

Tesco Sustainability- Linked Bond Framework.

January 2021

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Business Overview.

Tesco Plc “Tesco” is a leading British multinational retailer with headquarters in England, United Kingdom.

The business began in 1919 with Jack Cohen selling surplus groceries from a stall in the East End of London. In 1929 the first Tesco store opened in Edgware, North London. Today, Tesco has stores in five¹ countries across Europe, and is the market leader in the UK, Ireland and Hungary. As a leading retailer, with over 350,000 colleagues, Tesco serves millions of customers every week, in stores and online.

In 2018, Tesco completed a merger with Booker Group, the UK’s leading food wholesaler, enabling substantial synergies and access to the ‘out of home’ food market. The Tesco Group also includes Tesco Bank, which provides banking, insurance and money services; Tesco Mobile, a joint venture with Telefónica and the UK’s largest Mobile Virtual Network Operator; and dunnhumby, a wholly owned data science subsidiary.

The business is guided by our purpose to serve shoppers a little better every day, underpinned by our three values: No one tries harder for customers; We treat people how they want to be treated; Every little help makes a big difference.

At Tesco, serving shoppers means more than selling food. It means acting as a responsible business for all stakeholders – customers, colleagues, communities, suppliers and shareholders; and providing affordable, healthy and sustainable food for all. The Little Helps Plan captures our approach to ensuring we are a responsible and sustainable business. It links directly to our purpose and our values. Every part of Tesco is involved.



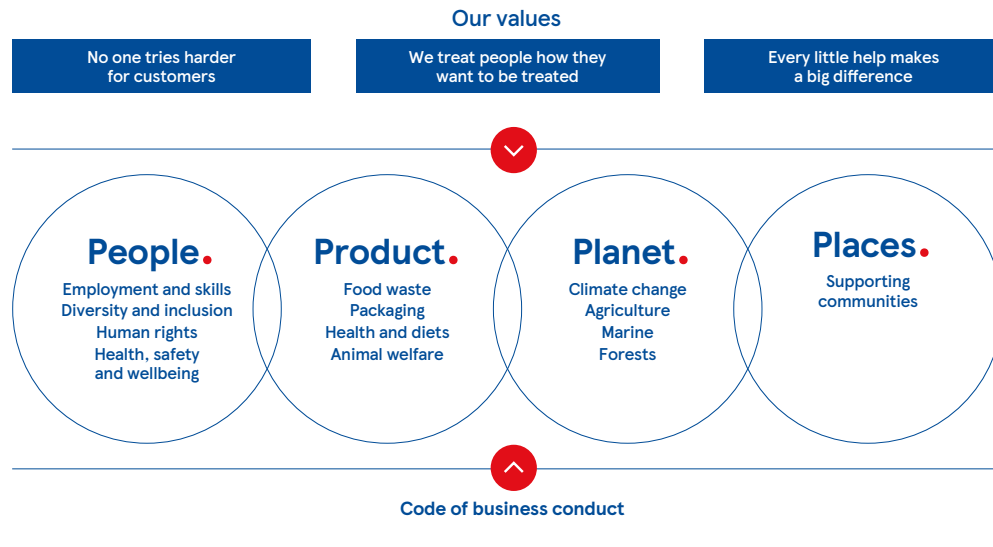
Sustainability Strategy.

Our Little Helps Plan sets out how we will make a positive difference to our customers, colleagues, communities and the environment and is the framework through which we shape our long-term approach to sustainability.

We believe our position in the market gives us a unique ability to pursue transformative change across the supply chain and lead industry-wide action to tackle some of the biggest social and environmental challenges facing us today.

The Little Helps Plan focuses on the aspects of sustainability that are most relevant to us and our stakeholders across the pillars of People, Product, Planet and Places.

Serving shoppers a little better every day.



Against the backdrop of the Sustainable Development Goals we have identified topics where expectations, risks and opportunities for Tesco are greatest, and where we can make the most significant contribution.



