27 January 2021

Dear Personal Representative(s),

**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, as the personal representative(s) of a former Tesco colleague who participated in the SIP (the ***former participant***), to explain how the Special Dividend and Share Consolidation will impact the shares that we hold for the former participant in the SIP trust (the ***SIP Shares***). SIP Shares may have been awarded to the former participant through Shares In Success or purchased through Buy As You Earn or SIP Dividends. This letter is being sent to you for information only and you are not required to take any action.

**Special Dividend**

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

**Share Consolidation**

Also, the former participant's 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.

To confirm, nothing set out in this letter changes any instructions or information given to you separately by Equiniti in relation to the former participant's SIP Shares.

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,

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.

***<u>Questions and Answers</u>***

***Who is this letter intended for?***
This letter is for personal representatives of former 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.

***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 the former participant's Existing SIP Shares?***
As a participant in the SIP, the former participant is a Tesco shareholder. Therefore, in the same way as other Tesco shareholders, the former participant's estate is entitled to receive the Special Dividend in respect of their SIP Shares that are held at the Record Date, 12 February 2021, (the ***Existing SIP Shares***).

The former participant's estate is not entitled to receive the Special Dividend in respect of any shares sold before the Record Date.

***How will the Special Dividend be paid?***

The Special Dividend will be paid in cash to the former participant's estate in the usual way under the SIP rules. Information regarding the tax treatment of this cash dividend payment is shown below.

***What is the impact of the Share Consolidation on the former participant's Existing SIP Shares?***

As a participant in the SIP, the former participant's 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.

The former participant's New SIP Shares will remain in the SIP on the same terms as their 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 x £2.42 = **£2,420** | 1,000 x £2.42 = **£2,420** |
| *C* | Special Dividend amount | £0.5093 x 1,000 = **£509.30** | £0.5093 x 1,000 = **£509.30** |
| *D* | Number of new shares following Share Consolidation | (1,000 x 15/19) = **789** shares | (1,000 x 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 Share Consolidation C + (D x E) | £509.30 dividend plus (789 shares x £2.42) = **£2,418.68** total value | £509.30 dividend plus (789 SIP Shares x £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 the former participant receive a fractional entitlement from their 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 the former participant's Existing SIP Shares are not exactly divisible by 19, their estate 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.tescoplc.com/sustainability/partnerships/food-redistribution/

***Will my access to the former participant's Existing SIP Shares be interrupted by the Special Dividend and Share Consolidation?***

Yes. You will be unable to give any instructions for the former participant's SIP Shares from 8 February 2021 to 16 February 2021.

***Does the Share Consolidation affect the tax treatment of the former participant's SIP shares?***

The tax treatment of the former participant's 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 the former participant's Existing SIP Shares will be the same as for a normal dividend paid on SIP Shares. The treatment will depend on whether the former participant was a basic rate, higher rate or additional rate taxpayer.

No withholding tax applies to the Special Dividend paid as cash. The Special Dividend will therefore be paid to the former participant's estate in full.

If the former participant was a UK taxpayer, they could have received up to £2,000 of cash dividends tax-free per tax year (assuming they had not already used their dividend allowance). To the extent that the dividends received by the former participant in this tax year on any shares they held, as well as any dividends paid as cash on the former participant's 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 the former participant's dividend income falls into, dividend income is treated as the highest part of their income. In addition, dividends within the nil rate (£2,000) band are still included in their 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 the tax return completed for the former participant for the 2020/2021 tax year.

***Do I need to take any action?***
No - 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 +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.

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