

Corporate Responsibility Review

03/04



Every little helps

Profile

Corporate Responsibility (CR) is good for customers and communities and makes good business sense.

Our Business

Tesco operates stores in twelve countries – the UK, Republic of Ireland, Poland, Hungary, the Czech Republic, Slovakia, Turkey, Thailand, South Korea, Malaysia, Taiwan, and Japan.

Our core purpose is to create value for customers to earn their lifetime loyalty. CR has an important role to play in achieving this.

Our strategy focuses on 4 areas

Strong UK core business:

The UK remains our core market with 1,878 stores. Our strategy of providing customers with exceptional value and choice continues to drive our growth.

Non-Food:

Our non-food business is becoming more popular with customers as it grows, both in the UK and in our international operations.

Retailing Services:

As customer lifestyles change we continue to provide new products and services, including Tesco.com, Tesco Personal Finance and Tesco Telecoms.

International:

We now operate 440 stores in 11 international markets.

We employ 326,000 people world-wide, working in 2,318 stores, with total sales of £33.6 billion. Our sales by region are shown below.

Sales by region (£billion)



Report Scope

This report covers the financial year ending 28 February 2004. It focuses primarily on our UK operations, which account for over 80% of Tesco's sales and profits.

At the core of our approach to CR lie the Tesco Values (see page 2). They are accompanied by key policies such as our group Human Rights policy, Ethical Trading programme and Code of Ethics, which apply across all our businesses. We believe in a local rather than global approach to decision-making, and do not impose a top-down set of rigid CR policies. Instead we promote best practice which maintains our Values while taking into account differences in culture, operating conditions and priorities around the world. We have a rolling programme to develop CR in our international businesses. All corporate responsibility performance data in this report covers our UK operations, and environmental data is for our stores only.

Feedback

We take pride in listening carefully to our stakeholders and welcome feedback that can help us to improve our performance. If you would like to make any comments on this Review and on Tesco's corporate responsibility performance, please email csr.team@uk.tesco.com, or write to the Corporate Responsibility Department, Tesco, Tesco House, PO Box 44, Delamare Road, Cheshunt, Herts, EN8 9SL.

A full review of our business is contained in the Annual Review and Summary, and Financial Statement 2003/04, which are available at www.tesco.com/corporateinfo

More information on Tesco can be found at www.tesco.com. Our website contains many case studies of our corporate responsibility policies in practice around the world, at www.tesco.com/everylittlehelps

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Chief Executive Sir Terry Leahy sets out Tesco's commitment to Corporate Responsibility (CR), with an approach based on sound business sense and practical activities that make a difference.

4 Managing CR through the business

Corporate Responsibility is integrated into Tesco's corporate governance structure and, principally through its management 'Steering Wheel', into the day-to-day running of the business.

6 Listening

Tesco listens carefully to, and acts on, what it hears from stakeholders – including customers, staff, investors, Non-Governmental Organisations (NGOs) and suppliers.

10 Economic

Tesco brings positive economic benefits – through employment and skills training, choice and value for customers, regeneration of deprived areas, and long-term partnerships with suppliers.

18 Social

Tesco cares about people in many ways – through healthy living and education initiatives, support for charities, providing good working conditions, promoting inclusivity, and advancing human rights in the supply chain.

26 Environment

Tesco is committed to resource efficiency and takes a practical approach to environmental sustainability – through energy, water, transport and recycling initiatives, and careful sourcing of food and other products.



36 Key Performance Indicators

We treat people how we like to be treated and ask more than tell. These ideas are at the heart of our Values.



Our Values

No-one tries harder for customers

- *Understand customers better than anyone*
- *Be energetic, 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*

“Our approach to corporate responsibility (CR) is straightforward. We recognise our impacts on society, on the economy, and on the environment. We focus our efforts on practical activities that make a difference: maximising the benefits we bring and minimising any negative impacts. We aim to take responsibility for these impacts, to measure and tackle their effects, to work with stakeholders on issues and ensure that CR permeates all parts of the business. Corporate responsibility is not an additional burden or a distraction from serving our customers; it is an essential part of sustaining ourselves as a responsible company.