Covering key themes across the range of sustainability issues - such as health and wellbeing, sustainable production and consumption, and diversity and inclusion - our Little Helps Plan sets our level of ambition and strategies for delivery and is the mechanism by which we report our progress. It also enables us to report on the diverse value we create, in a way which is consistent with how we operate:

- it all starts with **People** - Tesco colleagues and in our supply chain;
- it's about serving customers with affordable, healthy, sustainable **Product**;
- working in a way that protects the **Planet**; and
- supporting communities in **Places** where we have a stake.

Collaboration.

Across all pillars of our Little Helps Plan, we recognize the importance of collaboration and partnerships to deliver the biggest difference. Here are a number of examples:

In 2018 we announced our five-year Health Charity Partnership bringing together the skills and expertise of Cancer Research UK, the **British Heart Foundation**, **Diabetes UK** and Tesco. By combining the expertise of these organisations with our ability to reach 300,000 colleagues and millions of customers, we aim to accelerate progress towards national health goals as well as provide the UK's leading workplace health programme.

Wherever we operate we work closely with food banks and local charities to feed people in need in local communities. Through our charity partners in the UK, **FareShare** and the **Trussell Trust** we donate two million meals a month to 7,000 charities and community groups and we have collected over 72 million meals from customer donations.

We recognise that effective forest governance is essential to successfully reversing deforestation. We are therefore working with others to support national initiatives in producing and consuming countries, including through our work as a member of the **Consumer Goods Forum (CGF) - Forest Positive Coalition**.

In October 2017, along with 22 other global companies, we published a Business Statement of Support (“SoS”) for the Cerrado Manifesto which calls for industry, civil society and government to work together to balance sustainable agricultural development and protection of the Cerrado, an important natural ecosystem in Brazil. Today we co-chair the **SoS** representing 163 companies and investors from around the world.

In November 2018 we announced a new four-year partnership with **WWF** to help us accelerate our efforts to reduce environmental impacts across the food value chain. With food production at the centre of many environmental issues, we came together with a shared ambition: to help drive sustainability within the food retail industry.

Through the partnership we aim to halve the environmental impact of the average UK shopping basket. In order to deliver this, we are focusing on three key areas: helping customers to eat more sustainably, restoring nature in food production and eliminating waste.

We launched the pioneering industry measurement, the **Sustainable Basket Metric**¹ to enable us to understand the end-to-end sustainability impact of the average UK shopping basket.

The Sustainable Basket Metric consists of a range of sub-metrics covering seven key environmental issues – climate change, deforestation, sustainable diets, sustainable agriculture, marine sustainability, food waste and packaging waste.

Against each of these issues and in addition to the Sustainable Basket Metric, we have published commitments and established programmes of work to accelerate change in this important area.

Working together



Climate Change.

In our Little Helps Plan, we highlight climate change as the biggest environmental challenge the world faces, affecting our own operations as well as our supply chains.

In response to this challenge, in 2009 Tesco became the first business globally to set the ambition to become a zero-carbon business by 2050, across the whole Tesco Group. We are aiming for the UK to reach net zero even sooner, by 2035.

