Remuneration policy.

Remuneration policy

Our current remuneration policy was approved by shareholders at the 2021 AGM, with a vote of 93.68% in favour. During the year, the policy operated as intended in terms of Company performance and quantum. It is intended that the new policy for Tesco's Executive and Non-executive Directors will operate for a period of three years from the date of approval at the AGM on 17 June 2022.

During 2021, the Committee considered the current policy and held meetings with our largest shareholders to discuss the proposals and governance matters. The Committee was pleased with the support of our largest shareholders for the new policy. No changes were, therefore, made to the proposals. The decision-making process that the Committee followed for the determination, review and implementation of the proposed new remuneration policy is set out in the Chair's letter on pages 74 to 76. In order to manage conflicts of interest, no Director or employee participates in discussions or decisions relating to their own remuneration. However, Executive Directors were kept well-informed to ensure alignment between executive and wider colleague remuneration structures. A summary of how the policy differs for Executive Directors and other colleagues in the Group is set out on pages 83 and 84.

The Committee's review of the remuneration policy sought to ensure that it continues to:

- apply pay principles which are applicable to all colleagues across the Group and, in particular, the principle that the reward package should support the delivery of the Group's purpose of serving customers, communities and the planet a little better every day;
- be aligned with, and incentivise the delivery of, the Group's strategy;
- foster performances in line with the Group's culture, values and behaviours;
- be aligned with wider workforce pay policies and emerging best practice;
- motivate executive talent; and
- drive the success of the Company for the benefit of key stakeholders.

We propose that the policy remains broadly unchanged in 2022, apart from the removal of the financial underpin in the annual bonus. In addition, within the flexibility of the current policy, we propose to introduce non-financial ESG performance measures into the PSP with a total weighting of 25%.

You can find further details of the proposed changes and a summary of the new remuneration policy on pages 80 to 82.
The full remuneration policy that shareholders are asked to approve at the 2022 AGM is set out below and will be available on the Tesco website at www.tescoplc.com.

Remuneration policy table

The following table sets out the proposed remuneration policy:

Base salary	
Purpose and link to strategy	The role of base salary is to support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy. Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience.
Operation	The Committee sets base salary taking into account: – the individual's skills, experience and their performance; – salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally; and – pay and conditions elsewhere in the Group. Base salary is normally reviewed annually with changes effective from 1 June. It may be reviewed more frequently if the Committee determines this is appropriate.
Maximum	Executive Directors' salary increases will normally be in line with the typical level of increase awarded to other colleagues in the Group. Increases may be above this level in certain circumstances such as: – where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role. (In such a case, larger increases may be awarded to move salary positioning closer to the typical market level as the Executive Director gains experience); or – where an Executive Director has been promoted or has had a change in responsibilities, then salary increases in excess of the above limit may be awarded.
Measure	n/a
Change	No change from previous policy.

Remuneration policy continued

Benefits	
Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors and to assist them in the performance of their roles.
Operation	The Committee sets benefit provision at an appropriate market-competitive level, taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other employees in the Group. Core benefits – currently include car benefits, security costs, health insurance and life assurance. Other appropriate benefits may be provided from time to time but will not be significant. Executive Directors shall be reimbursed for all reasonable expenses. The Company may settle any tax incurred in relation to these. Directors shall have the benefit of Directors' and Officers' liability insurance and the provision of an indemnity. All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as other colleagues. Mobility policy – When an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation allowances and any required international transfer-related benefits.
Maximum	The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances. There is therefore no maximum level of benefit.
Measure	n/a
Change	No change from previous policy.

Pension	
Purpose and link to strategy	To provide an appropriate level of retirement benefits as a part of a holistic benefit package.
Operation	Executive Directors receive a cash allowance in lieu of pension or a contribution into a defined contribution scheme.
Maximum	Maximum cash in lieu of pension or contribution will be aligned to the wider workforce (currently 7.5% of base salary).
Measure	n/a
Change	No change from previous policy.

Annual bonus	
Purpose and link to strategy	To reward Executive Directors for the delivery of Tesco's annual financial, operational and strategic goals. Deferral into Tesco shares provides alignment with shareholders.
Operation	The annual bonus is normally delivered: – 50% in cash; and – 50% in Tesco shares which are deferred for three years. Performance is assessed over a financial year. The Committee determines the level of bonus, taking performance against targets and the underlying performance of the business into account. The Committee may apply judgement in making appropriate adjustments to bonus outcomes to ensure they reflect underlying business performance. Malus and clawback provisions apply as described on page 96.
Maximum	Maximum annual bonus opportunity of 250% of base salary. For details of award levels for 2022/23, see page 81.
Measures	The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance. The Committee determines the exact metrics each year depending on the key goals for the forthcoming year. Up to 25% of the bonus is paid for achieving a threshold level of performance and the full bonus is paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set. Below threshold performance, no payment is made. The Committee sets bonus targets each year to ensure they are appropriately stretching in the context of the business plan.
Change	Removal of financial underpin.

