial metrics and non-financial metrics over a three-year performance period. A subsequent two-year holding period applies post vesting. – Clawback and malus provisions apply.	– The Group Chief Executive, Chief Financial Officer and CEO, UK & ROI are subject to a minimum shareholding requirement of 400%, 300% and 200% of base salary, respectively.
Key changes from previous policy	– No change.	– No change.	– The cash allowance in lieu of pension has been reduced to 15% of base salary for new joiners.	– No change.	– Performance measures have been simplified and may comprise a balance of financial and non-financial measures. – Stakeholder measures have been removed from the PSP, but included in the annual bonus. – A two-year post-vesting holding period has been introduced.	– The Executive Directors will now be required to retain all shares that vest to them until the shareholding requirement is met.

Key

- Fixed annual remuneration (salary + benefits + pension)
- Short-term annual bonus
- Long-term incentive plan
- Shareholding requirements

Directors' remuneration policy.

Policy report

The policy has been developed taking account of the principles of the UK Corporate Governance Code in relation to remuneration. The Committee also takes significant account of guidelines issued by the Investment Association, ISS, Glass Lewis and other shareholder bodies when setting the remuneration framework. It also seeks to maintain an active and constructive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular.

The proposed Remuneration Policy will be put to a binding shareholder vote at the Annual General Meeting on 15 June 2018 and, subject to receiving majority shareholder support, the policy will operate from the date of approval and is intended to remain applicable for the following three years. Information on how the Company intends to implement the proposed Remuneration Policy for the current financial year is set out in the Annual report on remuneration.

Remuneration policy and strategy

The Committee's underlying principle is that remuneration should align with, and incentivise delivery of, the strategic plan, which aims to create long-term, sustainable performance and increased shareholder value.

The proposed Remuneration Policy aligns to the strategic plan, particularly in terms of the targets chosen to incentivise management in the annual bonus and PSP and the weighting of those targets. It builds on arrangements put in place in 2015 that clearly link to, and have helped to incentivise delivery of, Tesco's turnaround plan. The limited changes to the current Remuneration Policy now proposed are intended to enhance further the link between strategic delivery and remuneration outcomes.

Tesco needs to pay competitively, allowing it to attract and retain the talent capable of delivering its strategy and providing clear leadership. There is also a strong link between pay and performance, and consideration is given to environmental, social and governance risks when determining Director remuneration. Base salaries are normally set taking into account market median practice, while colleagues have the potential to earn total compensation at a market upper quartile level where sustained business and personal outperformance can be demonstrated. Equally, where performance does not meet business and personal targets then variable pay outcomes will be reduced, ultimately to zero. Further details of our Reward principles are set out on page 47.

Policy table

The following sets out the proposed Remuneration Policy.

Base salary	
Purpose	The role of base salary is to support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy. Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience.
Operation	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; and – 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.
Maximum	Executive Directors' salary increases will normally be in line with the typical level of increase awarded to other employees in the Group. 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; or – 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.
Measure	n/a
Change	No change from previous policy.
Benefits	
Purpose	To provide a market-competitive level of benefits for Executive Directors and to assist them in the performance of their roles.
Operation	The Committee sets benefit provision at an appropriate market-competitive level taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other employees in the Group. **Core benefits** – Benefits currently include car benefits, security costs, health insurance and life assurance. Other appropriate benefits may be provided from time to time but will not be significant. 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 other colleagues. **Mobility policy** – Where an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation allowances and international transfer-related benefits where required.
Maximum	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.
Measure	n/a
Change	No change from previous policy.
Pension	
Purpose	To provide an appropriate level of retirement benefits as a part of a holistic benefit package.
Operation	Executive Directors receive a cash allowance in lieu of pension or a contribution into a Defined Contribution scheme.
Maximum	Maximum cash in lieu of pension or contribution of 15% of base salary for any newly hired Executive Director. Maximum cash in lieu of pension or contribution of 25% of base salary for Dave Lewis and Alan Stewart and 20% of base salary for Charles Wilson under previous arrangements.
Measure	n/a
Change	The policy has been amended to reflect the fact that new Executive Directors receive a maximum of 15% of base salary as contribution and/or cash in lieu of pension.

