

CORPORATE RESPONSIBILITY REPORT 2010



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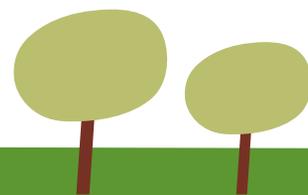
TAKE A PEEK AT OUR
ACHIEVEMENTS AND
CHALLENGES...



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ACHIEVEMENTS AND CHALLENGES



1 ENVIRONMENT

Achievements

- We have reduced emissions from our 2006/7 baseline portfolio of stores and distribution centres by 7.8% this year
- This year, the emissions from new buildings built since 2006/7 were 28.8% lower than from buildings built in 2006/7
- We have reduced UK absolute emissions by 2.0%
- We opened the world's first zero-carbon supermarket in the UK
- We carbon-footprinted more than 500 products in the UK and in South Korea
- 100% of waste in the UK is diverted from going directly to landfill

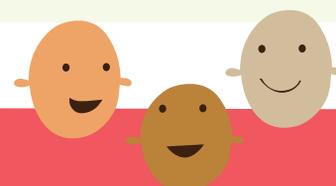
Challenges

- We have set ourselves a challenging target to become a zero-carbon business by 2050. We are working out pathways to achieving this beyond 2020 across our operations
- Broadening our climate change strategy to focus on reducing emissions in our supply chain by 30% by 2020 is a major task which will require strong collaboration with our suppliers. This will need a strong focus on some very broad issues, including sustainable sourcing of raw materials

Key performance indicators for 2010/11

- Reduce CO₂e emissions from existing stores and distribution centres by 5.5% compared to 2009
- Reduce CO₂e emissions from new stores and distribution centres by 30% compared to 2006 baseline
- Reduce emissions in our distribution network by 10% per case delivered compared to 2009

2 COMMUNITIES



Achievements

- We now have 270 Community Champions across the Group
- We donated £61.6 million, which is 1.94% of our pre-tax profits to charities and good causes
- The number of South Korean Culture Centres has increased to 95
- Our UK Regeneration Partnerships created 358 new jobs for people who were previously long-term unemployed

Challenges

- We want our community programmes to feel local in the different cultures and countries where we operate, while benefiting from our international experience

Key performance indicators for 2010/11

- Double the number of Community Champions in the UK to 250 and run 100 successful Community Fairs
- Donate at least 1% of Group pre-tax profits to charity
- Raise £7 million across the Group through staff and customers



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

Achievements

- This year we launched a new Trading Fairly model to help our suppliers around the world understand the labour standards we expect and how we can help them achieve these
- 91% of suppliers around the world say we treat them with respect
- We support local businesses, for example with more than 4,000 local lines in the UK and more than 6,000 regional lines in Poland

Challenges

- We need to find ways to help our suppliers deliver progress on difficult issues, such as labour standards, which may be outside our direct control

Key performance indicators for 2010/11

- Achieve 60% response rate in our Supplier Viewpoint survey, with 80% of all questions in the survey to receive a positive answer
- Roll out our ethical trading incentive scheme and Trading Fairly Awards to two further product categories in the UK
- £1 billion sales of local products in the UK

4 HEALTHY CHOICES



Achievements

- We helped 6.2 million people get active across the Group
- 100% of eligible own-brand products now have nutrition labels across the Group
- We have launched a 'Think 25' policy for alcohol sales in the UK

Challenges

- We need to find the right messages which encourage customers to eat more healthily and drive sustained behaviour change, especially in difficult economic times

Key performance indicators for 2010/11

- Get 7 million people active across the Group

5 OUR PEOPLE



Achievements

- There are three women on our Board of Directors, 19% of our directors are women and last year we appointed our first female director in South Korea
- We launched a new text service in the UK, 'Every Comment Helps', to enable customers to give instant feedback on how our people are doing
- We are building a dedicated Academy in Asia to act as a centre of training excellence

Challenges

- Although we continue to make great progress, we can still do more to ensure women are better represented at senior levels wherever we operate
- Developing more local leaders in each country remains a key priority, and we need to make sure we build on our work and success to date

Key performance indicators for 2010/11

- Ensure that 7% of staff are being trained for their next job

WELCOME TO OUR 2010 CORPORATE RESPONSIBILITY REPORT.

The Report covers all Tesco Group activities in the financial year March 2009 to February 2010, unless otherwise stated. We have aimed it at anyone seeking a complete yet concise overview of our corporate responsibility strategy, policies and performance.

www.tesco.com/cr2010



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INTRODUCTION BY THE CHIEF EXECUTIVE



“By supporting our customers and our staff, and by remaining focused on tackling the key issues that matter to our communities and society at large, we have sought to use Tesco’s size as a force for good.”

Terry Leahy, Chief Executive

Welcome...

Tesco is a strong business. Though the past year has been difficult for many of our customers around the world, we have shown leadership by supporting our customers and our staff, and by remaining focused on tackling the key issues that matter to our communities and society at large.

This, our latest Corporate Responsibility Report, shows how we responded to the challenge. By running our business efficiently and responsibly we have reduced carbon emissions and costs – making progress on the environment and helping our customers save money. By continuing to grow our business, we are creating more jobs around the world and helping more people develop skills and careers – not just a lucky few, but many people who were otherwise disadvantaged, such as in our regeneration schemes for the long-term unemployed and those with disabilities. We have sought to use Tesco's size as a force for good – to benefit individuals, communities and the wider world.

This approach lies at the heart of our business. Community and Environment form the fifth segment of our 'Steering Wheel', and Community is an explicit part of our long-term strategy. Our Community Plan focuses on five community promises, developed in close consultation with our staff and customers around the world. We seek actively to support local communities, to buy and sell our products responsibly, to care for the environment, to give customers healthy choices, and to create good jobs and careers around the world.

This Corporate Responsibility Report covers the whole Tesco Group, and its operations across the world. It shows where we have met our targets and where we have missed them, and sets out those areas where we believe there is more to do.

Climate change remains one of our biggest strategic challenges. In the run-up to the Copenhagen climate summit in December 2009, while the world watched governments struggle to agree meaningful targets, we challenged ourselves to make a decisive contribution. In October we set out a series of ambitious new targets, including a commitment to be a zero-carbon business by 2050 without purchasing offsets.

We also pledged to cut emissions in the products in our supply chain by 30% by 2020, and to identify ways in which our customers can halve their household carbon footprints by the same date. I believe fundamentally that consumers can be at the heart of the strategy to tackle climate change. And the right way to unleash their potential is to create a positive vision of the low-carbon society we are seeking to create, making the green option exciting, understandable, easy and affordable. The prize is a powerful and well-directed movement for change – a consumer-driven revolution in low-carbon consumption.

We have continued to make strong progress in reducing our own environmental footprint. This year we achieved our UK target of diverting 100% of our waste from going directly to landfill. We also opened our first zero-carbon store, at Ramsey in Cambridgeshire, as well as many other high-efficiency environmental stores across the Group. We continued our programme of analysing the footprint of the products we sell and have now exceeded our target of footprinting 500 products.

This year we have found imaginative ways to bring people together across the Group, from our new Community Fairs in the UK, to our network of Extended Education Academies in South Korea. We now have 270 Community Champions working with local schools, charities and services in stores across the Group.

Tesco has contributed £61.6 million or 1.94% of our pre-tax profits to charity. In the past year, stores gave grants to local causes in excess of £1.5 million. Following the devastating earthquake in Haiti in early January, we made a donation of £50,000 as part of the emergency partnership between Tesco and the Red Cross.

The generosity of our customers and staff has continued to grow. Customers have volunteered in their hundreds for charities showcased at our UK Community Fairs and across the Group staff raised £7.4 million.

We have continued to invest in the development of our own people and this year marked the first graduations from our UK Foundation Degree programme.

We have also developed a new model for trading fairly – helping our suppliers overcome the social, ethical and economic challenges they face, and working hardest in the areas where problems are most endemic.

We have continued to work with our staff and customers to offer new opportunities to lead healthy lives. As well as offering new healthy ranges of food, we help people to get active, from the 3.2 million people participating in Tesco Lotus' aerobics competition in Thailand to the one millionth child passing through our FA Tesco Skills football programme in the UK.

I am proud that through the worst recession most of us have faced, Tesco has remained true to its values, and that as a result we have made a strong contribution. There will be more challenges ahead, but we relish challenges. If we fulfil our customers' needs – not just in their homes but in their communities and in broader society – they will repay us with their custom and their loyalty.



Terry Leahy **Chief Executive**

www.tesco.com/cr2010/strategy



TESCO

AT A GLANCE

www.tesco.com/cr2010/ourbusiness

WORLD STORES &

TESCO IN NUMBERS

£62.5bn
Group sales

472,000
People worldwide

4,811
Stores worldwide

14
Markets

US

	Revenue £m	Stores	Employees
Total	349	145	3,246

EUROPE

Region	Revenue £m	Stores	Employees
Czech Republic	1,287	136	12,949
Hungary	1,698	176	20,079
Poland	1,942	336	23,655
Republic of Ireland	2,282	119	14,158
Slovakia	891	81	8,105
Turkey	595	105	7,630
United Kingdom	38,558	2,482	287,669
Total	47,253	3,435	374,245

WIDE EMPLOYEES

INDIA: NEWS

In India, we have an exclusive franchise agreement with Trent, the retail arm of the Tata Group. We are supporting the development of their Star Bazaar format. We plan to open our first cash and carry store by the end of the year.

ASIA

Region	Revenue £m	Stores	Employees
China	844	88	22,668
Japan	449	142	4,636
Malaysia	633	32	9,423
South Korea	4,162	305	22,739
Thailand	2,344	663	34,775
Total	8,432	1,230	94,241

1 ENVIRONMENT

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OUR BIGGEST CHALLENGE YET

As a global business we have an important role in helping to minimise climate change. To achieve this, in 2009 we committed to:

- becoming a zero-carbon business by 2050
- reducing the emissions of the products we sell by 30% by 2020
- helping our customers to reduce their carbon footprint by 50% by 2020

2009 at a glance

7.8%

reduction in emissions from our existing stores and distribution centres

28.8%

reduction in emissions from new stores and distribution centres built this year compared to those in 2006/7

6.4%

reduction in emissions per case delivered

ZERO

the world's first zero-carbon supermarket, in Ramsey, UK

100%

diversion of waste from going directly to landfill in the UK

Working with

650

members of the Consumer Goods Forum across 70 countries

OTHERS SAY...



Amongst consumer-facing companies, Tesco has to be given credit for taking a leadership role. I see a real commitment within the company to minimise emissions of the products on the shelves."

Professor Sir David King, former Chief Scientific Advisor to the UK Government, and currently Director of the Smith School for Enterprise and the Environment at Oxford University



Targets:

- halve emissions from our 2006/7 baseline portfolio of buildings by 2020
- new stores built between 2007 and 2020 to emit half the CO₂ of a 2006 new store
- reduce emissions per case delivered by 50% by 2012



ZERO

CO₂e BY 2050

2050

By 2050 we will become a zero-carbon business



The world's first zero-carbon supermarket at Ramsey, UK

CLIMATE CHANGE

We believe that climate change is one of the greatest strategic threats facing mankind. It matters in every country where Tesco operates, to every chain of companies that supplies our business, and to our customers. We believe that retail businesses can play a powerful role in tackling climate change, and we are determined to play our part.

This year, we set a bold ambition to be a zero-carbon business by 2050 without purchasing offsets, and we are already making considerable progress in reducing our direct footprint.

But we know that this represents only a small fraction of the emissions generated by the production, manufacture and use of the products we sell. We also know that we have a very wide reach. We employ 472,000 people globally, many more people work in the firms and businesses supplying our stores, and every week we reach millions of customers around the world. We aim to use that influence to mobilise the people whose lives we touch and generate a mass movement to protect the environment.

Over the past few years we have played a leadership role in bringing the problem of climate change to the attention of our suppliers, customers and competitors around the world, and we are proud of the way we have set the agenda. This year, we raised the bar once again, setting ambitious new targets, developing new collaborations and finding ways to engage consumers to help them switch to low-carbon lives.

Our targets address the three ways in which we have an impact on carbon emissions.

First, we produce emissions directly by heating, cooling and lighting our stores and moving goods to them. Our targets are:

- **By 2012 we will halve distribution emissions of each case of goods delivered, against a baseline of 2006**
- **By 2020 we will halve emissions from our 2006/7 baseline portfolio of buildings**
- **New stores built between 2007 and 2020 to emit half the CO₂ of a 2006 new store**
- **By 2050 we will become a zero-carbon business**

Importantly these span different timescales. We need targets in the short, medium and long term to ensure that our eyes stay firmly on the climate ball.

Second, our suppliers produce emissions as they grow and manufacture the goods our customers want. This year we set ourselves the target of:

- **Reducing the emissions of the products in our supply chain by 30% by 2020**

We know this will only be achieved through genuine, open source collaboration; we are ready to play our part in this and encourage our suppliers to do the same.

Third, our customers produce emissions as they consume the products they buy from us. As with every other part of Tesco's strategy, our customers are at the heart of our battle against climate change. Households, particularly in developed countries, account for the largest share of total emissions, and in turn have potentially the greatest role to play in the transformation from a high-carbon to a low-carbon society. This year we set ourselves the target of:

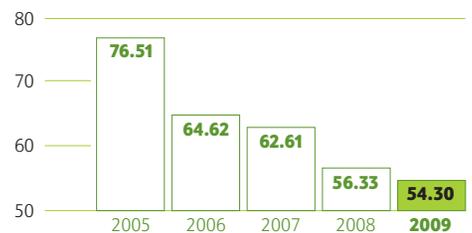
- **Finding ways to help our customers reduce their own carbon footprints by 50% by 2020**

Leading by example

The new targets that we set this year are ambitious but we are making good progress towards meeting them. Across the Group, we have reduced emissions from our 2006/7 baseline portfolio of stores and distribution centres by 7.8% this year. We have developed a new environmental store format and this year across the Group we have achieved a 28.8% reduction in carbon emissions from new stores and distribution centres compared to 2006/7.

We will continue to work on reducing the energy used by our stores and, where possible, producing our own renewable energy.

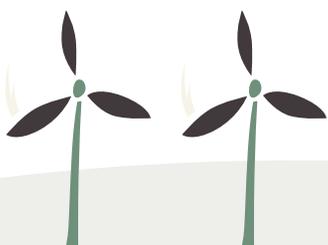
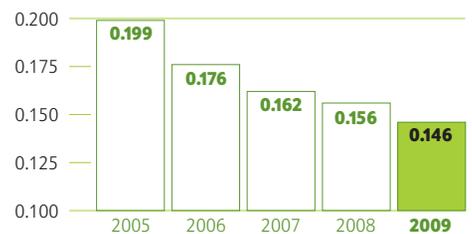
CO₂e emissions per square foot



Note that the 2008 Tesco accounting year was 53 weeks long rather than the usual 52 weeks. As in last year's CR Report, the 2008 figures have been adjusted to a 52-week year to allow like-for-like comparison with other years.

CO₂e by case of goods delivered

(kgCO₂e/case)



5.2

This year we emitted
5.2 million tonnes of CO₂e



Solar panels
at one of our
stores in
Hungary

2.0%

We have reduced our absolute carbon emissions
in the UK by 2.0%

Our own direct footprint

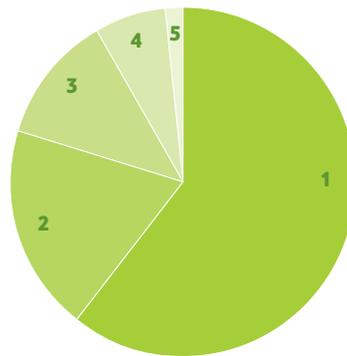
Our global carbon footprint in 2009 was 5.17 million tonnes of CO₂e (carbon dioxide equivalent). We publish our carbon footprint through the independent Carbon Disclosure Project and in this Report. Our absolute carbon footprint has increased by 3.7% compared with last year. For information about how we calculate our carbon footprint (reporting standards, footprint boundary and emissions factors), see www.tesco.com/cr2010/directfootprint. As in previous years, we have updated emissions factors to reflect the latest UK Government guidance, including recalculating our emissions from previous years on the same basis so that we can assess our performance from year to year on a like-for-like basis. The 2009 Carbon Disclosure Leadership Index commended Tesco for its carbon management and reporting.

Although carbon dioxide is the best known greenhouse gas, there are several others, each of which packs a different sized punch per tonne. To add the effects of these different gases together we use the term CO₂e, which is the equivalent amount of carbon dioxide that would have the same global warming effect.

We are a growing business worldwide. We believe that growth is consistent with tackling climate change provided it is low-carbon growth. Indeed, it is only through low-carbon enterprises replacing higher-carbon ones that we will achieve the very challenging emissions reductions necessary globally.

Over the past year, our carbon footprint increased by only 3.7%, even though our net sales area grew by 7.5%. We have also reduced our absolute emissions in the UK by 2.0%. We recognise that our 2050 target to be a zero-carbon business will require us to reduce our absolute emissions. We plan to achieve our zero-carbon ambition by generating all our electricity and heat/cooling from renewable sources. If there are any residual emissions that we cannot eliminate, for example from some forms of transport, we will generate more renewable energy than we need and pass the excess to others.

CO₂e by source (%)



1 Grid electricity	60.8
2 Refrigerants	19.1
3 Diesel/oil	11.8
4 Natural gas/LPG	6.9
5 Business travel	1.4

CO₂e by market (kgCO₂e)

China	279,318,897
Czech Republic	168,836,777
Hungary	208,622,592
India	14,251,391
Japan	29,932,212
Malaysia	155,600,965
Poland	313,752,692
Republic of Ireland	191,032,334
Slovakia	66,222,990
South Korea	434,684,867
Thailand	495,327,072
Turkey	86,275,140
UK	2,592,850,151
US	128,360,327
Global total	5,165,068,408

Distribution

Distribution accounts for around 16% of our carbon footprint. We are committed to halving the distribution emissions of each case of goods delivered by 2012, against a baseline of 2006.

ERM 2009/10 ASSURANCE SUMMARY STATEMENT

Environmental Resources Management Limited (ERM) has provided independent external assurance of our global direct carbon footprint for this 2010 Corporate Responsibility Report. Here is its response:

“We reviewed Tesco’s approach to measuring and reporting its carbon emissions at Corporate Group level and in a representative sample of countries (the Czech Republic, Malaysia, Turkey, China and the UK).

We conclude that Tesco’s global direct carbon footprint (total direct carbon equivalent emissions and the percentage breakdown per country and per emissions type) is appropriately stated. For further details on the work we undertook and our findings, please read our full assurance statement at www.tesco.com/cr2010/erm.



