

Managing Corporate Responsibility

Corporate Responsibility is a fundamental part of our business planning and strategy for growth.

Our CR strategy

Our Steering Wheel or balanced scorecard sets out our priorities for the key elements of our business: Customers, Operations, People, Finance and – since May 2006 – Community.



Our commitments under the Community segment of the Steering Wheel are to be fair, responsible and honest in everything we do and to be a good neighbour. These aims are integrated into the management of our business from decision-making to individual performance appraisals. We measure our success on meeting these challenges. Lucy Neville-Rolfe, Executive Director, Corporate and Legal Affairs is accountable for our CR performance.

To support these objectives, our Community Plans identify projects where additional resource and expertise can make a step change in our CR performance. We stated in last year's review that a key priority over the next two years would be the roll-out of the Community Plan approach to all our international businesses. Eight of our 12 businesses outside the UK had plans for 2007, and in March 2008, Malaysia, China and Japan launched Community Plans for the first time.

The Plans in our international business are based around four themes: climate change; local communities; responsible sourcing; and health and nutrition. They reflect the needs of the local communities that we serve and are also based on customer and stakeholder views. These are collected through our Customer Question Times (CQTs), meetings and surveys as well as other mechanisms. A full list of Community Plan projects for each country can be found online at www.tesco.com/crreview08/communityplan

In the UK, we announced six projects for 2008: tackling climate change; waste recycling and packaging; carrier bag use; Community Champions; making our Community Plan live in stores; and trading fairly (labour standards in our supply chain). Each Plan is sponsored by the relevant Board or senior Director. Sir Terry Leahy, our Chief Executive, is the sponsor of our climate change programme. Richard Brasher, our Commercial Director sponsors the projects on waste, recycling and packaging and carrier bag use as well as our new Trading Fairly Plan, which we hope to launch in summer 2008. David Potts, our Retail Director, is the sponsor of our Community Champions plan, building on the trial that has allocated part-time roles in 52 of our stores to strengthening links with the local community and organisations such as schools, charities and sports groups.

As a whole, the Board of Directors reviews our CR strategy twice a year. Our Executive Committee receives regular updates on our CR performance, assesses future CR risks and opportunities and develops our strategy in this area. Line managers are responsible for managing day-to-day operational risks.

We set ourselves demanding targets in each segment of the Steering Wheel and use KPIs to measure our progress. The Board of Directors reviews performance quarterly and the top 2,000 managers in the Company receive a summary report to communicate to their teams. Senior managers receive bonuses on a sliding scale based on performance against the KPIs.

We review our KPIs annually to ensure they are still the most accurate and robust measurements of our performance. As our international business continues to grow, we have defined a new set of KPIs for 2008, which cover the entire Group. These can be found on page 52.

Managing CR

Our Corporate Responsibility Committee comprises 16 senior executives from across the business, and is chaired by Lucy Neville-Rolfe, Executive Director, Corporate and Legal Affairs. The Committee meets at least four times a year to develop our CR strategy, review relevant policies and practices, identify opportunities to improve the sustainability of the business, agree and monitor our KPIs for CR, and engage with internal and external stakeholders on CR issues to raise awareness; twice a year, we invite external speakers to address the CR Committee and comment on our CR strategy, performance and reporting.

Each of our international businesses also has a Corporate Responsibility Committee led by the Chief Executive of that country or other senior Director.

Corporate governance

We have a responsibility to put in place clear, transparent and effective policies and processes for managing our business responsibly and in accordance with the law.