This, our third report on corporate responsibility, focuses on our UK operations. This is because the UK remains the core of our business. We believe in a local rather than global approach to decision-making. Customs, conditions and priorities differ widely between countries and our approach to CR reflects this diversity. Our focus lies in sharing and promoting best practice.

We have always said that corporate responsibility is a journey, that whatever we have achieved there is always more to be done. As this report shows, we have come a considerable way over the past year.

Corporate responsibility is a win-win: for Tesco and for the communities we serve. Because we have served more customers over the past year, we have grown as a business and have created 16,000 new jobs in the UK, many in deprived areas. Our regeneration and award-winning training schemes have created rewarding and fulfilling careers in retail for many people including staff who were previously long-term unemployed. We have given £7m in computer equipment to schools, and have raised £2.5m for Barnardo's, our Charity of the Year. Other achievements are set out opposite.

Of these, I am particularly encouraged by our progress on fair trade. Modern retailing, especially in food, is international and fast-moving. We source close to home whenever practicable. But we must also satisfy tastes that are increasingly sophisticated.

Corporate Responsibility Highlights 2003/04

We know that more and more of our customers want to buy products that benefit farmers and growers in developing countries. For ten years we have been supporting the Fairtrade Foundation, and we are now the biggest seller of Fairtrade products in the UK. This year we introduced our own-brand Fair Trade range, developed in association with the Fairtrade Foundation. This guarantees producers a fair price and pays a premium towards projects that help local communities improve housing, healthcare, education and other services.

For us, this is the right way for a company to behave. We listen to what our customers want. We learn from it. We apply it to what we know and do best, and set about delivering results which bring practical and commercial benefits.

This, too, is central to our approach to corporate responsibility. If we are not profitable, we cannot do the things we – and our stakeholders – would like to do. We operate in a free market and we believe in the power of the market to deliver worthwhile change.

Being successful and extending our business in such ways brings challenges for Tesco. As the UK's leading supermarket, we face high expectations from investors, the media, the public, NGOs and the Government. We do not claim to have all the answers, but we are committed to corporate responsibility, and are determined to remain true to ourselves and our customers.

This report details our approach to corporate responsibility, records what we have been doing over the past year, and sets out some of our ambitions for the future. We are proud of our business because we know it brings real value to people's lives. We are committed to growing it profitably and responsibly – at home and abroad.”



Sir Terry Leahy, Tesco Chief Executive

- *creating 30,000 jobs;*
- *distributing £57million of free shares to staff under a new Shares in Success scheme;*
- *launching our own-brand Fair Trade range;*
- *building on our work with the Ethical Trading Initiative (ETI) by training more of our buyers and suppliers in labour standards, via the 'Buying With Your Eyes Open' and 'Supplying With Your Eyes Open' courses;*
- *working with our peers to set up a global database of supplier ethical audit results (SEDEX);*
- *recycling 80% of cardboard and 85% of plastic used in our operations;*
- *introducing degradable carrier bags;*
- *using brownfield sites for 96% of new developments;*
- *giving £7 million of computer equipment to schools, bringing the total to £84 million since 1992;*
- *raising £2.5 million for the Tesco Charity of the Year, Barnardo's;*
- *sponsoring Cancer Research UK's Race for Life, in which 300,000 women, including over 12,500 from Tesco participated, raising £17.5 million;*
- *conducting our first audit of corporate responsibility processes.*

4 Managing CR through the business

Corporate Responsibility is an integral part of our overall Corporate Governance framework.