1 ENVIRONMENT



Each journey of the train from Valencia takes 30 lorries off the road

6.4%

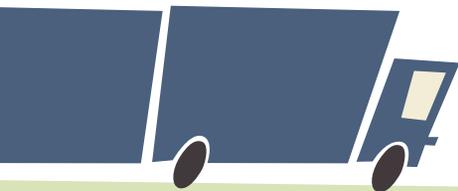
reduction in emissions per case delivered

We have already made good progress. In 2009 our total direct carbon footprint from transport was 608,178 tonnes of CO₂. Our carbon footprint per case delivered is 0.146kg, a reduction during the year of 6.4%, across our global operations. That takes us to a total of 17.2% reduction compared to 2006, well on our way to the 2012 target.

Using our vehicles more efficiently

Despite opening more new stores, we have not increased the size of our distribution fleet for three years in the UK. We have done this by rethinking the way we use our vehicles. Our fleet now has a system called Fleetboard installed. This collects data from the engine management system, which allows us to monitor how efficiently each vehicle is driven. In parallel, we have trained our drivers to improve their efficiency by techniques such as accelerating smoothly, using the highest possible gear, and maintaining constant speeds where possible. In trials, this cut CO₂ emissions from vehicles by 7.3% which, if matched across the entire UK fleet of 1,700 vehicles, means a saving of some 13,000 tonnes of CO₂ per year.

In the UK, we have invested £9.2 million in double-deck lifts and are now delivering to high-trade stores on double-deck trailers, which reduces the number of vehicle deliveries and hence the associated CO₂ emissions. In the past year we cut 52,000 deliveries to our stores using double-deck vehicles, saving 12 million road miles. We plan to deliver to our top 100 stores using double-deck trailers by the end of next year.



Alternative transport

Using alternatives to road transport such as transporting more goods by rail, we now save more than 12,000 tonnes of CO₂ each year compared to a 2006 baseline.

This year we also opened Tesco's first purpose-built import storage facility at Teesport in Middlesbrough. Because of its location on brownfield land close to the port, goods arriving by sea will no longer need to be transported to a distribution warehouse inland. Moreover, since it is situated near major railway lines, when the goods do leave, some will go by rail rather than road. In this way, the new centre will take more than 12,000 lorry journeys off Britain's roads every year.

Collaboration with suppliers

In summer 2009 we held a series of workshops with a team from Procter & Gamble to look for opportunities to make emissions savings in the distribution network across our joint supply chain. We have also begun a three-way collaboration with Procter & Gamble and Eddie Stobart. The aim is to reduce the number of kilometres that vehicles travel empty, and hence save both emissions and money.

THE TRAIN FROM SPAIN

On 27 October 2009, a train departed from Valencia packed with broccoli, courgettes, lettuce and citrus fruit to deliver to our UK stores. This was the longest single train on the longest run in Europe. It was also the first ever refrigerated train to pass through the Channel Tunnel. As well as cutting 14 hours off the journey time from Spain, it took 30 lorries off the road and saved 30 tonnes of CO₂.

The train, which is operated by Eddie Stobart, will initially run weekly but there are plans to turn it into a daily service. Of the 30 containers on board, Tesco used 20, but we are aiming to fill the entire train with fresh produce soon.

Low-carbon stores

Over the past four years we have built environmental stores in every country in which we operate retail outlets. These stores test new technologies and designs to save energy and reduce greenhouse gas emissions and we have now incorporated many of their innovations in our standard stores.

For example, Tesco China now has 24 low-energy stores, all of which use 25% less energy than standard designs. In China this year we rolled out an energy management system to all our stores that was first trialled in environmental stores, and which reduces power consumption by 15%. On World Earth Day (22 April 2009) Tesco China launched its Energy Management Service Centre in Shanghai to monitor the energy consumption of all the Tesco stores and distribution centres in China.

In 2009 Tesco Hungary opened a new environmental store that has cut the standard energy needs by half by using technologies such as heat recovery, heat pumps, and solar panels to produce energy for mains electricity and lighting. Tesco Poland also opened its sixth energy-efficient store, which uses a ground heat exchanger to cut energy needs by 10%.

Last year we also opened a major new distribution centre in Bukit Beruntung, Malaysia which is designed to be 30% more energy efficient.





In the past year we saved 52,000 deliveries to our stores by using double-deck vehicles

37 million

By using our fleet more efficiently, we have cut our transportation distances by nearly 37 million miles in the UK



All our stores in the US are 30% more energy efficient than a typical supermarket

All our stores in the US are 30% more energy efficient than a typical supermarket. They contain environmental features such as increased insulation and night shades on refrigeration cases, and hybrid parking spaces and bike racks to encourage employees and customers to use lower-carbon transport.

Following the successful opening in January 2009 of our Cheetham Hill store in Manchester, UK, which generates 70% less greenhouse gas emissions than conventional stores, we have now gone even further in our drive to lower our carbon footprint. In December 2009 we opened the world's first operationally zero-carbon supermarket (see box, opposite).

For more information about our low-carbon stores see www.tesco.com/cr2010/lowcarbonstores.

THE WORLD'S FIRST ZERO-CARBON SUPERMARKET

Tesco's first zero-carbon store opened for business in Ramsey, Cambridgeshire, in December 2009. The building is designed to use as little energy as possible; any energy we do need, we generate on site from renewable fuel, and we sell the excess to the National Grid.

The frame is made from sustainably sourced wood, which requires much less energy to produce than steel. We use roof windows and sun pipes to bring natural daylight flooding into the customer and staff areas. The heating and air conditioning are energy efficient and we use rainwater to flush the toilets and run the carwash. A metering system helps us keep a close eye on how much energy and water we use. The store uses natural refrigerants and even has the UK's first car park lit solely by LEDs, as well as solar-powered street lights and crossing beacons.

Even those of our customers who are not particularly conscious of environmental issues tell us they are proud to have such a special store in their area. They especially like the wood, the natural light and the warmth around the well-insulated refrigerators. They call it "airy and spacious", "lovely and light" and say "it's nice to stand in front of the freezer cabinets and choose, without freezing to death."

We are very proud of these reactions. They show clearly that low carbon does not need to be low comfort.

Renewable energy

Generating our own renewable energy is a key part of our climate change strategy. In the next year we will be trialling several technologies in our stores, including photovoltaic roof panels and cladding, solar hot water generation, alternative fuel Combined Heat and Power (CHP) and ground-source heat pumps. We have accelerated our CHP installations for energy generation and now have more than 100 units in our stores, 13 of which run on biofuels. (The rest run on natural gas, which is much lower carbon than other fossil fuel sources.)

We have also put out a tender for our 6MW Biomass CHP plant at Livingston DC, which should open in 2011/12.

ZERO CARBON

We opened the world's first zero-carbon store in Ramsey, UK



500

More than 500 products carbon-footprinted in the UK and South Korea



HOW OTHERS SEE US

In 2009, ENDS Carbon – a joint initiative between the University of Edinburgh Business School and the environmental journal ENDS Report – published a report on how different supermarkets rated in the fight to reduce carbon. The report was funded by a cross section of companies from the retail sector, including Tesco. Though it was anonymised, the authors told us how we did.

Overall, we were the highest rated supermarket for tackling carbon. The report found that we were top for fuel efficiency, carbon reduction targets and customer home deliveries. Our lighting efficiency was 50% greater than the lowest rated company, and we came second for energy efficiency in refrigeration. The report rated Terry Leahy as one of the two most vocal CEOs about climate change, and we were also joint leaders in raising customer awareness.

Helping our staff pick up low-carbon habits

We know that our efforts to tackle climate change depend on having staff who are fully engaged in the fight. In October 2009 we promised that our Community Champions in the UK would be increasing their environmental activity. In January, they encouraged staff and customers to make green New Year resolutions, as well as putting up posters to explain Tesco's environmental activities.

We have also appointed a set of Energy Champions in our international business, whose job is to find ways to save energy within our stores, and to help the rest of the staff understand why we need to do it. We now have Energy Champions in the Czech Republic, Hungary, Malaysia, Poland, Slovakia, South Korea, Thailand and Turkey. In Tesco Malaysia, we have also introduced an 'energy league' between stores to reward those that have lowered their energy use and to encourage the others – and other countries are now looking to follow suit.

We also want to do more to communicate our climate ambitions to our staff and give them incentives to go green. In October 2009 we had a great staff offer on home insulation in the UK, giving a £50 discount on the standard price of £198. Every month our internal newspaper, The One, now contains tips for how staff can save both money and carbon dioxide emissions.

CARBON FOOTPRINTING



Carbon is a new subject for many people and we are committed to providing clear information to help them to understand the impact of their purchases and behaviour. We have therefore worked with the Carbon Trust and a range of other stakeholders to help develop an innovative universal carbon footprint label that describes the emissions associated with the product.

The first step in carbon labelling our products is to measure the emissions associated with every step of a product's lifecycle, from the raw materials through the distribution to the arrival in store, and even beyond this to the way customers use and dispose of the product. We have exceeded our target of measuring the full carbon footprint of 500 different products. >>

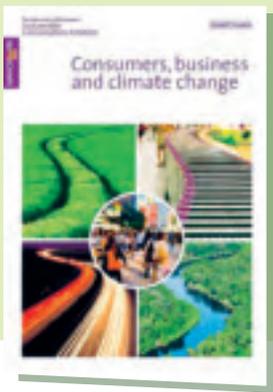
>> We are now deciding how best to use this information for the benefit of our customers and the environment. In many cases, we can simply add a footprint to the product's packaging to help customers choose between products. For example, we found that bin liners manufactured from recycled plastic have a lower carbon footprint per litre than those manufactured from virgin plastic. Similarly, recycled toilet paper has a footprint a third lower than the standard product. And aerosol deodorants tend to have higher carbon footprints than roll-ons, because of the high energy needed to make the aluminium can.

Our latest research, performed in January 2010, shows that customers welcome these new labels. Half of all respondents understood what a carbon footprint was, and nearly as many said they would seek products with lower footprints.

However, in some cases the footprinting has shown us that the differences between brands within a category matter much less than how an entire category is typically manufactured or used. For example, some 75% of the emissions from dairy products such as milk come in the agricultural phase, and this applies across the board. Similarly, about 70% of the emissions from laundry detergents come from how the detergent is used, and washing at a lower temperature makes a much bigger difference than which brand you choose. In these cases, we are working with suppliers to tackle emissions hotspots in the supply chain, and with customers to help them change their behaviour.

The next two sections describe both of these approaches in more detail.





The Sustainable Consumption Institute's first major report was published in October 2009

Working together

We are working to engage manufacturers and retailers around the world to tackle carbon emissions



We are members of the global Consumer Goods Forum

Working with others

Though our own efforts are important, by themselves they will not be enough. As a key part of our climate change strategy, we also play a leadership role, working with other organisations across the retail sector and within governments, and helping our suppliers to identify emissions hotspots and eliminate them throughout the supply chain. We work with a wide range of organisations, from industry bodies such as the British Retail Consortium and the Institute of Grocery Distribution to government organisations such as WRAP and Act on CO₂, as well as academics, NGOs and suppliers.

Across the retail sector

Through the global Consumer Goods Forum (CGF), we are working to engage manufacturers and retailers around the world to tackle carbon emissions. These businesses and their customers are key to a low-carbon economy.

This year, the CGF commissioned a report from Manchester University's Sustainable Consumption Institute on the role consumers can play in tackling climate change. (See box: 'Sustainable Consumption Institute' on page 14.)

Following this report, the CGF has now agreed a set of principles for how their companies can jointly address the challenge of climate change, and help consumers reduce their own greenhouse gas emissions.

The principles are:

"We will work together and share learning to address the challenge of climate change.

Our work will be guided by the objective of helping consumers to reduce their own carbon emissions when using our products.

In tackling climate change, we will take a 'life cycle view', encompassing every step in our value chains from the sourcing of raw materials to consumer use and disposal of finished products.

We will seek to develop common metrics and measurement methodologies for carbon."

The actions are:

"We will seek to decouple business growth from our climate change impacts. Our objective will be to achieve our respective companies' growth ambitions whilst at the same time reducing the absolute level of their emissions.

We will continue to compete as businesses to bring products before the consumer. But we commit to collaborating with each other, with other businesses and with governments to communicate to consumers how these products can best be used to reduce their climate change impacts.

We will identify ways of cementing collaboration among businesses on climate change. Taking a 'life cycle view' and cooperating within, and across, industry sectors will be particularly important in making change occur."

These have now formed the basis for a sustainability pillar for the CGF, to be co-led by Terry Leahy.

IN TACKLING CLIMATE CHANGE, WE WILL TAKE A 'LIFE CYCLE VIEW'



30%

This year we committed to achieving a 30% reduction in the carbon impact of the products we sell by 2020



SUSTAINABLE CONSUMPTION INSTITUTE

In 2007 Tesco committed £25 million to create a new Sustainable Consumption Institute (SCI) at the University of Manchester. The SCI aims to answer some of the fundamental questions about how to make a consumer society sustainable.

In this, its second year, the SCI has established an extensive, multidisciplinary, multifaculty network of academics, both across the UK and internationally.

In October, the SCI produced its first major report, 'Consumers, business and climate change', which was commissioned by the CGF under the joint leadership of Terry Leahy and Paul Polman, Chief Executive of Unilever. Both men spoke at the launch event, alongside David Cameron and the CEOs of SC Johnson, Reckitt Benckiser and Coca-Cola. The SCI timed the report to inform the political negotiations in Copenhagen and to show how consumers can be at the heart of a new, low-carbon revolution. Its conclusions led to a set of priorities and actions that have now been agreed by the CGF Board. (See www.manchester.ac.uk/sci)

Among other flagship projects, the SCI is focusing on understanding and changing consumer behaviour, and identifying new technologies and innovations across the entire supply chain.

Up the supply chain

Our supply chain in the UK is responsible for approximately 26 million tonnes of CO₂e which is about ten times our direct carbon footprint. This year we committed to achieving a 30% reduction by 2020 in the carbon impact of the products we sell. Clearly we cannot do this alone; we have invited all our suppliers to join us in this endeavour. We need to start by understanding what suppliers are already doing and where the emissions hotspots lie within the supply chain. We can then work with them to find ways to reduce the most significant emissions (see box: 'Rumblings of change'). As a first step, we have provided all our suppliers with an environmental guide, which contains information on key environmental issues such as waste management, energy and water use, and helps them develop an action plan for reducing their environmental impact.

Biofuels

We have been using biofuels in all our UK fuels since 2005, to help customers cut their carbon footprint and reduce our dependence on fossil fuels. While we realise that the impacts of biofuels are complex and the environmental benefits depend on how they are made, we still believe that responsibly sourced and produced biofuels are part of the solution for climate change. We have commissioned the SCI to research this issue.

Under the UK's Renewable Transport Fuels Obligation, biofuels must now make up 5% of all road fuels. Until autumn 2009 we had gone far beyond this level and run the majority of our distribution fleet on B50 biodiesel, which contains 50% biodiesel and 50% standard mineral diesel. From March to August 2009, our use of B50 saved 34,000 tonnes of carbon dioxide. We were disappointed when the

UK Government withdrew a key incentive for B50 biodiesel earlier this year, forcing us to revert to 5% biofuels across our fleet.

RUMBLINGS OF CHANGE

Our carbon footprint analysis on milk showed that the vast majority – some 75% of the total emissions – come from the agricultural part of the milk's life cycle, and much of this comes from the methane that emerges from the cows. (Methane is 22 times more powerful than carbon dioxide when it comes to warming the planet.)

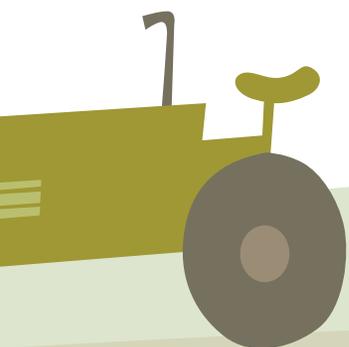
We are therefore working with the Tesco Dairy Centre of Excellence – our unique collaboration with the University of Liverpool – to try to find ways to reduce these emissions.

Researchers at the Centre have fitted a herd of Holsteins with microphones that listen to the rumblings in their stomachs and provide an hourly assessment of the state of their digestion. The information passes directly to the farm's computers when the cows walk over an ID unit on their way to the milking parlour.

The researchers are monitoring whether giving the cows different foodstuffs helps to improve their digestion, potentially reducing their methane emissions, and hence cutting the carbon footprint of milk and other dairy products.

75%

of total emissions come from the agricultural part of the milk's life cycle



Our UK home insulation service

Save up to £365 per year and stay warm



The launch of green Clubcard points in Thailand



Our green website for customers in Poland

Empowering consumers

This year, we committed ourselves to helping our customers to reduce their carbon footprint by 50% by 2020. Consumers are responsible for a significant amount of emissions. Helping them to make greener choices will be important for the revolution in green consumption. We are doing this by providing information, new, low-carbon products and services, and incentives to make the switch.

Grocery Home Delivery is a growing proportion of our business and is a more environmentally friendly way of shopping. We have reduced our fuel consumption per order delivered by more than 15% in the past two years, in part by introducing telematics equipment in our vans, which helps ensure that drivers take the most efficient route and drive economically. In the past year we achieved double-digit growth without buying any new vans, by improving our scheduling efficiency.

Greener Living

Our Greener Living brand helps our customers to make greener choices. In the UK the range comprises 200 products as diverse as energy-saving light bulbs, paper goods and kitchenware. We are investing in new product ranges under this brand, such as greener cleaning products and also providing advice on how people can reduce the environmental impact associated with their homes, garden and travel. We aim to engage customers by signposting environmentally friendly products in an easy and accessible way.

Since we relaunched our Greener Living website in September 2009, the number of visitors has risen by 56%. Our new site features more interactive content including an 'Eat Greener' recipe section, with an online recipe book and an interactive house to explore, and tips on how to save money by being greener. There are also videos covering topics from how to use a Tesco recycling machine to how to clean your shoes with a banana skin, as well as articles, competitions, forums and information on Tesco's environmental activities. Nearly 80,000 customers have now signed up to our monthly Greener Living email. (see www.tesco.com/greenerliving)

Home efficiency service

To follow on from our successful service offering home insulation and improved energy efficiency, we are now launching a total home energy and emissions service to act as a one-stop solution for our customers. People will be able to buy both insulation and solar energy products. They will receive expert advice on tailor-made solutions for their homes, as well as information about planning issues and the potential for government funding.

Green Clubcard points

Customers can reduce their emissions by buying lower carbon products or changing their behaviour. One effective way that we can reward customers for making these green choices is through green Clubcard points. In the UK, green Clubcard points are currently available on recycling of cans, printer cartridges and mobile phones; bagless home delivery; home insulation; and reusing carrier bags.

