

Environmental and social review

Every little help makes a big difference.

Our approach

As one of the world's leading food retailers, we are very aware of the impact we can have in society and on the environment. Across the Group our actions are guided by our third value, 'every little help makes a big difference', reminding us of the positive impact we can have on colleagues, suppliers and wider society by making small, incremental changes.

Our Social and Environmental plan naturally puts food at its heart. It serves to make sure we tread lightly when we source, supply and sell food, and use our extensive local presence and strong supply chain network to make a positive difference to the environment and society. Our plan contains a series of little helps to make it easier to eat healthier; grow our suppliers' businesses sustainably; help to halve global food waste by 2030; and add value to local communities.

We are committed to taking the actions we can to address global issues and to make a significant contribution to the communities we serve. We know there is more to do and our plan seeks, together with partners, to make every little help add up to a bigger difference.

Our reporting

Corporate responsibility is a fundamental part of our business, and evidence of the wider impact we can have on society is reflected throughout this report.

In November 2015, we joined the UN Global Compact, an initiative that encourages businesses worldwide to adopt sustainable and socially responsible policies. This year, we recommitted to the Compact and published an update on our progress against the 10 principles covering human rights, labour, environment and anti-corruption.

Our UN Global Compact membership reinforces our commitment to transparency. We publish a set of regularly updated corporate responsibility policies, available to view online. We also share frequent updates, blogs and news on our progress and key achievements.

Our governance

Our Corporate Responsibility Committee is chaired by our Chairman, John Allan. More information on the activities of the Corporate Responsibility Committee this year can be found in the Corporate Governance report.



Visit www.tescopl.com/society for information on our ongoing activities and latest case studies.

Our three values

1. No one tries harder for customers
2. We treat people how they want to be treated
3. Every little help makes a big difference



Our colleagues

Our colleagues are at the heart of our business, serving our shoppers a little better every day. We continue to build trust and transparency with colleagues to create a culture which allows everyone at Tesco to be their best.

This includes working hard to make sure colleagues are the first to know of any changes made to the business. This year we hosted colleague conferences where leadership teams talked about our business priorities – in the UK over 8,000 colleagues attended the event, with further events held for colleagues in Central Europe and Asia. Over the last year we have also refreshed our UK colleague policies, and made them accessible through our dedicated online colleague portal.

Inclusivity, and creating a culture where everyone feels welcome, remain integral to our business. The ratio of male to female colleagues at year-end is outlined in the table, right. We believe

that monitoring the pay gap between men and women is an important step towards ensuring everyone is rewarded fairly for their work and enjoys the same opportunities.

The UK Government has published regulations requiring large employers to report their gender pay gap, which came into force in April 2017. We have monitored gender pay since 2002, and as part of our commitment to transparency, have published data online with an early analysis – using the calculations set out in the regulations, but covering the period from April 2015 – April 2016. We look forward to sharing our formal disclosure, based on data for the 12 months to April 2017, later this financial year.

We want to encourage everyone in our business to reach their potential – whoever they are, wherever they work, whatever they do. After feedback from our annual colleague survey, it became clear that we needed to do more around access to learning opportunities and recognising great performance. We have introduced a new performance management process based on frequent performance and development conversations, inspiring colleagues to be their best.



Visit www.tescopl.com/genderpay for information on our gender pay gap reporting.

Gender diversity	Male		Female	
Board of Directors	8	73%	3	27%
Senior managers – Directors	394	75%	128	25%
Senior managers – Directors and managers	2,852	64%	1,593	36%
All employees	197,154	43%	263,236	57%

Supplier partnerships

Building strong, trusted partnerships with our suppliers is critical for our business. Over the last two and a half years, we have worked hard to change the way we work with our suppliers. A key part of our commitment has been publishing our payment terms.

In the UK, we were the first retailer to publish our payment terms in October 2015. In Central Europe this year, we simplified trade terms and took steps to ensure that we are paying our smallest suppliers quicker.

We also now have a dedicated UK Supplier Engagement team and a Tesco Supplier Network. The Network is an online community of over 5,000 Tesco suppliers, who can share ideas, innovate, and drive sustainability through our supply chain and in the products we sell. In Thailand, we have recently introduced e-newsletters and a supplier website to help communicate more openly with our partners.

For the past 10 years, the Tesco Sustainable Dairy Group (TSDG) has worked directly with over 600 dairy farmers to supply us with fresh milk. We pay guaranteed prices and agree

long-term contracts. In 2016/17 the number of farmers in the group increased to 700 – the largest group of dairy farmers working directly with a retailer in the UK. In June 2016, we unveiled a new ‘Fair for Farmers’ guarantee on all of our fresh milk. This makes clear to customers how every pint of milk sold at Tesco is 100% British, ensures farmers are paid fairly and that every cow is well cared for.

