



TESCO | *Every little helps*

CORPORATE RESPONSIBILITY REVIEW 2006

Contents



Our Corporate Responsibility Review enables us to report to our stakeholders on our social, environmental and ethical policies and performance. The Review covers the financial year ending 28 February 2006. It focuses primarily on our UK operations. We have also included a dedicated section on international corporate responsibility.

The drafting of this Review has taken into account the principles of the Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines, a GRI contents index can be downloaded from our website www.tesco.com/gri

Tesco operates in the UK, the Czech Republic, Hungary, Poland, Republic of Ireland, Slovakia, Turkey, China, Japan, Malaysia, South Korea, Taiwan and Thailand. We employ 389,258 people worldwide in 2,705 stores with total Group sales of £43,131 million.



Divender Virdee
Slough Extra, UK

◀ A full review of our business is contained in our Annual Review and Summary Financial Statement 2006 which is available on our website www.tesco.com/corporate.



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Chief Executive's introduction

“We want to be a good neighbour, a business which is responsible, fair and honest. Our core values, ‘no-one tries harder for customers’ and ‘treat people how we like to be treated’, drive all we do.”



►
Sir Terry Leahy
Chief Executive

Our Values

No one tries harder for customers:

Understand customers better than anyone;

Be energetic, be innovative and be first for customers;

Use our strengths to deliver unbeatable value to our customers;

Look after our people so they can look after our customers.

Treat people how we like to be treated:

All retailers, there's one team... The Tesco Team;

Trust and respect each other;

Strive to do our very best;

Give support to each other and praise more than criticise;

Ask more than tell and share knowledge so that it can be used;

Enjoy work, celebrate success and learn from experience.

"We have become a market leader by fulfilling people's aspirations – to have safe, nutritious, quality food at affordable prices. We have attracted more customers, and they rewarded us with their trust. To retain this trust, we know that we must innovate to meet their changing needs. That is why our core purpose is not just 'to create value for customers', but is also 'to earn their lifetime loyalty'.

As Tesco has got better at satisfying the needs of many different groups, our customers have increasingly come to reflect UK society as a whole. That means that what our customers tell us is a very good indication of what Britain itself is thinking. They tell us that they want us, above all, to provide a good shopping trip. Their trust in us depends on it. They expect us to be good at what we do because they know that is how we deliver the value, convenience and choice they want.

But our customers are also telling us that other things matter to them too. They want businesses – including supermarkets – to be good neighbours in the communities they serve. And they want to be assured that businesses are responsible, fair and honest.

Customers want us to do more than just provide a choice and range of products that earlier generations could only dream of. Today they want to see more local and regional products. They still want exotic fruit and vegetables, but a growing number want an assurance that they are sourced ethically and sustainably. People want access to healthy foods. They want them clearly and simply labelled so they can make informed decisions themselves. They want us to be a good neighbour by being thoughtful about our impact on their neighbourhood, or by supporting local sports teams or providing more jobs.

I have always been excited when our customers tell us we can do things better and I want Tesco to provide leadership in response to these changes.

There is a tremendous opportunity here. It is about fulfilling people's emerging hopes and aspirations.

It takes strong leadership to listen, learn and accept that expectations are changing. Fulfilling people's aspirations can mean moving a business in new directions. It means being creative, taking risks, doing some things that are not expected.

But we do not need to change everything. When we defined our core purpose nine years ago as being to earn our customers' lifetime loyalty, I believe we were striving towards the idea of 'sustainability' that has become so important since. We are making progress in reducing our carbon footprint, cutting our energy consumption by 15% over the past year. But a large part of building a sustainable business is also how you treat your staff. We offer the best pay and benefits in the sector, and while almost every other company has been busy scrapping their defined-benefit pensions, we have demonstrated our commitment to the largest defined benefit scheme in the private sector. We are also helping customers choose healthier lifestyles with our new food labelling system and our promotions on fresh fruit and vegetables.

But this is only a start. Talking to our customers and staff we have learned that we can do more. So let me set out some of the things we plan to do in the future – some solid, practical Tesco changes that will provide leadership in new areas.

- ▶ We have set aside £100 million to spend on sustainable environmental technology. We are going to invest in more wind turbines, in solar energy, in geothermal power, in combined heat and power, trigeneration and gasification. We want to halve by 2010 the average energy use in all our buildings against a baseline of 2000
- ▶ We are also going to build the most environmentally-friendly store in the UK – in this case halving carbon emissions in a single stroke and generating our own renewable energy



Chief Executive's introduction

▶ Sir Terry Leahy opened our biennial company conference for all senior management with a speech on leadership.



TESCO

- ▶ We aim to double the amount that customers bring back to stores for recycling by 2008. If we achieve that, we will be contributing around 10% of the total additional tonnage needed to meet the UK's EU packaging recycling targets
- ▶ All Tesco carrier bags will be degradable from September 2006. But we are also seeking to cut by 25% over the next two years the number of plastic carrier bags that we give to customers. This would mean nearly one billion fewer plastic bags each year
- ▶ Our front-of-pack nutritional labelling is already helping Tesco customers switch from products high in salt and fat to healthier alternatives. We will put our labelling on all eligible Tesco own-brand products by Spring 2007, further and faster than any other supermarket or manufacturer in the world
- ▶ We will work with the Pre-School Learning Alliance on a project to help inform parents, childcare professionals and children in some of the UK's most deprived communities to make healthier choices
- ▶ We want to get two million people running, cycling or walking in events that we will organise and sponsor in the run up to the London 2012 Olympics
- ▶ We want our local Express convenience stores to be the best possible neighbours. We are designing and rolling out new store fronts that will blend in better with the local setting. We will also reduce the frequency of deliveries to our stores to cut congestion, and will find ways to make deliveries much quieter
- ▶ We will improve the way we consult local communities before building new stores so that we can be sure that we have understood local issues and concerns. From 2007, we will hold a public exhibition or consult local communities proactively in other ways on every new Tesco superstore

- ▶ We are going to hold a major conference in partnership with the British Red Cross to discuss how businesses like Tesco can make a bigger and better contribution in communities and neighbourhoods
- ▶ We are going to make a renewed effort to increase the amount of local sourcing. So, we will roll out to all parts of the UK our highly successful local buying programme in Scotland. We will also make it easier for small suppliers to gain access to Tesco by hosting open days in every region for them to come and meet our buyers

We will work non-profit partners – charities, NGOs and others – alongside our customers and staff – to deliver these changes.

We have made our plan for Tesco in the Community a new part of our Steering Wheel. It means that the performance of everyone at Tesco will be measured on it far more clearly than ever before.

We have become Britain's most successful retailer by being open to changing perspectives. This ability to recognise and understand change, and the responsibility of rising to the challenge of change, is more important for Tesco today than ever before. The battle to win customers in the 21st century will increasingly be fought not just on value, choice and convenience but on being good neighbours, being active in communities, seizing the environmental challenges, and on behaving responsibly, fairly and honestly in all our actions.

It requires leadership, risk and innovation. We embrace this challenge.

Sir Terry Leahy Chief Executive



► We opened our first model energy store in Diss which uses 20% less energy.



► We reviewed and strengthened our seafood procurement policy.



Our corporate responsibility achievements and challenges

In 2005/06 our achievements included:

- Entry in the Dow Jones Sustainability and Ethibel Indices and sector leader in the Business in the Community (BiTC) CR Index (see page 19)
- The leading food and drug retailer in the Carbon Disclosure Project Climate Leadership Index (see pages 17 and 51)
- Reducing energy use across our business by 15% and opening our first model energy-efficient store in Diss which uses 20% less energy (see page 53)
- Becoming the first major retailer to incorporate biofuel into our standard petrol and diesel with no price premium (see page 56)
- Working with our international businesses to develop CR strategies and Key Performance Indicators (KPIs) (see pages 9 and 73)
- 65% of our staff own shares in the company, benefiting from £70 million through our Shares in Success scheme (see page 25)
- Over 450 staff members joining our innovative Apprenticeship in Retail scheme (see page 47)
- Launching four new initiatives to help kids get active – the Tesco Great School Run, Junior and Mini Great Runs and the Tesco Under 13 Football Cup and Sport for Schools and Clubs (see page 38)
- Sponsoring Cancer Research UK's Race for Life, encouraging 549,880 women and raising over £33 million (see page 41)
- Labelling 2,500 products with our new Guideline Daily Amount (GDA) signposting, making it easier for customers to make healthier choices (see page 40)
- Training 555 buyers in our Ethical Trading Policy (see page 28)
- Giving £41,768,741 to good causes and raising £2 million for our Charity of the Year, Age Concern (see page 36)

In 2005/06 our challenges included:

- The Office of Fair Trading (OFT) have referred the grocery industry to the Competition Commission. We look forward to the debate and a speedy conclusion, and we hope that the Competition Commission will confirm the OFT's overall comment that consumers have benefited from competition between supermarkets and their expansion into the convenience sector through falling prices and increased choice and services
- In June 2005, the railway tunnel collapsed at the site of our Gerrards Cross development. We worked hard to do the right thing for local people, rail passengers and the businesses involved. We funded the compensation scheme devised by Chiltern Railways and compensated business tenants on the railway stations who lost trade as a result of the incident. We also funded advertising to encourage people back on to the trains. We know that this incident caused enormous disruption and we are sorry for the inconvenience and frustration that it has caused to those who live, work or travel in the area
- Concerns were raised about minimum wage payments and pesticide use on South African apple and pear farms supplying Tesco. A detailed investigation of these claims was conducted and we found no evidence to substantiate them. We are committed to working with stakeholders to uphold standards in our supply chain (see page 30)
- Following disappointing results in two Non-Governmental Organisation surveys of supermarket seafood sourcing policy, we reviewed our policy and published detailed sourcing information on our website. In 2006/07 we will continue to increase our range of Marine Stewardship Council certified seafood (see page 65)

Corporate responsibility in our business

▶
We have been
reporting on our
CR performance
since 2001/02.

**The responsible
management of our
social, environmental
and economic
impact is integral
to our business.**

Our priorities:

- ▶ Ensuring community, corporate responsibility and sustainability are at the heart of our business
- ▶ Being a good neighbour and being responsible, fair and honest
- ▶ Considering our social, economic and environmental impact as we take our decisions



▶
Vernon Knight
Slough Extra, UK



▲
Lucy Neville-Rolfe
Company Secretary
Tesco PLC

“We believe that Tesco has a positive impact on society and the economy. We understand the issues that matter to our customers and stakeholders, and know that getting them right builds loyalty and makes our business more sustainable.

The Corporate Responsibility Committee brings together directors from throughout the business and helps ensure that social, environmental and ethical issues are a natural part of the way we do business. The Committee’s aim is to ensure that we take a sustainable approach to business – to do the right thing for our shareholders, our customers, our suppliers, the community and the world around us.”

Lucy Neville-Rolfe
Corporate Responsibility Chair
Corporate and Legal Affairs Director
Company Secretary Tesco Group PLC



◀ Our corporate responsibility website www.tesco.com/cr contains full text of our policies, performance data for our international operations and case studies. The site also includes html and pdf versions of this Review and an online feedback form.

Corporate Responsibility Committee



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Corporate governance

We aim for the highest standards of corporate behaviour. This requires strong leadership, clear governance and effective communication to staff of the behaviour we expect of them.

The Board considers strategic risks every time it meets, and discusses corporate responsibility strategy bi-annually. The Executive Committee receives quarterly updates on corporate responsibility performance, assesses future risks and opportunities, and develops our strategy. Accountability for managing operational risks is assigned to line management and formal risk assessments are carried out routinely throughout the UK and our international businesses. Significant risks and any control failures are escalated to senior management and the Board, as necessary.



Our approach to managing both financial and non-financial risks is set out in our Corporate Governance Statement on page 20 of the 2006 Annual Report and Financial Statements, which can be found at www.tesco.com/corporateinfo

The Corporate Responsibility Committee

Corporate responsibility leadership is provided by a cross-functional committee of senior executives, chaired by Company Secretary and Group Director of Corporate and Legal Affairs, Tesco PLC, Lucy Neville-Rolfe. Members of the Corporate Responsibility Committee are drawn from across the business, which ensures that corporate responsibility is at the heart of our daily operations.

The Corporate Responsibility Committee meets four times a year to:

- ▶ Assess social, environmental and ethical risks
- ▶ Develop corporate responsibility strategy
- ▶ Review our social, ethical and environmental policies and practices
- ▶ Encourage best practice throughout the business
- ▶ Identify opportunities to improve the effectiveness and sustainability of the business
- ▶ Review, agree, monitor and report on our corporate responsibility Key Performance Indicators (KPIs) (see page 72)
- ▶ Increase internal awareness of corporate responsibility
- ▶ Improve stakeholder communication and engagement

Names and Roles

1 Alex Laffey, Transport Director; 2 Laurie McIlwee, Operations Distribution Director; 3 Noel Robbins, Chief Executive Central Europe; 4 Patrick Burrows, Corporate Purchasing Director; 5 Patrick Stones, Property Director; 6 Jo Gilbertson, Senior Marketing Manager; 7 Lucy Neville-Rolfe, Company Secretary & Group Director of Corporate and Legal Affairs; 8 David North, Community & Government Director; 9 Liz Kynoch, Technical & Trading Law Director; 10 Jonathan Church, Media Director; 11 Catherine Glickman, Director of Personnel Services; 12 Deborah Hayeems, Corporate Governance Manager; 13 Terry Babbs, International Trading Law & Technical Director; 14 Jacqueline O'Neill, Commercial Director; 15 Simon Potts, Maintenance and Engineering Director.



“Speaking to the Tesco Corporate Responsibility Committee provided an opportunity to give our perspective on Tesco’s performance on social, environmental and ethical (SEE) issues. As an investor we want to understand how a company considers its impact as it takes decisions. The quality of the discussion we had with Tesco reflected the breadth of experience which Tesco draws together into the Committee and gives us confidence that they understand the challenges they face in playing a leadership role on issues such as climate change, healthy living and urban regeneration, as they move forward.”

Emma Howard Boyd
Head of Socially Responsible
Investment and Governance Director
Jupiter Asset Management

In addition to the regular Committee meetings, we hold two away days each year. External speakers are invited to comment on our corporate responsibility performance, strategy and provide insight on key issues. In 2005/06 speakers have included Stephen Tindale, Executive Director, Greenpeace, Dr Sally Uren, Director, Forum for the Future, Emma Howard Boyd, Head of Socially Responsible Investment and Governance, Jupiter Asset Management, and The Rt. Hon. John Gummer MP, former Secretary of State for the Environment.

The Community Plan

From 2006 we are introducing a significant new initiative to strengthen our performance on responsibility, sustainability and the community – our Community Plan, which is led by David North, Community and Government Director.

Customers see themselves as more than just consumers. They see themselves as citizens and members of their communities. Their neighbourhood matters to them. Behaving responsibly, fairly and honestly matters – whether you are an individual, an institution or a large business. We are determined to reflect this in our business.

Corporate Responsibility in our business



One of our strengths in recent years has been our Annual Business Plan. This sets out specific projects that the business will deliver over the following 12 months. Traditionally, this has included four separate plans: Customer, People, Finance and Operations. From this year, we will have a fifth plan, Community, to ensure that we provide the right resources, energy and focus to deliver on the expectations of customers, communities and stakeholders on community and responsibility issues.

The Community Plan is a continuous process that will drive change across the business in the years to come. Building upon our current corporate responsibility activities, it will provide a platform for constant innovation on two broad commitments:

- **Be a good neighbour** Customers want us to be a good neighbour by being considerate in our impact and playing an active role in local communities. Whether that means supporting sports teams or providing more jobs, we are committed to working together to improve citizenship. Projects for 2006 include making our stores more local, being a good neighbour in Tesco Express stores and local sourcing

- **Be responsible, fair and honest** Each of us has a duty to take care of the environment and we understand that Tesco is well placed to make a significant difference. By examining our processes and reviewing our energy consumption, we hope to take a lead in promoting environmentally responsible practices. Projects for 2006 include reducing carrier bag usage, energy saving and front-of-store recycling

The Steering Wheel

We run our business using a balanced scorecard approach we call the Steering Wheel. This integral management tool directs the focus of our business towards the delivery of our core purpose. It is the framework for all activity linking top-line strategy to personal objectives and it ensures that we balance our priorities effectively.

The addition of a Community segment to the four business drivers of the Steering Wheel is a significant step in putting community, corporate responsibility and sustainability at the centre of our business plan. It will guarantee that the consideration of our impact is an integral part of our decision-making process.



Our UK Business Plan informs all senior managers of our Steering Wheel Key Performance Indicators.

Each segment has a set of Key Performance Indicators (KPIs) which set demanding targets. Performance is reported quarterly to the Board, and a summary report is sent to the top 2,000 managers in the company to cascade to staff. The remuneration of senior management is shaped by the KPIs, with bonuses varying according to the level of achievement on the corporate Steering Wheel.

Each year we review our corporate responsibility KPIs to ensure that they are meeting the needs of our stakeholders and are the most appropriate and robust measures of our impact.

As a result of our 2005/06 KPI review we have:

- ▶ Established longer-term targets for energy vehicle efficiency and waste, over a three-year period, in addition to the existing annual targets
- ▶ Introduced KPIs for health and safety, supplier relations and Sport for Schools and Clubs
- ▶ Strengthened our local sourcing and healthy living KPIs

See page 72 for our full list of KPIs or visit our website:

www.tesco.com/cr

International corporate responsibility

We work hard to ensure the highest standards of corporate behaviour in all our businesses. A significant step forward this year has been the roll-out of our corporate responsibility management system to our international operations. Each of our international businesses now has a corporate responsibility segment in its Steering Wheel, and all businesses report quarterly on energy, water and waste. Our international businesses also report on a further set of corporate responsibility KPIs chosen locally in response to local community and stakeholder feedback. We believe that this will strengthen the corporate responsibility performance of our international businesses.