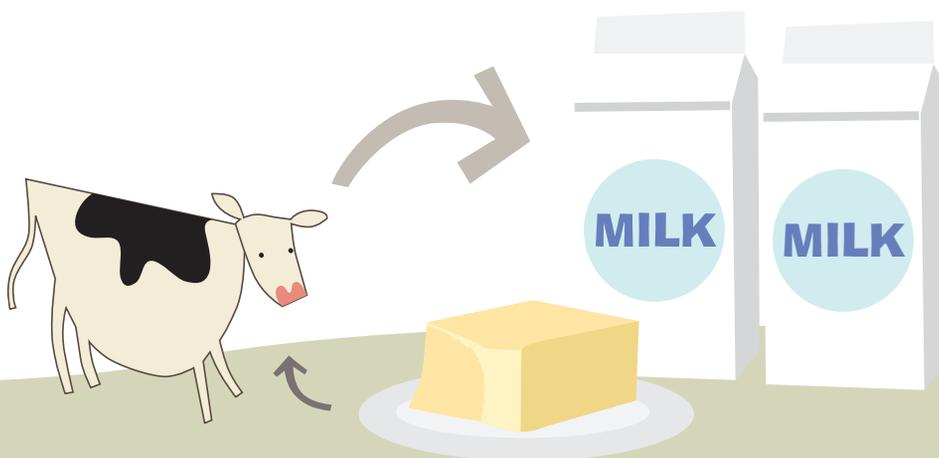
We also offer green Clubcard points to customers in South Korea who cycle to the stores and to those in Malaysia who reuse carrier bags, saving nearly two million bags per month since the scheme started in June 2008, as well as to customers in Thailand. This year we committed to finding new ways to use green Clubcard points across the Group to encourage low-carbon shopping.

We are also looking into giving the special marketing opportunities to products that make a real contribution to the low-carbon economy. We plan to work with our suppliers, using price, promotions and merchandising to highlight these products within our stores. We will show how we can work with our suppliers on traditional commercial terms to encourage low-carbon purchasing.

OTHERS SAY...

Tesco has a strong story to tell on the environment. It has ambitious targets, concrete evidence of making progress against those targets and a CEO who has done much to raise awareness of the threat of climate change. Looking forward, I would like to see an increased emphasis on water and sustainable sourcing."

Gavin Neath, Senior VP, Unilever



100%

We have diverted 100% of waste from going directly to landfill in the UK



A 'before and after' example of packaging reduction

WASTE, PACKAGING AND RECYCLING

Waste

A core Tesco value is that we act responsibly for our communities. One way we do this is by minimising the waste we produce. Each Tesco store has waste targets that must be reviewed and reported every week. Achieving a balance between product availability and waste is a key part of a store management team's daily routine.

In the UK this year we achieved a major milestone. Since August 2009 we have diverted 100% of our waste from going directly to landfill. Following a massive logistical exercise in reducing, reusing and recycling, as well as seeking out the best providers of waste management services, we reached this target almost a year ahead of schedule.

Where possible, we ensure waste is used to make alternative sources of energy. For example we seek to minimise waste in all products, including meat, sold in our stores. Meat that is leftover is then used to generate fuel for electricity through a third-party plant, and this goes back into the National Grid. At present, 5,000 tonnes of waste meat generate about 2,500 megawatt-hours of renewable electricity. We also turn recycled carrier bags into refuse bags and recycle cardboard boxes to make new ones.

Our next challenge is to optimise the ways we process our waste, to ensure maximum efficiency – and minimum emissions of greenhouse gases.

In October 2009 we announced a new initiative: 'Buy One Get One Free – Later' for perishable goods. Customers can pick up their free product when they need it, helping to keep waste down.

Packaging

Packaging is a complex subject. It is highly visible and can seem to our customers like one of the biggest issues when it comes to climate change. However, packaging is vital both to protect the products we sell and to ensure that they don't go to waste. For example, an unwrapped cucumber loses its moisture in just three days; wrapped in only a thin plastic film, it can stay fresh for up to two weeks. The plastic film prevents the cucumber from being wasted. Even more importantly, it prevents the energy, materials and effort that went into growing and transporting the cucumber – with all their associated carbon emissions – from going to waste. In developing countries, the lack of packaging or inadequate packaging in distribution causes up to half of all food to decay before it reaches the consumer. In the UK, with more efficient packaging, the figure is only 3%.

Nevertheless, we are committed to reducing packaging where we can do so without compromising its role in protecting, preserving and giving information about the product. Our policy is based on five key principles. Packaging should be fit for purpose; use the lightest weight materials; use materials from the most sustainable sources; maximise opportunities for recycling and recovery; and be designed to have the lowest carbon impact keeping in mind the product and value chain.

In 2007 we set a target to reduce packaging weight by 25% by 2010. As we worked towards this target, it became apparent that weight alone may not be the best way to measure packaging from an environmental point of view. We have therefore amended our target to a more realistic reduction of 15% by 2010. We have delivered this reduction in our own-label products a year ahead of schedule, saving a total of 100,000 tonnes of packaging.

For example, a third of Tesco's packaging weight is in the form of glass bottles for beer, wine and spirits. In January 2010 in the UK we switched our own-brand Value brandy into plastic bottles, reducing the packaging weight by 86%. In the same month we also introduced the industry's lightest ever wine bottle – which at just 300g is 30% lighter than our previous record-holder, and should save 560 tonnes of glass per year.

However, to make our packaging truly sustainable, we need to take a holistic approach, looking at the product and packaging together through the whole supply chain. For example, we now ship certain wines in large vats from Australia to Manchester, via the Liverpool ship canal. We then bottle the wine in reduced weight glass bottles. This reduces carbon emissions by 53,000 tonnes, and saves 6,000 tonnes of glass per year.

Our priority is still to reduce the weight of our packaging, but we are also leading a major project with suppliers and experts to understand the best way to reduce emissions throughout the supply chain (See box: 'Global Packaging Project').



560

Our new wine bottle is the industry's lightest ever and should save 560 tonnes of glass per year



100

We now have more than 100 automated TOMRA recycling machines outside our UK stores

GLOBAL PACKAGING PROJECT

Tesco is leading from the front in the global effort to improve the sustainability of packaging. We are co-chairing a major project under the umbrella of the Consumer Goods Forum to set industry-wide standards for how packaging sustainability should be measured.

The Global Packaging Project has defined a set of metrics that allow us to measure the sustainability of different forms of packaging. The next phase is to test these definitions in real business situations. Participating companies include more than 60 of the world's leading retailers, consumer goods manufacturers and packaging suppliers, as well as many trade associations and academic institutions.

This will form part of our efforts to reduce the emissions embedded in the products we sell by 30% by 2020 (see 'Up the Supply Chain', page 16). It should enable us to develop and roll out standardised ways of measuring global packaging, such as recycled content, optimal packaging weight and carbon emissions throughout the supply chain.

Recycling

Our customers around the world want to recycle and we are helping them to do so. We provide customer recycling facilities in all our markets except China and Turkey, where we hope to introduce store recycling in the coming year. In 2009 we opened two new recycling centres in Malaysia to add to the one opened in 2008. To date the centres have collected nearly 250 tonnes of material. This year in the UK, we continued to roll out automated TOMRA recycling machines and piloted ten smaller versions, each about the size of a cashpoint machine, which help customers recycle more at our Express and Metro stores. We now have more than 100 automated recycling machines outside our stores.

Water

This year we commissioned ERM to measure our direct and indirect water footprint. Our direct water footprint was 23 billion litres, nearly all of which came from metered consumption in our stores. However, this represents just 1% of the total water footprint associated with the

products we sell, with some 850 billion litres from our upstream supply chain, and 1,000 billion litres used by customers consuming our products. We are now using these figures to develop a water strategy, which we intend to have in place for next year's Corporate Responsibility Report.

A SELECTION OF NEXT YEAR'S TARGETS

Ireland – 100% of waste diverted from landfill by 2011

Japan – reduce carrier bag use by 20%

South Korea – 76,000 children in the eParan Green Leaders Programme

Thailand – plant 950,000 trees

Turkey – run an education programme on climate change for 12,000 children

UK – increase the number of products with a carbon label to 500, and increase customer awareness of the label

UK – reduce carrier bag use by 70% in the UK by the end of 2010 (compared to 2006)

www.tesco.com/cr2010/environment



2 COMMUNITIES

IN THIS SECTION...

Bolstering local economies	20
Engaging people in their communities	23
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SUPPORTING LOCAL COMMUNITIES

In every country where we operate, we work with local communities to provide jobs and services and support local causes. We are committed to being a good neighbour.

2009 at a glance

270

Community Champions across the Group

£7.4m

raised by our staff for charities and good causes

Our network of South Korean Extended Education Academies has grown to

95

13

days it took us to build a store in flood hit Workington in the UK

Launch of the Homeplus

eParan Foundation

in South Korea

26

Regeneration Partnership stores since 1999 in the UK

2



£61.6 million

**donated by Tesco to
charities and good causes**



Consultation for a new store in the UK

COMMUNITIES

At Tesco, we believe in society – the idea that people depend on each other and that, working together, we can support each other and achieve much more than we can alone.

We also believe that we can make a major contribution to society. Our shops are in local communities in the UK and around the world. We employ hundreds of thousands of people and they and their families depend on our success for their livelihoods. Our suppliers depend on us, and we on them. Moreover, in these hard economic times, our customers look to us to make their money go further, and we do this by offering quality products at affordable prices.

But this alone is not enough. We understand that our stores should be special places in communities. Everyone is welcome in our stores. They should be places where people can rely on us, always feel safe and are treated with respect. These attributes should in turn be the foundation upon which we can make a strong, positive contribution to the communities we serve. Acting responsibly for our communities is a core Tesco value. The positive contribution that we make to them is fundamental to our success.

We know that our customers care about big unifying issues such as climate change, education, natural disasters and other causes supported by major national charities, and they rightly expect us to act on these. But they also want to feel actively engaged in the solutions. We firmly believe that community action is most likely to be meaningful, to have positive impact, and to be sustained, if it is genuinely local and involves local people. So while we have strong national initiatives, we invest in delivering them locally – through Community Fairs, community awards, local education programmes and community notice boards. Our Community Champions are the best expression of this approach – local staff who understand local needs and are dedicated to addressing them.

Our staff, too, want us to be involved, and to be involved themselves. In internal surveys 98% of Tesco employees said it was important for us to help our local communities. We work hard to find new ways to enable our staff and customers to participate directly in the causes they care about.

Bolstering local economies

The biggest way we contribute to any community is through our stores. Any new store is the start of our relationship with a community and we listen to local people from the moment we identify a site (see box: 'You talk, we listen').

YOU TALK, WE LISTEN

In March 2009, Tesco obtained planning permission for a new 80,000 sq ft store to replace the existing St Mellons store in Cardiff. A year earlier, we had undertaken two days of formal consultation to explain our plans. We put notices in the local press and sent out more than 6,000 leaflets and posters. We addressed the Local Community Partnership, the Member of Parliament, the Welsh Assembly Member, three local Councillors and all the local shop owners and residents in the nearby area.

When we built the original store back in 1981, we had also built a doctor's surgery, given money towards a community centre behind the store, and created several local shop units. One of these now contained a creche which serviced the community centre so that parents could attend courses provided by the Council without worrying about how to afford childcare.

Our conversations with local people revealed that the issue they were most interested in was the creche. >>





Shop for Schools cheque-giving ceremony in the US

3 new malls

This year we have opened 3 new Lifespace shopping malls in China, and we have another 20 in the pipeline

>> Building the new store meant demolishing the local shop units, and hence relocating the creche. From the beginning we were ready to provide an alternative, but we needed to know what local people wanted. Should we upgrade the community centre so the creche could go there? Should we build a brand new unit next to the store? Or should the creche move off site to somewhere where it would be more useful?

To find out, we talked to everyone involved: people working in the community centre and the creche, parents using the creche, and other local community stakeholders. The answer was that we should build a specialist unit on site. So that is now part of our plan. We will give the creche money to fit it out with specialist equipment and will also provide a rent-free period so they can establish themselves in the new facility.

Although this level of consultation is time-consuming, we believe it is the only sensible way to operate. In the end local people overwhelmingly supported our proposals.

At Tesco we believe that everyone should have access to good quality fresh food at affordable prices regardless of where they live. In February 2010 our US operation, Fresh & Easy, opened a branch in South Central Los Angeles, in an area described by some as a “food desert”. One in five of the residents there is unemployed and until we opened our doors, locals had to travel up to ten miles to buy fresh food. The Central & Adams store is part of a broader redevelopment to bring life back to the area.

This year we have opened three new Lifespace shopping malls in China, in Qingdao, Qinhuangdao and Fushun, creating a total of 6,000 jobs. We build and own the malls, and as well as our own store (which employs about 600 people), we lease out units to other retailers, who employ around another 1,400 people. We have another 20 Lifespace malls in the pipeline.

Wider effects on the local economy

Our stores play an important role in the local economy. They bring competition, drive up standards, increase choice and cut prices. They provide good, rewarding jobs for local people. They support local causes and work with local suppliers. They also contribute to the vitality and viability of local communities.

New research from the University of Southampton, based on interviews with more than 8,500 people, shows that new in-centre or edge-of-centre supermarkets have encouraged substantial numbers of people to stay in town to do their food shopping, rather than go elsewhere as they had done in the past. It also shows that people are combining their supermarket shopping with visits to other small town-centre shops. Small stores have not been immune to the recession. But the Southampton evidence does not support the view that new supermarkets destroy retail diversity and the viability of small shops.

The key findings of the research are:

- 12 months after the opening of new foodstores, nearly 70% of respondents felt that the new store development was beneficial for themselves, their families and for the whole area.
- Where new foodstores were built, the proportion of grocery shopping done within the local area rose from 44% to 73% within 12 months. At the same time, more shoppers from the wider catchment area chose to come into the town to do their shopping rather than go elsewhere.
- Nearly two-thirds of local traders felt that the effects of the new developments were “good” for local residents, and only 6% felt that the effects were “bad”.
- Twice as many local traders believed the effect on the town centre to be good as thought it to be bad.
- 43% of traders said their own business had not been affected, and more said that the effect had been good than bad for their business.





Tesco Hodge Hill recruits

380 new jobs

created in three new Regeneration Partnership stores in the UK for people who were previously long-term unemployed or on Incapacity Benefits

Getting the unemployed back to work

In the UK we have been working hard over the past decade to revitalise areas that have suffered years of neglect and can seem commercially unattractive to other retailers. Since 1999, we have opened 26 Regeneration Partnership stores and created more than 3,200 jobs for people who had previously been long-term unemployed.

This year we opened Regeneration Partnership stores in Oldham, Litherland, near Liverpool, and Hodge Hill, near Birmingham. In every case, we reserve half the jobs for local people who have been unemployed for at least six months, including those with low levels of numeracy and literacy skills and people with disabilities.

Working in partnership with local organisations, we target potential recruits by leafleting thousands of homes in the local area, as well as placing advertisements in the local press and at job centres, and manning a recruitment hotline.

Everyone who applies receives face-to-face interview training, followed by a personal interview with a Tesco manager. In Litherland we had more than 2,000 applications, and the interviews took two weeks to complete. Rather than looking for previous experience, we seek people who are motivated and can present themselves well. Whatever their background

or circumstances, successful candidates take an eight-week training course to build their confidence and teach them life skills, with a guaranteed job at the end.

To help us match people more effectively to their jobs we have incorporated a new element, in which trainees spend time in a local store doing the job they have applied for. This way, we can see whether people who asked for warehouse roles would instead thrive interacting with customers, or whether others might need more time to develop their confidence before working on a checkout.

We are rewarded for our investment in local people with a workforce that represents the local community. Building rapport during the training also helps develop mutual respect and trust that carries into work. For example in Oldham we have found that employees are more likely to be honest with managers if they experience problems with illness or childcare; they know if they explain the situation they will receive support.

BANKING ON THE COMMUNITY

In October 2009, Tesco Bank created 1,000 new jobs by establishing a customer service centre in Newcastle. The centre will manage customer sales and service for Tesco Bank's home and motor insurance. This year the bank has also created 200 more jobs at its Edinburgh headquarters and will be recruiting a further 800 people for a new customer service centre in Glasgow.

WE LIKE A CHALLENGE

When the River Derwent broke its banks in late November 2009 and cut off thousands of the residents of Workington from their nearest supermarket, we set ourselves an unusual challenge: building and opening a Tesco store in just 13 days. Our team worked night and day to erect the store and stock it with food, and we opened our doors on Monday 14 December. The store is three times the size of an average Tesco Express store and sells a full range of food at standard prices. Stranded Christmas shoppers were thrilled that they would not have to do a three-hour trip to stock up for the festive season.

Our main store in Workington remains open, but we offered jobs in the temporary store to those of our staff who live on the north side of the river. We will keep the store running until the road bridges in the town are reopened, then we'll pack it up and put it away.

JOB CENTRE

OTHERS SAY...

“The Community Champions scheme is really impressive and seems to be working really well. We benefited from their support through a clothes collection campaign for Haiti, which was much appreciated.”

Andrea Munnoch, Senior Corporate Partnerships Executive, Red Cross

£61.6 million

In 2009 we donated £61.6 million, which is 1.94% of our pre-tax profits to charity

Our Regeneration Partnerships can significantly improve the overall economic wealth of the area; some 80% of our employees at our latest regeneration stores live within walking distance of the shop, and providing them with jobs gives them more money to spend, making the whole area more attractive for investment.

One challenge is how to help the many people who apply for positions but are unsuccessful. We often interview several thousand people for just a few hundred jobs. But by working with partners from local authorities and with JobCentre Plus, we ensure the people we don't employ get the support they need, for example in the form of childcare or further education opportunities.

We were also one of the first companies to work with the UK Government in Local Employment Partnerships, designed to provide jobs for the long-term unemployed. Even outside our regeneration programme we are committed to local employment partnerships wherever we open a store. Although Regeneration Partnerships specifically target people who have been unemployed for some time, we are also concerned about finding positions for people who have recently lost their jobs. For example, our Liverpool One store took on people recently laid off by three other companies.

Engaging people in their communities

Our customers are more than just consumers. They are constantly telling us about the other things that matter to them too. Their community matters. Being a good neighbour matters. So does behaving responsibly, fairly and honestly – whether you are an individual, an institution or a large business.

As the UK's most successful retailer, we recognise that we have a responsibility that extends beyond the store doors, to the communities in which our customers live, work and enjoy themselves. People are looking to us to help them in more than their shopping. They want us to use Tesco's size, our stores and our reach as forces for good in society.

