Doing the right thing

Tesco Governance Code for Large Companies*.

December 2019

***Companies required to produce a Governance Code compliance statement meeting the following criteria:**

Either one or both of:

- more than 2,000 employees;
- a turnover of more than £200m, and a balance sheet of more than £2bn.

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Foreword.

At Tesco, we are committed to maintaining high standards of corporate governance, but what does it actually mean?

Good corporate governance is about implementing the right systems and structures across our Group to facilitate effective management and sound business decision making.

Who does the Tesco Governance Code apply to?

The Tesco Governance Code for Large Companies (the "**Code**") has been designed for Tesco Group's large UK companies (the **"Subsidiary"** or **"Subsidiaries"**) to adhere to and maintain the Group's required level of good corporate governance. A large company is defined as a company which meets either one or both of the following criteria (i) more than 2,000 employees; and/or a turnover of more than £200m, and a balance sheet of more than £2bn.

The Code, which is based on the UK Subsidiary Governance Framework, supports Subsidiary directors and company secretaries and provides a governance framework for Subsidiary companies performing their duties effectively.

What is the purpose of the Code and why is corporate governance important?

Due to the large scale of Tesco's UK operations and the variety of business activities, the Code sets out the minimum standard of governance principles to be followed, and policies to be adhered to, as part of Tesco Group's Subsidiaries' day to day thinking and working.

With regulation, risk and responsibilities for directors around the management of companies ever increasing, operating within the Code can protect Subsidiary directors, by helping them make sound business decisions in accordance with their statutory duties, and our Subsidiary assets, by preventing financial and reputational damage.

By following the principles and guidance set out in this Code, a consistent level of corporate governance can be applied throughout Tesco Group's large UK operations, risks can be managed and reduced and Tesco's reputation for practicing good corporate governance in the market can be enhanced.

The Code is supported by Tesco Group policies, Tesco UK Subsidiary Governance Framework and templates.

Robert Welch, Group Company Secretary

A. Principles and Guidance.

Principles	Guidance
1. Good Decision Making. Only through authorised channels	The subsidiary makes decisions through: • formally sanctioned meetings of subsidiary boards of directors; and • individuals who are authorised to make decisions in accordance with delegations of authority from the board of directors. Prior to making decisions, boards of directors should consider whether decisions fall within the Group's Delegations of Authority.
2. Individual Responsibility. Everyone is accountable for their own actions	All Board appointed directors know and understand: • their roles and responsibilities in compliance with their statutory duties; • to whom they are accountable; and • what authority they have to discharge their duties. All subsidiary directors must complete induction training at the start of their directorship appointment.
3. Collective Responsibility. Equal accountability for board decisions	Subsidiary boards: • consider the corporate benefit to the Subsidiary in their decision making in compliance with Directors' Duties under section 172 of the Companies Act 2006; and • deliberate in a collaborative and professional manner in compliance with the Group's Code of Business Conduct. Subsidiary directors take joint responsibility and are equally accountable for the decisions that the subsidiary board takes.
4. Effective Subsidiary Boards. All Subsidiary boards need to operate effectively	Effective Subsidiary boards: • have an appropriately balanced and diverse membership, with suitable levels of skill, knowledge and experience and have been comprised in accordance with the Group Subsidiary Board Composition Policy; • require each director to actively participate in Subsidiary board meetings, engaging in constructive challenge and debate; and • require its directors to take account of the risks and opportunities in making its decisions. It is important that Subsidiary directors have the information they need to discharge their duties and are adequately prepared for board meetings.
5. Subsidiary Company Secretaries. Assist the directors in the effective management of the Subsidiary board	The Company Secretary assists the Subsidiary directors in running an effective board. The principal roles of the Subsidiary secretary are to: • ensure that the board makes appropriate decisions and operates in accordance with good corporate governance procedures and in compliance with statutory requirements; • assist with the preparation and timely circulation of board papers and meeting agendas; • where appropriate, invite the relevant business matter expert to present to the meeting; • accurately minute meetings and circulate the minutes in a timely way; and • assist the board members in undertaking induction and on-going professional development training.

B. Board Effectiveness.

1. Board composition

Subsidiaries can exercise their discretion in the total number of directors it appoints to its board unless the Articles of Association set out a minimum requirement. However, subsidiaries must comply with the Group Subsidiary Board Composition Policy which sets out minimum requirements depending on whether the subsidiary is active, dormant, UK incorporated or domiciled overseas. All subsidiary boards should be appropriately balanced and diverse, with directors that have the requisite skill, knowledge and experience to be able to contribute to the discussions and decision making required. All directors must be able to commit sufficient time to the subsidiary in order to carry out their duties.

2. Induction and training

Before an individual accepts a Subsidiary directorship appointment, individuals must be made fully aware of the responsibilities, duties and potential liabilities associated with the role. Once appointed, all new directors must be given an induction. This should be a formal process which introduces the director to the company, its operations and its people. Background and future strategy on the company to which they are being appointed should also be provided to ensure that the director is comprehensively briefed on key matters affecting the business and its future priorities.