All these actions have been reflected in the positive feedback we’re receiving from our suppliers. In June, the UK Groceries Code Adjudicator reported that Tesco was the most improved retailer in the way it engages with suppliers. In October, the independent Supplier Advantage Survey ranked Tesco the number one UK retailer. Our own Supplier Viewpoint survey shows that now 77% of suppliers are satisfied with their experience of working with Tesco.

Business ethics and anti-bribery

Our Code of Business Conduct sets out our most important legal obligations and helps colleagues follow key policies.

We encourage a ‘speak up’ culture across our supplier base, and amongst

our colleagues. We provide free, independent, and confidential ‘Protector Lines’ that enable our colleagues, suppliers and their staff around the world to raise concerns. Insights from these services are reviewed at Compliance Committee meetings which are chaired by the Group Chief Executive.



Environmental and social review continued

Supplier partnerships continued

Human rights

Our supply chain investments are a positive force internationally, creating jobs and opportunities for people and communities. But we also want those jobs to be good jobs.

We fully support the UN Universal Declaration of Human Rights, the International Labour Organization Core Conventions and the UN Guiding Principles on Business and Human Rights. We are a founding member of the Ethical Trading Initiative and our industry-leading team of labour standards experts work closely with our suppliers, NGOs and other stakeholders to meet the standards set out in its Base Code.

Over the last year we have reviewed our human rights programme with suppliers and external experts, including labour

NGOs and trade unions, to ensure we are addressing the most serious risks to workers and communities. We have moved to an approach based on three core pillars:

- Assurance – our programme to ensure that the facilities we source from are positive places to work
- Improvement – working collaboratively with others to address issues in lower tiers of our supply chain (our suppliers' suppliers, and so on), where our direct leverage is reduced
- Empowerment – a plan to support communities linked to our supply chain that face social challenges.

An example of our Assurance programme in action is in our banana supply chain, where all of our bananas for the UK market are now certified by

the Rainforest Alliance. This milestone is supported by our programme to improve conditions and low wages in the industry.

Examples of our Improvement and Empowerment programmes include our tea supply chain. We are working in Malawi with Oxfam, the Malawian tea industry and some leading tea brands to improve wages across the industry. And in Assam, India, we are working with UNICEF to help prevent the trafficking of children from local communities into domestic slavery and sexual exploitation.



Visit www.tescopl.com/modernslavery for our Modern Slavery Statement and www.tescopl.com/humanrights for further information and case studies.

Healthier eating

Our customers want us to make it easier to make healthier choices. Through innovation, and making continuous small changes, our goal is to help customers do just that.

This year, we began offering free fruit for children in 800 of our UK stores. Our hope is this change will promote healthy eating habits that will stay with children as they grow up. In January 2017, we also held our first UK colleague health month – helping colleagues to make healthier choices every day.

We continue to make significant progress in reformulating our products. We believe that every time we change the recipes for our food and soft drinks, we should try and make them healthier, without compromising on taste.

In November, we reached a significant milestone, as the first retailer to have all its own brand soft drink recipes below the sugar content threshold for the UK soft drinks levy. In addition to our work on soft drinks, we have cut the salt, fat and sugar in over 3,000 of our own products since 2015, and plan

reductions in a further 1,000 products each year for the next three years.

Our role in promoting healthier living across communities also remains a focus. Through our National Charity Partnership with Diabetes UK and the British Heart Foundation, and our support for Cancer Research's Race for Life, we are continuing to encourage healthier lifestyles.



Visit www.tescopl.com/healthyeating for more information about our work on healthier choices.



Environment strategy

Our environment strategy targets the five key areas that we have an impact on, either through our direct operations or through our sourcing activities.

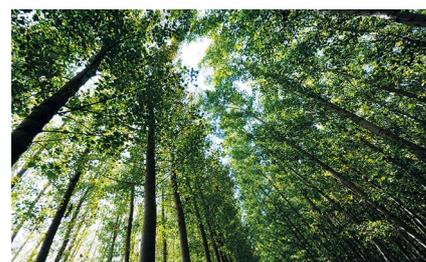


Visit www.tescopl.com/environment for further information on our strategy.



Climate

We are investing in renewable electricity both through on-site generation and procurement. In 2016/17 we invested a further £8m in solar power in Thailand. Our leading performance and disclosure has made us the only retailer included in the 2016 Carbon Disclosure Project Climate A List.



Forests

A key commitment is to achieve zero net deforestation in our supply chain by 2020.

100% of palm oil in our UK own-brand products already comes from sources certified to the Roundtable on Sustainable Palm Oil standards.



Marine

One of our biggest achievements in the last year has been our partnership with the Marine Stewardship Council (MSC). We have significantly increased our range of eco-labelled certified sustainable fish across our UK fresh, frozen and grocery ranges from 16 to 100.