We aim to give at least 1% of pre-tax profits to charity across the Group and in 2009 we contributed £61.6 million or 1.94%. Through our Charity of the Year, our schools programmes and national sponsorships such as our work with Cancer Research UK on Race for Life, we make a significant contribution to important causes. Through our emergency partnership with the Red Cross we have helped individuals and communities to withstand disasters in Haiti, the Philippines, Vietnam, Indonesia and Cockermouth. Most recently we donated £50,000 to help the people of Haiti affected by the recent devastating earthquake, and helped raise £400,000 more through a nationwide store collection and a Clubcard customer donation scheme.

Beyond the Tesco brand, in April 2009 our Dobbies Garden Centres launched the Little Seedlings Club, providing free hands-on workshops to teach children about plants, wildlife and the environment. The scheme is currently available in 17 stores, and has 1,200 members, with approximately 450 attending each month. Also this year, our One Stop convenience stores supported the opening of 25 community stores, run by locals for locals in villages where privately owned shops would not be viable. For example, we help local people to draw up business plans and give them advice on how to run the shops efficiently.

In September 2009 we launched the Homeplus eParan Foundation in South Korea. The Foundation will help us deliver further initiatives around the environment, neighbourhoods, community and the family and engage more customers in our activities. More than 130 key stakeholders attended the launch ceremony, including representatives from the government, academia and charitable organisations.

Community Champions

We know that our customers also want to feel engaged in causes that have a local impact. The best people to identify these causes are living and working in the communities they support.

This year we have continued to expand our programme of Community Champions. These are Tesco employees who identify local needs, develop local community initiatives and support local organisations. Understanding our customers is a core Tesco value and Community Champions help us do this by forging closer relationships with our communities.



2 COMMUNITIES



270 Community Champions in seven countries



One of the 20 new Community Fairs that we ran this year

Our customer research shows that the Champions make a big difference. Awareness of activity in the local community is higher at Community Champion stores than ones where there is no Champion.

A typical Champion in the UK will commit 18 hours a week to working with their local community: doing store tours for local school children or going into the nearby primary school to talk about healthy eating; organising collections or bag packing for the Scouts; meeting with the fire services or local charities to find out how we can help them; and getting our staff and customers involved with local events, such as Race for Life. For example, Amy Ranger, Community Champion for our Hardwick Road store in Kings Lynn, arranged for local firemen and young people to work together to revitalise a community garden.

We now have more than 270 Community Champions in seven countries across the Group (China, the Czech Republic, Ireland, Malaysia, Slovakia, South Korea and the UK).

Community Fairs

In summer last year we launched a pilot scheme of Community Fairs to take place in the car parks of Tesco stores. We chose 20 stores in very different communities across the UK, all but one of which had a Community Champion.

The fairs took place over four Sundays in June and July. At each fair we invited at least 12 local charities to host stalls to communicate their activities and seek volunteers. Twelve suppliers, both local and national, used the fairs to showcase their products and gave away free samples to our customers. We also provided various additional forms of entertainment to add a sense of theatre and draw visitors.

Each fair also had two Tesco stalls showcasing corporate activities such as Race for Life, Tesco for Schools & Clubs and reusable bags, and highlighting how these make a local difference, as well as promoting the activities of the Community Champions. A 'get involved' website went live for each fair, offering links to local charities and volunteering.

The fairs were a great success, with an atmosphere of vibrant fun involving balloons, bunting and local bands. We had 50,000 visitors to our 250 charity stalls and 220 supplier stalls. Overall, 2,000 staff and customers signed up as volunteers for local groups as diverse as dance clubs and choirs, the fire, police and ambulance services or local Red Cross groups. This year we plan to run 100 fairs across the UK.

Charity of the Year

Alongside our Group charitable giving and emergency giving, we also support a Charity of the Year in five countries. Although we choose a national charity, the money raised comes from a wide range of local activities by staff (with a 20% corporate top-up in the UK) and customers.

GETTING INVOLVED

Tesco Bank has signed a six-month partnership with the Prince's Trust, aiming to raise £50,000 in the first half of next year. We will also use our own expertise to support the programmes the charity runs. Members of the bank's staff will be seconded to work on the teen programme courses, will help the young people with CV writing and presentation skills, and will mentor them as they leave the programme and start looking for a job.

We always choose a Charity of the Year that represents a cause that people care about, and has the potential for a tangible local impact. Our Tesco value of acting responsibly for our communities mean that we sometimes use our size to raise the profile of deserving but less well-known organisations. This year in the UK we chose the Muscular Dystrophy Campaign, and greatly exceeded our target of £3 million by raising more than £5.4 million. Our Charity of the Year is embedded in all our business functions. For example, once again this year Tesco Bank supported the Charity of the Year by making a donation for every transaction made at a Tesco cashpoint, raising £63,000.





£7.4 million raised by staff across the Group for charities and good causes



The eParan educational programme for children in South Korean Extended Education Academies

In January one of our key suppliers, Procter & Gamble, embarked on a cause-related marketing exercise backed up with a national TV advertisement. We gave them premium space in stores with signage that matches the colours of the Muscular Dystrophy campaign. They donated 5 pence per product from many of their most popular brands and raised £300,000 for the charity as well as further raising its national profile.

Our surveys show that 85% of our staff are aware of the Charity of the Year; more than half have participated in fund-raising events in the past and they associate their experiences with a sense of achievement and teamwork, with the majority saying they are likely to participate again this year.

In 2010, our UK Charity of the Year is CLIC Sargent, which helps children with cancer. We aim to raise £5 million for them, which is our biggest fund-raising target to date.

We have also undertaken a range of initiatives for our Charity of the Year in other countries. In Poland, we raised money for the opening of a foster home in Lodz in January. We have also run a range of activity days for children helped by our Hungarian Charity of the Year, the SMILE Foundation.

Country	Charity of the year	Money raised (£)
Hungary	SMILE Foundation	45,000
Ireland	Make a Wish	673,000
Malaysia	Makna	26,000
Poland	Happy Kids Foundation	53,000
UK	Muscular Dystrophy Campaign	5.4m

Equipment for local schools

Last year we responded to feedback from customers and schools in the UK and merged our two programmes – Computers for Schools and Sport for Schools & Clubs – to create Tesco for Schools & Clubs. This single scheme makes it simpler to collect and redeem vouchers for equipment across the entire curriculum, rather than just focusing on sports and ICT. This also makes life easier for the schools, who can now administer a single scheme covering all the key curriculum areas: basic skills; creativity; environment; health; ICT. (see www.tescoforschoolsandclubs.co.uk)

As a result, we saw a significant increase in participation. This year we gave away £13.7 million of equipment to 35,000 schools and clubs, an increase of about 50% in both the value of the equipment and the numbers participating compared to 2008/9.

EXTENDED EDUCATION ACADEMIES

In South Korea, we continue to grow our network of Culture Centres, now renamed Extended Education Academies, which help us lead the way in supporting communities. In June, we opened two new centres in Bundang Ori and Songtan bringing the total number to 95. In all our Academies we offer a wide range of courses from languages to dance classes to cooking. We also offer 1,000 environmental courses, such as making environmentally friendly soap and making a solar-powered toy car. The Academies now have 800,000 members.

In the US, we ran our Shop for Schools project for a second year. In this scheme, we give participating schools US\$1 for every US\$20 spent at Fresh & Easy stores. This time, we added a new component to our project called Shopping Night for Schools, where we invited each participating school to come to their store on a particular night, and gave 5% of the sales for that night back to the schools. The first year of the project helped raise over US\$130,000 for schools in California, Arizona and Nevada, with the school that raised the most money in each state receiving a US\$5,000 bonus.

In Turkey, our Computers for Schools programme distributed 264 products including computers, printers and projectors to 60 schools. In Poland, more than 600 schools took part in our Tesco for Schools programme, an environmental contest for schools where kids created a piece of art with an environmental theme.

A SELECTION OF NEXT YEAR'S TARGETS

Hungary – launch Community Champions in ten stores

Poland – organise 550 events for local communities

South Korea – reach one million Extended Education Academy members

UK – double the number of Community Champions in the UK to 250 and run 100 successful Community Fairs

UK – open six Regeneration Partnerships in the UK and create at least 600 jobs for people who have been long-term unemployed

www.tesco.com/cr2010/communities



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

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DELIVERING ON QUALITY, VALUE AND ETHICS

We have high expectations of our suppliers wherever they are in the world. We aim to:

- build strong relationships with our suppliers
- get the best value for our customers
- give our customers confidence that we maintain good standards throughout our supply chain

2009 at a glance

10,000

local lines in the UK and Poland

400

suppliers trained on improving labour standards in Bangladesh, India, China, Spain and the UK

New target of using

100%

sustainable palm oil in our products by 2015

New target of

100%

semi-announced audits for high-risk sites

Launched a new

Trading Fairly model

based on four key principles: Values, Monitoring, Improvement and Transparency



91%
of suppliers say we
treat them with respect



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

OTHERS SAY...

“This report gives stakeholders a very clear picture of what you’re doing. In particular, it doesn’t just highlight successes; it is commendably open and honest about the challenges that Tesco and its supply chain partners face.”

Martin Cooke, Deputy Director,
Ethical Trading Initiative

BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

At Tesco we aim to buy and sell our products responsibly – so our customers know that everything they buy is produced under decent conditions, and everyone involved is treated fairly.

We are committed to this not just because it is the right thing to do, but also because it is in our business interest. We know that if you treat people decently they perform better. This approach also helps to improve the sustainability of our supply chain; when we encourage our suppliers to invest properly in a good, stable workforce, we know that the relationship will last much longer than if we dealt with cheap, fly-by-night operators. It also means we are working with people who understand our needs, and who – because they feel more secure about our relationship – can offer us better products at better prices. As a result of our efforts, a third of our suppliers have been with us for at least five years and we are seeking to increase this proportion.

We believe firmly in the benefits of trade. For our customers, we can use trading to put products within the reach of ordinary people, and ensure economic growth. For our suppliers, we can have a wide influence on the way they treat their workforce.

We want the right values in our supply chain, good animal welfare, and decent prices and conditions for suppliers. But we also need to provide good value products to our customers, many of whom are currently struggling to make ends meet.

Our search for value often means sourcing products from countries with low wages, low levels of regulation, and relatively little enforcement of good employment practices. Though this can make it challenging to meet our ethical standards, we use our values to chart our course. We understand customers and meet their needs. We act responsibly for our communities and treat people how we like to be treated. And that means that we never compromise ethics for the sake of profit.

We are proud of the progress we have made in improving labour standards in our supply chain. We act not simply through audits and enforcement, but by working with suppliers, to help them improve their standards.

However, we cannot act alone. If we change our practices unilaterally without influencing others to do the same, hard-pressed customers will go elsewhere. Instead we play a leadership role, using our long reach to make a difference.

Through our knowledge, reputation, size and network we are uniquely placed to bring together others in the sector to seek a common understanding of problems, and find effective solutions.

This year in particular we have made a significant investment in this area. We have reviewed and renewed our strategy and embarked on several important new projects.

How we treat our suppliers

We have thousands of suppliers from around the world, ranging from farmers and small companies delivering a single product directly to a few local stores, to large multinational companies whose products we stock in all our markets.

One of our core values is to treat people how we like to be treated, and we want to show this in our relationships with suppliers of all sizes. We listen to suppliers to make sure we understand their views, and share customer views with them so they fully understand the market for their products.





'I am from Poland' logo, which helps customers identify Polish products

10,000

We sell 6,000 regional lines in Poland and 4,000 local lines in the UK alone



Local products championed in one of our Scottish stores

In 2009, over 3,300 suppliers covering all our markets responded to our Group-wide anonymous supplier survey – Supplier Viewpoint. The survey confirmed that we generally live up to our values and standards:

- 91%** say we treat them with respect
- 92%** say we are professional
- 90%** say we are reliable at paying on time
- 92%** say we are committed to meeting customer requirements
- 94%** say we maintain high quality standards
- 95%** say we focus on standards in the production environment

In the UK we have run the Supplier Viewpoint survey since 2005. Over 90% of UK suppliers said we were trustworthy, clear and committed to meeting customer requirements. The survey also records negative experiences:

- 4%** say we are disrespectful (8% in 2005)
- 18%** say we are slow (25% in 2005)
- 13%** say we are unreasonable (26% in 2005)

The free text comments in the survey also showed that suppliers would like us to improve our responsiveness to communications from them.

Although we strive for excellent relationships with all of our suppliers, we are encouraged by the reduction in the percentage of suppliers who have experienced problems. We are always working to improve our relationships with our suppliers and we will continue to do so over the next year.

In the UK, our Producer Clubs meet regularly to share consumer research, sales trends, planned promotions and the success of previous promotions. Tesco team members attend the meetings so farmers can challenge decisions and ask questions to help them understand our business more clearly.

UK Code of Practice

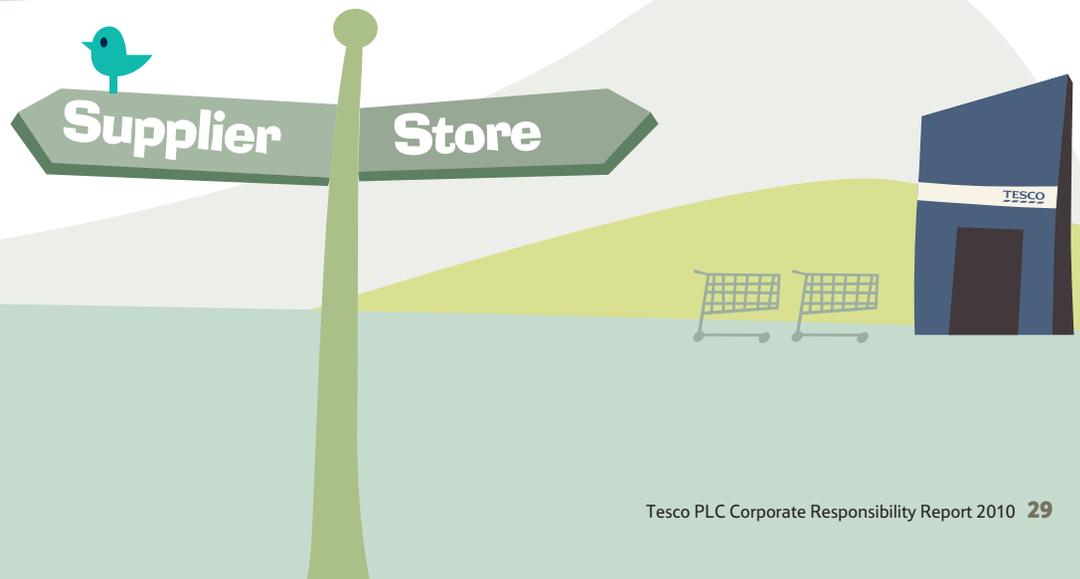
Following the Competition Commission's inquiry into the UK groceries market, a new UK Groceries Supply Code of Practice came into force in February 2010, replacing the Code of Practice introduced by the Office of Fair Trading (OFT) in 2001. The Code covers all retailers with a grocery turnover greater than £1 billion. It contains several new provisions including requirements for written contracts, record-keeping and reporting, bans on retrospective dealings and an independent and binding arbitration process to resolve disputes, paid for by retailers.

We have trained all our buyers to comply with the new Code in their daily work. Suppliers can raise any issues they have with our buyers and, if necessary, with more senior management, and most issues are resolved at one of these two levels. Tesco was the first supermarket to appoint a Code Compliance Officer in 2005, to act as a confidential contact point for suppliers with unresolved issues relating to the Code. In 2009, there were no complaints made about Tesco under the Code.

Ombudsman

The Competition Commission also recommended that the Government introduce an ombudsman to oversee compliance with the Code.

Suppliers are entitled to be treated fairly, professionally and with respect and we agree that the Code should be properly upheld. However, we are not convinced there is a case to support the creation of a new regulator. The Code has brought in some considerable changes to the industry and compliance is already being overseen by the OFT. A new regulator risks adding unnecessary cost and not being in the interests of our customers. We are however working constructively with the Government as they consult on the idea.



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

1.4 million

The direct supply chain to our UK stores alone employs 1.4 million workers

OTHERS SAY...

ee You're clearly giving more emphasis to suppliers than would have been the case in the past. This is a good message, particularly now that, in many places, your customers are also your suppliers."

Martin Cooke, Deputy Director, Ethical Trading Initiative

Buying locally

We know that many of our customers want to buy products that support their local businesses and economy, particularly in the current economic climate.

In the UK, we have dedicated local buying, marketing and technical teams in each of our regional buying offices. We stock more than 4,000 local lines and work with over 400 local and national suppliers. (A local line could be a local iconic product or a regional line grown in that area. We classify local lines as those produced and sold in their respective countries such as Scotland, Northern Ireland or Wales, and in England a line that is produced and sold within a county and its neighbouring county.) In 2009, local produce accounted for £850 million of UK sales, an increase of more than 20% over the previous year. This financial year we aim to increase sales of local products to £1 billion.

Where possible, our UK business sources fresh meat and poultry from within the country. Though there is not enough supply to meet all our needs, we are working with farmers to improve this.

In Poland, we conducted opinion polls in all 180 cities and towns where Tesco operates, and signed contracts with 400 local suppliers. Since November 2009, our Polish branches have been selling more than 6,000 regional products, including cold meats, dairy, bakery, confectionery, flour, pasta, mineral water, soft drinks, mayonnaise, sweets, beer and pickles. In South Korea, we organised our first year of the Homeplus SME exhibition to give an opportunity to small and medium enterprises to introduce their products. More than 100 suppliers took part, and some of their products

will soon appear in our Homeplus stores. Similarly, in Hungary, we held our first regional supplier meeting in November 2009, where we invited 30 local providers to showcase their products. As a result we invited 14 of the companies to become regular Tesco suppliers. This year we are planning two further events to boost our local products.

