



Tesco and society: Using our scale for good

2013/14 half year update



“This update is all about having a better conversation with society on the issues that matter to us all”

Chief Executive's Introduction

In May we launched our first Tesco and Society Report. Alongside a summary of the essential work we had done to improve our performance as a responsible business over the previous year – in terms of working with our suppliers, our impact on the environment, the work we do as a global employer, and the support we give to local communities – we also set out a new, long-term vision to scale up our efforts and make an even bigger contribution to society.

We articulated this vision in the form of our new Tesco value: **we use our scale for good**. And to demonstrate this value, we set out three new ambitions to tackle issues where we feel we can make a bigger contribution to society, wherever we operate. The three issues we chose to focus on are: creating opportunities for young people, improving health, and reducing food waste. These are major challenges across the world and their significance has not diminished over the last six months.

In the spirit of our new value and to help us achieve the changes we want to see at Tesco, we were also clear that there will be greater transparency and openness in the way we engage with customers, colleagues, with our trading partners and all of our other stakeholders. That is what this half-year update is all about. It doesn't aim to be a comprehensive account of the work we have been doing since May 2013, but it is designed to highlight some of the early progress and sets out our direction of travel in other areas.

For example, in this update you will read details of how we are publishing independently assured statistics of food waste within our own UK operations. This is the first time a major food retailer in the UK has shared this level of detail. You will see how we've created new metrics clarifying where food is wasted across the value chain. We will explain the work we have been

doing to measure the health quality of food sold across Tesco as part of our Healthy Little Differences Tracker. And we will show how we have been using our scale to help our suppliers to access affordable products to reduce their carbon emissions.

Above all, this update is about having a better conversation with society, on the issues that matter to us all. If you want to read more about the work we are doing – or share your thoughts – you can now do so through our Tesco and Society website as well as our @tescoandsociety twitter feed. We'll keep updating the website with new stories of the projects we're creating ahead of next year's full Tesco and Society Report.

Finally, I am delighted to introduce members of our new Advisory Panel. When we launched our three big ambitions earlier this year, we committed to working in collaboration with others and to developing our plans based on the best possible insight inside and outside the business. These experts are leaders in their relevant fields and disciplines. Over the coming years, they will review our plans, guide us in our efforts, and when necessary, challenge us to do more.

As I said last spring, this is a long-term undertaking and we're still only at the very start of what we want to achieve. But making a real and lasting impact means being upfront and honest about our progress and on-going challenges. This report is one of many ways we want to engage with you, so that, in the long-run, we can make what matters better, together.

Philip Clarke
Chief Executive

Using our Scale for Good



As a major global retailer, serving millions of customers every day, we want to have a broader role in and a positive impact on wider society. That’s why we have a new value: we use our scale for good. It’s a mandate for everyone who works at Tesco to make a positive difference, every day, by harnessing our expertise and reach. It’s how we make a bigger contribution to society than by simply retailing.

This new value is an extension of our Core Purpose: we make what matters better, together. Every day, across Tesco, our colleagues work hard to make what matters better for customers. 'Using our scale for good' is about making what matters better for society as a whole.

That’s why we are focusing on three major challenges which are of serious concern to society: creating opportunities for young people; improving health and reducing food waste. Over the last six months, these issues have continued to grow in significance.

By harnessing our skills and operational capabilities, we believe we can make a positive difference to these challenges while continuing to build on our record as a responsible business.

‘This new value is an extension of our Core Purpose: we make what matters better, together.’

Our Three Big Ambitions

To create new opportunities for millions of young people around the world	To improve health and through this help to tackle the global obesity crisis	To lead in reducing food waste globally
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The Essentials

We trade responsibly ...putting our customers first and working with our suppliers to innovate and provide high quality products	We are reducing our impact on the environment ...aiming to be a zero-carbon business by 2050 and using scarce resources responsibly, including in our supply chain	We are a great employer ...creating inspiring work that makes our colleagues happy and proud of what they do	We support our local communities ...being a good neighbour and running our business to the highest standards
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Reducing Food Waste

Food waste is an urgent global challenge. A recent report showed that 1.3 billion tonnes of food are wasted each year. This costs producers around £460 billion annually. It also puts extra pressure on the environment.