Corporate Responsibility Committee



1 Lucy Neville-Rolfe, CMG, Executive Director, Corporate and Legal Affairs (Committee Chair)

2 David North, Community and Government Director (Deputy Chair)

3 Terry Babbs, International Trading Law and Technical Director

4 Jonathan Church, Media Director

5 Ruth Girardet, Corporate Responsibility Director

6 Catherine Glickman, Personnel Director

7 Chris Griffith, International, Corporate and Legal Affairs Manager

8 Alasdair James, Category Director, Recycling, Waste and Packaging

9 Liz Kynoch, Group Technical and Trading Law Director

10 Alex Laffey, Transport Director

11 Andrew Mann, Director of Marketing Planning

12 Andrew Neale, Head of Facilities

13 Noel Robbins, Chief Executive, Central Europe

14 Emily Shamma, Head of Local Sourcing

15 Patrick Stones, Property Director

16 Nanbin Zhuang, Corporate and Government Director, Tesco China

We aim for the highest standards of behaviour at all levels in our business. This requires visible leadership and a clear framework, and for these to be well communicated so that employees know what is expected of them. Clear accountability is also vital. The Board of Directors has overall responsibility for managing risks to our business and reputation, including those relating to CR.

The Board agrees clear processes for monitoring controls through the Statutory Committees: Audit Committee; Nomination Committee; and Remuneration Committee. In addition, the Executive Committee monitors controls through three key committees: Compliance Committee; Corporate Responsibility Committee; and Finance Committee. These all provide assurance that the business is operating legally, ethically and to approved financial and operational policies. The Committee reports are circulated to the Board, which holds a formal discussion on each at least once a year.

There is more information about the roles, responsibilities and independence of Board members in our Annual Report, and at www.tesco.com/crreview08/corporategovernance

Stakeholder engagement

Engaging with the different groups that influence or are affected by our business is fundamental to our values. Understanding our stakeholders' needs and concerns also helps identify the relevant CR issues and enables us to plan our CR programme accordingly.

We have a wide range of stakeholders with many different needs and expectations, and these sometimes conflict. We can't be all things to all people, but we can assure all stakeholders that we have listened to them and taken their views into account when balancing different considerations (see table on page 50).

Managing Corporate Responsibility

continued

The table below shows the main issues raised by different groups and the process through which we engage with them. These issues are evaluated to rate their relevance to Tesco, our shareholders and our customers.

Understanding our stakeholders

Stakeholder group	Interests and expectations of Tesco	Interaction with Tesco in 2007
Customers	Good shopping trip. Good neighbour. Operate fairly and honestly. Provide a choice of products, including sustainable, healthy and affordable options.	Store operations. Marketing campaigns. New product development. Clubcard. Price promotions. Clubs and initiatives. Customer Question Time.
Employees	Fair terms and conditions. Interesting job. Manager who helps me. To be treated with respect. Opportunities to get on. Safe and healthy workplace.	Daily work. Staff Question Time. Staff forums. Annual Viewpoint survey. Regular Pulse surveys.
Communities	Good neighbour. More employment. Community regeneration. Support for local causes and initiatives.	Community initiatives. Public consultations and exhibitions. Leaflets. Focus groups. Consumer panels. Work with community groups including charities.
Suppliers	To be treated fairly and honestly. Long-term relationships, opportunities for growth and shared customer insight.	Direct commercial relationships with suppliers, processors and manufacturers. Viewpoint survey. Meetings, training sessions and conferences. Industry events.
Investors	Effective communication of strategy and performance. Good corporate governance and risk/opportunity management. Competitive returns and dividends.	Annual Report and general meeting. Investor updates. Investor relations website. Meetings with investor relations team.
Governments and regulators	Legal compliance. Stable, family-friendly job opportunities. Good quality training. Timely payment of all taxes.	Tax systems. Planning processes. Consultation on new regulation. Public policy engagement.
Non-governmental organisations	Leadership approach to CR issues. Clear policies and principles. Credible, transparent communication.	Meetings and presentations. Partnerships and membership of organisations. Campaigns.

Customers

Our Customer Question Time (CQT) meetings help us to identify and respond to changing customer needs. They are recognised as a key factor in our success in recent years. These meetings, held in stores around the world, enable staff and senior managers to hear customers' views on everything from how we are serving them to our role in the community. CQTs are used to drive our Customer and Community Plans. These Plans are the management tools we use to deliver continued improvement in customer satisfaction. We also held CQTs focusing on particular issues, including community and the environment.