Further information on international corporate responsibility including CR achievements for each country can be found on pages 66-73. Detailed performance data is available, country by country, on our website. In 2006/07 we aim to achieve on-target performance for over 75% of all our international corporate responsibility KPIs (see page 72).

www.tesco.com/internationalkpis

Corporate responsibility audit

In February 2006, our internal audit team reviewed the extent to which corporate responsibility is embedded in our business. The audit covered strategy, governance data, reporting and communication. A summary of findings can be found at:

www.tescocorporate.com/craudit



stakeholder engagement

Listening to people and responding to what they tell us is vital to our success. Feedback from our stakeholders helps us develop our approach to corporate responsibility and improve our performance.

Our priorities:

- ▶ **Listening and responding to our stakeholders**
- ▶ **Working in partnership to improve our social, environmental and ethical performance**



▶
Sarah Smith
Bar Hill Extra, UK



◀ Staff and customers want us to support causes that are close to their hearts.

▶ Customers want us to help them make healthier choices.



“Tesco has aligned its environmental and social priorities with its key stakeholders: its customers.

We believe investors can take comfort that the company has started to proactively respond to its customers’ concerns relating to social and environmental performance, to protect brand loyalty and shareholder value.

However, investors interested in the development of a more sustainable food industry would welcome a broadening of scope and the setting of more stretching targets to ensure that emerging issues of importance to other key stakeholders are identified and addressed proactively going forward.”

Citigroup analyst briefing note ‘Stepping up to the Corporate Responsibility Challenge’, September 2005



www.citigroup.com

▶ Customers want us to make recycling easier.





stakeholder engagement

Lara Pellina from Capital Group International worked alongside staff at Brookfield Farm Extra as part of our TWIST programme.



Public attitudes to corporate responsibility

Every year we commission an independent survey in the UK of public attitudes to corporate responsibility and to Tesco. Whilst 71% of those surveyed felt that business does not pay enough attention to social responsibility, the results for Tesco were more positive:

- ▶ 59% thought that we take our responsibilities to society and the community seriously – the second highest ranking of 48 companies, unprompted
- ▶ 54% thought that we had a positive impact on the local community – 11% saying we had a negative impact
- ▶ When asked which companies should take their responsibilities more seriously, 18% mentioned Tesco compared with 43% mentioning McDonald's and 31% mentioning Esso
- ▶ Customers felt we could do more to recycle and reduce packaging and make it even easier to eat healthily. We are focusing our attention on these. See page 58 packaging and pages 40-43 helping customers make healthier choices

We are pleased these results recognise the efforts we are making, but know we can always do more.

MORI carried out 2,000 face-to-face interviews in July and August 2005 in respondents' homes in 174 constituency based sampling points in the UK.

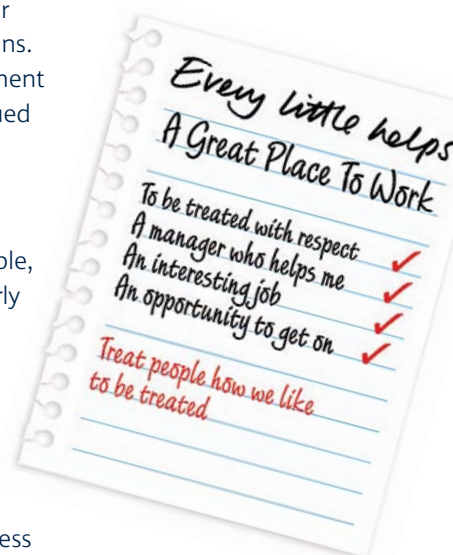
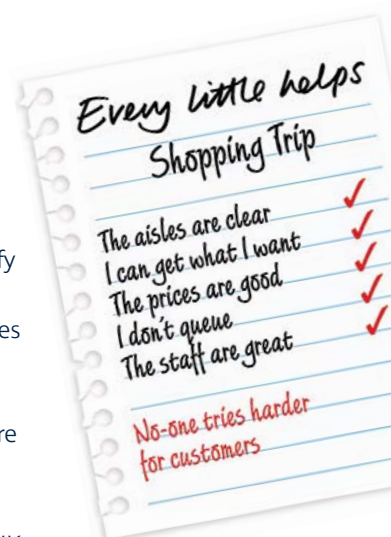
Customers

We use Customer Question Time (CQT) meetings to help us to identify and respond to changing customer needs. 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.

This year we held 256 CQTs in the UK, involving 8,000 customers. Post CQT action plans ensure that we act on opportunities for improvement. Information from these CQTs is also used, along with extensive customer research, to drive our Customer and Community Plans. These Plans are the management tools we use to deliver continued improvement in customer satisfaction (see page 9).

We also hold CQTs that focus on particular issues. For example, in 2005/06, we hosted quarterly sessions to better understand the needs of customers with hearing, visual and mobility disabilities. Disabled customers told us that it would be helpful if our staff could be more proactive and less embarrassed when offering help.

We have since produced a disabilities booklet and introduced training that will help staff feel more confident and have the knowledge to respond to special requests for help (see page 45).



www.tesco.com/cr

Our Tesco Week in Store Together (TWIST) gives our senior managers a vital opportunity to refresh their understanding of our customers and our stores, and identify potential improvements in our ways of working. In 2005/06, nearly 800 office and distribution staff spent five days working in over 600 stores. We also invite our suppliers to participate so that they can have direct contact with customers. 36 suppliers took part in TWIST in 2005/06.



David Potts, Retail Director took part in TWIST at our Romford store.

Our staff want to know more about our corporate responsibility initiatives.



Staff

To do a really good job, people need to feel good about the place 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. So 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 and Staff Forums which are part of our partnership agreement with the Union of Shop, Distributive and Allied Workers (Usdaw). They are also invited to give anonymous feedback through our annual Viewpoint survey. In 2005/06 a total of 221,507 or 88% of our staff completed our Viewpoint survey.

We also track staff views through our 'Pulse' survey which asks store, head office and distribution staff how they feel about working for Tesco. In 2005/06 over 90% of all staff agreed that 'Tesco deserves to be successful because we deliver what people want'. The vast majority, over 80%, also feel 'Tesco brings benefits to local communities through products and services provided' and believe that 'Tesco acts in an environmentally friendly way'. Nearly a quarter of office staff said they would like to see more local initiatives and events, 15% would like to see more schools and education projects, and 13% would like more environmentally friendly projects.

We found these results encouraging and in 2006/07 we will focus on strengthening our links between our staff and communities around our stores, engaging our staff in our schools projects and involving our staff in energy saving and recycling initiatives.

To strengthen internal communication we produced corporate responsibility special editions of our staff magazine 'One Team'. We put 'table-talkers' with corporate responsibility facts and figures in staff restaurants, set up displays in offices, distribution centres and our customer service centre, and had a corporate responsibility stand at our company conference.

To find out whether our corporate responsibility communications had been effective, we held Staff Question Time meetings. Staff told us that they found the magazines and table-talkers on corporate responsibility interesting and relevant, and that information on Fairtrade and recycling helped them answer customer enquiries. They wanted more information on local sourcing, product traceability, organic products and how new stores are involved with the community. This feedback will help to improve our internal communications in 2006/07.



stakeholder engagement



Suppliers

Our Core Value, 'Treat people how we like to be treated', forms the basis of our relationships with suppliers. We take a partnership approach to working with suppliers and aim to build long-term relationships (see page 25). To help us understand the views of our suppliers we carry out an annual survey, based on our staff Viewpoint model, which is fully confidential and anonymous. In February 2006, 1,800 suppliers completed the survey.

Supplier Viewpoint found that:

- ▶ Over 90% suppliers believed we were fair, trustworthy, reliable, consistent, clear and helpful
- ▶ Over 95% suppliers thought that we were professional, committed to meeting customer requirements and maintaining high quality standards
- ▶ 95% said that they are paid on time
- ▶ Suppliers would benefit from more proactive feedback as existing processes are only clear to 34%
- ▶ We can do more to improve day-to-day communication with our suppliers (82% said that our buyers are available when required)

In order to monitor this important area we have included a new supplier KPI in our Steering Wheel, with a target of 'over 90% of suppliers reporting that we are trustworthy, reliable, consistent, clear, helpful and fair' (see page 74).

Meeting our suppliers Our commercial teams hold supplier meetings, training and conferences and attend industry events throughout the year.

Our 2005/06 calendar of supplier events included:

- ▶ Technical manager meetings with suppliers throughout the year to look at product, packaging, new product development, Nature's Choice, Ethical Trading, product safety
- ▶ Training all our high risk suppliers on our Ethical Trading Policy
- ▶ Conferences for our organic produce suppliers
- ▶ Grower training for over 200 growers covering safe handling, quality testing, Nature's Choice and ethics
- ▶ A red meat open day at the Food Animal Initiative and sponsoring the Red Meat Industry Forum
- ▶ Stands and supplier meetings at the Royal Agricultural Shows

"I got the feeling of real partnership. The Tesco Team worked hard to bring us closer to their business and we can only benefit from this greater understanding."

Fiona Lamotte, Director, Scotherbs



◀ Our Chairman, David Reid met over 100 suppliers at our Scottish supplier event, which was supported by Scottish Food & Drink. The suppliers toured a store and depot and received presentations on customer trends and product development.

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 issues such as strategy and corporate responsibility and we recognise the importance of communicating appropriately any significant company developments. This shareholder communication is mainly co-ordinated by our Investor Relations team. During the year, we met with 78 of the leading shareholders representing over 45% of the issued shares of the company. To complement these meetings, the Chairman meets with major shareholders to discuss governance matters. The Board is kept informed of the views of shareholders either through direct meetings or through updates from the Investor Relations team.

We regularly meet representatives of the Socially Responsible Investment (SRI) community. 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. In 2005/06 we held two meetings for SRIs at our Beckton regeneration store. SRIs were invited to tour the store and to learn how corporate responsibility is embedded in the way we operate.

Over the past year, the issues most frequently discussed with SRIs included:

- ▶ Climate change, energy efficiency and food miles (see pages 52-56)
- ▶ Implementation of corporate responsibility in our international businesses (see pages 11 and 66)
- ▶ Ethical trading and sustainable relationships with suppliers (see pages 25-30)
- ▶ Our contribution to healthy living and how we can measure our impact in this area (see pages 40-43)

- ▶ Environmentally sustainable procurement of products (see pages 59-65)

Government

We have an open and honest relationship with political stakeholders, engaging with the Government, MPs and officials on a range of policy issues that impact on our business and on the communities in which we operate. We sponsor a small number of events at the annual party conferences, but make no other contributions to political parties. Our Government and corporate responsibility teams work closely together to ensure that our responses to Government consultations are aligned to our corporate responsibility policies and practices. We regularly share customer insight with Government departments – including, for example, working with the Department of Health on their Obesity Social Marketing campaign. We do not ask Government departments not to disclose our responses to public consultations.

Non-governmental organisations

Engaging with non-governmental organisations (NGOs) helps us to better understand the current issues and concerns of society. Our conversations highlight new trends and emerging issues and give greater insight on environmental, social and ethical issues, whilst helping us to manage our impacts and bring new products and services to our customers. We regularly meet NGOs, respond to their queries and contribute to surveys and research. We also invite guest NGO speakers to engage in discussion with our Corporate Responsibility Committee. In 2005/06, Greenpeace and Forum for the Future met the Committee.



stakeholder engagement

► We were the leading food and drug retailer in the Carbon Disclosure Project's 'Climate Leaders Index'.

CARBON DISCLOSURE PROJECT

We always respond to requests for information from NGOs as fully and as promptly as we can. In 2005 we contributed to research, surveys and information requests on a wide variety of issues including cotton production, homeworking, seafood sourcing, refrigerants, GM, timber and paper sourcing, carbon emissions, lobbying, vegetarian labelling, animal welfare and health and nutrition. 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.

In 2005/06 we engaged with leading charities and NGOs including:

- The Soil Association on extending our organic range
- The Fairtrade Foundation to promote Fairtrade Fortnight and encourage more customers to choose Fairtrade
- Diabetes UK on providing information for customers living with diabetes
- The British Red Cross on responding to disasters and emergencies
- Marine Conservation Society and Marine Stewardship Council on sustainable seafood sourcing
- Greenpeace on sustainable sourcing and climate change
- Friends of the Earth on palm oil, prawn sourcing and GM animal feed
- ActionAid and Women on Farms on labour standards in fruit farms in South Africa

We participate in a wide variety of multistakeholder groups on corporate responsibility issues including Business in The Community, The Ethical Trading Initiative, the Carbon Roundtable, GM Freeze Roundtable, Forest Stewardship Council Retailers

Group, British Retail Consortium Corporate Responsibility Policy Advisory Group and the DEFRA Climate Leaders Group.

Trade Unions

We have a long and very successful relationship with Usdaw, the Union of Shop Distributive and Allied Workers, as laid down in our partnership agreement. We engage with Usdaw officials and staff throughout the year on a wide agenda of topics relating to our people. Each store has a Staff Forum, which meets regularly to work through issues that affect the staff in the store. Staff elect representatives to sit on the Forum, to ensure that all staff in the store have a voice. At a national level, we have a series of working groups working on a joint agenda of topics agreed between managers, Usdaw and our staff. In 2005/06, we focussed on staff pay and benefits, improving attendance at work, and flexible working.

Opinion formers

To help us understand and respond to developing thinking on corporate responsibility issues we undertake an independent survey of key opinion formers. In 2005/06, in-depth qualitative interviews were carried out with 70 such opinion formers, including NGOs, politicians, journalists, academics, corporate responsibility managers from other companies and consumer groups. Respondees felt the integration of corporate responsibility at Tesco had improved but wanted us to do more to communicate our commitment to corporate responsibility to our customers and increase our engagement with NGOs. They want to see us strike a better balance on a number of issues – for example, between more choice and environmental sustainability.



◀ In 2005/06 we became a constituent of the Dow Jones Sustainability and Ethibel indices.

FTSE4Good 

◀ We are listed on FTSE4Good.

Community consultation

Our approach to community consultation in planning is based on listening and responding to customers and potential customers. We use a range of methods to engage with local communities to gain a representative picture of the views of the whole community, including public exhibitions, leaflet drops, focus groups, consumer panels, and working with local community groups. These approaches now form part of Government policy, which encourages developers to engage the community, particularly before a planning application has been submitted. As part of our Community Plan (see page 9), we are improving the way we consult local communities before building new stores. From 2007 we will hold a public exhibition or consult communities proactively on every new Tesco superstore. For further information on new stores see page 23.

Benchmarking

To help us benchmark and strengthen our corporate responsibility performance we participate in the Business in the Community (BiTC) Corporate Responsibility Index, Business in the Environment Survey, FTSE4Good and the Dow Jones Sustainability Index. We also respond to a variety of surveys conducted by NGOs (see page 18) and our performance is ranked in a variety of media reports. For example, in February 2006 we were ranked 1st for Social Responsibility and 3rd for quality of products and services in 'The World's Most Admired Companies' survey conducted by Fortune magazine.

We were the leading food and drug retailer in the Carbon Disclosure Project's 'Climate Leaders Index' (see page 52).

www.cdproject.net

We are sector leaders in the 2005 Business in the Community's Corporate Responsibility Index. Our score increased from 91% to 96% and we were ranked 16th out of the top 100 'Companies that Count'.

We are listed on FTSE4Good, Dow Jones Sustainability and Ethibel indices.

www.bitc.org.uk

www.ftse.co.uk

www.dowjones.com

www.ethibel.org

Responding to feedback

Feedback from our stakeholders and our performance in surveys help us to develop our corporate responsibility strategy and our Customer and Community Plans (see page 9). Our aim is to respond with practical initiatives throughout our business and examples of this approach can be found in this Review and on our website:

www.tesco.com/cr

Examples of initiatives developed in response to stakeholder feedback include:

- ▶ Launching improved nutritional labelling to help customers make healthier choices (see page 40)
- ▶ Introducing Sport for Schools and Clubs to encourage healthy activity (see page 38)
- ▶ Promoting Bag for Life to reduce carrier bag use (see page 59)
- ▶ Reducing the environmental impact of refrigeration by moving to HFC-free alternatives (see page 55)
- ▶ Making a commitment to sustainable sourcing of palm oil (see page 65)

economy

▶ We have invested
£281 million in
reducing prices.



**We believe that our stores
bring economic benefits
to the local communities
they serve – for customers,
staff, communities
and suppliers.**

Our priorities:

- ▶ Bringing lower prices, quality products and greater choice to our customers, particularly families on low incomes
- ▶ Playing an active role in regeneration, encouraging inward investment and creating rewarding jobs and careers
- ▶ Working in partnership with our suppliers and enabling them to grow as we grow

▶
Kaniz Fatema Rupa
Slough Extra, UK





◀ We sold more British apples than any other supermarket.



◀ 25,000 customers choose Fairtrade products for the first time each week.



▲
Bill Boler
Underserved
Market Director
Business in the
Community

“At its best, brand retail can bring tremendous economic benefits to communities: improved access to quality, low cost products; employment and training opportunities; local business development through supply, service and construction contracts; and a multiplier effect from strategic site selection that brings increased footfall to support existing traders and attract additional investment. At its worst, it can have the opposite effect.

