Chairman's letter.

"The role of the Board is to set the tone from the top on the Group's governance, culture and values."

John Allan
Non-executive Chairman

Board role and effectiveness.

During the year, we have sought to ensure that our governance structures at Board, Committee and subsidiary company levels continue to be appropriate for the businesses and the markets in which we operate around the world, while supporting our overall strategy and culture. It is important that our approach to governance matches our values. The Board monitors, through its oversight, that the Group's values are adhered to. We care about our customers and endeavour to ensure we are the champion for customers by putting customers first and taking actions that make a difference. Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than the last – from the quality of the offer to the thoughtfulness of the service.

The Board has spent time in the business both collectively and as individuals, exploring specific business areas through presentations, meetings and dialogue with colleagues and our stakeholders. Throughout the year, the Board, supported by its Committees, has covered a broad range of topics to ensure that we continually review and challenge matters of importance to our stakeholders. My role as Chairman is to ensure that sufficient time is spent on these areas, to maintain high standards of corporate governance and ensure that the Board has sufficient information to carry out its duties. Details of the Board's activity and focus during 2018/19 are set out on page 48.

As Chairman it is my role to provide leadership of the Board to ensure that it is possible to make high-quality decisions and ensure it operates effectively. During 2018/19, the Board and each Committee conducted an evaluation of its performance. This was externally facilitated by Dr Tracy Long of Boardroom Review and the findings provide a clear agenda for us to continue to improve as a Board. The review confirmed that there is an effective leadership in place with all Directors adding value through the diversity of perspective. The Board are collectively engaged with the strategic process, the transformation agenda and have good visibility and understanding of the challenges facing the Company. Having assessed the findings, the Directors were satisfied that the Board and each of its Committees and Directors continue to operate effectively.

Full details of the review together with progress against the 2017/18 review actions are set out on page 51.

Stakeholder engagement.

A key focus of the 2018 UK Corporate Governance Code is on stakeholder engagement. This is an area where we have already made good progress and have strong foundations on which to build.

Our business was built with a simple mission – to be the champion for customers, helping them to enjoy a better quality of life and an easier way of living. This hasn't changed. Customers want great products at great value which they can buy easily and it's our job to deliver this in the right way for them. That is why 'Serving shoppers a little better every day' is our core purpose.

Since I joined the Board as Chairman in 2015, we have spent a lot of time listening to and understanding our key stakeholders: customers, colleagues, supplier partners and shareholders. Much of what we have done over the past four years has been driven by these insights. When discussing matters at Board meetings, stakeholder issues are an integral part of our decision-making. However, it is not practicable to please all stakeholders all of the time and a key part of the Board process is to balance the sometimes conflicting needs of our stakeholders to ensure all are treated consistently and fairly.

I am pleased to announce that during 2019/20 we will be establishing Colleague Contribution Panels across the Group, with the aim of further enhancing the voice of colleagues within the Boardroom so that better, more informed decisions are made in the long-term interests of the Company and its stakeholders. The panels will normally meet twice a year, with a Non-executive Director attending one of the meetings to engage with and listen to colleagues as well as share the views of the Board across a variety of matters. These Colleague Contribution Panels will expand on our existing colleague forums in the UK and Central Europe as well as establishing a new forum in Asia to ensure colleagues throughout the Group are represented. We will also engage with other areas of the workforce through the completion of questionnaires and interviews to ensure we capture the views of all those who work for Tesco.

More information on how we engage with our stakeholders can be found on pages 52 and 53 in this Corporate governance report.

Diversity and inclusion.

The Board believes that it is important to have an appropriate balance of skills, knowledge, experience and diversity on the Board and at senior management level. The Board's skills matrix supports this approach by enabling us to map the broad diversity of the Board in regard to gender, ethnicity, geographical expertise, and current skills and experiences, and to link these to our strategy.

We recognise that the Board sets the tone for inclusion and diversity across the Group and believe we should have a diverse leadership team to support good decision-making. This is vital for bringing both the expertise required and to enable different perspectives to be brought to Board and Committee meetings. The combination of these factors means that the Board benefits from a diverse range of competencies and thoughts, which promotes a dynamic environment for decision-making.

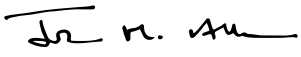
The Board is a supporter of the Hampton-Alexander Review, and has set a target of having at least one-third female Directors by the end of 2020, and the Parker Review on ethnic diversity. Following the appointment of Melissa Bethell during the year, the Board met the Parker recommendation and the level of female representation increased to 31%, with the Board remaining mindful of its target of 33%.

The Board recognises the need to create the conditions that foster talent and encourage all colleagues to achieve their full career potential in the Group. To this end, we are committed to providing an inclusive working environment where difference is embraced and valued, as evidenced by our commitment to the Race at Work Charter. We want all colleagues to be at their best and we are committed to ensuring that all colleagues have the opportunity to get on – developing the skills they need for now and the future, whoever they are, wherever they work and whatever they do.

We not only celebrate diversity, but embrace the value it brings to enable us to serve our shoppers a little better every day. Our goal is that everyone is treated fairly and given every opportunity to progress.

In order to support our colleagues and to encourage them to share their knowledge and explore career sponsorship, mentoring and networking opportunities, we run a number of Colleague Networks each supported by a member of the Executive Committee. We have five Colleague Networks: Out at Tesco (lesbian, gay, bisexual, transgender and intersex), Black Asian Minority Ethnic Network, Women at Tesco Network, the Armed Forces Network and the Disability Network. We also work with the young, retired and those who have been in long-term unemployment through various external organisations to provide them with the tools and confidence needed to get back into the workplace and reach their full potential.

The Nominations and Governance Committee has responsibility in ensuring diversity and inclusion is considered at all levels and more details of the Committee's work is set out on page 54.



John Allan
Chairman

Compliance with the UK Corporate Governance Code.

The Company applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code 2016 (2016 Code) throughout the period under review. Details demonstrating how the main principles and relevant provisions of the 2016 Code have been applied can be found throughout the Corporate governance report, the Directors' report, each of the Board Committee reports and the Strategic report.

The primary responsibility of the Board in complying with the 2016 Code is to provide effective, entrepreneurial leadership to ensure that it promotes the long-term success of the Company for the benefit of its members as a whole. Monitoring compliance with the 2016 Code is the responsibility of the Nominations and Governance Committee who receive regular updates and report their findings to the Board.

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code and this can be found on the FRC website www.frc.org.uk.

The Board is familiar with the changes following the publication of the UK Corporate Governance Code 2018 (2018 Code) and intends to be compliant with all new relevant provisions in the timeframes dictated in the 2018 Code. The Board has carried out an assessment of the changes in reporting requirements and has decided to adopt as much as practically possible early as set out in this Annual Report.

Board of Directors.

John Allan CBE
Non-executive Chairman

Appointed March 2015
Tenure 4 years

Skills and experience.

John has significant board, retail and financial experience gained from both the commercial and financial sectors. He was CEO of Exel PLC and, when it was acquired by Deutsche Post in 2005, he joined the board of Deutsche Post, becoming CFO in 2007 until his retirement in 2009. John was chairman of Dixons Retail plc during its turnaround period, and following its merger with Carphone Warehouse was deputy chairman and senior independent director of Dixons Carphone until 2015. He was also previously a non-executive director of Worldpay Group PLC, National Grid plc, the UK Home Office Supervisory Board, 3i plc, PHS Group plc, Connell plc, Royal Mail plc, Wolseley plc and Hamleys plc and chairman of London First.

External appointments.

- Chairman of Barratt Developments PLC; and
- President of the Confederation of British Industry.

Dave Lewis
Group Chief Executive

Appointed September 2014
Tenure 4.5 years

Skills and experience.

Dave has significant experience in brand marketing, customer management and general management. Prior to joining Tesco, he worked for Unilever for nearly 30 years in a variety of different roles across Europe, Asia and the Americas. He has experience across many sectors in the UK and overseas, and has been responsible for a number of business turnarounds. He was previously a non-executive director of Sky PLC.

External appointments.

- Member of the Governance Committee of the Consumer Goods Forum; and
- Chair of Champions 12.3, a UN programme seeking to add momentum to the achievement of the UN Sustainable Development Target 12.3 by 2030.

Alan Stewart
Chief Financial Officer

Appointed September 2014
Tenure 4.5 years

Skills and experience.

Alan brings to the Board significant corporate finance and accounting experience from a variety of highly competitive industries, including retail, banking and travel, as well as executive leadership experience within a listed company environment. Alan is a non-executive director of Tesco Bank. Prior to joining Tesco, he was UK CEO and CFO of Thomas Cook Holdings, group finance director of WHSmith plc and CFO for AWAS and Marks & Spencer plc. He was previously a non-executive director of Games Workshop Group plc.

External appointments.

- Non-executive director of Diageo plc;
- Member of the Advisory Board, Chartered Institute of Management Accountants; and
- Member of the main committee and chairman of the pension committee of the 100 Group of Finance Directors.

Mark Armour
Independent Non-executive Director

Appointed September 2013
Tenure 5.5 years

Skills and experience.

Mark has significant strategic planning and financial expertise, as well as experience of executive leadership. He was CFO of Reed Elsevier Group plc and its two parent companies, Reed Elsevier PLC and Reed Elsevier NV (now RELX PLC), from 1996 to 2012. This role has provided him with considerable experience of digital business transition and operating in a multi-channel environment. Prior to joining Reed Elsevier, he was a partner at Price Waterhouse in London. He was previously a non-executive director and chair of the audit committee of SABMiller PLC.

External appointments.

- Non-executive director of the Financial Reporting Council; and
- Member of the Takeover Panel.

Melissa Bethell
Independent Non-executive Director

Appointed September 2018
Tenure < 1 year

Skills and experience.

Melissa brings to the Board a wealth of international business strategy and investment management experience. Melissa is currently a partner of Atairos, an equity investment fund backed by Comcast NBCUniversal. She is managing partner of the London office and responsible for Atairos' investment activities in Europe. Melissa was previously a managing director of Bain Capital, where she worked for over 18 years and was a

member of the senior leadership team responsible for strategy setting, fundraising and portfolio management. Prior to joining Bain Capital, Melissa worked in the capital markets group at Goldman, Sachs & Co., with a particular focus on media and technology. She was also previously a director of Ship Midco Limited and served as a non-executive director of Samsonite Corporation (Samsonite International S.A.), Worldpay Group PLC and Atento S.A.

External appointments.

- Partner at Atairos, an independent, private investment firm and managing director of Atairos Europe; and
- Non-executive director and chairman of the audit committee of Exor N.V.

Stewart Gilliland
Independent Non-executive Director

Appointed March 2018
Tenure 1 year

Skills and experience.

Stewart has significant business and management experience in international markets, specifically those in Europe, having previously held roles with leading consumer-facing companies, including Whitbread, Mitchells & Butler and Interbrew. He held the position of chief executive of Müller Dairies UK and Ireland until 2010. Prior to joining Tesco, he was chairman of Booker Group plc.

External appointments.

- Chairman of C&C Group plc; and
- Non-executive director of Nature's Way Foods Ltd.

Steve Golsby
Independent Non-executive Director

Appointed October 2016
Tenure 2.5 years

Skills and experience.

Steve has a wealth of knowledge of operating internationally, specifically significant leadership experience in Asia, a key market for Tesco. He has a strong background in consumer marketing and held senior executive positions with Bristol-Myers Squibb and Unilever, before being appointed president of Mead Johnson Nutrition, a leading global infant nutrition company, in 2004. He was president and CEO from 2008 to 2013 and a non-executive director from 2013 to 2017. He was also previously a non-executive director of Beam Inc. His extensive international and board experience give him invaluable insights and understanding as Chair of the Remuneration Committee.

External appointments.

- Non-executive director of RMA Group;
- Advisor to Thai Union Group PLC, a global leader in the seafood industry; and
- Honorary investment advisor to the Thailand Board of Investment.

Byron Grote
Independent Non-executive Director

Appointed May 2015
Tenure 4 years

Skills and experience.

Byron brings broad financial and international experience to the Board, having worked across BP PLC in a variety of commercial, operational and executive roles covering numerous geographies. Byron's strategic focus and financial experience complements the balance of skills on the Board and makes him ideal for the role of Chair of the Audit Committee. He served on the BP PLC board from 2000 until 2013 and was BP's CFO during much of that period. He was previously a non-executive director of Unilever PLC.

External appointments.

- Vice chairman of the Supervisory Board of Akzo Nobel N.V.;
- Senior independent director of Anglo American PLC; and
- Non-executive director of Standard Chartered PLC.

Mikael Olsson
Independent Non-executive Director

Appointed November 2014
Tenure 4.5 years

Skills and experience.

Mikael joined the Board after an extensive career at IKEA Group, holding a variety of senior roles including being a member of the executive committee from 1995 until 2013 and holding the position of CEO and president from 2009 until 2013. He brings a wealth of retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment. He was previously a non-executive director and vice chairman of Volvo Cars AB.

External appointments.

- Non-executive director of Ikano S.A.;
- Non-executive director of Lindengruppen AB;
- Non-executive director and chair of the people committee (combined nomination and remuneration committee) of The Royal Schiphol Group; and
- Member of the nomination committee of Volvo Cars AB.

Deanna Oppenheimer
Senior Independent Director

Appointed March 2012
Tenure 7 years

Skills and experience.

Deanna has significant marketing, brand management and consumer knowledge and experience, bringing a broad perspective to the Board. She held several senior roles at Barclays plc, including chief executive of UK Retail and Business Banking and vice chair of Global Retail Banking. Deanna was appointed as chair of Hargreaves Lansdown plc in February 2018. She is also currently a non-executive director of the US fresh-prepared food company, Joshua Green Corporation and is the founder of advisory firm, CameoWorks LLC, which provides bespoke support to early stage companies. Deanna was previously a non-executive director of NCR Corporation and Worldpay, Inc. Her extensive board, investor and commercial experience makes her a strong Senior Independent Director.

External appointments.

- Chair of Hargreaves Lansdown plc;
- Non-executive director of Whitbread PLC;
- Non-executive director of Joshua Green Corporation;
- Founder of consumer-focused boutique advisory firm, CameoWorks LLC; and
- Senior advisor to Bain & Company.

Simon Patterson
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Simon has extensive knowledge of and years of experience in finance, technology and global operations gained in various management and leadership roles. He was a member of the founding management team of the logistics software company Global Freight Exchange and has worked at the Financial Times and McKinsey & Company. He has previously served on the boards of Skype, MultiPlan, Cegid Group, Intelsat, Gerson Lehrman Group and N Brown Group.

External appointments.

- Managing director of Silver Lake Partners, a leading global technology investment firm;
- Board member of Dell Technologies Inc., ZPG Limited and FlixBus;
- Trustee of the Natural History Museum; and
- Trustee of The Royal Foundation of The Duke and Duchess of Cambridge and The Duke and Duchess of Sussex.

Alison Platt CMG
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Alison has extensive experience of leadership in customer-driven organisations across the healthcare, insurance and property sectors. As CEO of Countrywide, a position she held until January 2018, she gained significant business-to-business experience adding this to the international experience she gained whilst leading a number of Bupa's businesses across Asia, Southern and Eastern Europe and the Middle East. Alison's experience as a CEO enables her to provide challenge and advice to the Board across a range of issues. Alison was previously chair of Opportunity Now and a non-executive director of the Foreign and Commonwealth Office and Cable and Wireless Communications PLC.

External appointments.

- Member of the steering group of the Hampton-Alexander Review.

Lindsey Pownall OBE
Independent Non-executive Director

Appointed April 2016
Tenure 3 years

Skills and experience.

Lindsey has substantial experience in food, grocery and retail brand development, having enjoyed a career of more than 20 years at Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined the Samworth board in 2001 and served as chief executive between 2011 and 2015. Lindsey is a passionate advocate of supplier relationships, customers, colleagues and sustainability which directly support Tesco's strategy and her role as Chair of the Corporate Responsibility Committee.

External appointments.

- Non-executive director of Story Contracting Limited and Story Homes Limited;
- Operating director of Paine Schwartz Partners, LLC; and
- Non-executive director of P and P Food Safety Holdings (Delaware) Inc.

Robert Welch
Group Company Secretary

Appointed August 2016

Skills and experience.

Robert has worked as a company secretary for more than 25 years during which time he has held the positions of group company secretary at FirstGroup plc and company secretary at Kazakhmys PLC. Robert has also held senior positions at BPB plc and Kwik Save Group PLC.

He is a member of the ICSA's Company Secretaries' Forum and the Association of General Counsel and Company Secretaries of FTSE 100 companies.

Committee membership (at 9 April 2019).

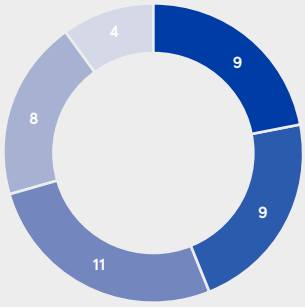
- (N) Nominations and Governance Committee
- (A) Audit Committee
- (R) Remuneration Committee
- (C) Corporate Responsibility Committee
- ● Chair of Committee
- (i) Independent Board member

Directors who have served during the year to February 2019.

Charles Wilson resigned as a Director of the Board on 16 July 2018 due to ill health, but remains a member of the Executive Committee. Biographical details for the Executive Committee members can be found on pages 44 and 45.

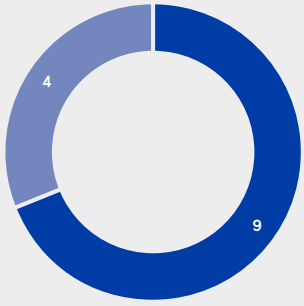
Board profile at a glance.

Board expertise.



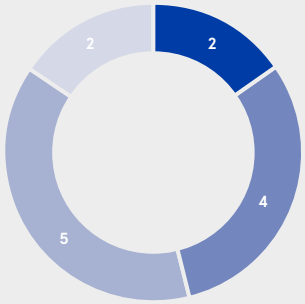
Financial	9
Retail	9
Strategy	11
Marketing	8
Technology	4

Board gender split.



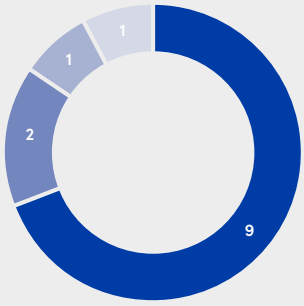
Male	69%
Female	31%

Board tenure.



0 – 1 year	2
1 – 3 years	4
3 – 5 years	5
5 – 7 years	2

Board nationality.



UK	9
Asia	2
Europe	1
North America	1

Executive committee.

Dave Lewis
Group Chief Executive
Dave joined the Board and the Executive Committee on 1 September 2014.

His full biography appears on page 40.

Alan Stewart
Chief Financial Officer
Alan joined the Board and the Executive Committee on 23 September 2014.

His full biography appears on page 40.

Natasha Adams
Chief People Officer
Natasha is responsible for setting the people strategy and plans at Tesco, including reward, colleague experience and capability.

Natasha joined Tesco in 1998 as a Personnel Manager and has served in a range of store-focused roles over the last 20 years, including as Customer Services Director UK, Business Support Director UK and Group Personnel Manager for Scotland. In 2016 Natasha was promoted to People Director for Tesco's UK and Ireland stores and joined the UK Leadership Team before being appointed to her current role of Chief People Officer.

Natasha is a Tesco Pension Trustee.

Natasha joined the Executive Committee on 1 June 2018.

Alessandra Bellini
Chief Customer Officer
Alessandra is responsible for building the Tesco brand globally and putting the customer at the heart of everything that we do.

Prior to Tesco, Alessandra worked at Unilever for more than 21 years, latterly as vice president for the food category in North America and food general manager for the USA. Previously, she had a 12-year career in advertising, working both in Italy and the UK. As an international executive, Alessandra has held roles in North America, the UK, Italy and Central and Eastern Europe.

Alessandra joined the Executive Committee on 1 March 2017.

Christine Heffernan
Group Communications Director
Christine is responsible for rebuilding trust in the Tesco brand and its businesses.

Christine joined Tesco in 2014. Since October 2018 she has supported the Group Chief Executive in delivery of the corporate reputation plan for the centenary year and prior to that was the Corporate Affairs Director for Tesco Ireland. Prior to Tesco, Christine worked in communications in both the energy and telecoms sectors.

Christine joined the Executive Committee on 1 March 2019.

Tony Hoggett
Chief Operations Officer
Tony is responsible for developing the operational capability and strategy across the Group as well as leading the operations of the UK business. Tony also has responsibility for Tesco's joint ventures in both China and India.