Staff

To do a good job for customers, people need to feel good about the place where they work. It is important that our staff understand the principles that guide the way we do business and feel proud to work for Tesco. As such, it is vital that we listen to and engage with our people as often and as well as we do with our customers. Our staff give direct feedback through Staff Question Time sessions. They are also invited to give anonymous feedback through our annual Viewpoint survey. In 2007, over 90% of our staff completed the survey. The vast majority of staff enjoyed working for Tesco, thought benefits had improved, and thought they had an opportunity to get on. Our 'Pulse' survey also tracks staff views on how they feel about working for Tesco.

Communities

See Community impact section on page 37.

Suppliers

See Our suppliers section on page 20.

Investors

We maintain a good dialogue with shareholders by organising meetings and presentations and responding to a wide range of enquiries. We want to understand shareholder views on a range of issues from strategy to corporate governance and we recognise the importance of communicating any significant Company developments appropriately. This shareholder communication is mainly coordinated by our Investor Relations team. The Board is kept informed of the views of shareholders, either through direct meetings or through updates from the Investor Relations team.

As part of our engagement programme, we meet with representatives of the Socially Responsible Investment (SRI) community and with mainstream investors. These meetings give us the opportunity to provide an update on our corporate responsibility strategy and performance, discuss key opportunities and challenges and seek feedback to improve our future programme. Sessions during 2007 have provided constructive feedback, with Tesco seen to have taken significant steps in CR in the past 12 months, particularly in the areas on which the Community Plan has focused, such as climate change. Investors would like to hear more detail on our international approach – and eventually see a global CR Review, which we have tried to deliver with this Review, as well as more transparency on our reporting of issues, particularly ethical trade.

Government and regulators

We are also keen to have an open and honest relationship with political stakeholders, engaging with governments, MPs and officials on a range of policy issues that affect our business and the communities in which we operate. We do not make donations to political parties, nor do we employ political consultants to lobby governments on our behalf. Our Government and Corporate Responsibility teams work closely together to ensure that our responses to government consultations are aligned to our CR policies and practices. We do not ask government departments to withhold our submissions from public disclosure.

Public policy engagement

Business can play an important role in the development of public policy. By sharing its experience and expertise business can help shape policy that is effective and fit for purpose.

We are committed to being open and transparent in our engagement with governments and to focusing on those issues of most importance to our business, our staff and our customers.

In 2007 key issues included the environment, health and nutrition, planning and regeneration, productivity and skills and the environment. For example, we have called for a new framework to help deliver the transition to a low carbon economy and we made clear our commitment to taking an active role in government-led discussions around the introduction of legislation to ensure responsible pricing on alcohol and alcohol promotions.

NGOs

Engaging with non-governmental organisations (NGOs) can help us to better understand current social issues and concerns. Our partnerships and dialogues highlight new trends and emerging issues, give greater insight on environmental, social and ethical issues, and help us manage our impacts. We regularly meet with NGOs, respond to their questions and contribute to surveys and research.

We have met over 60 NGOs throughout the year through seminars and meetings. Engagement covered the full range of key issues for the business, including climate change, environmental issues such as biofuels, ethical trading and animal welfare. In April 2007, we held a nationwide Community Conference in partnership with the British Red Cross and the Work Foundation. This brought together voluntary groups, charities, businesses and government to explore the role of business in local communities.

We always respond to requests for information from NGOs as fully and as promptly as we can. In 2007 we contributed to research, surveys and information requests on a wide variety of issues, including our general CR performance, climate change, seafood sourcing, animal welfare and health and nutrition. We were awarded the highest rating (platinum) by Business in the Community in their annual Corporate Responsibility survey.

We always ask NGOs to share their findings with us to help us understand issues of concern, investigate if necessary and improve our performance wherever possible.

