

TESCO

**CORPORATE
RESPONSIBILITY
REPORT 2009**

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46 MANAGING CORPORATE RESPONSIBILITY

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ACHIEVEMENTS AND CHALLENGES



Achievements

We were the first major retailer to carbon label 100 own-brand products in Ireland and the UK including orange juice, detergent and potatoes. We will introduce them in South Korea this year. See page 11.

We opened our first new format environmental store in Cheetham Hill, Manchester, which has a 70% smaller carbon footprint than an equivalent store built in 2006. Planning permitting, this will be a model for building stores from now on. See page 9.

We halved our energy use per square foot in our UK stores (against a baseline of 2000). See page 7.

ENVIRONMENT

The 'ENVIRONMENT' section is represented by a central box with a tree icon above it. A green line connects this box to the 'ACHIEVEMENTS' text on the left and the 'CHALLENGES' text on the right. Another green line connects the 'ENVIRONMENT' box to the 'SUPPLIERS & ETHICAL TRADING' box below it. The background features a stylized landscape with a tree, birds, and a cloud with raindrops.

Challenges

Since we introduced biofuel into our petrol filling stations there has been debate about its longer-term impacts. We have asked the Sustainable Consumption Institute (SCI) at Manchester University to look at this issue in more detail. See page 16.

We are not yet able to report Group water use in 2008. This is disappointing. We have asked the SCI to help us establish a meaningful approach. See page 11.

We have been working hard to achieve very stretching packaging reduction targets based on weight. We now think weight reduction may not be the best measure of environmental benefit. We are working with suppliers to achieve a consensus on a better approach. See page 14.

Achievements

The 'SUPPLIERS & ETHICAL TRADING' section is represented by a central box with a small plant icon above it. A green line connects this box to the 'ACHIEVEMENTS' text on the left and the 'CHALLENGES' text on the right. Another green line connects the 'SUPPLIERS & ETHICAL TRADING' box to the 'ENVIRONMENT' box above it. The background features a stylized landscape with a plant, a chicken, and eggs.

We signed up 726 skilled and vetted auditors from 11 audit bodies around the world to carry out independent audits of our supply chain. See page 29.

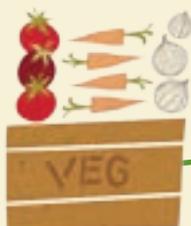
Over 90% of suppliers around the world say we treat them with respect. See page 25.

SUPPLIERS & ETHICAL TRADING

Challenges

We risk assessed 100% of supplier sites and increased the number of high-risk sites audited to 87% (up from 73% last year) but there is still work to do to meet our target of auditing 100% of high-risk sites. See page 29.

We are engaged in an active dialogue with animal welfare organisations to continue to improve industry welfare standards. See page 27.



Achievements

We helped over 4.6 million people around the world get active – over two million in Thailand alone. See page 36.

We have removed over 2,500 tonnes of saturated fat and 3,000 tonnes of salt from our products in the UK since 2005. See page 35.



CUSTOMER CHOICE & HEALTH

Challenges

We continue to work with governments, health organisations and industry bodies to develop common standards and targets for nutritional labelling. See page 33.



Achievements

We now have over 250 store Community Champions in China, the Czech Republic, Malaysia, Slovakia, South Korea and the UK. See page 22.

We launched our Community Promises to show our staff the many ways in which they can make a difference. See page 48.

We raised a record £6.2 million for our UK Charity of the Year, Marie Curie Cancer Care. See page 23.



COMMUNITIES



Achievements

86% of new managers were appointed from within Tesco. See page 41.

In the UK our Local Employment Partnerships provide jobs for the long-term unemployed and other disadvantaged job seekers wherever we open new stores. See page 20.

In South Korea we appointed our first female director. See page 44.



OUR PEOPLE



Challenges

Although great progress has been made we still need to do more to ensure women are better represented at senior levels. See page 44.

ABOUT THIS REPORT



Go online!

For more information visit
www.tesco.com/cr-report09

Welcome to our 2009 Corporate Responsibility Report. In it, we describe our position on key issues, as well as performance during the year and targets for future improvement.

The Report covers all Tesco Group activities in the financial year March 2008 to February 2009, unless otherwise stated. It is aimed at those seeking a complete, yet concise, view of our corporate responsibility strategy, policies and performance.

For more information visit
www.tesco.com/cr-report09

OTHERS SAY

“I’d like to see a shift towards strategic thinking in the annual CR Report, rather than the historic focus. This would help investors understand emerging issues. CR information should be contextualised to enable mainstream investors to understand how this activity relates to the business strategy” – Investor

“[Last year] the Report contained nowhere near enough on how the Community Plan is being rolled out internationally” – Supplier

Responding to feedback

We spoke to a wide range of stakeholders during the year, and describe this work in more detail on page 52.

To get specific feedback on our CR strategy, performance and reporting, we held two externally facilitated focus groups of opinion formers in areas related to our business, including suppliers, NGOs, government, journalists, socially responsible investors and academics. They felt our reporting should present other people’s views on key issues as well as Tesco’s, for balance. To address this, each chapter includes quotes from these focus groups, under the heading **OTHERS SAY** (see page 48).

Printed on Revive, a 100% recycled paper with FSC certification. Printed by CTD using an alcohol-free process. The printing inks are made with non-hazardous vegetable oil from renewable sources. Over 90% of solvents and developers are recycled for further use and recycling initiatives are in place for all other waste associated with this production. CTD are FSC and ISO 14001 certified with strict procedures in place to safeguard the environment through all processes.



CHIEF EXECUTIVE'S INTRODUCTION

This Corporate Responsibility Report demonstrates our progress in our community and environmental performance across the Group.

The past year has been difficult for many of our customers and their communities around the world. No country has been immune from the global recession and the toll it has taken on job security, family incomes, business and community investment as well as individual and collective confidence in the future.

The global recession has its roots in the financial sector and some people have come to question whether, left to themselves, businesses can be expected to operate in the wider social interest.

I understand why people seek to reassess the role of those institutions which they believe contributed to the current crisis.

But I have always believed that effectively run businesses operating in competitive markets can improve both the lives of their direct customers and the well-being of their communities as well as the prospects of society at large.

This, our latest Corporate Responsibility Report, sets out that case for Tesco.

Three years ago we showed our determination that a strong community and environmental performance should be at the heart of any modern, successful business, by making Community and Environment the fifth segment of our 'Steering Wheel'. Two years ago we put the community at the heart of what we do by making it the fifth part of our long-term strategy. This year, while many organisations have reduced their spending in these areas, we have grown our investment in communities. While others have questioned whether the environment can be a priority in difficult times, we have demonstrated that tackling issues like climate change remain at the top of our agenda.

I believe that now, more than ever, is the time to show leadership, supporting our customers and our staff as they face challenging economic circumstances, and tackling the issues that matter to communities and society. By running our business responsibly and efficiently we reduce CO₂ emissions and costs – making

progress on the environment and helping our customers save money. By growing our business responsibly, we create more jobs and help more people develop skills and careers, helping to tackle social mobility and driving regeneration in many communities.

Our Community Plan focuses on five community promises, developed in close consultation with our staff and customers around the world. These are: actively supporting local communities; buying and selling our products responsibly; caring for the environment; giving customers healthy choices; and creating good jobs and careers.

This Corporate Responsibility Report demonstrates our progress in our community and environmental performance across the Group, shows where we have met our targets and where we have not, highlights our belief that there is more to do, and expresses our appetite to do more in the coming years.

Climate change remains the major strategic challenge of our age. I fundamentally believe that business has a crucial role to play in tackling climate change, setting an example, guiding consumers towards more sustainable forms of consumption, making them affordable and providing the information on which to make informed green choices.

We continue to drive down our own carbon footprint. Our latest environmental store in Cheetham Hill, Manchester, has a carbon footprint 70% below that of an equivalent store in 2006. It provides a blueprint for other stores we are building in the UK and internationally. We now have environmental stores in every country in which we operate.

More and more of our customers are making green choices with Tesco that help save money as well as carbon. Green Clubcard points encourage our customers to reuse and recycle, and over 9.5 million Clubcard customers in the UK now reuse their bags, halving the number of bags



“NOW, MORE THAN EVER, IS THE TIME TO SHOW LEADERSHIP, SUPPORTING OUR CUSTOMERS AND OUR STAFF AS THEY FACE CHALLENGING ECONOMIC CIRCUMSTANCES, AND TACKLING THE ISSUES THAT MATTER TO COMMUNITIES AND SOCIETY.”



Go online! To see our full ‘Every Little Helps’ strategy visit www.tesco.com/about-us/strategy



used each week compared to August 2006. In June, Tesco Malaysia became the first country outside the UK to launch green Clubcard points to help customers use fewer carrier bags, issuing over 14,000 points in the first week of the reward scheme. We also now reward customers in South Korea for reusing their bags and for cycling to our stores.

Over the past year we became the first major retailer in the world to carbon label products. We have now labelled 100 products in the UK and Ireland, and have many more in the pipeline. South Korea is also starting carbon labelling this year.

The Sustainable Consumption Institute (SCI) which we established with a £25 million commitment to the University of Manchester is beginning to bear fruit, tackling some of the many questions about how to make a consumer society sustainable. In addition to making a number of senior academic appointments, the SCI last year welcomed its first tranche of post-doctoral students from around the world – sustainability leaders of the future. The SCI is committed to publishing its research findings on an open access basis.

We are acutely aware that recessions create hardship for many families and communities. Our customers do not just spend less, they worry more. People can feel more isolated or vulnerable in their communities, and can be concerned that civic values and neighbourliness are less prevalent than they used to be.

Our success is built on our ability to listen to our customers, and to anticipate and respond to changes in society. We are listening carefully to our staff and our customers in this recession, and are making sure we support the causes that matter to them. Our Community Champions are our strongest expression yet of our investment in communities. We now have Community Champions in 65 stores and five distribution centres in the UK, each working with local schools, charities and services, as well as in our stores in China, the Czech Republic, Malaysia, Slovakia and South Korea.

I am proud that in a year where many businesses have dramatically reduced their community investment, Tesco has donated over £57 million to local causes and communities.

I believe this investment in communities is what our staff and customers expect – it reflects their instincts and their behaviours. Indeed, in these very difficult economic times, they have themselves shown unparalleled energy and generosity, breaking all records to raise over £6 million for our UK Charity of the Year, Marie Curie Cancer Care.

In a year where many people have been deeply worried about losing their jobs, we have created new jobs and invested in our people. Through our regeneration partnerships, we are continuing to bring many long-term unemployed people back into work, giving hope not just to individuals but to the communities in which they live and work.

The financial and economic crisis has hit the developing world hard. For developing countries, international trade is more vital than ever. This last year has seen us make good progress on our ethical trading standards, growing our expertise on labour standards and strengthening our audit and training work. And, through the SCI we are working hard to understand the best contribution we can make to sustainable development through our relationship with our international supply base.

There will be more challenging times ahead. But good businesses relish challenging times. We know that our customers and their communities depend on us more than ever. And we know that if we fulfil their needs – not just in their homes but in their communities and in broader society – they will repay us with their custom and their loyalty.

This understanding is, I believe, at the heart of a sustainable business.

Terry Leahy **Chief Executive**

GROUP HIGHLIGHTS

Tesco is the world's third largest grocery retailer, with operations in 14 countries.

Our scale means we can provide our customers with great choice and value. We cater for all sections of the market, with ranges spanning our Value and Discount Brands right through to our premium ranges, as well as specialist ranges such as Organic, Fairtrade (see page 30) and Healthy Living (see page 34). We are also more than a food retailer. Non-food ranges accounted for 21% of Group turnover in 2008 and include electrical goods, books, home-ware, sports equipment, personal finance and clothing.

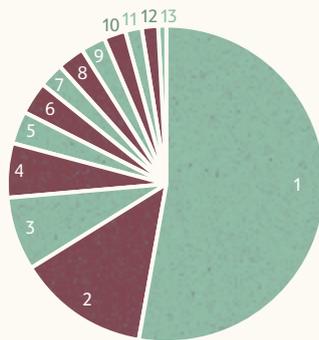
£59.4BN
GROUP SALES

NO. 3
THIRD LARGEST GROCERY RETAILER IN THE WORLD

470,000
PEOPLE WORLDWIDE

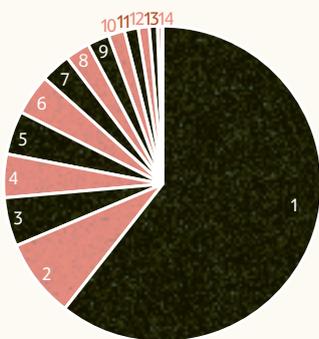
4,331
STORES WORLDWIDE

14
MARKETS



No. of stores by market

1	UK	2,306
2	Thailand	571
3	Poland	319
4	South Korea	242
5	Hungary	149
6	Japan	135
7	Republic of Ireland	116
8	US	115
9	Czech Republic	113
10	Turkey	96
11	China	70
12	Slovakia	70
13	Malaysia	29



No. of employees by market

1	UK	286,394
2	Thailand	38,166
3	Poland	23,569
4	Hungary	21,356
5	South Korea	20,626
6	China	19,452
7	Republic of Ireland	13,764
8	Czech Republic	12,677
9	Malaysia	9,872
10	Slovakia	8,286
11	Turkey	7,025
12	Japan	4,007
13	US	2,583
14	Other*	731

* In 2008 there were an additional 731 people working in other global locations such as international buying hubs.

STORES AND EMPLOYEES WORLDWIDE



US

62 new stores and 1,380 new jobs



EUROPE

Czech Republic

18 new stores and 772 new jobs

Hungary

26 new stores and 697 new jobs

Poland

21 new stores and 1,900 new jobs

Republic of Ireland

17 new stores and 1,173 new jobs

Slovakia

10 new stores and 433 new jobs

Turkey

41 new stores and 1,370 new jobs

ASIA

China

15 new stores and 1,950 new jobs

Japan

13 new stores and 451 new jobs

Malaysia

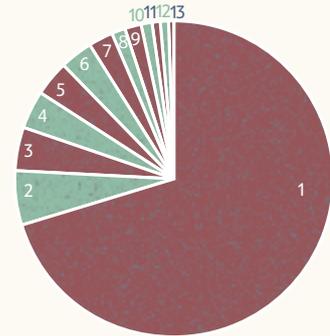
9 new stores and 4,760 new jobs

South Korea

73 new stores and 3,411 new jobs

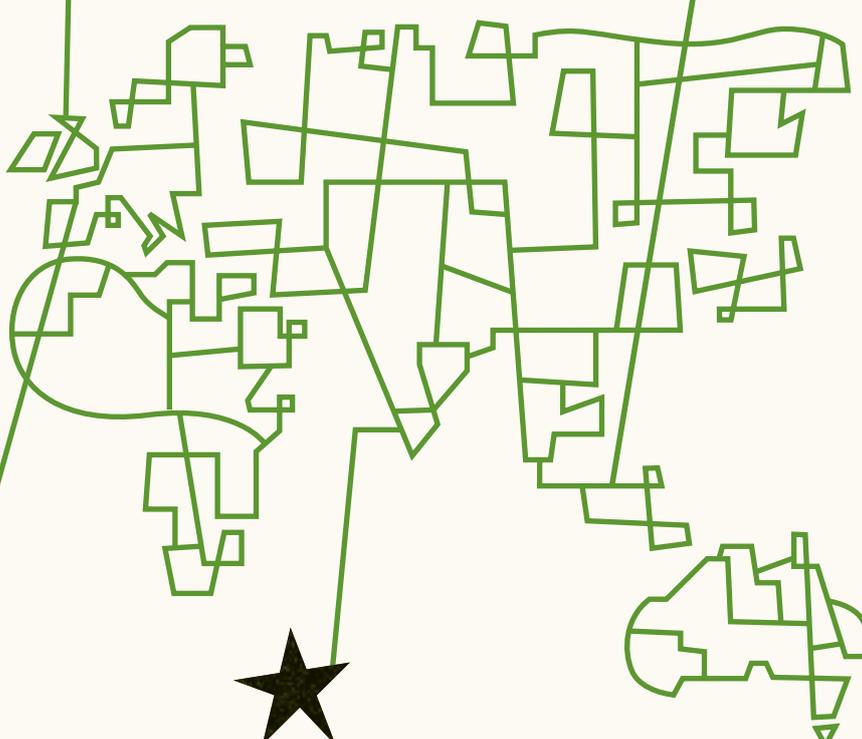
Thailand

95 new stores and 1,036 new jobs



UK

187 new stores and 11,810 new jobs



INDIA

This year we announced our entry into the Indian market. We are establishing a wholesale cash & carry business that will offer a comprehensive range of great value fresh food, grocery and non-food products to small retailers, restaurants, kirana stores and other business owners. We will also provide farmers and other suppliers with a highly efficient route to market.

We have also entered into an exclusive franchise agreement with Trent, the retail arm of the Tata Group. In return for a fee, Trent will be able to draw on Tesco's extensive retail expertise to support the development of its Star Bazaar hypermarket business.