Annual bonus	
Purpose	To reward Executive Directors for the delivery of Tesco's annual financial, operational and strategic goals. Deferral into Tesco PLC shares provides alignment with shareholders.
Operation	The annual bonus is normally delivered: – 50% in cash; and – 50% in shares which are deferred for three years. 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.
Maximum	Maximum annual bonus opportunity of 250% of base salary. For details of award levels for 2017/18 see the Annual report on remuneration on pages 56 and 57.
Measures	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. Payment of the annual bonus 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.
Change	No change from previous policy.
Performance Share Plan	
Purpose	To reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value aligning the economic interests of Executive Directors and shareholders.
Operation	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. All vested shares, net of any tax liabilities, will be subject to a further two-year holding period after the vesting date.
Maximum	The maximum annual award that can be granted under the PSP is 350% of base salary. For details of award levels for 2018/19 see the Annual report on remuneration on page 58.
Measures	Awards vest based on financial or strategic performance conditions (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on financial metrics. The current measures are diluted EPS from continuing operations (50%) and free cash flow (50%) as set out on page 58. Any substantial or significant change to measures will be subject to shareholder consultation. 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.
Change	The policy has been amended to introduce diluted EPS as a performance measure for the PSP instead of relative TSR, free cash flow has been introduced as a performance measure instead of retail cash generated from operations and stakeholder metrics have been removed and incorporated into the annual bonus. The policy has been amended to add a two-year holding period to the PSP post vesting. Executive Directors may sell sufficient shares to satisfy the tax liability on exercise, but must retain the net number of shares until the end of the two-year period.

Directors' remuneration policy continued

Information supporting the policy table

Shareholding guidelines
Tesco operates shareholding guidelines of 400% of base salary for the Group Chief Executive, 300% for the Chief Financial Officer, and 200% for the CEO, UK & ROI and members of the Executive Committee. Executive Directors are required to retain all shares that vest to them, net of any tax liability, whether from the annual bonus or the PSP, until the relevant shareholding guideline is satisfied. The Committee may waive this requirement for certain exceptional personal circumstances.

Dividend equivalents
Dividend equivalents are payable on deferred annual bonus and PSP awards that vest.

Clawback and malus provisions
The Committee has the discretion to scale back deferred share awards and PSP awards prior to the satisfaction of such 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 PSP awards are settled prior to the fifth anniversary of the grant of the award, the Committee shall have the discretion to clawback awards up to the fifth anniversary of the grant of awards in the circumstance described above.

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

Timing of target disclosure
Targets for the PSP are disclosed on or before the grant date of the award. Targets and performance against these for the annual bonus are disclosed in the year following the start of the performance period.

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 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 or event 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 and be no less challenging to achieve.

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

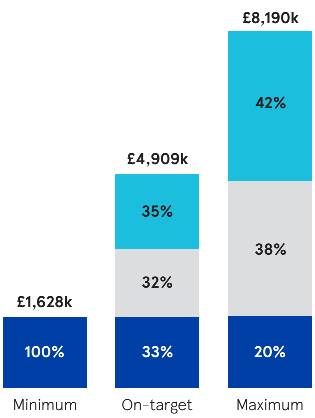
External appointments
Executive Directors are permitted to hold one approved non-executive directorship of another company and to retain the fees earned from such appointment.

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.

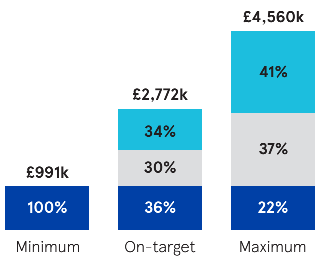
Remuneration outcomes in different performance scenarios

The total remuneration opportunity for Executive Directors is strongly performance based and weighted to the long term. The charts below illustrate the total remuneration of Executive Directors under three assumed performance scenarios:

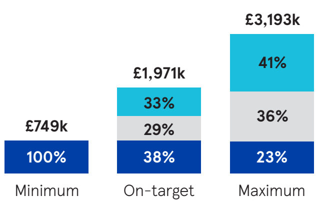
Group Chief Executive – Dave Lewis



Chief Financial Officer – Alan Stewart



CEO, UK & ROI – Charles Wilson



Fixed pay   Annual bonus   Long-term incentive

Performance scenarios

	Group Chief Executive	Chief Financial Officer	CEO, UK & ROI
Annual bonus (% of base salary)	250	225	200
PSP (% of base salary)	275	250	225
Minimum	No annual bonus payout No vesting under the Performance Share Plan		
On-target performance	50% annual bonus payout 50% Performance Share Plan vesting		
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:

	Base salary	Benefits [a]	Pension	Total fixed pay
Group Chief Executive – Dave Lewis (£'000)	1,250	65	313[b]	1,628
Chief Financial Officer – Alan Stewart (£'000)	750	53	188[b]	991
CEO, UK & ROI – Charles Wilson (£'000)	575	59	115[c]	749

[a] Benefits for Dave Lewis and Alan Stewart are as set out in Single total figure of remuneration on page 48 and for Charles Wilson are an average of Dave Lewis' and Alan Stewart's figures.
[b] 25% of base salary.
[c] 20% of base salary.