Key Performance Indicators

Our Key Performance Indicators (KPIs) for 2008 are set out below. 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 Review. For the first time we have tried to ensure that our KPIs fully reflect our business across the world, demonstrating the importance we attach to being a responsible business wherever we operate.

Group KPIs

Environmental

- 1 Reduce the CO₂e emissions from our existing stores and distribution centres by at least 50% by 2020, against a baseline of 2006, with a reduction of 5% in 2008.
- 2 Reduce by 50% the amount of CO₂e used in our distribution network to deliver a case of goods by 2012, against a baseline of 2006, with a reduction of 10% in the UK in 2008.
- 3 Reduce CO₂e emissions from new stores by 50% on average by 2020, from a baseline of 2006, developing environmental format stores over 2008 with a view to rolling them out across the Group.
- 4 The Sustainable Consumption Institute to have commissioned a programme of research that seeks to fulfil its stated vision. In 2008, at least nine research papers will be circulated within and beyond Tesco which contribute effectively to improved understanding of key sustainable consumption issues.
- 5 Reduce water consumption per square metre by at least 2% against a baseline of 2006.

Ethical

- 6 Develop a plan to increase the percentage of suppliers who view Tesco as trustworthy, reliable, consistent, clear, helpful and fair, building on the 92% of suppliers to our UK business who view us this way.
- 7 Develop a plan to help suppliers improve labour standards in factories and farms supplying Tesco, building on existing expertise and experience, and including elements such as effective measurement of standards; rewards for success; and mechanisms for supporting poorly-performing suppliers.
- 8 Invest in additional labour conditions expertise to enable us to work more closely with poorly performing suppliers and help them improve.

Charity

- 9 Donate at least 1% of our pre-tax profits to charities and good causes in 2008.

Health and nutrition

- 10 To get 3.5 million people active with Tesco in 2008.
- 11 Increase the number of eligible own-brand lines with nutritional or front-of-pack GDA labelling to 78% of the total number of eligible brands in 2008 in our international business, building on the achievement of 100% GDA labelling in the UK for eligible own-brand products.

UK-only KPIs

Environmental

- 1 Trial the use of carbon labels on 100 products in-store in 2008 and develop customer literacy of product carbon footprints.
- 2 Reduce carrier bag use by 50% by the end of 2008, against a baseline of 2006.
- 3 Double the amount of customer recycling at sites where we introduce automated recycling units in 2008.
- 4 Reduce the amount of packaging we use by 25% by 2010, against a baseline of 2006, with a reduction of 10% in 2008.
- 5 Increase the proportion of waste from our UK operations that we divert from landfill from 70% in 2007 to 80% in 2009.

Suppliers

- 6 Increase sales of local produce to £1 billion by 2011.

Health and nutrition

- 7 All own-brand lines to be free from artificial colours, flavours and sodium benzoate by end of 2008.
- 8 Introduce 50 new lines on our Healthy Living and Light Choices health brands, and double the number of products in our Tesco Disney Kids range, which are nutritionally balanced with no hydrogenated fat and no artificial colours, flavours or sweeteners, to make it easier for our customers to make healthy choices for themselves and their families.

Our people

- 9 Our staff feel that they are treated with respect, irrespective of age, gender or ethnicity, to be measured by the number of positive responses to our staff Viewpoint survey being at least as good as the overall average among staff of different ages, genders and ethnicities.
- 10 Support all our employees to develop their basic skills, including literacy and numeracy, and work towards relevant, valuable qualifications where appropriate. This will include ensuring that a further 350 people graduate from our apprenticeship programme this year, and that a further 800 join. We will also aim to get one in every 29 members of our store and distribution staff onto our Options development programme, helping our staff to develop their operating and leadership skills.
- 11 Reduce our reportable accident rate in the workplace by 3% year on year.