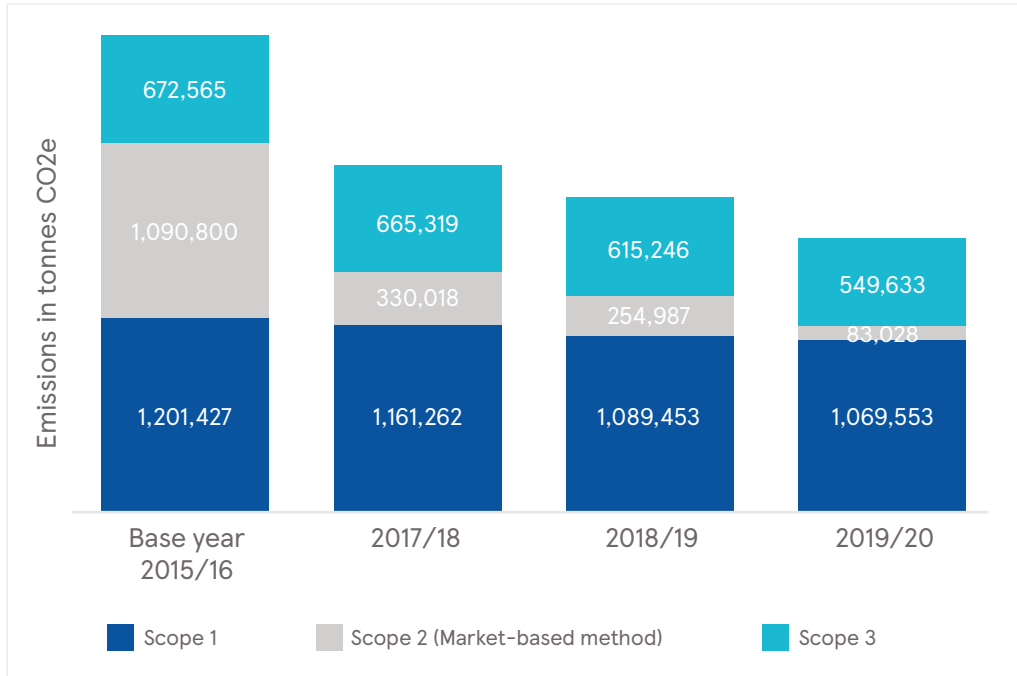
In 2017, we became the first large company globally to commit to science based targets on a 1.5°C trajectory for our operations (Scope 1 and 2). At the same time, we committed to a 2°C trajectory for our supply chain (Scope 3) in support of Sustainable Development Goal (SDG) 13: Climate Action and SDG 7: Clean Energy¹.

Our climate strategy focuses on both operational and supply chain actions to reduce our direct and indirect impacts on the environment, as well as supporting our customers to reduce their environmental impacts, such as through our national network of electric vehicle charging points.

We became a signatory of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) in October 2017. We conducted our first TCFD scenario analysis in 2018/19 and have reported against TCFD in our annual reporting² since. In implementing TCFD's disclosure recommendations, we have completed scenario analyses identifying physical and transitional risks for our key commercial categories, against both optimistic and pessimistic climate warning scenarios.



Our Own Operations.



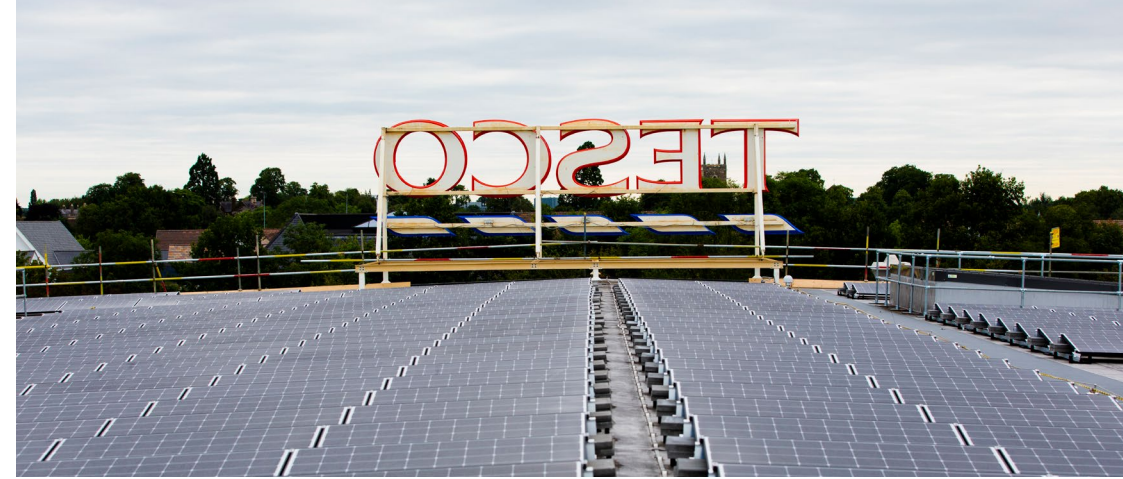
Our re-baselined figures

To reflect the disposals of Asia and Poland retail operations, we have removed these from our historic carbon data.

As a result:

- **Scope 1** has reduced the least, since the UK over-indexes in transport emissions.
- **Scope 2** has reduced the most, since Asia and Poland were the only markets with little to no renewable electricity. the remaining group is 100% renewable.
- **Scope 3** has reduced proportionately to the loss of Asia and Poland from the group.