As we are still establishing this business and it is not yet fully operational, throughout this Report where we refer to 13 markets we have excluded India as there is no relevant data. However, India is included in our carbon footprint.

Revenue by market £m

1 UK	38,191
2 South Korea	3,139
3 Republic of Ireland	2,380
4 Thailand	2,137
5 Poland	1,964
6 Hungary	1,774
7 Czech Republic	1,265
8 Slovakia	894
9 China	800
10 Malaysia	584
11 Turkey	571
12 Japan	408
13 US	206

UK SALES
£41.5BN

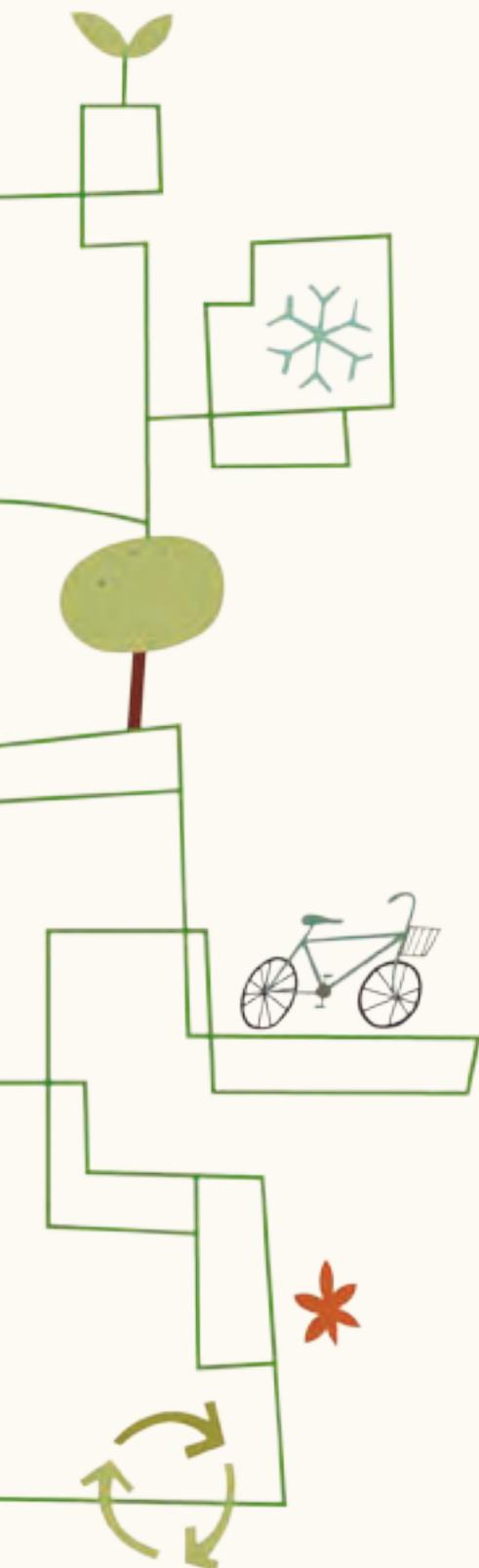
INTERNATIONAL SALES
£17.9BN

GROUP NON-FOOD SALES
£12.5BN

RETAIL SERVICES SALES
£3.4BN



As a global business, we have an important role to play in helping to minimise climate change. We are proud of the progress we have made this year across our businesses, and by working with our suppliers and customers we are determined to do more.



**WE HAVE HALVED
OUR ENERGY USE
PER SQUARE FOOT IN
THE UK SINCE 2000**

CLIMATE CHANGE

We want to play a leadership role in tackling climate change. Evolving scientific evidence tells us that we need to move ever more quickly to reduce emissions. Despite the recession, customers want to be green and expect us to be too.

We employ 470,000 people around the world, and many more people work in firms and businesses supplying our stores. Our aim is to mobilise collective action among customers, suppliers and employees, to help protect the environment, and generate a mass movement in green consumption.

Our climate change programme has three main parts:

- leading by example – reducing our own direct carbon footprint;
- working with our supply chains and partners to reduce emissions more broadly; and
- leading a revolution in green consumption.

Leading by example

We want to set an example to our customers and suppliers by tackling our own carbon footprint. In 2007 we set ambitious targets to reduce emissions in our own buildings and distribution networks. We will:

- halve emissions from existing buildings by 2020, against a baseline of 2006;
- halve distribution emissions of each case of goods delivered by 2012, against a baseline of 2006; and
- halve emissions from new stores by 2020, compared with an equivalent store built in 2006.

We backed our targets with a £100 million Sustainable Technology Fund starting in 2007 to support large-scale carbon reduction technologies in our stores, distribution centres and supply chains worldwide.

In the UK, our energy use per square foot is now half what it was in 2000. We invested around £60 million in energy-saving and low-carbon technologies in 2008.

Our direct carbon footprint

Our global direct carbon footprint in 2008 was 4.9 million tonnes of CO₂e (carbon dioxide equivalent). We publish our carbon footprint through the independent Carbon Disclosure Project and in this Report. We have calculated our 2008 carbon footprint using up-to-date multipliers and have also recalculated our 2007 footprint using those multipliers (see 'Notes about carbon footprint data' on p8): the updated 2007 figure is 4.75 mtCO₂e (million tonnes of carbon dioxide

ENERGY CHAMPIONS AROUND THE WORLD



To engage staff in our bid to tackle climate change we now have Energy Champions in the Czech Republic, Hungary, Malaysia, Poland, Slovakia, South Korea, Thailand, Turkey and the UK.

Our Energy Champions are responsible for reducing energy consumption in our stores through engaging staff and implementing energy-saving measures. In the UK we have increased the number of in-store Energy Champions to around 4,000, with up to seven in our large Extra stores.

equivalent). This means that our absolute carbon footprint has increased by 3.7% compared with last year.

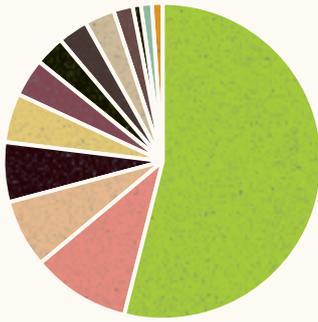
CO₂e refers to the amount of CO₂ that would have the equivalent global warming potential as a certain amount of a specific greenhouse gas.

Across the Group, energy consumption in our existing stores and distribution centres (those built before 2006) has decreased by 9.1% this year, and by 12.6% since 2007.

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 set globally.

Over the past year our net sales area grew by 16.4% while our carbon footprint increased by 3.7%. This means we cut our carbon intensity by 10.9% year-on-year.

Tesco was commended for its carbon management and reporting approach in the 2008 global Carbon Disclosure Leadership Index, and was the highest scoring retailer. This index assesses the approaches taken by the FTSE 500 companies.



Share of emissions by country for 2008/9

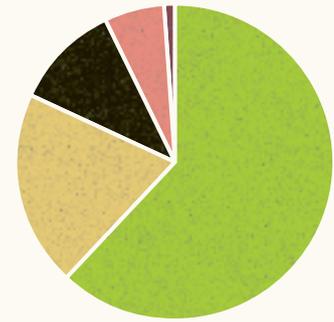
UK	54%
Thailand	10%
South Korea	7%
Poland	6%
China	5%
Hungary	4%
Republic of Ireland	3%
Czech Republic	3%
Malaysia	3%
Turkey	2%
Slovakia	1%
US	1%
Japan	1%
India	<1%



Absolute emissions by market 2005–2009

UK	
Thailand	
South Korea	
Poland	
China	
Hungary	
Republic of Ireland	
Czech Republic	
Malaysia	
Turkey	
Slovakia	
US	
Japan	
India	

IN 2008 OUR GLOBAL DIRECT CARBON FOOTPRINT WAS 4.9mtCO₂e



Group emissions by source for 2008/9

Grid electricity	62%
Refrigerant	20%
Diesel/oil	11%
Natural gas/LPG	6%
Business travel	1%

Notes about carbon footprint data

We have calculated our carbon footprint according to the World Business Council for Sustainable Development (WBCSD) greenhouse gas protocol, which is the internationally recognised standard for corporate carbon reporting, and updated guidelines produced by the UK Government (Defra) in 2008.

Defra has changed its guidance in relation to calculating emissions from renewable energy generation. Carbon emissions from electricity purchased through renewable electricity contracts are now calculated using the same emissions factor as normal grid electricity, rather than zero. We have applied this practice across all our UK and non-UK operations. The only instances where we have applied an emissions factor of zero are where electricity is generated on Tesco sites (e.g. solar-generated or wind-generated energy), where this is considered to be 'additional' to renewable energy generated in accordance with existing in-country renewables policy (such as the Renewables Obligation in the UK).

In line with revisions to the WBCSD and Defra guidelines, we have updated all our emissions factors globally. The most significant of these changes is to the

factor used to calculate emissions from UK grid electricity. We have recalculated our emissions from previous years on the same basis, so that year-on-year performance can be reviewed.

In addition, our 2009 figure has been normalised to give a 52-week number for comparison (2008 had 53 weeks).

The Tesco direct carbon footprint includes emissions from:

1. Property (all our stores and distribution centres and offices globally; buildings operated by our major subsidiaries e.g. One Stop and Dobbies in the UK; refrigerant emissions).
2. Distribution (secondary distribution from DC (distribution centre) to store, including backhauling; primary distribution from supplier to DC, including fronthauling, where arranged by Tesco; distribution from Central European DC (in Slovakia) to Central European country DCs; Tesco Home Delivery).
3. All business travel by our employees, where paid for by Tesco.

For a full explanation and rationale visit www.tesco.com/cr-report09/environment/footprint

ERM 2008/9 ASSURANCE SUMMARY STATEMENT



"Tesco appointed Environmental Resources Management Limited (ERM) to provide independent external assurance of Tesco's global direct carbon footprint for its 2009 Corporate Responsibility Report.

The objective of our engagement was to conclude whether Tesco has appropriately reported its global direct carbon footprint within this Report (moderate assurance). We reviewed Tesco's approach to measuring and reporting its carbon emissions at Group level and at country level in Hungary, Poland, South Korea, Thailand, and the UK.

Based on the work undertaken as described above, 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/cr-report09/environment/erm."

ERM
London, UK
May 2009

OTHERS SAY

"I would like more transparency about how Tesco arrives at its carbon footprint figures" – Government organisation

TOWARDS A ZERO-CARBON STORE: CHEETHAM HILL, MANCHESTER, UK

Environmental stores

Since 2006, we have built a series of environmental stores in every country in which we operate. These stores test new technologies and designs to save energy and reduce CO₂e. Each store has achieved significantly lower environmental impacts than the previous one and many of their innovations are now incorporated in our standard stores.

In China, for example, by May 2009 all existing stores will have the energy management systems for refrigeration first trialled in our environmental stores. This reduces the power consumption of these systems by 15%. This year we will expand this to cover air-conditioning.

All our stores in the US are about 30% more energy efficient than a typical supermarket* and contain a number of green features: from increased insulation and night shades on refrigeration cases to keep cool air from escaping; to hybrid parking spaces and bike racks to encourage employees and customers to use greener transport.

For more examples of environmental stores visit www.tesco.com/cr-report09/environment/stores

The chart below shows the decreasing carbon emissions per square foot achieved at successive environmental stores in the UK.

* Calculated through a modelling exercise from Southern California Edison Savings by Design.



Progress in reducing emissions (kg of CO₂e/sq ft) in UK environmental stores



Cheetham Hill is Tesco's first store built using our new, low-carbon blueprint – the result of bringing together everything that has worked well in our existing environmental stores. The store has a carbon footprint 70% smaller than an equivalent store built in 2006 and, planning permitting, this will be the model for stores built in the UK from now on.

The carbon savings come from an innovative mix of environmentally friendly design, materials and technologies. These include a frame made from timber instead of steel, 12 roof lights each measuring six metres across to cut down on artificial lighting, and a refrigeration system which uses CO₂ as a coolant rather than more potent greenhouse gases, hydrofluorocarbons (HFCs).

Attention to detail includes using more material with recycled content and designing store equipment such as signs to be easily recycled when we no longer need them.

The store is also our latest regeneration partnership, with around half of the 260 employees having previously been unemployed or on benefits for six months or longer.

“Tesco's climate commitments are proving that it is possible to combine new technology and good business sense to make dramatic reductions in their carbon footprint. This new blueprint store design is an example that we hope other businesses will follow.” – Steve Howard, CEO, The Climate Group

Visit the store: Thomas Street, Cheetham Hill, Greater Manchester M8 5DP

OTHERS SAY

“Tesco should show thought leadership – for example on how the store environment can change to significantly reduce impacts” – NGO

BUILDING WITH SHEEP'S WOOL IN SLOVAKIA

A new Tesco store in Rajec in northern Slovakia is the only one of its kind to be built from sheep's wool, wood and pressed straw.

Alternative energy

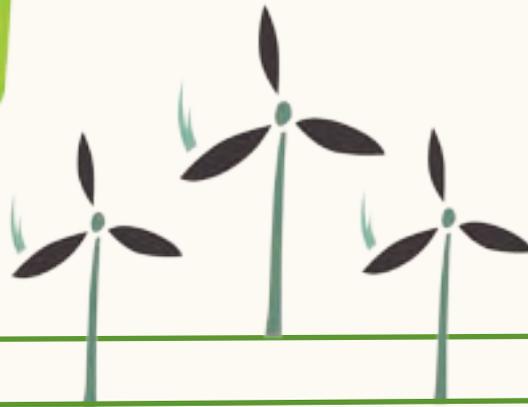
Generating renewable energy is a key part of our climate change strategy. We are installing alternative energy sources on site such as wind, solar, bio-gas, combined heat and power (CHP) and combined cooling, heat and power (CCHP).

In the US, Fresh & Easy's £7.5 million investment to install 46,450m² of solar panels at its California distribution centre is now providing nearly three-quarters of the facility's energy.

In 2008 in Turkey, we built the first trigeneration scheme to power a shopping centre. The 2.2MW plant will cut carbon emissions by 16%.

In the UK, in 2008, we invested over £26 million in 47 CHP and CCHP plants for local generation, as well as 27 wind turbines and one store installation for solar generation. These technologies are expected to reduce our carbon emissions by about 6,000 tonnes of CO₂ per annum.

Most of our CHP plants will run on natural gas and some will run on renewable fuels such as recycled vegetable oil, reducing carbon emissions further.



Distribution

Distribution accounts for 11% of our carbon footprint. We aim to halve our CO₂ emissions per case delivered from our distribution network by 2012 (from a 2006 baseline).

To do this we are doing more with our existing network through:

1. using our vehicles more efficiently;
2. using alternative transport;
3. investing in new technology.

We have already made great progress in reducing the carbon intensity of our distribution network, and wherever possible we have shared our experience and used it to inform thinking across the industry, working in the UK with the Institute of Grocery Distribution (IGD).

In 2008 our total direct carbon footprint from transport was 563,655 tonnes of CO₂ emissions. Our carbon footprint per case delivered is 0.154kgCO₂, a reduction of 3.7% per case delivered, across our global operations. We have now achieved 23% of our target to cut CO₂ emissions per case delivered by 50% by 2012.

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. For example, we have used the exact measurements of products to help us fill our vehicles 42% more efficiently.

Alternative transport

We are using more double-deckers, increasing the number on the road from 200 to 300 a day over the last year, saving 6,000 tonnes of CO₂ per year.

As well as double-deckers, we are using more alternatives to road transport and now save 2,909 tonnes of CO₂ each year compared to a 2006 baseline by transporting goods by rail. This year we increased the train link between our distribution centres in Daventry and Grangemouth, which saves us 4.2 million road miles a year. In October we also introduced a train operating between Grangemouth and Inverness which will save still more road miles and CO₂e.

Investing in new technology

We have pooled resources with our suppliers and haulage partners to introduce new software which has helped us reduce the number of empty vehicles on the road, saving 3,590 tonnes of CO₂e a year.

As well as reducing CO₂e from vehicles, we have worked to reduce the impact of our distribution centres. By consolidating and rationalising our distribution network, we have reduced road miles. New distribution centres such as Livingston use the latest technology to minimise their carbon footprint.

For a full explanation of our distribution systems visit www.tesco.com/cr-report09/environment/distribution

IN THE LAST THREE YEARS WE HAVE NOT INCREASED THE SIZE OF OUR DISTRIBUTION FLEET IN THE UK

GREEN DISTRIBUTION CENTRE – POSTRIZIN, CZECH REPUBLIC

This year we completed the first phase of solar panel installation at our distribution centre in Postrizin, Czech Republic. The 1,200m² of panels will save 30 tonnes of CO₂ per year. Phase two, a further 1,680m² of solar panelling with an expected capacity of 210KW per year, is currently in progress.

GREEN DISTRIBUTION CENTRE – LIVINGSTON

Our new distribution centre (DC) at Livingston in Scotland was built on a former industrial site, using state-of-the-art technology to make the centre as efficient as possible.