This impact is profound in disadvantaged communities, where lack of economic opportunity underlies a range of social issues. As an independent business-led charity, Business in the Community’s experience over 20 years has shown us how business can be an economic driver in these areas. We support the progress Tesco has made to improve society through its economic policies and corporate responsibility efforts, most importantly the Regeneration Partnership scheme. The scheme demonstrates how investing in deprived areas can bring economic benefits to both company and community.

However, we also challenge Tesco to do more. The challenge for big retailers is to accept that they must increasingly justify their ‘license-to-operate’ and demonstrate their economic benefit to local communities.”

Bill Boler
Underserved Market Director
Business in the Community

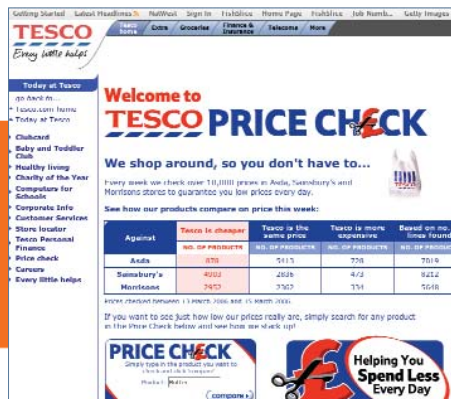
Tesco is sector leader in the 2006 BiTC CR Index.

www.bitc.org.uk



economy

Our online Pricechecker lets customers compare our prices with those of other supermarkets.



Tesco Telecoms offers simple and affordable products.



Value school uniforms

In 2005 we introduced the cheapest school uniform available on the high street, costing £5. Through increasing our volumes, we were able to reduce the price by 49% from last year. We delivered this saving by working in partnership with our suppliers. We recognise the importance of achieving value whilst maintaining high labour standards. Our school uniform suppliers are subject to our Ethical Trading Policy (see page 28) and all our clothing buyers attend our ethical trading training course (see page 29).

“The cost of school uniforms is a serious concern to many families across the UK. We encourage schools to keep specialist items to a minimum, and set uniforms that enable parents to shop around, so families don’t have to struggle so hard to clothe their children.”

Helen Dent, Chief Executive
Family Welfare Association

Reducing the cost of shopping

Our customers expect to see evidence that we are living our Core Value, ‘No-one tries harder for customers’, through the quality, price and range of goods they take home each week.

Our online Pricechecker lets customers compare our prices with those of other supermarkets.

www.tesco.com/pricechecker

In 2005/06, we helped our customers’ budgets go further by:

- ▶ Investing £281 million in reducing prices
- ▶ Increasing our Value fruit and vegetable range to 95 lines by introducing 61 new lines over the last two years, so that it costs less than ever before to eat ‘5-a-day’
- ▶ Launching our Wholefood range which offers nuts, seeds and other store cupboard products at cheaper prices
- ▶ Increasing our range of Value non-food products such as our £4.47 iron and £5.45 kettle to make setting up home cheaper
- ▶ Reducing the price of school uniforms by 49% to help parents on limited budgets
- ▶ Offering great prices on books and promoting World Book Day to encourage adults and children to read more
- ▶ Offering a range of Healthy Living non-food fitness equipment such as skipping ropes, pedometers, exercise bikes and rowing machines to make keeping fit more affordable

Our personal finance and telecom services have provided simple and affordable products for millions of people and have helped drive down prices and spread innovation in these sectors.

►
Our Value iron and kettle make it easier than ever to set up home.



A good example is Tesco travel insurance, which is a paper-free 'off the shelf' product that can be bought in under two minutes. To date approximately 300,000 customers, many of whom had previously not benefited from insurance and similar services because they were too costly or complicated, have taken advantage of this simple way to buy financial products.

Regeneration and urban renewal

In the past few years, we have brought benefits to some of Britain's most deprived urban areas through our Regeneration Partnership Scheme.

These stores have reinvigorated run-down areas, created new jobs and training opportunities for the long-term unemployed, brought affordable housing, improved transport links, and acted as a magnet for other investment.

In 2005/06, we completed two Regeneration Partnerships in Burnage, Manchester, and South Wigston, Leicester, creating 650 jobs. Over the past seven years we have completed a total of 14 Regeneration Partnerships, creating over 3,500 jobs and helping back into work 2,200 long-term unemployed and disadvantaged people through our job guarantee scheme. A further Regeneration Partnership store is under construction at the former Deysbrook Barracks in Liverpool, creating a further 200 new jobs. In 2006/07 we aim to launch a further six Partnership stores.

We have worked with local authorities, housing associations and other community groups, on mixed-use schemes – involving affordable housing, leisure and community facilities, as well as retailing. To date we have developed 336 houses and flats.



Burnage, Manchester

Our new store in Burnage, Manchester was built on the site of a derelict factory that had been closed for over 15 years. The building had become a liability to surrounding residents and was attracting anti-social behaviour.

The store has regenerated the site and created 350 jobs for local people. Over 25% of the new jobs created went to people who completed the Partnership Training programme and were given confidence through our job guarantee. The development will be completed in 2006 and will include a new GP surgery, affordable housing and further small retail units to help improve the local centre.

"I was very impressed with the training on offer and it was obvious all the trainees were enthused by the practical support provided and the fact that Tesco guarantee a job if they completed the course successfully."

Councillor Val Stevens, Deputy Leader of Manchester City Council

economy



Research shows that Tesco Express stores have led to a decrease in car use.

Express

Our Express stores link local convenience stores to world-class distribution and supply chain management. By bringing cheaper prices and greater product ranges they are drawing customers back to their local neighbourhood, helping boost local trade and reducing car journeys.

To make sure our Express stores are good neighbours we are:

- ▶ Cutting down the number of deliveries made
- ▶ Testing new technology to reduce noise from deliveries
- ▶ Changing delivery times to reduce congestion
- ▶ Reducing energy use (see page 52)
- ▶ Adapting the look of stores and the range on offer to cater for diverse communities

In 2005, a research team from the University of Southampton completed a survey of consumer responses to changes in the UK convenience store sector. The study was sponsored by Tesco but was conducted independently by the University who have full rights to both the intellectual property and to publish any findings – positive or negative. The University team looked at the shopping behaviour and opinions of consumers in four communities in Hampshire following the conversions of One Stop convenience stores into the Tesco Express format.

The study found there was broad-based local community support for the improved local food shopping offered by the Tesco Express stores and that:

- ▶ 'Top-up' food shopping had shifted away from supermarkets towards the local Tesco Express and other local stores
- ▶ More people were walking or cycling to do their shopping, leading to a decrease in car use
- ▶ 60% of customers felt that the range of fruit, vegetables and other foods had improved



Tesco Express stores have helped localise food shopping.

“It is clear that the introduction of the Tesco Express format to these communities helped bring about a major re-localisation of top-up shopping – away from the distant superstore towards local shops. If consumers can access the same quality of fresh food and product ranges locally as they do in larger supermarkets, then increasingly they will divert their top-up shopping back into their local neighbourhood. This may have potential benefits for other traders, but more interestingly considerable significance in changing the way we shop – with more people walking and cycling to stores.”

Professor Neil Wrigley
University of Southampton

At any one time
1 in 10 of
our people are
preparing for their
next career move.



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www.peopleattesco.com

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*If you have joined before, you do not have to join again.
If you have at least 1 year's service as at 29th February 2006 you will shortly receive a registration pack to your home address.*

When you receive your registration pack call: 0870 241 3976, or log on to www.shareview.co.uk/tesco, to register for your share in our success.

TESCO
BANKING

Sharing in our success

At Tesco share ownership is not just limited to directors and senior managers. Through our incentive schemes, 65% of our people own shares in the company. In May 2005, £70 million worth of shares were given to 168,000 staff as part of our Shares in Success scheme – all staff with more than one year's service received shares worth 3.6% of their salary. In addition, we offer a 'Save As You Earn' scheme to enable staff to buy shares at a discounted price as a medium or long-term investment. Around 40% of staff take part, and in February 2006, shares worth £111 million were paid out when the scheme matured. Our third all-employee scheme is called 'Buy As You Earn'. We have over 35,000 staff currently using this scheme to buy Tesco shares from their pre-tax salary, allowing them to become Tesco shareholders in a tax efficient way. For more information on staff benefits see page 47.

Our people

The typical Tesco store employs 300 people and pays £3.25 million in wages annually. While this alone brings value to a local economy, what is just as important in the long run is the way we look after our people – through opportunities to develop their careers, by providing an excellent benefits package and by maintaining a strong defined benefit pension scheme.

Our training encourages staff to progress through the company – at any time one in ten of our people are preparing for their next move, and 80% of managers got their jobs by being promoted internally within the business. Many of our training schemes are accredited by the Government – ranging from basic skills to modern apprenticeships. These will soon include foundation degree courses (see page 47).

Our suppliers

For us to be a successful, sustainable business we have to ensure that our drive to bring cheaper prices is achieved without compromising our standards, reducing quality, damaging the environment, or harming the suppliers and workers who produce the goods we sell.

Our relationship with our suppliers is vital to our success. We treat our suppliers as we like to be treated and make sure we are responsible, fair and honest in the way we do business. This means taking a partnership approach – sharing our knowledge and listening to our suppliers' feedback. We believe this is the only effective way to bring our customers a reliable supply of new and better products produced to the requirements of our ethical and environmental standards.



economy



◀ Southern England Farms have worked with Tesco to lengthen the season for Cornish brassica crops and reduced use of pesticides. We now sell Cornish cauliflowers all year round.



“Undoubtedly the growth of our business has been based upon our relationship with Tesco over the past 15 years. More people now have jobs, and good jobs, because of what we send to Tesco.”

Nigel Pollard, supplier of baby vegetables, York Farm, Zambia

Working in partnership with our suppliers means:

- ▶ Giving suppliers a secure and growing market for their products
- ▶ Providing technical expertise and sharing our knowledge of customers through conferences, events, workshops and producer clubs
- ▶ Helping suppliers develop new and better products to meet customers' changing expectations
- ▶ Helping suppliers to promote their products to our customers
- ▶ Establishing and monitoring quality, environmental and labour standards
- ▶ Helping increase efficiency and reduce costs in the supply chain through innovations such as green trays
- ▶ Making regular payments, on time
- ▶ Ensuring we operate in accordance with the Supermarket Code of Practice
- ▶ Giving suppliers the chance to give feedback on what it is like to work with Tesco through our confidential, anonymous Supplier Viewpoint survey
- ▶ Training our buyers in our Ethical Trading Policy and programme requirements

In 2005/06, we supported and funded the Institute of Grocery Distributors (IGD) Food Chain Centre which has set up a value chain analysis for various product groups to look at how we could reduce costs. The study has shown that in the region of 20% of costs in the supply chain are unnecessary and there are opportunities for better working and collaboration for us to explore.

www.igd.com

“In comparison with European and other supermarkets, Tesco is a loyal customer. It does not chop and change its supplier base, and this ensures commitment from the growers, who are in turn able to offer long-term commitment to their labour force and suppliers.”

Barry Fine, Director, Gerber



Working with African suppliers

The 2005 'Make Poverty History' campaign identified increased trade as one of three key means of eliminating poverty – an aim we support. We source products from farms in 15 African countries. Sales of African products have increased consistently, helping our suppliers to invest in their businesses and add value to the local economy.

For example, one of our Kenyan suppliers, Homegrown, has an innovative smallholder programme which enables over 1,000 small-scale farmers to reach our customers. The relationship between Tesco and Homegrown has developed over the last 20 years and has boosted the local economy by providing a reliable and increased income for farmers which has, in turn, created opportunities for local clothing, household goods and food traders.

“Since we joined hands with Homegrown and Tesco, our children are all in school because we can earn on a weekly basis. Theft has reduced because the youth have invested their energies in farming. We have been trained in hygiene and health issues and have first aiders amongst us. Our water is treated and we know a lot about food safety. They have improved our social life in that we are united into groups and help each other as a team.”

James Maina, Chairman of Gatune Shed

Supplier Code of Practice We operate in accordance with the Supplier Code of Practice and endeavour to reflect its spirit and objectives of reasonableness and transparency in all our relationships. We are one of four signatories to the UK Government's statutory Supplier Code of Practice. Since the introduction of the Code, we have run a tailored training programme for all Tesco buyers to promote understanding and compliance.

In March 2005, the Office of Fair Trading (OFT) audit found no breaches of the Supplier Code at Tesco. The Audit showed that suppliers do take up issues with us regularly, and to support this process we appointed a Code Compliance Officer to hear formal complaints, confidentially if requested.

While we recognise that problems occasionally arise in supplier relationships, in the large majority of cases these are aired and resolved by constructive discussion. We hope that our annual Supplier Viewpoint survey (see page 16) will encourage suppliers to give us more feedback on our relationships with them.

economy

▶ We are working in partnership with WEITA to audit standards on fruit farms in South Africa.



photo © Brian Miller, WEITA

Ethical trading

We want ethical trading to be an integral part of the way we do business. Our aim is to enable our buyers, technical managers and ethical trading team to work with our suppliers to uphold labour standards in our supply chain. We are a founder member of the Ethical Trading Initiative (ETI) and use the ETI Base Code as the standard for our Ethical Trading Policy.

The ETI Base Code states:

- ▶ 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 practiced
- ▶ Regular employment is provided
- ▶ No harsh or inhumane treatment is allowed

www.ethicaltrade.org

Our approach to ethical trading:

- ▶ Monitoring and assessing risk within our supply chain
- ▶ Auditing against the ETI Base Code and sharing audit data with other businesses to avoid duplication
- ▶ Working with suppliers to improve standards and resolve issues when they arise
- ▶ Training our buyers to uphold labour standards
- ▶ Supporting, advising and training our suppliers to uphold labour standards
- ▶ Supporting the implementation of the Gangmaster Licensing Act

- ▶ Actively participating in the ETI and other multi-stakeholder initiatives
- ▶ Engaging with NGOs working on labour standards issues
- ▶ Setting targets and reporting publicly on our progress

Risk assessment and auditing We take a risk-based approach to managing labour standards in our supply chain, in addition to the due diligence work we do on legal compliance, product safety, quality and capability for product development.

We assess ethical risk using three criteria:

- ▶ The risk inherent in the country where the supplier is located, using a country risk matrix developed by Tesco and verified by an independent ethical consultancy
- ▶ The risk inherent in the industry and employment types, e.g. use of seasonal workers, homeworkers and subcontractors
- ▶ Our own knowledge of the risks posed by the site and supplier, based on supplier history

Using these criteria, we place suppliers into high, medium and low ethical risk categories:

- ▶ **High-risk suppliers** – we carry out annual reviews of the Sedex self assessment forms of our high-risk suppliers, and require them to have a two-three day ethical assessment by a third-party company every year. Auditing 100% of our high-risk suppliers is one of our Key Performance Indicators (see page 72)
- ▶ **Medium-risk suppliers** – we carry out annual reviews of the Sedex self assessment forms and require these suppliers to have a two day ethical assessment by a third-party company at least every two years
- ▶ **Low-risk suppliers** – we carry out annual reviews of the Sedex self assessment forms of these suppliers

“I am so glad to hear that you are part of The Ethical Trading Initiative. I hope that your endeavours to help people receive the minimum wage will be successful.”

Sharron, customer email

▶
96% of Tesco suppliers are registered on the Supplier Ethical Data Exchange (Sedex).



We write to suppliers to inform them of their risk rating and confirm our requirement that they promote the ETI Base Code in their supply chain.

Third-party companies conduct the ethical assessments, highlight non-compliance and manage the verification of corrective actions to ensure implementation. If a non-compliance has not been verified as resolved by the third-party company six months after the assessment date, a Tesco technical manager will assess the suitability of the site to continue supplying us. Where full rectification may take longer than six months, an ongoing status summary report is maintained by Tesco. When problems with compliance emerge, our aim where possible is to work with the supplier to resolve the issue. We believe this approach helps achieve long-term improvements in ethical performance. However, if there is no commitment from the supplier to improve, we would cease to trade with them.

Sharing audit data We were influential in establishing Sedex (Supplier Ethical Data Exchange) which was launched in June 2004.

This web-based system encourages businesses to share data on labour standards at production sites which avoids duplication of assessments. It allows inspection resources to be better targeted and avoids unnecessary costs for suppliers:

- ▶ 100% of all our high-risk suppliers' sites were independently audited, with reports uploaded on Sedex
- ▶ 100% of all our medium-risk suppliers' sites planned in year one of a two year programme were audited with reports uploaded on Sedex
- ▶ 96% of all our primary supplier sites registered on Sedex and completed their self-assessment forms

- ▶ The data on Sedex can be shared with other members that source products from the same sites

www.sedex.org.uk

Buyer training All Tesco commercial staff involved with buying for the UK are expected to understand and reflect ethical considerations in their purchasing practices – their job description makes this clear. All buying staff must attend an ethical trading training course which teaches them how to recognise potential problems and employ purchasing practices that minimise ethical risk. We run specific courses for food buyers and non-food buyers in order to address the particular challenges they may face. In 2005/06 we achieved our target of ensuring that all buying teams attend this training – a total of 555 buyers were trained.

In addition, all our 103 UK technical managers must complete a two-day social accountability audit training course, run in conjunction with Bureau Veritas Quality International (BVQI).

Supplier training We organise ethical trading training courses and workshops for our suppliers. These courses explain our Ethical Trading Policy and programme, raise awareness of ethical issues and build supplier confidence in managing ethical issues in their own countries and industries. In 2005/06 we achieved our target by ensuring that 100% of high-risk suppliers attended this training. We also ran specific training courses for all our clothing agents and suppliers, produce suppliers and Turkish and Chinese suppliers.



economy

We are members
of the Wine and
Agricultural Ethical
Trade Association
(WIETA).