These re-baselined figures have been independently assured by KPMG in December 2020.



We have surpassed our first emission reduction milestone ahead of time, achieving -37% (pre-disposals) last year vs baseline, compared with -35% target for Tesco's operations. Our re-baselined figures present a -50% emissions reduction vs initial baseline, positioning us well for our next target for Scope 1 and 2 of -60% by 2025.

We have made significant financial investment in energy efficiency across electricity and fuel usage over the last 15 years. As Tesco's demand accounts for almost 1% of UK electricity demand, this has a significant impact.

Addressing our largest emissions hotspot (grid electricity) first, we became signatories of RE100 pledging to become 100% renewable by 2030. We have gone further by harnessing our demand to drive positive impact for the UK grid, by procuring increasingly from new renewable generation. We now have the UK's largest* unsubsidized Power Purchase Agreement (PPA) portfolio of new build wind and solar projects.

We are also leading the way in our work to decarbonize transport, becoming early signatories of EV100, pledging to convert our entire fleet of 5,500 home delivery vans to electric by 2028, and help our customers along the journey too by developing the UK's largest retail network of electric chargers in our car parks. We have just launched the first 30 electric vans onto the road, and have almost completed installation of two thirds of our customer chargers already.

To overcome barriers to decarbonizing further, we regularly collaborate across industries and government to share learnings and influence public policy in support of the transition to a low-carbon economy.

*As of November 2020

Our Supply Chain.

We are one of few companies to set science-based targets¹ for both food manufacturing and agricultural stages of our supply chain. These targets are aligned to a 2C trajectory. Our more ambitious own operation targets on a 1.5C trajectory demonstrate leadership to our suppliers.

Emissions from agriculture represent around 70% of our supply chain emissions, while the world is also expected to produce more food to feed our growing global population. We incorporated these projections into our model to set a separate reduction target for agriculture emissions to recognize its unique challenge.

Science-based targets (2015 baseline)		2020	2025	2030	2050
Tesco operations (1.5 degree)		-35%	-60%	-85%	-100%
Supply chain (2 degree)	Food manufacturing and production sites	-7%	-20%	-35%	
	Agriculture	-7%	-12%	-15%	

Tesco operations refers to Scope 1 and 2 emissions

We conducted a full supply-chain footprint survey of our product portfolio to identify the hotspots that should be targeted for GHG emission reductions. We work with our top 100 suppliers who represent 80% of our cost of goods, to reduce emissions from their manufacturing and/or agricultural operations as appropriate, and have approved science-based targets to measure our progress against manufacturing emissions and agriculture emissions.

We support our suppliers with:

- Data collection, analysis and visualisation
- Open-source learning from our own experiences in addressing own operations emissions
- Resources available to our suppliers on our Tesco Supplier Network, including 'How to Set Science-based Targets' and 'How to get buy-in for sustainability initiatives in your business'.
- Run workshops and webinars to support on specific topics e.g. renewable electricity

We are also leading global efforts to protect the Amazon rainforest, restore marine ecosystems and facilitate trials for sustainable farming practices² including fertiliser precision application, methane-reducing feed additives and carbon sequestration.



Sustainable Financing.

This framework (the “Framework”) has been developed to demonstrate how the company intends to enter into Sustainability-Linked Bond (“SLB”) transactions to continue to support Tesco’s sustainability strategy and vision. Sustainable financing, aligned with targets included in our Little Helps Plan, is a natural next step for us and will help accelerate continuous improvement in areas that are material to our business, suppliers and stakeholders.

We have already taken the first step to align our corporate financial strategy to our sustainability commitments. We have included a link between performance on three of our existing sustainability KPIs into the margin we pay on our committed bank facilities:

- Emissions: % reduction of Scope 1 and Scope 2 CO2e emissions
- Renewable Energy: % renewable electricity sourced from on-site generation and/or from the grid under Power Purchase Agreements
- Food Waste: % food surplus safe for human consumption redistributed to humans or animals within UK operations

In 2020, our Revolving Credit Facility was aligned to the Sustainability-Linked Loan Principles¹ (“SLLP 2020”) published by the Loan Market Association (“LMA”).

