

Report of the Directors on Remuneration

Directors' remuneration policy

The remuneration packages, including contract periods, of executive directors are determined by the Remuneration Committee ('the Committee'). It ensures that the remuneration package is appropriate for their responsibilities, taking into consideration the overall financial and business position of the Group, the highly competitive industry of which the Group is part and the importance of recruiting and retaining management of the appropriate calibre. The remuneration of the non-executive directors is determined by the Board as a whole on the recommendation of the Executive Committee after considering external market research.

Compliance

The Committee is constituted and operated throughout the period in accordance with the principles outlined in the Stock Exchange Listing Rules derived from Schedule A of the Combined Code. In framing the remuneration policy, full consideration has been given to the best practice provisions set out in Schedule B, annexed to the Listing Rules. The auditors'

report set out on page 17 covers the disclosures referred to in this report that are specified for audit by the London Stock Exchange.

Details of directors' emoluments and interests, including executive and savings-related share options, are set out below and on pages 13 to 16.

The following summarises the remuneration packages for executive directors. Copies of the executive directors' contracts of employment are available for inspection by shareholders as required.

Base salary and benefits

The base salary, contract periods, benefits (which comprise car benefits, life assurance, disability and health insurance) and other remuneration issues of executive directors and other senior executives, are normally reviewed annually by the Committee, having regard to competitive market practice supported by two external, independent surveys.

Table 1 Directors' emoluments	Salary £000	Profit sharing £000	Benefits £000	Incentive scheme		Total 1999 £000	Total 1998 £000
				Short term £000	Long term £000		
Lord MacLaurin (a)	–	–	–	–	–	–	259
Mr J A Gardiner	300	–	–	–	–	300	232
Mr T P Leahy	565	8	16	184	128	901	798
Mr D E Reid	512	8	36	165	115	836	743
Mr R S Ager	366	8	17	117	82	590	550
Mr C L Allen (b)	3	–	–	–	–	3	–
Mr P A Clarke (b)	58	2	2	14	9	85	–
Mr J Gildersleeve	475	8	40	153	106	782	709
Mr A T Higginson	347	–	11	115	80	553	267
Mrs L James	257	8	21	83	58	427	385
Dr M G Jones (c)	10	–	–	–	–	10	33
Mr T J R Mason	347	8	20	113	79	567	493
Mr J W Melbourn	37	–	–	–	–	37	31
Baroness O'Cathain	32	–	12	–	–	44	40
Mr G F Pimlott	30	–	–	–	–	30	28
Mr D T Potts (b)	79	2	3	19	13	116	–
Mr J M Wemms	398	8	35	128	89	658	589
	3,816	60	213	1,091	759	5,939	5,157

a) Former director.

b) Mr P A Clarke and Mr D T Potts were appointed to the Board on 16 November 1998 and Mr C L Allen was appointed to the Board on 19 February 1999.

c) Dr M G Jones resigned from the Board on 11 June 1998.

Profit-sharing

The Group operates an approved employee profit-sharing scheme for the benefit of all employees, including executive directors, with over two years' service with the Group at its year end. Shares in the company are allocated to participants in the scheme on a pro rata basis to base salary earned up to Inland Revenue approved limits.

Executive incentive scheme

The company operates performance-related award schemes designed to provide a growing element of variable reward to reflect the performance of the Group. The executive incentive scheme introduced in March 1993 was designed and introduced for this purpose.

Long term share bonuses are awarded annually, based on improvements in earnings per share, achievement of strategic corporate goals and comparative performance against peer companies including total shareholder return. The maximum long term bonus is 25% of salary. Shares awarded have to be

held for a period of four years, conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

Short term share bonuses are awarded annually, based on improvements in earnings per share and on the achievement of strategic corporate goals. The maximum short term bonus payable is 25% of salary, which is augmented by up to a further 12½% of salary if the participants elect for the trustees of the scheme to retain the fully paid ordinary shares awarded for a minimum period of two years, conditional upon continuous service with the company. The share equivalent of dividends which would have been paid on the shares is added to the award during the deferral period.

Table 2 Gains made on share options

	Number of shares at exercise price (pence)					Total	Price at exercise pence	Value realisable	
	72.3(a)	72.3	77.3	90.3	104.0			1999 £000	1998 £000
Mr T P Leahy	–	–	–	–	–	–	–	–	125
Mr D E Reid	–	–	–	–	–	–	–	–	903
Mr R S Ager	69,123	–	–	119,556	255,312	443,991	182	386	363
Mr P A Clarke	–	–	–	–	251,580	251,580	165	153	–
Mr J Gildersleeve	–	–	43,968	256,824	623,157	923,949	183	781	585
Mr A T Higginson	–	–	–	–	–	–	–	–	–
Mrs L James	–	–	–	223,182	300,048	523,230	187	466	223
Mr T J R Mason	–	–	–	291,552	437,805	729,357	180	594	111
Mr D T Potts	59,622	–	79,713	–	393,432	532,767	172	410	–
Mr J M Wemms	–	27,648	–	128,412	100,000	256,060	183	232	228
Date of grant	29 October 1992	27 May 1993	29 September 1994	27 April 1995	13 October 1995				

a) Mr D T Potts exercised these options at a discounted rate of 61.7p as targets relating to growth in earnings per share have been achieved in accordance with ABI guidelines.