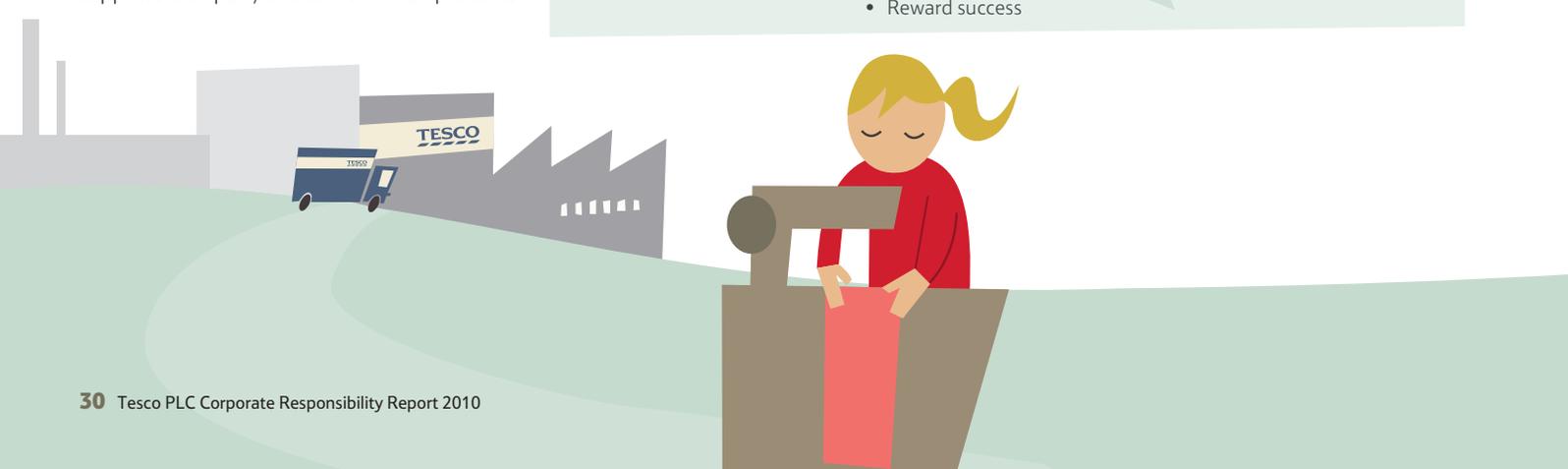
Labour conditions in our supply chain

The direct supply chain to our UK stores alone employs about 1.4 million workers. Our suppliers in some countries face endemic difficulties in meeting all the standards set out in the Ethical Trading Initiative (ETI) Base Code. For example, there is a culture of long working hours in many Chinese factories, poor pay in the Bangladesh clothing industry and a growing use of agency labour in agriculture in the UK, South Africa and elsewhere.

To help us uphold our ethical values across this extensive and varied supply chain, we have made considerable changes and investments over the past year. As well as building on our comprehensive independent audit and remediation programme, we have also invested substantially in new resources and initiatives to support the suppliers facing the greatest problems.

In 2009 we developed a new model for how we approach ethical trading with our suppliers, which is now being rolled out across the business. We call this model Trading Fairly. It is based on four key principles: Values, Monitoring, Improvement and Transparency. See the model below.

TRADING FAIRLY MODEL



One of our suppliers, Jay Jay Mills, who won a Trading Fairly Award



94.7%

This year we audited 94.7% of high-risk sites

Suppliers who share our values

We only sell products from suppliers who share our values and in the UK demonstrate commitment to the ETI's Base Code (see box). We evaluate all potential new suppliers to ensure they understand these standards and can meet them. For suppliers we already work with, we provide detailed, accessible guidance on the standards we expect and support this by speaking regularly to our buying and technical teams about the challenges they face.

THE ETI BASE CODE

As a founder member of the ETI, we expect all our suppliers to meet the standards set out under the ETI Base Code and guarantee their workers the rights within it:

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practised
- Regular employment is provided
- No harsh or inhumane treatment is allowed

www.ethicaltrade.org

Monitoring to ensure our standards are met

Understanding working conditions and labour standards in our supply chain is a vital part of our strategy. In 2009 we built on and strengthened the quality and rigour of our independent audits.

VETTING THE VETTERS

Our industry-leading Auditor Recognition Programme ensures that only vetted, competent, independent auditors working for credible organisations can audit Tesco suppliers' sites. We have complete global coverage, and auditors can always speak with managers and workers in their native language. As part of our commitment to share best practice and support the convergence of different retailers' approaches to ethical trade, we have made the full details of our Auditor Recognition Programme publicly available on our website www.tesco.com/cr2010/monitoring.

If new suppliers operate in high-risk areas – for example because of the location, type of work or the balance of permanent and temporary labour – we require full independent ethical audits. If the audits identify any significant issues, suppliers have to address these before they begin production for us.

Once approved for production, high-risk suppliers must continue to undergo independent ethical audits every year, and medium-risk sites every two years. Low-risk sites complete an annual self-assessment, which we monitor. In 2009, we risk-assessed 100% of sites. We increased the number of high-risk sites audited to 94.7% (from 87% in 2008), and audited 92.2% of medium-risk sites within the last two years.

We are now introducing semi-announced audits for 100% of our high-risk sites (up from 90% last year), in which a supplier is given a one-month window during which the audit will take place rather than an exact date. This helps ensure the necessary records will be present but reduces the risks of manipulation.

We continued to conduct unannounced audits in a number of high-risk sites as a double-check against other audit findings. Locations in 2009 included meat processing facilities and vegetable farms in the UK, hardlines factories in China, and textile factories in Bangladesh, India and Pakistan. In 2010 we will undertake unannounced audits in other parts of the world, including some low-risk sites, to validate our audit and risk assessment process.

In some cases the unannounced audits merely reconfirmed the findings of announced or semi-announced audits. In other locations we found issues ranging from health and safety problems to excess overtime, non-payment of wages and unauthorised sub-contracting. We then ensured that these problems were rectified. In 2009 we extended our audit programme to cover all our goods and services such as uniforms and cleaning contractors that are not for re-sale to our customers.

Support for improvement

The key development in our strategic approach over the past year has been a shift to supporting our suppliers in their efforts to improve. Our approach is based on partnership, seeking to build capabilities and confidence as well as ensuring transparency.

First we need to continue to build long, strong relationships with our suppliers. Two-thirds of our food suppliers have been with us for more than five years. For non-food, we have taken significant steps in the last two years to consolidate our supply base to work with suppliers we believe can deliver the value and values we want.



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

On location

This year we appointed in-country Ethical Trade Managers in South Africa and Bangladesh



One of our suppliers, World Flowers, who won a Trading Fairly Award

In 2009 we appointed local, in-country ethical trade managers in South Africa and Bangladesh to understand better the challenges our suppliers face in those countries and develop programmes to help address them. In 2010 we will appoint a further manager in China. We also expanded our UK team in 2009, appointing a full-time Group Director for Ethical Trading and three full-time senior managers to drive our Trading Fairly programme.

Over the past year we have provided targeted training for suppliers facing the greatest challenges in Bangladesh, China, India, Spain and the UK, covering 400 suppliers. This focused on sharing good practices, worker-management communications, home-working, contract labour, productivity and purchasing practices. We set aside an hour at the end of these sessions for suppliers to discuss how Tesco could better support them to meet labour standards. We then fed this information back anonymously to Tesco commercial teams.

In recent months we have also carried out Community Impact Assessments of the social impacts of our trading relationship on workers in Bangladesh, Kenya and Sri Lanka. In November 2009, in partnership with the UK Department of International Development and Chatham House, we began a programme to study how effective retailer supply chains are in reducing poverty, increasing opportunity and helping to meet the Millennium Development Goals. Our initial findings show that workers are typically paid above local averages for their work, and their families are able to access better healthcare and education. We will perform three more such studies in 2010.

AGENCY LABOUR

The use of agency and migrant labour in the UK food industry has increased in recent years. Whilst this helps suppliers meet peaks in demand, it also brings increased risks of agency workers potentially being employed by rogue 'gangmasters', and being discriminated against in the workplace.

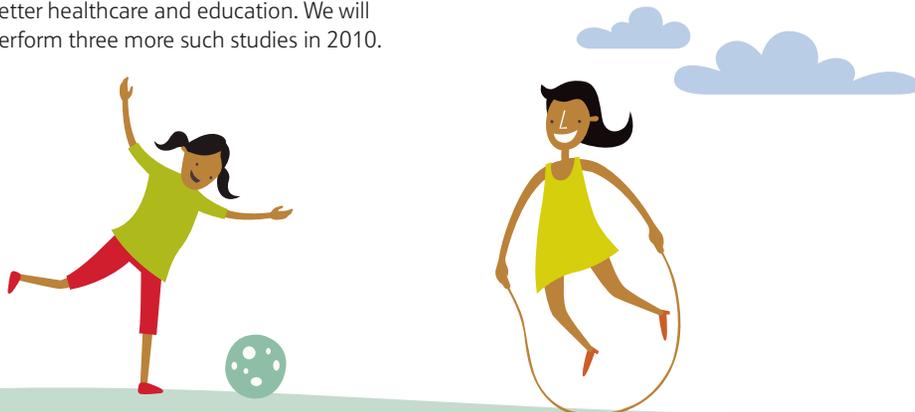
In previous years we have worked with the Gangmasters Licensing Authority (GLA) to develop standards on how these challenges should be addressed. In 2009, together with the Association of Labour Providers, we ran a series of 13 workshops for those of our suppliers in the UK food industry who use most agency labour, together with their labour providers. Feedback on the workshops was very positive, with attendees learning about the GLA licence, ways to improve relationships and the legal requirements for both labour users and labour providers. Nearly 200 individuals attended the courses from 97 different organisations.

CHILD LABOUR IN NORTHERN INDIA

In July 2009 we discovered that children were collecting the mineral mica, which is used in the production of some cosmetics products. We believe that child labour is completely unacceptable and must be eliminated. We worked immediately and directly with our cosmetics suppliers and their ingredient suppliers to investigate the problem in our own supply chain.

Our first act was to set a timescale by which suppliers had to develop credible plans to address this issue. We also helped them find local and international experts for further guidance. When our deadline was reached, we felt that only one mica-supplying company had an adequate strategy in place. We initially therefore only bought products containing Indian mica from suppliers using this source. But we have continued to work with other mica-supply companies to understand the issue and have recently approved another source.

Although we are not a major player in the cosmetics industry, we also took a lead on building understanding of the issue throughout the industry, by sharing information with other brands and retailers through the Global Social Compliance Programme and the ETI. Our engagement has helped lead to some promising developments on the ground in northern India, including more transparent mica-collection methods so we can know with confidence that children are not involved.



Rewarded

We have introduced new Trading Fairly Awards to reward suppliers who are making particularly strong effort



Richard Brasher presenting a Trading Fairly Award to Colours, a South African supplier of apples and pears

Having a predictable order schedule is key to enabling suppliers to maintain stable workforces, avoid overtime and pay regular, decent wages. Through a system called Tesco Link, suppliers have full access to our sales information for their own products to enable them to understand the impact of seasonal, promotional and other activity and help them plan their labour needs. We also ensure that our meat, fish and poultry suppliers receive advance notice of product promotions, so they can balance out peaks in production, creating greater stability for workers and reducing the need for short-term agency labour.

The clothing industry is particularly affected by fluctuations in seasonal demand. In 2009 we continued our practice of pre-ordering seasonal items to help suppliers plan production and even out peaks and troughs. This pre-planning means, for example, that we now order around a third of our swimwear, women's outerwear and slippers out of season. We also work with our clothing suppliers to manage production schedules and book our orders around their dates. In 2009, we extended our average lead times in menswear by two weeks.

'A-list' suppliers

We have continued to develop our 'A-list' approach to identifying good supplier partners. Superior ethical performance is a prerequisite to be considered for A-list status, along with quality and reliability. Members of the A-list in our clothing category will discuss three-year projections with Tesco to enable them to plan their businesses, their labour needs and pay plans more effectively over the long term, and benefit from higher volumes of trade.

We intend to roll out the A-list approach to additional categories in Tesco over the coming year.

Trading Fairly Awards

This year we introduced new Trading Fairly Awards for our produce and clothing suppliers. These aim to reward suppliers making particularly strong efforts to improve conditions for workers – as well as to draw out examples of best practice. Winners included a South African fruit farm that has invested heavily in its workers' education, development and welfare; a UK salad supplier for its high standards of support for migrant workers; a Kenyan flower farm for its improvements in freedom of association, union recognition and worker representation, including a shift from a predominantly temporary labour force to one in which 90% of workers are now permanent; an Indian supplier of children's clothes with strong support for a range of community projects; and a Cambodian supplier of women's clothes for creating and sustaining 3,300 jobs over the last seven years in a particularly poor region of the country.

SOUTH AFRICA GRIEVANCE MECHANISMS

Where does the responsibility for human rights lie? In 2008 Professor John Ruggie, the UN Secretary General's Special Representative on Human Rights, argued that there are three pillars:

- 1) States have a duty to protect human rights
- 2) Businesses need to respect them
- 3) Everyone must have access to remedies if something goes wrong >>

>> Because of our wide-ranging reach and our commitment to exploring new approaches in this area, Tesco was asked to pilot one of four global studies to see how effective dispute mechanisms can help workers access remedies where something goes wrong, and help businesses to fulfil their responsibility. This is a cutting-edge project. We are carrying out this work in South Africa's complex and diverse chain of many small fruit farms (we source from nearly 900 such farms across the country).

Working with the UN and Harvard University – as well as South African businesses, unions and NGOs – we are now investigating whether it is possible to create a tailored dispute mechanism that can meet the needs of a dispersed, varied workforce that ranges from permanent workers to agency-provided migrant labour.

There are many challenges. For example, some unions in South Africa are still suspicious of working with farm owners, and worry that any dispute mechanism might undermine traditional union channels for representing workers. It is also not yet clear how much we can do without wider cross-industry involvement and support.

However, this year we performed our first scoping visit, including meetings and briefings with all key stakeholders which went very well. Detailed project design is now under way and we hope to be able to begin the project in earnest in 2010.



3 BUYING AND SELLING OUR PRODUCTS RESPONSIBLY

20,000

Our Fairtrade cotton supports nearly 20,000 farmers across Africa and India



OTHERS SAY...

“It would be interesting to hear how workers had benefitted from the Fairtrade premium at some of your suppliers.”

Martin Cooke, Deputy Director, Ethical Trading Initiative

Transparency

We ensure all our suppliers are transparent about conditions for workers. We do this through the use of independent audits and through honest, open discussions of the challenges when our experienced, ethically trained staff visit our supply sites around the world. This is key to our ability to ensure our suppliers are delivering the values we expect. And it is essential to driving the common industry action that is needed to address the most entrenched challenges in global supply chains.

Tesco seeks to use its size as a force for good. We are an active participant in many different ethical trade forums, notably the Global Social Compliance Programme – which is currently chaired by our Group Ethical Trading Director – and the ETI, as well as the Supplier Ethical Data Exchange (SEDEX), and the MFA Forum in Bangladesh.

We also seek to work constructively with a range of other business and non-business organisations. In 2009 we were centrally involved in the establishment of the tri-partite World Banana Forum, building on our work in the banana sector in Costa Rica; we collaborated with our supplier and local and international unions to address concerns on a tea plantation in India; and worked with other UK retailers and local unions in the seasonal salmon canning industry in Alaska.

We also co-hosted industry-wide meetings to raise awareness of labour issues in cotton production, co-authored guidance documents on cotton traceability with the Environmental Justice Foundation, and rolled out our own cotton traceability programme (“String”) to Bangladesh, China and Turkey.

Fairtrade products

We have the world’s second largest range of Fairtrade cotton, supporting nearly 20,000 farmers across Africa and India. In 2009 we sold 2.5 million Fairtrade cotton garments, including all our basic women’s short sleeve T-shirts (for which we charged no price premium), and all our men’s Stonebay polos, T-shirts and chinos. In the last quarter of 2009/10 we were the first UK retailer to introduce both men’s and ladies knitwear in Fairtrade cotton, and for Back to School 2009 we had the largest range of Fairtrade cotton school uniform items on the UK high street.

For Fairtrade Fortnight this year, we promoted Fairtrade products using press and radio advertisements, and in-store promotions on produce, chocolate, tea and coffee.

Sourcing our raw materials responsibly

Palm oil

Palm oil and its derivatives appear in small quantities across a broad range of our products, and we are working to ensure that this comes from a sustainable source. We are full members of the Round Table on Sustainable Palm Oil (RSPO) and of the coalition of over 50 UK-based companies calling on the industry to stop all deforestation of rainforest and peat forests for palm oil expansion. This year, we set a target of using 100% certified sustainable palm oil in all our products by 2015, and sourcing all our oil from an RSPO-certified system such as GreenPalm, by 2012. The target is a challenging one as the traceability and

certification of palm oil and its derivatives is still in its infancy. However, we have issued all of our own-brand suppliers with a timeline and code of practice. We have also held training courses for all Tesco’s Technical Managers, so they can help suppliers work towards our goal. From 2012 we will only accept products using palm oil that is fully traceable – so that by 2015 all the palm oil in our own-brand products will be sure to come from sustainable sources. This year we have already made good progress towards the target; 25 lines of biscuits now use sustainable palm oil, which amounts to 385 tonnes of oil per year.

Timber

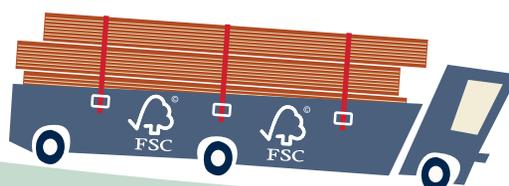
We are committed to purchasing timber and timber products only from legal, sustainable sources. All of our own-brand toilet tissue, facial tissue and kitchen towels are certified by the Forest Stewardship Council (FSC) as coming either from mixed sources (containing at least 50% FSC material) or recycled material.

Ninety per cent of the paper we use in marketing is either recycled or certified by the FSC or the Programme for the Endorsement of Forest Certification (PEFC). The Tesco Media Publishing Centre – which prints the Direct catalogue, flyers and leaflets – is fully certified by FSC and PEFC. Since September 2009, all our till rolls – four million per year – have been FSC certified.

We are currently investigating how to extend our sustainable timber policy to the paper and board used in our packaging.

Seafood

Tesco is Britain’s biggest fishmonger, with more than 480 fish counters employing around 2,500 staff. We seek to buy all our seafood from responsibly managed fisheries, to maintain a viable and long-term future for wild fish and shellfish populations. Our Fish Sustainability





Promoting Fairtrade products in our UK stores

ZERO

We do not carry out or commission animal testing on own-brand products or ingredients

Working Group, including technical experts from across the business, meets regularly to review our fish sourcing policies and identify priority areas for us to work on with our suppliers to make further progress. We have codes of practice for farmed fish, which cover feed, welfare, environment and other critical issues. These are independently audited.

We provide information to our customers and have recently added additional sourcing information on our fresh range including catching methods.

Animal welfare

All the farms that supply us have to meet our livestock standards and codes of practice. As of this year, all of the animals that arrive with us for processing have a health check to ensure they have been appropriately raised.

We are also the only major supermarket to carry out independent audits above the minimum industry standards to ensure these standards are being met. All meat and poultry suppliers to our UK business are inspected at least every 15 months by Integra FoodSecure, an independent, accredited audit company.