Farmlands

Agriculture accounts for approximately 60% of our supply chain carbon footprint, 97% of our water footprint and the vast majority of our impact on biodiversity. We are working with suppliers and expert NGOs to roll out approaches, such as the Cool Farm Tool, to measure impact and drive improvements.



Freshwater

Lakes, rivers and aquifers are essential for the production of many products. We are mapping our key supply chains to understand their exposure to water risk, and how they overlap with key environmentally-sensitive river basins. We are piloting measures to reduce water use and local environmental impact.

Greenhouse gas emissions

Our carbon footprint is calculated according to the Greenhouse Gas Protocol. Our net carbon footprint in 2016/17 was 3.9 million tonnes of CO₂e.

This year we have reduced our net carbon intensity per square foot of retail and distribution floor space by 10% compared to last year, and 52.2% since 2006/07 through investments in energy efficiency and procuring renewable energy.

	Global tonnes of CO ₂ e		
	2016/17	2015/16	Base year 2006/07
Scope 1	1,236,980*	1,301,746	1,345,507
Scope 2 ^(a)			
Market-based method	1,582,275*	2,004,992	Not Available
Location-based method	2,357,245*	2,528,323	2,259,984
Scope 1 and 2 carbon intensity (kg CO ₂ e/sq ft of stores and DCs)	22.95*	26.33	51.14
Scope 3	1,073,721*	1,097,491	1,064,460
Total gross emissions	3,892,977	4,404,230	4,669,951
CO ₂ e from renewable energy exported to the grid	1,154*	1,513	-
Total net emissions	3,891,822	4,402,717	4,669,951
Overall net carbon intensity (total net emissions kg CO ₂ e/sq ft of stores and DCs)	31.69*	35.06	66.23

* Independent limited assurance for greenhouse gas emissions data has been provided by KPMG LLP using the assurance standards ISAE 3000 and 3410. KPMG has issued an unqualified opinion over the data and the respective full assurance opinion is available at: www.tescopl.com/carbonfigures.

^(a) Tesco uses the market-based method for calculating Scope 2 emissions for our total emissions to account for our efforts in generating and purchasing low carbon energy. The location-method impact is provided for disclosure only and all intensity, net and gross emissions shown are calculated using the market based method. See www.tescopl.com/carbonfigures.

Environmental and social review continued

Tackling food waste from farm to fork

In 2016/17 0.5%^o of food was wasted in our UK operations^a. It might seem a small number, but it still adds up to 46,684 tonnes^o.

That is why we have made the commitment that no food that is safe for human consumption will go to waste from our UK retail operations by the end of 2017. Since 2009, we have sent no food waste direct to landfill. And with our chairmanship of the international Champions 12.3 coalition, we are also committed to accelerating progress towards the UN Sustainable Development Goal target to halve per capita global food waste by 2030.

In our own operations, we are rolling out our Community Food Connection programme to all our UK stores and using FoodCloud with FareShare to redistribute edible surplus food to people in need. Since 2015, we have provided over 6 million meals for people in need.

We also have a shared responsibility to reduce waste right across the food chain. We work in partnership with producers and supplier partners to help reduce waste from farm to fork.

We are making links between our growers and our fresh and frozen suppliers to tackle waste. For example, we are supporting our prepared foods supplier to take onions which don't quite meet the grade for fresh packs. They are then used in a wide range of products such as ready meals, salads and soups. As a result, over 6,000 tonnes of onions per year are kept within the human food supply chain, which may have otherwise gone to waste.

We are also helping customers reduce food waste at home. In the last year, we have continued to work on packaging and product innovations to extend product life. We have redeveloped our two portion chicken fillets packaging with a separate compartment for each fillet, so that customers can 'eat one and keep one'. And in January 2017 we were the first retailer to introduce frozen watermelon, beetroot, coconut and pomegranate.

International

Food waste is a global challenge, and our approach reflects this. We are expanding redistribution programmes internationally, and 400 stores across Central Europe are already donating surplus food to charity partners. In Malaysia, we are trialling a new food surplus donation app similar to our FareShare FoodCloud platform in the UK. We have committed to offer surplus for donation from all Central European stores by 2020 and all Malaysian Hypermarkets by the end of 2017/18.

We are also trialling the 'Perfectly Imperfect' range, which uses parts of the crop that previously fell outside our specifications, across 50 stores in Central Europe.

Food waste and surplus data

Transparency and measurement are essential for identifying industry-wide hotspots, and in tackling the root causes of food waste. We need clear, category-specific measures of food waste, rather than the aggregated data currently provided by the wider retail industry.