Food waste footprint: impacts on natural resources. UN FAO Report, 2013

We want to lead in tackling this challenge and galvanise change across the value chain: the supply web through which we operate.

The first step in this journey is greater **transparency**. That's why we are publishing for the first time independently assured food waste data from our own UK operations. These show that in the first six months of this year 28,500Δ tonnes of food were wasted in Tesco stores and distribution centres in the UK which is equivalent to 0.87%† of the volume of products we sold in our stores over the same period.

This is a relatively small proportion of the estimated 14.8 million tonnes* of food for UK consumption that is wasted every year and in addition to our existing waste management programmes, we are putting in place **new processes** to minimise the food wasted in our stores, particularly in hotspots such as bakery and fresh produce.

The infographic on the page 9 shows how our operations team are reducing waste in our bakeries.

For produce we have accelerated the use of smaller cases to sell fruit and vegetables as this

reduces waste in our slower selling lines and we have a dedicated team looking at improving packaging to reduce damages.

Our new approach of building **formal partnerships** with suppliers will deliver reductions in food waste across the supply chain through better forecasting, improved infrastructure and knowledge sharing on our Producer Network.

As we set out in the Tesco and Society Report, we are now rolling out a **blueprint of best practice** to all of our markets where we know waste levels are higher than in the UK due to less mature distribution networks.

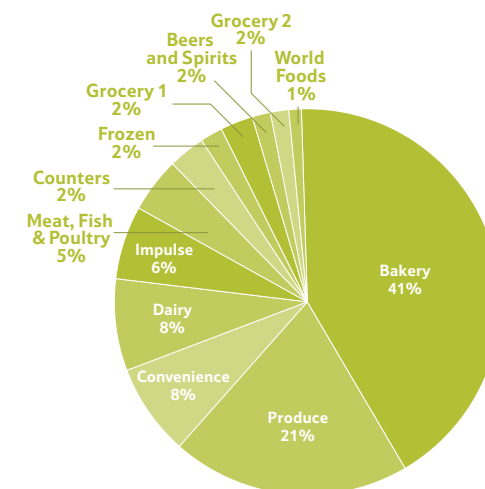
For example, our team in Thailand is implementing our blueprint through their Full and Fresh programme – increasing direct sourcing from local growers, reviewing packaging to extend product life, improving forecasting and store ordering, training colleagues to minimise damage of products in store.

We have also developed a **new metric** to review the total food waste of some of the

most frequently purchased food items in our stores. By looking at where food is wasted from the farm all the way to our customers' waste bins, we can pinpoint where to take tailored action and help make a long-term difference. Take a look at the infographic on the next page to find out more about what our initial analysis has shown.

Additionally, we're continuing to make good progress on **food surplus management**. In the UK, we have committed to providing one million meals to FareShare each year from our dotcom only stores and recently announced a new scheme to donate surplus from our fresh food distribution centres which will provide another 6 million meals each year.

Tesco UK food waste for Q1 and Q2 2013 -14 by category



Percentage breakdown of total tonnage value

Total food waste along the value chain: 32%



*Based on WRAP figures

Δ† KPMG provided limited assurance over these figures. The full assurance report can be found at www.tescopl.com/society/resources

Food Waste Hotspots

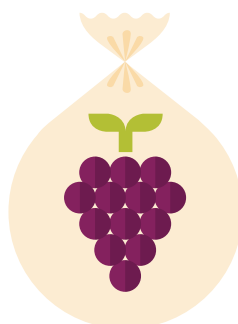
We have established the waste profiles for 25 of the most frequently purchased products so that we can identify those areas where we should prioritise our activity. This infographic shows some of the key insights from five of the products we analysed and what we are doing to tackle waste across the supply web.