Working in partnership to improve labour standards in South Africa

We believe that the right way for us to build a certain and growing market for South African produce in which labour and environmental standards are upheld is to work together, on the ground, with our suppliers and other stakeholders. This approach is paying dividends in the South African wine sector through the Wine and Agricultural Ethical Trade Association (WIETA), which brings together producers, importers, regulators, trade unions and non-governmental organisations.

We have been working with WIETA and our suppliers to extend this work to the fruit sector. In 2005, our South African apple and pear suppliers, together with WIETA, developed a new fruit auditing standard. Trial audits took place in early 2006 and we hope that this work will lead to a standard which can be applied to all South African fruit production.

In February 2006, our Ethical Trading Team visited South Africa to meet non-governmental organisations, suppliers and growers as part of our work to ensure robust labour standards. The team met NGOs on the ground and discussed Sedex with WIETA members. As a result WIETA and Sedex will work together to help avoid unnecessary duplication of reporting for suppliers.

“We are pleased to be working in partnership with Tesco and their suppliers, Fruitways and Capespan, to monitor employment conditions of permanent and temporary workers within their supply chains. We are in the process of conducting pilot audits which will assist us in refining the standards for the fruit industry, and ensuring that we adopt appropriate social auditing methodologies for this sector in South Africa.”

Nicky Taylor, CEO, WIETA

www.wieta.org.za

Gangmaster licensing We are fully supportive of the Gangmaster (Licensing) Act which aims to improve employment practices of temporary labour providers or gangmasters. Whilst this issue has been highlighted in the picking and packing of fresh produce we were part of a successful business and NGO alliance that persuaded the UK Government to minimise exclusions to the Act so that its impact will be felt throughout the supply chain.

To support implementation of the Act in our supply chain we have incorporated information about the Act into conferences held with our produce (fruit, vegetable and horticultural) suppliers, discussed it on technical manager visits and encouraged suppliers to register to the Labour Providers Code of Practice.



◀ The children of South African workers on fruit farms supplying Tesco receive free education.



◀ In 2005/06, sales of Tesco Fair Trade Instant Coffee increased by 33%, helping small farmers' co-operatives in Peru, Costa Rica and Tanzania to invest in their businesses and support their children's education. Our coffee vending machines serve two million cups of Fairtrade coffee a year.



“Over the years, Tesco has visited our farm on several occasions. We share our development plans and get clear and straightforward messages from Tesco about how we are doing. We know that as long as our quality and efficiency is right, Tesco will do what is required to ensure that its business will be big and stable enough to accommodate all our production. Tesco cares about value and efficiency, but like us, is uncompromising about critical aspects of worker welfare.”

Dr. Marshall Hall
JP Fruits, Jamaica

Fairtrade

Tesco strongly supports Fairtrade which guarantees that developing world farmers are paid a price that covers the cost of production, plus a premium to be spent on community projects such as better healthcare, sanitation, education or housing. We recognise that this is vital in bringing stability to many small suppliers in developing countries.

Since the introduction of our own-brand Fairtrade range in 2004, we have seen large increases in sales and our customers now buy one in three of Fairtrade products purchased in UK supermarkets.

We want to encourage more customers to choose Fairtrade. Every week, 25,000 Tesco customers buy a Fairtrade product for the first time. The number of Clubcard customers buying three or more Fairtrade products each month has nearly trebled over the past two years.

To support Fairtrade Fortnight 2005, we had promotions on Fairtrade products in our stores and invited local Fairtrade groups to hold in-store tastings and talk to customers about the benefits of Fairtrade.

Our Fairtrade range, which includes own-brand roses, mangoes, avocados, citrus fruit and cookies, is one of the largest in the UK and we continue to work with the Fairtrade Foundation to bring new own-brand and branded products to our customers.

In 2005/06 we were delighted to be the first UK retailer to offer Fairtrade basmati rice and brazil nuts and from Summer 2006 we will be extending the range to include Fairtrade spices.

www.fairtrade.org

economy



We are making good progress towards our aim of doubling sales of British apples over the next three years. We have expanded our range to include Finest* British apples and independent industry figures show we sell more British apples than any other supermarket.

In 2005/06 we sponsored the Brogdale Horticultural Trust which maintains a living archive of British apples. In 2006 we will be further supporting Brogdale by selling all the traditional British apple varieties they grow.

Local sourcing

'Local' means different things to different customers. Some want to choose British or buy food that is in season. Others are interested in learning where their food comes from, want to buy produce from farms in their local community or choose produce that has not travelled large distances. We try to help our customers to meet these different demands.

Our approach to local sourcing:

- ▶ Stocking British produce whenever we can – 97% of our fresh chicken, 95% fresh beef, 92% fresh pork, 88% fresh lamb is British. All our fresh shell eggs and fresh, UHT and organic milk come from British farms
- ▶ Encouraging small local suppliers and helping them reach our customers with their products through initiatives such as our Cheese Challenge
- ▶ Working with British farmers to extend growing seasons so that we sell more British produce and import less. For example, since 2000, sales of UK-grown strawberries have increased by 170%, and the proportion sourced outside the UK has fallen from 25% to 14%
- ▶ Clear labelling to show where food comes from and promoting British and regional foods in our stores
- ▶ Rolling out to all parts of the UK, our highly successful local buying programme in Scotland, where we have more than 100 local suppliers providing us with 1,000 products

- ▶ Making it easier for small suppliers to gain access to Tesco by hosting open days in every region for them to come and meet our buyers

"I have been delighted with the support Tesco has given the UK apple and pear industry this year. They've ensured that all their stores including the smallest, have stocked an excellent range of varieties. A great example of their support has been their preference for UK over French Gala – Tesco has sold nearly half of the entire UK Royal Gala crop. I can look forward with confidence in apple and pear growing because I know that Tesco is committed to giving their shoppers great tasting UK-grown apples and pears."

Simon Elworthy, Plumford Farm, Kent



Our Northern Irish team promotes Northern Irish products throughout the year.



To boost sales of Scottish products, our tasting tour made over 200 store visits during 2005/06 and distributed 120,000 samples from over 30 different Scottish suppliers.

Our Scottish Team

Our Scottish office has dedicated specialists in buying, marketing, technical standards and merchandising. They have a clear remit to build positive and constructive long-term supplier relationships in Scotland, improve existing products, develop new products, share knowledge with suppliers, and give us feedback on what we are doing well and where we could do better. By doing this they ensure that we have the right range in store for our Scottish customers.

In 2005/06 our Scottish team:

- ▶ Worked with our Scottish suppliers to launch a large number of new lines sourced from Scotland including McIntosh pies, Rannoch smoked venison, Arbroath smokies, and Scottish roast pork, beef and ham
- ▶ Promoted Scottish products with improved signage in stores, customer leaflets and a supplement in Scotland on Sunday
- ▶ Organised a tasting tour of our Scottish stores giving customers the chance to try before they buy
- ▶ Helped customers celebrate traditional Scottish events such as Hogmanay and Burns Night



society



Our core value ‘treat people how we like to be treated’ guides our approach to business and helps us to be a good neighbour in the communities we serve.

Our priorities:

- ▶ Trying to make sure everyone is welcome at Tesco and that Tesco is a great place to work
- ▶ Helping customers to make healthy choices and encouraging people to get active
- ▶ Supporting the causes that are close to the hearts of our staff and customers



▶
Mikey Balfour
Bar Hill Extra, UK

◀ We launched Sport for Schools & Clubs.

▶ We have introduced 61 new Value fruit and vegetable lines over the last two years.



▶ We helped customers celebrate their religious festivals.



▲
Gordon Lishman
CEO, Age Concern

“The job of a retailer is to provide quality, value and choice. They also provide value to society through economic growth and the associated long-term improvements in health, living standards and longevity.

Businesses do not exist in a vacuum. They benefit from stable communities, well-motivated staff and well-served customers. Both staff and customers should be representative of communities across generations, races and other aspects. Retailers face challenges in achieving diversity and enabling staff to build working lives and pension entitlements, whatever their age.

Any business with a long-term view knows that it is worth investing in people, the communities and the environment. Social capital is good for business; big business in particular has a financial interest as well as a social duty in building secure, happy and cohesive communities.

As Tesco reaches into smaller communities, there are new opportunities for greater roles, for instance in offering one stop services for communities and older people where small convenience stores can be a lifeline and a community centre.”

Gordon Lishman
CEO, Age Concern

In 2005/06 Tesco helped to raise £2 million for Age Concern.

www.ageconcern.org

society

In 2005/06 we gave £41.7 million to good causes, up from £27.1 million last year.



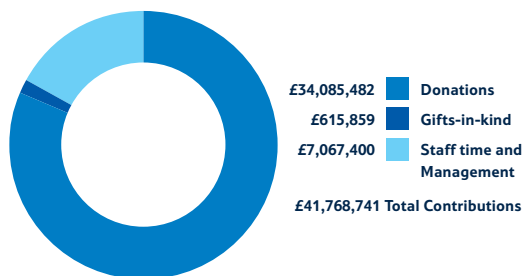
Charities and good causes

Supporting charities and good causes is a practical way to demonstrate our commitment to the communities that are local to our stores. We focus our activity on three areas which our staff and customers tell us are most important to them:

- ▶ Children and education
- ▶ The elderly
- ▶ People with disabilities

We recognise that community involvement and fundraising have a positive impact on staff morale and help us to develop strong links between our stores and our neighbours. Every year we give more than 1% of our pre-tax profits to charities and good causes in the form of donations, staff time and gifts-in-kind. As we grow, so does our contribution, and in 2005/06 we gave £41.7 million, up from £27.1 million last year. Over the past six years, we have given £120.6 million to charities and good causes.

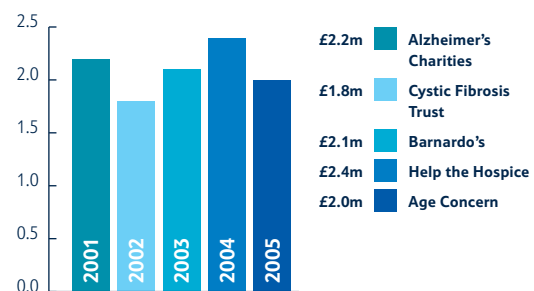
www.tescocorporate.com/charitiesandfundraising



CHARITABLE GIVING 2005/06 – by type

Tesco Charity Trust The Tesco Charity Trust made cash grants of £1,584,298 to local and national charities in the UK. The Trust's Community Award Scheme gave £400,000 to 129 practical projects which deliver tangible benefits. Decisions on which project should benefit are made locally by our community co-ordinators. The Tesco Charity Trust adds 20% to all funds raised for charity by Tesco staff.

Charity of the Year Our Charity of the Year is an opportunity for our staff and customers to pool their strengths to support a cause that is close to their hearts. Since we started Charity of the Year in 1988 we have helped to raise over £23 million for some of the UK's great charities.



CHARITY OF THE YEAR



◀ We aim to raise £1.5 million for Whizz Kidz to help provide mobility equipment for children like Owen Swift.

In 2005 we worked with Age Concern to raise £2 million for projects including 'Fight the Freeze' – buying blankets and heaters for the elderly; 'Someone to Talk To' – paying for volunteers to regularly call the elderly to stop them feeling isolated, and 'Lunch Clubs' – raising money to pay for meals and provide company for the elderly.



www.ageconcern.org

Our Charity of the Year for 2006 is Whizz-Kidz. We aim to raise £1.5 million to enable Whizz-Kidz to provide 391 disabled children on their waiting list with their own customised mobility equipment including powered, manual and sports wheelchairs, bicycles and tricycles.



www.whizz-kidz.org.uk/tesco

Disasters and Emergencies We work in partnership with the British Red Cross to respond quickly and effectively to natural disasters and other emergencies. This partnership ensures we offer the most appropriate help and that it swiftly reaches those most in need.

Earthquake Appeal We played our part in responding to the earthquake in India and Pakistan by pledging £50,000 and collecting £71,550 in our stores. We also worked with Rotary International to collect and send 200 large boxes of blankets, sleeping bags and warm clothes to the affected area.

London Bombings We are proud of the way Tesco store teams responded to the London bombings in July 2005. Our staff provided water and sandwiches to the emergency services and helped stranded people to get home. We supported the London Bombings Relief Fund by pledging £50,000 and raising £19,900 in our London stores.

“The support we get from everyone at Tesco is absolutely crucial to the emergency work of the British Red Cross. Tesco support saves lives. It's as simple as that.”

**Sir Nicholas Young, Chief Executive
British Red Cross**



society

30,000 schools and clubs took part in Sport for Schools and Clubs.



86% of UK schools take part in Computers for Schools.

Computers for Schools Over the last 14 years our Computers for Schools scheme has given over £100 million worth of computers and IT equipment to UK schools. The scheme works on the 'Every Little Helps' principle, bringing together our staff, customers and schools in a joint effort that delivers benefits for the whole community. Around 3,000 schools joined the initiative in 2005, taking the total number of schools involved to over 30,000 – 86% of all UK schools.

For 2006/07 there are almost 600 items in the catalogue including a new early years section, updated music section, energy efficiency kit and a greater variety of PCs and monitors. We will also be encouraging schools to recycle by giving them Computers for Schools vouchers for every mobile phone and inkjet cartridge they collect for recycling. See page 58 for more information on our recycling schemes.

www.computersforschools.co.uk

Sport for Schools and Clubs In September 2005, we launched 'Sport for Schools and Clubs' to encourage children to have a go at new sports and to get fit through exercise. The vouchers collected by customers can be exchanged for free sports equipment and professional coaching sessions by sports clubs and 30,000 schools around the UK. Through Sport for Schools and Clubs we've given away £9 million worth of equipment and coaching sessions.

"The Tesco Sport for Schools and Clubs Scheme is great because kids can benefit in so many ways. It encourages them to focus on something positive, it is great for their health and is fun."

Jason Robinson MBE, former England Rugby Union captain and World Cup Winner

www.tescosport.com



2,200 teams took part in the Tesco U13 Football Cup and we gave £95,000 in grants towards grassroots football.



In July 2005, 120,000 children took part in the Tesco Great School Run.



Children's Activities In 2005/06 we sponsored some new activities that offer children easy ways to get fit and learn about a healthy lifestyle:

- ▶ In July 2005, over 120,000 children from across the UK took part in the world's largest junior sporting event, the Great School Run. The children took part in a five-week education and nutrition programme, designed to fit the national curriculum, and then raced around a 2km course
- ▶ We are helping children to get active through sponsorship of the Junior and Mini Great Runs consisting of eight races at four venues across the country

www.greatschoolrun.com

www.tescosport.com

Mobile phone bullying

In 2005 Tesco Mobile joined forces with the leading children's charity NCH to address the problem of mobile phone bullying. A joint report – 'Putting U in the picture' – indicated that 14% of children have been bullied or threatened by text message. To help tackle this we worked with NCH to launch a website and text back service to provide advice and support to young people.

For more information on the NCH/Tesco text bullying campaign visit www.stoptextbully.com



the children's charity

society



◀ Our new range of health information leaflets are available in store and on our website.

Healthier choices

Customers have told us they want us to make it easier for them to keep themselves and their families healthy.

Initiatives to make it easier for customers to live more healthily:

- ▶ Introducing new nutritional signposting to help customers make the right choice for them
- ▶ Reducing salt, fat and sugar in over 500 products
- ▶ Increasing our Value fruit and vegetable range by 61 lines over the last two years and ensuring that healthier products get more promotions in our stores
- ▶ Introducing a 'kitchen cupboard' guarantee on all our ready meals, which means that no ingredient will be added that would not be found in a household kitchen cupboard
- ▶ Introducing our new Kids Range of healthier foods and launching a new Wholefoods range
- ▶ Producing a range of 15 health information leaflets and creating an online 'health zone' offering nutritional advice on www.tesco.com/health
- ▶ Running no-smoking campaigns and diet advice at our pharmacies
- ▶ Aiming to get two million people running, cycling or walking in the run up to the London 2012 Olympics

We are equally committed to promoting healthier, active lifestyles for our people and offer:

- ▶ Healthy choices in vending machines and staff restaurants
- ▶ Staff discount of at least 20% on gym and leisure centre membership rates

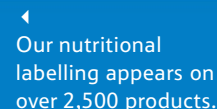
- ▶ Staff discount of 30% on subscriptions to Tesco Diets
- ▶ Support and advice to help anyone wanting to quit smoking

Nutritional labelling Customers told us that they wanted us to help them better understand the nutritional information on our packs.

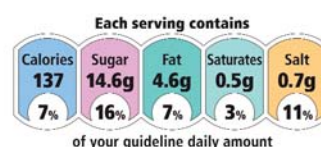
In 2005/06, we introduced nutritional signposting for our own label products. This indicates, in an easy to understand format, the number of calories and the amount of salt, fat, saturated fat and sugar in a serving, as well as how much of the Guideline Daily Amounts (GDA) this makes up. By separating the key nutrients the labels help customers monitor any or all the areas they are concerned about, for example, salt if they have high blood pressure or calories if they are watching their weight.

The first nutritional signposts were introduced in April 2005 and are now on over 2,500 products. We are continuing to roll out nutritional signposting and have set ourselves the target of including the signposting on all 6,600 of our eligible own-brand products by spring 2007. This industry-leading initiative has also encouraged a number of key manufacturing companies to follow suit, enabling customers to compare different products in a consistent way. Since the labels have been introduced we have seen evidence that customers are shifting to healthier options. We have shared our customer insight with the Department of Health, the Food Standards Agency and a range of NGOs and are building a clearer picture of how people choose healthier options.