Performance Share Plan	
Purpose and link to strategy	To reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value that aligns the economic interests of Executive Directors and shareholders.
Operation	Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise). The Committee has the discretion to amend the formulaic vesting level if it does not consider that it reflects the underlying performance of the Company. All vested shares, net of any tax liabilities, will be subject to a further two-year holding period after the vesting date. Malus and clawback provisions apply as described on page 96.
Maximum	The maximum annual award that can be granted under the PSP is 350% of base salary. For details of award levels for 2022/23, see page 81.
Measures	Awards vest based on financial, non-financial and/or strategic performance conditions which are aligned to the Company's strategic plan (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on financial metrics. The current measures are adjusted diluted EPS (37.5%), cumulative retail free cash flow (37.5%) and ESG performance measures (25%). Any substantial or significant change to measures will be subject to shareholder consultation. Up to 25% of the award vests for threshold levels of performance, increasing to 100% of the award for stretching performance. The Committee sets targets each year so that they are stretching and represent value creation for shareholders, while remaining motivational for management.
Change	The inclusion of ESG performance measures reflects a change in the operation of the policy.

Shareholding requirements	
Guidelines	Tesco operates shareholding guidelines of 400% of base salary for the Group Chief Executive and 300% for the Chief Financial Officer. Executive Directors are required to retain all shares that vest to them, net of any tax liability, whether from the annual bonus, PSP or buyout, until the relevant shareholding guideline is satisfied. The Committee may waive this requirement under certain exceptional personal circumstances. Executive Directors are required to hold 100% of the lower of their shareholding requirement or their actual shareholding at the date of their departure from the Company for two years. They must hold shares covered by the post-cessation shareholding requirement in a corporate sponsored nominee account.
Change	No change to previous policy.

Remuneration policy for new hires

When hiring a new Executive Director, the Committee would generally seek to align their remuneration package with the remuneration policy outlined in this section. The Committee will set base salary taking into account all relevant factors including:

- the experience and calibre of the candidate;
- the candidate's current reward opportunity; and
- the jurisdiction from which the candidate was recruited.

Incentive opportunity will be in line with the policy maximums (i.e. a total maximum incentive opportunity of 600% of base salary).

The Committee may make additional awards when appointing an Executive Director to buy out any remuneration terms forfeited on leaving a previous employer. The Committee will look to do so on a like-for-like basis with the awards forfeited, taking account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested.

To facilitate buyout awards in the event of recruitment, the Committee may grant awards to a new Executive Director under Listing Rule 9.4.2. This allows awards to be granted to facilitate the recruitment of an Executive Director in unusual circumstances, or under other relevant company incentive plans.

The Company will pay legal fees incurred by any new Executive Directors in respect of their appointment.

If an internal candidate is promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

In the event of the appointment of a new Chair or Non-executive Director, remuneration arrangements will reflect the policy outlined on page 97.

Executive Director service agreements and policy on Executive Directors leaving Tesco

When determining leaving arrangements for an Executive Director, the Committee takes any contractual agreements into account, including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

The following table summarises Tesco's policy in relation to Executive Director service agreements and payments in the event of loss of office:

Provision	Current service agreements
Notice period	Up to 12 months' notice by the Company and by the Executive Director. For new appointments, the Committee reserves the right to vary this period to 24 months for the initial period of appointment, and for the notice period to then revert to up to 12 months after the initial 12 months of employment.
Expiry date	Ken Murphy and Imran Nawaz entered into service agreements with Tesco PLC on 1 October 2019 and 6 October 2020, respectively. These are rolling service agreements with no fixed expiry date. The notice period on termination by the Company or the Executive Director is 12 months.
Termination payments (do not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	If the Company terminates an Executive Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company, then the Executive Director has the right to a termination payment that reflects the unexpired term of the notice. Any termination payment in lieu of notice will be based on base salary and benefits only, plus any statutory rights. Termination payments will normally be subject to mitigation and paid in instalments. The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment.
Other information	The Committee may require an Executive Director to work during their notice period, or may choose to place them on garden leave. The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they worked. The Committee will take into account time in active employment and performance to determine the level of bonus. The Committee may make payments in connection with an existing or threatened legal obligation or in respect of any claim related to the cessation of employment. This includes fees for outplacement assistance, legal and/or professional advice. The Company may reimburse the Executive Director for reasonable legal expenses if they leave by mutual consent. Directors' and Officers' liability insurance for a specified period following the Executive Director's termination date may be provided. Where an Executive Director has been recruited from overseas, the Company may pay for repatriation.

