Appendix 5 Red Flag Procedure

This document sets out:

1. The procedure for engaging third parties when conducting due diligence and red flags have been encountered.
2. The decision-making and resolution process used for dealing with red flags.

As part of our enhanced due diligence process, any red flags that are raised regarding a third party, either through the initial stages of standard due diligence (internet searches, fact-gathering) or from the answers provided in the Due Diligence Questionnaire, must be documented and presented for review to Legal.

Please use the Due Diligence forms contained in Appendix 4 for this process.

Examples of relevant red flags may be found in Appendix 1 but can include:

- Whether the third party is being investigated or prosecuted, or has been convicted or debarred, for corruption.
- Whether the third party has any personal relationships with public officials
- Whether the third party’s plan for performing the work is vague and/or suggests a reliance on contacts or relationships rather than the contracted skill or service

1 Procedure

Upon encountering any red flags you must:

1. Document the red flags you have found by listing or capturing them in a word document for review with your Legal department.

2. If you have not already engaged your local Legal Director you must now set up a meeting with them.

3. At the meeting the relevant director, and Legal must be present to review:
   a. The business justification for using the third party and the red flags that have been identified.
   b. The degree of risk the red flags pose to Tesco.
   c. Whether a background due diligence report from an external company should be run if one has not already been done.

4. If a due diligence report is run, Legal will review the report and provide a written analysis that explains how the red flags have been addressed or not from the report.

5. Agree a “red flag management plan” that contains:
   a. The agreed next steps for mitigating the red flags and managing the risks they pose.
   b. Next steps can include but are not limited to:
      i. asking for additional audit rights and right to terminate if elements are not met;
      ii. Prohibition on hiring sub-contractors without written approval
      iii. Annual certification that the third party has not engaged in any conduct that would violate local or international anti-bribery laws, and that it is not aware of any such conduct by its officers or employees
      iv. inserting additional enhanced terms based on higher risk;
v. requesting the third party undertake Tesco’s anti-bribery and fraud training;

vi. recusal or removal of employees or associated persons from working with Tesco.

c. Documentation evidencing how the red flags have been addressed.

6. If the “red flag management plan” for mitigating identified red flags cannot be agreed upon at a local level, you should raise the plan for resolution to the Group Regulatory, Ethics and Compliance Director and Loss Prevention and Security Director for review and determination.

7. The decision to engage the third party must be signed off by your business unit CFO or CEO, who are accountable for the risks posed.

8. The final decision as to whether the third party should be engaged will then be delivered by Legal for step seven of the Enhanced Due Diligence process.

All decisions whether to engage a third party or not as part of the red flag procedure must be documented and a file maintained by Legal and reported to your business unit Compliance Committee.