Our nutritional labelling TV ads were seen by 90% of those responsible for food shopping in January 2006. Our Tesco magazine included major features on nutritional labelling and all our recipes now include nutritional signposting.



Following the introduction of nutritional signposting, lower fat ready meals have out-sold higher fat alternatives by more than 7%, with customers opting for healthier vegetable-based dishes which contain less fat. Our Thai vegetable curry which contains 25% Guideline Daily Amounts (GDA) for fat has seen an increase in sales of 33%. Whereas sales of Salmon En Croute – which contains 53% GDA for fat – have reduced by 29%.



Ours now show the percentage of your Guideline Daily Amount. So you know the salt in your soup. And unfortunately...

**In 2006/07 we will research our new
labelling with customers so we can:**

- ▶ Better understand how nutritional signposting is encouraging changes in product choices
- ▶ Establish customer preferences and understanding of the labelling
- ▶ Inform our customer education campaigns and initiatives

Our labelling also caters for other health needs. We are promoting Glycaemic Index (Gi) labelling on our canned products, cereals, bakery and wholefoods products to help customers identify foods which make them feel fuller for longer. We have also supported an updated Gi Guide which focuses on healthier eating for all the family.

Our Gi Diet and labelling was named 'Best Consumer Initiative' in The Grocer Gold Awards.

Our 'Free From' range now consists of over 150 everyday items which are gluten-, wheat- or milk-free, helping to make life easier for shoppers with allergies or intolerances. We have also developed a new nut labelling system, which gives more detail to nut allergic customers on the degree of risk of nut traces being found in a product.

Salt Over the past year we have reduced the amounts of salt in over 500 of our most popular everyday product lines. these include:

- ▶ Baked Beans – 25% less salt
- ▶ Canned soup – 30% less salt
- ▶ Bread – 10% less salt
- ▶ Beef lasagne – 55% less salt

We are currently reviewing the salt content of 2,000 more of our own-brand products and have pledged to cut the amount of salt they contain to help meet the Department of Health and Food Standards Agency targets of 6g per day intake by 2010. Our Healthy Living and Kids ranges already have strict limits in place on salt levels.

Fat and sugar We are working hard to reduce sugar, fat and saturated fat in our products. In 2005/06 we reduced the fat in 125 products, saturated fat in 143 products and sugar in 53 products. In 2006/07 we will be reviewing a further 2,000 lines with the aim of improving many more products.

TESCO
Wholefoods are an
excellent source of
Vitamin E which helps
your skin health
supports your
immune system.
A great snack.

society



◀ In January 2006, we launched Tesco Wholefoods, a range of 87 healthy products including dried fruits, nuts and seeds.



Fruit and vegetables To encourage customers to choose fresh fruit and vegetables we ran 230 promotions on fruit and vegetables in 2005/06. During the course of the year, two-thirds of our fruit and vegetable lines were on promotion at least once compared to one in five of our processed food lines. We increased our Value range of fruit and vegetable lines by 61 lines over the last two years. As a result of these initiatives, sales of fruit and vegetables rose by 13% in 2005/06, with the most marked increase in purchasing among our least affluent customers.

Wholefoods In January 2006 we launched a range of 87 healthy products called Tesco Wholefoods. These are snacks such as dried fruits, nuts and seeds and 'store cupboard' products such as pulses and grains. Tesco Wholefoods are natural products with a minimum of processing. Our aim is to keep anything artificial out of our Wholefoods. On the front of the pack we tell customers how the product contributes to a healthy diet and we give ideas on how to incorporate the wholefood into everyday eating. A free four-week wholefoods plan is available on our website:

www.tescodiets.com/wholefoods

Kids range Our new Kids range includes over 40 healthy meals, lunchbox options, snacks and drinks. The products meet strict rules on fat, sugar and salt content, contain no artificial colours, flavours or sweeteners and are all tested by our Kids' taste panel involving 25 primary schools with 50 children aged from five to ten years old on each school's panel. The range features our nutritional labelling showing children's Guideline Daily Amounts.

Healthy Living range We now have just under 500 products in our 'Healthy Living' range – more than any other supermarket – and sales are growing at 8% each year. The brand has 12 million regular customers.





Our Healthy Living website www.tesco.com/health includes nutritional advice, diets and information on physical activity.



549,880 women took part in Cancer Research UK's Race for Life which is sponsored by Tesco.

Healthy Living Club We started our Healthy Living Club in 2002. In 2005 we aimed to increase membership from 220,000 to 500,000 members – we have exceeded our target and now have over 540,000 members. Members receive a Healthy Living Club magazine with information on how to get fit and stay healthy, and benefits such as discounted gym membership and money-off vouchers for healthy products.

Our website includes information on healthy eating, active living, health services and online advice from a professional nutritionist.

www.tesco.com/health

Getting active As well as a healthy diet we also help our customers and their families get fit through exercise. In 2005/06, our fourth year as sponsor of Cancer Research UK's 'Race for Life', over half a million women took part, including 21,927 from Tesco. Together they raised over £33 million for research into cancer. We also launched a series of 10km runs with Cancer Research UK that encourages men as well as women to participate. We are also helping children to get active through a variety of initiatives (see page 39). We want to help get two million people running, cycling or walking in events that we will organise or sponsor in the run up to the London 2012 Olympics.

Encouraging sensible drinking We support sensible drinking consumer messages, in line with Government and medical advice. We promote these messages through in-store leaflets, our website and company magazines. Our own-brand beers, wines and spirits have information on alcohol units. All retail staff involved with the sale of alcohol are trained on the legal implications of selling alcohol to underage customers.



Our new Kids range includes over 40 healthy meals, lunchbox options, snacks and drinks.

society

▶ We have increased our range of Halal products.



◀ During Diwali and Eid we organised a range of activities for our customers in 36 stores. We ran a children's colouring competition and gave away balloons and Halal sweets. Office staff went to our Brent Park store during Diwali and Eid to help out and enable staff to attend prayer and celebrations.

Diversity

We want to ensure that 'Everyone is Welcome at Tesco' – this applies to both the people who shop with us and those who work with us.

In 2005 we welcomed staff and customers of different faiths and cultures by:

- ▶ Providing managers with a religious toolkit which enables them to understand and support people from all backgrounds and faiths through information on diet, prayer and dress, and suggestions on how to support their staff during festivals
- ▶ Ensuring that, where requested, staff have quiet places for prayer at our stores and distribution centres
- ▶ Helping our staff and customers observe their religious calendar

- ▶ Celebrating Christmas, Easter, Diwali, Eid and Hanukkah with our staff and customers
- ▶ Increasing our range of world foods and testing Halal options in our staff restaurants and customer cafés

In the UK our approach is to ensure that the composition of our workforce mirrors the composition of the population as a whole. Our Diversity Advisory Group meet every six weeks to monitor our progress.

This year we were one of 19 companies to be included in a European Commission compendium of good workplace diversity practice.

Our Human Rights Policy, Equal Opportunities Policy and Code of Ethics can be found on our website.

www.tesco.com/cr



www.tesco.com/access

We are the only supermarket to provide a fully accessible home shopping website. Our access website has been developed for customers who are visually-impaired, use access technologies such as a voice screen reader, or who wish to override the default font sizes and page colours so it is easier to read.

Our fully accessible shopping website can be found at www.tesco.com/access

Disability ‘Everyone is welcome at Tesco’ also guides our approach to customers and staff with disabilities. We aim to make shopping as easy as possible for customers with disabilities by:

- ▶ Making sure new stores are as wheelchair-friendly as possible with wide aisles and checkouts, ramps, automatic doors and wheelchair-friendly lifts and travellers
- ▶ Having designated parking spaces in all our car parks
- ▶ Providing standard wheelchairs at all stores and electric wheelchairs at 300 stores
- ▶ Offering help with shopping and bag packing at all our stores
- ▶ Fitting induction loops for hearing impaired customers at all our customer service desks and petrol filling stations
- ▶ Changing our signs in stores to make them easier for partially sighted customers to read
- ▶ Offering ‘Service Call’ assistance in all of our petrol stations

“Having my bags packed is fantastic. I’m tired out at the end of a shop so it’s nice to let someone else take the strain.”

Customer, Disability Customer Question Time.

In 2005 we sponsored a guide produced by the Employers Forum on Disability on ‘Welcoming Disabled Customers’ that will help our staff deliver even better service for customers with disabilities. We also became a member of the Nationwide Disabled Access Register, www.direct-enquiries.com, which gives information on the access and facilities that businesses offer.

Our commitment to disabled customers was recognised in 2005 when deafblind people from all over the country supported us to win the National Deafblind Friendly Corporate Award for our services. Our store in Finsbury Park was specially recognised for our work in helping deafblind people.

We continue to welcome people with disabilities into our workforce. In 2005 we worked in partnership with Remploy and the Shaw Trust to provide work placements for people with disabilities.

We are now the Shaw Trust’s largest employment partner and were nominated for their ‘Large Employers’ award. Some 250 Shaw Trust clients are now working in our stores across the UK. We are also working with the Shaw Trust in East London and West Essex to support young people with learning difficulties. So far we have provided 39 work placements and ten job starts for young people in this scheme.

Our Cardiff store was the regional winner for ‘The Remploy Inter Work Leading the Way Awards’ in recognition of its excellent practices in the employment of disabled people.

directenquiries

www.direct-enquiries.com

 **Shaw Trust**
Ability at work

www.shaw-trust.org.uk



society



For the past three years we have been awarded the best supermarket in the parent-friendly awards.



Families

We know how important it is to make shopping with a child as easy as possible and for the past three years we have been awarded the Best Supermarket in the Tommy's parent-friendly awards and for the first time in 2005 Best for Online Shopping. In 2006 we are sponsoring the Tommy's Angel Award, which celebrates an individual who deserves special recognition for helping someone through a difficult pregnancy or parenting problem.

www.tommys.org.uk

www.tesco.com/clubcard/btc

“I’d expect the prices to be right, aisles wide enough for a buggy or wheelchair, disabled facilities, baby changing facilities, toilets, easy access, help with packing your shopping and helpful friendly staff.”

Customer Question Time

We also aim to be a family-friendly employer. We offer family-friendly shift patterns, maternity leave for all, paid paternity leave, equal training and development opportunities for part-time workers, and a career break scheme. Where practical, our staff are able to job-share, work flexi-time, shift swap or work part-time. We offer childcare vouchers to all staff whether full or part-time, and these can be used for most types of childcare. In 2005 we improved paternity pay and set up a joint working party on flexible working with Usdaw.



Our parent-friendly services include:

- ▶ Parent and Child parking – dedicated spaces near the store for easier and safer access
- ▶ Trolleys – a range of trolleys that carry car seats and trolley wipes so you can ensure your trolley is clean and hygienic
- ▶ Assisted shopping and bag packing
- ▶ Baby changing rooms with free nappies in our larger stores
- ▶ Baby and Toddler Club with expert advice, top tips and money off coupons



Over 2,000 staff are offered a variety of free and subsidised courses from photography to bricklaying at the learning centre at Fenny Lock distribution centre. The centre is OFSTED approved and was launched in partnership with Milton Keynes College and Usdaw.

We worked with Usdaw to open a learning centre at our Portobello Road store. 90 workers from 10 stores have taken courses in IT and English as a second other language (ESOL).



Our People

We try to promote a culture within our company where each individual gives his or her best, enjoys work, is healthy, safe, well rewarded, trusted and respected.

Retention and training To attract and retain the best workforce we offer training and development for our people so that they can fulfil their potential. Each year we aim to retain over 80% of experienced staff and ensure that 95% of retail staff are trained to bronze standard (see page 76). We have an extensive programme of training which offers everyone in the company learning opportunities tailored to their own personal development needs. In 2005/06 over 2,000 of our store staff progressed into management positions. We offer Life Long Learning in three core areas: Basic IT, Skills for Life (Basic English/Maths and English for speakers of other languages) and Languages.

Benefits Our competitive benefits package is another way we support and retain our staff by providing flexibility, security and rewarding their commitment. In order to help staff find a suitable work-life balance, we provide a range of approaches from flexible working hours to childcare vouchers. We want our staff to feel secure about their future, so we provide an award-winning defined benefit pension scheme. This scheme gives over 146,000 of our staff peace of mind as they know what they will receive on retirement.

We also use a range of benefits to further recognise the contribution made by our staff. These include three share schemes, including free shares, a range of voluntary benefits, and a 10% discount when shopping in our stores.

Retired Staff Association The Tesco Retired Staff Association (RSA) provides information and help to retired staff.

Tesco Apprenticeship in Retail Scheme

In 2004 we launched our Apprenticeship in Retail Scheme and became the first retailer to have our training recognised by the National Qualification and Curriculum Authority.

Since then 16 learners from three stores have been awarded their Apprenticeships and 445 general assistants from 92 more stores are expected to attain their Apprenticeships in September 2006. The majority of these learners will also receive the GCSE equivalent qualification in Communication and Application of Number (English and Maths)

We will continue to improve our Apprenticeship scheme in 2006 by launching an over-24s scheme.

In 2005/06 we also worked closely with Jobcentre Plus to support their 'Pathways to Work' pilot project. This aims to get incapacity benefit claimants back into work in selected areas including Derbyshire, Essex, Bridgend, Renfrew, Gateshead, East Lancashire and Somerset. Initiatives include week-long work tasters followed by guaranteed interviews.



"Apprenticeships are a great way to progress. I left school with no qualifications but now have a career in retail ahead of me. I feel really valued, have plenty of responsibility and there are lots of opportunities to move up."

Luke Abbott, Solihull Store

Health and safety posters in every store remind staff of our policy.



In 2005/06, we met our target to reduce our reportable accident rate by 5%.



Health and safety

Health and Safety Policy Tesco is committed to providing a safe and healthy environment for our people, our customers and our visitors. We build safety into our operations by:

- ▶ Making sure everyone knows their responsibilities, and is well trained
- ▶ Identifying risks at work and putting in place safe ways of working
- ▶ Reviewing and learning from accidents when they occur

Our health and safety objectives:

- ▶ To reduce accidents and work-related ill-health
- ▶ To fully comply with health and safety law

We have a comprehensive risk management process to identify and minimise occupational health and safety risks across the business. Effective control measures have been incorporated into our operational procedures, backed up by training for all staff. We constantly monitor and review our performance and seek feedback from our people.

Health and safety performance Every store measures health and safety performance and reports on it to employees and management three times a year through Staff Forums and the Steering Wheel management system. Health and safety sits in the community segment of the Steering Wheel with a KPI – to reduce the reportable accident rates by 10% over the next three years (see page 74).

In 2005/06 we met our target to reduce reportable accident rates, and in fact exceeded it, by reducing the reportable accident rates among customers by 14.1%, staff in stores by 5.3% and the distribution staff accident rate by 14.4%. We are committed to continually improving our health and safety performance, and our target is to reduce our reportable accident rate by 10% over the next three years (see KPI page 74).

Every year we use the three Staff Forums to launch safety campaigns to focus our people on how we can improve safety in our stores.

In 2005/06 health and safety improvements included:

- ▶ Creating a new Compliance Manager position in 600 of our largest stores to help the store manager monitor and improve health and safety
- ▶ Improved health and safety training for management
- ▶ Running three safety campaigns which have focused on slips and trips, manual handling and roll cages (the large wheeled cages that we transport stock around depots and stores)
- ▶ For each campaign we circulated a new checklist for stores to complete to review our standards, used posters which highlight what can be done, and held briefings for all our staff
- ▶ Violence towards our store staff is unfortunately a growing problem. To combat it, we have introduced specialist conflict resolution training

We are working with the Health and Safety Executive and Dundee City Council (our lead authority on health and safety) to help improve health and safety standards in larger businesses by sharing learning throughout industry.



◀ We have reduced the staff accident rate in our distribution centres by 14.4%.

Stress in the workplace The incidence of work-related stress in the UK is increasing. The Health and Safety Executive reports that 12.8 million working days were lost to stress, depression and anxiety in 2004/05 in the UK as a whole. Fortunately, awareness of stress as an issue is rising and this helps us to identify the risks and plan for them properly.

We are committed to providing a healthy and supportive working environment and to helping our employees achieve a sensible work-life balance. We have a number of ways to assess and manage the risks of stress across our business:

- ▶ Regular updates with line managers and annual career discussions to ensure we know what each individual wants from their job
- ▶ Clear job descriptions and accountabilities so people know what is expected of them
- ▶ Staff forums held three times a year in all stores
- ▶ Our anonymous Viewpoint survey of all staff asks all our staff whether they feel the amount of work they have to do is manageable
- ▶ Regular communication of business strategy

In 2005/06 we produced a guidance document for employees on managing their own stress, and for managers on supporting their employees. Across the business we also operate an attendance management process that helps managers identify where further support can be offered to team members at an early stage. We recognise that people's needs may change so we support flexible working, job-sharing and career breaks for employees.



environment




We work with our customers, staff and suppliers to make sustainable choices and reduce our impact on the environment.

Our priorities:

- ▶ Reducing energy consumption and greenhouse gas emissions
- ▶ Reducing, reusing and recycling waste
- ▶ Making our products more sustainable



▶
Kim Moussi
Bar Hill Extra, UK



◀ Sales of Organic produce have grown by 43% since 2003.

▶ We increased promotion of Bags for Life to encourage reuse of bags.