Tony joined Tesco in 1990 and has served in a range of leadership roles in the UK and Asia over the last three decades. Between 2007 and 2011 he held the roles of VP South China, as well as President North China, before moving to Turkey as Chief Operating Officer for Tesco Kipa.

In 2011, Tony returned to the UK and held Managing Director roles across all of our large store formats. He also joined the board of Tesco Mobile in 2012. In 2014, he joined the UK Leadership Team as Retail Director and then was appointed Chief Operating Officer UK in 2016 and CEO, Asia in 2017. Tony was appointed to his current role on 1 June 2018.

Tony joined the Executive Committee on 1 April 2017.

Alison Horner
CEO, Asia
Alison is responsible for Tesco's businesses in Thailand and Malaysia. Alison also leads our developing business partnerships across the region.

Alison joined Tesco in 1999 and worked in a variety of operational leadership roles running stores and leading change programmes, prior to being appointed Chief People Officer in 2011. She was appointed to her current role on 1 June 2018. Alison is a member of the Manchester Business School Advisory Board.

Alison joined the Executive Committee on 1 March 2011.

Gerry Mallon
Chief Executive, Tesco Bank
Gerry is responsible for leading Tesco Bank.

Gerry has held a number of leadership roles in financial services. Most recently Gerry served as chief executive officer of Ulster Bank Ireland where he led significant change in the business, including broad investment in technology to modernise the bank. In this role, Gerry was a member of the RBS personal and business banking executive committee. Before joining Ulster Bank, Gerry served as chief executive officer of Danske Bank UK (formerly Northern Bank) for eight years, successfully leading the organisation in the aftermath of the financial crisis. Earlier in his career, Gerry held roles at Bank of Ireland, McKinsey & Company, and the UK Civil Service. Outside of financial services, Gerry served as pro-chancellor and chair of council at the University of Ulster, president of the Institute of Banking in Ireland, and he is currently chairman of the Irish Football Association.

Gerry joined the Executive Committee on 13 August 2018.

Adrian Morris
Group General Counsel
Adrian is responsible for the legal, company secretarial, government relations, regulatory and compliance functions across Tesco.

Adrian joined Tesco in September 2012 as Group General Counsel. Prior to Tesco, Adrian worked at BP PLC as associate general counsel for refining and marketing and prior to that at Centrica PLC, initially as european group general counsel and then as general counsel for British Gas. Adrian is a Tesco Pension Trustee.

Adrian joined the Executive Committee on 6 September 2012.

Matt Simister
CEO, Central Europe
Matt is responsible for all of Tesco's businesses in the Czech Republic, Hungary, Poland and Slovakia.

Matt joined Tesco in 1996 as a marketer. He built on his UK experience with three years as Commercial Director for our Czech and Slovak businesses. Following this, he returned to the UK to set up our Group Food capability, managing our regional fresh food and Tesco Brand sourcing, buying and inbound supply chains for the UK, ROI, Central Europe and Asia. In April 2017, Matt was appointed to his current role of CEO, Central Europe.

Matt joined the Executive Committee on 1 April 2017.

Jason Tarry
CEO, UK & ROI
Jason is responsible for all of Tesco's businesses in the UK and ROI.

Jason joined Tesco in October 1990 on the graduate recruitment programme. He has held a number of positions in the UK and internationally across both food and non-food divisions. Jason became CEO for clothing across the Group in 2012, before being appointed as Chief Product Officer in January 2015. In July 2018, Jason was appointed to his current role of CEO, UK & ROI.

Jason joined the Executive Committee on 1 January 2015.

Charles Wilson
CEO, Booker
As a member of the Executive Committee Charles contributes to the broad Tesco strategy agenda. He is specifically responsible for delivering UK & ROI cost synergies and driving the growth agenda set out in the Booker merger agreement. As a member of Jason's UK & ROI leadership team he is responsible for leading the Booker business.

Charles joined Tesco in March 2018 following the merger of Tesco PLC and Booker Group plc. Charles became an executive director of Booker Group plc in 1998, which merged with Iceland plc in 2000. In 2001 he became an executive director of Arcadia Group plc and in 2004 he became an executive director of Marks & Spencer plc. In 2005 he was appointed as chief executive of Booker Group plc. Charles started his career in 1986 with Procter & Gamble following which he was a consultant with OC&C Strategy Consultants and a director of Abberton Associates.

Charles joined the Executive Committee on 5 March 2018.

Andrew Yaxley
Chief Product Officer
Andrew is responsible for setting the strategy and policy for the planning, ranging, sourcing and supply of the products we sell across the Group. In addition, he has direct responsibility for managing this for the UK.

Andrew joined Tesco in 2001 from Mars Inc. He has worked across a number of product divisions including four years as Commercial Director for our Czech and Slovak businesses. On returning to the UK in 2007 he first led the Packaged Division and then in 2010 the Fresh Division. He became Managing Director of the London business in 2013, before moving to Ireland as CEO in April 2015. In July 2018, he was promoted to Chief Product Officer.

Andrew joined the Executive Committee on 16 July 2018.

Corporate governance framework.

Board and committees structure.

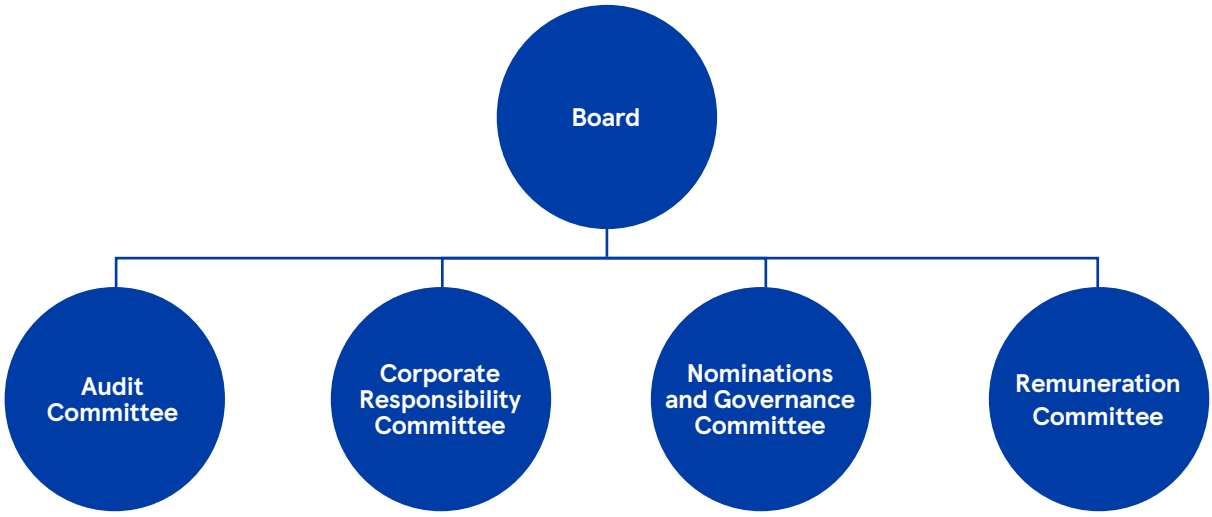
The core objective of the Board is to create and deliver the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. It sets the Group's purpose, strategy and values and is accountable to shareholders for ensuring that the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced. The Board is aware of its obligations to shareholders and other stakeholders and responds to their needs through transparent reporting and active engagement.

In this way, the leadership of the Company is supported by Tesco's Articles of Association, the schedule of matters reserved for the Board, our corporate governance framework and the statutory duties of a Director.

The operations of the Board are underpinned by the collective experience of the Directors and the diverse skills which they possess. These ensure that leadership and decision-making is focused and balanced, and is approached with independent thought and judgement. With the relationship between the Directors being one of trust and mutual respect, open and frank conversations ensure that even the most challenging decisions are taken for the benefit of the Company with due consideration for the stakeholders that it may also affect.

The Board has delegated specific responsibilities to the Board Committees: Audit, Corporate Responsibility, Nominations and Governance and Remuneration Committees. The Committees provide detailed focus to different areas of the Board's work. Committee papers and minutes are shared with all Directors and each Committee Chair provides a written and verbal report on Committee activities to the Board after each Committee meeting.

Matters considered by each of the Committees is set out in the Committee's Terms of Reference which can be found at **www.tesco.com**. Information regarding each of the Committee's activities during 2018/19 are detailed in the Committee reports on pages 54 to 79.



Role: Provides independent assessment and oversight of financial reporting processes including related internal controls, risk management and compliance, as well as overseeing the work of the external auditor.

Members:

Byron Grote (Chair)
Mark Armour
Melissa Bethell
Stewart Gilliland
Simon Patterson

Role: Ensures that the Board maintains an adequate focus on corporate responsibility and sustainability matters, especially those that support Tesco's strategy.

Members:

Lindsey Pownall (Chair)
John Allan
Steve Golsby
Mikael Olsson
Deanna Oppenheimer

Role: Reviews size and composition of the Board, succession planning, diversity, inclusion and governance matters.

Members:

John Allan (Chair)
Byron Grote
Deanna Oppenheimer

Role: Determines remuneration policy and packages for Executive Directors and senior managers, having regard to pay across the Group.

Members:

Steve Golsby (Chair)
John Allan
Byron Grote
Mikael Olsson
Deanna Oppenheimer
Alison Platt

Profiles of each of the Directors fulfilling the Committee roles are detailed on pages 40 to 42.

The Board held six scheduled meetings during the year and an additional strategy day, which included consideration of the Long Term Plan. In addition to scheduled meetings, the Board met four times to consider matters of a time-sensitive nature. Directors are expected to attend all Board and relevant Committee meetings. The table below shows the attendance at the scheduled Board and Committee meetings:

	Board[a]	Audit Committee	Nominations and Governance Committee	Corporate Responsibility Committee	Remuneration Committee[d]
John Allan	● 6/6	–	● 4/4	3/3	4/4
Mark Armour	6/6	5/5	–	–	–
Melissa Bethell[b]	3/3	3/3	–	–	–
Stewart Gilliland[c][e]	5/6	2/2	–	–	–
Steve Golsby[d]	6/6	–	–	3/3	● 4/4
Byron Grote	6/6	● 5/5	4/4	–	4/4
Dave Lewis	6/6	–	–	–	–
Mikael Olsson	6/6	–	–	3/3	4/4
Deanna Oppenheimer	6/6	–	4/4	3/3	4/4
Simon Patterson	6/6	5/5	–	–	–
Alison Platt[e]	5/6	–	–	–	3/4
Lindsey Pownall	6/6	–	–	● 3/3	–
Alan Stewart	6/6	–	–	–	–

● Chair of Board or Committee

Notes:

[a] Charles Wilson joined the Board as a Director on 5 March 2018 and stood down on 16 July 2018 due to ill health, but remains on the Executive Committee as CEO, Booker. While on the Board he attended two of two meetings.

[b] Melissa Bethell was appointed as a Non-executive Director and member of the Audit Committee on 24 September 2018.

[c] Stewart Gilliland joined the Board as a Non-executive Director on 5 March 2018 and the Audit Committee on 27 November 2018.

[d] Steve Golsby replaced Deanna Oppenheimer as Chair of the Remuneration Committee on 1 February 2019. Deanna remains a member of the Committee.

[e] Absences at scheduled Board or Committee meetings during the year were due to commitments pre-dating appointment to the Board (Stewart Gilliland) and ill health (Alison Platt).

The Board delegates responsibility for the day-to-day operational management of the Company to the Group Chief Executive, who is supported by the Executive Committee, Group Risk and Compliance Committee and other committees. When the need arises, a standing Disclosure Committee is convened to consider timely and accurate disclosure of sensitive information and the Board has agreed a Delegation of Authority.

Executive Committee.
The Group Chief Executive is supported by the Executive Committee, which is responsible for developing and implementing strategy, operational plans, policies, procedures and budgets; monitoring operational and financial performance; assessing and controlling risk; and prioritising and allocating resources. The Committee meets 11 times a year.

Group Risk and Compliance Committee.
The Committee meets six times a year to evaluate and propose policies, monitor processes to control business, operational and compliance risks faced by the Group, and to assess emerging risks. Regular reporting of these risks is presented to the Audit Committee and Board.

Disclosure Committee.
The Committee supports the Board in overseeing the implementation of the governance and procedures associated with the assessment, control and disclosure of inside information in accordance with the Market Abuse Regulation.

Group Delegation of Authority.
The Delegation of Authority provides a clear direction on decision-making, ensuring that decisions are taken at the right level of the business by the colleagues best placed to take them.

Our systems of internal control and risk management are integral to our corporate governance framework.

More information on internal control and risk management can be found on page 59.

Board activities.

The Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. To retain control of these key decisions, certain matters have been identified that only the Board may approve and there is a formal schedule of matters reserved for the Board, as shown below.

The Board has an agenda programme that ensures operational and financial performance, risk, governance, strategy, culture and stakeholders are discussed at the appropriate time.

A summary of the Board's key activities during the year are detailed below, together with a breakdown of the proportion of time spent by the Board on these matters.

Focus	What the Board has considered		Link to strategic drivers
Operational performance **20%** For a detailed update on our operational performance see our Strategic report on pages 1 to 17.	– CEO reports – Market updates – Business reviews: Tesco Bank, Tesco Mobile, Clubcard, F&F, dunnhumby and Booker – Integration of Booker	– Reviews of UK & ROI, Central Europe and Asia – Technology and data updates – Health & safety updates – Property updates	1 2 3 5 6
Financial performance and risk **20%** More information on financial performance and risk can be found on pages 18 to 23, 32 to 37 and 56 to 61.	– Periodic results, including financial performance and budget – Dividend approvals – Annual budget and Long Term Plan – Going concern and viability statements – Review of cost reduction programme – Integration of Booker	– Risk reports, including areas of emerging risk – Internal control – Funding and liquidity plans – Brexit impact – Finance transformation	2 3 4
Governance **17%** For further details of the evaluation of the Board's performance see the Board effectiveness section on page 51.	– Annual Report and other financial statements – AGM documentation – Talent management and succession planning – Approval of major contracts – Reports from Committee Chairs	– Board and Committee appointments – Property valuations, acquisitions and disposals – External effectiveness review of the Board and its Committees and Directors	1 2 3 4 5 6
Strategy **23%** For an update on Strategy see our Strategic report on pages 1 to 37.	– Strategy day – Online and technology strategies – Monitoring of delivery of strategy – Property opportunities	– Launch of Jack's – Strategic partnership with Carrefour – Financial strategy, leverage and use of cash	1 2 3 4 5 6
Culture and stakeholders **20%** More information on Stakeholder engagement can be found on pages 52 and 53.	– Results of Group-wide colleague engagement surveys – Investor relations updates – Corporate Renewal Plan – Integration of Booker – Code of business conduct – Competitor and customer insights – Consumer trends and implications	– Approach to sourcing – Diversity and inclusion – Results of Socio-Economic Contribution study – Corporate Responsibility Committee reports – Supplier surveys and reports	1 2 3 4 5 6

Key to six strategic drivers:

1 Differentiated brand 2 Reduce operating costs by £1.5bn 3 Generate £9bn cash from operations
4 Maximise the mix to achieve a 3.5%-4.0% margin 5 Maximise value from property 6 Innovation

Summary of matters reserved for the Board.

- Group strategy, operating plans, long term plans and budget
- Changes to corporate and capital structure
- Major acquisitions, mergers, joint ventures and disposals
- Significant capital expenditure and borrowing
- Material contracts
- Risk management and internal control
- Changes to pension scheme
- Financial reporting and disclosures
- Review of remuneration policies and share schemes
- Dividend policy and payment

Leadership.

Board balance and independence.

Effective management and good stewardship are led by the Board. The Board is currently composed of the Chairman, who was independent upon appointment, two Executive Directors and 10 Non-executive Directors. The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group. The responsibilities of the Chairman, Group Chief Executive, Senior Independent Director and other Directors are clearly defined in role statements to ensure that no one individual has unrestricted powers of decision and no small group of Directors can dominate the Board's decision-making. As set out in their biographies on pages 40 to 42, each member of the Board offers a range of core skills and experience that is relevant to the successful operation of the Group.

The Non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance, fulfilling the vital role of corporate accountability. The Board believes that the oversight they provide is balanced with individuals contributing a broad range of skills, diverse experience and knowledge, demonstrating independence and constructive challenge. During the year, the Chairman met frequently with Non-executive Directors without Executive Directors being present.

The Nominations and Governance Committee, which has carefully considered the matter, is of the opinion that each of the current Non-executive Directors continues to be independent in character and judgement in line with the definition set out in the 2016 Code. In reaching its determination of independence, it concluded that each provides objective challenge to management, is willing to stand up and defend his or her own beliefs and viewpoints in order to support the ultimate good of the Company and that there are no relationships or circumstances which are likely to affect the judgement of each of the Non-executive Directors.

Board information.

At Board meetings, Directors receive and consider papers and presentations from the Executive Directors and senior managers. This enables the Non-executive Directors to engage with colleagues from across the Group. Effective review and decision-making is supported by providing the Board with high-quality, clear and timely information, including input from advisors where necessary. In the rare event of a Director being unable to attend a meeting, the Chair of the respective meeting discusses the matters proposed with the Director concerned wherever possible, seeking their support and feedback accordingly. The Chair subsequently represents those views at the meeting. If Directors have concerns about the Company or a proposed action which cannot be resolved, it is recorded in the Board minutes. Also on resignation, Non-executive Directors are encouraged to provide a written statement of any concerns to the Chairman, for circulation to the Board. No such concerns were raised in 2018/19 and up to the date of this report.

Time commitment.

Each Non-executive Director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

The Nominations and Governance Committee assesses the time commitments of Directors on a regular basis to ensure that they each have sufficient time to devote to their role. This assessment takes into account the number of external commitments each Director has and that each Director has demonstrated they have sufficient time to devote to their present role within Tesco, including under potential periods of corporate stress. The Board is currently satisfied that the number of appointments held by each Director in addition to their position with Tesco is appropriate to allow them to fulfil their obligations to Tesco.

Details of the Directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' remuneration report on pages 62 to 79.

Role statements.

Chairman.

The Chairman leads the Board and is responsible for promoting a culture of openness and effective communications between Executive and Non-executive Directors and for creating an environment at Board meetings in which all Directors contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chairman ensures that all new Directors have an appropriately tailored induction process.

Group Chief Executive.

The Group Chief Executive has day-to-day responsibility for the effective management of the Group's business and for ensuring that Board decisions are implemented. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. The Group Chief Executive is tasked with providing regular reports to the Board on all matters of significance relating to the Group's business, or reputation, to ensure that the Board has accurate, timely and clear information on all matters.

Senior Independent Director.

The Senior Independent Director provides a sounding board for the Chairman and acts as an intermediary for the Non-executive Directors, where necessary. She is available to shareholders should they have any concerns where communication through normal channels has not been successful or where such channels are inappropriate. The Senior Independent Director is responsible for leading the Non-executive Directors in appraising the performance of the Chairman.

Non-executive Directors.

The Non-executive Directors bring insight and experience to the Board. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the Board Committees, bringing an independent view to the discussion. They meet with the Chairman without the Executive Directors being present and meet with the Senior Independent Director to review the Chairman's performance and other matters.

Group Company Secretary.

The Group Company Secretary is secretary to the Board. He ensures Board procedures are complied with and the Board has the information, time and resources it needs in order to function effectively and efficiently. He advises the Board on all governance matters and facilitates induction programmes for new Directors and provides briefings on governance, legal and regulatory matters.

Independent advice.

All Directors have access to the advice of the Group Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. No such requests were made in 2018/19. In addition, a Directors' and Officers' Liability Insurance policy is maintained for all Directors and each Director has the benefit of a Deed of Indemnity.

The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole.

Election and re-election of Directors.

Non-executive Directors are initially appointed for a three-year term with an expectation that they will continue for at least a further three years. In accordance with their letter of appointment, after three years' service the performance of a Non-executive Director is rigorously assessed by the Nominations and Governance Committee, with any development needs discussed by the Chairman with the Non-executive Director. In accordance with best practice and the 2016 Code, Directors are nominated by the Nominations and Governance Committee and are subsequently approved by the Board for election or re-election annually by shareholders at the Company's AGM. All Directors will submit themselves for election or re-election at the forthcoming AGM in June 2019.

Induction.

All new Directors receive a comprehensive induction programme over a number of months which is designed to facilitate their understanding of the business and is tailored to their individual needs. The Chairman and the Group Company Secretary are responsible for delivering the programme covering the Company's core purpose and values, strategy, key areas of the business and corporate governance. The induction is delivered through introductory meetings with senior management across the business, attendance at Committee meetings, site visits, working in a store and access to a library of reference materials.

Development.