Tesco aims to go one step further by issuing public Sustainability-Linked Bonds (SLBs). The Framework follows the core components of the Sustainability-Linked Bond Principles administered by ICMA² (“SLBP 2020”).

SLBs will be issued in alignment with the SLBP 2020 as they may be subsequently amended.



SLB Framework.

The Framework has been established in accordance with the SLBP 2020. The SLBP 2020 are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking sustainability outcomes and promote integrity in the development of the SLB market by clarifying the approach for the issuance of a SLB). The Framework is in alignment with the five core components of the SLBP 2020:

- Selection of Key Performance Indicator (KPI)
- Calibration of Sustainability Performance Targets (“SPTs”)
- Bond Characteristics
- Reporting
- Verification

SLBs are those where the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ Environmental, Social and Corporate Governance (“ESG”) objectives. In that

sense, issuers are committing explicitly to future improvements in sustainability outcome(s) within a predefined timeline that are relevant, core and material to their overall business.

SLBs are a forward-looking performance based instrument. The proceeds of SLBs are intended to be used for general purposes; hence, the use of proceeds is not a determinant in our categorization.

Prior to issuing a SLB, Tesco will select one of the following Sustainability Performance Targets (“SPT”), which is core, relevant, and material to our business and measure progress against our sustainability commitments.



KPI Selection.

Key Performance Indicator	Rationale
<p>KPI: Group Greenhouse Gas (GHG) Emissions reduction (Scope 1 and 2, in tCO₂e)</p> <p>SPT 1: Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015 baseline</p> <p>SPT 2: Reduce the Group GHG Emissions by 85% by 2030 with respect to 2015 baseline</p> <p>Long-term goal: Reduce the Group GHG Emissions by 100% by 2050 with respect to 2015 baseline</p> <p>Scope 1 and 2 are defined as per the GHG Protocol Corporate Standard¹.</p> <p>SDG 13 – Climate Action</p>	<p>Climate change is the biggest environmental challenge the world faces, impacting our own operations as well as our supply chains.</p> <p>In response to this challenge, in 2009 Tesco became the first business globally to set the ambition to become a zero-carbon business by 2050. In 2017, we committed our business to science-based climate targets on a 1.50C trajectory for our operations, in line with the more stretching aspiration of the Paris Agreement².</p> <p>Tesco has currently chosen to focus on Scope 1 and 2 emissions for the purposes of this Framework as it represents the majority of our own operations GHG emissions and is in Tesco's direct control. Looking only at our operations in the UK we recognize that given our scale as the UK's largest retailer our actions can have a large impact. For example, Tesco accounts for 1% of electricity demand in the UK and our online delivery capacity has reached 1.5m slots per week in the UK. As part of servicing online demand, we will be converting 5,500 vans saving 66,000 tonnes of carbon p.a., the equivalents of removing 40,000 cars from driving on the road everyday.</p> <p>As part of our commitment, we have also published clear milestones in carbon emissions reduction in our own operations: -35% by 2020, -60% by 2025, -85% by 2030 and -100% by 2050. Our commitments and milestones are against a 2015/16 baseline ("2015 baseline"). In our UK operations, we expect to reach net zero by 2035.</p> <p>In 2019/20 we reduced our absolute carbon emissions (market-based) across the Group by 37% to 2.16 million tCO₂e, achieving our 2020 target of 35% absolute carbon reduction from our operations compared to our 2015/16 baseline (pre-disposals).</p> <p>Tesco recognizes the importance of reducing its Scope 3 emissions but given the nascency of robust supply chain emissions reporting analysis, decided not to include it as a KPI/SPT for the purpose of this SLB Framework. Tesco is actively working with its suppliers to support them in reducing emissions from their manufacturing and/or agricultural operations as appropriate.</p>
<p>Baseline: 2.3m tonnes CO₂e (Tesco operations, scope 1 and 2). Baseline year: 2015/ 2016</p> <p>The 2015/16 baseline was deliberately selected to coincide with the Paris Agreement. It includes Scope 1 and 2 emissions and has been externally assured by KPMG. This baseline has been established following disposal of Poland and Asia businesses, and re-baselined accordingly. It will be recalculated and externally assured following any significant or structural changes in the Group, in line with the Group's carbon footprint recalculation policy³.</p>	

Sustainability Performance Targets (SPTs) Calibration.