▲
Paul Dickinson
Co-ordinator, Carbon Disclosure Project

“Climate change is a major issue for investors and companies, but most of all for consumers. It is difficult for investors or the companies that provide our food and goods to have a ‘conscience’ regarding climate change. Of course the directors and employees of investment managers and corporations care deeply about these issues. But there is a practical limit to what they can do. The great democracy of commerce is played out at the cash till, every day. Consumer purchasing decisions – aggregated together – every hour of every day, direct the world economy, for better or for worse.

Leading retailers like Tesco represent the gateway through which consumers invest in the production of colossal greenhouse gas emissions. It is important to understand the very significant role of our major supermarkets in the battle against climate change. For this reason we applaud the efforts of all retailers to come to grips with this very severe problem.”

Paul Dickinson
Co-ordinator, Carbon Disclosure Project

In 2005/06 Tesco was the leading food and drug retailer in the Carbon Disclosure Project Leadership Index.

CARBON DISCLOSURE PROJECT

www.cdproject.net

environment

Tests of energy efficient fridges and air conditioning and infra red lighting controls at our Jubilee Street Express in Brighton, reduced energy use by 20%.



Climate Change

We are showing leadership, sharing our knowledge, learning from others and taking practical steps to reduce our energy use and greenhouse gas emissions.

Practical steps to tackle climate change:

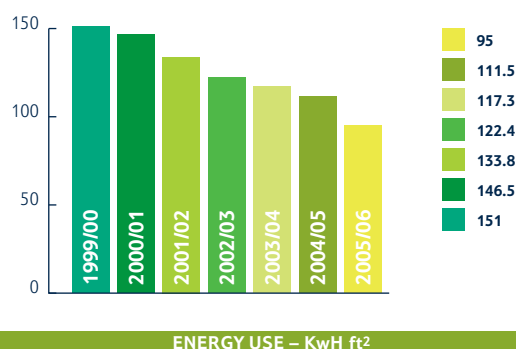
- ▶ Establishing a £100 million fund for investment in sustainable environmental technology such as wind turbines, solar panels, combined heat and power and gasification
- ▶ Reducing our energy use per square foot by 50% by 2010
- ▶ Reducing use of greenhouse gases in refrigeration
- ▶ Increasing the efficiency of our distribution fleet and moving from air to sea freight for products wherever possible
- ▶ Encouraging customers to use biofuels and helping them to save energy in their homes
- ▶ Encouraging our staff to use cars less and save energy at work and home

In 2005/06, we were the leading food and drug retailer in the Carbon Disclosure Project Climate Leadership Index. Our Group Director of Corporate & Legal Affairs, Lucy Neville-Rolfe is one of 17 members of the Corporate Leaders Group on Climate Change, a multi-sectoral group working to ensure higher take-up among businesses of low-carbon solutions.

www3.cpi.cam.ac.uk

We are a member of the Retail Energy and Environment Club (REEC), which assesses new technologies and enables retailers to share information.

www.thereec.co.uk



Energy Our aim is to be the best UK supermarket for energy use. We are aiming to halve by 2010 the average energy use in all our buildings against the baseline of 2000. In 2005/06, 1.75 million tonnes of carbon dioxide (CO₂) equivalent were emitted as a result of our energy use.

We participate in the UK Emissions Trading Scheme (ETS). As part of the ETS, we are committed to an absolute reduction in greenhouse gas emissions over a five-year period at a control group of 118 stores, in return for a payment from the government which is invested in further energy saving initiatives.

Over the past year, we have invested £20 million in an extensive range of energy-saving schemes which will cut energy consumption by 135 million kWh per year, saving £8.1 million in energy costs, and saving 58,000 tonnes of CO₂. For example, by investing over £4 million in energy efficient lighting, infra-red lighting sensors and dimming lighting, we have saved over 40 million kWh and over 17,000 tonnes of CO₂ a year.

In April 2006, we established a £100 million fund for sustainable environmental technology.



▶ Energy efficient ovens use 50% less energy than standard ovens.



◀ Wind turbines at our store in Diss, Norfolk, produce enough energy to run all 15 tills.

Developing energy efficient stores

We want to achieve a step change in our energy consumption – to reduce energy use by 50% between 2000 and 2010.

We are designing model 'energy efficient stores' which use state-of-the-art technologies, renewable energy generation and energy efficient practices. Our first such store in Diss, Norfolk, opened in December 2005. The store uses 20% less energy – saving 720,000 kWh or 310 tonnes CO₂ a year.

A 20% energy saving at our Diss store has been achieved through installing:

- ▶ Clear perspex sections in the roof to maximise natural light
- ▶ Five wind turbines on the roof to generate energy to power all 15 of the store's tills and belts at maximum output
- ▶ Photocell lights in loading areas which are triggered by low external light and light movement sensors to ensure lights in offices and other staff areas are only on when in use

▶ Energy efficient bakery ovens

- ▶ A cold air recycling system which takes cold air from chilled areas to warmer areas of the store reducing the need for air conditioning
- ▶ Glass doors on sandwich cabinets, canopies above produce shelves and lips below the shelves in dairy and milk cabinets to reduce cool air loss

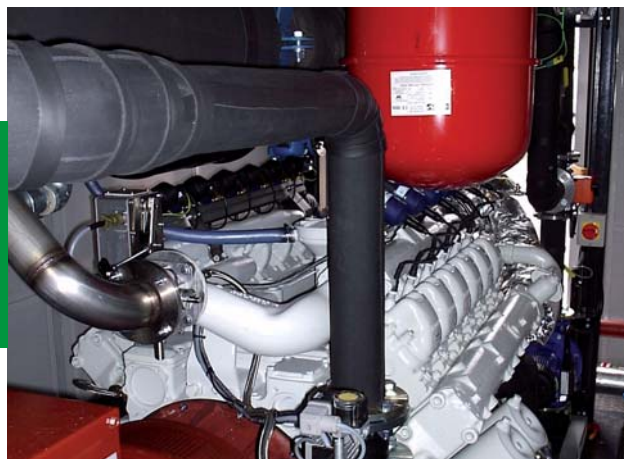
Our second model energy efficient store opened in Swansea in April 2006. The store uses many of the features tested at the Diss store and is the most energy efficient supermarket in the UK.

We will apply what we learn in our model energy efficient stores to all new stores. For example, as a result of our work at Diss, light emitting diode (LED) lighting, high efficiency fans, cold air retrieval and new lower energy freezer demisters are now part of our design standard for all new stores.

We aim to consider all environmental aspects of new store builds. We build more than 90% of new stores on brownfield sites and in 2006/07 will be testing timber frames for store builds and hope to build a store from recycled and recyclable materials.

environment

▶ We aim to save over 10,000 tonnes of CO₂ by developing customised heat and power technology for our stores.



Renewable energy We want to find cost effective ways to reduce emissions by generating our own energy through renewables and low carbon technology. In 2006/07, our £100 million fund will enable us to develop wind turbines, solar panels, gasification, trigeneration and combined heat and power.

We are working with the Carbon Trust and Brunel University to develop trigeneration combined heat and power (CHP) technology for our stores and distribution centres over the coming year with the aim of saving over 10,000 tonnes of CO₂. These units enable us to capture and reuse heat created through power generation to reduce our overall carbon footprint.

“Tesco has a massive environmental footprint but also has the potential to move to radically different ways of producing and using energy. The £100 million fund – twice as much as Gordon Brown promised in the budget – could deliver a huge step forward for clean decentralised energy.”

Stephen Tindale
Greenpeace Executive Director

Working with our staff to save energy

In addition to using new equipment and technology, we are working with our staff to encourage them to take simple steps to save energy at work and at home by:

- ▶ Having energy champions in each store to raise awareness of the need to save energy
- ▶ Giving staff simple checklists to help them monitor store energy consumption
- ▶ Producing a staff energy training video with the Carbon Trust

- ▶ Making store managers fully accountable for the energy use in their stores
- ▶ Running an awareness campaign through staff newsletters, leaflets in canteens and posters in offices and stores to help staff understand how they can help the environment by saving energy at work and at home

“Businesses need to take action now. Tesco is providing a strong example to other organisations, as it has made a firm commitment to cutting its carbon emissions and is implementing energy efficiency measures throughout its business. We urge others to follow its lead.”

Tom Delay
Chief Executive, Carbon Trust



www.carbontrust.org.uk



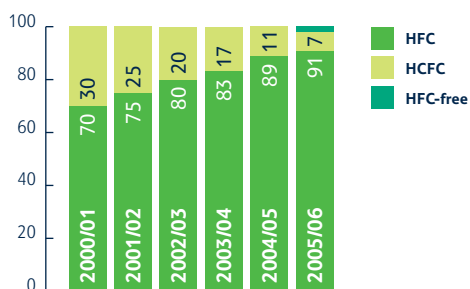
▶ Signs remind staff to save energy in all our buildings.

By delivering more goods for each litre of fuel we use we make sure we minimise the impact of our distribution fleet.



Refrigeration We want to minimise the impact of our refrigeration on the environment. We assess the efficiency of all new refrigeration systems across their predicted working life, using Total Equivalent Warming Impact as a major deciding factor, as well as capital cost, maintenance and energy consumption.

We no longer use chlorofluorocarbons (CFCs) and replaced hydrochlorofluorocarbons (HCFCs) with hydrofluorocarbons (HFCs) in advance of European Union requirements. We are constantly testing alternatives to HFC and when we find suitable alternatives which have a lower overall impact, we change our specifications. From September 2005 the specification for new small fridges is HFC-free. We are testing alternatives such as CO₂ for our larger fridges and freezers and air conditioning. The standard specification for the main refrigerant plants at our distribution centres is ammonia.



REFRIGERANTS – % by type

Distribution To reduce emissions from our distribution fleet we aim to deliver more goods for each litre of fuel we use each year. This year we exceeded our target of a 2.5% increase in the products delivered per litre of fuel by delivering 8% more products per litre of fuel used.

To measure the environmental impact of our distribution fleet more accurately, our 2007 vehicle efficiency KPI will be calculated according to CO₂ produced per case delivered instead of per litre of fuel consumed. Over the next three years we will reduce the amount of CO₂ we produce per case of goods delivered by 30%.

Initiatives to reduce emissions from our distribution:

- ▶ We are working with our suppliers to ensure that their vehicles do not travel empty after making a delivery. Suppliers' vehicles are used to make deliveries to stores on their return trip which reduces the overall number of vehicles making unnecessary return trips. This partnership has resulted in over eight million fewer miles travelled
- ▶ We have invested £2.8 million in double deck trailers which carry 67% more products per load and we have encouraged suppliers to use these vehicles when they make deliveries
- ▶ By reducing the number of times we deliver to our Express stores each week and improving the way we fill our vehicles, we have saved over 54,000 deliveries each year, travelled 2.5 million fewer miles and delivered 25% more with each journey
- ▶ In 2005/06 we invested £5.2 million in buying equipment which reduces emissions of nitrous oxide by 30% and particulates by 50%
- ▶ Considering freight methods when we are sourcing produce and wherever possible, transporting by sea instead of air. For example, in 2005/06 we moved the transportation of 40% of our salad onions from air to sea



environment

We are the UK's first major retailer to incorporate fuel made from plants – biofuel – into our standard petrol and diesel, with no price premium.



Rail To reduce our CO₂ footprint, and to reduce the pressure of vehicles on the road, we remain committed to exploring all possible alternatives to road haulage. Our trial in 2005 using rail between Edinburgh and Inverness did not prove commercially viable. However, we are keen to remove congestion and are evaluating other options to switch lorry loads onto rail.

We have run a trial using rail between our distribution hub and Coatbridge near Glasgow. This was successful and we plan to invest £3.2 million in a dedicated daily return train service which will run from summer 2006. The Scottish Executive has awarded a Freight Facilities Grant of £200,000 to our supplier to assist with the capital investment. The train will divert 4.5 million road miles onto rail, saving over 6,000 tonnes of CO₂ emissions a year.

Biofuels We are the UK's first major retailer to incorporate fuel made from plants – biofuel – into our standard petrol and diesel, with no price premium.

In May 2005 we introduced a 5% bioethanol mix into our standard unleaded petrol at 185 petrol stations at the same price as standard unleaded. A car driven with our bioethanol mix petrol fuel emits 4.5% less CO₂.

After two years of selling GlobalDiesel, a branded biofuel with 5% added biodiesel from rapeseed, we are converting our standard diesel pumps to biodiesel. In January 2006 all 181 of our filling stations in the South East and North West England were converted to biodiesel.

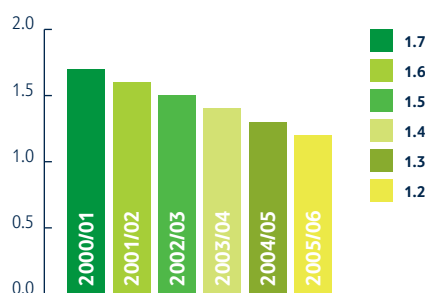
We have a 25% stake in biofuel supplier Greenery. Greenery is investing in the UK's largest single-line biodiesel plant, on the Humber estuary. It is scheduled to open in late 2006 with an annual production capacity of 100,000 tonnes. Greenery plans to buy rapeseed for conversion to biodiesel from around 1,500 farmers contracted

through Grainfarmers, a large agricultural co-operative in the UK.

www.greenery.co.uk

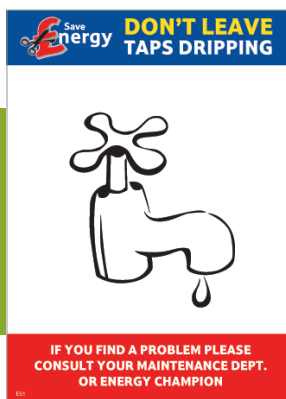
Employee travel Since the beginning of 2003, green travel plans for staff have become an integral part of our new store and store extension development proposals. We are committed to reducing the number of employees coming to work by car, through initiatives like walking buddies and car sharing. Where employees take part in these schemes, we guarantee them a ride home in the event of emergencies. In June 2005 we worked with Liftshare to offer two green travel schemes for our office-based staff. Staff can share lifts by registering at our dedicated website and can take a bus between our main offices to help cut emissions and congestion. 269 staff joined this scheme in 2005/06 and we will encourage more to save mileage, money and CO₂ emissions in 2006/07.

Water Our largest single use of water throughout our operations is in staff toilets. In 2005/06 we invested £500,000 in installing urinal controls and taps which automatically switch off, and over £800,000 in installing rainwater recovery systems. This helped us to reduce our water use from 3,426,100m³ to 3,161,811m³, a saving of 7.7% or 264,289m³.



WATER CONSUMPTION – m³/m²

Staff are reminded to save water in all our buildings.



We are creating shelf-ready packaging for 2 litre bottles, so that they arrive from the supplier on pallets, which go directly onto the shelves. This initiative saved 10,000 tonnes packaging.



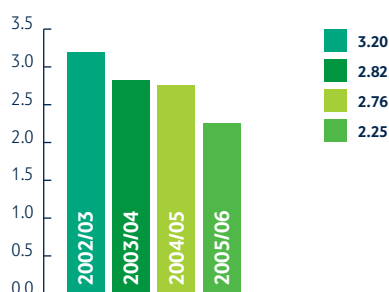
Waste

We are committed to the principles of sustainable waste management: reduce, reuse and recycle. In July 2005 we signed the Courtauld Commitment, an initiative sponsored by Government with the objective of helping to reduce the growth in household waste.

Over the last four years we have increased the amount of store waste we recycle from 55% to 71%, saving 9,000 tonnes of waste from landfill.

To reduce waste we are:

- ▶ Reducing the packaging we use in our operations and the amount of packaging our customers take home
- ▶ Increasing the amount we recycle in our operations and making it easier for customers to recycle
- ▶ Using more recycled materials
- ▶ Finding clean ways to generate energy from food waste



LANDFILL WASTE – tonnes/square ft

Reducing packaging In 2000, Tesco pioneered the use of reusable plastic crates – our award-winning green trays – to replace cardboard boxes and other packaging used to transport and display products. Green trays have subsequently been adopted widely in our international supply chain. As well as being reusable and recyclable, they help protect products, minimising damage.

We now use green trays so widely in our business and are increasing use of trays which hold double the capacity. This means that it is becoming increasingly difficult to achieve year-on-year increases in the number of tray trips. In 2005/06, we therefore missed our target to increase the number of green tray trips by 10%. Having maximised our use of green trays we are now concentrating on other packaging reduction projects such as merchandising units and reducing the weight of packaging we use. Four such initiatives for spirit bottles, drink bottles, pizza and potato packaging have saved 11,000 tonnes a year. Our Packaging Strategy Group is looking at ways to further reduce the impact of our packaging.

Recycling in our operations We have an internal programme for recycling paper, cardboard and plastic. In 2005/06 we increased the proportion of store waste recycled from 65% to 71%, saving a total of 384,517 tonnes of waste from landfill. In 2006/07 we aim to recycle 72% of waste as part of our three-year commitment to recycle 80% of our waste.

By reducing the thickness of the polythene used for our potatoes, we have saved 150 tonnes of polythene to date.





environment

Reducing the weight of cardboard we use for a range of our fresh pizzas by over 60% has enabled us to save over 747 tonnes of cardboard a year.



Over the last two years, we have invested over £800,000 in innovative automated recycling machines which sort plastic, metal and glass so our customers don't have to. To make this investment viable we need to encourage more customers to recycle. In July 2005 we encouraged customers to recycle by making a donation to a local hospice for every item recycled, raising £1,000. We plan to invest in more front of store recycling in 2006/07.