That is why we have been publishing data on UK food waste in our own

operations since 2013. This year we are changing the way we report our data in order to be even more transparent. As well as continuing to share the product category breakdown of food waste, we are now also sharing a breakdown of our 2016/17 food surplus, the year-on-year increase of surplus donations and a breakdown of our surplus destinations. This enables us to clearly show our progress against our goal, that no food that's safe for human consumption will go to waste from our UK retail operations by the end of 2017.

By breaking out the different types of food surplus, we can see how much food is being wasted that is safe for human consumption. This year, a total of 38,696 tonnes of surplus were safe for human consumption. Of this, 5,700 tonnes were donated to people in need; 16,605 tonnes went to animal feed and 16,391 tonnes went to anaerobic digestion and energy recovery. To achieve our target, we need to ensure that no food safe for human consumption is sent for anaerobic digestion or energy recovery.

For 2016/17, we saw a net increase of 4,004 tonnes in food waste (surplus minus donations and animal feed). This net increase came predominantly from Produce, Bakery and Chilled categories. We are looking at these categories to better understand the reasons for this increase. Overall, the proportion of food wasted against the total weight of food products sold in Tesco's UK stores is 0.5%^o.

Our first priority is to reduce surplus food by working with our supplier partners. Where surplus exists, we look to donate this to people in need. Our donations have increased from 2,303 tonnes last year to 5,700 tonnes in 2016/17 – an increase of 148%. At our current rate of donations, we are on track to donate over 11,700 tonnes next year.

By the end of 2017, Community Food Connection will be rolled out to all of our stores in the UK, reducing our waste and helping to feed even more people in need.



Learn more at [tesco.com/foodwaste](https://www.tesco.com/foodwaste).

2016/17 total UK sales tonnage vs surplus tonnage

Total food sales

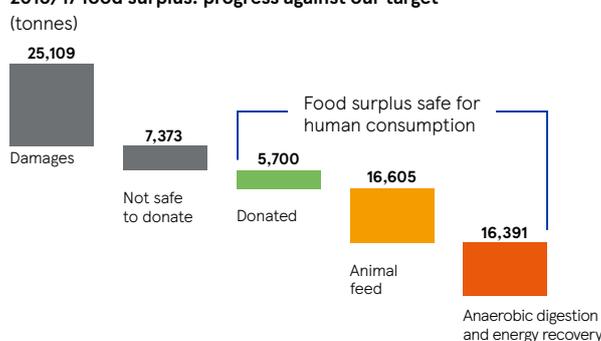
9,957,374 tonnes

Total food surplus

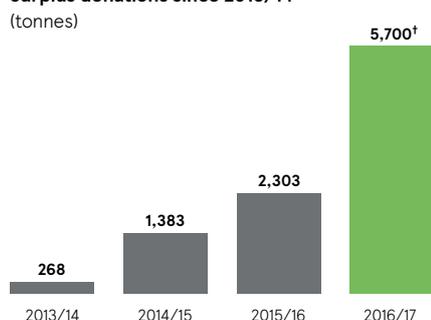
71,178 tonnes

Approximately to scale

2016/17 food surplus: progress against our target

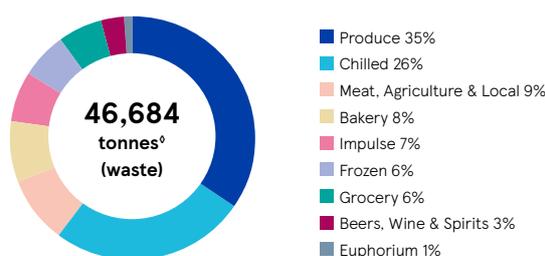


Surplus donations since 2013/14



[†] During 2016/17 our rate of donation has increased. The projected surplus donations for 2017/18 is 11,700 tonnes.

2016/17 food waste by category

(surplus minus donations and animal feed)^(c)Food waste recalculation^(b)(surplus minus donations and animal feed)^(c)

Year	Food waste (tonnes)
2015/16	42,680
2014/15	42,172
2013/14	48,182

Destination of 2016/17 food surplus

Destination	Surplus tonnes	%*
Donated	5,700	8
Animal feed ^(c)	18,794	26
Anaerobic digestion ^(c)	38,653	54
Energy recovery ^(c)	8,031	11
Landfill	-	0

* % do not total 100% due to rounding.

^o Independent limited assurance for food waste data has been provided by KPMG LLP using the assurance standards ISAE 3000. KPMG has issued an unqualified opinion over the data highlighted in this report with a \diamond and the full assurance opinion is available at: www.tescopl.com/foodwastefigures.

^(a) The proportion of food wasted against the total weight of food products sold in Tesco's UK stores.

^(b) Due to our change in definition, we have restated previous years' waste figures. See www.tescopl.com/foodwastefigures for further details.

^(c) Damaged bakery products contribute to animal feed total. Other food that is damaged or not safe to donate is sent to anaerobic digestion or energy recovery. See www.tescopl.com/foodwastefigures for further details.