Sustainability Performance Targets

SPT 1: Reduce the Group GHG Emissions by 60% by 2025 with respect to 2015/16 baseline

SPT 2: Reduce the Group GHG Emissions by 85% by 2030 with respect to 2015/16 baseline

For the avoidance of doubt, any significant or structural changes in the Group (including divestment or acquisitions) will not result in any adjustment to the % reduction stated as the relevant Sustainability Performance Target. However, the 2015/2016 baseline will be recalculated in line with our carbon footprint recalculation policy¹ and externally assured following any significant or structural changes in the Group. The baseline has been recalculated to be on a continuing operations basis. Any further changes to the baseline will take place at the end of each financial year and will be publicly restated.

The 2015/2016 baseline was deliberately selected to coincide with the Paris Agreement. It includes Scope 1 and 2 emissions.

Strategic 2025 and 2030 Goal and selection of methodology for calculating the SPT:

These SPTs align with our 2025/30 Goal of reducing GHG emissions by 60% by 2025 and 85% by 2030 (Scope 1 and 2) and our ambition to be net zero by 2050. Our 2025 target for the Tesco Group was approved by the Science Based Target Initiative (“SBTi”). The targets were approved by the SBTi in 2015 when the 2030 milestone was too far into the future for SBTi to formally approve, but it follows the same SBTi approved methodology for a 1.5C trajectory, with a minimum requirement of 4.2% annual emission reduction. Both our 2030 target and our re-baselined figures continue to align with the SBTi methodology².

In order to meet these stretching targets, we prioritised the biggest emissions hotspots in our operations. In 2015 (before adjusting for the sales of our Asian and Polish entities), grid electricity accounted for 65% of our global carbon emissions footprint, followed by refrigerant gases at 18% and heating at 10%.

Factors that support and/or might put at risk the achievement of the targets are disclosed in the relevant documentation of the sustainability-linked transactions, in line with applicable regulation.

Bond Characteristics.

Our SLBs have a sustainability-linked feature that will result in a coupon adjustment, or a premium payment as the case may be, if our performance does not achieve the stated SPT(s).

The relevant KPI, SPTs, step-up margin amount or the premium payment amount, as applicable, will be specified in the relevant documentation of the specific transaction (e.g. Final Terms of the relevant SLB).

The Issuer will notify the investors of the achievement or not of the SPT as soon as possible and in any event by within 135 days after the deadline specified in last day of the relevant bond documentation (the “Step Up Notification Deadline”) KPI Percentage Reference year.

Reporting.

Annually, and in any case for any date/period relevant for assessing the trigger of the SPT performance leading to potential adjustments, such as a coupon step-up or premium payment of our SLB, we will publish and keep readily available and easily accessible on our website:

Up-to-date information on the performance of the selected KPI, including the baseline where relevant

a verification assurance report (“Limited Assurance”) relative to the SPT outlining the performance of the KPI against the SPT; and any other relevant information which may enable investors to monitor the progress of the selected KPI.

Information may also include when feasible and possible:

a qualitative or quantitative explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI on an annual basis;

illustration of the positive sustainability impacts of the performance improvement; and/or

any re-assessments of KPIs and/or restatement of the SPT and/or adjustments of baselines or KPI scope.

Verification.

Post-issuance

Annually, and in any case for any date/ period relevant for assessing the KPI performance against the SPT leading to a potential financial adjustment, such as a step-up coupon or a premium payment on the SLB, until after the KPI trigger event of a bond has been reached, Tesco will seek independent and external verification of the performance level for the stated KPI by the Assurance Provider.

The Assurance Provider means KPMG LLP, or any such other qualified provider of third party assurance or attestation services appointed by Tesco, who will provide a verification assurance report in the form of a “Limited Assurance”.

The verification of the performance of the KPI, along with the Assurance Provider’s verification report, will be made publicly available on Tesco’s website.