The Board believes strongly in the development of the Directors and the Group's employees. The Chairman regularly discusses training requirements with the Board and arranges meetings or asks for information to be provided, as appropriate. As part of the ongoing development of Directors, key site visits are arranged and Directors are provided with the opportunity to, and are encouraged to, attend training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes. Directors also receive the benefit of teach-ins and technical updates provided at Board and Committee meetings, which aim to ensure that Directors remain up to date with key developments on the business environment in which Tesco operates.

Conflicts of interest.

In accordance with the Companies Act 2006 and the Company's Articles of Association, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from consideration of the relevant matter. The Company maintains a register of authorised conflicts of interest which is reviewed annually by the Nominations and Governance Committee.

Induction case study.

Melissa Bethell joined the Board in September 2018 and has undertaken a tailored and comprehensive induction programme over a six-month period.

Upon appointment, Melissa received an induction pack, which included a broad range of information including Board and Committee papers, as well as Board minutes and details of operational and financial performance, risk management and internal control, to provide an overview of the business.

Over the six-month induction period, she met with a number of senior managers from around the Group as well as the Chairs of each of the Committees and a number of advisors, providing her with an in-depth overview of the key themes and areas of focus of the Group. In addition to site visits to Extra, Super, Express and Metro stores and distribution and dot com centres, Melissa worked in our Marlborough store providing an opportunity to meet colleagues and see at first hand the operations of a store.

Board effectiveness.

Performance evaluation.

In accordance with the requirements of the 2016 Code, the Board carries out a review of the effectiveness of its performance and that of its Committees and Directors every year and the evaluation is facilitated externally every third year.

The 2018/19 Board effectiveness review was facilitated by Dr Tracy Long of Boardroom Review, an external board evaluation specialist, between January and April 2019. Neither Tracy Long nor Boardroom Review has any other connection with the business.

Boardroom Review was appointed following an extensive tender process overseen by the Nominations and Governance Committee. The tender process involved drawing up a long list of eight providers, each having extensive experience for facilitating effectiveness reviews. Each firm completed a request for proposal, after which a formal assessment process was undertaken by the Chairman and the Group Company Secretary resulting in Boardroom Review being selected.

The aim of the review was to assess the effectiveness of the Board, both as a collective unitary Board and at individual Board member level, in order to implement any actions required to become a more effective Board. The review was designed to encourage Directors to optimise their contribution to the success of Tesco and add value beyond their statutory requirements, by building on existing strengths, agreeing on the challenges ahead and preparing for the future. To this end, each Director was given individual feedback and development advice from Tracy Long at the end of the review.

The review concluded that the performance of the Board, its Committees, the Chairman and each of the Directors continues to be effective. All Directors demonstrated commitment to their roles and the boardroom culture was deemed effective and conducive to creating a positive environment for participation and challenge by the Non-executive Directors. The review identified some opportunities for the Board and the resulting areas of focus are summarised as follows:

- Further shaping the narrative and agreeing the priorities of the Group for the longer term;
- Continuing to develop and articulate the appetite for risk and ensuring it is aligned with the emerging longer-term strategy; and
- Developing a refreshment and succession plan for Non-executive Directors, designed to optimise strategic relevance, diversity of perspective and governance expertise to meet the future needs of the Group.

The Board is considering all of the recommendations of the Board evaluation report.

External evaluation process.

Conducted tender process resulting in Boardroom Review being appointed to facilitate the evalutaion.

Boardroom Review was briefed by the Chairman and the Group Company Secretary and provided with access to Board and Committee papers as a part of their preparatory work for the evaluation.

During January, February and March 2019, Tracy Long conducted detailed one-to-one interviews with each member of the Board as well as the Group Company Secretary and the Group General Counsel. These were based on a clear agenda which was sent to each participant in advance.

Tracy Long attended the Board and Committee meetings held in February to observe the Directors and the dynamics of the meeting.

A report prepared by Tracy Long setting out her findings and recommendations on further performance improvements was discussed with the Chairman, prior to being presented by Tracy Long to the Board in April. Feedback on individual Directors was shared with the Chairman and a report on the Chairman was shared with the Senior Independent Director.

The Board conducted internal effectiveness reviews in 2016/17 and 2017/18, which were led by the Chairman and Senior Independent Director, respectively. The reviews included an evaluation of the effectiveness of the Board, its Committees and individual Directors. The performance evaluation of the Chairman is carried out by the Non-executive Directors, led by the Senior Independent Director, taking into account the views of the Executive Directors. Progress against the conclusions of the 2017/18 Board evaluation is set out below.

2017/18 areas of focus	Achievements and progress
Further improve the oversight of risk	Regular reports were made to the Audit Committee on the identification, assessment and monitoring of risks. The Board received training on the dynamic threat posed by cyber risks and discussed emerging Group risks and Red Team Testing
Ensure the effective monitoring of the integration of Booker Group	During the year, regular reports were provided to the Board on progress with the integration of Booker, including negotiations with suppliers, consolidation of business services across the UK core business and Booker and utilisation of spare capacity at Tesco distribution centres to support growth
Identify ways to further engage on technology issues	Reporting to the Board has been enhanced in this area, including presentations on digital trends, innovations, technology and data security

Stakeholder engagement.

Our purpose, culture and values.

Serving shoppers a little better every day is at the heart of everything we do at Tesco. We recognise that culture, underpinned by our values, plays a fundamental role in the way we do business and the delivery of our strategic objectives and KPIs. Our values are recognised across the Group and have become a vital part of our culture. They ensure that every colleague at Tesco understands what is important – about how we work together as a team and how customers are at the centre of what we do.

Our Little Helps Plan identifies the most pressing social and environmental challenges facing the business, our customers, our colleagues and our communities to help tackle these. This provides a philosophy for how our business should be run in a way that makes a positive contribution to our colleagues, customers and communities. Through the three pillars of the Little Helps Plan – People, Product and Places – we are committed to doing the right thing. Foundation activities of climate change, cyber security, governance and ethics, health and safety and product safety underpin the three pillars. The Foundations are key requirements of a responsible business and are fundamental to the way we operate.

The Little Helps Plan builds on the progress we have made so far. It is helping to drive our progress in making Tesco a place where colleagues can get on, whatever their background; to help our customers make healthier choices and enjoy good quality, sustainable products at affordable prices; and to help tackle food waste. It spans three areas core to our operating model and the long-term success of our business.

Our Code of Business Conduct, which defines the standards and behaviours expected of colleagues, supports our core values. The Code of Business Conduct is supported by Group policies and mandatory training which includes anti-bribery and corruption, competition law, data protection and supplier legislation. Colleagues are required to complete mandatory training to reinforce the importance of these standards. For new colleagues, there is a requirement to complete this training within five days of joining Tesco. Refresher training is required on an annual basis. In addition, 'Protector Line', an independent and confidential whistleblowing service, allows colleagues and suppliers to raise concerns regarding misconduct and any breaches of the Code of Business Conduct.

The Board and senior management are responsible for ensuring that their activities reflect the culture we wish to instil in our colleagues and other stakeholders and drive the right behaviours. We have a responsibility to ensure that our colleagues do the right things in the right way by setting the tone from the top and leading by example. This means that in every decision we take, and every plan we develop, we ask ourselves one simple question: how will it help serve our shoppers a little better every day?

Visit **www.tescoplc.com/about-us/how-we-do-business** to view Tesco's Code of Business Conduct.

Core purpose.

Serving shoppers a little better every day.

Our values.

No one tries harder for our customers

We treat people how they want to be treated

Every little help makes a big difference

Little Helps Plan pillars.

People.

Products.

Places.

Visit **www.tescoplc.com/littlehelpsplan** to view Tesco's Little Helps Plan.

Customers.

- Customers are at the heart of everything Tesco does.
- Through surveys and engagement with customers, Tesco listens and acts on what customers want. The results of customer feedback are reported to the Board, Executive Committee and functional management. This forms the measurement for one of our six KPIs.
- Operating in a competitive market, we recognise that the more improvements are made for customers, the better sales will be enabling Tesco to reinvest for further improvements and stakeholder initiatives.
- Through the Little Helps Plan we provide customers with the assurances they need and provide affordable, healthy, sustainable products which are accessible to all. One of our targets is to help our customers make healthier food choices every time they shop with us.
- Through community programmes such as Bags of Help, our customers choose the local good causes we support.
- Clubcard is a way of understanding our customers and thanking them for their loyalty. We treat our customers with integrity when dealing with the privacy of customer data. This is supported by mandatory training for colleagues on information security and data protection awareness.

We serve nearly

80 million

shoppers every week

Colleagues.

- Inclusivity and creating a culture where everyone feels welcome, that fosters talent and allows colleagues to achieve their full career potential are integral to our business.
- Our commitment to helping our colleagues get on is one of the key pillars of the Little Helps Plan.
- A wide range of learning and development opportunities are available to colleagues, including subject-specific courses, motivational talks and mentoring programmes.
- We have worked with partners, such as Nuffield Health to develop a wellbeing programme based on improved nutrition, healthy body and healthy mind. Mental wellbeing is also important. Mindapples e-learning was accessed by colleagues 18,000 times since it launched and more than 800 UK colleagues have taken part in mental health awareness workshops.
- The 'What Matters To You' employee engagement survey allows colleagues to provide feedback on a variety of issues. The results are reviewed by the Board, Executive Committee and functional management. 83% of colleagues who participated in the most recent survey, regard Tesco as a 'Great Place to Work'.
- We host colleague conferences globally, where leadership teams talk about our business priorities. Our existing colleague forums will be expanded to establish Colleague Contribution Panels across the Group, with representation by a Non-executive Director so that informed decisions are made in the interest of the Company and stakeholders.

We have more than

450,000

colleagues globally

Suppliers.

- We are committed to building trusted partnerships with our suppliers which are crucial to delivering many of our commitments, such as working with suppliers to remove hard to recycle materials from our Own Brand packaging line.
- The Code of Business Conduct sets out key behaviours to ensure we treat our suppliers fairly and with respect.
- These trusted relationships with our suppliers help us serve our customers a little better every day and also help us deliver the Little Helps Plan.
- The Board recognises that providing a better service to our customers, requires our suppliers to meet the highest safety and legal standards.
- Supplier training provides suppliers with the skills, knowledge and guidance to ensure compliance and foster ongoing relationships.
- Supplier conferences are held on an annual basis.
- Global supplier surveys (Supplier Viewpoint) are undertaken twice a year to seek suppliers' views in relation to their interaction and experiences with Tesco. The results are reviewed by the Board, Executive Committee and functional management and actions undertaken in areas where lower scores are attained.
- For a third successive year, we ranked first in the independently run Advantage survey which compares Tesco against our peer group.
- Members of the Corporate Responsibility Committee visited India on a deep dive into garment sourcing.

We achieved a score of

77.5%

in the Supplier Viewpoint Survey

Shareholders.

- The Investor Relations team provides the Board with regular feedback on investors' views and key market issues. The Board engages with shareholders, including meetings and correspondence between the Chairman, Senior Independent Director and Chairman of the Remuneration Committee and institutional shareholders to discuss key issues.
- Senior management and the Investor Relations team held regular meetings with existing and potential institutional investors and analysts during 2018/19. Additionally, the Chairman hosts store tours for private shareholders to provide an insight into Tesco's operations and allow them to share their views on the business.
- The Group Company Secretary's team engages with private shareholders, who, with our registrars, Equiniti, provide a number of services to private shareholders.
- The 2018 AGM was attended by nearly 400 shareholders and guests. All resolutions were passed, with votes in favour ranging from 100% to 91.3%. Approximately 74% of total voting rights were voted. In the event of significant opposition, actions would be taken to address the issue. A live webcast of the 2018 AGM was broadcast for the first time allowing shareholders globally to view the event. All Directors attend the AGM and are available to answer questions from shareholders.
- Senior management maintain regular dialogue and communication with our relationship banks.
- The corporate website (www.tescoplc.com) provides a wealth of information on the Group and its activities.

We have more than

246,000

registered shareholders

Community.

- The Board's approach to environmental, social and governance matters is of high importance. Through the Little Helps Plan Tesco is dedicated to improving sustainability.
- The Corporate Responsibility Committee has responsibility and oversight of the Little Helps Plan which supports causes and helps address issues that colleagues and customers care about locally.
- The Board approved a Health Charity Partnership with Diabetes UK, Cancer Research UK and The British Heart Foundation. Corporate Responsibility Committee members visited the Partnership to understand more about the work they do and how Tesco through its Partnership can help.
- We have launched a four-year strategic partnership with WWF to help us accelerate delivery of our environmental commitments.
- This year we launched our Community Cookery Schools Programme to help community groups make the most of the food they receive through our food surplus donation programme.
- Our community grant programmes in the UK, Ireland and Central Europe allow our customers to choose the local causes we support. Through these programmes we have supported over 39,000 community projects to date.
- Our 320 Community Champions in stores across the UK help us build relationships with communities and support local events.
- Colleagues and customers join our regular food collections which last year collected 3.5 million meals in the UK to help feed people in need.

We have supported more than

29,000

local projects and causes in 2018/19

Nominations and Governance Committee.

"We aim to attract and retain Board members with a diverse range of backgrounds who will contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates."

John Allan
Chairman

Dear Shareholder.

The Committee held four scheduled meetings during the year, which were attended by all members, primarily focusing on succession planning, talent management, corporate governance, inclusion and diversity.

Board composition and succession planning.

The Committee keeps under review the size and composition of the Board and the need to refresh membership so that there is an appropriate balance of skills, knowledge, experience and diversity in its widest sense. The Committee recognises the need to attract Board members with a diverse range of backgrounds who can contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates.

There have been a number of changes to the Board during the year. As reported in last year's Annual Report, following completion of the Booker merger Stewart Gilliland and Charles Wilson joined the Board as a Non-executive Director and CEO of UK & ROI, respectively. Regrettably, in July 2018, Charles Wilson took the difficult decision to step down as a Director and CEO of UK & ROI due to ill health. However, he remains on the Executive Committee as CEO of Booker. In September 2018, we welcomed Melissa Bethell onto the Board. Melissa brings to the Board a wealth of international business strategy and investment management experience. An external search agency was not used for her appointment as she was introduced by a member of the Board. The Committee unanimously agreed it was not necessary to look further for a suitable Non-executive Director as she fully met the role and capabilities profile developed by the Committee. Our succession planning has been reflected at Board Committee level with Steve Golsby succeeding Deanna Oppenheimer as Chair of the Remuneration Committee.

Succession planning continues to be a priority for the Committee and throughout the year the Committee monitored the future leader pipeline and the available pool of talent in the Group. This is essential to ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity and inclusion. During the year, the Committee developed a more systematic approach to succession planning for Non-executive Directors.

Diversity and inclusion.

The Committee strongly believes that diversity and providing an inclusive culture is a key driver of business success and the Committee is committed to having a diverse and inclusive leadership team which provides a range of perspectives, insights and the challenge needed to support good decision-making.

The Committee is supportive of the recommendations set out in the Hampton-Alexander Review and is committed to raising the representation of women on the Board to 33%. As at the date of this report, 31% of the Board are female, which is an increase from 27% in 2017/18. In terms of our senior management, 31% of our Executive committee are female. We actively support women advancing into senior roles, as evidenced by our participation in initiatives such as Women in Finance Charter (Tesco Bank) and the 30% Club. However, the Committee remains of the opinion that appointments to the Board and at senior management level should be objective and made on merit relative to a number of criteria, while taking account of social and ethnic backgrounds, as well as gender.

Board effectiveness review.

Following two internal effectiveness reviews and in line with the UK Corporate Governance Code 2016, the Committee commissioned an external evaluation of Board effectiveness for 2018/19. The Committee agreed that the Group Company Secretary and I would conduct a tender exercise and recommend an external facilitator to the Committee. Following an extensive tender process, the Committee chose Boardroom Review to conduct the evaluation. More details on the effectiveness review are set out on page 51 of the Corporate governance report.

Governance.

During the year, the Committee received regular updates on developments in corporate governance. The Committee was provided with detailed reports on the 2018 UK Corporate Governance Code and supports the drive for greater stakeholder engagement generally, as well as the reporting requirements for large subsidiary companies, and agreed a number of amendments to the Group's corporate governance framework.

John Allan
Nominations and Governance Committee Chair

Committee responsibilities.

- review the size and composition of the Board and its Committees;
- nomination of candidates for appointment to the Board;
- review of succession planning, talent management and diversity and inclusion;
- review and approve changes to the Group's corporate governance framework; and
- ensure a Board effectiveness review is conducted annually.

Key activities.

Succession planning: Reviewed succession plans for the Board, Executive committee and senior management
Non-executive Directors: Reviewed time commitments, conflicts of interest and independence
Diversity and inclusion: Assessed the Group's approach to diversity and inclusion
Corporate governance: Considered developments in corporate governance and appointed the external facilitator for the external effectiveness review
Board appointments: Recommended Melissa Bethell as a Non-executive Director and a member of the Audit Committee; Steve Golsby as Chair of the Remuneration Committee; and Stewart Gilliland as a member of the Audit Committee

Committee membership together with attendance at meetings is detailed in the table on page 47. The Committee's terms of reference are available at **www.tescoplc.com**.

Corporate Responsibility Committee.

"The Little Helps Plan sets out our core value that small actions add up – 'Every Little Help makes a big difference."

Lindsey Pownall
Non-executive Director

Dear Shareholder.

The Corporate Responsibility Committee is responsible for oversight of the Group's corporate and social obligations as a responsible citizen and overseeing its conduct in response to those obligations. The Committee held three scheduled meetings during the year, which were attended by all members, primarily focusing on monitoring the corporate and social responsibility strategy globally and oversight of progress against the Little Helps Plan.

At each Committee meeting, progress against the Little Helps Plan is discussed with a detailed review of Tesco's key focus areas of food waste, health, sourcing and packaging, a review of the KPI scorecard setting out Tesco's commitments, and an overview of the Group's impact on the environment and local communities.

A key tenet of Tesco's approach to corporate responsibility is to work with suppliers to make sustainable products accessible and affordable, providing customers with peace of mind that the products they buy from Tesco, no matter the range, are sourced with respect for the environment and people. In support of this, the Committee received a report from F&F, Tesco's clothing brand, providing an update on three key areas: developing ethical supplier relationships to build trusted partnerships and ensure international human rights standards are respected; respect for the environment; and support for community projects and good causes in the countries and communities in which we source products. In September, I visited India with other members of the Committee to undertake a deep dive to understand how Tesco plans and manages its garment sourcing to: ensure safe and decent working conditions and avoid excessive work hours; support vulnerable communities; and to understand our suppliers' experiences of working with Tesco. The visit also provided an opportunity to look at a number of sustainable sourcing programmes.

Product safety is one of the foundations of the Little Helps Plan. The Committee received an update from the Group Quality Director on how Tesco works with its suppliers to ensure its products meet the highest safety and quality standards.

Since the launch of the Little Helps Plan in October 2017, a clear marketing and communications plan has been developed to accelerate awareness and demonstrate Tesco's priorities in food waste, health, sourcing and packaging, as well as further raising trust amongst consumers and influencers. During the year, the Committee discussed future planning, focusing on each of the three pillars of the Little Helps Plan to achieve a broad and targeted range of activities throughout the year on the issues of importance to Tesco's stakeholders.

The Little Helps Plan is a Group-wide framework and throughout the year the Committee received detailed updates on the UK & ROI, Central Europe and Asia on how they are implementing and delivering on the targets and actions of the Little Helps Plan. While all regions are making good progress, we still have more to do and the Committee sees this as an opportunity to take further small actions to make a big difference.

Tesco has established strategic health charity partnerships with the British Heart Foundation, Cancer Research UK and Diabetes UK to help customers and colleagues make healthier choices. During the year, I visited each of the charities and also attended the launch of the partnership with WWF to make it easier for customers to buy affordable, healthy and sustainable food, as well as reducing the environmental impact of the average shopping basket by 50%.

During the year, the Committee approved funds for a new training programme, the Tesco Community Cookery School with Jamie Oliver, which will teach more than 1,000 community cooks on how best to use surplus food donations they receive through the Community Food Connection.

Lindsey Pownall
Corporate Responsibility Committee Chair

Committee responsibilities.

- approve and monitor the corporate and social responsibility strategy to build trust and command respect and confidence;
- oversight of the Group's conduct in respect of its corporate and societal obligations as a responsible corporate citizen;
- oversight of the creation of appropriate corporate responsibility policies and supporting measures;
- identify and monitor external developments likely to have a significant influence on the Group's reputation and its ability to conduct its business appropriately as a good corporate citizen;
- review how best to protect Tesco's reputation; and
- oversight of the Group's engagement with external stakeholders and other interested parties.

Key activities.