Located near excellent road and rail networks, the DC uses rainwater harvesting to wash trays and vehicles. Skylights make the most of natural light while sensors switch lights on only when necessary. Low ceilings in the chilled area improve refrigeration efficiency and all card and plastic waste is baled for recycling. We also plan to install a biomass plant to supply renewable energy to the site, which should be operational in 2011.



Working with suppliers and partners

We are supporting action on climate change beyond our direct business activities through our relationships with governments, businesses, academia and other influential organisations.

During 2008 Tesco worked on tackling climate change with the Carbon Disclosure Project, Confederation of British Industry, Food and Drink Federation and the Institute of Grocery Distribution. We aim to work with our partners to encourage urgent coordinated agreement between governments in the run-up to the Copenhagen Climate Conference in December 2009.

We know that we can make a significant difference by working with suppliers, as reducing the carbon footprint within our supply chain has the potential for achieving very large carbon savings.

We are working with major suppliers to find ways to cut emissions in the supply chain. For example we are exploring distribution efficiencies with Unilever intended to remove 173,000 lorry miles by 2010.

Another example is our sourcing office in Sri Lanka who are working with local clothing manufacturers to develop greener factories which are more energy efficient, use solar power and recycle water. We developed and issued the clothing green factory guidelines in 2008 which help all our clothing suppliers not only build green but also make existing factories more energy and water efficient.

Water use

Water supply and water depletion are major environmental issues linked to climate change. We are developing a strategy and working with others including the Sustainable Consumption Institute to understand how we can work with our suppliers to reduce our water footprint. This will enable us to set meaningful targets on water.

In the meantime we are trialling a number of initiatives to reduce our water use, and that of our customers. We sell a range of water saving products and are deploying various water saving initiatives throughout our business worldwide, including rainwater harvesting, school water conservation campaigns in Turkey and closed water circulation car washes in our Polish distribution centres. In 2009, our Chinese business will begin rainwater harvesting and using grey water in toilets and to wash vehicles.

OTHERS SAY

“There is a true commitment [from Tesco] from a supplier perspective. So far we feel it has been an open and collaborative environment and it is working” – Supplier



WE HAVE PUT CARBON LABELS ON 100 PRODUCTS AND PLAN TO INTRODUCE THEM IN SOUTH KOREA NEXT YEAR

SUSTAINABLE CONSUMPTION INSTITUTE

In 2007, we 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.

2008, the first year of the SCI, was devoted to building a team and establishing the initial research streams. The SCI's research is focused on four areas:

1. Understanding consumers: our behaviours and lifestyles, and what can influence and motivate change.
2. Patterns of consumption: how we shop, and the role retailers can play in reducing our carbon emissions.
3. Products and supply chains: understanding the carbon impact of what we buy, use and consume.
4. Making development more sustainable: searching for low-carbon development paths which support growth in both developed and developing countries.

A total of 12 academic appointments have been made to the SCI, including five at professorial level. Eleven PhD students from around the world have been recruited and £2.3 million committed to 24 projects so far. An extensive, multidisciplinary, multi-faculty network of academics is being established and prestigious SCI independent research fellowships are being awarded.

The SCI is committed to publishing its research findings on an open access basis.

www.manchester.ac.uk/sci

Leading a revolution in green consumption

The Carbon Trust estimates that consumers account directly and indirectly for 60% of carbon emissions in developed countries. Each week, over 30 million people shop in our stores around the world. These customers are seeking help to reduce their impact on the environment and on climate change.

Carbon labelling

We are committed to helping and encouraging our customers to go green. Carbon is a new subject for many people and clear information will help them to understand the impact of their purchases and their behaviours.

That is why we have worked with the Carbon Trust and key suppliers to develop an innovative universal carbon footprint label. The footprinting process not only helps consumers but, crucially, supports our work with suppliers to reduce emissions. Carbon footprinting of products helps identify the opportunities to reduce both emissions and costs.

From April 2008 we trialled this label on selected own-brand products such as orange juice, light bulbs, washing detergents and potatoes, in the UK and Ireland. We extended this trial and by the end of February 2009 had labelled 100 products. To support customers' understanding of these new labels, we distributed one million copies of the booklet 'How can we shrink our carbon footprint?', developed in conjunction with the Carbon Trust and Energy Saving Trust.

The first reactions from our customers are encouraging. More than half said that wider application of the label could change their purchasing decisions and 68% said they had an understanding of carbon footprints.

OTHERS SAY

“The establishment of the Manchester Centre [The Sustainable Consumption Institute] should be entirely applauded” – NGO



LEARNING FROM CARBON LABELLING – LAUNDRY DETERGENT

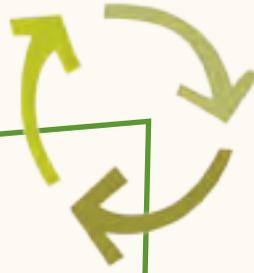


By carbon labelling laundry detergent, we confirmed that the greatest carbon impact comes from their use, in particular the energy used to heat the water and power the washing machine. By setting the temperature at 30°C or lower, consumers can reduce their carbon footprint.

Suppliers can reduce the carbon footprint of laundry detergents by producing them in concentrated forms as less packaging is needed, and transportation and storage is more efficient.

We will use our experience of carbon labelling products and communicating our findings to customers when we introduce the labels in South Korea this year.

working with
the Carbon Trust



UK Greener Living brand

Our new Greener Living brand helps our customers to make greener choices. 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. Our aim is to engage customers by signposting environmentally friendly products in an easy and accessible way.

We will relaunch our informative Greener Living website in summer 2009 to make going green more accessible for our customers. We also regularly receive over 10,000 visitors a week to our Greener Living Forum.

www.tesco.com/greenerliving



Energy-saving light bulbs

Helping customers save energy in their homes is one of the most promising areas for carbon reduction. This year we promoted sales of energy-efficient light bulbs in the UK, trebling our range and selling over 15 million in 54 weeks – the equivalent electricity saving of turning off a power station for three months. We have permanently halved the price of energy-efficient light bulbs, increasing sales sixfold since 2006.

Home insulation

Tesco Home Insulation Service, introduced in September 2008, is working to help 500,000 customers over the next three years. The service aims to cut five million tonnes of CO₂ emissions and reduce our customers' combined annual energy bill by around £180 million. The service offers fixed cost cavity wall and loft insulation for just £198 each (or free to those over 70 or on benefits). We had around 30,000 applications and completed over 10,000 installations in just five months after launching the service.

www.tescoinsulation.com





£12 OFFCUT LEATHER SHOES

To help customers go green on a budget we are the first retailer to offer revolutionary £12 'E-leather' women's shoes. E-leather is up to 83% recycled leather that is unnoticeably different from good quality traditional leather but is made from discarded leather offcuts from tanneries. The manufacturing process also uses fewer chemicals and recycles 95% of the water used.

SUPPORTING EARTH HOUR AROUND THE WORLD

In March 2009 we supported WWF's Earth Hour by switching off the Tesco sign and reducing both in-store and outside lights at iconic stores in China, Hungary, Ireland, Malaysia, Poland, South Korea, Thailand and the UK. We also encouraged our customers and staff to 'sign up and switch off' to raise awareness of the importance of tackling climate change ahead of the UN climate summit in Copenhagen in December this year.

OTHERS SAY

"It is not about reducing the waste sent to landfill, you need to reduce waste full stop" – NGO

TARGETS

Leading by example

- Continue to reduce the footprint of our existing buildings by 50% by 2020 (compared with 2006)
- Ensure all new buildings, on average, emit 50% less CO₂e by 2020 compared to an equivalent store in 2006
- Continue to map the total direct carbon footprint of the Tesco business across all the countries in which we operate and publish this carbon footprint for all to see
- Seek to restrict air transport to less than 1% of our products

Working with suppliers and partners

- Work with our suppliers to reduce emissions related to products

Leading a revolution in green consumption

- Help customers to understand their own carbon footprint and what they can do to reduce it
- Bring down the cost of going green, including through offering more energy-efficient products throughout our Value range
- Work with the Energy Saving Trust to develop stronger energy-efficiency labelling for our electrical products – from light bulbs to TVs
- Promote and incentivise green behaviour through our Clubcard scheme
- Increase the number of footprinted products to 500 and communicate the findings to customers
- Introduce carbon labels in South Korea

WASTE, PACKAGING AND RECYCLING

WASTE

We aim to set an example by minimising the waste we produce and diverting 95% of the waste we do produce away from landfill. We continue to work with recycling providers to find new ways to recycle waste from our operations. In 2008 we reduced the amount of waste going into landfill by over a third. Each Tesco store has waste targets that are reviewed and reported against every week. Achieving a balance between product availability and waste is a key part of a store management team's daily routine.

Delivering products in reusable plastic trays has saved 4,000 tonnes of cardboard in China and 20,000 tonnes in the UK.

Tesco is the largest recycler of cardboard in the UK and our 'closed-loop' system means that it is recycled and turned into new boxes within 14 days. The bulk of our recycling is achieved by our ten recycling service centres in our distribution network. These contributed 316,000 tonnes of cardboard and plastic to the total of over 400,000 tonnes of material recycled in the UK, equivalent to 85% of the total packaging that we produced in 2008. This exceeded our target of 80% and helped us towards our target to divert 95% of store waste from landfill.

Our recycling takes place behind the scenes, but waste in the home is a highly visible subject our customers care about. We are helping customers reduce their waste by reducing packaging, providing state-of-the-art recycling facilities and giving clear information about food care and recycling.

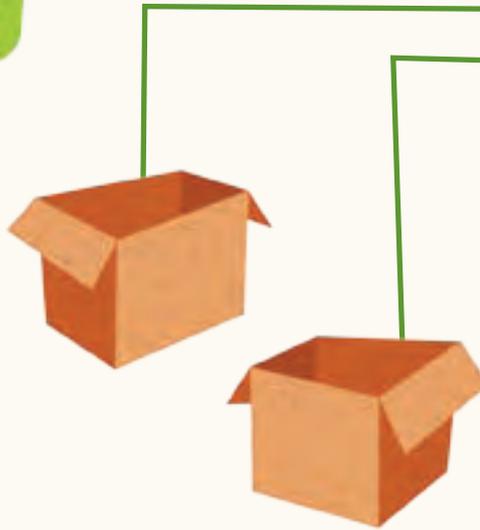
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ANAEROBIC DIGESTION

We are reducing waste sent to landfill by trialling anaerobic digestion in a plant near our Ludlow store in Shropshire, converting waste into an energy source. Following the success of this trial we are working with Biogen and have plans for a number of plants across the UK. This includes a potential central partnership anaerobic plant in Leicestershire.



Concentrated squash – a Tesco packaging reduction initiative saving 1,500 tonnes of plastic a year



EASTER EGG PACKAGING

For Easter 2009 the major confectionery brands agreed to follow our guidelines and reduced the packaging on several of their highest volume Easter egg lines by 30%.

PACKAGING

A recent study by the Local Government Association (LGA) found that Tesco had the least packaging by weight of all the major supermarkets.

This reflects the hard work we are doing across the business to reduce unnecessary packaging.

Packaging helps to protect, preserve and promote the products we sell to ensure that they reach customers in the best condition. By reducing spoilage and waste, effective protection of food and other products helps to reduce their overall environmental impact. In some countries, the lack of packaging or inadequate packaging in distribution causes up to 50% of all food to decay before it reaches the consumer. In the UK, where food is more efficiently packed, only 3% of the food produced fails to reach the consumer, mainly due to better packaging.*

We set a target to reduce packaging weight by 25% by 2010. Since we started working with our suppliers and the wider industry to reduce packaging it has become clear that this is a complex issue and that weight alone may not be the most beneficial and environmentally comprehensive measure. Whilst we have already made great progress towards our target, we are working with suppliers and experts to understand what is best environmental and sustainable practice for packaging along the supply chain. We have agreed an interim measure of reducing our packaging weight by 15% by 2010 and will provide a more comprehensive, long-term target in next year's Corporate Responsibility Report.

We remain committed to reducing the amount of packaging we use, without compromising product integrity. Our packaging 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 whole product life cycle.

We are collaborating with over 250 suppliers on over 3,600 packaging reduction initiatives for both own-label and branded products, sharing our knowledge and supporting them to make the right changes. Of our 3,057 own-label packaging reduction initiatives, 2,000 have already been completed.

These projects have resulted in absolute savings of over 80,000 tonnes, including a 19% packaging reduction in own-label dairy products and a 34% reduction in own-label produce packaging.

We are committed to supporting and facilitating the evolving debate on packaging, with Tesco representatives taking leadership roles in organisations such as the Packaging Recycling Action Group (PRAG) and IGD working groups to ensure we make the right packaging choices for our products. We are also playing a leading role in a global project through the CEO Forum to develop common definitions and principles of metrics for packaging in the context of sustainable development.

For more examples of packaging reduction visit www.tesco.com/cr-report09/environment/packaging

* Packaging in Perspective, UK Government Advisory Committee on Packaging, 2008.

CHICKEN PACKAGING REDUCED BY TWO-THIRDS

We have worked with our main chicken supplier, 2 Sisters, and the packaging supplier, Multivac, to introduce an innovation in poultry packaging, replacing the standard tray and film pack with a new patented 68% lighter shrink-film pack.

Multiplied over our annual sales of over 30 million chickens this new technology has not only delivered on packaging reduction, but also on greater sustainability through improved logistical efficiency with a reduction of 900,000 crates per annum, meaning 14,000 fewer pallets and ultimately 540 fewer vehicle movements. The new format represents a large saving in materials and cost. Improved shelf life also contributes to reduced food waste.

This new approach to packaging has won us the Sustainable Pack of the Year award at the UK Packaging Awards and a Starpack Silver Star award for Environment and Innovation. We plan to roll this pack out to other meat products.

IN SOUTH KOREA WE REDUCED PACKAGING WASTE BY 30 TONNES IN SIX MONTHS THROUGH THE GREEN MILEAGE CAMPAIGN

OTHERS SAY

“The plastic bag debate is the tip of the iceberg. It is important for headlines but it is not the most crucial issue. We need more pressure on manufacturers about packaging in general” – NGO

IN ONE YEAR POLISH CUSTOMERS HAVE USED 50 MILLION FEWER CARRIER BAGS



Recycling centre in Malaysia

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.

Our Polish stores held waste paper collections where customers received free plants or tree seedlings for bringing their waste into the store. In Malaysia we launched a recycling centre at our Ampang store where customers are paid for recycling according to a set price schedule based on tonnage of recycled items.

In the UK we have recycling centres in 600 of our larger stores. Last year we helped customers to recycle approximately 200,000 tonnes, saving the equivalent of over one million bin bags of recyclable material from being thrown away. We have also installed 64 state-of-the-art automated recycling machines across the country. These machines are a one-stop shop for recycling, accepting everything from carrier bags and plastic to glass and metal, making recycling quick, easy and convenient for customers.

The machines are popular with customers, attracting around 50,000 visits each week and collecting around 11,000 tonnes of waste a year. Materials are automatically identified, separated and granulated for compact storage. The machines can hold roughly four times more waste than an equivalent standard unit, meaning they have to be emptied less often – saving on transport and CO₂.



RECYCLING ON THE GO

Following the success of our automated recycling units we have adapted them to create 'Recycling on the Go', helping busy shoppers at our Express stores to recycle drinks bottles and cans.

REUSABLE BAGS

We sell a range of affordable, reusable bags in every country in which we operate. The range varies from net shopping bags in Turkey, to paper bags in Poland and jute bags in the Czech Republic, Malaysia and Slovakia. In summer 2008 in the UK we launched a range of reusable designer bags by Cath Kidston. Each bag was made from nine recycled plastic bottles and we donated 50p from every sale to Marie Curie Cancer Care. Eight Cath Kidston bags have now been successfully launched with 900,000 units sold, raising £450,000 for the charity.

Cutting carrier bag use

Since launching green Clubcard points in the UK in August 2006 to reward customers who reuse their bags, they have helped us to save over three billion carrier bags. We offer customers one point for every bag saved; over 9.5 million Clubcard customers have benefited. Our customers are now using 50% fewer carrier bags than they did before we introduced the reward. This is in line with our commitment along with six other retailers to reduce the number of single use carrier bags by 50% between May 2006 and May 2009.

We now have a range of bag saving schemes around the world. For example, this year we launched green Clubcard points in Malaysia. In Poland we launched an attractive range of reusable and degradable bags made from recycled materials. In one year, Polish customers have used 50 million fewer carrier bags.

Following a change introduced last year, our staff in the UK now ask customers if they are reusing bags or need a carrier bag. This has encouraged even more customers to reuse their bags.

We believe this approach – encouraging customers to reuse bags and rewarding them for doing so – is more effective and sustainable than the alternative approach sometimes advocated of taxing bags or charging for them. We believe that climate change will only be tackled successfully if people are encouraged to change their behaviour willingly, and to be enthusiastic champions for a lower-carbon lifestyle.

A bagless delivery option on tesco.com was introduced last year which offers customers green Clubcard points if they choose to have their shopping delivered without carrier bags. Around half of our online customers currently choose this option.