Grapes

- Trialling new varieties of grapes with a longer life
- New techniques to protect the grapes e.g. plastic covers in rainy geographies
- Fixing orders to get more fruit direct from our growers to our depots to ensure fresher products for our customers
- Consistent messaging around storage information on pack, online and integrated in customer communication

Total Production Wasted: 24%



Apples

- Growers involved in trials to reduce pest/disease in orchards by using natural predators
- Increased crop utilisation through different product ranges
- Consistent messaging around storage information on pack, online and integrated in customer communication

Total Production Wasted: 40%



Bananas

- We make use of all our suppliers' crops to reduce waste on farm
- State of the art data-logger to optimise conditions for banana transport
- More effective ordering of stock leading to waste reduction at the ripening stage
- 'Love banana' campaign training colleagues on how to handle bananas with care
- Banana hammocks to protect them on display

Total Production Wasted: 20%



Bagged Salad

- We will not offer multi-buys on larger packs and are developing an intelligent promotion strategy to allow customers to 'mix and match' products
- Introducing re-sealable bags across the range following a trial on shredded iceberg lettuce
- Twin packs offer 'eat me now, eat me later' opportunities for customers

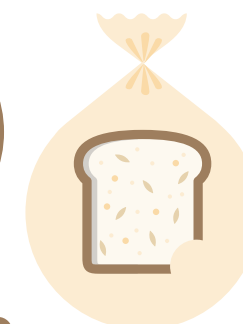
Total Production Wasted: 68%



Bakery

- Surplus bran from milling sent for animal feed
- Less bread displayed in our in-store bakeries in 600 larger stores
- Building more accurate IT systems for ordering stock and planning daily production in-store
- Training bakery managers on new systems to reduce waste without reducing quality and availability
- Real food website provides tips and hints on how to use surplus bread and bakery products

Total Production Wasted: 47%



Improving Health

As we made clear in our first Tesco and Society Report, helping customers and colleagues to lead healthier lives will be achieved by making it easier for people to know what's healthy to eat and making it easier and more appealing to make healthier choices.

Over the last six months, we have been working hard to understand where we should act and how we should prioritise the issues. Getting the right data and insight is incredibly important, so a lot of the work we have done so far has been focused on forensic nutritional analysis. This includes:

1 Establishing health criteria to map the foods we sell

To do this we've adopted a way of categorising food based on nutritional benefits so that we can identify which foods are healthy. These have been informed by traffic light labelling criteria and Guideline Daily Amounts (GDAs). We're confident that this provides a good basis for profiling the food and drink that we sell in a simple way and we want to spend the next three months consulting nutrition experts on our criteria before finalising and publicly sharing details.

Using the new criteria, we are profiling all of the food products we sell in the UK – we have completed over half, the equivalent of more than two-thirds of the volume of items going through our tills. This confirmed that around 60% of our sales come from 'healthy' products. When complete, this will give us the benchmark to measure our progress in reducing the proportion of less healthy products sold. This will help guide product reformulation, as well as shaping our healthy promotions policies to help our customers make healthier choices.

2 Creating a new 'Healthy Little Differences Tracker'

We have been piloting a new tracker which measures how the nutritional content of customers' shopping baskets changes over time. We've also measured the nutritional profile of a representative sample of our customers' shopping trips using the UK government's Nutrient Profiling Model and our insights into consumer trends from experts at Dunnhumby.

We have analysed different baskets to understand the key differences between the healthiest and least healthy shopping trips at a product level. The infographic on the following page shows some of the trends that we are starting to see emerge.