Little Helps Plan deep dives:
- Little Helps Plan progress including regional progress updates
- product safety
- people
- responsible sourcing
- marketing and communications strategy

Activities on charitable partnerships and Group-wide projects

Review of the Committee's performance and terms of reference

Committee membership together with attendance at meetings is detailed in the table on page 47.
The Committee's terms of reference are available at **www.tescoplc.com**. More information on the Little Helps Plan is set out on pages 24 to 31 and online at **www.tescoplc.com/littlehelpsplan**.

Audit Committee.

'The Committee has supported the Board on a number of significant governance matters relating to financial reporting, internal control and risk management.'

Byron Grote
Non-executive Director

Dear Shareholder.

Following the Group's successful merger with the Booker Group, the Audit Committee has continued to support the business in achieving the key business and strategic drivers set out on pages 14 and 15 of this Annual Report.

The Audit Committee has supported the Board on a number of significant governance matters relating to financial reporting, internal control and risk management, including the Group's transition to IFRS 16 'Leases' financial reporting, the management of Group debt through bond buy-back and new issuance strategy and the continuing transformation programmes. The Committee regularly monitored the Group's risk exposures in relation to changes in the external regulatory and political environment, including the possible impact of Brexit on the Group's risk management activities. Further information can be found on pages 32 to 36 of this Annual Report.

As well as the key activities undertaken or overseen by the Committee during the year through a periodic and structured rolling forward-looking planner, this report shares insights into our discussions. Looking ahead, these areas will remain a key focus in 2019/20.

Byron Grote
Audit Committee Chair

Committee responsibilities.

The Committee's terms of reference were updated in February 2019, and its responsibilities include:

- monitoring the Group's financial reporting processes;
- review, and challenge where necessary, the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board;
- review the integrity of the interim and annual financial statements and announcements relating to the financial performance of the Group;
- consideration of the appointment and reappointment of the external auditor, their reports to the Committee and performance, the external auditor's effectiveness and independence, including an assessment of their appropriateness to conduct any permitted non-audit work in accordance with the Group's non-audit services policy, review of this policy and appropriateness;
- review and agreement with the external auditor as to the nature and scope of the external audit and approving the audit fee;
- review of the Group's distributable reserve position in advance of any declaration of interim or final dividends;
- review and monitoring of the internal controls and risk management processes of the Group, including key financial, operational and compliance controls, identification and assessment of emerging and principal risks, including the effectiveness of risk mitigation, and making necessary recommendations to the Board;
- review of the internal audit programme and ensuring that the Internal Audit function (GAA) is adequately resourced, has appropriate standing within the Group and access to information to enable it to perform its function effectively and in accordance with relevant professional standards and is able to exercise independent judgement;
- consideration of management's response to any major external or internal audit recommendations;
- review the Group's activities with respect to treasury and tax planning policies and such other policies as may be requested by the Board;
- review and report to the Board on the effectiveness of the Group's whistleblowing arrangements by which employees and contractors may, in confidence, raise concerns about possible improprieties in financial reporting or other matters; and
- review of business continuity plans and processes for the prevention of fraud, bribery and corruption. More details can be found on pages 31 and 82 of this Annual Report.

Key activities.

Statutory Reporting: financial results; key accounting judgements; implementation of new accounting standards; going concern; longer-term prospects and viability; dividends; subsidiary audit exemptions; management's representations to the external auditor; Booker integration; property valuation; pensions; solvency and liquidity update; liability management; and corporate simplification update
Risk & Control: risk management and controls assurance framework; internal control effectiveness; UK Corporate Governance Code assurance; principal and emerging risks; updates from the UK & ROI, Central Europe, Asia and Tesco Business Services Finance directors; key financial controls updates; insurable risk review; risk appetite; review of internal control effectiveness; Finance, People and Technology Transformation programmes; IT general controls and security programme update; pensions review; treasury & tax updates and Tesco Bank (including an update on the Bank's risks)
Compliance: anti-bribery; whistleblowing; GSCOP; annual and Group compliance statements; GDPR; anti-fraud; gifts and entertainment; and privacy compliance
External Audit: audit scope and fees; non-audit fees; update reports; management letter observations; and effectiveness review
Internal Audit: update reports; 2018/19 audit plan; internal audit charter; review of executive expenses and effectiveness review
Other governance matters: Committee effectiveness; and terms of reference review

Committee membership together with attendance at meetings is detailed in the table on page 47.
The Committee's terms of reference are available at **www.tescoplc.com**.

Audit Committee membership.

All of the Committee members are independent Non-executive Directors and the Board is satisfied that Byron Grote, Mark Armour and Melissa Bethell have significant, recent and relevant financial experience. Additionally, Byron Grote and Mark Armour are also competent in accounting and/or auditing. The Board considers that the Committee members as a whole have competence relevant to the Company's sector, in addition to general management and commercial experience. The expertise and experience of the members of the Committee is set out in each of their biographies on pages 40 to 42.

Robert Welch is appointed as Secretary to the Committee. Other regular attendees at Committee meetings include the Group Chairman, Group Chief Executive, Chief Financial Officer, Group General Counsel, Chief Audit and Risk Officer, Deputy Chief Financial Officer and representatives of the external auditor.

Audit Committee meetings.

The Committee held five scheduled meetings in the year and two additional meetings were convened to consider, in the context of Finance Transformation, the launch of a new general ledger system in the UK, ROI and India and the Group's transition to IFRS 16 'Leases' financial reporting. Each meeting has a distinct agenda to reflect the annual financial reporting cycle of the Group and particular matters for the Committee's consideration.

The Committee has a structured rolling forward-looking planner, which is designed to ensure that its responsibilities are discharged in full during the year. This planner is developed with the Group Company Secretary and its content regularly reviewed with management and Deloitte. It is developed to meet the changing needs of the Group as the year progresses.

The Chair of the Committee provides a written and verbal update to the Board following each meeting and Committee meetings are generally scheduled close to Board meetings in order to facilitate an effective and timely reporting process.

Committee members met in private following each Committee meeting and also held separate private sessions with the Chief Audit and Risk Officer and the external auditor, in order to provide additional opportunity for open dialogue and feedback without management present. The Committee Chair also meets with the Chief Financial Officer, Chief Audit and Risk Officer and external auditor on an ad hoc basis and prior to each Committee meeting.

The Audit Committee is monitoring the outcome of audit market reform initiatives and accordingly will modify its approach as required.

Key discussions in the year.

The Committee carried out a number of in-depth reviews of specific principal risk areas this year, considered emerging risks and reported its findings and recommendations to the Board. The Committee received updates from management in relation to the Group's transformation programmes, technology, information security, data privacy, treasury, tax, pensions, insurance and key compliance risks and the controls and mitigating actions employed in each of these areas, which support the Group's overall strategy and culture. The Committee has assessed the effectiveness of the Group's whistleblowing arrangements and reviewed compliance with the Groceries Supply Code of Practice (GSCOP).

The Committee received update reports during the year from the Tesco Bank Audit Committee, the Disclosure Committee and the Group Risk and Compliance Committee.

The Committee monitors the activity, role and effectiveness of internal audit (GAA), detailed on page 59, and at each meeting we receive an update covering a range of management issues, including periodic reviews of the employment of former auditor employees and non-audit services policies, the internal audit charter, 2019/20 audit plan and executive expenses.

GAA provided regular updates on its work, including findings from its internal audit programme and the status of management actions to address such findings. The Committee continues to focus on Group transformation and internal controls and receives regular updates from GAA on the work that is being undertaken to review and strengthen the Group's processes in these areas.

Additionally, at each meeting we consider reports from our external auditor, Deloitte, in relation to their interim and year-end reports, audit plan, audit fees and non-audit services, early warning report, management letter observations and updates on their ongoing audit work.

Statutory reporting:

The Committee has considered the Group's 2017/18 preliminary results and 2018 Annual Report, the 2018/19 interim financial statements, a comprehensive report from the Group's Disclosure Committee on fair, balanced and understandable reviews, the Group's compliance with relevant regulatory frameworks and validation of management's representations to Deloitte.

The Committee is responsible for assisting the Board's oversight of the quality and integrity of the Company's financial reporting and the Company's accounting policies and practices. During the year, the Committee has continued to receive updates regarding the Group's ongoing Finance Transformation programme and any actions taken to address observations raised by Deloitte in its letter to management following completion of the 2017/18 audit. A number of recommendations have been implemented to further enhance the Group's financial reporting systems and controls environment. The Committee has also received regular updates, including from GAA and Group Finance directors, on the development and effectiveness of the Group's key internal financial controls.

In relation to the financial statements, the Committee reviewed and recommended approval of the half-year results, the Group's approach to IFRS 16 disclosure and these annual financial statements, considered impairment reviews, the viability and going concern statements and their underlying assumptions and the longer-term prospects, reviewed the Group's distributable reserves position in advance of the declaration of dividends, reviewed corporate governance disclosures and monitored the statutory audit. As part of its review of the financial statements, the Committee considered, and challenged as appropriate, the accounting policies and significant judgements and estimates underpinning the financial statements. Details regarding the significant financial reporting matters and how they were addressed by the Committee are set out later in this report.

Liability Management:

During the year, the Group has undertaken two successful tender exercises in relation to its outstanding bonds resulting in £52m of annualised interest savings. In October 2018, the Committee oversaw the Group's well-positioned issue of new five-year bonds, the first issuance since June 2014.

IFRS 16 'Leases':
At each meeting, the Committee received an update in relation to the Group's proposed approach to the IFRS 16 reporting standard. The Committee regularly reviewed the controls in place to ensure the robustness of lease data required to support IFRS 16 calculations across the Group's UK and international estate and establishment of systems and processes required for accounting and reporting under IFRS 16. The Committee reviewed the Group's impairment model and discussed the broader reporting impacts of IFRS 16 on reported assets, liabilities and the Group income statement, as well as the classification of cash flows relating to lease contracts. As announced on 15 February 2019, the Group has adopted IFRS 16 retrospectively, with comparatives restated from a transition date of 25 February 2018. Further information can be found in Note 36 to this Annual Report.

IT General Controls:
The Committee has continued to monitor the Group's progress against its IT remediation, data collection processes and transformation plans. The Committee receives regular risk updates from Technology, the internal and external auditors which were discussed in the context of the Group's risk appetite. See our Technology risk on page 34 of this Annual Report.

Significant financial statement reporting issues.

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and viability statement	The Committee reviewed and challenged management's assessment of going concern, longer-term prospects and viability statement with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions and considering any impacts of the uncertainties arising from Brexit. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement. For further information see page 37 of this Annual Report.
Fixed asset impairment and onerous lease provisions	The Committee reviewed and challenged management's impairment testing of property and technology assets and estimate of onerous lease provisions. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging projected cash flows, growth rates, discount rates and the use of independent third party valuations and considering any impacts of the uncertainties arising from Brexit. For further information see page 37 of this Annual Report. The Group has recognised a £73m net reversal of impaired PPE assets, together with an onerous property lease provision net charge of £47m and a £16m net impairment loss for software and other intangible assets. See Note 10 to the financial statements for software and other intangible assets impairment, Note 11 for PPE assets impairment and Note 25 for property provisions.
Valuation of China associate and India joint venture	The Committee reviewed management's assessment of the valuation of the Group's China associate, Gain Land Limited, and India joint venture, Trent Hypermarket Private Limited, covering the methodology and assumptions used by management, including latest market information, in determining the fair value of the investment. This included review of Gain Land's and Trent's projected cash flows, growth rates and discount rates used and the external market indicators to include in the valuation. The carrying value was supported by the valuation. See Note 13 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, principally the discount rate, including the impact of guaranteed minimum pension equalisation in the year. See Note 27 to the financial statements.
Business acquisition	The Committee considered the key judgements made by management in accounting for the Booker acquisition, including the valuation of assets acquired and liabilities assumed resulting in the recognition of goodwill and acquired intangible assets. The Committee also considered the allocation of goodwill to, and impairment testing of goodwill at, the UK group of cash-generating units and the presentation of Booker within the UK & ROI segment. See Notes 1, 7 and 31 to the financial statements.
Contingent liabilities	The Committee further considered management's assessment of the status of ongoing regulatory investigations and litigation relating to prior periods. The Committee concurred with management's assessment that due to the stage of the remaining matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at the year end was appropriate. See Note 32 to the financial statements.
Recognition and disclosure of commercial income	The Committee reviewed management's assessment of the controls that exist over the recognition of commercial income and considered the appropriateness of accounting judgements therein adopted. See Notes 1 and 20 to the financial statements.

Issue	How the issue was addressed by the Committee
Exceptional items and amortisation of acquired intangibles	The Committee considered the presentation of the Group's financial statements and, in particular, the appropriateness of the presentation of exceptional items and amortisation of acquired intangibles. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed and consistently applied across years and appropriately presented. Consideration was also given to the quality of earnings within underlying results. See Note 4 to the financial statements.
New accounting standards	The Committee considered the transition approach and impact of implementing IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' in the period, covering judgements made including the determination of expected credit losses for Tesco Bank financial assets. The Committee also considered the impact of IFRS 16 'Leases', on the Group's financial reporting. The Committee considered the key judgements made in determining the impact of IFRS 16 and reviewed and challenged management's communication and presentation of the impacts. See Note 35 to the financial statements.

Internal audit – Group Audit and Advisory (GAA).

GAA is an independent assurance function within Tesco providing services to the Board and all levels of management. Its remit is to provide independent and objective assurance and advice to provide insight, deliver value, protect and help the organisation achieve its priorities. GAA helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

GAA's responsibilities include supporting management in the assessment and mitigation of risks to protect the business, delivering the Annual Audit Plan as well as reporting on the effectiveness of the systems of internal control. Management are responsible for: establishing and maintaining an appropriate system of risk identification and internal control; and for the prevention and detection of irregularities and fraud. GAA facilitates the Group's risk management processes with the Audit Committee and the Board.

In February 2019, the Committee conducted an assessment of the effectiveness of the GAA function in protecting the business. This assessment was facilitated by Lintstock Ltd, an independent company, who distributed a questionnaire-based assessment to key stakeholders, collated the anonymous responses and provided the assessment reports. This assessment included consideration of the structure and scope of GAA's work, its capabilities, independence, the adequacy of the audit plan, quality of audit reports and its engagement with stakeholders.

The Committee discussed the approach and findings in which the overall assessment concluded that GAA was highly effective, with improved ratings across all measures. Improvements noted included clarity of audit findings, enhancements in sharing learnings and improved stakeholder relationships. The Committee also concluded that GAA is adequately resourced. Aspects highlighted to focus on included continuing to enhance capability in the area of technology to keep pace with advances and ensuring that dedicated resource is available to work on major change programmes.

The Committee reviewed and agreed to the planned next steps which would be reflected in the GAA Charter, last reviewed and approved in November 2018 when the Internal Audit Plan for 2019/20 was also presented and agreed by the Committee. The Internal Audit Plan will be kept under review to ensure, where necessary, it adapts appropriately to the changing needs of the business.

Key elements of the risk management process.

The risk management process enables the identification, assessment and prioritisation of risks through workshops and discussions with business leaders. Risks are reviewed at business unit risk and compliance committees and other delegated senior leadership committees to ensure that they continue to remain relevant. During the year, the significant risks have been reviewed as a top-down and bottom-up process at both the business unit and the Group level to ensure awareness, agreement and appropriate prioritisation. A risk that can seriously affect the performance, future prospects or reputation of the Group is termed a principal risk and these risks are aligned to the Group's strategic drivers set out on pages 14 and 15.

Risks are assessed to determine the potential impact and likelihood of occurrence, after taking into account controls and mitigating factors. Where appropriate, additional mitigating actions are identified and agreed with relevant business owners.

The Group Chief Executive has overall accountability for the control and management of the risks Tesco faces, with the Board having overall responsibility for risk management. Risks are managed at the business unit level on an ongoing basis with follow up throughout the year by GAA and assigned risk champions and functional risk managers. All risks are assigned to an appropriate risk owner and the Group level principal risks are assigned to an executive owner. The Board receives a risk report, including principal risks and areas of emerging risks which are reviewed at least annually. The Group's principal risks are detailed on pages 32 to 36, showing a summary of key controls and mitigating factors, the risk movement and links to the Group's strategic drivers.

Internal control.

The Board monitors the key elements of the Group's internal control framework throughout the year and has conducted a review of the effectiveness of the Group's risk management and internal control systems. To support the Board's annual assessment, GAA prepared a report on the Group's principal risks and internal controls, which described the risk management systems and key internal controls, as well as work conducted in the year to improve the risk and control environment including the level of assurance undertaken.

The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against material misstatement or loss.

External audit.

Deloitte continued as our external auditor with Panos Kakoullis as the lead partner after their initial appointment in the 2015/16 financial year. It is our intention to put the external audit out to tender every 10 years and to rotate the lead partner at least every five years. Panos has informed the Committee that he will be retiring as a partner from Deloitte during 2019 and a new lead partner will therefore transition into this role in the first quarter of the 2019/20 financial year.

The Committee regularly reviews the role of the external auditor and the scope of their audit. The Committee considers the effectiveness of the external auditor on an ongoing basis during the year, considering, amongst other things, its independence, objectivity, appropriate mindset and professional scepticism, through its own observations and interactions with the external auditor, and having regard to the:

- experience and expertise of the external auditor in their direct communication with, and support to, the Committee;
- content, quality of insights and value of their reports;
- fulfilment of the agreed external audit plan;
- robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;
- the interaction between management and the external auditor, including ensuring that management dedicates sufficient time to the audit process;
- provision of non-audit services, as set out below;
- review and consideration of the results of the evaluation of the effectiveness of the external auditor; and
- other relevant UK professional and regulatory requirements.

The Committee conducted an audit effectiveness review of Deloitte in February 2019, which was facilitated by an independent company, Lintstock Ltd, who distributed a questionnaire-based assessment to key stakeholders, collated the anonymous responses and provided assessment reports containing territory or business specific feedback to facilitate the evolution of services provided to the Group. The review concluded that the external auditor was highly effective and the Committee recommended to the Board the reappointment of Deloitte at the 2019 AGM.

Deloitte contributed a further independent perspective on certain aspects of the Group's financial control systems arising from their work, and reported both to the Board and the Committee.

The process for approving all non-audit work provided by the external auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor, and compliance with regulatory and ethical guidance. Where Deloitte has been chosen, this is as a result of their demonstrating the relevant skills and experience to make it an appropriate supplier to undertake the work in a cost-effective manner.

Our policy for non-audit services reflects the EU regulations that prohibit the provision of certain non-audit services, such as payroll services, by the external auditor and introduces a cap on non-audit fees. In line with the regulations, the Group is required to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years. The 70% cap will first apply to the Group for the period ending February 2021. The non-audit fees policy is compliant with new Ethical Standards for Auditors.

In 2018/19, Deloitte received total fees of £12.0m (2017/18: £13.5m) consisting of £8.0m of audit fees (2017/18: £6.8m), and £4.0m for non-audit and audit-related services (2017/18: £6.7m), which is a decrease of £2.7m in total fees versus the previous period. The total of Deloitte's non-audit and audit-related fees in the year equated to 50% of the audit fees. Fees paid to Deloitte are set out in Note 3 to the financial statements and details of the significant non-audit work undertaken this year are set out in the table on page 61.

In the period, Deloitte continued to report under the court approved Deferred Prosecution Agreement with Tesco Stores Limited. Safeguards were put in place to mitigate any threats to Deloitte's independence by ensuring that work was conducted by individuals not directly involved in the external audit.

We continue to take steps to reduce the level of non-audit fees going forward to ensure compliance with the 70% non-audit fee cap rules.

Nature of service	Safeguards to preserve independence	Level of fees in 2018/19 (£m)	Level of fees in 2017/18 (£m)
Provision of transactional services: including quantified financial benefits synergy, working capital and profit forecast reporting, relating to the Group's merger with the Booker Group	Engagement team separate to the audit team with independent reviews and working with informed management.	–	1.9
Retail consultancy: provision of administrative support relating to the Group's markdown price optimisation process*	Engagement team separate to the audit team. The service is limited to the provision of administrative support. Decision-making accountability remained with management.†	1.3	1.5
Forensic services: provision of data repository services for information needed by the Group and the SFO*	Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established.	1.7	1.8
SFO Monitor role: Deloitte has been appointed as Monitor by the SFO under the Deferred Prosecution Agreement agreed with Tesco Stores Limited	Under the Deferred Prosecution Agreement Deloitte were appointed to conduct independent reviews by individuals not directly involved in the commercial income audits.	0.1	0.8
Other non-audit services: tax compliance and advisory projects relating to businesses outside of the EU and other miscellaneous risk and compliance services	Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established where required. From March 2017, no tax services have been provided to entities within the EU as required by the applicable Ethical Standards.	0.4	0.2
Interim review performed under International Standards of Review Engagements (UK and Ireland) 2410	The interim review is considered a non-audit service under the applicable Ethical Standards, although the objectives of the review are aligned with those of the audit.	0.5	0.5
Total		4.0	6.7

* engagement pre-dates Deloitte's appointment as external auditor.

