



27 January 2021

Dear Participant,

Tesco PLC Share Incentive Plan (SIP) – Tesco's proposed special dividend and share consolidation

As you may be aware, Tesco has proposed to make a special dividend payment to its shareholders and consolidate shareholdings following the completion of the sale of Tesco's Asia businesses.

We are writing to you to explain how the Special Dividend and Share Consolidation will impact the shares that we hold for you in the SIP trust (the **SIP Shares**). SIP Shares may have been awarded to you through Shares In Success or purchased through Buy As You Earn or SIP Dividends.

Special Dividend

As a participant in the SIP, you are a Tesco shareholder. Therefore, you are entitled to receive the special dividend in respect of your SIP Shares that are held as at the Record Date, 12 February 2021 (the **Existing SIP Shares**).

Share Consolidation

Also, your Existing SIP Shares will be consolidated (reduced) in the same way as shares held by other Tesco shareholders.

Further information regarding this and an example of how the special dividend and the consolidation of shares will be calculated is shown in the Questions and Answers section below.

If you have any questions, please call the Equiniti helpline on 0371 384 2927* (or on +44 371 384 2927 from outside the UK), or email myshareplan@equiniti.com. Telephone lines are open from 9:00 a.m. to 5:00 p.m. (UK time), Monday to Friday, excluding public holidays in England and Wales.

Yours faithfully,

A handwritten signature in cursive script, appearing to read 'Wendy Butcher'.

Wendy Butcher
Head of Share Plan Trustee Services
Equiniti Share Plan Trustees Limited

*calls to 03 numbers cost no more than a national rate call to 01 or 02 numbers.

Questions and Answers

Who is this letter intended for?

This letter is for Tesco colleagues who have SIP Shares.

What are SIP Shares?

SIP Shares are shares which are held in the SIP trust. They may have been awarded through Shares In Success or purchased through Buy As You Earn or SIP Dividends.

How do I know which type of SIP Shares I have?

You can view your SIP Shares on the Share Incentive Plan section of the Employee Share Plans Portal. You should go to www.shareview.co.uk/tesco to login or register for an account.

What is the Special Dividend and Share Consolidation?

Following the sale of its businesses in Thailand and Malaysia, Tesco has announced its intention to pay a special dividend (the **Special Dividend**) to its shareholders and to consolidate existing Tesco shares (the **Share Consolidation**) held by shareholders.

Subject to shareholders' approval, Tesco intends to return approximately £5 billion of the proceeds of sale to shareholders in the form of a special dividend of 50.93 pence per existing Tesco share. The Special Dividend will be paid to shareholders who hold shares at the close of business on 12 February 2021. It is anticipated that the Special Dividend will be paid to shareholders on 26 February 2021.

Due to the payment of the Special Dividend, it is proposed that Tesco will consolidate all existing Tesco shares. This will reduce the number of existing Tesco shares in circulation and therefore the number of existing Tesco shares held by each Tesco shareholder. This is required so that, as far as possible, Tesco can maintain its share price**. If Tesco did nothing, as it no longer owns its Thai and Malaysian businesses following the sale and is expected shortly to pay the Special Dividend, the value of Tesco shares would likely decrease.

The Share Consolidation will mean that for every 19 Tesco shares held by a shareholder at the close of business on 12 February 2021, they will hold 15 Tesco shares following the Share Consolidation.

Further information on the proposed Special Dividend and Share Consolidation is set out in the circular to shareholders (the **Circular**), which is available at www.shareview.co.uk/Clients/tesco/AsiaSale/SIP.html.

** . subject to normal market movements.

What is the impact of the Special Dividend on my Existing SIP Shares?

As a participant in the SIP, you are a Tesco shareholder. Therefore, in the same way as other Tesco shareholders, you are entitled to receive the Special Dividend in

respect of your SIP Shares that are held at the Record Date, 12 February 2021, (the **Existing SIP Shares**).

You are not entitled to receive the Special Dividend in respect of any shares you sell on or before the Record Date. You are also not entitled to receive the Special Dividend in respect of any shares you acquire after the Record Date, even if you acquire them before the date on which the Special Dividend is paid.

How will the Special Dividend be paid?

The Special Dividend will be paid to you in the usual way under the SIP rules. You can elect to either receive it as cash or to reinvest it and purchase Dividend Shares. If you have not previously made a dividend election for your SIP Shares, the default position is for dividends to be paid in cash. The tax treatment of dividends paid as cash may differ to the tax treatment of dividends reinvested under the SIP. Information regarding the tax treatments are shown below. Also, Dividend Shares under the SIP must be held in the SIP trust for at least three years if you remain in the employment of Tesco.