We offer a wide choice to meet the diverse requirements of our customers, from Finest to Organic, standard and Value including a more affordable Freedom Food alternative, Willow Farm. All our products, including the Value ranges, adhere to the Red Tractor standard, which is the one most recognised by customers. When we source meat from other countries for sale in the UK, we insist on the same standards we require from UK farmers. For example, we do not allow the use of sow stalls in pig production anywhere. We have improved welfare standards at 14 poultry suppliers in six countries, accounting for about 95% of overseas poultry purchases.

We appreciate that some organisations take a different stance on welfare and would like us to ban certain products outright, such as eggs and poultry from intensively farmed hens. We meet regularly with these and other organisations to discuss animal welfare, understand their views and communicate our work. Our approach is to engage all our customers, ensure they can feed their families properly on tightening budgets, and give them all the information and choice they need to move to higher welfare products as and when they are able to do so.

We do not support testing on animals for cosmetic or household products and do not carry out or commission such tests on our own-brand products or the ingredients they contain. Tesco Naturally and Natural ranges do not use any ingredient that has been tested or retested on animals for cosmetic purposes, since 31 December 1990. All other Tesco products operate a fixed cut-off date, for ingredients, of 31 December 2007. We support the Fund for the Replacement of Animals in Medical Experimentation (FRAME), which seeks to end animal testing.

For more information on our animal welfare standards visit www.tescofarming.com.

Selling our products responsibly

Tesco Bank has a responsibility to our customers to lend and sell our products responsibly. We have a dedicated credit risk team who use credit scoring and affordability criteria for all our lending decisions. We work with RBS collections and recoveries teams to understand our customers' changing circumstances, and to design affordable payment plans for those who are in difficulty. This year we have also launched a debt counselling service for our customers, which is now live on our website.

A SELECTION OF NEXT YEAR'S TARGETS

Czech Republic/Slovakia – create opportunities for local suppliers through supplier engagement events

Malaysia – increase sales of products from small businesses by RM630 million

Poland – run training for 50 regional suppliers

UK – 10% of our tinned tuna will be caught by pole and line by the end of 2010

www.tesco.com/cr2010/buyingsellingresponsibly



4 HEALTHY CHOICES

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HELPING CUSTOMERS MAKE HEALTHY CHOICES

We aim to make it easier for customers to live more healthily by:

- providing better information about nutrition
- making healthy options more accessible
- making it more attractive to lead an active lifestyle

2009 at a glance

100%

Nutrition labelling of own-brand products across the Group

Healthy ranges now available in

SEVEN

countries

CHAMPIONING FOOD SAFETY

in China through our 'I Can Trust What I Buy' programme

THINK 25

for alcohol sales in the UK

181

health events across the Group

We are seeking new ways to engage customers to make

HEALTHY CHOICES

and encourage sustained change



6.2 million
customers and staff got
active



100%

Since last year we have achieved 100% nutrition labelling on eligible own-brand lines in every country where we operate



Nutrition labelling in Turkey

HEALTHY CHOICES

We are committed to helping our customers and staff lead healthy lifestyles. However we know that any measures that try to force people to adopt healthier ways of living or to take the decisions out of their hands would be counter-productive. Voluntary choices are much more likely to be effective.

For example, research published in 2009 by a UK-based organisation, the Institute of Grocery Distribution (IGD), shows that reducing the size of portions in packaged food does not necessarily mean that people eat less. Customers mostly decide on portions based on whether they feel there is sufficient food for a meal, and if they consider that the sizes are too small they simply buy more. (for more information, see www.igd.com)

Instead we need to go with the grain of our customers' lives, seeking to give them everything they need to help themselves. A core Tesco value is understanding our customers and meeting their needs. To do this we look at all aspects of healthier living, helping our customers understand both how much energy they take in, and how much they use.

Our health strategy has three related parts:

- We provide **better information** on the nutrition value of products and how customers can improve their health so they can make informed choices
- We make **healthy options** more accessible through price and promotions, healthy ranges, and by reformulating our products

- We make it more attractive to lead an **active lifestyle** so our customers can control the energy they expend as well as the energy they consume

Better information

Giving our customers better information about the food they choose is the first step in enabling them to make healthy choices. One of the main ways we do this is by nutrition labelling our products on the front and back of the packs.

Nutrition labelling

We have a long history of leading the way in labelling the nutrition content of our products. We started putting information on the back of packs in 1985, and in 2005 we were the first retailer in the UK to put a nutrition signpost on the front of food packs where it is much easier to see.

Almost all Tesco packaged food in the UK, more than 7,000 products, carries a nutrition signpost on the front of the pack. The few exceptions include alcohol (where we have a specific health label – see box: 'Responsible about alcohol', page 40), flour, sugar and pure water, as well as any gifts and products whose labels are too small for the information to be legible.

Since last year, we have achieved 100% nutrition labelling of eligible own-brand lines in every country where we operate. (In Hungary, there remain a few items of stock with the old labelling, but these will have been replaced with the newly designed label by mid 2010.)

We have given a lot of thought to what our food labels should show. After extensive customer research we found that the best way to provide nutrition information is by using the Guideline Daily Amounts (GDA). The label tells customers how much they will eat in one serving of the product, shown as grams, and the percentage of the GDA for a typical adult of calories, sugar, fat, saturates and salt.

However, there is some controversy about this approach. In March 2009 the UK Food Standards Agency (FSA) recommended combining GDAs with an interpretative element – either a system of traffic lights, colouring the figures red for high, amber for medium and green for low, or just the words 'high', 'medium' and 'low'. (for more information about this research, see www.food.gov.uk/news/newsarchive/2009/may/pmp)

We think this is misguided. The FSA's research focused on consumer responses to the different labels but did not look separately at the technical deficiencies of colour coding. Although traffic lights seem simple, the thresholds at which you pass between colours are arbitrary, and they cannot sensibly be applied to many important food categories such as meat, produce, and dairy products.

Also, the FSA's research did not explore some of the problems that arise in trying to marry GDAs with traffic lights. In particular, our own research shows that when different nutrients merited different colours, customers became confused, uncertain how to interpret several reds, ambers and greens on the same product. Many simply tried to take a mental average of the colours, and paid little attention to the nutrients themselves. The GDAs could help with this, but our research also shows that the colour of a category strongly dominated over the number the label showed.



OTHERS SAY...



The Change4Life work is really positive and I would like to see Tesco continue it and do more over the next year."

Emma Darlaston, Company Nutritionist, Greencore Group



Some customers who are less accustomed to making healthy choices – the very people that labelling particularly needs to reach – told us that if they saw lots of red colours on products they wanted to buy, they would simply ignore the labelling, or that they would reject products with green colours, assuming there would be a compromise on taste.

For these reasons, we do not support the use of traffic lights. A core Tesco value is understanding our customers, and they have clearly told us that GDA labels are the best way for them to make informed decisions.

Change4Life

Another way to provide information to customers and help them improve health is by engaging with public health campaigns such as the UK's Change4Life. This brings together government, businesses and other organisations to help families encourage their children to 'eat well, move more and live longer'.

This year, as part of our support for Change4Life we:

- Ran month-long promotions in September and January in which all our fruit and vegetable promotions included the Change4Life logo and the message 'Helping you on your way to 5-a-day'. This both promotes the Change4Life brand and reinforces the message that fruit and vegetables form part of a healthy diet

- Joined with PepsiCo in an online promotion of Breakfast4Life with Quaker Oats and Tropicana orange juice, accompanied with information about Change4Life and tips for a healthy breakfast
- Put shelf-edge labels in all 2,000 stores throughout September with lifestyle messages suggesting specific ways that customers could make a Change4Life
- Had Community Champions in 100 stores promoting Breakfast4Life by handing out free samples of fresh fruit, helpful leaflets and colouring sheets for local children. Many also took the Breakfast4Life message into local schools
- Published a feature article about Change4Life in the January/February edition of the Tesco customer magazine, the UK's largest women's magazine with a circulation of 5.6 million



SUPPORTING RESEARCH INTO THE POWER OF LABELS

We are working with a EU-funded research consortium called FLABEL (Food Labelling to Advance Better Education for Life). The three-year project will analyse the extent and impact of nutrition labelling across Europe, looking at the sorts of information that are most effective for changing people's behaviour.

www.flabel.org

FOOD SAFETY

At Tesco we take food safety very seriously and we are working to raise standards in our supplier base around the world. In China, for instance, a dedicated team controls the safety of our food products from the supply chain to the stores. In 2009, to reassure our customers in the wake of the scandal over contaminated milk, we launched a programme in our Chinese stores called 'I Can Trust What I Buy'. We have also developed a long-term partnership with the China Chain Store and Franchise Association, and will continue to work with them to promote food safety.



4 HEALTHY CHOICES



In May 2009 we moved to 'Think 25' in the UK



Fruit and vegetable promotion in Poland

RESPONSIBLE ABOUT ALCOHOL

Our role as a retailer of alcohol touches three of our core Tesco values: we understand our customers, meet their needs, and act responsibly for our communities.

We recognise that most of our customers view alcohol as a normal part of the weekly shop and consume it responsibly. However, we also know that excess consumption can cause serious health problems and adversely affect our communities. We take our responsibilities very seriously, working both within our stores and with local organisations to help people consume alcohol safely.

Providing information

We were the first supermarket to introduce labels showing the units of alcohol in our own-brand alcohol and we are now rolling out the recommended Department of Health alcohol labelling on all our own-brand packs. This will show the unit measurement per glass and bottle, the recommended maximum daily intake of alcohol units and various health messages. We will roll this label out to all our own-brand lines in the UK by the end of this year and we will also be encouraging our suppliers to adopt the label on branded drinks.

Preventing under-age sales

We have strong measures in place to prevent under-age sales. In May 2009 we moved from 'Think 21' to 'Think 25' to help staff know when to ask for ID and refuse a sale. We backed this up with a staff training pack, including a specially commissioned DVD. We also use mystery shoppers to test whether our cashiers are correctly challenging customers to prove their age. We do not sell products that might appeal disproportionately to a younger audience such as 'shooters', individual bottles of pre-mixed products, and lines such as 'Buckfast', which have become associated with problem drinking in some areas.

Helping customers make responsible choices

Last year we took part in Alcohol Awareness Week in Scotland, in which we hosted Alcohol and Drug Partnerships (ADPs) in our store foyers, who explained unit measures to customers and showed them how to consume alcohol safely.

This follows the success of our pilot partnership working last year with Forth Valley Substance Abuse Action Team in our Falkirk Grahams Road store. As well as encouraging customers to pour what they thought was a unit of alcohol into a glass, we gave participants a free bottle of water, to remind them that it is important to stay hydrated.

Supporting industry-wide campaigns

While we recognise our responsibility as a retailer to encourage responsible drinking, we cannot do this alone. We therefore participate in a number of industry-wide alcohol campaigns, such as the Campaign for Smarter Drinking and the Drinkaware Trust. We have supported this UK-wide charity for a number of years and it has now become the UK Government's preferred way to deliver messages about alcohol to consumers. We have just reaffirmed our commitment to the organisation and increased our financial contribution so that we will be the largest retail contributor.

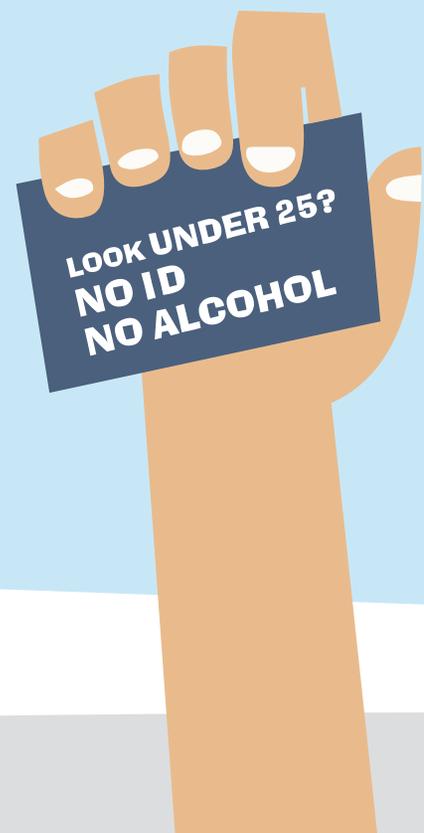
Working with communities

If a community has concerns about alcohol we work closely with local authorities to limit the scope of new licences. Tesco is an active partner in the emerging Rosyth Community Alcohol Partnership (CAP) and has been campaigning for more CAPs across the UK. Our experience in St Neots in Cambridgeshire has shown that this model of local community partnership between retailers, educators, police and trading standards can help challenge many alcohol problems, particularly under-age drinking.

We also offer small retailers our staff training materials to help teach their staff how to sell alcohol responsibly.

Getting the price right

Though we are aware of concerns that lower-priced alcohol might encourage antisocial behaviour, we believe that it is too simplistic to apportion such problems to price in isolation. For example, like any grocery item that we sell, we sometimes promote alcoholic products. However, our customer research shows us that this does not increase overall alcohol sales – since customers use the promotions to stock up or to trade up the alcohol they buy. Moreover, we believe that to be effective any move towards minimum pricing must be applied across the industry. Since competition law prohibits businesses from discussing anything to do with price with each other, the only safe solution is for the Government to lead those discussions. If ministers act, we have pledged our support in helping to develop any proposals and making sure that legislation works.



200+

We run more than 200 price promotions on healthy products each week in the UK



Healthy eating products in Hungary

Healthy options

Once we have given our customers the information they need, the next step is to provide them with a wide range of healthy products to choose from.

Healthy Eating

This year marked the 25th anniversary of our Healthy Eating brand. These are nutritionally balanced products that contain no hydrogenated fat or artificial sweeteners and have controlled fats, sugar and salt. In 2007, we also added the Light Choices brand, providing reduced calorie, fat and sugar options.

Our research showed us that although the brand appealed to people who were already seeking to eat healthily, it did not reach many customers who are not used to choosing healthier options. This year we therefore decided to rebrand. We widened the scope of products; for instance there was no bread in the range and we have now included a wholemeal loaf. We also added the mark to many ready meals in our standard ranges.

Following their success in the UK, we are now rolling out these brands across our markets. Nutritionally balanced and diet ranges are now available in seven countries.

Fresh fruit and vegetables are an important part of a healthy diet and on average our superstores stock almost 1,000 different items – twice as much as ten years ago. We also sell many healthy tinned, frozen and dried foods such as fruit and vegetables, beans, pasta and rice, including approximately 200 wholefood products. Our Value range includes many low-cost healthy choices, including skimmed milk, skinless chicken, pasta, and fruit from apples and bananas to mangoes and kiwis. These are important, affordable healthy foods.

We run more than 200 price promotions on healthy products each week in the UK, including fresh produce, fish, wholefoods and our Healthy Eating brand, helping to make a balanced diet accessible to everyone.

Changing the formula

As well as creating more specialist ranges, we also want to make our existing products as healthy as possible. In 2009, we reformulated 500 UK products to improve their nutrition content. In the US, as for UK products, all Fresh & Easy brand products contain no added trans fats, no artificial colours and no artificial flavours.

Excessive salt intake can contribute to raised blood pressure and we have removed 3,000 tonnes from our products in the UK since 2005, including 145 tonnes from ready meals. The average Tesco ready meal already contains 10% less salt than the 2010 target set by the FSA.

Saturated fat is important because of its impact on heart disease. We have removed over 2,500 tonnes from products since 2005 through improvements such as using leaner cuts of meat and lower-fat dressings and sauces in our ready meals. For example, by adjusting the amount of dairy ingredients and adding more egg we have removed 6% of the saturated fat from our core quiche range. We supported the launch of the FSA saturated fat campaign with in-store and online advertising.

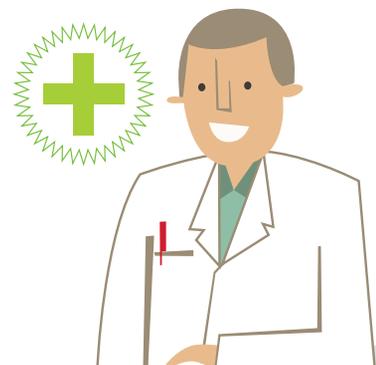
HEALTH CARE SERVICES

Good health is about more than food and we have improved health services available to customers by continuing to open pharmacies and opticians in our stores. We opened 36 new pharmacies and 17 opticians in 2009 and now have a total of 304 pharmacies and 131 opticians.

Our opticians offer evening and weekend appointments, sight tests and spectacle frames.

Our pharmacies also extend access where they operate in the heart of disadvantaged communities. In Hackney, for example, 13,000 households without a car are within 0.5km walk of our stores. Ninety per cent of our pharmacies are open until 8pm or later, Monday to Saturday, and 97% are open on Sundays.

We do not just sell medicines. Our skilled pharmacists offer a range of services as part of local primary care provision. We provide flu vaccinations and general health checks that screen weight, blood pressure, total cholesterol and blood glucose. In 2009 we carried out more than 7,000 of these health checks. We also performed more than 54,000 blood pressure tests and more than 40,000 diabetes screenings, all free of charge. Thanks to a combination of new stores and pharmacy awareness events, we offered 47% more services than the previous year.



OPEN LATE

4 HEALTHY CHOICES



Megan Blunt and Tesco Community and Government Director David North

6.2 million

6.2 million customers and staff got active in 2009

HOSPITAL MEALS

In spring 2009, Tesco joined forces with 17-year-old Megan Blunt, a cancer survivor who had started a campaign to improve food for sick children in hospitals. Cancer treatment in particular affects your appetite and tastes. This, coupled with rigid mealtimes and lack of menu options means that many children with cancer do not eat enough in hospital, and parents have resorted to bringing food in from outside.

Megan started a campaign to change this, and when Tesco Community and Government Director David North heard about it, he decided to help. Megan took David to the University College London Hospital children's cancer ward to see the problem for himself. Megan, David and his team devised a scheme to put a vending machine in the ward, containing ready meals that were carefully chosen to appeal to the children's tastes. The meals are free, paid for by Tesco, and can be heated up at any time in a microwave on the ward.

The pilot scheme has proved very promising. Both patients and parents agreed that the meals tasted good, provided a good choice, and could be eaten whenever the child felt hungry. The times when parents brought in outside meals also fell by half, meaning they could spend more time on the ward with their children. We are currently assessing where this new service might go next. Megan is hoping the scheme will go country-wide, and so is Tesco.

Active lifestyle

The third part of our health strategy is to encourage people to lead more active lives. That way, they can manage not just the energy they take in, but also the energy they expend.

We have thought carefully about how we can have the biggest impact. One possibility would be to go deep, sticking with a relatively small number of people until their new activities become a natural part of their lives. Another is to go broad, to reach as many people as possible – including those who are less likely to take part in more substantial, onerous campaigns.