† Deloitte's work concluded in January 2019.

Appointment of auditor statement.

Following a formal tender process, Deloitte were appointed as external auditor with effect from the 2015 AGM. The Company is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services. The Committee reviews and makes a recommendation to the Board with regard to the reappointment of the external auditor each year. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the Committee's judgement regarding the external auditor. The Company intends to conduct a tender process in line with the regulations and by no later than 2025.

Fair, balanced and understandable statement.

The Committee considered this Annual Report and Financial Statements 2019, taken as a whole, and concluded that the disclosures, as well as the processes and controls underlying its production, were appropriate and recommended to the Board that the Annual Report and Financial Statements 2019 are fair, balanced and understandable while providing the necessary information to assess the Company's position and performance, business model and strategy.

Committee effectiveness review.

The effectiveness of the Committee was evaluated this year as part of the Board evaluation process. Further details can be found on page 51. The review found that the Committee was operating effectively and that its broad role and remit remained appropriate for the current needs of the business. In order to identify opportunities for further improvement, members discussed how the Committee is functioning in the private sessions that follow each meeting.

Annual statement.

"Our remuneration policy ensures colleagues are fairly rewarded and we remain sensitive to the broad range of remuneration themes important to our stakeholders."

Steve Golsby
Remuneration Committee Chair

Dear Shareholder.

I am pleased to present my first Directors' remuneration report as Chair of the Committee, having taken over the role from Deanna Oppenheimer on 1 February 2019. Deanna had chaired the Committee since 2015 and I would like to take this opportunity to thank her on behalf of the Board for her excellent work as Chair and her support to me personally. I am delighted Deanna will be remaining on the Committee, so that we can continue to benefit from her experience and advice.

This Report provides an update on our progress in implementing the remuneration policy approved at the June 2018 AGM. The Committee appreciated the high level of shareholder support the remuneration policy received of over 93% in favour and the continuing constructive dialogue it has had with a number of shareholders, their representative bodies and the wider stakeholder group. No changes are proposed to the remuneration policy for 2019/20.

The Committee has followed closely the continuing debate on executive remuneration, fairness and corporate culture. Since the AGM, the Committee has reviewed the remuneration policy and its implementation, taking account of the UK Corporate Governance Code 2018 (2018 Code) and associated Guidance on Board Effectiveness, and the Companies (Miscellaneous Reporting) Regulations 2018. It takes seriously its role in ensuring the interests of colleagues, shareholders and other key stakeholders are considered fairly, and in the context of wider societal expectations. Although the Committee will not be required to report on the provisions of the 2018 Code and Miscellaneous Reporting Regulations until 2020, the Committee welcomes these developments and has decided to adopt as much as practically possible early, including providing details of the CEO pay ratio. Overall, the Committee believes the remuneration policy is operating well and as expected.

Remuneration alignment to strategy.

The Committee considers in detail the performance metrics and targets for the annual bonus and Performance Share Plan (PSP) to ensure they are appropriate and support the Group's strategy, and create value for stakeholders. In last year's remuneration policy review, the Committee decided to make some changes to improve strategic alignment and aid simplicity. For the annual bonus, the financial metrics of sales growth and Group operating profit before exceptional items and amortisation of acquired intangibles were retained, but balanced equally, while strategic objectives were set as a further annual performance metric, including key stakeholder measures relating to customers, suppliers and colleagues. For the PSP, performance metrics were simplified from three to two. From 2018, PSP performance metrics are free cash flow and diluted EPS pre-exceptional items and amortisation of acquired intangibles, IAS 19 finance costs and IAS 39 fair value remeasurements (subsequently referred to as EPS* in this Report).

The way in which the remuneration policy aligns with and supports Tesco's strategy and the delivery of the Big 6 KPIs is set out opposite and further information is available on pages 16 and 17.

KPIs	2018/19	2017/18[c]	Year-on-year change	Annual bonus performance measure	PSP performance measure
Group sales[a]Δ	£56.9bn	£51.0bn	11.5%	✓	
Group operating profit before exceptional items and amortisation of acquired intangibles [b]Δ	£2,206m	£1,646m	34.0%	✓	
Retail operating cash flow[b]Δ	£2.5bn	£2.8bn	(9.8)%		✓
Customers recommend us and come back time and again	17pts	12pts	5pts	✓	
Colleagues recommend us as a:					
Great place to work	83%	83%	Nil	✓	
Great place to shop	50pts	49pts	1pt	✓	
Supplier satisfaction	77.5%	74.9%	2.6pts	✓	

Δ These measures and other measures in this section are defined in the alternative performance measures section of the Annual Report on pages 178 to 181.

(a) Reported on a continuing operations basis at actual exchange rates, excluding fuel.

(b) Reported on a continuing operations basis at actual exchange rates.

(c) Last year figures restated for impact of IFRS 15 'Revenue from Contracts with Customers'.

2018/19 incentive outcomes.

During the year, Tesco delivered a strong performance against a backdrop of a challenging market and increased customer uncertainty. The Group remains firmly on track to deliver on its six strategic drivers:

- brand health continues to strengthen, with the YouGov Brand perception measures of quality and value increasing by 1.9 points and 1.3 points, respectively;
- cost savings of £532m were achieved in the year generating a total of £1.4bn towards the £1.5bn target;
- £2.5bn of retail operating cash flow[a] was generated, with £8.6bn of retail operating cash[b] generated over three years;
- operating margin improved to 3.45% for the full year and 3.96% in H2 2018/19 (3.79% excluding Booker);
- a further £285m was released from property; and
- innovation continued, including introducing eight new 'Exclusively at Tesco' brands, the relaunch of 10,000 Own Brand products and Jack's launched as part of our 100 years of great value celebrations.

Tesco's annual bonus and PSP plans together reward the achievement of Group, stakeholder and personal targets, provided performance is delivered within the Company's risk appetite. The Committee scrutinises performance targets, which are based on the Board-approved annual budget and Long Term Plan, to ensure they are sufficiently challenging. Stretching performance ranges are then agreed by the Committee at the start of the performance period. During the performance period, the Committee reviewed a number of unplanned and unexpected items and agreed changes to the cash generation and EPS* targets as set out on page 72.

Annual bonus outcomes for 2018/19 have been determined based on Tesco's performance over the year in sales growth (40% weighting), Group operating profit before exceptional items and amortisation of acquired intangibles (40% weighting) and strategic objectives (20% weighting). For consistency, sales and operating profit are translated at constant exchange rates and have been adjusted as set out later in this Annual Statement and on page 72, resulting in sales of £56.7bn and operating profit of £2,222m.

The financial outcomes are slightly above target performance for operating profit before exceptional items and amortisation of

acquired intangibles and between threshold and target for sales growth, which reflect the very demanding nature of the targets set. This was a good performance given the challenging external environment and a background of intense competition. The Committee also reviewed the performance of the Executive Directors against their individual objectives. As a result, the Committee determined that 52.5% and 49.4% of the maximum bonus opportunity should be awarded for Dave Lewis and Alan Stewart, respectively. A summary breakdown of the targets and performance assessments is provided in At a glance on pages 66 and 67.

The 2016 PSP performance period ran to the end of the 2018/19 financial year. Performance was measured against three metrics, with 50% subject to Tesco's relative Total Shareholder Return (TSR) performance, 30% subject to cumulative cash generated from retail operations and the remaining 20% subject to key stakeholder measures relating to customers, suppliers and colleagues. Performance was as follows:

- Tesco's TSR ranked below the weighted average of the blended benchmark index. This element vested at nil;
- cumulative cash generated from retail operations over three years of £8,379m was in line with target performance of £8,398m. This element vested at 14.6% of maximum opportunity; and
- performance against the three stakeholder measures of customer, supplier and colleague metrics vested at 14.2% of maximum opportunity.

As reported previously, buyout awards were made to Alan Stewart to compensate him for awards forfeited on leaving his previous employer. The final tranche of those buyout awards vested to him in July 2018.

As previously announced, Charles Wilson, who joined the Board as CEO, UK & ROI on 5 March 2018, stepped down from the Board on 16 July 2018 due to illness. I am pleased that Charles' recovery is going well and he remains on the Executive Committee. As Charles was an Executive Director for part of the year we are required to disclose some details on his pay arrangements. Given he was on the Board for a short portion of the year, we have disclosed this separately from Dave Lewis and Alan Stewart and full details can be found on page 72.

Rationale for Committee decisions in the year.

The Committee is responsible for all executive employment matters: recruiting, promoting and retaining high-calibre leaders, setting the incentives under which these leaders operate, and monitoring the results they produce and the manner in which they produce them. The overall remuneration framework has a number of specific goals. It is designed to motivate the leadership team to achieve the Company's strategic objectives, to lead and incentivise colleagues, and to drive value for shareholders and other stakeholders. It is also designed to be competitive in the markets in which we operate and compete for talent.

The Committee's discussions took place against a backdrop of the wider economy and retail market in which the Company operates and specific Company performance. The Committee considered adjustments to the annual bonus outcome to take account of events which were not foreseen or allowed for at the start of the year when targets were set. The Committee decided to take the sales and profit numbers of Tesco Direct out from both targets and actuals following its closure, and to adjust for Board approved strategic decisions and legal changes in Central Europe during the year. These adjustments resulted in a revision of the sales target by less than 1% and an increase in the profit target. The resultant formulaic assessment of the financial metrics of the annual bonus was 35.9% out of a maximum of 80% for both Executive Directors (the remaining 20% is assessed against strategic objectives which are set out on page 67). The Committee considered this to be appropriate and made no changes to this outcome. The Committee also considered the PSP formulaic outturn of 28.8%. Whilst acknowledging that this level of vesting under the PSP did not fully reflect the Group's strong performance over the three-year performance period, the Committee determined that no adjustments would be made to the formulaic outcomes for the Executive Directors.

Implementation of the remuneration policy in 2019/20 and fairness.

The Committee remains sensitive to the issues affecting executive remuneration and the views expressed by investors, the UK government and the wider public, particularly regarding restraint when setting quantum. The Committee believes such restraint is the right approach, while ensuring remuneration remains reflective of the wider business environment and contains appropriate incentives for senior executives to achieve the Group's business objectives. In keeping with this theme, for 2019/20, no base salary increases will be awarded to either Executive Director. The maximum annual bonus opportunities for Dave Lewis and Alan Stewart will remain unchanged at 250% and 225% of base salary, respectively. The approved remuneration policy states that the maximum PSP opportunity is 350% of base salary. The Committee has decided to increase the standard grant value of Alan Stewart's PSP from 250% to 275% of base salary. This brings his PSP opportunity in line with Dave Lewis and is designed to ensure that Alan Stewart's remuneration package remains market competitive, while recognising the value of the role and his skills and experience. This also ensures that the link between long-term business performance and reward outcomes is maintained.

The performance measures for the 2019 PSP are unchanged from 2018, with a 50% weighting each for EPS* and free cash flow. The Committee reviewed the selection and weighting of the financial metrics for the annual bonus. The Committee concluded that while the two financial metrics, Group operating profit before exceptional items and amortisation of acquired intangibles and sales growth, remain the right ones, they should now be weighted 50% and 30% respectively (previously both 40%). This change was made to recognise the emphasis on profitability, following the initial revenue growth focus of the turnaround plan.

The Committee will keep emerging market practice and investor expectations under review as the next remuneration policy approval in 2021 approaches. However, the Committee is taking some immediate steps to enhance the application of the existing remuneration policy from 2019 as described below:

- introducing post-employment shareholding requirements for all current and future Executive Directors; and
- amending how the holding period on the PSP operates for leavers. Shares awarded under a PSP grant from 2019 onwards now cannot be sold until five years from grant, even for a good leaver.

The Committee has considered the new requirement that pension contributions for Executive Directors should be aligned with those offered to the wider workforce. As part of the Committee's 2018 review of the remuneration policy the level of contribution to pension or cash in lieu of pension for new Executive Directors and Executive Committee members was reduced to 15% of base salary and a number of new appointments have been made on this basis. This level of contribution is aligned with the contributions to pension for all UK colleagues at middle management and above (some 1,800 colleagues). The Committee believes this provides the right measure of alignment with the wider workforce.

2019 Annual General Meeting.

I look forward to welcoming you to the 2019 AGM and hope you will support the resolution relating to remuneration.

Steve Golsby
Remuneration Committee Chair

[a] Net debt, retail operating cash flow and retail free cash flow exclude the impact of Tesco Bank.

[b] Cumulative retail cash generated from operations excluding pension deficit repayments, cash outflows relating to SFO fine and shareholder compensation scheme payments and cash payments in lieu of colleague bonus shares.

Reward principles.

The principles of a fair workplace.

Tesco's purpose is to serve shoppers a little better every day. To live up to that purpose our colleagues need to reflect and represent the communities we serve. Tesco aims to be a place where colleagues can get on, as they wish, no matter what their background. We are proud of our long history of helping colleagues develop their careers in Tesco.

To continue building an inclusive culture where everyone feels welcome, it is important that colleagues feel fairly rewarded. We have clear principles for a fair workplace against which we measure ourselves. When we are successful colleagues can expect:

- a total reward package that provides flexibility and choice, and is competitive in the markets in which Tesco operates and from which it recruits for talent;
- to share in Tesco's success and be recognised for their contributions through pay that is transparent;
- rewards that can help support a decent standard of living and provide the opportunity to plan and save for the future;
- to make wellbeing and lifestyle choices, having access to a range of benefits and flexibility over working hours and place of work;
- to have access to career opportunities and accredited training to develop their potential whatever their age or background; and
- through Tesco's consultative forums, trade union partnerships and colleague surveys to have their voice heard and represented at all levels, and access to information about what is happening in the business.

Rewarding our colleagues fairly.

Tesco provides colleagues across the Group with a competitive reward package. In Tesco's UK business in 2018/19 colleagues received a reward and benefits package in line with the elements set out in the table below. The purpose of each element is the same for all colleagues, which creates a consistent cascade throughout the organisation.

Element of pay	Purpose	Executive Committee and WL4-5	WL 1-3
Base salary	Base salary supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their role. Base salary provides fixed remuneration and reflects the size, scope and complexity of individual role responsibilities.	✓	✓
Benefits	A market-competitive level of benefits for colleagues, which enhance the reward package and provide other reasons to work at Tesco, such as discount in store.	✓	✓
Pension	The opportunity to save for retirement, with the employing company providing a match to employee contributions.	✓	✓
Annual bonus	The opportunity for colleagues to receive an annual bonus for the delivery of business and personal goals. Annual bonus opportunity provides colleagues with a balance between fixed and variable pay related to market practice based on role. At senior levels a proportion of any bonus is deferred into Tesco PLC shares to provide additional alignment with shareholders' experience.	✓	✓
Performance Share Plan	Colleagues with responsibility for long-term Group performance are incentivised to achieve Tesco's strategy and create sustainable shareholder value.	✓	

The balance between the different elements of remuneration depends largely on the role and seniority of colleagues. Junior colleagues' remuneration is principally fixed pay, reflecting our principle of helping to support a decent standard of living, where regular pay levels help with personal budgeting and planning. For more senior colleagues, remuneration is weighted more towards variable pay, which can increase or decrease based on the performance achieved against our goals. This approach to pay design also reflects each individual's ability to influence Tesco's performance. We also take account of the requirements of the UK Corporate Governance Code and the views of our investors and other external bodies, as evidenced by the letter from the Committee Chair to major investors informing them of the intention to increase the standard grant value of Alan Stewart's PSP award.

So while the balance of the elements of remuneration may differ, we have a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark.

Colleagues across the Group are regularly asked about how they feel about pay and benefits at Tesco. Our 2018 survey showed almost two-thirds agreed that the pay for the job they do is fair and three-quarters were happy with the benefits they receive. Both outcomes were well ahead of relevant external benchmarks, but we continue to invest in ensuring we remain an employer of choice.

How our principles are brought to life.

We are committed to providing colleagues with equal access to opportunities, skills, flexibility and fair reward. We are putting more of our learning online, creating more choices on flexible working and providing support and guidance for colleagues to own their own careers.

Over the last year, Tesco has continued to focus on building a fair workplace, providing colleagues with the flexibility, skills and reward to get on as part of our overall employee value proposition. This has included:

- Effective Leadership – We have introduced our Managing a Team at Tesco programme to help build leadership skills. It has supported over 1,300 managers in stores, distribution and convenience businesses to be at the heart of the colleague experience, helping their teams to be more effective and serve our shoppers a little better every day.
- Helping Colleagues be at their Best – We have worked with partners, such as Nuffield Health, to develop a wellbeing programme based on improved nutrition, a healthy body and healthy mind. Colleagues have accessed Mindapples e-learning

more than 20,000 times since it launched and over 800 UK colleagues have taken part in mental health awareness workshops aimed at tackling the stigma around mental health.

- Building skills for the future – We are investing in our colleagues' futures. In September 2018, we doubled our UK school leaver apprenticeship programme, and introduced a Finance apprenticeship and our first Apprentice Degree in Food Science and Technology. In Central Europe, we have 1,150 people on our apprenticeship scheme, spending half their week at college and half learning on the job at Tesco.
- In Thailand, our Student Part-Time Programme scholarships allowed 800 colleagues to pursue higher education and our Tesco Junior Programme is helping a further 200 colleagues to earn a vocational degree while working.
- Developing Employability – In July 2018, we committed to help 10,000 young people to improve their employability and life skills through Prince's Trust Achieve Clubs. We will focus over three years on funding the running of 40 Achieve Clubs in areas of greatest need, developing content and lesson plans in customer service and leadership and bringing the content to life through volunteering opportunities for our colleagues.

CEO pay compared to pay of UK employees.

Tesco is a retail business with one of the largest workforces in the UK, employing over 300,000 colleagues, mostly in customer-facing roles in store or working in our distribution network. We apply the same reward principles for all – that overall remuneration should be competitive when compared to similar roles in other organisations from which we draw our talent. For customer-facing colleagues, we benchmark with other large retailers. For our CEO, we benchmark against a small and highly sought-after pool of CEOs of major companies with international reach and accountabilities.

Given this workforce profile, all three of the CEO pay ratio reference points compare our CEO's remuneration with that of colleagues in mainly customer-facing roles and there is relatively limited difference in the outcomes as shown below. Also, we know that year-to-year movements in the pay ratio will be driven largely by our CEO's variable pay outcomes. These movements will significantly outweigh any other changes in pay within the organisation. Whatever the CEO pay ratio, Tesco will continue to invest in competitive pay for all colleagues.

The total pay and benefits of UK colleagues at the 25th, 50th and 75th percentile and the ratios between the CEO and these colleagues, using the CEO's single total remuneration figure for 2018/19 of £4,600,000, are as follows:

	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
Total pay and benefits (FTE)	£18,646	£20,364	£21,982
CEO pay ratio	247:1	226:1	209:1

[a] Tesco has chosen to use Option C to calculate its CEO pay ratio. This option was chosen given the size and complexity of the exercise required to produce these ratios in an environment of significant part-time employment and variable working hours. Tesco has already completed comprehensive data collation and analysis for the purposes of gender pay gap reporting. We were able to use additional pay data to minimise differences in pay definitions between the CEO single total remuneration figure and gender pay reporting.

Gender pay.

Tesco's first full gender pay gap report for the year to April 2017 was published in February last year and we have recently published our second report for the year to April 2018.

The 2018 report shows that the median gender pay gap of 8.9% has changed little since last year's figure of 8.7%. It remains well below the UK national average of 17.9%. A key reason for the gap remains the different work pattern choices colleagues are making. Male colleagues are choosing to work premium hours (Sundays, bank holidays and night work), which attract higher rates of pay, more often than female colleagues. If these premium hour payments were to be removed from the calculation, then Tesco's median gender pay gap would reduce to 3.1%.

Tesco offers colleagues opportunity, choice and flexibility and will continue to support them in choosing work patterns that best suit their personal situation and preferences. At the same time, we will work to identify and remove any gender-related barriers to making those choices.

As a sign of our commitment to increasing female representation at senior levels, Tesco signed up as a member of the 30% Club in 2018. By February 2019 the initial 30% ambition had been met, with 31% of both the Board and Executive Committee being women. Women also make up 37% of our director and manager population. However, to maintain and increase this representation we know we need to do more for women earlier in their careers. That is why we launched last year a targeted development programme with a group of talented female colleagues who will be helped positively to drive their careers. In parallel, we are making as much of this development material as possible available to all our Tesco colleagues online, so everyone has the opportunity to benefit.