Shareholders can view service agreements of the Executive Directors at the Company's registered office.

Remuneration policy continued

Share plan rules – leaver provisions

The relevant share plan rules govern the treatment of outstanding share awards when an Executive Director leaves. The following table summarises leaver provisions under the executive share plans for good leavers. All awards will normally lapse except for good leavers. In specific circumstances, however, the Committee may exercise its discretion to modify the policy outlined to the extent that the rules of the share plan allow this. The Committee will not exercise discretion to allow awards to vest where the participant is dismissed for gross misconduct. Where an Executive Director leaves as a result of summary dismissal, they will forfeit outstanding share incentive awards.

Good leavers are those who have left the Company due to injury, ill-health or disability, death, redundancy, retirement, the entity which employs them ceasing to be part of the Group or any other reason determined by the Committee, taking into account the circumstances of departure and performance.

Deferred bonus plan awards	Unvested awards vest at cessation. The Committee has discretion to defer vesting to the normal vesting date.
Long term incentive plan awards	Unvested awards normally vest on the normal date, pro-rated for time and take into account performance achieved. In the event of retirement, the Committee has the right to lapse awards granted since February 2019 if the former Executive Director is employed in a substantive role prior to the vesting of the award. On vesting, shares will be subject to a two-year holding period. Shares in the holding period will continue to be held until the end of the two-year holding period. In the event of death, however, shares will be released to the estate.
All-employee share plans	Leaver provisions under all-employee share plans are determined in accordance with HMRC-approved provisions.

Other vesting circumstances

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

- a participant is transferred to another country, making them suffer a tax disadvantage or become subject to restrictions on their award; or
- in the event of a takeover, winding-up or other corporate event affecting the Company, which may affect the value of share awards (such as a demerger or dividend in specie).

The Committee will determine the number of shares under an award that vest in these circumstances. In the case of PSP awards, the Committee will consider performance and the time elapsed since grant when determining the level of vesting. Awards will vest in full in the case of deferred annual bonus share awards.

Information supporting the policy table

Dividend equivalents

Dividend equivalents are payable on deferred annual bonus and PSP awards that vest, usually in the form of additional shares.

Discretion in relation to incentive plans

The Committee retains discretion regarding the annual bonus and PSP plans. This relates to:

- the timing, size and type of awards and holding periods, subject to policy maximums, and the annual setting of targets;
- circumstances where qualitative performance measures are used, when performance against those measures is not in line with the Group's overall financial or strategic performance over the performance period;
- the adjustment of targets and measures if events occur which cause the Committee to determine it is appropriate to do so. The Committee also retains the right to change performance measures and the weighting of measures, in circumstances including:
  - following feedback from regulators, shareholders and/or other stakeholders; and
  - amending the plan rules in accordance with their terms and/ or amending the basis of operation (including but not limited to the approach in respect of dividend equivalents);
- the exercise of discretion in accordance with the rules, including in relation to whether or not malus or clawback provisions would apply, in connection with recruitment, or terminations of employment, or corporate events affecting the Company; and
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, special dividends and other corporate actions).

The Committee will disclose any exercise of discretion in accordance with regulatory requirements.

Malus and clawback provisions

The Committee has the discretion to scale back deferred share awards and PSP awards prior to the satisfaction of such awards if:

- results are materially misstated;
- the participant has contributed to serious reputational damage to the Company or one of its business units;
- the participant's conduct has amounted to serious misconduct, fraud, dishonesty, a breach of the Code of Business Conduct or material wrongdoing;
- the determination of the vesting or value of an award has been affected by an underlying incorrect figure in the accounts; or
- an error or miscalculation in determining the vesting or value of an award is identified.

Under malus, deferred share awards and unvested PSP awards can be reduced (including down to zero) or be made subject to additional conditions. Clawback allows for the repayment of cash bonuses previously paid up for a period of three years and PSP awards for a period of two years after the vesting date.

There are robust mechanisms in place to ensure that these malus and clawback provisions are enforceable.

Timing of target disclosure

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

Terms of share awards

The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans.

For share awards, the number of shares subject to an award may be adjusted in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Committee's opinion affect the current or future value of awards.

The Committee may amend performance targets in accordance with the terms of an award or if a transaction or event occurs which causes the Committee to decide (taking into account the interests of shareholders) that an amended performance condition would be more appropriate, would continue to achieve the original purpose and would be no less challenging to achieve.