Recycling by Customers Recycling is a key issue for our customers, with nine out of ten people saying they would recycle more if it were easier to do so. We want to be first for recycling and encourage customers to double the amount they bring to our stores to recycle. This additional material would account for around 10% of the total additional tonnage needed to meet the UK's EU packaging recycling targets by 2008.

We also make it easier for our customers to recycle mobile phones, inkjet cartridges, Christmas cards and clothing.

In January 2006 we once again worked with The Woodland Trust to recycle Christmas Cards. We ran television adverts encouraging customers to return their cards to stores and collected over 59 million cards or 117 tonnes – 27 million cards or 548 tonnes more than last year.

Our mobile phone recycling scheme is the most successful of its kind in Europe, recycling 720,000 handsets, saving over 144 tonnes of harmful electronic waste going to landfill, giving customers 163 million Clubcard points and raising £1.7 million for charity over the last three years. This year we are also planting a tree in Ghana for each mobile returned, in partnership with Tree Aid.

In 2003 we launched our inkjet recycling scheme. Since then we have collected 266,570 inkjet cartridges and given customers 9,639,400 million Clubcard points and raised £155,900 for charity.

Recycling electrical equipment The EU Waste Electrical and Electronic Equipment Directive aims to encourage the recycling of old electrical and electronic equipment such as televisions and washing machines to prevent them being disposed of in landfills. We are working with the British Retail Consortium so that there will be a network of accessible facilities in place for customers to return old electrical equipment when the Directive is implemented by the UK Government.



◀ Last year we sold 80 million rolls of Value toilet paper made with 100% recycled pulp saving 1,800 tonnes of virgin paper.



◀ Our stores have carrier bag recycling units and had Christmas card recycling units throughout January.

Carrier bags – reduce, reuse and recycle

- ▶ **Reduce** We reduced the amount of plastic used in our bags by 10% in 2005/06. In 2005/06, 25% of stores used degradable bags and we aim to increase this to 100% by September 2006. Our degradable bags break down in 18 months into CO₂, water and mineral matter, with no harmful residue. By 2008, we aim to reduce the amount of carrier bags we use by 25% – one billion fewer bags
- ▶ **Reuse** To encourage the reuse of carrier bags we have increased our promotion of our 'Bag for Life'. We worked with the Government agency WRAP to test ways to increase use of Bag for Life in eight stores. We are also testing two new bags, 'Superstore Shopper' and 'Metro Shopper', which are even more durable than our Bag for Life
- ▶ **Recycle** All stores have carrier bag recycling units in prominent positions. Our 'Bag for Life' carrier bags are made from 100% recycled plastic and feature prominent recycling messages. Our Tesco.com delivery drivers are trained to ask customers whether they have any bags to return to store for recycling and we are encouraging our Tesco.com staff to use fewer bags when they pick and pack customers' shopping

“Your normal bags should be degradable as standard, but I'd still want you to promote these reusable ones.”

Customer Question Time, Edinburgh

Using recycled materials It makes sense to use recycled materials wherever possible. We have increased our range of products containing recycled materials and customers are choosing to buy more of these products than ever before.

For example, we currently offer customers a choice of toilet rolls containing 100% recycled post-consumer waste (our Value range), 30% recycled post consumer waste, or virgin pulp from sustainable sources. We label the recycled content clearly on our packaging. From Summer 2006 all paper used in our offices, distribution and stores will be 80% recycled and in 2006/07 we plan to build the first ever supermarket entirely from recyclable and recycled materials.

Generating energy from food waste

To prevent food waste from going to landfill, we are testing aerobic digestion and gasification. We have reviewed a number of potential sites to see whether they would be suitable for housing a gasification unit which turns food waste into energy, and we aim to install our first unit in 2006.

Sustainable products

We want the products we sell and the ingredients that go into them to be produced sustainably. We do this by:

- ▶ Applying our 'Nature's Choice' environmental standards to all farms growing produce for Tesco
- ▶ Encouraging more customers to choose organic and sourcing more organic products from the UK
- ▶ Applying robust policies to cover specific issues such as animal welfare, timber and seafood
- ▶ Working with suppliers to improve efficiency in distribution so products travel fewer miles
- ▶ Reducing packaging wherever possible

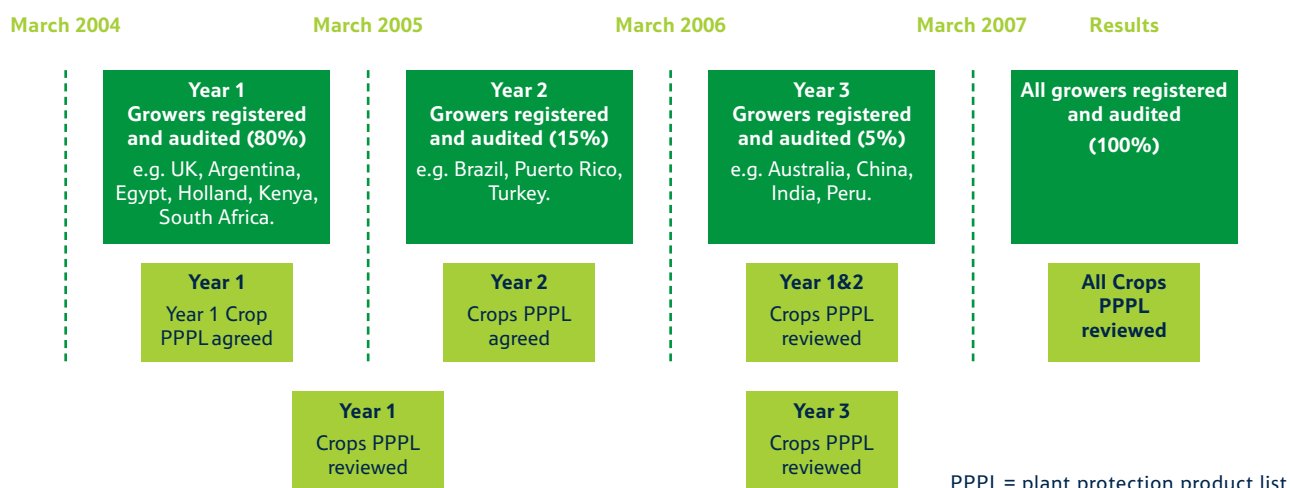
environment

Our range of bin bags is made from 95% recycled plastic, and we have introduced a degradable range.



Nature's Choice rollout plan

Rollout targeted by volume of supply, product and country risk



PPPL = plant protection product list

Nature's Choice Our unique integrated farm management scheme, ensures our fruit, vegetables and salads are produced to high safety and environmental standards. The scheme is governed by a committee made up of suppliers, an independent academic, an auditor and Tesco managers. In 2005/06, 90% of our suppliers met the scheme's requirements – we aim to increase this to 100% by 2007.

Over 7,600 farms are registered and are working towards Nature's Choice requirements. The standards are independently verified. To date 3,400 independent audits have been undertaken in 60 countries.

Nature's Choice environmental standards:

- ▶ Rational use of plant protection products, fertilisers and manures
- ▶ Pollution prevention
- ▶ Protection of human health
- ▶ Responsible use of energy, water and other natural resources
- ▶ Recycling and reuse of resources
- ▶ Wildlife and landscape conservation and enhancement

Key to Nature's Choice is our work with suppliers and independent agricultural experts to review the use of pesticides. To date we have examined 10,000 pesticide uses on over 90 crops worldwide. We have stopped 260 uses and 1,000 uses have extra controls in place. The controls and exclusions then lead to a specific plant protection product list for each product.

Wildlife Choice Our three-year biodiversity project, Wildlife Choice, came to a successful conclusion in 2005. The £100,000 project measured the impact of the biodiversity and landscape requirements of Nature's Choice and tested techniques for increasing biodiversity on seven Nature's Choice farms.

The scheme has developed improved techniques for producing wild bird cover in the winter, which have since become part of government recommendations. Findings and advice are available on the new Wildlife Choice website, and we hope that other farmers will be able to use this information both to strengthen their biodiversity protection practices and gain funding under the Higher Level Scheme, part of the Common Agricultural Policy.

www.wildlifechoice.com

Neos Estate, South Africa, has supplied Tesco with grapefruits for over five years. The farm is Nature's Choice certified and has worked hard to reduce its impact on the environment by using power from its own hydro-electric power plant, rehabilitating wetland and setting up an indigenous tree nursery to grow and plant native trees.



Nature's Choice gold standard growers, A Pearson & Sons have supplied Tesco with tomatoes since 1992. Their innovative combined heat and power unit heats the greenhouses and surplus electricity is sold to the National Grid. The CO₂ emissions are recycled into the greenhouses and are absorbed by the crop reducing overall emissions by 3,000 tonnes CO₂ a year.

“With the support and encouragement of Tesco, our business has grown over the years, not only in size but in environmental stature.”

Alan Pearson
A Pearson & Sons

“Wildlife Choice has tested practical ways for farmers to encourage biodiversity. The participating farms are now in a good position to achieve DEFRA's Entry Level and ultimately Higher Level agri-environment schemes and reach new standards within the Nature's Choice audit.”

Dr Nick Sotherton
Game Conservancy Trust
Director of Research

www.wildlifechoice.com

Organic food We have been active in building the market for organics. Our customers buy more organic food from Tesco than from any other retailer and sales have grown by 43% since 2003. One in four customers put at least one organic item into their trolley and we promote our organic range through over one million Clubcard mailings a year.

We invested over
£11 million in
reducing organic
prices in 2005/06.





environment

We are committed to sourcing organic meat and produce from the UK. In 2005/06, 71% of our organic beef was sourced in the UK, an increase of 19% from 2004/05.



In 2005/06, customer research showed that many customers were still unaware of the organic produce available in store, so we tested placing organic products next to conventional products in 19 of our stores, rather than in a separate area. Organic produce was made visible through tray liners and point of sale material and we used leaflets to explain to our customers what we had done and why. The change enabled all customers to see the full range. These trial stores saw far higher sales of organic produce and we are now rolling this out to all our stores. We will continue to listen and respond to customer expectations for organic products and in 2006/07 plan to include 'local' organic ranges in stores. We are committed to sourcing organic meat and produce from the UK – we want 100% of the organic meat and milk we sell to be British. We are working with our suppliers and the wider industry to encourage moves to organic production to increase the availability of British organic products. For example, St Albans-based supplier, Glinwell, moved from standard salad production to become our largest supplier of organic produce.

Animal welfare We demand high standards of animal welfare and have livestock codes of practice which cover all aspects of animal husbandry, animal welfare requirements, environmental impact and food safety factors. All our UK meat, poultry, eggs and farmed fish suppliers must be members of an independently audited and certified farm assurance scheme. We also ensure overseas suppliers to UK stores comply with standards equivalent to the UK.

We employ a dedicated team of agricultural specialists to ensure that farmed animals are reared for Tesco in a humane and compassionate manner.

We also use a number of specialist consultants, including a consultant veterinarian with a certificate in animal welfare, to develop our Codes of Practice. We ensure that our standards are met by using our internal team of agricultural experts and independent auditors who carry out third-party inspections.

Over the past six years we have committed more than £1 million to support research and initiatives in this area such as the Oxford University's Food and Animal Initiative (FAI). This initiative aims to research and develop sustainable farm systems that provide benefits to animal welfare, the environment and human health, within a commercial framework, and to share their knowledge with farmers and the general public.

Animal testing We do not support testing on animals for cosmetic or household purposes and therefore do not carry out such tests on our own-brand products or the ingredients in them. Nor does anyone carry out testing for cosmetic or household purposes on our behalf. The EU has set a provisional timetable for banning all animal testing for the purposes of developing new cosmetics. We want to help make this timetable a reality, and are therefore playing our part in funding alternatives to animal testing. As a five-star donor, Tesco contributes £10,000 a year to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), which seeks to end animal testing.

▶ Harry Irwin supplies us with the majority of our free-range and organic broiler chickens.

His business has doubled in the last three years and we have plans in place to help him grow over the next five years to help us respond to growing demand.



▶ In March 2006, we launched 'No Catch' sustainable organic cod.



Outdoor bred pork

Tesco was classified as the best of the major supermarkets in the survey by Compassion in World Farming on pig welfare standards. Sales of our new range of 100% UK-sourced outdoor bred pork have grown by 60% since launch and we are recruiting new pig farmers to meet the demand. In 2006/07 we are launching Finest pork which is 100% British.

“Increasingly British farmers are facing up to the challenge of expanding old markets and this Tesco range gives pig farmers a new way to add value to their business.”

**Tim Bennett, Former President
National Farmers' Union**

Seafood Tesco is committed to the principle of sustainability in our seafood sourcing. We recognise that we can only continue to meet customer demands for this healthy food choice if we play our part in protecting the long-term future of wild fish populations and work with the sea fishing industry and NGOs towards greater sustainability.

Our website includes detailed information on our policy and species we sell:

www.tesco.com/fish

Our fresh fish sourcing policy is based on four key principles:

▶ **To avoid stocking wild fish from over-fished or vulnerable stocks** Our first choice is to source seafood from Marine Stewardship Council (MSC) certified fisheries and we actively encourage well-managed fisheries to seek certification. To ensure we are stocking species which are not being over-exploited we regularly review scientific, government and NGO information including the Marine Conservation Society (MCS) Fishonline website which grades species according to their inherent vulnerability, stock status, management and methods of capture.

In 2005/06, four of the species we sold (dogfish/huss, skate/ray, monkfish and halibut) were rated as 'Fish to Avoid' by the MCS. We are currently working with our suppliers, the industry and NGOs to find sustainable options for sourcing these species.

In March 2006, we launched sustainable organic cod.

environment

▶ We are committed to promoting MSC certified products and aim to introduce five new MSC certified lines in 2006/07.



▶ To support sustainable sourcing initiatives

We support the Marine Stewardship Council (MSC) and sell more MSC certified products than any other supermarket. In 2005/06 all fresh fish counters were MSC certified which enabled us to improve our customer offer. In June 2006 we will be providing £34,000 funding for the MSC Environmental Benefits Workshop which will bring together scientific experts to evaluate the environmental achievements of the MSC and lay the foundations for a long-term monitoring and evaluation framework to track progress in improving the state of the world's fisheries.

www.fishonline.org

In 2005/06 we took part in research on seafood sourcing conducted by the Marine Conservation Society, Greenpeace, Forum for the Future, Seafood Choices Alliance and the Packard Foundation. We regularly meet the MSC and MCS to ensure we are doing all we can to support sustainable sourcing initiatives.

- ▶ **To work with suppliers and the industry to improve sustainability of fisheries and fishing methods** To improve sustainability of fisheries and fishing methods we specify catching methods that minimise harm to other species, minimum landing sizes in excess of current legal minimums to avoid catching juvenile fish, and establish timings for catch which avoid spawning cycles. For example, we replace fresh plaice with previously frozen plaice during the plaice spawning cycle and only sell mature cod and haddock with minimum fish fillet sizes that correspond to the mature fish sizes.

▶ To promote sustainable fish species

By increasing the range of sustainable seafood we stock, providing clear origin labelling, training our staff in sustainability issues and promoting MSC in store, we can encourage customers to make informed choices about the fish they buy. We regularly review species on the MCS 'Fish to Eat' list with a view to stocking more sustainable species and diversifying customer tastes. In 2005/06 we introduced mahi mahi, seabream and red mullet to our customers. In 2006/07, we will be introducing organic farmed cod and MSC-certified cod.

We have trained 900 fish counter staff in sustainability issues as part of our 'Pride in our Counters' training in 2005.

We believe that aquaculture can make a contribution to protecting wild fish stocks if it is sensitively managed and have demonstrated our commitment to sustainable fish farming by developing farmed fish codes of practice that cover environmental, animal health and welfare food safety issues. All fish farms supplying Tesco are independently audited in line with the inspections we carry out for all other farmed animals.

“Consumers are worried about over-fishing but many don't know what to do about it. Our eco-label makes it easy to buy the best environmental choice in seafood. We are pleased that Tesco is helping us bring that option to millions more customers.”

Rupert Howes, CEO, Marine Stewardship Council



◀ All fish farms supplying Tesco are independently audited.



◀ We have received grade A rating in the Greenpeace Garden Furniture Guide for the second year running.



MSC10703®

www.msc.org



MARINE CONSERVATION SOCIETY

www.mcsuk.org

Genetically modified foods Our policy on Genetically Modified (GM) foods is driven by the view of our customers. They continue to tell us that they are not yet convinced of the benefits of GM. We do not therefore have any own-brand GM foods on our shelves.

Use of GM feed is prohibited in organic products, which means that all of our organic meats are fed on non-GM feed.

The farming community has told us that to extend the range of meat we sell from animals fed on non-GM would put immense pressure on them. We will keep an open mind as the technology develops, listening and responding to our customers.

We remain committed to clear labelling to enable customers to make an informed choice. All branded products containing GM ingredients are labelled as such.

Palm Oil We sell a wide range of products, both own-brand and branded, many of which have palm oil as an ingredient. We do not buy palm oil directly. Almost all of the palm oil used by the manufacturers of our own-brand products is bought through three of the world's largest palm oil traders, all of whom are members or affiliate members of the Roundtable on Sustainable Palm Oil (RSPO). We are committed to sustainable sourcing and fully support the aims of the RSPO.

We will also seek to identify the source of the small amount of palm oil which does not come from the three major suppliers, to ensure that it too meets the necessary sustainability criteria.