TARGETS

- To cut carrier bag use by 70% by 2010
- Recycle 95% of our store waste in the UK by 2010



Reusable bag from the Czech Republic



SUSTAINABLE PRODUCTS

Agricultural products and those taken from the wild have an impact on natural systems. We recognise that in some cases this has reached critical levels, threatening biodiversity. We seek to avoid such products in our supply chain.

Biofuels

We decided to sell biofuels in 2005 as we believed that they could help customers reduce their carbon footprint and decrease our use of fossil fuels. Since then, EU legislation has made 5% biofuel obligatory in regular fuels.

We have switched the majority of our distribution fleet to use B50 biodiesel containing 50% biodiesel and 50% standard mineral diesel. We are aware that the impacts of biofuels are complex and the environmental benefits depend on how they are made. We recognise that there is work to do, especially on traceability and sustainability of biofuel raw materials. We have asked the Sustainable Consumption Institute to help us understand the long-term impacts of biofuels.

Greenenergy, which supplies almost 50% of our fuel requirements and in which we are a shareholder, has been praised for its work in developing biofuel sustainability criteria and audit programmes.

www.greenenergy.com

Palm oil

As full members of the Round Table on Sustainable Palm Oil (RSPO) we are committed to using sustainable palm in our product range. This year we have supported further improvements around the environmental standards in the RSPO to reduce the chances of deforestation and controls on CO₂ emissions. We have also joined a coalition of over 50 UK-based companies calling on the industry to stop all deforestation of rainforest and peat forests for palm oil expansion.

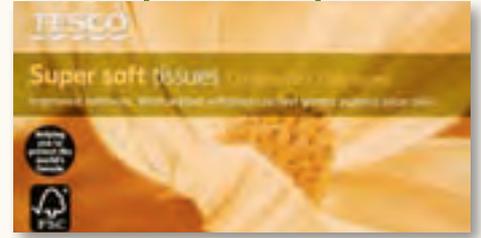
Currently the systems in place for full traceability on palm oil-based ingredients are in their infancy. We have already traced the palm oil and derivatives we use back to oil supplied by RSPO members and are working with our suppliers to ensure that certified oil can be used in our products. Our ambition is to use only certified palm oil.

Genetically modified (GM) foods

We have a non-GM ingredient policy for our own-brand foods in 11 of the countries in which we operate. We sell a small number of branded GM products in some of these markets. Where we do sell non-Tesco brand products with GM ingredients, they are clearly labelled so customers can make their own choice. The use of GM feed is prohibited in organic products. All our own-brand organic meat excludes the use of GM feed.

We continue to keep our policy under review in light of the latest scientific advice. We believe this is particularly important because of the global challenges of food security and climate change.

In China and the US we do allow some GM ingredients in our own-brand products. In the US, due to high levels of GM soy and maize, it would be virtually impossible to segregate products according to whether they did or did not contain GM ingredients.



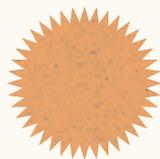
Timber

We are committed to purchasing timber and timber products only from legal, sustainable sources. In the past 18 months we have worked with our tissue supply base and have moved all of our own-label household disposable paper products – including toilet tissue, facial tissue and kitchen towel – to either FSC mixed sources or FSC recycled status.

In 2008 we widened our wood and paper policy to include our marketing materials and Tesco Direct catalogues. 90% of papers we now use in marketing are either recycled, PEFC or FSC certified, two recognised accreditation bodies for sustainable wood sourcing. The Tesco Media Publishing Centre – which prints the Direct catalogue, flyers and leaflets – is fully certified by PEFC and FSC.

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





Seafood

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 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.

This year we worked with the International Fishmeal and Fish Oil Organisation (IFFO) to help develop a Responsible Supply Code that will ensure the wild fish used as feed for our farmed fish come from fisheries that are responsibly managed. The Code covers both food safety and fishery management. Work is currently under way to develop and trial the Code and we are continuing to support this important initiative.



NURTURE SCHEME



Nurture was launched in 1992 (then known as Nature's Choice), to ensure Tesco delivers world-class quality fruit and vegetables for our customers.

It is an independently accredited, quality standard that assures our customers that Tesco fruit and vegetables are grown in an environmental and responsible way.

We were the first supermarket to establish best farming practice for fruit and vegetables in the UK. Since then the Nurture scheme has evolved and we now work with 15,000 growers in 70 countries across the world.

Our approach with Nurture provides us with the opportunity to pioneer standards around reducing energy usage, recycling and other natural resources.

Visit www.tesco.com/nurture for more information.



OTHERS SAY

“People don't know what Nature's Choice means. The standard needs opening up for public scrutiny” – NGO



COMMUNITIES

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



Our stores are at the heart of thousands of communities around the world. We always aim to make a positive contribution to these communities, both in the way we do business and by supporting local causes.

Our success depends on listening and responding to customers and to changes in society. We respond to customers' expectations by offering quality products at affordable prices. We provide good jobs and careers for 470,000 people, growing the local economies where they live. Small, regional producers supply a growing number of locally sourced products.

We invest in many disadvantaged communities, opening stores which help to regenerate areas, and offering opportunities to the people who live there. In the UK alone, we have now created over 4,000 jobs for long-term unemployed people through our unique jobs guarantee programme.

We fund education programmes around the world, helping children learn about health and the environment, and donate equipment to schools.

More than 260 Tesco Community Champions in six countries are working in our stores specifically to support local charities and organisations.



OTHERS SAY

"In terms of community investment, Tesco seems very responsive at the moment. Targeting disadvantaged communities in developing countries could help Tesco gain a licence to operate" – Business organisation



We provide good jobs for 470,000 people



53% OF CUSTOMERS AGREED THAT THEY OFTEN SEE OR HEAR ABOUT TESCO CONTRIBUTING TO LOCAL COMMUNITY OR CHARITIES

Source: Tesco Image Tracker, UK, January 2009, c920 customers.



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Being a good neighbour

The biggest way we contribute to any community is through our stores. In 2008 in the UK we opened 187 new stores, providing almost 12,000 new jobs. Building new stores also creates jobs through construction.

We listen to people in the community from the moment we identify a site for a new store or an extension. We want to respond to suggestions and concerns people might have. This does not stop once the store is open – when people tell us deliveries are creating congestion we act to adjust delivery times so they do not clash with busy periods such as the school run. This also helps to consolidate deliveries of our own and suppliers' products to Express stores in the UK, which are in busy urban areas. For example, we have removed 57 deliveries each week to 19 Express stores in the North East of England.

Noise can also be a nuisance and we have found several ways to make deliveries quieter, including switching off fridges in lorries when they arrive at stores and automatically cutting off the radio when the cab door opens. A new low-noise delivery cage with plastic components cuts noise by 10 decibels and we have begun using a low-noise tail lift.

Regenerating UK communities

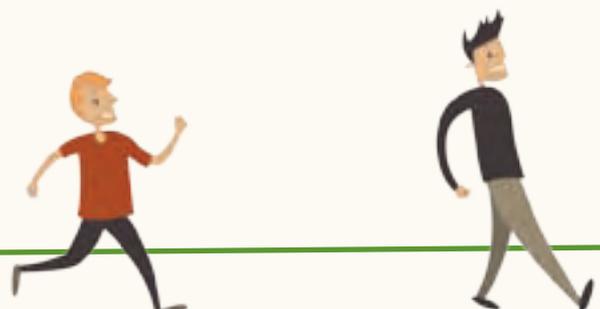
In the UK we have opened stores which revitalise disadvantaged areas, working in partnership with local agencies. Since 2000, when we opened our first Regeneration Partnership store in Seacroft, Leeds, we have created jobs for the long-term unemployed in 20 stores. In 2008 we opened Regeneration Partnership stores in Aston (Birmingham),

Gorton and Cheetham Hill (Manchester), providing almost 900 jobs, nearly 500 of which were for long-term unemployed people.

These areas have often suffered neglect for many years and can appear unattractive commercially. Other retailers may be reluctant to invest there. However, by providing what customers want and by operating our business efficiently, we have been able to develop successful stores in deprived areas, and have helped to attract other businesses to these areas.

In our Regeneration Partnership stores as part of our recruitment process we target 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. They attend a special life skills programme as well as job training. Unlike most other employment schemes, we guarantee a job to the people we select for Tesco training. People benefiting from the schemes tell us they find this job guarantee particularly motivating.

Following the success of this approach, we were one of the first companies to work with the UK Government in Local Employment Partnerships, designed to provide jobs for the long-term unemployed. We are committed to a Local Employment Partnership wherever we open a store. In 2008, we won a Best Practice Recruitment award for our new store in Aston, Birmingham, where we hired almost two-thirds of the workforce through the Partnership. We also won two North West Local Employment Partnership Awards.



REGENERATION IN GORTON, MANCHESTER

Gorton is an area of Manchester that has suffered from the decline of traditional manufacturing. With 12% unemployment, a fragile local economy and high crime rate, the area badly needed a boost. Tesco provided the injection of money, jobs and hope to revitalise the local economy.

We worked with the local regeneration company New East Manchester Limited to develop plans for a Tesco Extra in Gorton to act as a catalyst for further investment. The scheme has provided work for 130 local long-term unemployed people between the ages of 17 and 62, most of whom were not registered jobseekers. Tesco recruited them by distributing thousands of leaflets door to door, as well as working with training and employment agencies.

The vision to create a new district centre – which includes a market hall and new retail units as well as the Tesco store – received planning consent in late 2006 and the store opened in October 2008.

WE CREATED OVER 24,000 NEW JOBS AROUND THE WORLD IN 2008



Terry Leahy at Orpington Regeneration Partnership store 'topping out' ceremony

Supporting local economies

The economic and social impact of supermarkets continues to be a matter of debate, especially in the UK. We believe our stores help businesses and local communities. Professor Neil Wrigley of Southampton University pointed to several research studies in his evidence to the Competition Commission that show a supermarket investment brings benefits for the town and local businesses. People stay in the area to do their shopping and visit other local retailers and services, spending their money locally. The mix of retailing may alter and some grocery shops may lose business but other retailers, such as bakers, do well.

Sometimes a new supermarket brings direct benefits to a run-down area because it is part of a larger scheme including other properties. For example, in 2008 we developed a site in Orpington (south of London) to include apartments, a medical centre and town centre parking. We worked closely with the local planning authority and the Greater London Authority to develop the scheme, which is the most significant investment in Orpington for years and will bring over 400 jobs to the area when the store opens in June 2009.

UK Competition Commission Inquiry

The Competition Commission reported on the UK grocery market in 2008 after a two-year investigation. It found that on the whole, the market delivered a good deal for customers and that competitive rivalry was alive and well. The Commission did propose some changes around the supply chain and land agreements and we are working with the Commission to put these into practice.

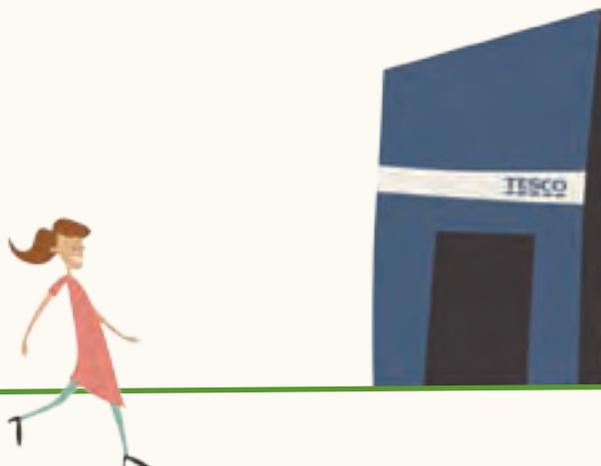
We did appeal against one of the Competition Commission's recommendations to introduce a competition test into the planning system. We believe that such a test would have significant negative consequences for the industry and for consumers, including blocking viable and competitive investments. In March 2009 the Competition Appeal Tribunal upheld our appeal, although this is not the end of the process. In light of the Tribunal's decision the Commission will now be required to review its work on the competition test and reconsider what, if any, recommendations it should make to Government.



FOOTPRINTS OF TOMORROW

In Turkey we are helping to explain climate change to young children. The country has six of the ten driest cities in Europe and we have stores in four of them. Water supplies could become even more scarce as temperatures rise and the climate alters, so it is important that young people understand what is happening and what they can do about it.

We have worked with Unilever, the educational charity Toçev and the Ministry of Education to create a movie and a stage play for primary school children. The *Footprints of Tomorrow* show is touring major cities, aiming to reach 100 schools by 2010, spreading the message that 'Together we can make a difference'. Each child also gets a book to take home and access to the project website.





IN SOUTH KOREA WE HAVE DEVELOPED A NETWORK OF 91 CULTURE CENTRES WITH 850,000 MEMBERS



Tesco for Thais Foundation

Making a difference

We aim to give at least 1% of pre-tax profits to charity and in 2008 our contribution was £57 million or 1.9% (compared to 1.95% in 2007).

Community Champions

We now have 266 Community Champions in China, the Czech Republic, Malaysia, Slovakia, South Korea and the UK, who dedicate their time to supporting local initiatives, organisations and charities as well as national initiatives.

They know what matters most to people in their area and can do something about it. For example, in the UK our Exmouth store Community Champion organised more than 20 members of staff, family and friends in a Sunday morning litter pick along the beach. Staff from Haslingden helped a school to prepare the ground for a vegetable patch and donated money towards gardening tools. They visit the school regularly to support their progress through the 'Tesco school gardens' lesson plans, through which children learn about growing and eventually cooking their own home-grown vegetables.

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. But we know that our customers also want us to support local causes and that the best people to identify these causes and how best to support them are living and working in the communities they support. That is why we are committed to increasing the number of our Community Champions.

OUR VOUCHER PROGRAMMES FOR SCHOOLS HAVE DONATED THREE MILLION ITEMS OF EQUIPMENT WORTH AROUND £150 MILLION TO OVER 35,000 UK SCHOOLS

Developing young people

Education matters to our customers and our staff. Our employees tell us that helping young people is a priority.

Sometimes that means support for specific charities. For example, in Hungary we work with the Smile Foundation to provide creative art therapy programmes in children's hospitals. In Thailand, the *Tesco for Thais Foundation* raises contributions for the Royal Family's charitable projects and supports education for disadvantaged children. The Foundation also provides school scholarships (more than 2,000 in 2008) and training in-store for retail management undergraduates. In 2008, we gave around 250 students practical experience of retailing in Thailand.

Equipment for schools

We give schools the chance to get free equipment and we run the UK's longest-running schools voucher programme. Over the last 17 years, we have donated approximately three million items of equipment worth around £150 million to over 35,000 schools and clubs in the UK.

In the UK we have responded to customer and school feedback and have merged Computers for Schools and Sport for Schools to create Tesco for Schools and Clubs, a single scheme making it simpler to collect and redeem vouchers. The scheme covers all areas of the curriculum, making it simple for schools and clubs to choose what they need.

PLANTING TREES IN THAILAND



In Thailand, we have so far planted 3.8 million trees as part of our 'Plant 9 Million Trees' project, aiming to reach nine million by 2015. The project is a collaboration between Tesco Thailand, the Ministry of Natural Resources & Environment, the Foundation for Khao Yai National Park Protection and the United Nations Environmental Programme (UNEP) which aims to honour His Majesty the King on his 80th birthday.

CULTURE CENTRES IN SOUTH KOREA



South Korean Culture Centre cooking classes

In South Korea, we have developed a network of 91 Culture Centres with 850,000 members and 5,000 professional instructors. They provide more than 350 educational courses, for both children and adults, in subjects such as languages, music and dance. In 2008 they went online, launching an open forum for all Culture Centre members and instructors. The site had 242,000 visits in the first two months and has nearly 500 discussion 'cafes' on themes such as ballet, cooking, dance and crafts.

Our success in the UK has led other countries to launch their own programmes. Ireland was the first and has run Computers for Schools for 11 years. Irish schools have benefited from almost £9 million worth of equipment including 3,000 computers and thousands of other items such as scanners, printers and software. Over 1,000 schools benefited in 2008. Ireland's twist on the scheme is to provide one school with an 'extreme makeover' worth almost £25,000. Scoil Naisiunta Muire na nGael, Dundalk, was the lucky winner in 2008, getting a full makeover of its computing and interactive equipment.

This was the seventh year of Tesco for Schools in Poland. Nearly 25,000 schools participated in the programme and 6,500 schools qualified for prizes worth £1.1 million. Schools could choose from 64 different prizes included in our catalogue. The most popular prizes were stereos, volleyballs, footballs, books and digital cameras.

This year our US business launched Shop for Schools. It is open to any accredited kindergarten or primary school within a three-mile radius of a store. The school in each state that raises the most money receives almost £3,000 as a cash bonus from Fresh & Easy.

Total raised for Charity of the Year around the world

Czech Republic	
Children Line	£73,000
Hungary	
Ability Park	£40,910
Ireland	
Make-A-Wish	£1,100,000
Malaysia	
MAKNA	
Cancer Research	£65,533
Poland	
The Happy Kids Foundation	£192,004
Slovakia	
Children Line	£81,000
UK	
Marie Curie Cancer Care	£6,200,000
Total	£7,752,447



Staff dress up for Marie Curie Cancer Care

Charity of the Year

Alongside our local charitable giving and our emergency giving, we also have a Charity of the Year in seven countries. This gives one charity the opportunity to be the focus of our staff and customer fund-raising each year and is a key relationship for us. The charity receives a very significant donation through a wide range of staff fund-raising activities (with a 20% corporate top-up in the UK) and customer donations.

We always aim to develop long-term relationships with our Charity of the Year, and to continue contributing after our formal relationship has ended. So, for example, the British Red Cross became our official emergency partner this year, helping us make swift and efficient donations when disaster strikes abroad, following on from a successful Charity of the Year partnership the previous year.

Staff in Ireland marked International Guinness World Record Day by setting a record for the 'Largest image made with LED tea lights'. The successful record attempt was supported by Walt Disney International, helping to light a 37-foot Donald Duck image using 26,978 individual tea lights. The remarkable effort raised £16,653 for Make-A-Wish, a charity working with children who have serious illnesses.

Promoting active lifestyles

See page 36 for information on how we also encourage people to get active.

TARGETS

- Raise £5 million across all our markets through staff and customer fund-raising
- Grow Culture Centre members in South Korea to 962,400
- Organise at least 750 community activities in stores or offices in China
- Hold 150 community events in Poland
- Extend educational project on global warming to 7,000 students in Turkey
- Plant 950,000 more trees in Thailand





We have high expectations of our suppliers on both a local and global scale. By working in partnership with them we deliver the quality, value and ethics our customers expect.

OVER 90% OF SUPPLIERS AROUND THE WORLD SAY WE TREAT THEM WITH RESPECT



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.

Our customers want the best quality, choice and value for money. To provide this we need strong and constructive relationships with reliable suppliers. We build long-term relationships with our suppliers, as we recognise that our success is linked to theirs. We therefore expect to offer fair terms and conditions while getting the best value for our customers.

Suppliers are required to meet our expectations on quality and value – as well as on hygiene, environmental, animal welfare and labour standards.

OTHERS SAY

“So much comes down to individual buyers as to whether the supplier has a good experience. We’ve had a fantastic experience over the past two years – better than with any other retailer” – Supplier

Supplier relations

One of our core values is to treat people how we like to be treated, and we aim to demonstrate this in our relationships with suppliers of all sizes and types. 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.

In 2008, over 2,300 suppliers covering all our markets responded to our first 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;
- 93% say we are professional;
- 92% say we are clear in our dealings with them;
- 90% say we are reliable at paying on time;
- 92% say we are committed to meeting customer requirements; and
- 92% say we maintain high quality standards.

Participating suppliers also provided suggestions for improving our relationships. Specifically, they think we could better communicate our business plans, and work across functions within Tesco to solve problems.

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

- 5% say we are disrespectful (8% in 2005);
- 15% say we are slow (25% in 2005); and
- 10% say we are unreasonable (26% in 2005).

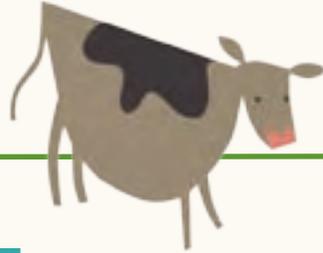
Although we strive for excellent relationships with all of our suppliers, we are encouraged by the reduction in the percentage of suppliers who find that dealing with Tesco is a difficult experience. We are always working to improve our relationships with our suppliers and we will continue to do so over the next year.

UK Code of Practice

We follow voluntary and statutory codes of practice including the UK Supplier Code of Practice introduced by the Office of Fair Trading in 2001. This was introduced to regulate dealings between supermarkets and their grocery suppliers and currently applies to the largest four supermarkets in the UK. It covers issues such as dispute resolution, changes to agreed prices, and promotions and training.

Following on from a Competition Commission inquiry into the groceries industry that ended in 2008, the Code of Practice will now be extended to cover all retailers with a grocery turnover greater than £1 billion and we expect some changes will be made to existing provisions in the Code.

We train buyers to comply with the Code in their daily work, and to resolve any issues in ways that work for suppliers and for Tesco. Suppliers can raise any issues they have with our buyers. If necessary, they can contact 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 2008, there were no complaints made to the Code Compliance Officer.



TESCO SUSTAINABLE BEEF PROJECT

The Tesco Sustainable Beef Project, launched in 2008, communicates science-based approaches to beef cattle farming among our suppliers, to improve productivity and profitability as well as the tenderness and flavour of our beef. Working with industry-leading vets, scientists and farm business analysts, we believe we can improve animal welfare, meat quality and environmental practices across the beef industry.

We help suppliers develop business plans to deal with current economic challenges, and all suppliers have access to Tescolink, an online sales information system. If the recession causes customers to change their habits, such as by buying standard produce rather than organic, we will work with organic suppliers on promotions to help sell surplus stock. Maintaining the right balance is a constant challenge, as customer buying habits can change more quickly than our suppliers can sometimes adapt.

Supporting UK farmers

Our UK business sources fresh meat and poultry from within the country where possible. Our size means it is difficult for us to source all our meat in the UK because overall supply is insufficient. We work with farmers to increase available supply.

Our Producer Clubs meet regularly to share information that will help suppliers and producers understand customer trends so they can plan their activities. We 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.

By working with our suppliers to help them extend the growing season we have, for example, reduced the amount of strawberries we import from 25% to 14% over the last five years.



OTHERS SAY

“How can Tesco balance its different customer groups, for example providing an affordable range of chickens that’s very important to some people – cheap, healthy, low-fat, high-protein food – but which conflicts with ethical consumers whose expectations are different?” – Investor

DAIRY FARMING UPDATE

In our 2008 CR Review, we described our progress in setting up the Tesco Sustainable Dairy Group (TSDG).

In September 2008, we collaborated with the University of Liverpool to launch the Tesco Dairy Centre of Excellence. The Centre provides the latest information on dairy technologies and tests new ideas. It provides expertise in cattle health and welfare for farmers in the TSDG, and teaching services at the University. We will use the Centre’s work to engage with schools and colleges, farmers, consumers, industry and campaign organisations.

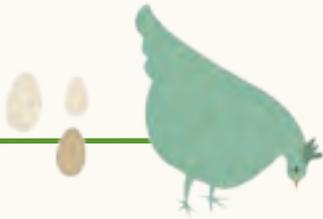
The TSDG’s objectives for 2009 are to:

- Research management procedures to improve health, production efficiency and economic benefits.
- Establish cost-effective farming practices that improve returns for Tesco and producers, without penalising the consumer.
- Trial methods to eradicate digital dermatitis in cows.
- Produce disease management plans and eradication procedures for TSDG members.
- Investigate ways to reduce the carbon footprints of farms.

Buying British in 2008

Product	% British
Fresh chicken	90%
Fresh beef	95%
Fresh pork	80%
Fresh lamb	80%
Fresh eggs	100%
Fresh milk	100%

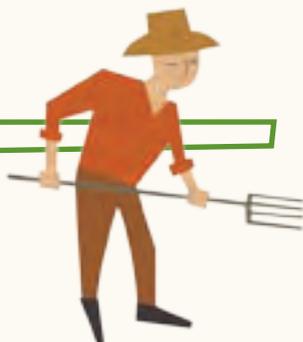
SALES OF WILLOW FARM CHICKEN INCREASED 86% YEAR- ON-YEAR



Animal welfare

We are the only major supermarket to have a dedicated team of agriculture experts who review the latest science on animal welfare and farming standards, ensuring our codes of practice (which were first introduced over ten years ago) are in line with latest thinking, and working with suppliers to improve standards. Whether customers buy Value or Finest, we insist on high levels of welfare throughout the supply chain.

We require farms supplying all our ranges to meet our livestock standards and codes of practice. All our products including Value products have the Red Tractor standard as a minimum standard. Red Tractor is the standard most recognised by customers, and is widely used across the supermarkets. Where these standards differ, for example on Organic products, we clearly label them.



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.

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. This approach has been successful, with sales of our Freedom Food Willow Farm chicken, for example, up 86% year-on-year.

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

Monitoring animal welfare

We are the only one of the major supermarkets 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 annually by Integra FoodSecure, an independent, accredited audit company. The majority of these inspections are unannounced.

We have simple and robust monitoring processes in place to ensure our livestock standards are effective. In 2008, we reviewed these standards and added new indicators that measure outcomes rather than just the implementation of the standards.

Progress outside the UK

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 our overseas poultry purchases.

RAISING FISH WELFARE STANDARDS IN VIETNAM

In 2008, we introduced our white fish code of practice to fish farmers in Vietnam.

Tesco representatives travelled to Vietnam to meet with farmers of the Pangasius (Vietnamese river cobbler) fish and agree a commitment to higher fish welfare standards. Since then, we have held on-site welfare training for all farm employees responsible for the fish's welfare. We also designed and trialled a bespoke stunner for the Pangasius. The results look positive and we hope to approve this method in early 2009. These methods have been independently verified by the Fish Vet Group.

These steps mark progress for animal welfare in Vietnam and for our partnership with Vietnamese Pangasius farmers. This is a great example of our commitment to building long-term supplier relationships that emphasise good welfare practices.



SALES OF LOCALLY SOURCED PRODUCTS INCREASED BY 30% YEAR-ON-YEAR IN THE UK

WHAT DO WE MEAN BY A LOCAL PRODUCT?

In England, we class a product as local if it is produced in that county or a neighbouring one. We source Scottish, Welsh and Northern Irish local products from within those areas. These strict criteria mean some local products may only be available in one or two stores. Products may be famous, iconic lines or simply produced in that area to be considered local. Local products can be branded or unbranded.

ETHICAL TRADING

The products we source from around the world offer choice and value to our customers.

Providing excellent value for our customers means sourcing the best products from around the world – at the best prices. This helps families stretch their budgets further, brings more products within the reach of ordinary people, and helps to drive economic growth.

To deliver this, we source from many countries around the world. We believe that international trade helps people in developed and developing countries improve their quality of life, creating jobs and raising standards. The extraordinary record of export-led growth and poverty reduction in China and other parts of Asia bears testimony to this.

LOCALLY SOURCED SCOTTISH POTATOES



In summer 2008 our Tesco Scottish office worked with producers to deliver more local and seasonal products to Scottish stores. Ten local Tesco stores around Edinburgh received Vales Emerald potatoes from Luffness Mains, East Lothian, within a few hours of harvest.

At the same time, we recognise that regulation and levels of enforcement of labour standards vary in different countries. Our ethical trading policy and programme applies to every country from which we source, including the UK, identifying risks and helping our suppliers to address them.

Our approach to ethical trading has five stages: setting and communicating standards; monitoring supplier performance; addressing problems where they arise; building capacity to prevent problems; and working with others to tackle the more complex and systemic problems we cannot address alone.

2008 was a particularly important year on ethical trading. We strengthened our independent audit programme, giving us even better oversight of conditions for workers throughout our supply chain and enabling us to improve them. We worked hard to ensure the 450 new products brought to market for the launch of our Discount Brands offered exceptional value without compromising our robust ethical trading requirements.

Local sourcing

Many customers want to buy products that support their local businesses and economy, particularly in the current economic climate. They are also concerned about food miles and the environmental impact of the products they buy.

In Poland, we currently work with almost 200 local and regional suppliers to our bakery, dairy and cured meat departments. Every year we organise and promote Polish fruit and vegetable products at supplier events and have now created a special logo for Polish products, 'I am from Poland', which will be on Polish Tesco brand and Discount Brand products.

In the UK, our network of regional buying offices have dedicated buying, marketing and technical teams. We stock approximately 3,000 local lines and work with over 480 local and national suppliers. In 2008, local produce accounted for £624 million or 2.2% of UK sales, compared with 1.7% the previous year. This is a 30% increase in sales compared to 2007.

Sales data confirm the demand for local produce. In the summer, we sold 5,400 packs of local watercress per week in stores in Hampshire, where it is grown, compared with national sales of 2,800 packs weekly – a remarkable 93% increase.

www.tesco.com/regionalsourcing

TARGETS

- Increase sales of local products to £1 billion by 2011 in the UK

OUR DIRECT SUPPLY CHAIN PROVIDES JOBS FOR 1.8 MILLION PEOPLE AROUND THE WORLD



OTHERS SAY

“It’s good to see there’s been a change in communications and strategy regarding ethical trade and suppliers. These issues seem to be taken much more seriously within the business, and a lot more is happening” – NGO

We aim to undertake independent audits of those supplier sites identified as high risk every year, and medium risk every two years. Low-risk sites are required to complete an annual self-assessment, which we monitor.

In 2008, we risk assessed 100% of sites. We increased the number of high-risk sites audited to 87% (up from 73% in 2007), and audited 71% of medium-risk sites within the last two years. There is further progress to be made and we have put in place resources to improve performance in 2009.

We made good progress to improve the quality of audits across our supply chain, to ensure the information they provide is consistent and reliable. We launched our Auditor Recognition Programme in January 2008 to achieve this and, over the year, vetted and approved 726 auditors from 11 audit bodies. These give us global coverage from competent and credible individuals who speak the native language of the country.

In 2008 a total of 1,819 independent audits were carried out on suppliers to our UK business.

Announced audits help to ensure all necessary records will be present and build ownership of ethical issues by supplier management. But they can also be subject to a greater degree of preparation – occasionally in an attempt to manipulate findings. To balance this, we introduced semi-announced audits, which are now used for 90% of our high-risk sites where a supplier is given a one-month window during which the audit will take place, rather than an exact date.

We continue to carry out a programme of completely unannounced audits as a double-check against other findings. In 2008, we carried out 135 such audits in Bangladesh, China, India, Romania, Sri Lanka and Vietnam.

TESCO BUYERS RECEIVED MORE THAN 2,400 HOURS OF TRAINING ON ETHICAL TRADING

THE ETI BASE CODE

As a founder member of the Ethical Trading Initiative (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

SEDEX

The Supplier Ethical Data Exchange (SEDEX) is an independent, online, not-for-profit database through which ethical data about suppliers can be shared. It significantly improves the transparency of retailers’ supply chains – and makes suppliers’ lives easier – by ensuring one agreed set of criteria is reported on. Information on each supplier can be accessed by all retailers who source from them. Tesco helped found and develop SEDEX.

Setting and communicating standards

We only work with suppliers who share our values and demonstrate commitment to the ETI Base Code. We evaluate potential new suppliers to ensure they understand these standards and have the ability to meet them. We will not work with a supplier if we identify major problems at this stage and cannot resolve them.

Over the past year we have begun to consolidate our overall number of suppliers. Having fewer suppliers gives us an opportunity to ensure firm and long-term relationships with our supply chain, and gives our suppliers even more confidence to invest in improving their products and their working conditions.

In 2008, in response to supplier feedback, we revised our guidelines for ethical trading and issued a new, accessible Code of Practice so suppliers can be absolutely clear on our programme and expectations.

Monitoring supplier performance

With a large and diverse supply chain, we know that some suppliers will not, on occasion, maintain the high labour standards we expect. In order to help suppliers address problems and to support them in improving labour standards, our first step is to ensure we know what is going on, by gathering detailed feedback on conditions in the farms and factories our suppliers run around the world.

As we are not able to monitor all our suppliers’ sites all the time, we take a risk assessment approach to information gathering. We assess all direct supply sites to all our businesses around the world. For suppliers to the UK business we use risk assessment tools including the independent SEDEX – which store detailed information on gender, ethnicity, languages spoken and permanent and temporary workers – and we are rolling these out across our international businesses.



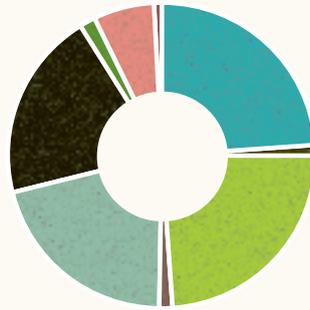
Addressing problems

We always ensure action is taken when audits identify major breaches of the ETI Base Code. Following an audit report, suppliers must address every non-compliance identified and develop improvement plans. We follow up these plans and have them independently verified or request further improvements as required.

In addition to reports by auditors, breaches of the Code can also be reported by suppliers themselves, workers, non-governmental organisations and trade unions. We investigate any such reports immediately. We have also been piloting a whistle-blower scheme in China which provides an anonymous additional channel to report any concerns. Our priority is to ensure there is no child labour, forced or bonded labour, or any form of abuse in our supply chain.

The most serious problems are relatively rare. In a direct supply chain of 1.8 million workers, there were three reported instances of child labour and one of forced labour in 2008. We followed up all these reports immediately and ensured appropriate action was taken – which, in the case of child labour reports, meant ensuring the child had ceased work as soon as discovered, that the supplier’s systems are tightened to avoid recurrence, and best practice in supporting the child is followed – generally including the guarantee of a job once they turn 16.

We expect suppliers to implement improvement plans as soon as possible and complete all actions within six months. Our emphasis is on assisting improvement rather than simply policing deadlines. We only stop working with a supplier if they continually fail to meet our standards and refuse to take corrective action. In 2008, we ceased trading with 11 suppliers because of ethical trade issues, the same number as in 2007.



Improvements made by suppliers against the ETI Base Code

■ Employment freely chosen	23.9%
■ Freedom of association	1.1%
■ Health and safety	23.9%
■ Child labour	1.6%
■ Pay	20.8%
■ Working hours	19.8%
■ Discrimination	1.8%
■ Regular employment	6.2%
■ Harsh treatment	0.8%

Notes on chart

This chart shows the areas in which improvement actions were undertaken by our suppliers against the different elements of the ETI Base Code. It is derived from data from our robust independent audit programme, which is focused on the highest-risk countries and sectors.

Improvement actions can both strengthen systems and address specific problems. For issues such as employment freely chosen, which includes ensuring workers are not required to lodge deposits with employers, procedures are reinforced to reduce the risk of future cases. It is similar for child labour, where measures to verify age are a key priority.

For issues such as health and safety, there are a number of detailed requirements which must be met to achieve full compliance, including on handling machinery, building layout and staff access to facilities for food storage.

Data are for 2007 and verified by the ETI. The ETI will also verify our figures for 2008, although not by the time of publication of this Report.

FAIRTRADE PRODUCTS



We are committed to making ethical products available to everyone at affordable prices, including Fairtrade products. In 2008, our UK stores carried 188 Fairtrade products including 117 Fairtrade-labelled Tesco own-brand products, ranging from coffee and cotton to fresh and dried fruit. We also stocked 71 branded Fairtrade products. Despite the economic downturn our Fairtrade range enjoyed 2.3% year-on-year growth.

We have been developing Fairtrade cotton clothing since February 2007, and now sell five million items a year – at no extra cost to our customers – compared to non-Fairtrade cotton products. Sales have increased fivefold in the last year, and we were the world’s second biggest retailer of Fairtrade cotton.

To grow the market for Fairtrade cotton clothing further, we are making it easier for producers and manufacturers to buy Fairtrade cotton, helping to support over 19,500 cotton farmers worldwide. We have worked with the Fairtrade Foundation to identify supply routes from field to factory, and continue to work with the Fairtrade Labelling Organisation to simplify its systems and accreditations.





Building capacity

We develop the skills and capabilities of our buyers, technical teams and suppliers so they have the know-how to improve labour standards in our supply chain.

We revised our core training programmes for buyers and for technical managers in 2008. These courses are mandatory for all new starters. Tesco employees received more than 2,400 hours of training on ethical trading during the year.

We tailored our core supplier training in 2008 following feedback that our workshops could be more specific to local conditions, enabling greater sharing of experience and best practice. We ran 16 one-day workshops in Bangladesh, China, Costa Rica, Egypt, India, Israel, Malaysia, Poland, South Africa, Turkey and the UK. These were facilitated in local languages by expert trainers and sought to deepen understanding of labour standards and the business benefits of improving them, as well as providing practical guidance.

We also introduced a confidential, independently facilitated feedback session at the end of each workshop. In these, suppliers asked for clearer guidance and communication on our processes and spoke frankly about our purchasing practices. Consolidated feedback was given to commercial directors and will inform our work on purchasing practices in 2009.

Other activity in 2008 included co-hosting – with the NGO Banana Link – roundtable discussions between unions and banana producers in Costa Rica. We also held a productive five-day conference in Cape Town where we worked with supply chain representatives, auditors, trade associations and non-governmental organisations to revise our South African ethical trading programme.

Working with others

We recognise that some countries we source from face complex and systemic problems. To tackle these we need to work in partnership with others. For example, we took part in the ETI Supervisor Training project, which culminated in a successful pilot to tackle sexual harassment on farms in Kenya.

ETI peers elected Tesco representatives to chair two specialist groups for 2008. We were involved in other ETI working groups on China, homeworkers, wages and purchasing practices. Tesco representatives led a working group at the ETI Conference in October, and appeared in awareness-raising DVDs.

We continue to sit on the board of SEDEX and contributed to its working groups on audit methodology, risk assessment and system development. We chair the Global Social Compliance Programme, an important initiative to drive global best practice.

We also chair the MFA Forum Bangladesh Working Group. This has sought to ensure that Bangladeshi labour rights activists are treated fairly and pressed their Government to reconvene the national wages board that secured a major minimum wage increase in 2006.

TARGETS

- Provide tailored training for at least 300 suppliers facing challenges on issues including forced, child and migrant labour
- Develop in-country capacity to support poorly performing suppliers to improve

RAISING STANDARDS IN COTTON PRODUCTION

We were the world's first major retailer to ban Uzbek cotton in our clothing and home textiles. This was a last resort, following years of research into poor environmental practices and the continued use of government-organised forced child labour in the industry.

We want to be certain where our cotton comes from and that our suppliers uphold the ban on Uzbek cotton, and have adopted tracking systems to ensure this. We have proved, for the first time ever, that it is possible to trace the country of origin of conventional as well as Fairtrade cotton. We plan to roll out the tracking system to our entire UK cotton supply chain during 2009, so we can trace the country of origin of all cotton in our clothing and home products.

In 2008, we were recognised for our industry-leading efforts in cotton sourcing at the ethical fashion event, Re:Fashion. We were highly commended under the Re:Cotton Award and were the only major retailer to be nominated in any category.

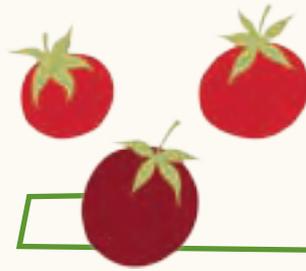
Director of the Environmental Justice Foundation, Steve Trent, commented, "Although it has taken time to implement a credible 'track and trace' mechanism within Tesco's cotton supply chain, the detailed approach they have taken to doing this presents a benchmark which other retailers need to live up to".

100% OF SITES WERE RISK ASSESSED





By providing healthy choices, good information and opportunities to get active in communities, we can help our customers lead healthy lives, wherever they are in the world.



Product ranges and information are the keys to choice and in 2008 we continued to make it easier for customers to live more economically and more healthily.

Our health strategy has three parts:

- to provide better information on the nutritional value of products, and how customers can improve their health;
- to make healthy options more accessible through price and promotions, healthy ranges, and by reformulating our products; and
- to make it more attractive to lead an active lifestyle.

We continue to make food more affordable for customers. This matters now more than ever, and in 2008 we launched a new range called Discount Brands. It includes 450 great value lines in the UK and over 300 in our Central European businesses. They can save UK customers up to £24 on a typical weekly shop.

We also made it easier for customers to live healthily by extending healthy living ranges, by providing straightforward health information, by increasing the number of in-store pharmacies and opticians, and by promoting active lifestyles.



Malaysian nutritional labelling

Our nutritional labelling policy

Customers want clear information telling them what is in a product and we were the first retailer (in 2005) to introduce a front-of-pack label in the UK showing guideline daily amounts (GDAs).

This year we exceeded our Group target to increase the number of eligible own-brand lines with front-of-pack nutritional labelling to 78%, with 92% of eligible lines labelled. We reached 100% in most countries, with four countries still working towards this target. The Czech Republic, Hungary and Slovakia plan to reach 100% in 2009. Nutritional labelling is a Community Plan project in South Korea this year, where we plan to label 95% of eligible products by the end of 2009/10.

Almost all Tesco packaged food in the UK, over 7,000 lines, carries these signposts on the front of the pack. The few exceptions include alcohol (where we have a specific health label), flour, sugar and pure water, as well as gifts and products with labels too small for the GDAs to be legible.

www.tesco.com/health



PHARMACY

OTHERS SAY

“There are too many labelling schemes and this is confusing” – NGO





Nutritional labelling in the Czech Republic

GDA signposts cover calories, sugar, fat, saturates and salt. They tell customers how much they will eat in one serving of the product, shown as grams, and the percentage of the guideline daily amount for a typical adult. The figures are based on work carried out by the IGD, the Institute of Grocery Distribution.

We think that GDA labels provide the most accurate, consistent and factual information and research shows that it better enables customers to make informed decisions. It can also be applied to all relevant products, whereas the traffic light system developed by the UK Government's Food Standards Agency (FSA) was designed to apply to only seven food categories. GDA labelling is being adopted by leading manufacturers and retailers across Europe – making it simple for customers to directly compare the nutritional profile of the widest range of products of any labelling system.

Customers have shown that it works by changing their buying habits.

Sales of lower-fat ready meals increased when GDA signposts were added, outselling higher-fat alternatives by more than 7%.* The products with the highest fat levels showed strong sales declines.

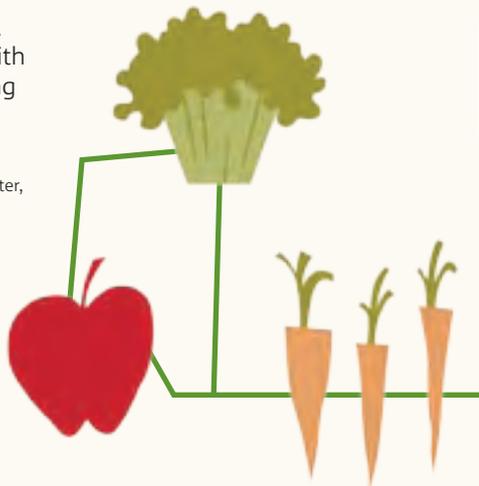
Similar results were found for salt – with lower-salt ready meals outselling higher-salt products by 10% when GDA signposts were added.* The products with the highest salt levels also showed strong sales declines as customers switched to healthier options.

* Weekly sales eight weeks before, and eight weeks after, GDA signposts added.



FRUIT AND VEG ON A BUDGET IN THE US

In the US in January we introduced 98-cent Produce Packs in response to customers looking for fresh fruits and vegetables on a budget. Since then, produce sales have increased by 11%. The 98-cent Produce Packs are delivered fresh every day to stores and give customers a choice from six different fruits and vegetables that rotate depending on seasonality and availability.



Light Choices in Hungary

Healthy ranges

We offer a wide range of competitively priced products and have improved nutritional content in all our foods. This is nothing new. We launched our Healthy Living brand in the UK in 1985. These products contain no hydrogenated fat or artificial sweeteners and have limited saturated fat, sugar and salt. We added the Light Choices brand in 2007, providing reduced calorie, fat and sugar options for customers wishing to limit their intake while still eating a tasty and varied diet.

Following their success in the UK, we are now rolling out these brands across our markets. Nutritionally balanced, diet and/or organic 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 tinned, frozen and dried foods such as fruit and vegetables, beans, pasta and rice, including approximately 200 wholefood products. These are important, affordable healthy foods because they are naturally low in fat and salt. Our Value range includes many low-cost healthy choices, including skimmed milk, skinless chicken, pasta and fruit such as mangoes and kiwis.



**ALL OUR PRODUCTS
IN THE UK ARE NOW
FREE FROM BENZOATE,
ARTIFICIAL FLAVOURS
AND ARTIFICIAL COLOURS**

Product reformulation

Reducing salt, sugar and saturated fat is also an important part of a healthy diet. We have been cutting levels of these nutrients across our ranges since 2005, without compromising on flavour. In 2008, we reformulated 1,000 products to improve their nutritional content, and seven of our markets have a formal product improvement policy in place. All Fresh & Easy brand products contain no added trans fats, no artificial colours and no artificial flavours.

Excessive salt 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. This is more than four million 750g packs of salt. The average Tesco ready meal already contains 10% less salt than the 2010 target set by the FSA.

Saturated fat has been an important target 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, our sandwiches have mayonnaise with 35% less saturated fat than previously and we also sell more sandwiches containing no butter. We supported the launch of the FSA saturated fat campaign with in-store and online advertising.

Customers have told us they want fewer additives in their food and after further progress in 2008, all our products in the UK are now free from benzoate, artificial flavours and artificial colours, with the exception of one shandy, which we are still working on.

We have also removed all the colours which the FSA advises (in its Southampton Study[†]) are linked to hyperactivity in children, including tartrazine in mushy peas. We have gone further than other retailers in using natural flavours in smoked products and replacing synthetics such as vanillin with natural vanilla in all of our chocolate.

Promotions

It is not enough just to have healthy products on our shelves. It is also important to promote them vigorously. We run over 200 promotions on healthy products each week, including fresh produce, fish, wholefoods and our Healthy Living brand, helping to make a balanced diet accessible to everyone.

We have increased the number of promotions we run on produce, updating our 'Fruit and Veg Price Pledge', and now run up to 100 promotions on produce alone each week and over a quarter of what we sell is sold on promotion.

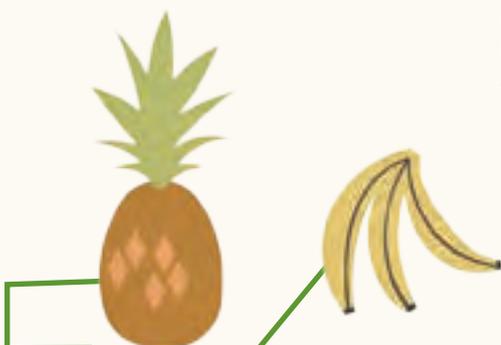
To make sure we keep making it easier for customers to choose healthier food, all our markets, except the UK which has targets supporting Change4Life, have a 2009 target for the number of events on their trade plan to promote healthy products, choices or diets in stores.

[†] Chronic and acute effects of artificial colourings and preservatives on children's behaviour, University of Southampton, September 2007.

CHANGE4LIFE

In the UK we support the Change4Life movement, which brings together Government, businesses, NGOs and others to engage and incentivise people to 'eat well, move more, live longer'.

To do this, our Community Champions will help local people to identify ways their communities can eat healthily and get active and run events to support the campaign. We have already run a Get Active promotion on exercise equipment, using point-of-sale material featuring the Change4Life logo and featured an article on Change4Life in the January/February edition of the Tesco magazine, the UK's largest women's magazine with a circulation of over 5.5 million. Online, we put links to Change4Life's 'How are the kids?' questionnaire on our health website and included information on the campaign in March's monthly health email, reaching 250,000 customers who have expressed an interest in finding out about health offers and ideas. As well as our customers, we will target our 300,000 members of staff in the UK through articles in The One, our internal newspaper.





Football tournament in South Korea

GET HEALTHY WITH TESCO LOTUS

In 2008 alone 'Get Healthy with Tesco Lotus' has inspired 2.4 million people to join events we support, such as aerobic competitions, football clinics and walkathons.

Promoting active lifestyles

We work with a wide range of partner organisations internationally to get people active. Customers have responded spectacularly. For example, since the launch of the 'Get Healthy with Tesco Lotus' project in 2007 our Thai business has inspired 3.6 million people to join events we support, such as aerobic competitions, football clinics and walkathons.

In South Korea we have focused on building skills through a nationwide Youth Football Tournament. The tournament promoted health for children and was organised with the MBC Football Foundation that covers 180 leagues with 5,000 children. The outstanding players and coaches won a visit to the UK.

Getting kids active has also been a target in the UK, where 750,000 children from more than 3,000 primary schools took part in the Tesco Great School run in 2008. By 2010, we aim to get a million children active through our FA Tesco Skills Programme, which provides top-quality football skills coaching for boys and girls.

Cancer Research UK's Race for Life is a good example of getting people active while raising funds for a good cause: we helped raise over £40 million in 2008 when 18,000 Tesco staff joined 687,000 women in this series of events around the country. Tesco has supported this event, which is the UK's largest women-only fund-raising event, since 2002. It inspires women to come together to walk, jog or run 5 km and raise money to help beat cancer. Similar events (Runs for Life) raised money for cancer research in the Czech Republic, Poland and Slovakia. In Malaysia more than 6,000 people joined in a Walk for Life in collaboration with the National Cancer Council (MAKNA), our Malaysian Charity of the Year. The event raised almost £30,000 for MAKNA's work on cancer research and awareness.

For more information on our Get Active programmes visit www.tesco.com/cr-report09/customerchoice/active

OTHERS SAY

"Most promotions are for unhealthy foods. Changing promotions policy is the most effective way of addressing health inequalities. Fatty, high-salt foods are cheap and heavily promoted" – NGO

Total no. of people getting active with Tesco

China	
Store/Company sponsored events	
Staff tournaments/teams	7,998
Czech Republic	
Run for Life	3,000
Malaysia	
Walk for Life	6,000
Poland	
Run with Tesco	2,700
South Korea	
Youth Football Tournament	5,000
Hobby clubs	19,814
Culture Centre classes	210,613
Slovakia	
Run for Life	1,950
Thailand	
Get Healthy with Tesco Lotus	2,400,000
Turkey	
Aerobic activities	
Staff tournaments	
Football tournament	2,258
UK	
Race for Life	687,000
Tesco Great School Run	750,000
Other activities	562,977
Total	4,659,310

OUR THAI BUSINESS HAS INSPIRED 2.4 MILLION PEOPLE TO GET ACTIVE THIS YEAR





Alcohol awareness signage in-store

Alcohol

Excessive alcohol consumption can be the cause of long-term health risks. We take a responsible approach to selling alcohol. The overwhelming majority of people who buy alcohol from our stores drink responsibly. But for a small minority this may not always be the case.