Payments outside policy

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

External appointments

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

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items

– Fees for the Non-executive Chair and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary.
– Fees are set taking into account the following factors:
  – the time commitment required to fulfil the role; and
  – typical practice at other companies of a similar size and complexity to Tesco.
– Non-executive Directors' fees are set by the Board and the Chair's fee is set by the Committee (the Chair does not take part in any discussion about their fees).
– Fees are reviewed by the Board and the Committee at appropriate intervals.
– Fees paid to the Non-executive Chair and Non-executive Directors may not exceed the aggregate limit set out in the Company's Articles of Association.
	– Our Non-executive Director fees policy is to pay:
	  – a basic fee for membership of the Board;
	  – an additional fee for the Chair of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role;
	  – an additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role; and
	  – additional fees to reflect additional Board or Committee responsibilities as appropriate.
	– Non-executive Directors may also serve on the board of Tesco Bank. Such Non-executive Directors also receive a basic fee for serving on this board and additional fees for Committee membership in line with other members of this board. Fees for membership of the board of Tesco Personal Finance Group Limited are determined by the board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals.
	– The Non-executive Chair receives an all-inclusive fee for the role.
	– Where significant travel is required to attend Board meetings, additional fees may be paid to reflect this additional time commitment.
		– The Non-executive Directors are not entitled to participate in the annual bonus, PSP or Long Term Incentive Plan.
		– The Non-executive Directors have the benefit of Directors' and Officers' liability insurance, provision of an indemnity and colleague discount on the same basis as colleagues. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so.
		– The Non-executive Chair may have the benefit of a company car and driver, home security, colleague discount and family healthcare. The Committee may introduce additional benefits for the Non-executive Chair if it is considered appropriate to do so.
		– The Company may reimburse the Non-executive Chair and Non-executive Directors for reasonable expenses in connection with the performance of their duties and may settle any tax incurred in relation to these.
		– The Company will pay reasonable legal fees for advice in relation to terms of engagement.
		– If a Non-executive Director is based overseas, then the Company would meet travel and accommodation expenditure as required to fulfil non-executive duties and may settle any tax incurred in relation to these.

Remuneration policy continued

Non-executive Director letters of appointment

Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. Details of Non-executive Directors' dates of appointments and length of service can be found on page 92. In line with the UK Corporate Governance Code, all Non-executive Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors' appointments can be terminated by either party without notice. Non-executive Directors have no entitlement to compensation on termination. Shareholders can view Non-executive Directors' letters of appointment at the Company's registered office.

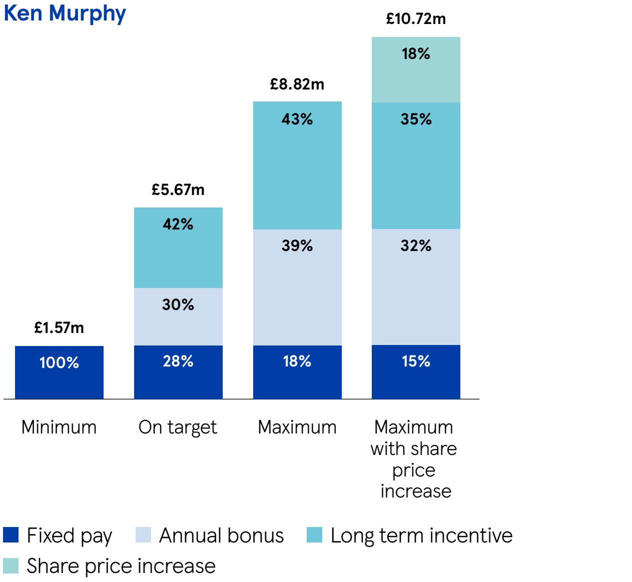
Scenarios for future total remuneration

The charts below provide an illustration of what could be received by each Executive Director under the new remuneration policy in 2022/23. These charts are illustrative as the actual value will depend on business performance and share price performance. The maximum performance also includes an additional bar which shows the impact of a 50% share price growth on the PSP outcome over the relevant performance period to show how the package value is aligned to shareholders.

Remuneration assumptions

Minimum	Fixed pay only – base salary, benefits and pension.
On target	Includes fixed pay, 50% of the maximum annual bonus (equal to 125% of salary for the CEO and 112.5% of salary for the CFO) and 62.5% vesting of the PSP (equal to 172% for the CEO and 156% for the CFO).
Maximum	Includes fixed pay, maximum annual bonus payout (equal to 250% of salary for the CEO and 225% for the CFO) and 100% vesting of the PSP (equal to 275% of salary for the CEO and 250% for the CFO).
Maximum with share price increase	All elements the same as the maximum but assumes a 50% increase in share price.

Group Chief Executive
Ken Murphy



Chief Financial Officer
Imran Nawaz