The value realisable from shares acquired on exercise is the difference between the fair market value at exercise and the exercise price of the options, although the shares may have been retained. Where individual directors exercised options on different dates and sold the shares, the price at exercise shown represents an average of the prices on these dates weighted to the number of options exercised. The market price of the shares at 27 February 1999 was 177p. The share price during the 52 weeks to 27 February 1999 ranged from 157p to 202p.

Report of the Directors on Remuneration continued

Executive incentive scheme continued

The Committee sets performance targets annually for the incentive scheme for each of the criteria noted above, confirms achievement of performance and awards to be made under the scheme and directs the general administration of the scheme. The Executive Committee has adopted a policy of extending the Group Board executive incentive scheme to a wider body of senior executives within the Group. The scheme rules and awards of this extension are administered on a consistent basis as previously set out for the executive directors.

The holding period for both the long term and short term shares may be extended to seven and five years respectively by the scheme members. During this holding period, the shares held are increased by 12½% at the beginning of each year based on the scheme shares held. This holding period may be extended only subject to personal shareholding targets set by the Committee being met by the scheme members and conditional upon continuous employment with the company.

Share options

Executive directors are included in an approved executive share option scheme (ESOS), and are eligible to join the employees' savings-related share option scheme (SAYE) when they have completed one year's service.

Executive options granted since 1995 may be exercised only subject to the achievement of performance criteria related to growth in earnings per share, in accordance with ABI guidelines.

Pensions

Executive directors are members of the Tesco PLC Pension Scheme which provides a pension of up to two-thirds of base salary on retirement, normally at the age of 60, dependent upon service. The scheme also provides for dependants' pensions and lump sums on death in service. The scheme is a defined benefit pension scheme, which is approved by the Inland Revenue.

Service agreements

Executive directors have service contracts with entitlement to notice of 24 months. This notice period is renewed annually by the Remuneration Committee and is regarded as an essential part of the remuneration package, designed to retain key executives within the company.

Non-executive directors

Non-executive directors do not have contracts but each appointment is subject to review every three years. Non-executive directors receive a basic fee plus an additional sum in respect of committee membership. Baroness O'Cathain has the benefit of the use of a company car.

Table 3 Pension details of the directors	Age at 27 Feb 1999	Years of service	Increase in accrued pension during the year (a) £000	Transfer value of increase during the year £000	Accrued total pension at 27 Feb 1999 (b) £000
Mr T P Leahy	43	20	18	165	189
Mr D E Reid	52	14	21	292	212
Mr R S Ager	53	13	13	183	160
Mr P A Clarke (c)	38	24	5	36	48
Mr J Gildersleeve	54	34	14	203	255
Mr A T Higginson (d)	41	1	12	102	14
Mrs L James	49	14	11	141	100
Mr T J R Mason	41	17	13	117	109
Mr D T Potts (c)	41	26	4	44	73
Mr J M Wemms	59	27	14	246	250

- a) The increase in accrued pension during the year excludes any increase for inflation.
- b) The accrued pension is that which would be paid annually on retirement at 60 based on service to 27 February 1999.
- c) The increase in accrued pension during the year for Mr P A Clarke and Mr D T Potts relates to the period from 16 November 1998 when they were appointed to the Board of Directors.
- d) Part of Mr A T Higginson's benefits, in respect of pensionable earnings in excess of the earnings limit imposed by the Finance Act 1989, are provided on an unfunded basis within a separate unapproved arrangement.