Inductions should be tailored to the specific needs of the individual being appointed and may comprise face to face meetings and presentations. Copies of, or access to, key documents should also be provided, for example, the articles of association, the DOA, the Code of Conduct, board papers and minutes, and all applicable Group policies.

3. Responsibilities as a director

Directors are also responsible for promoting good corporate governance and Tesco's culture and values throughout the Group.

Directors of Subsidiary companies are subject to statutory directors' duties contained in the Companies Act 2006. These are:

- To act within the powers conferred on them by the subsidiary company's articles of association;
- To promote the success of the subsidiary company for the benefit of its members and in doing so have regard to:

a) Likely consequences of any decision in the long term;

b) interests of the Company's employees;

c) Need to foster the Company's business relationships with suppliers, customers and others;

d) Impact of the company's operations on the community and the environment;

e) The desirability of the company maintaining a reputation for high standards of business conduct;

f) Need to act fairly between members of the company.

- To exercise independent judgement;
- To exercise reasonable skill, care and diligence;
- To avoid any conflicts of interest or duties;
- Not to accept benefits from third parties;
- To declare any interest in a proposed or existing transaction or arrangement.

4. Board Meetings

Directors should meet sufficiently often to ensure that they are discharging their duties as directors effectively, including to consider all material matters including all reserved matters. At least two board meeting should be held each year.

All of the Subsidiary directors must be given reasonable notice of board meetings. As a Tesco Group policy, directors must not normally be given less than 3 business days' notice of any board meeting.

5. Quorum

The quorum requirement for a meeting of directors is usually set out in the subsidiary's articles. For subsidiaries using Tesco's standard subsidiary articles the quorum is generally two directors. Where a director has to abstain from voting on a matter due to a conflict of interest they may not be counted in the quorum for the purposes of such matter.

A quorum must be present at the start of, and throughout, the meeting. In the absence of a quorum no business can be transacted and any resolutions purporting to be passed by the board will be invalid.

6. Conflicts of Interest

If a director discloses a conflict of interest in a matter to be discussed at a meeting, Directors will need to consider the requirements under:

- the Group Conflicts of Interest Policy; and
- the conflicts of interest provision set out in the subsidiary articles of association.

The Group Conflicts of Interest Policy requires a director to declare to the other directors an interest in any existing or proposed transaction or arrangement with the company. Such conflicts must be minuted. In these circumstances the director should declare his or her interest to the subsidiary board in advance of the proposed transaction. There is no requirement for this interest to be approved, but as a Tesco policy, the director should stand down from any discussion or vote on the matter.

7. Corporate Records

Under the CA 2006 every UK company is required to take minutes of all proceedings at directors' meetings. Directors who fail to do so, commit an offence.

Minutes should:

- accurately record all resolutions and decisions made by the board noting any specific considerations or discussions taken into account;
- confirm that the board considered the corporate benefit to the company in entering into the transaction or approving the matter under discussion;
- Consider the impact on its stakeholders in compliance with section 172 of the Companies Act 2006.

Minutes should be signed by the chairperson of the meeting and the original copy should be filed in the company's statutory books.

As a matter of good practice, minutes should be kept indefinitely albeit that UK law requires minutes to be kept for ten years from the date of the meeting. Failure to do so is an offence.

Directors must approve the annual accounts of their subsidiaries via a board resolution and are primarily responsible for their accuracy.

Subsidiary directors and company secretaries are ultimately responsible for the maintenance of corporate records of its subsidiaries.

All Subsidiaries are required to record and maintain their company records on Blueprint. Changes to a subsidiary company's details should be updated promptly.

8. Directors' and Officers' Liability Insurance

The Group operates a Directors' and Officers' Liability Insurance Policy which covers all the Group's Subsidiary directors, save where directors have acted fraudulently or are dishonest.

C. Systems and Controls.

1. Statutory obligations

All UK companies must comply with the provisions of the Companies Act 2006. In addition, the Board of Directors may exercise all the powers of the company subject to the Articles of Association and any directions given by its shareholder through shareholder resolution passed at a general meeting.

2. Matters reserved for the Board

In the interests of running an efficient company, boards often delegate certain of their responsibilities to others, such as the senior management. That being said, there are a number of matters which are required to be, or in the interests of the company, should only be decided by the board of directors itself. These matters should be reserved for the consideration, constructive debate and decision of the board as a whole and recorded in a schedule of reserved matters that is accessible by the business. Ultimately the directors are accountable for all actions undertaken. Therefore, any delegation of authority should receive careful consideration.

What does this mean for Subsidiaries?

All Subsidiary boards of UK operating entities in the Group should adopt a schedule of reserved matters setting out those decisions that require the consideration and approval of the subsidiary board, prior to the commitment or spend of the subsidiary company.

UK subsidiary directors will need to put in place a Schedule of Matters Reserved for the Subsidiary Board (the **"Schedule"**) and amend it appropriately to reflect the specific operations and financial resources of the Subsidiary in question.

As a general principle, decisions that are included in the Schedule should be those which would have a material impact on the company.

