

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172(1)(a)-(f) requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging our section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of our pensioners and our relationship with regulators. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable.

As is normal for large companies, we delegate authority for day-to-day management of the Company to senior management in setting, approving and overseeing execution of the business strategy and related policies. We review matters relating to: financial and operational performance; business strategy; key risks; stakeholder-related matters; health and safety; diversity and inclusivity; environmental matters; corporate responsibility; governance; compliance; and legal and regulatory matters over the course of the financial year.

This is done through the consideration of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Company's key stakeholders are its workforce, customers, suppliers, pensioners and the local communities in which it operates. The views of and the impact of the Company's activities on those stakeholders are an important consideration for the directors when making relevant decisions. While there are cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and Tesco Group means that occasionally our stakeholder engagement takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone

as an individual company. For details on some of the engagement that takes place with the Company's stakeholders so as to encourage the directors to understand the issues to which they must have regard please see pages 40 to 43 of the Tesco plc 2020 Annual Report.

During the period we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the company.

Examples of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duty and the effect of that on decisions taken by us are set out below:

Board activity	Board Consideration
Financial and operational performance	<p>The Board regularly reviewed the financial, risk and operational position of the company to consider the strategic direction and long-term viability of the Company and ensure that future liabilities could be met.</p> <p>The Board reviewed the business plan and progress against the plan, together with updates on sales, profit and cash generation and the potential impact of Brexit.</p> <p>In addition, the Board reviewed their practices for paying suppliers.</p>
Approval of Dividend	<p>The board approved an interim dividend of £15,000,000 in February 2020. When considering the declaration of the dividend, the Board considered a range of factors including the long-term viability of the Company; its expected cash flow and financing requirements; the financial position of the Company's pension scheme and the ongoing need for strategic investment in our business and our workforce as well as the expectations of our members.</p>
Leasehold Improvements	<p>In October 2019, the Board considered and approved the leasehold improvements necessary to ensure the company's sublet properties comply with new health and safety regulations before new contracts were signed with tenants.</p> <p>The Board considered a range of factors including the forecast income on all sublet properties, comparing this to the total cost of expenditure. In reaching its final decision, the board considered the impact on all stakeholders including our colleagues, customers and the environment.</p>
New Commercial agreement	<p>In July 2019, the board considered several proposals from external contractors tendering to provide Pest Control services to the business. In reaching its final decision, the Board had regard to several factors including: the business case and reputation of the contractors; the impact on our workforce, suppliers, customers and the environment; risk management, and the long-term reputation of the Company.</p>
Transfer of ownership of stores	<p>Throughout the financial year, the Board approved the transfer of a number of One Stop stores to Tesco Stores Limited at net book value to operate as Tesco Express stores. In reaching its final decision, the Board considered the risk and benefits of the transfer with particular focus on the strategic direction of the Company taking into consideration the impact on the Company's stakeholders.</p>
Stock Handling	<p>As part of the transfer of ownership of stores to Tesco Stores Limited, large quantities of stock were returned to our central distribution centres for repackaging and redistribution to other stores. The board considered the use of the remaining stock which could not be redistributed, assessing the impact of potential outcomes on the company's stakeholders, and approved the use of the stock in staff sales and for charitable causes.</p>
Employment Law Regulations	<p>Throughout the financial year, the board underwent a plan for compliance with employment law regulations including changing Swedish Derogation and the impact of tax legislation being extended to cover contractors in the private sector (IR35).</p> <p>The plan aimed to enforce the regulation that all agency workers are to be entitled to full pay parity with permanent employees. Considering the</p>

	stakeholder impact, the board approved the plan in December 2019, ensuring the equal treatment of all employees.
Wider Stakeholder Engagement	The Board received regular updates on stakeholder engagement: colleague initiatives, customer feedback; supplier initiatives; health and safety matters; adoption of modern slavery statement and regulatory updates.

Further details on employee engagement are set out in the Directors' Report to the One Stop Stores Limited 2020 Financial Accounts.

In accordance with requirements this section 172(1) statement has been published on the One Stop website.