In addition, our Women's Network has developed a gender diversity partnership with a number of other companies to encourage women to own their career choices through mentoring, learning and helping to build a smarter working culture more attuned to the needs of a diverse workforce. We will continue to challenge ourselves to help more women to progress their careers at Tesco.

Further information is set out in the Tesco Gender Pay Gap Report at **www.tescoplc.com/genderpay**.

Remuneration at a glance.

What our Executive Directors earned in 2018/19.

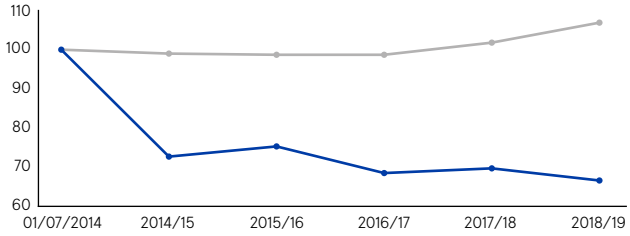
Guided by our remuneration policy, which received over 93% of votes in favour at our 2018 AGM, we aim to reward responsibly and fairly so that all colleagues are rewarded competitively against the relevant pay benchmark for their role. This is a consistent principle, across every level of our business.

Tesco focuses on executive pay in the context of the overall spend on remuneration across the Group:

- Between 2015/16 and 2018/19, we have invested significantly in pay for our customer-facing colleagues, and the hourly rate for UK store colleagues has increased by 14%. Over the same period, the base salaries of Dave Lewis and Alan Stewart have remained unchanged as set out in the chart on page 75.
- Since July 2014, Executive Committee base salary costs as a proportion of the total Group spend on remuneration have fallen by a third and now represent 0.1% of total Group wage costs. At the same time, the average total reward package for colleagues across the Group, inclusive of variable pay outcomes, has risen by about 6.9%, as set out in the chart opposite.
- Bonus awards to our Executive Directors are linked to performance, and the Committee remains sensitive to the views of investors and stakeholders, particularly regarding restraint when determining the potential size of awards.

After four years, we have met or are about to meet the vast majority of our turnaround goals, and our business is on a more sustainable footing. Even with this strong performance, the annual bonus for Dave Lewis in 2018/19 vested at 52.5% of maximum opportunity, and at 49.4% for Alan Stewart.

Executive remuneration and all colleague costs



Average cost of total reward – all colleagues – as a % of 1 July 2014

Executive Committee base salaries as a % of total Group wage costs – as a % of 1 July 2014 ratio

Single total figure of remuneration – Executive Directors (audited).

The following table provides a summary single total figure of remuneration for 2018/19 and 2017/18 for the Executive Directors. Further details are set out in the Annual report on remuneration commencing on page 70.

	Year	Base salary (£'000)	Benefits (£'000)	Pension (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Total (£'000)
Dave Lewis	2018/19	1,250	61	313	1,641	1,335[b]	4,600
	2017/18	1,250	65	313	2,275	1,210[c]	5,113
Alan Stewart	2018/19	750	59	188	834	728[b]	2,559
	2017/18	750	53	188	1,248	660[c]	2,899

[a] Details of the remuneration of Charles Wilson, who stood down from the Board on 16 July 2018, are set out on page 72.

[b] The three-month average share price to 23 February 2019 of 210p has been used to indicate the value of the 2016 PSP, which will vest in May 2019. The value includes the reinvestment of dividends paid on vested shares, between grant and vest, in Tesco PLC shares.

[c] The value of the 2015 PSP has been updated to reflect the share price on the date of vesting of 256p. The value includes the reinvestment of dividends paid on vested shares, between grant and vest, in Tesco PLC shares.

2016 PSP vesting (audited).

The PSP award granted in 2016 will vest in May 2019 based on performance up to and including the 2018/19 financial year. The performance outcome was as follows:

Metrics (% maximum)	Performance targets			Vesting level			Actual performance	Payout (vesting level)	Payout (% of maximum)
	Threshold	Target	Stretch	Threshold	Target	Stretch			
Relative TSR[a] (50%)	Performance equal to the index	–	8% p.a. outperformance of the index	25%	–	100%	**Below index**	**0%**	**0%**
Cash generation[b] (30%)	£7,998m	£8,398m	£8,798m	25%	50%	100%	**£8,379m**	**48.7%**	**14.6%**
Stakeholder:									
Customer (6.66%)	2pts	–	24pts	0%	–	100%	**17pts**	**68%**	**4.5%**
Supplier (6.66%)	70%	–	82%	0%	–	100%	**77.5%**	**63%**	**4.2%**
Colleague:									
Great place to work (3.33%)	81%	–	84%	0%	–	100%	**83%**	**66%**	**2.2%**
Great place to shop (3.33%)	41pts	–	47pts	0%	–	100%	**50pts**	**100%**	**3.3%**

[a] TSR was assessed against a benchmark index made up of FTSE 350 Food and Drug Retailers (excluding Tesco) and FTSE 350 General Retailers weighted 85% and 15%, respectively.

[b] Details of adjustments to the cash generation targets are set out on page 72.

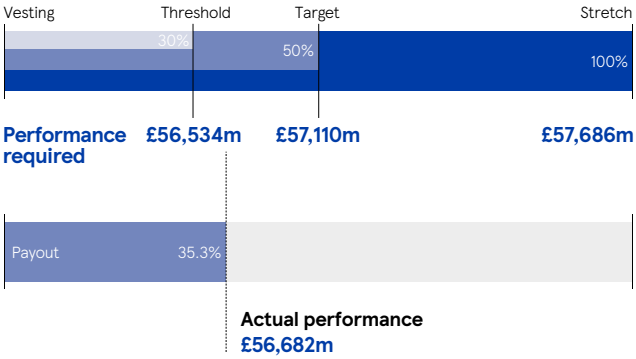
Based on the above performance, 28.8% of the 2016 PSP awards will vest in May 2019. This will result in 635,814 shares and 346,807 shares vesting to Dave Lewis and Alan Stewart, respectively.

Annual bonus outcomes (audited).

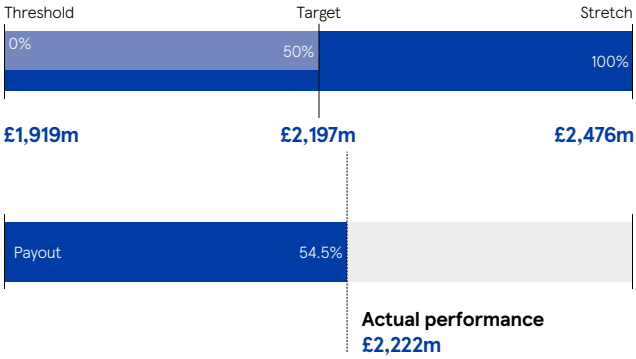
The Committee determined that 52.5% and 49.4% of the maximum bonus opportunity be awarded to Dave Lewis and Alan Stewart, respectively. Actual profit performance exceeded the underpin. Performance against each of the objectives for 2018/19 was assessed as follows:

Financial performance in 2018/19 (80% of bonus maximum) (audited).

Sales growth (40% weighting).



Group operating profit (40% weighting).



[a] For consistency, reported outcomes at constant exchange rates are used for incentive purposes.

Performance for the financial elements of the annual bonus has been positive, with sales growth being between threshold and target and Group operating profit before exceptional items and amortisation of acquired intangibles performance being between target and stretch.

Strategic objective performance in 2018/19 (20% of bonus maximum) (audited).

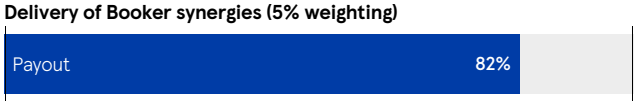
The Committee carefully reviewed the performance of the Executive Directors against their individual objectives set at the beginning of the financial year. Details of how their performance towards these objectives was assessed is set out below. Further details are provided on page 71.

Individual objectives: Dave Lewis.

China JV opportunities (5% weighting)

Loyalty (5% weighting)

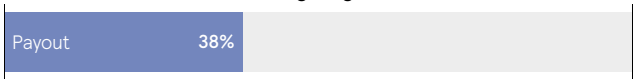
Delivery of Booker synergies (5% weighting)



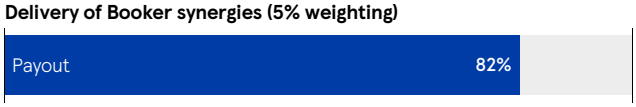
Individual objectives: Alan Stewart.

China JV opportunities (5% weighting)

Finance Transformation (5% weighting)

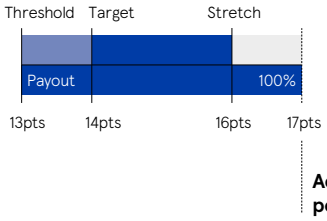


Delivery of Booker synergies (5% weighting)

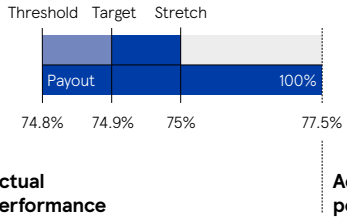


Stakeholder objectives (5% weighting): Dave Lewis and Alan Stewart.

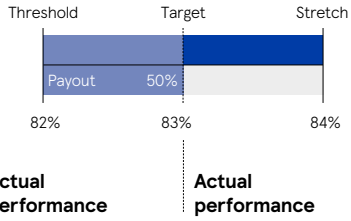
Customer (1.66% weighting)



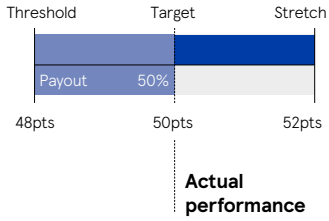
Supplier (1.66% weighting)



Colleague (Great place to work) (0.83% weighting)



Colleague (Great place to shop) (0.83% weighting)



Directors' remuneration policy.

Implementation in 2019/20.

We have reviewed our remuneration policy in the year, particularly in light of the amended 2018 Code. We will continue to implement the remuneration policy that was approved at the 2018 AGM. A summary of the proposed 2019/20 remuneration packages for the Executive Directors is set out below. The full remuneration policy, as approved at the 2018 AGM, can be found on the Tesco website at www.tescoplc.com/investors/corporate-governance.

Fixed pay.

Element of remuneration	Dave Lewis	Alan Stewart
Base salary	£1,250,000	£750,000
Pension	Cash allowance in lieu of pension of 25% of base salary	Cash allowance in lieu of pension of 25% of base salary

Annual bonus.

	Dave Lewis	Alan Stewart
Quantum	Maximum of 250% of base salary	Maximum of 225% of base salary
Annual bonus deferral	50% of bonus awarded deferred into Tesco PLC shares for three years	
Annual bonus performance metrics[a]	Group operating profit before exceptional items and amortisation of acquired intangibles (50%), sales growth (30%), strategic objectives (20%) and Group operating profit before exceptional items and amortisation of acquired intangibles underpin	

[a] Annual bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. Therefore, we do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the bonus outcome is reported.

Performance share plan.

	Dave Lewis	Alan Stewart
Quantum	Maximum of 275% of base salary	Maximum of 275% of base salary
PSP term	Three-year performance period and two-year post-vest holding period	

			Vesting level	
	Performance measure	Weighting	Threshold (25%)	Stretch (100%)
PSP performance metrics and targets	EPS*[a][b][d]	50%	17.2p	23.2p
	Free cash flow (three years)[a][b][c]	50%	£4,334m	£6,501m

[a] EPS* and free cash flow targets have been adjusted for the impact of IFRS 16.
[b] Both PSP performance measures have straight-line vesting between threshold and stretch.
[c] The free cash flow target has been increased to include the impact of the additional year-end working capital balance, as disclosed in relation to the 2016 PSP award on page 72.
[d] Threshold and stretch EPS* targets equate to compound growth of 7.6% and 18.9% per annum, respectively.

Minimum shareholding requirement.

	Dave Lewis	Alan Stewart
Shareholding requirement	400% of base salary	300% of base salary

Summary of remuneration policy and proposed amendments.

A summary of the remuneration policy is shown below, along with a summary of the key changes to how the policy will be implemented in 2019/20:

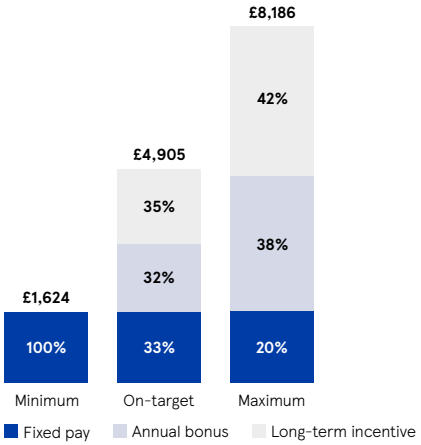
	Remuneration policy	Key changes to the implementation of remuneration policy in 2019/20
Base salary	– Executive Directors receive a base salary based on the size and scope of their responsibilities and their experience. – Salaries are normally reviewed annually, with changes being effective from 1 July. – Pay decisions are informed, but not driven, by external benchmarking and market data.	– The Committee believes that the current base salary levels continue to be appropriate. The base salaries of Dave Lewis and Alan Stewart will remain unchanged in 2019/20. This decision has been made alongside a review of colleague salaries.
Benefits	– Executive Directors receive a number of core benefits such as company car (or cash allowance), life assurance and health care insurance.	
Pension provision	– At the last policy review, we reduced our pension policy for new Executive Directors and Executive Committee members to 15% of base salary (from 25%), which is aligned with UK colleagues at middle management and above (about 1,800 colleagues). – Current Executive Directors receive a cash allowance in lieu of pension of 25% of base salary.	
Annual bonus	– Executive Directors can be awarded an annual bonus of up to 250% of base salary. – 50% of any bonus earned is deferred into Tesco PLC shares for three years. – Performance is measured against financial and non-financial metrics. – Clawback and malus provisions apply.	– The annual bonus metrics of Group operating profit before exceptional items and amortisation of acquired intangibles and sales growth have been retained, but the weighting has been changed to 50% and 30%, respectively (previously both 40%).

	Remuneration policy	Key changes to the implementation of remuneration policy in 2019/20
Performance Share Plan	– Executive Directors can participate in a PSP with a maximum grant value of 350% of base salary. – Performance is measured against financial metrics over a three-year performance period. A subsequent two-year holding period applies post vesting. – Clawback and malus provisions apply.	– The Chief Financial Officer's PSP grant has been increased to 275% of base salary. This is in line with the Group Chief Executive's award of 275% of base salary and is within the approved policy limits. – The approved remuneration policy is that any vested PSP shares must be held until the earlier of five years from grant or two years from leaving. From 2019 grants, this requirement has been strengthened such that all vested shares cannot be sold until five years from grant.
Shareholding requirements	– The Group Chief Executive and the Chief Financial Officer are subject to a minimum shareholding requirement of 400% and 300% of base salary, respectively.	– The Committee noted the provision of the 2018 Code to have a policy on post-cessation shareholdings. A post-cessation holding requirement for Executive Directors was set at 100% of their shareholding requirement for one year, and 50% for the second year post departure. – To ensure this requirement can be implemented over time, the Committee has decided that Executive Directors will be required to sign an undertaking in this respect.

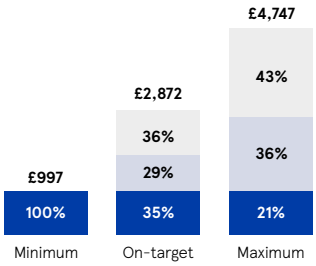
Scenario charts.

The total remuneration opportunity of the Executive Directors is strongly performance based and weighted to the long term. The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at three different levels of performance: minimum, on-target and maximum. Note that the projected values exclude the impact of any share price movements or potential benefits under all-employee share schemes. These charts reflect projected remuneration for the financial year 2019/20.

Group Chief Executive – Dave Lewis
(£'000)



Chief Financial Officer – Alan Stewart
(£'000)



Performance scenarios.

On-target assumed to be 50% of maximum for annual bonus and Performance Share Plan (PSP).

	Group Chief Executive	Chief Financial Officer
Annual bonus (maximum as a % of base salary) PSP (maximum as a % of base salary)	250% 275%	225% 275%
Minimum performance	No annual bonus payout No vesting under the PSP	
On-target performance	50% annual bonus payout 50% PSP vesting	
Maximum performance	100% annual bonus payout 100% PSP vesting	

Assuming a share price appreciation of 50% during the performance period of the PSP, the maximum for Dave Lewis and Alan Stewart would increase to £9,905,000 and £5,778,000, respectively.

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	61	313	1,624
Chief Financial Officer – Alan Stewart (£'000)	750	59	188	997

[a] Benefits for Dave Lewis and Alan Stewart are as set out in Single total figure of remuneration on page 66.

Annual report on remuneration.

This section details the remuneration of the Executive and Non-executive Directors during the financial year ended 23 February 2019 and has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Directors' remuneration report (excluding the Summary of remuneration policy) will be proposed for an advisory shareholder vote at the 2019 AGM.

Fixed remuneration.

Salary.

The Committee considered the Group Chief Executive's and Chief Financial Officer's base salaries during 2018/19 taking into account pay review budgets across the Group. As a result, the Committee determined that the base salaries for Dave Lewis and Alan Stewart would remain unchanged for 2019/20. The base salaries of Dave Lewis and Alan Stewart have remained unchanged since their dates of appointment in 2014.

	Dave Lewis		Alan Stewart	
Base salary	2018/19	2017/18	2018/19	2017/18
Increase in year (%)	**Nil**	Nil	**Nil**	Nil
Annual base salary (£'000)	**1,250**	1,250	**750**	750
Base salary received in year (£'000)	**1,250**	1,250	**750**	750

Benefits (audited).

Each Executive Director received a car or cash allowance and the benefit of a driver. The Company also provided health insurance and life assurance. Details of benefits paid in 2018/19 are set out in At a glance on page 66.

Pension.

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

	Dave Lewis		Alan Stewart	
Pension	2018/19	2017/18	2018/19	2017/18
Annual cash allowance in lieu of pension (% of base salary)	**25%**	25%	**25%**	25%
Annual cash allowance in lieu of pension (£'000)	**313**	313	**188**	188

2018/19 variable remuneration (audited).

2018/19 annual bonus payouts for the Executive Directors.

In determining the final level of bonus payable, the Committee considered the wider performance of the Group and noted that management were continuing to make improvements in the way we serve customers, had met the vast majority of the turnaround targets and had strategically repositioned the Group. The Committee considered potential adjustments to the annual bonus measures to take account of events which have impacted outcomes, but which were not foreseen or allowed for at the start of the year when targets were set. The Committee decided to take the sales and profit numbers of Tesco Direct out from both targets and actuals following its closure. The Committee also decided to adjust targets to reflect Board approved strategic decisions and legal changes (e.g. restrictions being placed on trading days) in Central Europe. Outcomes have been adjusted to remove Tesco Direct sales and losses incurred in the first five months of the year before it was closed. This resulted in the sales performance figure for incentive purposes being £95m lower than the reported outcomes and the profit figure being £24m higher than the reported outcomes.

	Executive Directors	
Total annual bonus payout in 2018/19 (audited)	Dave Lewis	Alan Stewart
Stretch bonus opportunity (% of base salary)	250%	225%
Actual bonus (% of maximum)	52.5%	49.4%
– *sales growth*	*14.1%*	*14.1%*
– *Group operating profit*	*21.8%*	*21.8%*
– *individual objectives*	*12.4%*	*9.3%*
– *stakeholder objectives*	*4.2%*	*4.2%*
Actual bonus (% of base salary)	131.3%	111.2%
Actual bonus (£'000)	1,641	834
Deferred into shares (50% of actual bonus) (£'000)	820.5	417

[a] Details of the outcomes of each annual bonus metric are set out on page 67.

2018/19 achievement of individual objectives.

Executive Director	China JV opportunities (5%)	Loyalty (5%)	Booker synergies (5%)
Dave Lewis	During the year, there were a number of initiatives focused on improving the performance of the Group's joint venture in China – Gain Land Limited. This resulted in a payout between target and stretch of 3.3%.	A number of improvements were made to Clubcard during the year, including a refresh of the Clubcard app with Faster Vouchers functionality, with users up 34% year-on-year, and the launch of Colleague Clubcard Plus. As a result of this performance a maximum payout was achieved of 5%.	Against a backdrop of considerable change, Booker synergies of £79m were generated. This was above the target of £60m and resulted in a payout of 4.1%.