Table 4 Share options held by directors and not exercised at 27 February 1999

	Number of shares at exercise price (pence)								Sub-total
	72.3 (a)	72.3 (b)	70.0 (b)	81.0 (b)	77.3 (b)	90.3	104.0	98.3	
Mr T P Leahy	62,211	51,150	417,144	471,372	–	398,523	248,256	523,728	2,172,384
Mr D E Reid	–	11,058	11,427	–	–	194,835	557,712	223,728	998,760
Mr R S Ager	–	51,153	75,714	–	106,833	–	–	250,170	483,870
Mr P A Clarke	–	–	–	–	–	–	–	165,504	165,504
Mr J Gildersleeve	–	–	–	–	–	–	–	122,034	122,034
Mr A T Higginson	–	–	–	–	–	–	–	–	–
Mrs L James	–	–	–	–	42,813	–	–	113,646	156,459
Mr T J R Mason	–	–	–	–	–	–	–	284,745	284,745
Mr D T Potts	–	–	–	–	–	–	–	97,581	97,581
Mr J M Wemms	–	–	87,141	–	–	–	566,603	275,643	929,387
Date exercisable (d)	29 October 1995	27 May 1996	10 June 1997	12 August 1997	29 September 1997	27 April 1998	13 October 1998	3 July 1999	
		Sub-total b/f	117.7	151.7	160.3	176.7(c)	164.0(c)	178.0(c)	Total
Mr T P Leahy	2,172,384	–	120,660	–	–	126,832	–	–	2,419,876
Mr D E Reid	998,760	–	601,305	–	–	90,245	–	–	1,690,310
Mr R S Ager	483,870	94,335	299,904	–	89,433	26,831	149,171	–	1,143,544
Mr P A Clarke	165,504	–	76,281	–	17,718	29,946	146,991	–	436,440
Mr J Gildersleeve	122,034	–	504,999	–	150,564	56,100	364,092	–	1,197,789
Mr A T Higginson	–	–	–	411,642	373,584	63,415	–	–	848,641
Mrs L James	156,459	–	225,150	–	–	19,514	113,263	–	514,386
Mr T J R Mason	284,745	–	198,669	–	149,076	63,415	255,796	–	951,701
Mr D T Potts	97,581	–	119,238	–	–	38,756	288,730	–	544,305
Mr J M Wemms	929,387	50,994	154,944	34,731	65,658	–	–	–	1,235,714
Date exercisable (d)			17 April 2000	7 October 2000	17 November 2000	21 May 2001	30 September 2001	28 January 2002	

- a) The options may be exercised at 61.7p as targets related to growth in earnings per share have been achieved in accordance with ABI guidelines.
- b) The 72.3p, 70.0p, 81.0p and 77.3p options may be exercised at 61.7p, 59.7p, 69.0p and 66.0p respectively, provided targets related to growth in earnings per share are achieved in accordance with ABI guidelines. If the targets are not met, the option holders retain the right to exercise the options at the higher price.
- c) Options granted in the year.
- d) Date of expiry is seven years from date exercisable, with the exception of the 98.3p, 117.7p, 151.7p and 160.3p options which expire four years from date exercisable.

Report of the Directors on Remuneration continued**Table 5 Share options held by directors and not exercised at 27 February 1999**

	Savings-related share option scheme (1981)				Exercise price pence	Value realisable	
	As at 28 Feb 1998	Granted	Exercised	As at 27 Feb 1999		1999 £000	1998 £000
Mr T P Leahy	25,095	–	–	25,095	61.7-83.0	–	–
Mr D E Reid	19,575	–	–	19,575	61.7-121.7	–	15
Mr R S Ager	23,145	4,963	12,855	15,253	61.7-136.0	18	–
Mr P A Clarke	21,711	1,488	3,855	19,344	61.7-136.0	5	–
Mr J Gildersleeve	19,692	–	–	19,692	61.7-121.7	–	23
Mr A T Higginson	–	–	–	–	–	–	–
Mrs L James	25,926	–	6,426	19,500	61.7-83.0	9	–
Mr T J R Mason	20,475	–	–	20,475	61.7-83.0	–	18
Mr D T Potts	20,700	–	–	20,700	83.3	–	–
Mr J M Wemms	25,095	–	–	25,095	61.7-83.0	–	–

The subscription price for the savings-related share option scheme granted during the year was 136p and the option matures in either 2002 (three-year scheme) or 2004 (five-year scheme). The shares relating to options exercised in the year were all retained.

Between 27 February 1999 and 12 April 1999 there have been no changes in the number of share options held by the directors. For further details on the company share option schemes see note 25.

	27 Feb 1999		28 Feb 1998	
	Ordinary shares	Options to acquire ordinary shares	Ordinary shares	Options to acquire ordinary shares
Mr J A Gardiner	353,325	–	353,325	–
Mr T P Leahy	1,233,415	2,444,971	1,052,841	2,318,139
Mr D E Reid	1,418,418	1,709,885	1,212,093	1,619,640
Mr R S Ager	797,067	1,158,797	803,925	1,345,245
Mr P A Clarke (a)	65,145	455,784	43,698	515,076
Mr J Gildersleeve	771,244	1,217,481	723,789	1,570,674
Mr A T Higginson	60,512	848,641	–	411,642
Mrs L James	737,681	533,886	476,292	930,765
Dr M G Jones	–	–	6,894	–
Mr T J R Mason	452,596	972,176	347,541	1,233,246
Mr J W Melbourn	6,570	–	6,570	–
Baroness O’Cathain	46,473	–	46,473	–
Mr G F Pimlott	26,134	–	25,566	–
Mr D T Potts (a)	157,588	565,005	123,660	770,286
Mr J M Wemms	765,054	1,260,809	663,111	1,451,211

a) Mr P A Clarke and Mr D T Potts respectively held at 16 November 1998, their date of appointment to the Board, 60,834 and 156,417 ordinary shares, and 312,648 and 415,610 options to acquire ordinary shares.

Options to acquire ordinary shares shown above comprise options under the executive share option schemes (1984), (1994), (1996) and the savings-related share option scheme (1981) (note 25).

Between 27 February 1999 and 12 April 1999 there were no changes in the number of shares held by the directors.