If you wish to change your dividend election for your Existing SIP Shares, we must receive your instruction by **12 February 2021** for it to apply to the Special Dividend. Information on how to do this is shown below.

How do I view or change my dividend election for my SIP Shares?

To view or change your current dividend election, please go to the Equiniti Employee Share Plans (**ESP**) Portal (www.shareview.co.uk/tesco) and log into your account.

Once you have logged in, you will see the ‘**I want to...**’ section on the right hand side of the page and within it a link that enables you to switch to cash dividends or shares.

If you have not previously registered for an ESP Portal account, you will first need to do this. For more information, you can follow the step by step process which is available at www.shareview.co.uk/Clients/tesco/AsiaSale/SIP.html.

What is the impact of the Share Consolidation on my Existing SIP Shares?

As a participant in the SIP, your Existing SIP Shares will be subject to the Share Consolidation in the same way as other Tesco shareholders. This will mean that every 19 Existing SIP Shares on 12 February 2021 will be reduced to 15 shares (the **New SIP Shares**) following the Share Consolidation. From 17 February 2021, you will be able to see the number of New SIP Shares that we will hold in the SIP trust for you following the Special Dividend and Share Consolidation on the Employee Share Plans Portal (www.shareview.co.uk/tesco).

Your New SIP Shares will remain in the SIP on the same terms as your Existing SIP Shares.

An illustrative example below sets out how the Special Dividend and Share Consolidation will affect Existing SIP Shares.

Example

The example below shows a shareholder who owns 1,000 shares, and a SIP participant who has 1,000 Existing SIP Shares, on 12 February 2021. It assumes that the Special Dividend is paid in cash and the Tesco share price is £2.42 before and after the Special Dividend and Share Consolidation.

		Shareholder	SIP participant
A	Number of shares	1,000 shares	1,000 SIP Shares
B	Share value before Special Dividend	$1,000 \times £2.42 =$ £2,420	$1,000 \times £2.42 =$ £2,420
C	Special Dividend amount	$£0.5093 \times 1,000 =$ £509.30	$£0.5093 \times 1,000 =$ £509.30
D	Number of new shares following Share Consolidation	$(1,000 \times 15/19) =$ 789 shares	$(1,000 \times 15/19) =$ 789 SIP shares
E	Share price following Share Consolidation	£2.42 per share	£2.42 per SIP Share
F	Shareholder's value/ SIP participant's value following the Special Dividend and Shares Consolidation C + (D x E)	£509.30 dividend plus $(789 \text{ shares} \times £2.42) =$ £2,418.68 total value	£509.30 dividend plus $(789 \text{ SIP Shares} \times £2.42) =$ £2,418.68 total value
G	Change in value	-£1.32	-£1.32

The example shows that both the shareholder's value and the SIP participant's value decrease by £1.32. Please note that the actual value may increase or decrease following the Special Dividend and Share Consolidation due to movements in the Tesco share price following the calculation of the consolidation ratio of 15 new shares for every 19 existing shares.

Will I receive a fractional entitlement from my SIP Shares following the Share Consolidation?

As shown above, the Share Consolidation will reduce every 19 Existing SIP Shares to 15 New SIP Shares. If your Existing SIP Shares are not exactly divisible by 19, you will be left with a fractional entitlement to a New SIP Share.

Fractional entitlements arising from the Share Consolidation will be aggregated and sold in the market. The value of any individual SIP participant's fractional entitlement will not exceed the value of one New SIP Share. On the basis that the

market price of each Existing SIP Share was £2.42 as at 22 January 2021 (being the latest practicable date prior to the publication of this document), the proceeds from the sale of an entitlement to a fraction of a New SIP Share will always be less than approximately £2.42.

Due to the administration cost of arranging a large number of bank transfers for nominal cash amounts, the proceeds of the sale of fractional entitlements will not be returned to SIP participants. Instead, we will donate the proceeds of the sale of fractional entitlements to support the food bank activities of Tesco's nominated charity, the Trussell Trust. More details about Tesco's work with the Trussell Trust can be found at:

www.tescopl.com/sustainability/partnerships/food-redistribution/

Will my access to my Existing SIP Shares be interrupted by the Special Dividend and Share Consolidation?

Yes. You will be unable to access your SIP account and give any sale instructions from 8 February 2021 to 16 February 2021. For further information please see the Employee Share Plans portal (www.shareview.co.uk/tesco).

Does the Share Consolidation affect the tax treatment of my SIP shares?

The tax treatment of your Existing SIP Shares or New SIP Shares will not change because of the Share Consolidation.

What is the tax treatment of the Special Dividend?