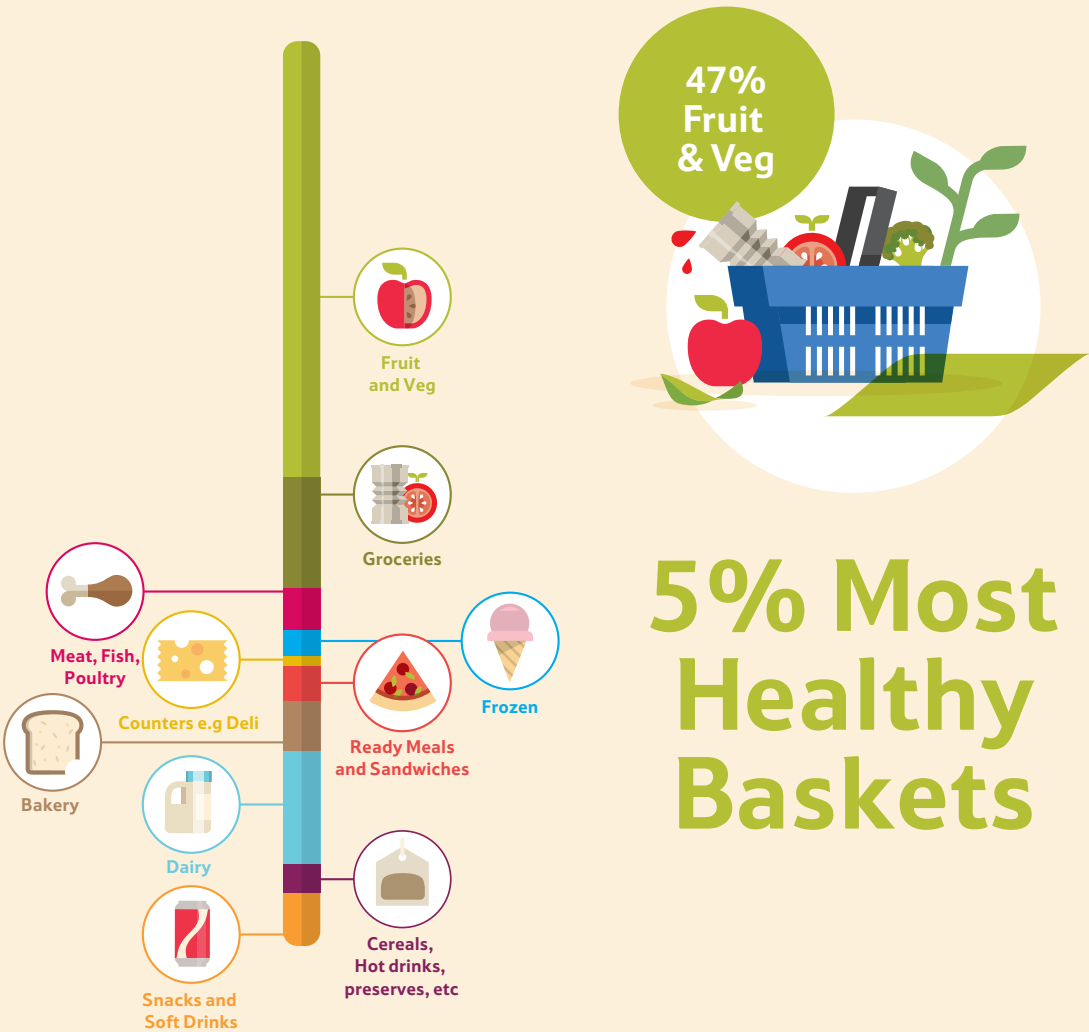
'We have been working hard to understand where we should act and how we should prioritise the issues'

These insights have already informed our work on providing healthier options at our self-scan checkout queuing space - the area where customers browse before paying. In our larger stores and in 40% of our Express stores we're now introducing healthier choices such as water, dried fruit and nuts. In ten of our larger stores we will also pilot an even healthier range in this space, monitoring the impact with a view to rolling out further pilots.