At Tesco, we never seek to take over people's lives. Instead we think we can be most effective if we provide simple, practical, accessible and fun ways to get fit. Because of our size we have the potential to reach a very large number of people. We therefore decided that going broad, and getting many people switched on to new activities, is the best way for us to make an impact.

We work with a wide range of partner organisations internationally to get people active and in many cases the results have been spectacular. One of our most successful programmes is 'Get Healthy with Tesco Lotus' in Thailand. This year the aerobic competition attracted an extraordinary 3.23 million people. The national final will take place in June, for a prize of 1.5 million Thai baht (about £29,000). Tesco Lotus also sponsored walkathons and football clinics (see box: 'Football crazy').

In the UK, we have been getting huge numbers of kids active with the Tesco Great School Run. In 2009, more than one million children from more than 4,400 primary schools took part, running two kilometres each.

For the ninth consecutive year, we also supported Cancer Research UK's Race for Life. Since 2002 nearly two-thirds of our staff have taken part, raising a total of £6.2 million. Our staff tell us that they enjoy the team atmosphere created by Race for Life, and feel more positive about working for Tesco as a result of participating. This year, there were more than 230 events across the UK from May to the end of July, during which 740,000 women took part, including nearly 20,000 of our staff.

Our research tells us that a quarter of our customers have participated in the race. Until now we have focused on getting staff involved and we know that there is potential to bring many more customers into the fold. The race organisers tell us that Tesco.com is the number one referral site to the Race for Life website, and we need to build on this.

Similar events raised money for cancer research in the Czech Republic and Slovakia. In Malaysia, some 11,000 people joined our Walk for Schools. The event raised money for 100 schools near the 11 Tesco stores in the Klang Valley.

OTHERS SAY...

I would like to see encouragement around shifting people to more active lifestyles, for example using the stairs rather than the lift. At the moment, you seem too focused on people getting fit."

Emma Darlston, Company Nutritionist, Greencore Group





Girls enjoying our FA Skills Programme



Getting active in the Czech Republic

FOOTBALL CRAZY

Football is a great way to get people active and engaged. It works around the world, across genders and teaches many important life skills. We are the England football team's official supermarket, the official sponsors of the Women's Premier Football League, and Terry Leahy is on the vice-president panel for England's 2018 World Cup bid. While this provides the wider world with good role models for fitness and health, we also put in plenty of effort at the grass-roots level.

FA Tesco Skills Programme

Working with the English Football Association we fund 90 coaches to teach football skills to boys and girls aged 5–11. The kids love it and it has been extraordinarily popular. This year marked the participation of our one millionth child. We celebrated this achievement with an event at Wembley where children showcased their skills in the company of England star Frank Lampard.

Tesco Cup

For UK kids who have the talent we run an annual cup competition culminating in a home nations final. This year about 60,000 children took part. Competition was fierce and the winning team in May 2009 was England Stokesley.

Thai football clinics

Once again this year we brought in famous football stars to train underprivileged kids during two football clinics in Thailand – with the support of the Ministry of Tourism and Sports and the British Chamber of Commerce. At the same time, we organised a friendly match with the participation of the stars – Ian Rush, Peter Reid and Teddy Sheringham – and top players from Thailand. >>

>> Disabled football in China

Working with Everton Football Club we support football summer camps for children with disabilities in Shanghai. We provide financial support, encourage our staff to volunteer for football coaching and training and we also try to provide the youngsters with work experience. This year, more than 500 disabled children took part in the camps.

Tesco Bank

In January this year, Tesco Bank announced a new football programme for children in Scotland. The aim is to reach boys and girls of all levels and abilities, and every primary school in Scotland will have the chance to join in. At the launch of the scheme, Tesco Bank CEO Benny Higgins was joined by Alex Salmond, First Minister for Scotland and former Scotland captain and Celtic legend Paul McStay.

GETTING ACTIVE

Country	Number of people who got active
China	22,000
Czech Republic	4,500
Hungary	6,000
Malaysia	11,000
Slovakia	4,500
South Korea	320,000
Thailand	3,200,000
Turkey	12,000
UK	2,620,000
Total number of people getting active with Tesco	6,200,000



A SELECTION OF TARGETS

China – roll out technical support for suppliers to improve food safety and quality

Hungary – launch a GDA education programme including a toolkit for students

Malaysia – launch 50 Lite Choices lines

UK – expand FA Skills Programme to reach a total of 4.5 million 5–11-year-olds by 2014

www.tesco.com/cr2010/healthychoices



5 OUR PEOPLE

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CREATING GOOD JOBS AND CAREERS

Our 472,000 employees serve millions of customers around the world. We look after and develop them so they can look after our customers. No one tries harder for customers. We:

- work as a team
- trust and respect each other
- listen, support and say thank you
- share knowledge and experience

2009 at a glance

52%

of our country directors are locals

48%

of store managers in Hungary are women

25%

of people in our Advanced Leadership Programme are non-British

Launched new text service –

EVERY COMMENT HELPS

Reduced rate of reportable accidents by nearly

HALF
in the UK

We are building a dedicated

ACADEMY BASED IN ASIA



5

1

20

5

£98 million

**worth of free shares
distributed among
207,000 staff in the UK**



5





Artist's impression of our Asia Academy

First

This year marked the first graduations from our Foundation Degrees

PEOPLE

We treat people how we like to be treated. We set out to work as a team, trust and respect each other, listen, support and say thank you, and share knowledge and experience. Above all we want everyone at Tesco to enjoy their work. We have these values, created by our people, because we believe they are right, but also because they make good business sense. We know that if you treat people well they will give great service so our customers enjoy their shopping trip.

We are the largest private sector employer in Hungary, Ireland, South Korea and the UK, and in the top five in Slovakia. We provide diverse career opportunities for 472,000 people worldwide – from positions on the shop floor, to roles for store managers, buyers, accountants and lawyers.

People grow with us. Many rise from the shop floor to run the shops they work in, or move to other jobs within the business, gaining valuable leadership, qualifications and professional skills along the way. Having access to opportunities keeps people motivated and committed, delivering great service.

We work hard to create a culture of trust and respect, where managers help people to do their jobs. We know people work better when they are given the space to make decisions and take responsibility, and we recognise the work they do and say thank you. We encourage people to learn from their mistakes and challenge conventional thinking.

Training and development

We promise our people 'an opportunity to get on'. People feel more committed when they know they can grow with the Company, helping us to retain a skilled workforce. As a major employer, when we invest in training and development we also benefit the wider economy.

We believe that home-grown managers understand our culture and business and make valuable leaders. Many of our senior leaders started their careers in our stores, including Board Director David Potts, who joined as a Customer Assistant. Across the international business we currently have 8,000 people on our Options programme, developing the skills to take on a more senior role.

We recruit internationally for an international business. Our Advanced Leadership Programme provides training to equip people to move from the Director to Senior Director level. This year, a quarter of the participants were non-British.

Our graduate programme fast-tracks graduate trainees with high potential into leadership positions. Recruits come from across the international business. Developing more local leaders in each country remains a key priority and we need to make sure we build on our work and success to date.

We are keen to provide opportunities for people to progress within the company across the Group. For example later this year Remco Waller will become the new CEO of the China Property Company. Remco has worked at Tesco for nine years in the UK, South Korea and recently as CFO of Fresh & Easy.

DEVELOPMENTS IN ASIA

Dedicated academy

As part of our ongoing commitment to developing talent in Asia, we are building an academy based in Asia close to Incheon Airport near Seoul in South Korea. We will open the doors in May 2011. Asia is one of the fastest growing areas in the Tesco Group, and we will need many more leaders over the coming years. The Tesco Asia Academy will act as a centre of excellence to train, share learning and develop networks for all our directors and managers.

China Graduate Programme

We are committed to having our international businesses run by local people, but we also want to make sure they profit from the lessons that our mature UK business has already learned. One way to balance these two requirements is our China Graduate Programme. Each year we look for a small number of exceptional graduates who are fluent in both English and Mandarin and combine strong academic achievement with real-world life experience and achievement. >>

PEOPLE PROMISES

We want Tesco to be a great place to work. We promise that when people work for us they will:

- Be treated with respect
- Have an opportunity to get on
- Have a manager who helps them
- Have an interesting job



VALUES AWARDS

Following our refreshing of Tesco's values and values awards in 2008, last year our international businesses sought ways to mark the values materials with their own local cultures. Many of the designs were chosen by staff, and all show a Tesco mix of global identity and local sensibility.



>> The graduates spend six months in the UK being trained, supported and developed for a specific role that they will take up once back in China. Training is for both technical and leadership skills developed on the job and through specialised training courses.

Graduates have come to know about the programme by word of mouth and last year we attracted almost 1,000 applicants. The training has a reputation as being of a high standard and all our graduates return to China to take up their roles with great enthusiasm and energy.

The scheme has been running for four years now. Most of our original graduates have stayed with Tesco in China and are doing a wide variety of managerial roles in marketing, commercial, operations, corporate affairs, finance, HR and IT.

Apprenticeships

In the UK, 83% of the employees who embarked on our apprenticeship training this year have been awarded an Apprenticeship in Retail Skills. The apprenticeship is made up of an NVQ Level 2 in Retail Skills, key skills training in numeracy and communication, and a technical certificate. These nationally recognised qualifications are completed entirely in the workplace. The apprenticeship equates to five GCSEs at grades A* to C.

Apprentices can be any age, but this year we will take on 40 school leavers for a pilot one-year programme. Linked to the Duke of Edinburgh Award, the programme will use outward bound approaches to teach teamwork and communications skills. At the end of the course, students will have an NVQ Level 2 or 3, a Duke of Edinburgh Gold Award, and the option to join our 'A' Level programme.

Foundation Degrees

This year marked the first graduations from our Foundation Degrees. These are two-year retail degrees undertaken by staff members in association with Manchester Metropolitan University and the London School of Arts. The first pilot group of 17 employees began their courses in 2007 and graduated in 2009. They spent several days at University at the beginning of each term and did the rest of their studying online, by telephone or email. This way, they earn while they learn, with Tesco paying all their fees. We now have 60 people on the scheme and are still working on ways to make it grow. For example, we are looking at ways to build case studies into relevant jobs so that the course can be designed specifically to make the most of each person's role at Tesco.

Profile: Zena Vilder, Department Manager of Orpington Extra store

This summer, Zena graduated from the Tesco Retail Foundation Degree – the first qualification of its kind to be offered by an employer. But what singles Zena out from the rest of her graduate cohort is that she had to overcome her severe dyslexia to complete the Foundation Degree.

Zena joined Tesco as a Customer Assistant in 2001 with limited qualifications from school. She was nominated and chosen as one of only 17 successful candidates to take part in the Foundation Degree by her Store Manager, as a result of her ability, hard work and determination.

Although Zena's lack of confidence made her hesitant to join the degree course at first, she was offered coaching and senior level support, receiving two paid days study leave and three paid days leave to attend study classes at the London School of Arts. In addition, she committed 12 hours per week of her own time to study for the degree online.

Completing the degree has bolstered Zena's career potential, and she now manages the clothing department of the Orpington Extra store. But it has had wider effects too, helping her to support her son who also suffers from dyslexia.





Ruston Smith,
Group Pensions
Director,
receiving
our Pensions
award

£98m

207,000 employees in the UK received £98 million worth of free shares in our Shares in Success scheme

Rewards and benefits

It is important that our people feel rewarded for the work they do. We offer higher than minimum wage salaries across all our businesses internationally, as well as benefits in each market that reflect employees' priorities. Despite the tough global market in 2009 we continued to invest in pay at the annual review. We focused on our core rates and in a tough financial year our pay competitiveness still improved in most markets.

In many developing markets, staff place most value on good basic pay and being paid fairly for overtime, and these are our priorities. In Malaysia where there is no legal minimum wage, the minimum a Tesco employee will receive is 30% more than the Poverty Line Index for household. We also offer a wide range of competitive benefits in line with local labour laws and regulations, from paying at least 75% of the cost of medical, prescription drug, dental and vision coverage after 90 days' employment in the US to a tuition subsidy in South Korea.

We have agreed long-term reward plans across all our markets so that we have a clear plan on how we will invest in pay and develop benefits in each country. All our management teams share in the success of the business they are growing through bonus schemes linked to profitability and delivery of their steering wheel objectives, and executive share options at the same level as UK employees.

In the UK, 207,000 employees received £98 million worth of free shares in our Shares in Success scheme in 2009. Fifty-five thousand staff shared a £144 million payout from our risk-free Save as You Earn share option scheme.

We offer a range of staff discounts across the Group. In Thailand this year we introduced staff discounts linked to our own Tesco Clubcard with staff receiving higher rewards than our customers.

PRIZE PENSIONS

This year our UK Tesco pension scheme won two awards. At the 2009 Financial Times Pension and Investment Scheme Management Awards just before Christmas our scheme was awarded 'Defined Benefit Pension Scheme of the Year' and 'Trustee Excellence – Large Schemes'. We were also commended in the 'Overall Pension Scheme of the Year' category. The awards recognise strength of governance, how the funds are invested, how we communicate to our staff and how well we carry out the administration of the scheme. The scheme provides people with an annual income at retirement as well as benefits on ill health and death, based on their pay and their service. This benefit rewards loyalty and makes a very positive contribution to attracting and retaining our people.

Inclusion

A core Tesco value is that we trust and respect each other. We live this value by ensuring that everyone feels welcome at Tesco, and everyone has an opportunity to get on.

We want everyone to feel welcome at Tesco, regardless of age, sex, disability, ethnicity, belief or sexual orientation. We aim to reflect the customers we serve at all levels of the business. Diversity is embedded in the UK business by a Diversity Council consisting

of business function directors, and chaired by Retail and Logistics Director, David Potts. The whole Board works hard to improve diversity across the Group and this is a key part of our talent planning process.

We focus on employing local people and developing local leaders in each country. Only 427 people out of nearly half a million employees worldwide have moved to another country for their job. Fifty-two per cent of our country directors are locals.

OUT AT TESCO

In November 2009 we launched our new 'Out at Tesco' network for lesbian, gay, bisexual and transgender (LGBT) staff in the UK. We want to create an environment where members of this network can feel safe being themselves at work, regardless of whether they choose to be open about their sexuality. Membership is completely confidential. The network organises regular events, has plans to roll out a mentoring service, and connects LGBT employees with each other. It has also raised funds for Tesco's Charity of the Year.





One of our UK store managers

52%

of our country directors are locals

We are proud of our diversity. We have the most socially diverse customer base of any of the UK retailers and we want our workforce to mirror the communities we serve.

People of all ages are welcome at Tesco. We have no retirement age and employ people in their 70s and 80s (although we comply with mandatory retirement ages in countries where these exist). In the UK, we include people of all ages in our Apprenticeship, A-Level and Graduate programmes, giving them the opportunity to develop their careers.

We want women to do as well as men at Tesco. There are three women on our Board of Directors. The number of female directors has risen in the past two years from 70 to 90. Although the overall number of directors has also increased over this period, this still represents a rise from 16% to 19%. Last year we also appointed our first female director in South Korea. This is a significant appointment and establishes a positive role model in a country where there are traditionally very few women in senior positions

Of Tesco employees in the UK, 56% are female, and women make up 17% of Store Managers. We are continually developing more women to enter management roles. Half of all store managers in Hungary are female, and women are well represented in our development programmes, which should ensure that more achieve management positions in the future. Sixty-five per cent of participants on our Apprenticeship in Retail programme are female.

Three people in Tesco are being coached as part of the FTSE 100 Cross-Company Mentoring Programme, in which FTSE 100 Chairmen and CEOs acts as mentors to senior women just below board level in other FTSE companies. Our Chairman, David Reid, is currently working with his second mentee.

However, there is still work to do. The Tesco Women's Network aims to help female managers and directors progress. The Network provides skills development, mentoring and networking opportunities.

Women make up 9.7% of distribution employees. This is based on traditional opinions that distribution is a male dominated environment, which is a general industry issue and not specific to Tesco. We are working to encourage more women to pursue careers in distribution.

In Tesco in the UK, there is only a 2% difference in pay between men and women. Anything less than 3% is deemed statistically insignificant.

We work to attract and develop people who have disabilities. In the UK, we have relationships with disability organisations such as Remploy and the Shaw Trust, who understand the importance to Tesco of finding skilled and dedicated people. Their services

include pre-employment training, post-employment development and support for employees. All candidates receive vocational skills training.

Communication

We want employees' views on issues that affect them and the business, and communicate with them regularly through staff question times, face-to-face briefings, store and depot forums, publications and our intranet.

Our annual staff survey, Viewpoint, is anonymous and confidential. Results are fed into local action plans at store, depot and office level.

All our employees have the right to join a trade union and we believe it is very important that they are able to exercise this right. We have an industry-leading partnership agreement with Usdaw in the UK, and agreements with Solidarity in Poland and Katz in Hungary.

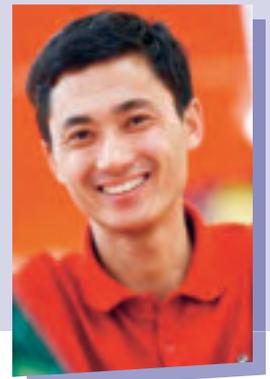
Head Office staff gain direct experience on the shop floor through our annual TWIST programme (Tesco Week In Store Together). At peak shopping periods such as Easter and Christmas all Head Office staff provide 'Helping Hands' and go into stores to support store colleagues.



5 OUR PEOPLE



UK staff modelling the new uniform



A member of staff in one of our China stores

Whistle-blowing

Our whistle-blowing policy and helpline is now in place in all countries. 'Protector Line' is a 24-hour confidential telephone line and email address for employees to raise ethical issues and also report grievances. All calls are logged and investigated by the appropriate function and all serious matters are brought to the attention of the CEO. The feedback is monitored by the compliance committee in each business. The Group Audit Committee annually reviews the number of calls and the quality of investigation, and reviews plans to ensure our staff are aware of the facility.

In 2009 we received around 1,700 employment-related calls to the helpline across the Group. This is an increase from last year, showing that employees are gaining confidence in the service. Most calls relate to personnel issues, commercial issues, security and trading law. Personnel issues are referred back to the store or resolved through grievance procedures.



'I AM TREATED WITH RESPECT'

	Stores % agree/ strongly agree	Distribution % agree/ strongly agree	Office % agree/ strongly agree
Overall average	73.3	56.3	85.9

EVERY COMMENT HELPS

This autumn in the UK we launched a service called 'Every Comment Helps'. Customers can contact us via free text messages, free phone calls, email or on a card commenting on their experience in a store – good or bad. The messages go to the store manager who then decides whether a stock or display issue needs to be addressed, or provides feedback to any member of staff who has been commented on. So far we have had more than 50,000 messages.