The tax treatment of the Special Dividend in respect of your Existing SIP Shares will be the same as for a normal dividend paid on SIP Shares. The treatment will depend on whether you: (i) elect to receive the Special Dividend in cash or for the Special Dividend to be reinvested to purchase Dividend Shares under the SIP; and (ii) are a basic rate, higher rate or additional rate taxpayer.

Tax treatment for a Special Dividend paid as cash

No withholding tax applies to the Special Dividend. The Special Dividend will therefore be paid to you in full.

If you are a UK taxpayer, you can receive up to £2,000 of cash dividends tax-free per tax year (assuming you have not already used your dividend allowance). To the extent that the dividends you receive in this tax year on any shares you hold, as well as any dividends paid as cash on your SIP Shares (including the Special Dividend), exceed £2,000, that excess will be subject to income tax at 7.5%, 32.5% or 38.1% depending on which band (respectively, the basic rate, higher rate or additional rate) the dividend income falls into. For the purposes of determining which band your dividend income falls into, dividend income is treated as the highest part of your income. In addition, dividends within the nil rate (£2,000) band are still

included in your income for the purposes of determining whether the threshold for higher or additional rate income tax is exceeded.

You will need to account for any tax on the Special Dividend in your tax return for the 2020/2021 tax year.

Tax treatment for a Special Dividend reinvested under the SIP

UK income tax will not be payable in respect of the Special Dividend paid on your Existing SIP Shares if you invest it to purchase Dividend Shares under the SIP provided you remain in the employment of Tesco for at least three years from the purchase date of the Dividend Shares.

If you remain in the employment of Tesco, the Dividend Shares must be held in the SIP trust for a minimum of three years. If you leave the employment of Tesco, any Dividend Shares which are held for you in the SIP trust will be released to you and, depending on your reason for leaving, Dividend Shares which have been held for less than three years may be subject to UK income tax in the same way as a dividend paid in cash.

The tax analysis for SIP participants is complex. The above comments do not constitute tax advice and are intended only for UK taxpayers as a general guide to current UK law and HM Revenue & Customs' published practice (which are both subject to change at any time, possibly with retrospective effect). We therefore strongly recommend that you seek independent financial and tax advice if you are uncertain of your tax position or pay tax outside the UK.

How can I instruct the Trustee to vote in respect of my Existing SIP Shares at the General Meeting to approve the Special Dividend and Share Consolidation?

In order to proceed with the Special Dividend and Share Consolidation, Tesco needs to obtain shareholders' approval at a General Meeting of shareholders, which will take place on 11 February 2021.

We, as Trustee of the SIP are the registered holder of shares in the SIP, and as a participant in the SIP, you are now entitled to instruct us as Trustee how to vote in respect of the Special Dividend and Share Consolidation in relation to SIP Shares held on your behalf. You can do this by lodging your voting instruction at www.sharevote.co.uk.

In order to submit your instruction, you will need your Voting ID, Task ID and Shareholder Reference Number which are all set out in the covering email/letter sent to you.

Please note that Equiniti must receive your instruction by 5:00 p.m. (UK time) on 4 February 2021. If no voting instruction is received by this time, we will not vote in respect of your share entitlement.

If you have any difficulty in voting, please contact the Plan Administrator, Equiniti Limited, at myshareplan@equiniti.com or by calling 0371 384 2927* from the UK or +44 371 384 2927 from outside the UK. Telephone lines are open from 9:00 a.m. to 5:00 p.m., Monday to Friday (UK time), excluding public holidays in England and Wales.

Further information on this voting process and instructing us as Trustee to vote in relation to shares held on your behalf is available at:

www.shareview.co.uk/Clients/tesco/AsiaSale/SIP.html.

What happens if I leave employment with Tesco?

If you leave Tesco, the treatment of your SIP Shares will depend on the circumstances in which you leave, in accordance with the SIP rules, and your leaving date. If this applies to you, you will be contacted separately.

Do I need to take any action?

Yes – if you wish to instruct the Trustee how to vote on the Special Dividend and Share Consolidation in relation to the SIP shares held on your behalf, please follow the instructions above.

You may also wish to consider your personal tax position and whether you wish to receive the Special Dividend in cash or have it reinvested in Dividend Shares under the SIP. Information regarding this and on how to change your dividend election is shown above.

Otherwise, this document is for your information only and you do not need to do anything further.

Who can I contact if I have questions?

If you have any queries in relation to this letter, please call the Equiniti helpline on 0371 384 2927* from the UK or on +44 371 384 2927 from outside the UK, or email myshareplan@equiniti.com. Telephone lines are open from 9:00 a.m. to 5:00 p.m. (UK time), Monday to Friday, excluding public holidays in England and Wales.

*calls to 03 numbers cost no more than a national rate call to 01 or 02 numbers.