Remuneration policy for new hires

When hiring a new Executive Director, the Committee would generally seek to align the remuneration package with the Remuneration Policy outlined in this section. The Committee will set base salary taking 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. Incentive opportunity will be in line with the policy maximums (i.e. total maximum incentive opportunity of 600% of base salary).

The Committee may make additional awards when appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. The Committee will look to do so on a 'like-for-like' basis with the awards forfeited, taking 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.

To facilitate buyout awards in the event of recruitment, 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 were to be 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 Chair or Non-executive Director, remuneration arrangements will reflect the policy outlined on page 55.

Directors' remuneration policy continued

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 Tesco's policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	Up to 12 months' notice by the Company and 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 up to 12 months after the initial 12 months of employment.
Expiry date	Dave Lewis, Alan Stewart and Charles Wilson entered into service agreements with Tesco PLC on 19 July 2014, 9 July 2014 and 5 March 2018, respectively. These are rolling service agreements with no fixed expiry date. Dave Lewis and Alan Stewart are entitled to 12 months' notice and Charles Wilson six months' notice by the Company, and are themselves required to give six months' notice.
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 an Executive 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, plus any statutory rights. Termination payments will normally be subject to mitigation and paid in instalments. The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment.
Other information	The Committee may require an Executive Director to work during their notice period, or may choose to place him or her on garden leave. 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 he or she worked. The Committee will determine the level of bonus taking into account time in active employment and performance. The Company may reimburse for reasonable legal expenses in the event the Executive Director leaves by mutual consent. Directors and Officers insurance for a specified period following the Executive Director termination date may be provided. Where an Executive Director has been recruited from overseas, the Company may pay for repatriation.

Service agreements of the Executive Directors 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 for good leavers, all awards will normally lapse except for good leavers. 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. Where an Executive Director leaves as a result of summary dismissal, they will forfeit outstanding share incentive awards.

'Good leavers' are those who have left the Company due to injury, ill-health or disability, death, 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.

Share plan	Good leavers as determined by the Committee in accordance with the plan rules
Executive Incentive Plan 2014 (deferred bonus shares)	– Unvested awards vest at cessation. Committee has discretion to defer vesting to the normal vesting date.
Performance Share Plan 2011	– Unvested awards normally vest on the normal date, pro-rated for time, and will take into account performance achieved. – Shares in the holding period will continue to be held until the end of the two-year holding period or the second anniversary of the departure date, whichever is sooner, with the exception of death, in which case shares will be released to the estate.
All-employee share plans	– Leaver provisions under all-employee share plans are determined in accordance with HMRC approved provisions.

Other vesting circumstances

Awards may also vest early to the extent determined by the Committee if:

1. 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 or her award (under the PSP and Executive Incentive Plan 2014); or
2. 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 dividend in specie).

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

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items
– Fees for the Non-executive Chairman and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary. – Fees are set taking into account the following factors: · the time commitment required to fulfil the role; and · 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 and the Committee at appropriate intervals. – Fees paid to the Non-executive Chairman and Non-executive Directors may not exceed the aggregate limit of £2m set out in the Company's Articles of Association.	– Non-executive Director fees policy is to pay: · a basic fee for membership of the Board; · an additional fee for the Chair of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role; and · 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 may also serve on the board of Tesco Personal Finance Group Limited. Such Non-executive Directors also receive a basic fee for serving on this board and additional fees for Committee membership in line with other members of this board. Fees for membership of the board of Tesco Personal Finance Group Limited are determined by the board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals. – The Non-executive Chairman 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 an indemnity and staff discount on the same basis as other employees. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so. – The Non-executive Chairman may have the benefit of a company car and driver, home security, staff discount and healthcare for himself and his partner. The Committee may introduce additional benefits for the Chairman if it is considered appropriate to do so. – The Company may reimburse the Non-executive 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 is based overseas then the Company would meet travel and accommodation expenditure as required to fulfil non-executive duties and may settle any tax incurred in relation to these.

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 62. 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. Non-executive Directors' letters of appointment are available for shareholders to view at the Company's registered office.

Considering colleagues' views

While the Committee has not consulted colleagues directly when developing the proposed Remuneration Policy, a significant portion of 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 the proposed 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 major 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.