Our cashiers receive training on the sale of alcohol and other age-restricted products four times a year, supported by a bespoke DVD and training materials. We use our internal channels of communication, including our staff newspaper, to provide cashiers with regular reminders of their responsibilities towards the sale of alcohol. Our training materials are frequently shared with independent local retailers to support the training of their staff too. We use mystery shoppers to test whether our cashiers are correctly challenging customers to prove their age.

Our UK Marketing Director has been a trustee of the Drinkaware Trust since its inception in 2007. Drinkaware is an independent UK charity that aims to change public behaviour and the national drinking culture by bringing together health professionals and the industry to deliver the Government's Alcohol Harm Reduction Strategy.

Other steps that we have taken include:

- **Improved bottle labelling:** 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, showing the unit measurements, the recommended maximum daily intake and health messages.
- **More customer information in stores:** We have been working in partnership with Diageo over the last two years to provide customer information through point-of-sale material, shelf-edge labels and on Tesco TV.
- **A flexible approach to licensing:** we do not apply for licences in areas with known disorder issues and we review existing licences where evidence emerges that late-night alcohol sales are contributing to problem drinking.



COMMUNITY ALCOHOL PARTNERSHIPS

A project in St Neots, Cambridgeshire in 2008 was extremely successful in reducing under-age drinking and antisocial behaviour. The number of youths found in possession of alcohol fell by 94% and people felt that public spaces were more pleasant because they were cleaner and there was less group drinking. Our St Neots store was the leading retailer involved in the project.

Following the success of the pilot in St Neots we are working on Community Alcohol Partnership projects in other parts of the country. www.wsta.co.uk/community-alcohol-partnerships.html





In-store pharmacies, opticians and guidance

Good health is about more than food and we have improved health services available to customers by operating pharmacies in 269 UK stores and opticians in 115. Over 70% of our pharmacies are open until 8pm or later, Monday to Saturday, and over 90% of our pharmacies are open on Sundays. We opened 40 new opticians in 2008, offering evening and weekend appointments, sight tests for £10 (free in Scotland) and spectacle frames from £20.

Our pharmacies also extend access where they operate in the heart of disadvantaged communities such as Hackney in London, where 13,000 households without a car are within a 0.5 km walk of our stores.

We do not just sell medicines. Our skilled pharmacists offer a range of services as part of local Primary Care provision. More and more customers used our preventative health checks in 2008, helped by a special promotion. In January and February 2009 we did over 8,000 health checks when we offered them for just £5. We also offered flu jabs for £10 in over 120 pharmacies during the winter.

Our stores and website also provide a wide range of information about food, diet and exercise. Customers can access information on our Healthy Living website and tescodiets.com as well as in various leaflets and publications produced by our nutritional experts. We also work with governments, industry bodies and charitable organisations to provide health information.

For example, in 2008 we contributed to two reports produced by the grocery industry body, IGD, on saturated fats (Effective Communication on Saturated Fat) and portion sizes (Portion Size: A Review of Existing Approaches). Tesco is also a member of a new IGD working group developing recommendations on portion sizes.

TESCODIETS.COM

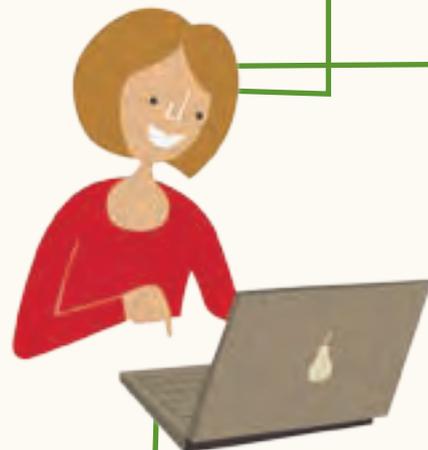
Tescodiets.com is the UK's largest online dieting and healthy eating meal plan service, aimed at customers who want support and advice to lose weight or have a healthier diet. The subscription service offers a personalised and individual approach to weight loss through a range of different diet plans, from Gi and Light Choices to specific health-based plans like Diabetes and Heart Smart. All of the eating plans are designed by a team of nutritionists and provide a healthy balanced diet. In addition to personalised weekly meal plans, customers receive a weekly shopping list and a mentor to help them.

In January 2009 we launched Tescodiets Active in partnership with MiLife, which uses cutting-edge technology to combine online coaching and activity monitoring through the 'MiBand'. This band can be worn on the wrist or ankle and keeps track of any activity, which is then uploaded to a personal profile where charts of members' progress can be seen and reviewed, and plans made for the week ahead.

www.tescodiets.com

MARY'S MEALS

Through Mary's Meals we are providing nutritious meals in school to 342,000 of the world's hungriest children in 15 developing countries including India, Kenya, Malawi and Thailand. Local communities and volunteers take daily responsibility for cooking and serving the meals which encourage children to attend school, educating them and helping to break the cycle of poverty.





KPIs
PAGE 50

Safety and privacy

Ensuring our products are safe is of paramount importance. We have strict and robust procedures to achieve this, and to act quickly on the rare occasions when a problem arises.

We respect the privacy of the customers, employees and business partners who entrust their personal information to us. We aim to meet customers' expectations that we will manage their personal information responsibly. Privacy and data protection are an integral part of our employment procedures.

In 2008, we relaunched our Group Information Security policies after reviewing the way we manage customer data in the UK.

Our legal team work with the business to raise awareness of data protection and privacy issues. They provide advice, guidance, training and support, and employees can raise questions with our in-house data protection officer.

Clubcard data is managed by *dunnhumby*, a database management and analytical services company in which Tesco is the majority shareholder. All personal information *dunnhumby* receives is securely stored and used in accordance with data protection laws.

We respect the wishes of customers who choose not to be contacted for marketing and research purposes. Customers' personal information is never released to companies outside the Tesco Group for their marketing purposes. We make clear to customers that their personal information may be shared within the Tesco Group. Any sharing and use of Clubcard data within Tesco is carefully controlled and subject to strict policies, principles, standards and processes.

Customer complaints

Treating people how we like to be treated is one of our core values. If a customer has a query or complaint, we listen and respond as best we can. Many queries can be answered through our website. Customers can also contact us by phone or post.

TARGETS

- Continue to roll out GDA labelling across all our businesses
- Launch 125 Tesco Light Choices lines in Malaysia
- Continue to Support Change4Life in the UK
- Extend our healthy labelling (examples below) across more own-label products in our UK stores

TESCO PERSONAL FINANCE

In December 2008, Tesco bought from The Royal Bank of Scotland Group its 50% shareholding in Tesco Personal Finance (TPF) to take full ownership of the business.

Today, TPF has over six million customer accounts across 28 products, covering insurance, savings, credit cards, personal lending and online insurance and utilities comparison through Tesco Compare.

Customers trust Tesco to deliver value whether they are buying their weekly shop or opening a savings account. We take the same approach to financial services as we do to all other parts of our business, offering competitive, straightforward products with no confusing small print and hidden charges.

As a provider of loans and credit cards, TPF seeks to lend responsibly at all times. All new applications for credit are assessed using industry-standard credit scoring techniques and we always consider the customer's ability to afford and repay the debt before we lend. We actively monitor and review our policies and procedures in light of the changing economic environment.

We acknowledge that some of our customers will be facing difficult times and encourage customers to contact us directly if they are experiencing financial difficulty or know that their circumstances may change. We deal with all cases sympathetically and customers are able to speak with specialist staff who will work with them to determine an affordable payment plan.

TPF has always supported the community and in 2008 made donations to Tesco Charity of the Year, Marie Curie Cancer Care, for every customer transaction made via our ATM network, raising over £40,000. In January 2009, our ATM network was also used to advertise National Debtline, the national telephone helpline for people with debt problems in England, Scotland and Wales.

In 2009, TPF will develop a Community Plan.



Our 470,000 employees serve our millions of customers around the world. We look after and develop them so they can look after our customers. From career development and rewards to community engagement, we aim to be a great place to work.



We are the largest private sector employer in Ireland, South Korea and the UK and provide diverse career opportunities for 470,000 people worldwide – from positions on the shop floor, to roles for 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 and professional skills along the way. Access to opportunities keeps people motivated and committed, delivering great service.

We have worked hard to create a culture of trust and respect, where managers help their people to do their jobs. We know people work better when they are given the power 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.

Graduate programme participants 2008

Asia	
China	43
Japan	14
Malaysia	80
South Korea	69
Thailand	35
Europe	
Czech Republic and Slovakia	57
Hungary	26
Ireland	13
Poland	18
Turkey	18
UK	136

Total 509

Training and development

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

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.

In 2008, 50% of Company Directors were appointed internally, including the appointment of Laurie McIlwee to the Board as the Group Finance Director. This was less than our usual 65% due to recruiting new Directors into Tesco Personal Finance. We also appointed 3,741 new managers for stores and 149 distribution centres in the UK alone – 86% from within Tesco.

One in 30 of all staff at Tesco in the UK are on our Options development programme, learning the skills they need to apply for a job at the next work level. This year in the US, we introduced Options for moves from work levels three to four (senior manager to director positions) in the US. We will implement Options for work levels three and four in Central Europe and Asia in 2009.

Our graduate programme fast-tracks high-potential graduate trainees into leadership positions. Recruits come from across the business internationally.



Fishmongers and bakers can gain recognised qualifications

In the UK, skilled specialist employees such as fishmongers and bakers can gain recognised qualifications during their careers at Tesco. Our Training Framework Scheme delivers most shop-floor and distribution centre (DC) training, and we are working towards accreditation by the Qualifications and Curriculum Authority. In 2008, 97.4% of shop-floor and 99.9% of DC employees in the UK were trained to bronze level (competent), and 94.2% of shop-floor employees to silver level (expert or experienced). We exceeded our target to train 97% of retail and DC staff to bronze level, and 85% of our retail staff to silver level. Employees complete bronze training within four weeks of joining and silver training within 12 weeks of joining.

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 me
- Have an interesting job





80% OF APPRENTICES SAID THE PROGRAMME PROVIDED THEM WITH A CAREER PATH AND 85% NOW HAVE MORE CONFIDENCE

Communication and consultation

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 DC forums, publications and our intranet.

Our annual staff survey, Viewpoint, is anonymous and confidential. Results get fed into local action plans at store, distribution centre and office level. In 2008, 88% of staff completed Viewpoint.

Employees across our business are free to join unions, and we have an industry-leading partnership agreement with Solidarity in Poland and Usdaw in the UK.

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 store to support store colleagues.

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 report grievances and ethical concerns. All calls are logged and investigated by the appropriate function. The feedback is monitored by Corporate Governance and the PLC Compliance Committee within each country and reviewed by the PLC Compliance Committee each year.

In 2008 we received 253 employment-related calls to the helpline. This increase of 15% from last year shows 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.

70% OF STORE STAFF IN THE UK SAY THEY ENJOY WORKING WITH TESCO



OTHERS SAY

"The Tesco [regeneration] project is exactly what we want in this country today – private enterprise joining with Government and public agencies ... in order to provide people with jobs"
– Government

Rewards and benefits

It is important to us 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.

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 wage 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 are bringing in long-term reward plans across 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, 193,000 employees received £92 million worth of free shares in our Shares in Success scheme in 2008. 52,000 staff shared a £126 million payout from our risk-free Save as You Earn share option scheme and 44,000 staff saved money through a tax-efficient Buy As Your Earn share saving scheme.

We offer a range of staff discounts across the Group. In the Czech Republic and Slovakia we offer family discount days. This year in the UK we reduced the length of service needed to six months for staff to receive 10% discount on all purchases over £1, an investment worth £80 million. Next year we will introduce staff discounts in Thailand.

APPRENTICESHIPS



Apprentices from Bristol receive their certificates from Christine Palmer, Group Personnel Manager for Superstores South

In the UK, 848 of our employees have been awarded an Apprenticeship in Retail Skills since 2004. 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.

Of the apprentices who graduated in 2008, 80% said the programme provided them with a career path, and 85% feel they now have more confidence. One apprentice highly commended in our Apprentice of the Year awards was Mark Beckitt, 47, a General Assistant from our store in Stalybridge. He is dyslexic and has difficulty writing. The programme helped Mark prove to himself that he can achieve outside of his comfort zone. He is now on our Options scheme to become a Section Manager.

In February 2009 we registered 863 new learners on the Tesco apprenticeship programme, beating our target of 800.

IN THE UK WE ARE THE LEADING RETAILER FOR PAY AND HAVE A BENEFITS PACKAGE WORTH AN EXTRA 17% FOR CUSTOMER ASSISTANTS



Diversity and inclusion

We want everyone to feel welcome at Tesco, regardless of age, gender, disability, ethnicity or sexual orientation. We aim to reflect the customers we serve at all levels of the business.

Diversity is embedded in the business by a Diversity Council consisting of Directors from across the business, and chaired by Retail and Logistics Director, David Potts. Each member of the Board is provided with talent planning data that allows them to review the diversity of their teams.

We focus on employing local people and developing local leaders in each country. Only 350 of the 185,000 people we employ internationally are from our UK business: 47% of our country operating boards and 57% of directors are locals. Twelve people from the international business are on our Advanced Leadership Programme.

Disability

We work to positively 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.

The Viewpoint survey featured a question on disability for the first time this year, to find out how employees with disabilities feel about the business, and to plan activity in 2009. In the UK, 800 Personnel and Store Managers attended our in-house Managing Disability with Confidence course.



1,351 STAFF SHARED A £3.4 MILLION PAYOUT FROM OUR IRISH SAVE AS YOU EARN SHARE OPTION SCHEME



'THE SAME CHANCE' – EMPLOYER OF THE YEAR 2008, CZECH REPUBLIC

In May 2008 Tesco Czech Republic was named Employer of the Year by the organisation The Same Chance. The competition enables mentally and physically disabled people to nominate employers based on how they are treated, working hours, working environment and colleagues.

Tesco employs about 400 disabled people in the Czech Republic and 40 in Slovakia who are all fully integrated into our teams. For example, Petr is mentally disabled and has worked in an in-store bakery in Smichov for over four years, reprocessing hard bread into breadcrumbs. He is very engaged with his work, and has made suggestions for increasing breadcrumb sales, some of which have been accepted by the store. As a result Petr feels valued and expresses pride in his job.

Viewpoint results for 'I am treated with respect'

	Stores	Distribution	Office
	% agree/ strongly agree	% agree/ strongly agree	% agree/ strongly agree
Overall average	72.1	55.7	86.2
People from ethnic minority backgrounds (average)	72.1	53.6	83.4



UK staff in the new staff uniform

Gender

We want women to do as well as men at Tesco. There are three women on our Board of Directors, two are Non-executive Directors. In the UK, 20% of Directors are women and we have just appointed our first female Director in South Korea in 2008. This is a significant appointment and establishes a positive role model in a country where there are traditionally very few women in senior positions.

In the UK, 57% of Tesco employees are female. There are 123 female store managers (16% of total), and we are continually developing more women to enter management roles. Women are well represented in our development programmes, which should ensure more women achieve management positions in the future. Women make up 60% of participants on our Apprenticeship in Retail programme.

However, there is still work to do. The Tesco Women's Network aims to help female Managers and Directors progress and has now attracted over 200 senior members (at manager level and above). The Network provides skills development, mentoring and networking opportunities.

In the UK, 10.2% of distribution employees are women. This is largely due to traditional opinions that distribution is a male-dominated environment. This is a general industry issue and not specific to Tesco. We are working to encourage more women to pursue careers in distribution.

At Tesco in the UK, there was only a 2% difference in the average pay between men and women in 2008. This compares with the national mean average of 17% and median of 13%. Anything less than 5% is deemed statistically insignificant.

UK DIVERSITY

Ethnic diversity

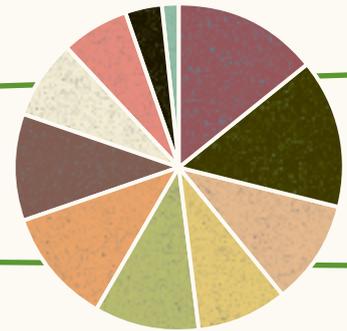
We are proud of our diversity. We have the most socially diverse customer base of any of the UK retailers and we want our workforce to mirror the communities we serve.

In 2008, 120 personnel managers attended in-store Managing Ethnicity with Confidence workshops. Another 120 will be trained in 2009.

A new network for British Asians at Tesco has partnered with universities and engaged with Asian parents to improve perceptions of careers in retail, and demonstrate the opportunities Tesco offers. As a result, 20% of applicants to the 2010 Graduate Scheme are British Asian.