To view our 2007 KPI results, please visit us at:

www.tesco.com/crreview08/kpi

A view from Forum for the Future



Over recent months, the role of supermarkets has come under the spotlight like never before. Government has held inquiries into how they operate; customers have made their views known on topics like plastic bags and packaging. At the same time, we have seen retailers setting ambitious targets that demonstrate visible leadership amongst businesses and put government to shame.

This Review paints a picture of Tesco responding across a breadth of issues, and acknowledging the complexity of difficult problems in an upfront way. It provides insight into Tesco's perception of the role of a responsible retailer. Tesco clearly recognises the key concerns of civil society, such as high street diversity, and its responsibilities to the local community. We are heartened by the fact that sustainability issues are increasingly part of a strategic approach to how Tesco does business. We can now see the beginning of investment of serious resources, stronger management systems and processes, and the launching of new product lines.

The Review also contains clear targets against which Tesco can manage its business and external commentators can hold it to account. We particularly welcome the introduction of additional future commitments across its international stores, on issues such as trading fairly and reducing carbon, challenging Tesco to meet higher targets.

One of the most important contributions a retailer of this size can make is in engaging customers and making green choices widely available. Sir Terry Leahy has spoken compellingly about his desire to "deliver a revolution in green consumption". There are lots of good initiatives described here – such as the positive rewards of green Clubcard points for environmentally friendly behaviours. We believe that Tesco is well positioned to bring sustainable products out of the niche and into the mainstream in a way that adds value to the Tesco brand. We urge Tesco to scale these initiatives up and to make them more visible to shoppers in the stores.

Climate change is one of the biggest challenges we face, and Tesco should be commended for its pioneering initiatives in this area. Whilst we acknowledge Tesco's dedication to customer choice, the scale and urgency of climate change will require retailers to take difficult decisions in the short term, rather than wait for consumer education to drive the market for low-carbon products. We warmly welcome moves by Tesco to offer competitively priced, climate-friendly, products but we believe that, in the future, supermarkets like Tesco will have to be bolder about 'editing choices' on behalf of customers.

There are areas where Tesco can make further improvements. As a sustainable development charity, we would like it, for example, to drive down waste more aggressively and take a more positive approach to its role as a fair trader. The Review shows how Tesco

is increasingly becoming international and highlights interesting initiatives in other countries. As it expands globally, it will have to work hard to apply the same standards and ambition in tackling sustainability issues everywhere it works.

Ultimately, we need to ask the question "how does this all add up?" We only have the one planet earth. Going forward, Tesco's challenge is to set out its vision for sustainable retail, detailing action on how it will address its broader sustainability impacts as clearly and robustly as it has done for climate change. Tesco will want to find ways to adapt a business model based on continual growth of sales and global expansion, to address living within environmental limits. This will require a holistic consideration of how the products Tesco sells are sourced, used and disposed of by customers, whilst addressing the fundamental question of creating more value with less impact on our planet. This will require brave action, but leadership here will deliver continued commercial success, and truly sustainable consumption.

Peter Madden
Chief Executive

Shannon Carr-Shand
Sustainability Advisor, Business Programme

Forum for the Future – the sustainable development charity – works in partnership with leading organisations in business and the public sector. Our vision is of business and communities thriving in a future that is environmentally sustainable and socially just. We believe that a sustainable future can be achieved, that it is the only way business and communities will prosper, but that we need bold action now to make it happen. We play our part by inspiring and challenging organisations with positive visions of a sustainable future; finding innovative, practical ways to help realise those visions; training leaders to bring about change; and sharing success through our communications. It is a Registered Charity in the UK (number 1040519). Forum for the Future is not an auditor or a verifier. As such, these comments should not be read as verification of data or information contained within the Review.

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 3% of Forum's turnover. The partnership is currently in its seventh year.

For more information on Forum for the Future visit:

www.forumforthefuture.org.uk



Cover: Schoolchildren participating in Sports for Schools and Clubs training session.

Back Cover: Staff member from our Tesco hypermarket, Budapest, Hungary.

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If you have feedback on the Review, please email us at crreview08@uk.tesco.com