In addition to these core projects, we've been running a range of initiatives in other markets. Our team in Thailand have been running a weight loss programme for colleagues. In Poland our 'healthy appetite' programme, an online initiative to help our customers understand that healthy living can be simple and affordable, is reaching ever more customers with 7,000 unique users between May and September and over 3,000 downloads of the App. In Hungary we have been rolling out our health check roadshows across the country, offering health checks to over 1,000 customers with advice on how to live more healthily.



Healthy Little Differences

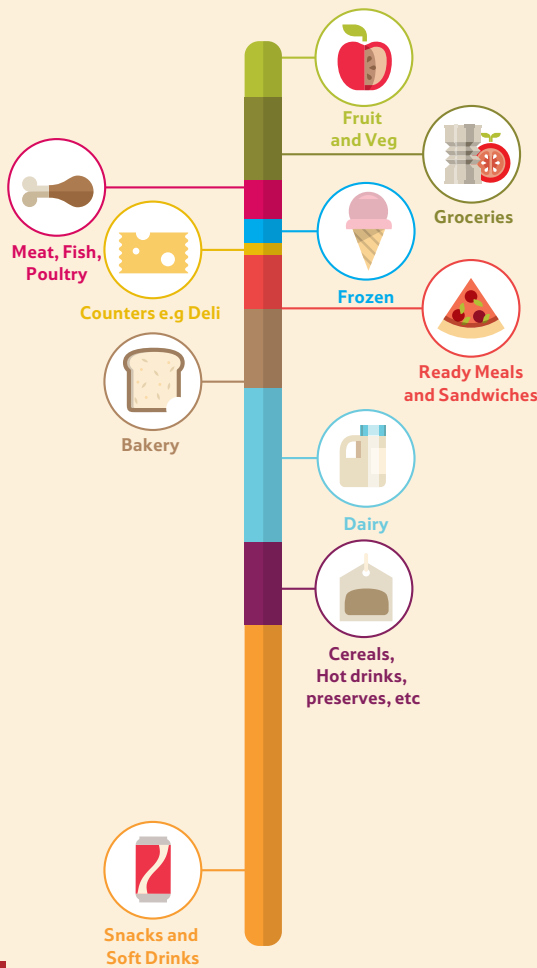


Using the UK government’s Nutrient Profiling Model and our insights into customer trends we have measured the nutritional profile of real shopping baskets. This infographic shows some of our initial findings. We have looked at the most and the least healthy shops to see how they differ at a product level. We can see that the healthiest baskets have a much higher proportion of fruit and vegetables and the least healthy baskets have a higher proportion of snacks and soft drinks.



From this analysis we can see that soft drinks are a key target area for helping customers make healthier choices. Our continuing work on soft drinks including reducing sugar by 25% in Tesco brand drinks aims to reduce calories by 2 billion over the next 12 months.

Healthier baskets tend to include healthy alternatives in the different product groups like wholemeal bread, skimmed milk and light cheese. However it is important to note that the healthiest baskets are not 100% healthy as customers like to include snacks and treats as part of their weekly shops. These insights will be important in helping us to focus our work where we can make the biggest differences to the health of our customers.



Creating Opportunities

Youth unemployment remains a massive challenge and we're working hard to make a positive difference.

We employ 85,000 young people across the UK and Europe. This year over 380 young people joined our businesses in the UK and Europe through our graduate and school leaver programmes. We're working hard to inspire, equip and enable young people to succeed in the world of work. Examples include:

UK

We are looking at innovative ways to support young entrepreneurs. In September we announced our support for Rainmaking Loft, a not-for-profit facility for up to 170 technology entrepreneurs looking for desk space, support and people to collaborate with.

Virtual Business Competition

80 teams took part in a competition jointly run by our colleagues in the Czech Republic, Slovakia, Turkey and Hungary to give them an insight into what it takes to run a Tesco store.



Turkey

We have reached over 200,000 young people so far this year through a range of programmes like our family clubs, school and university outreach, school equipment programme and staff volunteering. We have also launched a fundraising partnership with the Turkish Education Volunteers Foundation which will run wellbeing and lifeskills sessions for young people.

Czech Republic

We launched our ExtraClass grant programme. This brings a double benefit, developing skills and rewarding projects focused on solving real problems in communities. So far we've offered grants to 24 projects

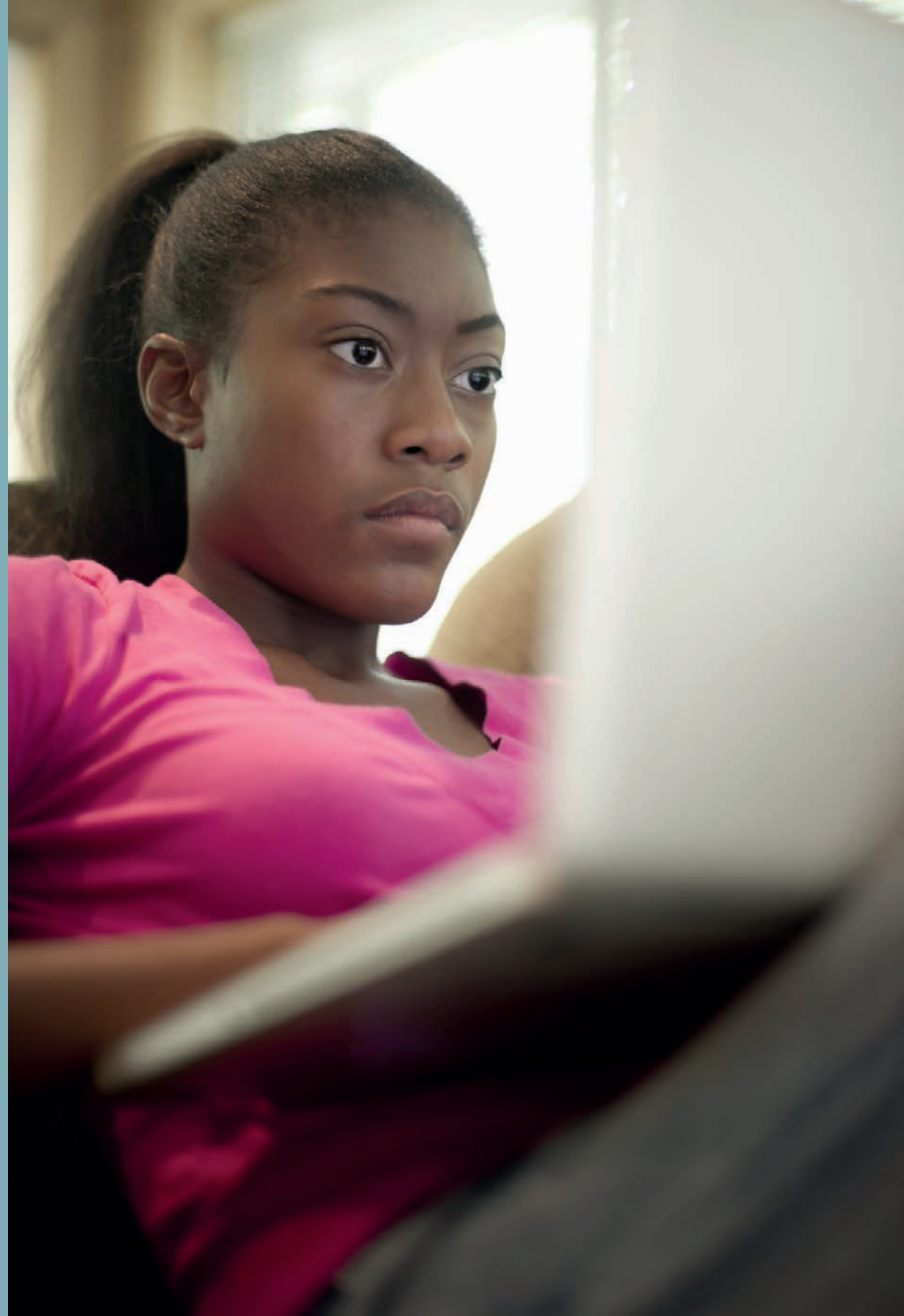
and some 650 young people are participating. We recently launched the second round of the project and plan to support another 50 projects this year.

Ireland

We have developed a training programme supported by the Irish Government, to offer young unemployed people an opportunity to gain certified skills and improve their work readiness in the retail and warehousing sectors. Over 40 young people will participate in the six week pilot.

Thailand

This year we have provided 365 scholarships to help talented young people continue their education at university. This month we are launching a new workplace learning scheme in partnership with vocational schools allowing young people to gain practical experience that will contribute towards their qualifications.



The Essentials

Using our Scale for Good isn't just about our three big ambitions. It is also about the essential work that we do every day as a responsible retailer.

Over the last six months, we've worked hard to improve our performance in every area of the Essentials. Some key areas of focus are set out below:

Trading responsibly:

The world is changing, with supply chains having to work together better than ever to tackle issues such as volatile commodity prices, shifting global supplies and demand, and growing digitalisation. When supply chains collaborate and trade responsibly, they can invest and innovate to meet customer needs and support the communities that produce and buy our products.

The progress we've made since May includes:

- Setting up a new **Agriculture Team** dedicated to strengthening relationships with farmers, which will be headed up by our new Group Agriculture Director. The Team, which consists of agriculture experts for each area of farming including proteins, fishing and horticulture, works closely with farmers to build a more transparent and sustainable supply chain.

- Opening up our **Producer Network** to all of our UK dairy farmers. The Network, which was first launched in June 2012, now has over 1100 members in total and is an online knowledge sharing forum where we work with our suppliers to analyse production challenges and share best practice and insights on customer trends.
- Engaging closely with the **National Farmers Union** (NFU) on key topics, including beef and lamb production, helping us to listen more closely to the farming community and address shared concerns.
- We are using our scale for good to help improve **safety and working conditions in garment factories**. Although we did not use factories involved in the Rana Plaza tragedy in Bangladesh, we were the first UK retailer to sign up to the multi-stakeholder Accord on Fire and Building Safety in the country, to help improve conditions throughout the industry. And we've made a wide number of public commitments – available on our website – about how we will support workers and factories directly in our own supply chain, including a £1 million fund for improvement.

Climate change and the environment:

We're clear that climate change is the biggest environmental threat the world faces – and we have set ourselves tough targets to reduce carbon emissions. We've also been working hard to understand other ways we impact the environment, such as water use. Recent progress includes:

1 Refrigerant emissions. We know that refrigerators make a considerable contribution to global warming, making up 25–30% of the carbon footprint of retailers. So in June we hosted a highly successful Consumer Goods Forum Natural Refrigeration Summit. Over 150 representatives from 80 companies from across the globe attended. In September our work to reduce damaging hydrochlorofluorocarbons (HFCs) in refrigeration was recognised by the Environmental Investigation Agency which named us a Green Cooling Leader.

2 Supplier buying club. We have launched a collaborative buying club to harness the collective purchasing power of the 700 members of our Knowledge Hub in order to negotiate discounts on energy efficient lighting equipment. Savings of up to 25 per cent will be available on the cost of equipment, which could result in savings of up to 80 per cent on energy

bills. As well as financial savings, members of the buying club will benefit from expert advice and guidance on the equipment. The launch followed the successful pilot with four suppliers who trialled the model with LED lighting earlier in the year.