Timber We want to make sure that the timber we buy is from legal, sustainable sources. We will never knowingly purchase timber from illegal sources. All sources of timber for our garden furniture are either Forest Stewardship Council (FSC) approved or members of the Tropical Forest Trust (TFT) committed to achieving the FSC standard through the SGS certification support programme. All suppliers of these products are asked what species of wood they use and where it comes from. Every six months an external consultant collates supplier information and conducts a risk assessment to determine which need auditing and further checks. All our paperwork relating to these products is also audited by a third party.



www.fsc-uk.info

Corporate Responsibility in our International Businesses

Each of our international businesses has a corporate responsibility strategy and a set of corporate responsibility KPIs which are published on our website.



▶
Norhajjah Ahmad
Shah Alam Hypermarket, Malaysia

Solar panels on our Tesco Lotus store, Bangkok, Thailand, save 400 tonnes of CO₂ a year.



Philip Clarke
International
Director, Tesco.

“We have taken a significant step forward in strengthening our approach to corporate responsibility throughout our international businesses. Each of our businesses has a corporate responsibility strategy with a set of Key Performance Indicators, which will be monitored through their Steering Wheels.

Our approach varies by country but there are broad themes, which are important globally. For example, the expectation that we will create jobs, treat our suppliers fairly, reduce our impact on the environment and support good causes.

Our international corporate responsibility Key Performance Indicators demonstrate that we are committed to monitoring our impact and improving our performance – in each of the countries we operate in.”

Philip Clarke
International Director, Tesco

Our Value range brings quality at affordable prices in 12 countries.



corporate responsibility in our international business

Children playing at one of the Maternity Centres we support through our Charity of the Year in the Czech Republic.



Tesco Ireland raised €1.5 million for Irish Hospice



Europe – Highlights

Ireland Our Irish business won several awards this year: the Chartered Institute of Personnel & Development recognised our work with our two trade unions, and we won a President's Award from the Chambers of Commerce for the 'best environmental project' for introducing reusable green trays into our distribution chain. The Irish Government presented us with a Business in the Community Membership Charter to recognise our commitment to corporate responsibility. We helped raise €1.5 million for Irish Hospice, and we hope to give away around €1 million of equipment in the first year of our new Sport for Schools and Clubs scheme.

Czech Republic Over the last five years our Christmas charity collections and sale of charity products has raised 8.3 million CZK, which has been distributed to 25 local charities. In addition, this year we launched our Charity of the Year scheme, and were pleased to raise 531,000 CZK for the Network of Maternity Centres. Every Tesco store supports one local community project, such as children's homes or institutions for the disabled, so our ten new stores this year have benefited ten new community projects with total donations of 500,000 CZK. Credit Suisse's Employer of the Year programme gave us an award for our training and development programme.

On the environmental front, 1% of the price of 30 of our own-brand stationery products is donated to the Tree of Life project, which supports planting of new trees in the Czech Republic.



2,500 parents and children took part in first aid training in Turkey.



Poland Our relationship with Polish trade unions has been viewed as a role model for the local retail sector, and has contributed to awards including the Hermes 2005 award. Here a panel including the Council of Small Traders and Services recognised Tesco as the best hypermarket for corporate responsibility activities, in particular for our approach to job creation for the long-term unemployed and work with trade unions. Our corporate responsibility programme also won a diploma from the Labour and Social Affairs Institute.

Our three years of work with the charity Caritas Polska, which has led to 5,000 children from low income families being able to go on holiday, was recognised by the charity's Ubi Caritas 2005 Award.

When heavy snow caused a building to collapse in Katowice, Southern Poland, in January 2006, our partnership with Caritas meant that we could provide assistance to the affected area immediately.

Hungary Our Hungarian business has carried out many health initiatives this year, including work with the Hungarian Red Cross to encourage 3,000 customers and staff to give blood, and holding a second 'Healthy Week' with promotions for healthy products and consultations with nutritional experts. We also started a Tesco for Nature campaign by launching a reusable shopping bag and bag recycling facilities on World Environment Day. This has been followed by the introduction of recycled paper bags. We were pleased to join the 'Taskforce' set up with other British companies in Hungary to promote corporate responsibility in the country.

Slovakia Our stores in Slovakia raised 2.2 million SKK for our charity of the year, the Union of the Mentally Handicapped. We were one of the founding members of the Business Leaders Forum, which supports the principles of corporate responsibility in Slovakia.

Turkey Turkey joined the Tesco Group in 2003 and is currently strengthening its corporate responsibility programme. Over the coming year we hope to create 2,500 jobs in Turkey, 70% of which are allocated to the unemployed. We provide a strong training programme – all employees complete eight hours of Core Skills training each, and we have launched a new more advanced Options training programme, in which we hope 250 staff will participate this year. Our education programme trained 2,500 customers – both parents and children – in first aid.



1% of stationery product profits is donated to Tree of Life in Czech Republic.

Tesco Smile Days in Hungary raise money for Charity of the Year, The Mosoly (Smile) Foundation.

corporate responsibility in our international business

Our first product development centre opened in Malaysia.



Asia

Thailand We have played our part in aiding recovery after the natural disasters of 2005. Following the tsunami in December 2004, fundraising in our Tesco Lotus stores raised 12 million baht for the relief fund, and we also ran 'anniversary' fundraising through stores in December 2005. After serious flash flooding in the northern provinces in August 2005, we co-ordinated delivery of two containers of urgent survival supplies worth 700,000 baht to flood victims within 24 hours.

Our One Tambon, One Product (OTOP) initiative (tambon means village) to promote local suppliers goes from strength to strength. Because small suppliers face challenges in supplying products in large quantities with consistent quality, Tesco Lotus is committed to helping them access local and international markets and sell to multinational retailers by advising on quality and service standards and providing a marketing platform. Since 2003, we have offered support to local suppliers through:

- ▶ Direct purchase of OTOP products for sale in stores, with sales up to 23 million baht
- ▶ Giving free space to OTOP kiosks in our stores worth 30 million baht in rent, which generated 53 million baht in sales
- ▶ Supporting OTOP exhibitions and fairs – with total sales of more than 85 million baht



Pewter on sale at an OTOP fair outside our Rangsit-Nakhon Nayok store.



Our Korean stores have cultural centres which run classes for customers.



In total, we have supported more than 1,850 small producers and introduced over 2,700 OTOP product lines to customers.

We strengthened our environmental credentials with the launch of a reusable carrier bag – 10% of the price is given to Tesco for Thais Foundation. Our flagship green Tesco Lotus store in Bangkok, the first of its kind to have a roof of solar panels, continues to generate renewable energy, saving the equivalent of 400 tonnes of CO₂. We are also working with the Ministry of Energy to trial the use of waste cooking oil for biodiesel.

South Korea This year we opened six new culture centres in our stores which offer 300 different sorts of educational and cultural programmes, ranging from classes in karate to cookery. We now have 37 of these centres, with 350,000 members and 2,300 instructors. Our charitable activities, including a charity bazaar and staff fundraising, raised 114 million KRW, and we donated 50,000 products worth 350 million KRW to charities.

We also have a partnership with Beautiful Store, a non-profit charity that sells donated goods and uses the proceeds for charity.

Malaysia We were proud to raise over RM62,000 from staff and customers for national tsunami funds, to add to our own RM100,000 local donation. Many of our stores raise money for individual charities and we hope to raise RM150,000 for good causes in 2006.

We have been working with farmers to increase local sourcing, and to offer farmers an alternative to traditional markets or third-party buyers. We source our fresh vegetables directly from farmers in four states, in collaboration with the Department of Agriculture. We have also set up a training programme on good agricultural practice and food safety for farmers selling to us for the first time.

Japan and China Japan and China have joined the Tesco Group within the past two years. In addition to integrating these businesses into Tesco, we have been busy ensuring that they have corporate responsibility strategies from the beginning of 2006. These will initially focus on charitable giving, energy, water use and waste reduction.



















key performance indicators










£41,768,741
given to good causes

100%
Commercial teams trained in ethical trading

140,000
Tonnes CO₂ saved by reducing energy use

71%
Waste recycled

KPI	2005/06	HOW WE PERFORMED	BELOW TARGET	ON TARGET	EXCEEDED EXPECTATIONS	KPI FOR 2006/07	PAGE
International	To hold workshops for our international businesses.	Workshops were held for our international corporate responsibility teams and for international CEOs.				>75% international corporate responsibility KPIs achieved.	11
Corporate Responsibility	Our business to have a corporate responsibility strategy with performance measured in their Steering Wheel.	Each country now has a corporate responsibility strategy with performance measured in their Steering Wheel.					
Economy: Regeneration	To open three Regeneration Partnership stores, initiate six new partnerships and create 1,000 jobs and training positions.	Two Regeneration Partnership stores opened with 152 people completing the Partnership programme. Six new partnerships were initiated. 850 jobs and training positions were created. A third training programme has started at our new store in Liverpool.				To initiate six Regeneration Partnership stores.	23
Economy: Supply chain labour standards	To carry out ethical assessments of 100% of our high-risk own-brand suppliers.	We assessed 100% of our high-risk own-brand suppliers.				To carry out independent ethical assessments of 100% of our high-risk own-brand suppliers.	28
	To train 100% of our high-risk own-brand suppliers.	We trained 100% of our high-risk own-brand suppliers.				To train 100% of our high-risk own-brand suppliers.	29
	To ensure all commercial teams have received training on supply chain labour standards.	All Tesco Commercial teams have received training on supply chain labour standards. A total of 555 buyers were trained.				To ensure all commercial teams have received training on supply chain labour standards.	29
Economy: Local sourcing	To maintain at least 7,000 regional and local lines.	We have maintained and increased the number of lines in Scotland, Northern Ireland and in Wales and are improving the way we collect data on English lines.				To hold an open day in every region for local suppliers to meet Tesco buyers.	32
Society: Charitable giving	To donate a value equal to 1% of our pre-tax profits to charities and good causes through donations, time and gifts in kind.	We gave 1.9% (£41,768,741) of pre-tax profits to charities and good causes.				To donate at least 1% of our pre-tax profits to charities and good causes.	36
Society: Computers for Schools	To increase the cumulative value of computer equipment supplied to schools to £100m.	We gave £101m of computer equipment to schools.				To increase the cumulative value of computer equipment supplied to schools to £108m.	38
	To increase the number of schools participating by 1,500.	3,206 new schools participated.				To increase the number of new schools participating by 2,500.	38
Society: Race for Life	To help recruit 425,000 women to participate.	Over 549,880 women took part.				To help recruit 750,000 women to participate.	43
	To get 20,000 Tesco staff to participate.	21,927 Tesco staff took part.				To get 26,000 Tesco staff to participate.	43
	To help raise sponsorship to £23m.	We helped to raise over £33m in sponsorship for Cancer Research UK.				To help raise £46m for Cancer Research UK.	43
Society: Healthy living	To have 2,000 products subject to new nutritional signposting.	2,500 products subject to our new nutritional signposting.				All eligible own-brand products to have nutritional signposting.	44
	To increase the number of Healthy Living Club members from 220,000 to 500,000.	Our Healthy Living Club has 548,000 members.				To increase the number of Healthy Living Club members from 548,000 to 650,000.	
Society: Employee retention	To exceed 80% retention of experienced staff.	83% of our experienced staff stayed with us throughout 2005/06.				To exceed 80% retention of experienced staff.	47
Society: Employee training	95% of our retail staff to be trained to Bronze level.	95.1% of our retail staff achieved our Bronze level.				95% of retail staff to be trained to Bronze level. 75% of retail staff to be trained to Silver level.	47
Society: Inclusivity and diversity	No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint survey question 'I look forward to coming to work.'	We found no statistical difference by age, sex, religion and ethnicity on staff Viewpoint survey question 'I look forward to coming to work'.				No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint survey question 'I look forward to coming to work.'	

KPI	2005/06	HOW WE PERFORMED	BELOW TARGET	ON TARGET	EXCEEDED EXPECTATIONS	KPI FOR 2006/07	PAGE
Environment: Energy efficiency	To reduce energy consumption by 4.85kwh/ft² which equates to a 5% reduction.	We reduced energy use by 16.5kwh/ft², which equates to a 15% reduction saving 140,000 tonnes CO ₂ .				To reduce energy consumption per square foot by 12% as part of our long-term commitment to reduce energy use per square foot by 50% between 2000-2010.	52
Environment: New store development	To develop 90% of new stores on brownfield sites.	97% of all our new developments were on brownfield sites.				To develop 90% of all new stores on brownfield sites.	53
Environment: Vehicle efficiency	To achieve a 2.5% increase in the volume of products delivered per litre of fuel consumed.	We increased the volume of products delivered per litre of fuel by 8%.				To decrease the amount of CO ₂ we produce per case of product delivered by 10%, as part of our long-term commitment to reduce CO ₂ produced per case delivered by 30% over the next three years.	55
Environment: Water consumption	To reduce water consumption from 1.32m³/m² to 1.1m³/m², which equates to a 7.6% reduction.	We reduced water consumption from 3,426,100m³ to 3,161,811m³, saving 264,289m³ (7.7%).				To reduce water consumption per square metre by 5%, as part of our long-term commitment to reduce water consumption by 15% over the next three years.	57
Environment: Landfill avoidance	To recycle 68% of waste.	We recycled 71% of waste (384,517 tonnes) reducing waste sent to landfill from 2.76 tonnes sq ft to 2.25 tonnes sq ft.				To divert 72% of waste from landfill, as part of our long-term commitment to divert 80% from landfill over the next three years.	58
Environment: Green trays	To increase the number of reusable Green Tray trips by 10%.	We did not meet our target. See page 58.				Green tray use maximised, no KPI 2006/07.	58
Environment: Nature's Choice	To register all growers in countries prioritised for the second of the three-year programme. To remain on target to ensure all growers are registered to Nature's Choice by 2006/07.	All year two growers were registered.				To register all growers in countries prioritised for the final year of the three-year programme. To ensure all growers are registered to Nature's Choice by the end of 2006/07 (see page 60).	61
	To audit suppliers in countries prioritised for the second of the three-year programme. To remain on target to ensure 100% of suppliers comply with Nature's Choice standards by 2006/07.	All year two suppliers were audited.				To audit all growers in countries prioritised for the final year of the three-year programme. To ensure 100% of suppliers comply with Nature's Choice standards by 2006/07 (see page 60).	61
	To review all pesticide uses of growers audited in year 2. To remain on target to ensure all pesticides used by growers are reviewed by 2006/07.	All pesticide uses of growers audited in year 2 were reviewed.				To review all pesticide uses of growers audited in year 2. To ensure all pesticides used by growers are reviewed by the end of 2006/07 (see page 60).	61

Data Verification

Verification of the data used for the KPIs is carried out using independent sources where possible. These include market share data, independent surveys, utilities and services bills, inventories and audits for the Emissions Trading Scheme audits and compliance schemes for packaging waste and an internal audit of corporate responsibility. Where these are not available, internal budget controls are used. The data is collected quarterly, and reported to the Board via our Steering Wheel Group (see page 10).

New KPIs

KPI	KPI FOR 2005/06
Economy: Supplier relations	To monitor supplier relations through our Supplier Viewpoint Survey. Over 90% of our suppliers to view us as being trustworthy, reliable, consistent, clear, helpful and fair.
Society: Sport for Schools	To increase the value of sports equipment and coaching supplied to schools to £9.5 million. To increase the number of new schools and clubs participating by 2,500.
Society: Health and safety	To reduce our reportable accident rate in the workplace by 10% over the next three years.

A view from Forum for the Future

“Supermarkets are under increasing scrutiny from a variety of stakeholders on a range of issues. Issues as diverse as supplier relations, to concerns over the true cost of goods, to lack of high street choice, present significant challenges. With expectations around health and the environment also on the rise, supermarkets must think hard about what responsible retailing really means.

As the UK market leader, with a growing international presence, Tesco can make an important contribution to the greater sustainability of the sector. Tesco is one of Forum for the Future’s Corporate Partners and at a meeting of Tesco’s Corporate Responsibility Committee in September 2005, we challenged Tesco to produce a more robust and balanced report.

Tesco responded positively to our advice and has made good progress. This report has an accessible structure with informative content. We welcome the coverage of the international operations and are encouraged to see progress on energy consumption and waste management. We are pleased to see the commitment to innovation in sustainable environmental technology – a powerful example of how Tesco can use its size to positive effect.

However, there is still progress to be made. The report would have benefited from a more thorough examination of the environmental and social issues facing the supermarket business. We would like to have seen a more strategic view of how charitable giving could deliver sustainable outcomes for Tesco’s stakeholders and wider society. The report could also have struck a better balance between good news stories and the challenges core to business operations, both in the UK and abroad.

We are pleased to see the introduction of long-term commitments. We hope that this signals the beginning of defining and delivering hard

performance-based targets and demonstrating, through quantifiable performance improvements, how sustainability is reaching the heart of the organisation. Whilst this is a challenge for any business, we believe it is a priority for Tesco given its size and influence.

Our central challenge is for Tesco to define and display the hallmarks of a globally responsible retailer. Which initially means making it much easier for its consumers to make more sustainable choices.”

Dr Sally Uren, Director
Hugh Knowles, Senior Sustainability Advisor
Forum Business Programme

Forum for the Future



The Forum for the Future’s mission is to accelerate the building of a sustainable way of life, taking a positive, solutions-oriented approach. It is a Registered Charity in the UK (number 1040519). The 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 report.

Tesco makes a direct financial contribution to Forum for the Future of less than 1% of Forum’s turnover. The partnership is currently in its 5th year.

For more information on Forum for the Future visit:

www.forumforthefuture.org.uk



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Tesco PLC, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL