

Special healthy diets resolution at Tesco PLC for consideration at 2021 AGM

Resolution wording

To promote the long-term success of the Company, given the opportunities and risks associated with regulatory and consumer trends towards healthier diets, we as shareholders direct the Company to include in its Annual Report published from 2022 onwards, a description of its strategy in the area of nutrition and health, as well as:

- (1) **Metrics and targets:** disclose the share of total food and non-alcoholic drink annual sales by volume made up of healthier products¹ and publish a target to significantly increase that share by 2030;
- (2) **Progress reporting:** publish an annual review of progress on delivering the abovementioned strategy, including the metrics and targets at (1) above;

Disclosure and reporting should be done at reasonable expense and omit proprietary information. Nothing in this resolution should be read as limiting the Board's discretion to take decisions in the best interests of the Company.

Footnotes

1. Healthier products mean those food and non-alcoholic drink products not identified as "high in fat, sugar and salt (HFSS)" under existing guidance issued by the UK Department of Health using a nutrient profiling model developed by the UK Food Standards Agency NPM (2004/5).

Supporting statement

Investors recognise the Company has made important commitments and progress in supporting customers to access healthier options. Significant achievements include reducing sugar in own-brand drinks to below Soft Drinks Industry Levy (SDIL),¹ and preventing the sale of energy drinks to children.²

Nonetheless, investors remain concerned that the Company has not yet demonstrated how its strategy and commitments in nutrition and health are aligned with regulatory and market trends towards healthier diets. Its level of disclosure is insufficient to provide key stakeholders with a clear understanding of its position in response to opportunities and risks in this critical area, particularly the "healthiness" of its sales portfolio.

In accordance with investors' fiduciary duties, and to promote the Company's long-term success, this resolution asks for the percentage of its food and non-alcoholic drink sales associated with healthier products to be disclosed, and for a target to significantly increase that share by 2030 to be set.

Investor expectations of the food and drink sector

¹ <https://www.tescopl.com/blog/sugar-tax-levy-soft-drinks-tesco/>

² <https://www.tescopl.com/blog/high-energy-caffeine-sugar-drinks-tesco/>

Investors' expectations of food and drink companies in the area of nutrition and health are rapidly evolving. Mortality and preventable disease associated with poor diets is rising, as is awareness of the need to make healthier products more accessible and affordable, rather than focusing on educational activities as the primary solution. Excessive weight, affecting two thirds of adults and one third of children in the UK, has severe impacts on public health and society, annually costing the NHS and the economy £6 and £54 billion respectively.³

The current Covid-19 crisis has put rising obesity levels in the spotlight. Excess weight and associated conditions such as diabetes have emerged as key risk factors for severe complications and death in patients with the virus. As a result, the UK Prime Minister has launched a national campaign "Better Health" to help people lose weight. This includes policy measures to ban online and broadcast advertising of HFSS foods and most common in-store marketing practices.^{4,5} These add to other measures such as SDIL, Public Health England's sugar, salt and calorie voluntary reduction targets and existing advertising restrictions to children.

In parallel, consumers are concerned about the health impacts of their diet, particularly about sugar levels in food.⁶ This is making healthier products one of the areas of fastest growth, including in "indulgent" categories such as soft drinks and snacks.⁷

Investor expectations of the Company

Supermarkets have a critical role to play in influencing consumer diets as the largest recipients of food expenditure.⁸ In particular, the Company's actions are of systemic importance in tackling poor diets and achieving reductions in obesity levels given its prime position in Great Britain's grocery market (26.9%).⁹

Expectations of supermarkets in health and nutrition involve disclosing the percentage of sales associated with healthier food and drink products and setting long-term targets to increase such share. Reporting on key metrics should be accompanied by clear articulation of the Company's strategy for delivery, describing actions on key areas such as product formulation, nutritional labelling, pricing, marketing and advertising, so that investors can understand its strategic fit with regulatory and market trends and its position amongst competitors.

Despite the strategic importance of this topic for the grocery sector, the Company's prime market position has not yet translated into leadership;

- A recent review by the Access to Nutrition Initiative of UK supermarkets' public commitments to promote healthy diets found the Company reported information

³ <https://www.nationalfoodstrategy.org/wp-content/uploads/2020/07/NFS-Part-One-SP-CP.pdf>

⁴ <https://www.gov.uk/government/news/new-obesity-strategy-unveiled-as-country-urged-to-lose-weight-to-beat-coronavirus-covid-19-and-protect-the-nhs>

⁵ <https://www.gov.uk/government/publications/the-nutrient-profiling-model>

⁶ <https://www.food.gov.uk/news-alerts/news/fsas-public-attitudes-tracker-survey-wave-19-results-published>

⁷ <https://www.thegrocer.co.uk/reports/top-products>

⁸ <https://www.gsttcharity.org.uk/sites/default/files/GSTC-HealthyReturns-digital-spreads-FINAL.pdf>

⁹ <https://www.kantarworldpanel.com/en/grocery-market-share/great-britain>

on less than a third of all possible indicators (33%).¹⁰ This is also the area of its weakest performance across major environmental and social topics for the food sector according to the Food Foundation;¹¹

- The Company monitors the health profile of its sales via its Healthy Little Differences tracker but neither discloses this information nor has set objectives to increase such share. It only reports on the share of fruit and vegetable content of its own-brand products, which is too narrow an indicator to assess its overall position as a business in this area;¹²
- In contrast, some of the Company's competitors have set objectives for shifting the sales of healthier food and drink products over time,
 - Marks & Spencer's "Plan A" includes annual progress updates from 2017 towards a target of 50 percent of sales (own-brand only) from healthier products by 2022 (40% in 2019);¹³
 - Sainsbury's has a target to increase the percentage of healthier products sold from 41.4% in 2015 to 45% in 2020 (43% in 2019/20);¹⁴ Sainsbury's is leading the way with its long-term ambition and is committed to set targets to 2040, with biannual reports, from 2021 onwards.¹⁵

¹⁰ <https://accesstonutrition.org/app/uploads/2020/03/ATNI-UK-Supermarket-Spotlight-report-FINAL.pdf>

¹¹ <https://foodfoundation.org.uk/wp-content/uploads/2020/11/Plating-up-Progress-2020.pdf>

¹² <https://www.tescopl.com/media/475762/little-helps-plan-report-2017.pdf>

¹³ <https://corporate.marksandspencer.com/documents/reports-results-and-publications/plan-a-reports/plan-a-performance-update-2019>

¹⁴ <https://accesstonutrition.org/app/uploads/2020/03/ATNI-UK-Supermarket-Spotlight-report-FINAL.pdf>

¹⁵ <https://www.about.sainsburys.co.uk/making-a-difference/netzero/diets>