Executive Director	China JV opportunities (5%)	Finance Transformation (5%)	Booker synergies (5%)
Alan Stewart	As above, payout between target and stretch of 3.3%.	The new general ledger went live in the UK in November 2018. Work remains on rolling it out to international businesses. Payout between threshold and target of 1.9%.	As above, payout between target and stretch of 4.1%.

[a] Details of the outturn of the financial and stakeholder performance metrics for the 2018/19 annual bonus are set out in At a glance on page 67.

2016 PSP vesting (audited).

The PSP award granted in 2016 will vest in May 2019 based on performance up to and including the 2018/19 financial year. The performance outcome was as follows:

	Performance targets			Vesting level					Number of shares to vest[c]	
Measures (% maximum)	Threshold	Target	Stretch	Threshold	Target	Stretch	Actual performance	Payout (% maximum)	Dave Lewis	Alan Stewart
Relative TSR[b] (50%)	Performance equal to the index	–	8% p.a. outperformance of the index	25%	Straight-line vesting between threshold and stretch	100%	Below index	0%		
Cash generation (30%)	£7,998m	£8,398m	£8,798m	25%	50%	100%	£8,379m	14.6%	635,814	346,807

[a] The stakeholder measures paid out at 14.2% of maximum opportunity. Further details are set out on page 66.
[b] TSR was assessed against a benchmark index made up of FTSE 350 Food and Drug Retailers (excluding Tesco) and FTSE 350 General Retailers weighted 85% and 15%, respectively.
[c] For the equivalent value in cash see the Single total figure of remuneration table on page 66.
[d] Details of adjustments to the cash generation targets are set out on page 72.

Based on the above performance, 28.8% of the 2016 PSP awards will vest in May 2019. The share price at grant of the 2016 PSP award was 159p. Based on the three-month average share price to 23 February 2019 of 210p, £324,011 of the value of the PSP award for Dave Lewis and £176,733 of the value of the PSP award for Alan Stewart is attributable to share price appreciation over the three-year performance period.

The Committee considered the formulaic outcomes of the PSP award in the context of specific Company performance, the wider shareholder and stakeholder experiences and the change in the actual value of shares which will be delivered to Dave Lewis and Alan Stewart as a result of share price appreciation. Following such considerations and despite agreeing that the formulaic outcomes did not reflect the Group's strong performance over the three-year performance period, the Committee determined that it would not apply any discretion in respect of their awards.

2018 PSP award grant (audited).

The following summarises the PSP awards made to Dave Lewis and Alan Stewart in 2018/19.

	Type of award	Date of award	Gross number of shares	Face value (% of base salary)	Face value (£)[a]	Threshold vesting (% of face value)	Stretch vesting (% of face value)	Vesting date
Dave Lewis	Performance share award subject to performance conditions and continued employment	16/07/18	1,340,103	275%	3,437,500	25%	100%	16/07/21
Alan Stewart	Performance share award subject to performance conditions and continued employment	16/07/18	730,965	250%	1,875,000	25%	100%	16/07/21

[a] The face value has been calculated using the market price on grant of 256.51p (16 July 2018). The range of the Company's share price for the year was 190p to 266p.
[b] The awards have a three-year performance period which will end on 27 February 2021 and are subject to malus and clawback. Details of the performance measures and targets applying to the awards were set out in last year's Annual Report.
[c] The vested shares, net of any tax liabilities, will be subject to a post-vesting holding period of two years.
[d] The table shows the maximum number of shares that could be released if awards were to vest in full.

Adjustments to PSP targets.

The Committee considered adjustments to targets as a result of a number of unplanned items and agreed the following changes to ensure the PSP awards remained equally stretching and a clear line of sight was maintained.

2016 PSP award – Adjustments to cash generation targets.

	Threshold (£m)	Target (£m)	Stretch (£m)
Original targets	8,600	9,000	9,400
Adjustments	(602)	(602)	(602)
Revised targets	7,998	8,398	8,798

[a] Targets were adjusted to:

- add targeted cash generation from the Booker business over the period following the merger in March 2018 to ensure the stretch in targets was maintained and management were incentivised to deliver the full financial benefits;
- remove the cash costs relating to the SFO fine and shareholder compensation scheme payments. This settlement related to historic accounting practices prior to the current management team joining the business;
- remove the one-off cash cost of the decision to pay the Colleague bonus plan from 2016 in cash, rather than shares. This decision was taken to appropriately manage equity issuance and did not reflect an additional economic cost; and
- reflect decisions impacting working capital made in the second half of the year, including the impact of additional stock build as a result of political uncertainty. The most significant of these related to a decision to delay the implementation of a new general ledger system by a few months, which resulted in the collection of some receivable balances being delayed into the beginning of 2019/20. As this was a timing issue, targets were adjusted accordingly. This adjustment was reviewed by the Audit Committee. A commensurate increase has been made to the budgets and targets for the 2019 PSP award. This adjustment will not be made to the cash flow measures on the 2017 and 2018 PSP awards, which are based on cumulative cash flow.

2017 PSP award – Adjustments to cash generation targets.

	Threshold (£m)	Target (£m)	Stretch (£m)
Original targets	9,200	9,700	10,200
Revised targets (including impact of Booker transaction and SFO fine and shareholder compensation scheme payments)	9,603	10,103	10,603
Revised targets (including IFRS 16)	10,676	11,176	11,676

[a] The adjustments outlined for 2016 PSP awards above in relation to Booker and the SFO fine and shareholder compensation scheme payments, also apply to the 2017 PSP award.

[b] In addition, targets have been adjusted to take into account IFRS 16 (the new lease accounting standard) as the original targets were set on the basis of the previous accounting standard. This adjustment to targets is purely formulaic to take into account the new standard.

2018 PSP award – Adjustment to EPS targets.*

	Threshold (p)	Target (p)	Stretch (p)
Original targets (excluding IFRS 16)	18.0	21.2	24.4
Revised targets (including IFRS 16)	16.1	19.3	22.5

[c] The EPS* targets for the 2018 PSP award have been adjusted to take into account IFRS 16. This adjustment to targets is purely formulaic to take into account the new accounting standard.

Remuneration of Charles Wilson in 2018/19 (audited).

Charles Wilson joined the Board as CEO, UK & ROI on 5 March 2018 and stepped down from the Board on 16 July 2018 due to illness. As he was on the Board for a short portion of the year, his remuneration has been disclosed separately from that of the other Executive Directors. The figures shown below relate to the portion of the year in which Charles Wilson was on the Board.

	Year	Base salary (£'000)	Benefits (£'000)	Pension (£'000)	Short-term annual bonus (£'000)	Long-term performance share plan (£'000)	Total (£'000)
Charles Wilson	2018/19	212	8	42	206	–	468

Fixed remuneration.

Charles Wilson's base salary on appointment was £575,000 and his cash allowance in lieu of pension was 20% of base salary. He also received benefits consisting of life assurance and a cash car allowance.

Variable remuneration.

The maximum annual bonus opportunity for Charles Wilson on appointment was 200% of base salary. This was measured against financial and strategic objective metrics, in line with other Executive Directors' and senior managers' awards. The financial metrics were measured, and the outcome was adjusted, in the same way as for other Executive Directors and senior managers, and therefore his performance outcome in the year against these metrics is the same as described in At a glance on page 67. Charles Wilson achieved a performance outcome of 10% against his strategic objectives, making his 2018/19 bonus outturn 45.9% of maximum opportunity. In accordance with the remuneration policy, 50% of the award will be deferred into Tesco PLC shares for three years, subject to continued employment. Details of his interests in share awards are set out on page 75.

Implementation of remuneration policy in 2019/20

2019/20 salary

The base salaries of Dave Lewis and Alan Stewart will remain unchanged in 2019/20 at £1,250,000 and £750,000, respectively.

2019/20 annual bonus awards

The maximum annual bonus opportunity and performance measures for each of the Executive Directors for 2019/20 is as follows:

Executive Director	Maximum opportunity
Dave Lewis	250%
Alan Stewart	225%

Measures	Weighting
Group operating profit before exceptional items and amortisation of acquired intangibles	50%
Sales growth	30%
Strategic objectives	20%
Group operating profit before exceptional items and amortisation of acquired intangibles	Underpin

Annual bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. Therefore, we do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the annual bonus outcome is reported.

The 2019/20 targets were set based on 2018/19 average actual foreign exchange rates. Performance against these targets will be measured based on the same rates in order to ensure consistent treatment of foreign exchange in both targets and actual performance. To ensure that Executive Directors are not incentivised to grow sales at the expense of satisfactory profitability, a Group operating profit before exceptional items and amortisation of acquired intangibles underpin will continue to be applied to the annual bonus below which no portion of the bonus will be paid.

2019 PSP award grant

As set out in the Annual statement, the Committee has agreed to increase from 250% to 275% of base salary the grant value of Alan Stewart's PSP. The value of the PSP awards to be granted to each Executive Director in 2019 and corresponding performance measures are as follows:

Executive Director	Maximum opportunity
Dave Lewis	275%
Alan Stewart	275%

Performance measure	Definition of measure
EPS*	Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements on financial instruments.
Free cash flow	Free cash flow includes all cash flows from operating and investing activities, plus the market purchase of shares net of proceeds from shares issued in relation to share schemes and lease payments. The following items are excluded: investing cash flows that increase/(decrease) items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.

Both financial measures are defined in the same manner as the reported alternative performance measures as set out on pages 178 to 181.

The corresponding incentive targets over the three-year performance period are:

		Threshold		Stretch	
Performance measure	Weighting	Vesting level	Performance required	Vesting level	Performance required
EPS*[a][b][d]	50%	25%	17.2p	100%	23.2p
Free cash flow (three years)[a][b][c]	50%	25%	£4,334m	100%	£6,501m

[a] EPS* and free cash flow targets have been adjusted for the impact of IFRS 16.
[b] Both PSP performance measures have straight-line vesting between threshold and stretch.
[c] The free cash flow target has been increased to include the impact of the additional year-end working capital balance, as disclosed in relation to the 2016 PSP award on page 72.
[d] Threshold and stretch EPS* targets equate to compound growth of 7.6% and 18.9% per annum, respectively.

Performance targets are set taking into account internal budget forecasts, the Long Term Plan, external expectations and the need to ensure that targets remain incentivising.

Details of the awards made to Dave Lewis and Alan Stewart in 2019 will be reported in next year's Annual Report.

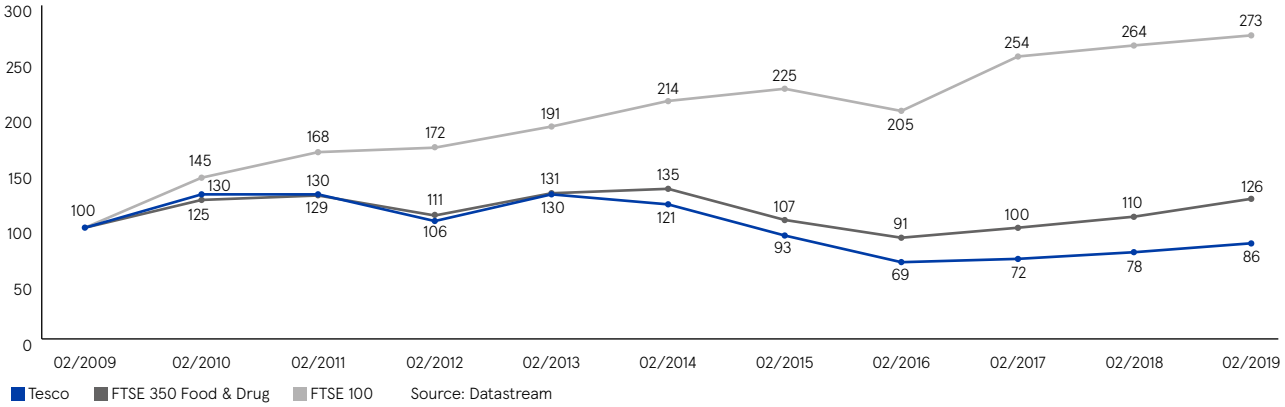
Dividend equivalents

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

Performance graph.

The following chart illustrates the performance of Tesco measured by Total Shareholder Return (share price growth plus dividends paid) against the FTSE 100, which is a broad market index of which Tesco is a constituent, over a period of 10 years. An additional line to illustrate the Company's performance compared with the FTSE 350 Food and Drug Retailers index over the previous 10 years is also included.

TSR performance graph
(Value of hypothetical £100 investment)



While total shareholder returns have been increasing for Tesco in recent years, the period covered by the chart reflects a period of corporate change, including the decision to make a significant reinvestment in our customer offer and withdraw the dividend in 2015, in order to focus on improving the competitiveness of the core UK business and protecting and strengthening the balance sheet. The sector more broadly has faced a number of challenges in recent years, including consumer uncertainty, price competition and cost inflation. Tesco is in a strong position to deal with these challenges and, reflecting improving performance and confidence in the future prospects for the Company, the Board reinstated the dividend in 2017.

Executive Directors' interests in shares and shareholding guidelines (audited).

The table below sets out shares held by the Executive Directors and their connected persons (including beneficial interests) and a summary of outstanding share awards. Both Dave Lewis and Alan Stewart exceed their relevant shareholding guideline.

Executive Director	Ordinary shares beneficially owned at 24/02/18	Ordinary shares beneficially owned at 23/02/19	Unvested deferred annual bonus options/awards subject to continued employment	Unvested PSP awards subject to performance conditions	Vested but unexercised nil cost options, not subject to performance conditions	Current shareholding (% of base salary)	Shareholding requirement (% of base salary)
Dave Lewis	103,346	167,691	2,114,803	5,508,876	2,666,136	454%	400%
Alan Stewart	53,033	116,576	1,139,654	3,004,839	1,171,604	376%	300%

(a) Value of Executive Directors' shareholdings based on the three-month average share price to 23 February 2019 of 210p.
(b) Vested and unvested options and awards include dividend equivalents added since the date of grant.
(c) Shares used to determine the shareholding guideline are shares beneficially owned and shares held in plans which are not subject to performance conditions on a net of tax basis.
(d) Between 23 February 2019 and 9 April 2019, Dave Lewis and Alan Stewart acquired 59 and 58 partnership shares, respectively, under the all-employee Share Incentive Plan. No other changes in Executive Director share interests occurred in the period.

Executive Committee members are required to build up and maintain a shareholding of at least 200% of base salary in Tesco PLC shares. As at the date of this report, this had been met by all Executive Committee members, except Natasha Adams, Alessandra Bellini, Christine Heffernan, Tony Hoggett, Gerry Mallon and Andrew Yaxley who joined the Committee between March 2017 and March 2019. In line with the Executive Directors, Executive Committee members are required to retain all shares that vest, net of any tax liability, and any other Tesco PLC shares held by them until the requirement is met.

Executive Directors' interests in share awards.

Financial year awards vesting in	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Dave Lewis									
Vested awards	461,948	620,957	623,152	479,919	480,160	–	–	–	–
Options subject to service	–	–	–	–	–	939,720	655,815	477,485	–
Options subject to performance and service (PSP)	–	–	–	–	–	2,161,405	1,909,722	1,340,103	–
SAYE options (exercise price £1.88)	–	–	–	–	–	–	–	–	9,574
Alan Stewart									
Vested awards	–	258,287	334,088	259,156	320,073	–	–	–	–
Options subject to service	–	–	–	–	–	507,449	347,906	261,808	–
Options subject to performance and service (PSP)	–	–	–	–	–	1,178,948	1,041,666	730,965	–
SAYE options (exercise price £1.88)	–	–	–	–	–	–	–	–	9,574

(a) 1,096,891 and 598,304 nil-cost options granted under the PSP in 2015 to Dave Lewis and Alan Stewart, respectively, lapsed in 2018/19.

(b) Options over 11,920 shares under the Company's SAYE plan were exercised and the shares retained by both Dave Lewis and Alan Stewart in 2018/19.

(c) Charles Wilson stood down from the Board on 16 July 2018. While a Director, an option over 1,500,647 shares was granted to him on 6 March 2018 following the rollover of an option over 1.4 million Booker Group plc ordinary shares granted under the Booker Group plc Performance Share Plan 2008 on 3 July 2008. The option was exercised on 2 July 2018 and the shares retained by him. In addition, Charles Wilson was granted an award over 504,366 shares under the PSP on 16 July 2018, which will vest on 16 July 2021. Details of the performance measures and targets applying to the award were set out in last year's Annual Report.

(d) All options lapse 10 years after grant, except SAYE options which expire six months after maturity.

(e) Vested options include dividend equivalents added as shares since the date of grant.

Change in Group Chief Executive remuneration compared with changes in colleague remuneration.

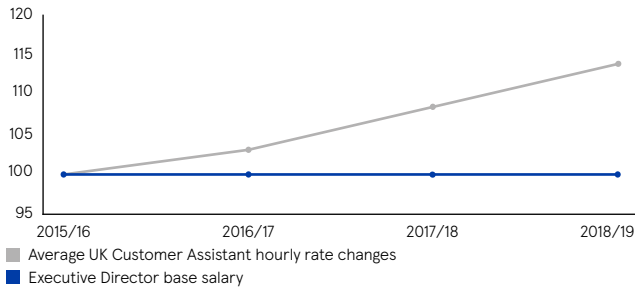
In the UK, the total reward package for a typical Customer Assistant is ahead of the voluntary Living Wage on a national basis and the same hourly rate is paid to all colleagues regardless of age. The Company is committed to rewarding colleagues with a total reward package that provides them with choice and that they really value.

The table below shows the percentage change in remuneration for the Group Chief Executive and the average UK Customer Assistant from 2017/18 to 2018/19.

The Committee decided to use UK Customer Assistants as the appropriate comparator group. The reasoning was that, as pay changes across the Group depending on local market conditions, UK Customer Assistants constitute the majority of Tesco's UK colleagues and the Group Chief Executive is predominantly based in the UK, albeit with a global role and responsibilities.

	Salary (% change from 2017/18 to 2018/19)	Benefits (% change from 2017/18 to 2018/19)	Bonus (% change from 2017/18 to 2018/19)
Group Chief Executive	0%	(6.2)%	(27.9)%
Average UK Customer Assistant	5.0%	0%	(4)%

Bonuses for 2018/19 for UK Customer Assistants paid out on average at 73% of the maximum bonus opportunity (2017/18: 77%).



The chart opposite shows that between 2015/16 and 2018/19 the hourly rate paid to UK Customer Assistants increased by 14%. The base salaries of Dave Lewis and Alan Stewart were unchanged over the same period.

Group Chief Executive remuneration history.

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19
	Sir Terry Leahy	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis[b]	Dave Lewis	Dave Lewis	Dave Lewis	Dave Lewis
Group Chief Executive single figure of remuneration (£'000)	7,100	7,150	4,595	1,280	1,634	764	4,133	4,632	4,147	5,113	4,600
Annual bonus outturn (% of maximum award)	89%	75%	0%[a]	0%	0%	0%	n/a	96%	76%	73%	52.5%
PSP vest (% of maximum award)	83%	75%	46.5%	0%	0%	0%	n/a	n/a	n/a	30%	28.8%
Share option vesting (% of maximum award)	100%	100%	100%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

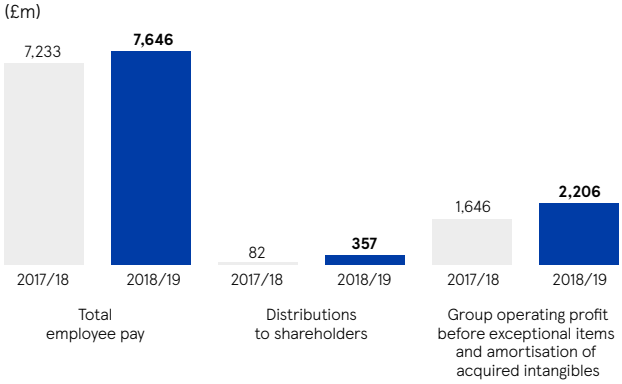
(a) Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014.

(b) 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 nil cost options 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 had no impact on the single figure for 2015/16 or any future years.

Relative importance of spend on pay.

The chart shows total colleague pay compared with distributions to shareholders and for further context, Group operating profit before exceptional items and amortisation of acquired intangibles. Tesco's colleagues are essential to how the Company does business and meets the needs of its customers. In 2018/19, Tesco employed, on average, 464,505 colleagues across the Group (2017/18: 448,988).

Total employee pay includes wages and salaries, social security, pension and share-based costs at actual exchange rates (£7,646m in 2018/19 and £7,233m in 2017/18 – see Note 3 of the financial statements). Distributions to shareholders include interim and final dividends paid in respect of each financial year (£357m in 2018/19 and £82m in 2017/18 – see Note 8 of the financial statements). There were no share buybacks in 2017/18 or 2018/19.