Pre-issuance

Tesco has obtained and made publicly available a Second Party Opinion (“SPO”) and/or other external review from consultants with recognized environmental and social expertise to provide an opinion on the sustainability benefit of this SLB Framework as well as the alignment to the SLBP 2020. The SPO will be available on Tesco’s website.

Footnotes.



Footnotes.

Business Overview

1. All figures based on a continuing operations basis

Collaboration

1. <https://www.tescopl.com/sustainability/partnerships/wwf/sustainable-shopping-basket/sustainable-basket-metric-data/>

Climate Change

1. Tesco has science-based targets (SBTs) in place to reduce direct (scope 1) and indirect (scope 2) greenhouse gas (GHG) emissions by 60% by 2025, using a 2015 base-year. Tesco also has a SBT to reduce its scope 3 GHG emissions by 17% by 2030, using a 2015 base-year. The emissions categories covered by the scope 3 target are purchased goods and services (supply chain), fuel and energy related activities, upstream transportation and distribution, and waste generated in operations. Tesco's science-based target was approved by the Science Based Targets initiative (SBTi) in June 2017.
2. https://www.tescopl.com/media/755761/tes006_ar2020_web_updated_200505.pdf

Our Supply Chain

1. Approved by the Science-based Targets Initiative
2. tackling deforestation; Marine ecosystems protection; Sustainable agriculture

Sustainable Financing

1. https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf
2. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

Footnotes Continued.

KPI Selection

1. GHG Protocol Standard” means the document titled “The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard (Revised Edition)” published by the World Business Council for Sustainable Development and the World Resources Institute (as amended and updated as at the Issue Date of the first Tranche of the relevant series of ESG Notes.
2. An agreement within the United Nations Framework Convention on Climate Change, dealing with greenhouse-gas-emissions mitigation, adaptation, and finance, signed in 2016.
3. <https://www.tescopl.com/sustainability/publications/policies/downloads/recalculation-policy/>

Sustainability Performance Targets (SPTs) Calibration

1. <https://www.tescopl.com/sustainability/performance/assurances-and-methodologies/method-for-calculating-our-carbon-footprint/>
2. Methodology available here: <https://sciencebasedtargets.org/resources/files/foundations-of-SBT-setting.pdf>

Disclaimer.

Certain statements, estimates and opinions made in the Framework are forward-looking statements. Phrases such as “aim”, “plan”, “intend”, “should”, “anticipate”, “well-placed”, “believe”, “estimate”, “expect”, “target”, “consider” and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements are based on current expectations and assumptions which may or may not prove to be correct and are subject to a number of risks, uncertainties and other important factors that could cause actual results, performance, achievements or events to differ materially from what is expressed or implied by those statements. Many of the factors that could cause actual results, performance, achievements of or events involving Tesco to differ materially from the expectations of Tesco are outside of its control and not predictable, including, among other things, general business and economic conditions globally, industry trends, competition, changes in government and other regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, and political and economic uncertainty, including as a result of global pandemics. As such, undue reliance should not be placed on the forward-looking statements contained herein. Any forward-looking statement is based on information available to Tesco as of the date of this statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution.

No liability is accepted by Tesco in respect of the achievement of or in connection with any such forward-looking statements or assumptions. Neither Tesco nor any of its officers, employees, agents or affiliates makes any express or implied representation, warranty or undertaking with respect to the information, opinions or forward-looking statements contained herein, and none of them accept any responsibility or liability as to their accuracy or completeness or for any loss howsoever arising, directly or indirectly, from any use of or reliance on such information, opinions or forward-looking statements or otherwise arising in connection therewith. Other than in accordance with legal and regulatory obligations, Tesco undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

The information contained in the Framework does not purport to be comprehensive and, unless otherwise specified therein, has not been independently verified by any independent third party. Nothing in the Framework constitutes legal, financial, regulatory or other advice or a recommendation with respect to any securities or financial instruments.

The Framework does not constitute an offer to sell or the solicitation of an offer to buy any securities or financial instruments and nothing contained herein shall form the basis of any contract or commitment whatsoever.