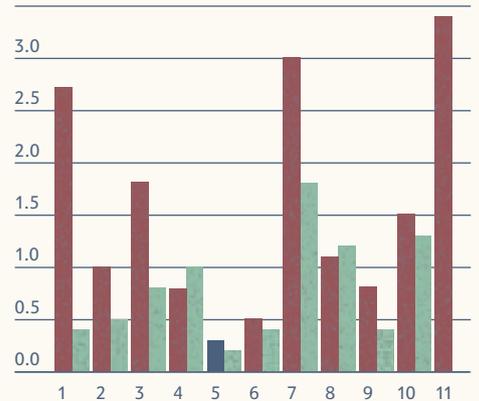
Age

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. 27% of people on our apprenticeship programmes are over 40. Our oldest apprentice is 67.



Age of UK employees

15-19	14.4%
20-24	14.5%
25-29	10.4%
30-34	8.9%
35-39	10.2%
40-44	11.3%
45-49	10.6%
50-54	7.8%
55-59	6.5%
60-64	3.7%
65 and above	1.5%



UK ethnic diversity profile*

	Tesco	UK Pop.
1 Asian Other	2.7%	0.4%
2 Bangladeshi	1.0%	0.5%
3 Black African	1.8%	0.8%
4 Black Caribbean	0.8%	1.0%
5 Black Other	0.3%	0.2%
6 Chinese	0.5%	0.4%
7 Indian	3.0%	1.8%
8 Mixed Race	1.1%	1.2%
9 Other ethnic group	0.8%	0.4%
10 Pakistani	1.5%	1.3%
11 White (Central European)	3.4%	-

* Excluding White British (83.1% at Tesco and 92.1% in UK)
Source: The UK population by ethnic group, April 2001 Census



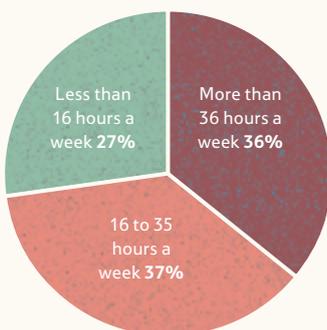
THIS YEAR WE APPOINTED 86% OF NEW MANAGERS FROM WITHIN TESCO

Flexible working

We support flexible hours wherever possible. In the UK we offer family-friendly shifts, job-sharing, flexi-time 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, childcare 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.

This year we appointed our first part-time senior director.



UK flexible working

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 Executive 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%. At the start of 2009 we have in fact achieved a reduction of over 50% in the rate of reportable accidents across all of our stores and distribution centres.

Our health and safety performance is measured using reportable accident rates which we measure regularly and 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 targets reductions in rates of injury for each specific store site.

This year in the UK we achieved a significant reduction in the number of reportable staff accidents in our stores from 1,958 in 2007 to 1,489. This has been achieved by continuing to improve training and raising awareness with our people. Each year targeted safety campaigns are organised throughout the business. These aim to raise awareness and reduce the risk from the main causes of injury: slips and falls; and manual handling.

We also ran an impactful accident awareness campaign in October where we highlighted key safety messages to all staff. Bright red posters were placed around stores and warehouses. These underlined the importance of cleaning as we go, immediately dealing with rubbish and spillages, and taking care when moving around stores.

TESCO WHIZZ KIDZ

In 2008 we worked with the national mobility charity, Whizz Kidz, to give 25 young wheelchair users the opportunity to gain work experience in Tesco stores. We initially trialled work placements in June 2008, and then rolled out further placements in 25 stores across the country. The programme was organised in response to Whizz Kidz' survey of young wheelchair users which found their top concerns to be: 'getting a job' and 'not having the same opportunities' as non-disabled friends.

Twenty-one-year-old participant Ben Ratford said, "I really enjoyed working at Tesco. The placement has given me more confidence and proves that using a wheelchair does not have to be an obstacle to getting a job."

After the placements, three of the participants were offered permanent positions. In 2009 Tesco and Whizz Kidz will expand the project to create Whizz Kidz Saturday clubs in 48 of our stores. The clubs will provide an opportunity for disabled young people to socialise and campaign on issues they feel strongly about.

TARGETS

- Train 97% of retail and DC staff to bronze level, and 85% of our retail staff to silver level through our Training Framework Scheme
- Double the number of people on our Apprenticeship in Retail programme
- Continue to run Managing Disability with Confidence courses in 2009/10
- In 2009 we will communicate our refreshed Values to every member of staff in every country except the US, where they have only just launched the Values
- We will create 26,000 jobs across all the markets in which we operate
- Train 120 personnel managers to manage ethnicity with confidence

MANAGING CORPORATE RESPONSIBILITY

We understand that our success comes from behaving responsibly and earning the trust of our customers, suppliers and 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.





Go online!
To see our full
'Every Little Helps'
strategy visit
[www.tesco.com/
about-us/strategy](http://www.tesco.com/about-us/strategy)

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 (CR) 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 new Community Promises, which were launched this year in the UK and will be launched internationally in 2009:

- Actively supporting local communities
- Buying and selling our products responsibly
- Caring for the environment
- 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.

We communicated our Community Promises to employees using specially produced leaflets, posters and pocket guides (see box p48). 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. You can see a full list of Community Plan projects for each country at www.tesco.com/cr-report09/approach/strategy/community

Managing CR

The Board of Directors formally reviews our CR strategy once a year, and discusses emerging issues whenever relevant.

Lucy Neville-Rolfe, our Executive Director of Corporate & Legal Affairs, is accountable for our CR performance.

Our Corporate Responsibility Committee comprises 15 senior executives from across the business and is chaired by her. 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. In addition, in 2008 we held an externally-facilitated discussion for the Committee, to help clarify our thinking on Tesco's key CR issues and how we respond to them.

Corporate governance

Managing environmental, social and governance issues is essential to good corporate governance, as these impact on 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 so employees know what is 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 Audit Committee, Nominations Committee and Remuneration Committee are responsible for related processes and controls. In addition, the Executive Committee monitors controls through the Compliance Committee, Corporate Responsibility Committee, and Finance Committee. Reports from each Committee are circulated to the Board, which holds a formal discussion on each at least once a year.

For more information about the roles, responsibilities and independence of Board members as well as details of our corporate 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 only on those issues of most importance to our business, employees and customers.

In 2008, 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 52.

ENGAGING OUR CR STAKEHOLDERS

In 2008, we held two independently facilitated focus groups with CR opinion formers including journalists, socially responsible investors, suppliers and academics, representatives from local and national government and non-governmental organisations.

We asked for feedback on whether we have correctly identified the material issues, our strategy and performance, and the quality of reporting in our 2008 CR Review.

Key recommendations of the focus groups, which we hope we have addressed in this Report, were:

- More strategic focus in the printed Report with more detail on the website
- More candour about good and bad performance
- A willingness to acknowledge other people's views
- Greater clarity about the methodologies we use to calculate data
- Better explanation of standards and codes such as Nurture
- More coverage of the international business
- More data, and more external benchmarks to provide context for Tesco's performance

COMMUNITY PROMISES

This year we launched our Community Promises in the UK to engage staff and build their understanding of the Community Plan in order to make our Community activity come to life in stores. The new Community Promises sit alongside the People, Customer, and Operations Promises, which we use to communicate our core Steering Wheel objectives to staff.

Through an integrated campaign including literature, staff payslip offers, competitions, events and in-store activity, we achieved a recognition rate of 45%.

Following the success of the launch in the UK we will launch the Community Promises internationally next year. In 2009 we will start to bring this activity to life in our stores for customers.



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**, International Trading Law and Technical Director
- 4 **Jonathan Church**, Media Director
- 5 **Kari Daniels**, Brand and Trade Marketing Director

- 6 **Ruth Girardet**, Corporate Responsibility and Community Director
- 7 **Catherine Glickman**, Personnel Director to CEO
- 8 **Alasdair James**, Category Director – Energy, Petrol, Waste, Recycling and Packaging
- 9 **Liz Kynoch**, Group Technical & Trading Law Director
- 10 **Alex Laffey**, Transport Director

- 11 **Andrew Neale**, Head of Facilities
- 12 **Noel Robbins**, Chief Executive – Central & Eastern Europe
- 13 **Greg Sage**, International and Internal Communications Director
- 14 **Simon Williams**, Property Director – Express, Metro, Distribution and Funding
- 15 **Nanbin Zhuang**, Corporate Affairs Director – Tesco China



KEY PERFORMANCE INDICATORS

We set targets for each objective in the Community segment of the Steering Wheel and use Key Performance Indicators (KPIs) to measure our progress. The Board of Directors reviews performance quarterly and our top 2,000 managers receive a summary report to communicate to their teams. We review our KPIs annually to ensure they are still accurate and robust measurements of our performance.



Our KPIs for 2009 are set out in this table.

These highlight specific areas on which we will focus, and against which our performance will be measured throughout the coming year, though there are of course many other areas where we will continue to work to improve our performance, as highlighted throughout this Report.

Developing our KPIs

Since we first developed Community KPIs in the UK in 2007, we have been working to roll them out across the Tesco Group. In 2008 we introduced some Group-wide KPIs in addition to our UK KPIs so we could measure the success of our newly established Community Plans.

Now that we have Community Plans in every country in which we operate, with clear goals set out in our Community Promises, we have set Group KPIs so we can track progress year-on-year.

In 2009 all countries will be working to deliver Group targets that reflect our five Community Promises. Our new KPIs fully reflect our business across the world and demonstrate the importance we attach to being a responsible business wherever we operate.

In addition to these 12 KPIs, each country has country-specific KPIs, which reflect projects that are important to their local communities. These are highlighted in the 'targets' sections throughout this Report.

To view and compare detailed KPI tables from previous years visit www.tesco.com/cr-report09/kpi09

Community Promise

Caring for the environment

Actively supporting local communities

Giving customers healthy choices

Buying and selling our products responsibly

Creating good jobs and careers

KPI	Target 2008	Actual performance	Target 2009	Comment
Reduce CO ₂ emissions from existing stores and distribution centres by at least 50% by 2020 against a baseline of 2006. Annual target reported as percentage reduction against previous year	5%	7%	5.5%	This target is measured against a baseline of our stores and distribution floor space in 2006, i.e. emissions from extensions and new space are excluded to provide an accurate comparison. It excludes emissions from refrigerant gases because we are still developing a consistent strategy for reducing refrigerants across the Group: we are working hard to do this as quickly as possible. See page 7.
Reduce CO ₂ emissions from new stores by 50% by 2020 against a baseline of 2006	Develop an environmental format	New store format developed 20.5% reduction versus 2006	25%	We have already made strong progress towards our KPI on reducing the carbon emissions of new stores across the Group, achieving a 20.5% reduction this year and our stretching target will help us to continue this progress over the coming year. See 'Environmental stores' section on page 9.
Reduce by 50% the amount of CO ₂ used in our distribution network to deliver a case of goods by 2012 against a baseline of 2006. Annual target reported as percentage reduction against previous year	10% in the UK	9.2% in the UK	10% across the Group	Improved double-deck utilisation and revised delivery frequency to stores helped us to continue to lower CO ₂ emissions per case delivered. This year we have extended the target across the Group. See page 10.
Percentage of store waste recycled	80% in the UK	85% in the UK	95% in the UK	Due to significantly different recycling systems across the countries where we operate, it is difficult for us to measure waste recycled across the Group. Our 2009 target reflects our work in the UK. We are working to develop a more meaningful Group-wide target. See page 13.
Staff and customer fund-raising (£)	£2.73m	£8.2m	£5m	This year's performance was helped by the UK raising £6.2m. Next year's target reflects the fact that customers may donate less in the coming year because of the economic downturn but is almost double this year's target. See page 23.
Donate at least 1% of pre-tax profits to charities and good causes	1%	1.9%	1%	This year we donated £57m to charities and good causes, equivalent to 1.9% of pre-tax profits. See page 22.
Helping customers live healthy lives Staff and customers active (millions of people)	3.5m	4,659,310	5.3m	We exceeded our target to get 3.5m people active in 2008, with a particularly strong performance in Thailand. See page 36.
Helping customers choose healthy food (number of promotions)	N/A	New	110	We have introduced a new target for the number of promotions with key messages about health to raise awareness and provide customers with information. See page 35.
Increase the number of eligible own-brand lines with nutritional or front-of-pack GDA labelling (% of total number of eligible brands)	78%	92%	99%	We have exceeded our Group target with 92% of eligible lines labelled. We reached 100% in all countries except the Czech Republic, Hungary and Slovakia where we plan to reach 100% in the first quarter of 2009/10, and South Korea where GDA labelling is on the 2009/10 Community Plan with an aim to reach 95% by the end of the year. See page 33.
Supplier Viewpoint Average score (% of scores that are favourable)	N/A	68%	70%	We have introduced a KPI to grow the response rate from suppliers whilst maintaining their average score. See page 25.
Response rate of suppliers (%)	N/A	37%	45%	
Staff being trained for their next job	N/A	New	10%	We have introduced a KPI to measure the number of Tesco staff around the world being trained for their next job, for example through our Options programme. See page 41.



UNDERSTANDING OUR STAKEHOLDERS



This table summarises the main issues we have identified through engagement with different groups and gives examples of the ways in which we engage with them.

Stakeholder group	Interests and expectations of Tesco	Interaction with Tesco in 2008
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.	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 identify and respond to changing customer needs. 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 2008, we also held CQTs on particular 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 manner.	We actively engage investors in an annual structured 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 provide updates and issue briefings when appropriate during 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.
Employees	Our staff want secure, interesting jobs with fair terms and conditions and opportunities to get on. They want a helpful manager, to be treated with respect and to have a safe and healthy workplace.	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, healthy, regenerated communities and support for local causes and initiatives.	We communicate 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.
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 also provide training and capability building for suppliers where appropriate.
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 initiatives affected by our business, 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 planning processes and consultations on new regulations including 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 clearly 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 2008 to discuss issues including climate change, biofuels, ethical trading and animal welfare. 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.

A VIEW FROM FORUM FOR THE FUTURE



Supermarkets have a vital role to play in these difficult economic times. It is crucial that leading retailers embrace sustainability in a recession. Of course, they must make cost savings. But they must also continue to develop products and services that create real value for consumers whilst not damaging the planet. Those that do so will come out of the downturn commercially stronger.

Looking at the Report itself, it highlights how Tesco is trying to tackle the huge number of issues that it faces as one of the world's largest retailers. We welcome its increased international content, as this better reflects Tesco's global reach. Aligning the Report's structure with Tesco's Community Promises makes sense, and we welcome the addition of opinion former feedback ('Others say') as a sign that Tesco is beginning to engage more openly with stakeholders. It is encouraging also to see Tesco talk explicitly about how it is trying to address its indirect impacts.

Tesco has had a number of notable achievements over the past 12 months. We are very encouraged to see Tesco reduce the amount of in-store waste going to landfill by one-third in the space of a year. We welcome Tesco's redefining of what constitutes 'local' and its growing support for local products. The commitment to roll out the blueprint from its Cheetham Hill eco-store across all its other new stores is commendable and we urge Tesco to also retrofit all its existing stores. We are also pleased to see Tesco step up its efforts to educate consumers on the carbon footprints of what they buy. And we support the idea of 'Regeneration Partnerships', offering training and employment for the long-term unemployed.

There is still, however, a lot further to go. We would urge Tesco to use its influence to take a bolder position on issues such as healthy eating. Tesco should be leading the industry on radically reducing salt and sugar in foods. We would encourage Tesco to further improve the nutritional content and sustainability profile of its Value range so that it offers healthy, affordable food to the mainstream. We would also like to see consensus between the major supermarkets on universal nutritional labelling.

On climate change, customers driving to its stores generate a major proportion of Tesco's indirect carbon footprint. We would therefore urge Tesco to provide its customers with low-carbon access to its products and services, and to incorporate this into its eco-store blueprint. We would encourage Tesco to accelerate its carbon labelling roll-out, because the process of understanding the carbon footprint of a product can be a very valuable step in helping to drive emissions out of the supply chain. Tesco should also start to apply relevant lessons it has learned on tackling climate change to tackling embedded water.

If Tesco is to truly 'lead by example' on climate change, it must reduce its own *absolute* carbon emissions year-on-year.

The next big challenge for Tesco is to address how it can grow whilst respecting environmental limits. Humankind is already placing intolerable stress on the planet's resources and its ability to deal with our emissions. As Tesco continues to expand its business, it must simultaneously reduce its environmental impact. It has already shown that it can deliver radical environmental improvements in specific areas. Next it needs to look at the whole picture. To do this, it will have to ask some big questions about what a truly sustainable supermarket looks like, develop some new business models and set – and then achieve – some ambitious global sustainability targets.

Peter Madden
Chief Executive

Dan Crossley
Principal Sustainability Advisor



Forum for the Future – the sustainable development charity – works in partnership with leading organisations in business and the public sector to create a sustainable future. Forum for the Future is a Registered Charity in the UK (number 1040519). It is not an auditor or a verifier and these comments should not be read as verification of data or information contained within the Report.

Tesco is one of Forum for the Future's Corporate Partners. Through this partnership Tesco makes a direct financial contribution to Forum for the Future. Last year Forum's income from Tesco represented less than 2% of Forum's turnover. The partnership is currently in its eighth year. For more information on Forum for the Future visit www.forumforthefuture.org



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