Further information on remuneration in 2018/19.

Payments to former Directors and for loss of office (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.

Risk management.

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk-taking or 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. The Committee also has the discretion to apply malus and clawback in certain circumstances.

Outside appointments.

In 2018/19, Alan Stewart received £122,000 (2017/18: £118,000) in fees and a product allowance as a non-executive director of Diageo plc. He does not receive any fees as a Director of Tesco Personal Finance Group PLC (Tesco Bank).

Executive Directors' service agreements.

The Executive Directors' service agreements, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Executive Directors of the calibre required to manage the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service agreement	Notice period
Dave Lewis	19 July 2014	12 months
Alan Stewart	9 July 2014	12 months

Funding of equity awards.

Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue which provide that overall dilution under all plans should not exceed 10% over a 10-year period in relation to the Company's issued share capital, with a further limitation of 5% in any 10-year period for executive plans. The current dilution usage of discretionary plans is 2.0% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees' Share Scheme 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 23 February 2019, the Trusts held 69,590,647 shares.

Implementation of remuneration policy for Non-executive Directors in 2018/19.

Non-executive Directors' dates of appointment.

Director	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment
John Allan	1 March 2015	None	AGM 2019
Mark Armour	2 September 2013	None	AGM 2019
Melissa Bethell	24 September 2018	None	AGM 2019
Stewart Gilliland	5 March 2018	None	AGM 2019
Steve Golsby	1 October 2016	None	AGM 2019
Byron Grote	1 May 2015	None	AGM 2019
Mikael Olsson	1 November 2014	None	AGM 2019
Deanna Oppenheimer	1 March 2012	None	AGM 2019
Simon Patterson	1 April 2016	None	AGM 2019
Alison Platt	1 April 2016	None	AGM 2019
Lindsey Pownall	1 April 2016	None	AGM 2019

Non-executive Director fees.

The Chairman's fee was reviewed by the Committee (without the Chairman present) and the Non-executive Director fees by a committee comprising the Chairman, Group Chief Executive and Chief Financial Officer in 2018. Following a review of independently sourced data, it was deemed appropriate to increase the Chairman's fee by 3.1% to £670,000 and Non-executive Director annual fees in accordance with the levels set out in the table below with effect from 1 November 2018. The Chairman's fee has remained unchanged since his appointment in 2015 and the Non-executive Director fees were last increased with effect from 1 March 2017. In future, fees will be reviewed each year to coincide with salary reviews for colleagues.

	24 February to 31 October 2018	From 1 November 2018
Chairman	£650,000	£670,000
Non-executive Director fee	£72,000	£75,000
Additional fees:		
Senior Independent Director	£27,000	£27,000
Chairs of the Audit, Corporate Responsibility and Remuneration Committees	£31,000	£31,000
Membership of Audit, Corporate Responsibility, Nominations and Governance and Remuneration Committees	£12,500	£13,500

The Company reimburses the 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. For Non-executive Directors based overseas the Company meets travel and accommodation expenditure as required to fulfil their duties and may settle any tax incurred in relation to these. John Allan may have the benefit of home security, colleague discount and healthcare for himself and his partner.

Fees paid to Non-executive Directors during 2018/19 (audited).

The following table sets out the fees paid to the Non-executive Directors for the year ended 23 February 2019. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

Non-executive Director	Date	Fees (£'000)	Taxable expenses[a] (£'000)	Total (£'000)
John Allan	2018/19	655	8	663
	2017/18	650	10	660
Mark Armour	2018/19	86	–	86
	2017/18	84	–	84
Melissa Bethell[b]	2018/19	33	0.5	33.5
	2017/18	–	–	–
Stewart Gilliland[b]	2018/19	71	0.5	71.5
	2017/18	–	–	–
Steve Golsby	2018/19	99	13	112
	2017/18	89	9	98
Byron Grote	2018/19	129	–	129
	2017/18	128	–	128
Mikael Olsson	2018/19	98	5	103
	2017/18	97	4	101
Deanna Oppenheimer	2018/19	156	18	174
	2017/18	155	14	169
Simon Patterson	2018/19	86	–	86
	2017/18	84	–	84
Alison Platt	2018/19	86	0.5	86.5
	2017/18	84	2	86
Lindsey Pownall	2018/19	104	10	114
	2017/18	95	6	101

[a] Taxable expenses include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which are deemed by HMRC to be taxable in the United Kingdom. The amounts in the table above include the grossed-up cost of UK tax paid by the Company on behalf of the Non-executive Directors. Non-taxable expense reimbursements have not been included in the table above.

[b] Stewart Gilliland and Melissa Bethell joined the Board on 5 March 2018 and 24 September 2018, respectively.

Beneficial share ownership (audited).

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 there were no changes to their share interests between 24 February 2019 and 9 April 2019.

Non-executive Director	Ordinary shares held at 23 February 2019	Ordinary shares held at 24 February 2018
John Allan[a]	306,082	284,082
Mark Armour	50,000	50,000
Melissa Bethell	25,335	–
Stewart Gilliland	43,398	43,050
Steve Golsby	42,296	42,296
Byron Grote[b]	280,500	243,000
Mikael Olsson	30,418	20,101
Deanna Oppenheimer[b]	110,820	109,041
Simon Patterson	100,000	100,000
Alison Platt	34,255	11,242
Lindsey Pownall	70,000	20,000

[a] John Allan also held 398,000 bonds in the Company at 23 February 2019 (398,000 bonds at 24 February 2018).

[b] Byron Grote and Deanna Oppenheimer held their shares in the form of American Depositary Receipts. Each ADR is equivalent to three Ordinary shares of 5p each in the Company.

The Remuneration Committee in 2018/19.

Operation of the Remuneration Committee.

The members of the Committee during the year were: John Allan, Steve Golsby, Byron Grote, Mikael Olsson, Deanna Oppenheimer and Alison Platt. Steve Golsby took over the role of Chair of the Committee from Deanna Oppenheimer on 1 February 2019. Deanna Oppenheimer continues to serve as a member of the Committee. The Directors' biographies can be found on pages 40 to 42 and details of members' attendance at meetings during the year on page 47. 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.

The Committee schedules meetings two years in advance. During the year, it held four scheduled meetings. Robert Welch, Group Company Secretary, is Secretary to the Committee and Dave Lewis, Group Chief Executive, and Natasha Adams, Chief People Officer, attend meetings at the invitation of the Committee. The Group Chief Executive, Chief People Officer and Group Company Secretary are not present when his or her own remuneration is being discussed. The Committee is supported by the Reward, Corporate Secretariat and Finance functions.

Relations with Tesco Bank.

As required by the Financial Conduct Authority, Tesco Bank has a separate, independent remuneration committee. The 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.

Remuneration Committee activities 2018/19.

The following provides a summary of the key areas of focus of the Committee during the year:

Strategy and policy	Reviewed external market developments and best practice in remuneration. Considered feedback from investors on the 2018 remuneration policy.
Appointments and cessations	Approved remuneration packages for new Executive Committee members and other senior managers. Approved the cessation terms of Jane Lawrie on leaving the Executive Committee and the remuneration package of Charles Wilson on stepping down from the Board.
Pay	Reviewed Executive Directors' remuneration packages and agreed to increase the Chief Financial Officer's PSP grant to 275% of base salary. Determined an increase to the Chairman's fee.
Short-term incentives	Reviewed performance against targets and approved adjustments to the annual bonus outcome. Approved amendments to the weightings of the annual bonus metrics and determined 2018/19 targets. Reviewed the rules of the Tesco PLC Deferred Bonus Plan prior to being put to shareholders at the 2019 AGM. Approved amendments to share plan rules to implement the requirements of the 2018 Code.
Long-term incentives	Reviewed performance against targets and determined 2015 PSP outturn. Determined metrics and targets for the 2018 PSP award. Determined adjustments to the targets of unvested PSP awards. Approved amendments to share plan rules to implement the requirements of the 2018 Code.
Governance and other matters	Reviewed shareholder feedback on the 2018 Annual Report. Made a number of amendments to remuneration and disclosures to implement the requirements of the 2018 Code and the Companies (Miscellaneous Reporting) Regulations 2018. Reviewed shareholding guidelines and progress of Executive Directors and Executive Committee members. Approved the 2017/18 Directors' remuneration report. Received a report from Tesco Bank remuneration committee. Reviewed the Committee's performance and terms of reference.

Committee advisors.

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. PwC was appointed advisor to the Committee in 2015 following a comprehensive selection process. The Chair of the Committee agrees the protocols under which PwC provides advice. PwC is a member of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee.

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, consulting with shareholders and corporate governance. PwC fees for advice provided to the Committee were £120,700 (2017/18: £166,000). Fees are charged on a time and materials basis. PwC also provided general consultancy services to management during the year. Separate teams within PwC provided unrelated advisory services in respect of corporate tax compliance, technology consulting and internal audit services during the year. However, the Committee is satisfied that these activities do not compromise the independence or objectivity of the advice it has received from PwC.

Compliance.

In carrying out its duties, the 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 84 to 91, covers the disclosures referred to in this Report that are specified for audit by the Financial Conduct Authority.

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.

Voting outcomes at 2018 AGM.

	Votes for	%	Votes against	%
Remuneration policy (binding vote)[a]	6,732,074,335	93.15	495,171,972	6.85
Remuneration report (advisory vote)[a]	7,036,698,808	96.94	222,134,025	3.06

[a] 35,311,423 votes were withheld on the remuneration policy and 3,745,517 on the remuneration report. 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.

Approved by the Board on 9 April 2019.

Steve Golsby
Remuneration Committee Chair

The Directors present their report, together with the audited accounts for the 52 weeks ended 23 February 2019.

Dividends.

The profit for the financial year, after taxation, amounts to £1,320m (2017/18: £1,210m) from continuing operations. The Directors have declared dividends as follows:

Ordinary Shares	£m
Paid interim dividend of 1.67 pence per share† (2017/18: 1 pence per share)	162
Proposed final dividend of 4.10 pence per share (2017/18: 2 pence per share)	402
Total dividend of 5.77 pence per share for 2018/19* (2017/18: 3 pence per share)	564

* Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 21 June 2019 to all shareholders on the Register of Members at the close of business on 17 May 2019.

† Excludes £2m dividends waived (2018: £nil).

Certain nominee companies representing our employee benefit trusts hold shares in the Company in connection with the operation of the Company's share plans and evergreen dividend waivers remain in place on shares held by them that have not been allocated to employees.

Share capital and control of the Company and significant agreements.

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares are set out in Note 28 on page 147.

No shareholder holds securities carrying special rights with regards to control of the Company and there are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2018 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-emption Group.

Shares held by the Company's Share Incentive Plan Trust, International Employee Benefit Trust, Employees' Share Scheme Trust, Tesco Ireland Share Bonus Scheme Trust and Booker Group 2010 Employee Benefit Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Major shareholders.

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service and are available on the Company's website. The Company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 23 February 2019 and as at the date of this report:

	% of total voting rights as at 23 February 2019	% of total voting rights as at the date of this report
BlackRock, Inc.	6.64	6.64
Norges Bank	3.99	3.99
Schroders plc	4.99	4.99

Articles of Association.

The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

Directors and their interests.

The biographical details of the current serving Directors are set out on pages 40 to 42. The Directors who served during the year were: John Allan; Mark Armour; Melissa Bethell (appointed 24 September 2018); Steve Golsby; Byron Grote; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; Alan Stewart and Charles Wilson (stood down from the Board on 16 July 2018). The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 62 to 79.

On 5 March 2018 Stewart Gilliland and Charles Wilson were appointed to the Board. Charles Wilson resigned as a Director on 16 July 2018 due to ill health, but remains a member of the Executive Committee. On 24 September 2018 Melissa Bethell was appointed to the Board.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries. A qualifying third party indemnity provision, as defined in Section 234 of the Companies Act 2006, is in force for the benefit of each of the Directors and the Group Company Secretary (who is also a Director of certain subsidiaries of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year.

Employment policies.

Our focus is on ensuring that our policies are simple, helpful and trusted, so that our colleagues are able to source the information they need quickly and easily. As our internal technology develops, we are transitioning to colleague self-service. The development of our Colleague Help service puts information into the hands of colleagues themselves, ensuring policies are better utilised, and available to all. These new platforms provide helpful feedback and analytics which facilitate our understanding of how and where we can continue to improve our offer.

Over the last year we have continued to work with our recognised trade union in the UK, Usdaw, to improve our policies so that they address the needs of all our colleagues. Our local and national forums are invaluable for giving colleagues a voice and ensuring they are engaged with business decisions that are made. Such feedback helps us drive our business forward as our colleagues are closest to our customers.

Our Equal Opportunities, Diversity and Inclusion policies support managers and colleagues in creating a diverse and inclusive culture where everyone is welcome. We are committed to employing and supporting people who are disabled, or become disabled during their career within the Group and where possible, we make reasonable adjustments in job design and provide appropriate training. Our policies demonstrate our commitment to providing equal opportunities to all colleagues, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation. We offer a range of colleague networks to maintain a culture of inclusivity, including: Out at Tesco; Women at Tesco; Black Asian Minority Ethnic Network; Armed Forces Network; and Disability Network. We are proud to be a Disability Confident Employer as part of the UK Government's Disability Confident scheme, a Global Diversity champion with Stonewall and a gold member of the UK Government's Armed Forces Covenant. This demonstrates Tesco's commitment to ensuring we create an environment where all colleagues have the opportunity to get on.

We publish a robust Guide to help managers ensure they are supporting both colleagues and new applicants with disabilities. Our recruitment principles ensure that any applicant who can meet the minimum assessment criteria will be invited to interview regardless of whether they have a protected characteristic. When arranging further assessment interviews we ask candidates if they require any reasonable adjustments to help support them during the interview process, such as making adjustments to the scoring mechanisms used for interview assessments for someone who has learning difficulties or dyslexia.

We actively encourage colleagues to become involved in the financial performance of our business through a variety of share and bonus schemes.

We review and update all our policies annually.

More information on engagement with our colleagues can be found on page 53.

Political donations.

The Group did not make any political donations (2017/18: £nil) or incur any political expenditure during the year (2017/18: £nil).

Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (the Code).

The Code regulates aspects of the commercial relationship between the 12 largest grocery retailers in the UK and their suppliers of grocery products, establishing an overarching principle that retailers must deal with their suppliers fairly and lawfully. Specific supplier protections under the Code include the obligation for agreements to be in writing and copies retained; reasonable notice to be given of changes to the supply chain or reduction in the volume of purchases; and a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA), Christine Tacon. We continue to engage constructively and positively with the GCA and her office and in 2018/19 we worked together in particular on her Top Issues.

We have an established Code compliance programme at Tesco and One Stop which is embedded throughout our business. Following our merger with Booker in March 2018, we have been developing a bespoke GSCOP compliance programme at Booker which includes training and guidance on the Code. Similarly, as part of our strategic alliance, we have worked with Carrefour to deliver GSCOP training and guidance to colleagues working with suppliers to our UK business. At Tesco and One Stop we train colleagues across our Product and other functions in the UK and in Bengaluru on their obligations under the Code. In 2018/19, we trained 325 new starters and 1,393 colleagues received updated e-learning which is supplemented, where required, with face-to-face training sessions. In addition, 5,647 office colleagues have completed their annual Code of Compliance Declaration, and those colleagues who work with grocery suppliers have also completed a declaration to confirm they have complied with GSCOP during 2018/19. During the year, 530 Booker colleagues attended face-to-face or virtual training sessions on the Code. Training on the Code has been supplemented at Booker through the rollout of detailed guidance documents.

We continue to strengthen and transform the way we work with suppliers through our Product Change Programme, simplifying how we do business and improving our supplier relationships. These developments are having a positive impact on our supplier relationships. In the GCA's annual supplier survey for 2018, Tesco placed second in the overall assessment of Code compliance, an improvement from fourth in 2017. Tesco continues to be the most improved supplier for a third year with 97% of our suppliers recognising that we comply 'consistently well' or 'mostly well' with the Code. In our own supplier survey for the second half of 2018/19, we are pleased that the results continue to reflect the progress we have made with suppliers. Our total UK score for suppliers rating their satisfaction with Tesco as either 'extremely satisfied' or 'very satisfied' was 79.7%. In relation to the areas discussed in this response, our strongest score in viewpoint continues to be 'Tesco pays promptly (within policy terms)' at 88.6%. In addition, 'Tesco ensures issues are listened to, discussed and addressed' saw 76.3% of our suppliers as either 'extremely satisfied' or 'very satisfied'.

This year, 40 Code-related issues were raised by suppliers (this includes four Booker suppliers and one One Stop supplier). In line with feedback sent by the GCA to all designated retailers, we have updated our internal reporting framework to capture all Code related issues raised by suppliers with any colleagues. Therefore, the scope of issues captured has widened for reporting purposes. As at 23 February 2019, we had resolved 34 of the concerns following further discussion between the buying team and the relevant supplier, or between our Code Compliance Officer and the supplier. Of the six remaining complaints to be resolved, we continue our discussions with these suppliers, with a view to resolving these matters.

Going concern, longer term prospects and viability statement.

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The UK Corporate Governance Code 2016 requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 37.

Events after the balance sheet date.

There are no post balance sheet events.

Directors' statement of disclosure of information to the auditor.

Having made the requisite enquiries, the Directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Cautionary statement regarding forward-looking information.

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Principal risks and uncertainties on pages 32 to 36.

Neither the Group, nor any of the Directors, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Undue reliance should not be placed on these forward-looking statements. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Modern Slavery Act.

As per section 54(1) of the Modern Slavery Act 2015, our Modern Slavery Statement is reviewed and approved by the Board on an annual basis and published on our Group website. The statement covers the activities of Tesco PLC and its subsidiaries and details policies, processes and actions we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our business. More information on our Statement can be found on our website.

Anti-corruption and anti-bribery matters.

We have a zero-tolerance approach to bribery and our anti-bribery programme operates around the Group. The programme is built around a clear understanding of how and where bribery risks affect our business and comprises key controls such as policies (anti-bribery, gifts & entertainment, conflicts of interest, charitable donations), procedures such as conducting due diligence on suppliers (in particular those who will engage public officials on our behalf), training colleagues on bribery risks every year and ongoing assurance programmes to test that the controls are functioning effectively. Bribery risk management is discussed at senior leadership groups in each business unit, including at the Group level, and also twice a year with the Audit Committee.

Additional disclosures.

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Future developments	1 to 37
Research and development	15
Greenhouse gas emissions	31
Financial instruments and financial risk management	129 to 139
Corporate governance report	38 to 61
Employee engagement	53

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

	Pages
Statement of capitalised interest	114 to 122
Allotment for cash of equity securities	147
Waiver of dividends	80

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 1 to 37.

Statement of Directors' responsibilities.

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and which enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and priorities. Each of the Directors, whose names and functions are set out on pages 40 to 42 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic report contained within this document includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

By order of the Board

Robert Welch
Group Company Secretary

9 April 2019

Independent auditor's report to the members of Tesco PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- **the financial statements of Tesco PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 23 February 2019 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 36 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- ▲ Booker IFRS 3 acquisition accounting judgements and presentation of results;
- ▲ IFRS 16 presentation and disclosure;
- ▲ Tesco Bank: loan impairment;
- ▶ store impairment review;
- ▶ recognition of commercial income;
- ▶ pension obligation valuation;
- ▶ contingent liabilities;
- ▶ presentation of the Group's income statement; and
- ▶ retail technology environment, including IT security.

Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year identified with ▶.

Key audit matters have been updated for the current year where required.

Materiality

We have considered a number of benchmarks and determined that it is appropriate to base materiality on profit before tax before exceptional items and amortisation of acquired intangibles. The materiality that we used for the Group financial statements was £80m (2017/18: £50m) which equates to 4.7% (2017/18: 4.4%) of profit before tax before exceptional items and amortisation of acquired intangibles. Refer to page 89 for further details of exceptional items and amortisation of acquired intangibles.

Scoping

Our audit scoping provides full scope audit coverage of 95% (2017/18: 96%) of revenue and 95% (2017/18: 92%) of net assets. Following the completion of the Group's merger with Booker the acquired business became part of our full audit scope. The Group's convenience retail business, One Stop, is no longer subject to specific audit procedures due to the business not being significant in the context of the Group.

Significant changes in our approach

Our 2018/19 report includes three new key audit matters:

- Booker IFRS 3 acquisition accounting judgements and presentation of results;
- IFRS 16 presentation and disclosure; and
- Tesco Bank: loan impairment.

We no longer report inventory valuation as a key audit matter due to a reduction in the required level of management judgement.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement on page 83 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including, where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.