3 Packaging. We continue to make good progress on packaging reduction. By reducing the bottle thickness and cap weight of some of our lines that use plastic bottles, we have been able to make considerable weight and material savings. For example, for our own brand energy drinks, we have halved the lid weight and reduced the material use by 12%. For 500,000 units, the CO₂e saved is equivalent to transporting about 30 tonnes of freight 7,000km, or three one way flights to San Francisco from London.

Our work in the community:

We know that our business can only be successful if the communities we serve are vibrant and successful, and so we strive to support local communities in a wide range of ways.

This year, a key focus has been helping to feed people in need. In July, we ran our second National Food Collection, working with charities tackling food poverty in the UK – the Trussell Trust and FareShare. Combining the food that our customers have donated and our 30% top up we have collected enough food to provide 6 million meals. We are also working with the European Federation of Food Banks to hold food collections across the region.

We have been working closely with our charity partner – Diabetes UK. Together, we've run over 45,000 Type 2 diabetes risk assessments this year online and in Tesco pharmacies and we've distributed information about diabetes to over a million customers. In September, we helped to run the biggest Type 2 diabetes awareness campaign in UK history, reaching millions of people with posters and adverts on the radio, in shopping centres and on the high street.

'When supply chains collaborate and trade responsibly, they can invest and innovate to meet customer needs and support the communities that produce and buy our products'

Expert Advisory Panel

While we've been working hard over the last six months to tackle these complex issues, we recognise that we still have a huge amount to learn. We understand that making a significant long-term difference will mean working in close collaboration with experts from a range of fields.

That's why we are establishing an external advisory panel to work directly with our CEO, Philip Clarke. This panel will be critical in helping us to shape the strategic direction of our work, in providing an honest assessment of our performance and in challenging us to do more.

We wanted to bring together a small group of international experts who can share leading thinking in corporate responsibility; who will bring experience of embedding corporate responsibility in a global business; and who can draw on expertise and experience in our key areas of focus. We are delighted with the collective strength of the experts who have agreed to join the panel and we are very much looking forward to working with them.



John Elkington
Founding Partner and
Executive Chairman, Volans

John is one of the world's leading authorities on sustainable development and developed the 'triple bottom line' business strategy. He is the author or co-author of 40 published reports, thousands of articles, and 18 books, including the no. 1 bestselling *The Green Consumer Guide* (1988). We're delighted that John will now be bringing his wealth of experience to help shape our Scale for Good strategy.



Dr Derek Yach
Senior Vice President, Vitality Institute

Before establishing the Vitality Institute, Derek was SVP Global Health and Agriculture Policy at PepsiCo, headed global health at the Rockefeller Foundation, was a Professor of Global Health at Yale University, and is a former Executive Director of the World Health Organisation. As such Derek has in-depth knowledge of the challenges faced by the range of stakeholders working to improve public health challenges and will provide a valuable steer in our ambition to improve health globally.



Lise Kingo
Executive Vice President and Chief of Staff,
Novo Nordisk

Lise is a member of the executive management at Novo Nordisk, one of the world's most successful pharmaceutical companies, with global responsibility for HR, Business Assurance, Corporate Communications and Branding, Public Affairs and Corporate Sustainability. Over more than two decades, Lise has been integral in embedding Novo Nordisk's sustainability strategy through the business and we look forward to hearing how she can help us embed our new value across our company.



Dr Mark Barthel
Special Advisor and Head of Design, WRAP

Mark is a special advisor and head of design at WRAP, the delivery body leading work to reduce food waste on behalf of the UK government and the European Commission. Currently a non-executive director at the Forest Stewardship Council and chair of the International Network of Product Sustainability Initiatives, he is also a member of the UNEP-SETAC International Life Cycle Board and an advisor to the UNEP's Sustainable Food System Programme and the UK Product Sustainability Forum. With wide ranging expertise in food sustainability, Mark will play a crucial role advising us on how we can help to reduce food waste throughout the value chain.

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