They ranged from complaints about the availability of certain products, or the environment in the stores, through to both negative and positive comments about staff service. These have proved particularly helpful. One staff member said: "If you get five bad customers and you are really down and then you get a positive comment it can make all the difference to your day." Managers tell us that Every Comment Helps makes it easier for them to rectify problems and to celebrate success.

Customer service training

We know that our staff are engaging and friendly. But our customers have been telling us that staff sometimes seem too busy to pay full attention. Core Tesco values are that we understand our customers and meet their needs. This year we have therefore undertaken a major overhaul of our customer service training. The idea is to re-examine our rules, policies and procedures to ensure that the customer's needs are at the heart of everything we do. We have chosen six stores, and are looking in fine detail at customer service in every job. We are designing solutions to free up staff's time so they can pay more attention to customers.





UK sign raising staff awareness of health and safety



Staff members understanding health and safety in one of our UK stores

We support flexible hours wherever possible. In the UK we offer family-friendly shifts, job sharing, flexitime and compressed hours, shift swaps, home working and part-time working where possible. We also offer maternity leave for both full and part time workers, paid paternity leave, equal training and development opportunities for full and part time workers, child-care vouchers, bereavement leave and career breaks. Many of these benefits exceed statutory requirements.

As a response to employee requests we now give up to five days paid leave to train as a foster parent, paid time off for fertility treatment, and the opportunity to take leave for study and life breaks.

ONLINE OVERTIME

We are currently trialling an online scheme for booking overtime in 21 shops in the Essex area. Nearly 900 staff, 30% of the workforce, have signed up and are posting their overtime availability online. Stores can then match their requirements to the available pool of resource, including staff from other shops.

The scheme was particularly popular in the run-up to Christmas, with some staff registering their availability for Boxing Day and New Year's Day four weeks in advance.

Health and safety

Looking after our staff and customers by making sure they have a safe place to work and shop is vital for us. To ensure that we are leading from the top our Board Director for Corporate & Legal Affairs, Lucy Neville-Rolfe, is the designated Director for health and safety. We have adopted the joint Health and Safety Executive and Institute of Directors Guidance – Leading Health and Safety at Work.

We manage the success of our health and safety performance by measuring the rate of injuries suffered to our people and to customers who visit our stores, and through independent compliance audits of our stores and distribution centres. In 2006 we set a three-year target to reduce the rate of reportable accidents in our UK workplace by 10%. By the start of 2010 we had exceeded this, having reduced the rate of reportable accidents to our people by more than 45% and to our customers by 25%.

We measure our health and safety performance using reportable accident rates, which we report each quarter to the Compliance Committee and annually to the Executive Board. Our stores measure their own performance as well through the Store Steering Wheel, which sets targets for reducing injury rates in each specific site.

The main causes of injury remain slips, trips and manual handling. We ran an accident awareness campaign in October 2009, in which we highlighted key safety messages to all staff. All stores apart from Express now have special 'clean as you go' tools. In January this year we ran a further campaign called 'see it, sort it, report it!', encouraging staff to give their feedback on near misses and how we can improve safety.

In Poland this year, we implemented health and safety training for 1,000 managers as part of our Tesco Academy.

A SELECTION OF NEXT YEAR'S TARGETS

Hungary – extend our programme to employ more disabled people and launch an equal opportunities and diversity programme

South Korea – build an Asia Academy to train and develop our managers and directors

www.tesco.com/cr2010/ourpeople



MANAGING CORPORATE RESPONSIBILITY



We understand that our success comes from behaving responsibly and earning the trust of our customers, suppliers and other stakeholders. As this Report shows, there are many complex issues that we have to face on a daily basis, from reducing our environmental impact to ensuring consistent standards across our markets.

We manage all aspects of our business using our Steering Wheel – a balanced scorecard of the key elements of our business: Customers, Operations, People, Finance and Community. We use the Steering Wheel to emphasise that corporate responsibility is not a specialist function in Tesco – it is part of everybody's job every day.

The Community segment of the Steering Wheel reflects our Community Promises, which have now been launched across the whole business:

- **Caring for the environment**
- **Actively supporting local communities**
- **Buying and selling our products responsibly**
- **Giving customers healthy choices**
- **Creating good jobs and careers**

We are integrating these principles into the day-to-day management of our business. Our staff from the shop floor to the boardroom are expected to apply them in everything they do from strategy-setting, to decision-making, to performance reviews. This Report uses a similar structure so our progress can be followed easily.

Our Community Promises are reflected in the Community Plans in all of our markets. The Plans are designed to help us change the way we do business, for example by reducing our carbon emissions. Each Community Plan has the flexibility to reflect local priorities within the common framework of the Community Promises. We identify local priorities by talking to customers and other stakeholders in each region, primarily through Customer Question Times (CQTs), meetings and surveys.

Managing CR

The Board of Directors regularly discusses CR issues and formally reviews our CR strategy once a year. It receives formal updates on the CR work being done across the Group twice a year, as well as discussing emerging issues whenever relevant. Lucy Neville-Rolfe, our Corporate & Legal Affairs Director, is accountable for our CR performance. The Board also draws on the wide experience of its other Non-executive and Executive members.

Our CR Committee comprises 16 senior executives from across the Group and is chaired by Ms Neville-Rolfe. The Committee meets at least four times a year to develop CR strategy, review relevant policies and practices, identify opportunities to improve the sustainability of the business, agree and monitor CR KPIs, and engage with internal and external stakeholders on CR issues. Every year we invite external speakers to address the CR Committee and comment on our CR strategy, performance and reporting.

Corporate governance

Managing environmental, social and governance issues is essential to good corporate governance, because these affect the reputation and the long-term success of the business.

We have clear, transparent and effective policies and processes for managing our business responsibly and in accordance with the law. We aim for the highest standards of behaviour from all employees. This requires a visible commitment from the top and clear, well-communicated guidelines.

Group Code of Conduct

In 2009 we launched our new Group Code of Business Conduct, which is being rolled out to employees across the Group and gives clear guidance on the standards of behaviour expected of them.

Clear lines of accountability are essential. The Board of Directors has overall responsibility for managing risks to our business and reputation, including those related to CR. The Board's various committees, and in particular the Audit Committee, are responsible for related processes and controls.

In addition, the Executive Committee monitors controls through the Compliance Committee, CR Committee, and Finance Committee. Reports from each Committee are circulated to, and discussed by the Board.

For more information about the roles, responsibilities and independence of Board members as well as details of our corporate governance framework, visit www.tesco.com/corpgov

Public policy

Business can often play an important and legitimate role in shaping public policy. Where appropriate, we work with governments to share our expert knowledge and our experience in order to help shape effective policy.

We are open and transparent in our engagement with governments. We do not make donations to political parties or employ consultants to lobby on our behalf. When we engage with governments we focus mainly on those issues of most importance to our business, employees and customers. In 2009, key issues included the environment, alcohol, health and nutrition, planning and regeneration, and productivity and skills.

Stakeholder engagement and issue identification

Our business exists to serve our stakeholders, who have a wide range of expectations. Sometimes these expectations can conflict. We listen to the views of all our stakeholders and take them into account when trying to balance different considerations.

Feedback from our stakeholders is used to review the issues on our CR agenda which we adjust when new issues of significance emerge. Our Community Plans are developed to respond to local stakeholder priorities.

For more information on our stakeholder engagement see the table on page 56.

CORPORATE RESPONSIBILITY COMMITTEE



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- 1 Lucy Neville-Rolfe,**
Executive Director, Corporate & Legal Affairs
- 2 David North,**
Community and Government Director
- 3 Terry Babbs,**
Ethical Trading Director
- 4 Jonathan Church,**
Media Director
- 5 Kari Daniels,**
Non Food Marketing Director
- 6 Barney Burgess,**
Chief Operating Officer,
Grocery Home Shopping

- 7 Ruth Girardet,**
Corporate Responsibility and
Community Director
- 8 Catherine Glickman,**
Personnel Director to CEO
- 9 Alasdair James,**
Category Director – Fuel, Energy,
Waste, Recycling and Packaging
- 10 Liz Kynoch,**
Group Technical & Trading Law Director
- 11 Alex Laffey,** Transport Director
- 12 Andrew Neale,** Head of Facilities

- 13 Trevor Masters,**
Chief Executive – Central & Eastern Europe
- 14 Greg Sage,**
International and Internal
Communications Director
- 15 Simon Williams,**
Property Director – Convenience, London and
Southeast Superstores, Distribution and Funding
- 16 Nanbin Zhuang,**
Corporate Affairs Director – Tesco China

GROUP KEY PERFORMANCE INDICATORS

COMMUNITY PROMISE	KPI
<p>CARING FOR THE ENVIRONMENT</p>	<p>Reduce CO₂e emissions from our 2006/7 baseline portfolio of stores and distribution centres by 50% by 2020. Annual target reported as percentage reduction against previous year.</p> <p>Reduce CO₂e emissions from new stores and distribution centres built after 2006 by 50% by 2020, compared to new stores and distribution centres built in 2006.</p> <p>Reduce the amount of CO₂ used in our distribution network to deliver a case of goods compared to previous year.</p> <p>Percentage of store waste recycled.</p>
<p>ACTIVELY SUPPORTING LOCAL COMMUNITIES</p>	<p>Staff fund-raising.</p> <p>Donate at least 1% of pre-tax profits to charities and good causes.</p>
<p>BUYING & SELLING RESPONSIBLY</p>	<p>Supplier Viewpoint: average score (% of scores that are favourable).</p> <p>Supplier Viewpoint: response rate of suppliers.</p>
<p>GIVING CUSTOMERS HEALTHY CHOICES</p>	<p>Staff and customers active with Tesco.</p>
<p>CREATING GOOD CAREERS</p>	<p>Staff being trained for their next job.</p>

TARGET 2009	ACTUAL PERFORMANCE	TARGET 2010	COMMENT
5.5%	7.8%	5.5%	We have exceeded our target helped by strong performance in Poland, Thailand, Turkey and the UK.
25%	28.8%	30%	We have exceeded our target helped by the strong performance in Hungary, Malaysia and Thailand. Our zero-carbon store in Ramsey, UK marked a new milestone in our low-carbon store programme.
10%	6.4%	10%	Despite strong performances in Japan, Poland, South Korea, the UK and the US, we have missed our target. There are two main reasons for this. First, we experienced an unusually cold winter in Europe this year, disrupting transport and requiring more flexible deliveries. Second, in our rapidly growing businesses we are still developing optimal distribution networks.
95% in the UK	100% diverted from going directly to landfill in the UK	n/a	In many of our markets, waste management systems are still developing. We have not set a Group target to measure waste. Every country has targets to reduce waste and improve recycling within the limits of local infrastructure.
£5m	£7.4m	£7m	We exceeded our target this year, helped by the UK raising £5.4 million for our Charity of the Year, the Muscular Dystrophy campaign.
1%	1.94%	1%	We exceeded our target, contributing £61.6m to charity, including store grants in excess of £1.5m for local causes and £50,000 to aid humanitarian efforts in Haiti as part of our emergency partnership with the Red Cross.
70%	80%	80%	We conducted our annual survey of our supply base in March, inviting over 6,500 suppliers to participate. We achieved particularly strong scores in Japan, South Korea and the UK. In the UK, our scores for most 'negative behaviours' improved for the fifth consecutive year which indicates that we are exhibiting these behaviours less.
45%	51%	60%	
5.3m people	6.2m people	7m people	We have exceeded our annual target with a particularly strong performance in Thailand where our 'Get Healthy with Tesco Lotus' initiative involved over 3.2 million staff and customers.
10%	6%	7%	We did not meet our target for this year despite strong performances in China and Malaysia. In the coming year we hope to improve through initiatives such as the extended Options programme in Slovakia, our new Options programme in Turkey and our new Asia Academy.

UNDERSTANDING OUR STAKEHOLDERS

Stakeholder group	Interests and expectations of Tesco	Interaction with Tesco in 2009
Customers	Customers want us to provide a good shopping trip and be a good neighbour. They want us to be fair and honest and provide choice and quality, including sustainable, healthy and affordable products. They are at the forefront of our policy and we look to empower them and inform them, for example through carbon and nutrition labelling.	We talk to our customers every day of the year so we can identify and respond to their changing needs. Customer Question Time (CQT) meetings help us do this. These meetings are held in stores in all markets and enable staff and managers to hear customer views on how we are serving them and our role in the community. CQTs inform our Customer and Community Plans. In 2009, we also held CQTs on specific issues, including community and the environment.
Investors	Our investors seek competitive returns from their shareholdings, as well as assurance that their investments lie with a sustainable, well-governed business. They expect us to have a robust strategy and report on our processes and progress in a meaningful and transparent way.	We actively engage investors in a structured annual programme of presentations and meetings to help us understand their views on our strategy (of which corporate responsibility is an integral part), and the way our business is governed. In addition, we arrange updates on both a one-to-one and group basis in which we issue briefings to and respond to queries from our Socially Responsible Investors (SRIs) throughout the year. We also communicate with shareholders through our Annual General Meeting, Investor Relations website, and our participation in initiatives such as the Carbon Disclosure Project and the Business in the Community CR Index. After we published our report for 2009 we carried out feedback sessions with a range of different stakeholders, including SRIs. Many of their comments have been incorporated into this year's Report.
Employees	Our staff want secure, interesting jobs with fair terms and conditions, and the opportunity to get on. They want a helpful manager, to be treated with respect and to have a safe and healthy workplace. We also see them as ambassadors for our community and environmental causes. Engaging them is vital to the success of our initiatives.	Our staff need to feel good about their employer to do a good job for our customers. We listen to and communicate with our staff constantly. We get feedback at Staff Question Time sessions and through our annual Viewpoint survey. Our Pulse survey also tracks staff views on how they feel about working for Tesco.
Communities	Our neighbours want job opportunities especially in the current economic climate. They also want healthy, regenerated communities and support for local causes and initiatives.	We communicate and engage with local people in our stores and at public consultations and exhibitions, through leaflets and focus groups, and through our work with local charities and community groups. In 2009 we have continued this engagement with our first Community Fairs and the continued expansion of our network of Community Champions.
Suppliers	Our suppliers want to be treated fairly and honestly. They seek long-term relationships and opportunities for growth.	We hold regular meetings with our suppliers, processors and manufacturers. We also bring them together to share experiences at our Producer Clubs, and seek their feedback through our annual Viewpoint survey. We provide training and capability building for suppliers where appropriate and share information with them, for example through our Tesco Link website. In 2009 we have seen an increasing involvement in our charity activities. Procter & Gamble's involvement with Charity of the Year is an example of this. We are also seeing a much more collaborative approach to the big issues such as climate change.
Governments and regulators	Governments and regulators expect us to comply with the law, provide secure, family-friendly job opportunities and good-quality training. They seek our support on various initiatives, such as those relating to health policy.	We engage with governments, parliamentarians, regulators and officials on a range of issues affecting our business and communities. These include the environment, skills and regeneration planning, healthy eating and alcohol. We work hard to ensure our responses to government consultations are aligned with our CR policies and practices.
Non-governmental organisations (NGOs)	NGOs want us to show leadership on CR issues from climate change to ethical trading. They expect us to provide clear policies and principles and for us to communicate views to them transparently and openly.	Engaging with NGOs helps us better understand current and emerging issues related to our business. This work informs our CR strategy and helps us better manage our impacts. We met many NGOs in 2009 to discuss issues including climate change, animal welfare, ethical trading and sustainability. We also contribute to research and surveys, and respond to requests for information from NGOs as fully and promptly as we can. We ask NGOs to share their findings with us to help us improve our performance. We also worked with WWF, were involved in 'Earth Hour' and worked with HRH the Prince of Wales on the Prince's Rainforest Project.

A VIEW FROM FORUM FOR THE FUTURE

2009 was a challenging year for the retail sector. But while the economic downturn could have held businesses back, Forum for the Future has been encouraged to see many leading retailers raise their sustainability ambitions.

In feedback sessions we ran for Tesco in late 2009, key stakeholders said they wanted a better sense of how the supermarket's values are reflected in the difficult decisions it has to make. This has been captured well in this report, with comprehensive detail and a range of case studies, both from the UK and international business. It is good to see this improved level of transparency and honesty.

We welcome the increasing priority on partnership working, particularly throughout the supply chain. A key highlight is Tesco's new ethical trading model, Trading Fairly, which demonstrates commitment to building strong relationships with suppliers. While the report acknowledges that challenges remain, it is good to see the emphasis on developing long-term relationships combined with ethical audits, supporting suppliers to improve and using Tesco's wider sector influence to raise standards. However, stakeholders raised supply chain wages in low-income countries as an increasing concern, and wanted Tesco to do more to address this.

The report contains strong examples of Tesco's increasing community engagement. Store initiatives through Community Champions and local Community Fairs have engaged people locally, both in the UK and internationally. But with almost half a million staff worldwide, we see potential for Tesco to go much further in engaging employees with community and environmental initiatives. As the report states, Tesco could 'use that influence to mobilise the people whose lives we touch and generate a mass movement to protect the environment'.

On health, successes this year included extending nutrition labelling to 100% of own-label products across the Group, and the expansion of Tesco's Healthy Eating brand. We welcome Tesco's focus on encouraging active lifestyles and helping customers make healthier choices, but obesity and nutrition still remain major concerns for stakeholders. We would like Tesco to take a firmer and more proactive stance on making health improvements to existing product ranges, to meet the scale of these challenges.

Tesco had some commendable environmental achievements in 2009, particularly reaching the target of sending zero UK waste directly to landfill. Other highlights included the world's first zero-carbon supermarket and the increased focus on indirect customer and supply chain emissions. We were encouraged to see an absolute reduction in Tesco's direct UK carbon emissions this year. Although global emissions still increased slightly, we welcome Tesco's determination to continue making carbon reductions and the introduction of far-reaching targets, most notably the aim to become a zero-carbon business by 2050.

Beyond these long-term carbon reductions, there is still a need for Tesco to plan for wider sustainability and longer-term resilience. As we said last year, Tesco's next big challenge is to address how it can continue to grow whilst respecting environmental limits. Ecosystem risks such as biodiversity and water depletion are likely to increasingly impact supply chains and local populations. We would like to see firmer action on issues like embedded water and ensuring the long-term sustainability of fish stocks. By extending the approaches which integrate climate-change issues into decision-making, Tesco could also take an increased leadership position on wider environmental sustainability.

Looking forward, we would like Tesco to accelerate its plans to make sustainable products and behaviour more mainstream, driven by the new sector-leading target to help customers halve their carbon footprints by 2020. We welcome the way it has seized new business opportunities to provide services such as home insulation and solar panels. However, in the long-term, new retail business models are essential to meet the needs of customers and communities while respecting environmental limits. There are great opportunities for Tesco to take a lead in developing these new business models, achieving its ambition to use its size as a force for good.

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