What is likely to be material?

Collectively, Subsidiary directors will need to agree on what is likely to have a material impact on their company.

3. Delegations of Authority

All Subsidiaries must comply with the Group Delegations of Authority (the **"DOA"**) which have been approved and implemented by the Group Board and the Executive Committee. The DOA is a key element of the Group's governance and is designed to ensure that decisions involving financial cost to the business are made efficiently and by the right person or committee.

Directors and senior managers of our UK Subsidiaries are required to read the DOA and adhere to its requirements. Approval must be obtained prior to entering into any contract, agreement, commitment or spend which falls within the escalation requirements of the DOA. However, the decision to enter into a contract, agreement, commitment or spend is a matter for the board of directors.

When drafting a schedule of reserved matters for the Subsidiary board, directors should have regard to the financial thresholds included in the DOA to ensure that the approvals processes align.

Subsidiaries entering into contracts will need to comply with the Group's Contracts and Signing Policy. Where payment is required, payment should be made in accordance with the relevant business financial payment practices processes.

Should Subsidiary companies wish to appoint an attorney, it will be necessary for the power of attorney to be considered and approved by a resolution of the board of directors.

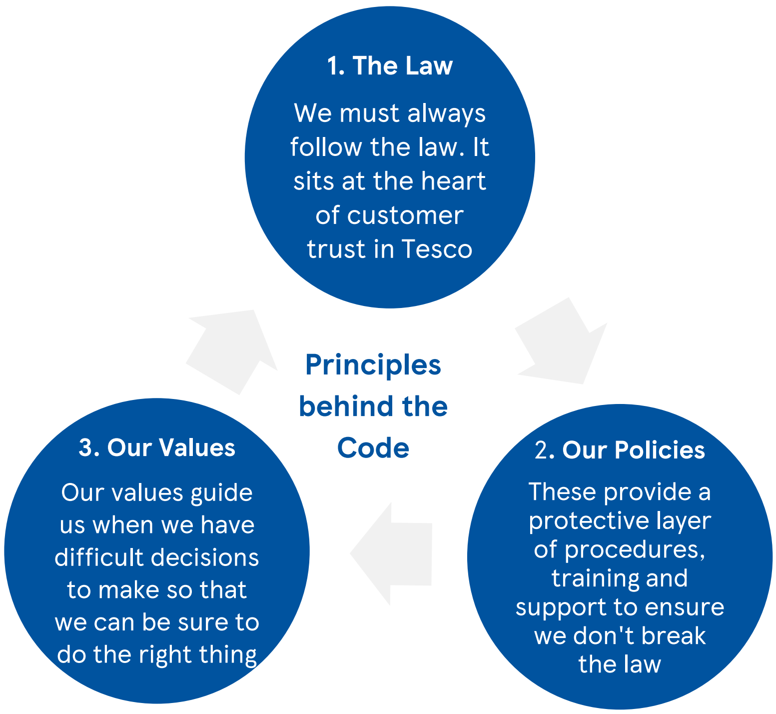
4. Code of Business Conduct: Compliance with Group Policies

The Group's Code of Business Conduct (the **"Code of Conduct"**) sets out the Group's most important policies. It is designed to keep Directors' and the business safe. All colleagues across the Group, wherever they are based and whichever Tesco business they work for, must make sure that they are familiar with the Code and must follow the policies referred to in the Code and know how the Code applies to their roles.

Subsidiary directors should ensure that all people managers (i) understand the Code and are able to communicate its key messages, (ii) ensure that all new starters are trained on the Code and understand it and (iii) act responsibly if they believe, or if they are informed, that the Code may have been breached.

Examples of the types of policies that are contained within the Code relate to ethical trading, anti-bribery and corruption, accounting standards, insider dealing and market abuse, food and product standards, data protection, health and safety and more.

All UK subsidiaries need to comply with the Group's Bank Mandate Policy in relation to the setting up and operation of all subsidiary bank account. Board of directors should ensure processes are in place to comply with the Group's Bank Mandate Policy.



D. Risk and Remuneration.

1. Risk Management

The Tesco PLC Board has overall responsibility of the Group's strategy and risk appetite to align with the Group's purpose and values.

The Group has an established risk management process which is reviewed on a regular basis and covers all business units including the Company. This includes the maintenance of risk registers which details the risks, the risk movement and the relevant key controls and mitigating factors. These are reviewed on a regular basis by the UK Leadership management and the Executive Committee.

Subsidiary directors should regularly review the risks and mitigations of the company, and highlight any matters of concern through the Group Risk Team.

2. Remuneration

The Tesco PLC Board has overall responsibility for setting remuneration across the Group ensuring it is appropriate and supports the Group's strategy, creating value for stakeholders. Upon recommendation from the Remuneration Committee, the Board approves the Remuneration Policy for Executive Directors and senior managers, having regard to pay across the Group. The Group is committed to rewarding colleagues with a total reward package that provides them with choice and that they really value.

Subsidiary directors should ensure that remuneration is paid in line with Group processes.