CORPORATE GOVERNANCE

We are committed to high standards of corporate governance. Our approach to corporate governance and management of non-financial risk is explained in detail on page 10 of the 2004 Annual Review, which can be found at

www.tesco.com/corporateinfo

The Board considers corporate responsibility an integral part of the overall corporate governance framework, and therefore it is fully integrated into existing management structures and systems. In addition, the Board considers financial and non-financial opportunities at the annual two-day Board Conference. Accountabilities for managing operational risks are clearly assigned to line management. Formal risk assessments are carried out routinely through the UK and international businesses. Procedures exist to ensure that significant risks and control failures are escalated to senior management and the Board, as necessary.

This year we created the position of dedicated Corporate Governance Manager, who is also the main point of contact for Socially Responsible Investors.

THE STEERING WHEEL

If we are to meet our objectives, the Tesco team needs to work together. Because we need to focus on every aspect of what Tesco does, we use a management tool we call the Steering Wheel to bring together our work in all areas and measure our performance. It helps us manage Tesco in a balanced way, by covering everything we do, and allows us to plan for the future by setting targets for years to come. The Steering Wheel literally guides us through our daily running of the company, while allowing us to change to meet customers' demands.

The Steering Wheel is divided into four parts – Customer, Operations, People and Finance – each of which is divided into segments. Our CR Key Performance Indicators (KPIs) (reported on page 36 of this Review) are measured and reported within the Responsible & Safe segment of the Operations Quadrant. This means that, rather than having a separate bolt-on corporate responsibility system, the management of corporate responsibility issues is embedded in the day-to-day running of the company.

Every store also has its own individual Steering Wheel, which is linked to every person's objectives, relating

strategy to day-to-day work. Our international businesses, which operate locally, also have their own Steering Wheels.

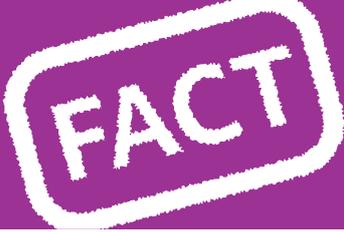
Each segment is driven and monitored by KPIs, which set demanding but achievable targets for the business, and are backed by a sound business case quantifying the benefits. Where KPIs are not on track, the Steering Wheel Group puts in place action plans. Performance is reported quarterly to the Board, and a summary report is sent to the top 2,000 managers in the company to cascade on to staff. The remuneration of senior management is shaped by the KPIs, with bonuses based on a sliding scale according to the level of achievement on the Corporate Steering Wheel.

We use one or all of the following criteria to choose our KPIs:

- *customer priorities, for example, our KPIs on recycling, local sourcing, organics and the Computers for Schools scheme reflect our customers' concerns;*
- *staff priorities, for example our KPIs on training and charitable giving;*



2001, CR Committee established



Most of the targets we set in 2003/04 have been met or exceeded.



- *business priorities, which include financial and non-financial risks and opportunities. For example, our KPIs on supply chain labour standards and energy and water usage all are intended to help us manage the risks posed by internationalisation and climate change;*
- *compliance with legislation or public policy. For example, our KPIs on refrigerants and energy efficiency reflect the demands of current UK Government environmental initiatives.*

Over the coming year we will be reviewing the Steering Wheel KPIs that relate to corporate responsibility, to make them even more relevant to Tesco and to external audiences.

ASSURANCE

During the last year we carried out our first internal audit of our corporate responsibility reporting system, to ensure that it was as robust as it should be, that it stands up to external scrutiny, and that our accountabilities

and strategy are compliant with good practice. Findings have been reported to the Board, and an action plan set up for the year ahead.

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 and Climate Change Levy Agreement, and audits and compliance schemes for packaging waste. Where these are not available, internal budget controls are used.

CORPORATE RESPONSIBILITY COMMITTEE

Leadership on corporate responsibility is provided by a cross functional Committee of senior executives. This CR Committee meets a minimum of four times a year. It is also responsible for overseeing the implementation of our raft of corporate responsibility policies, including our policies on

Human Rights, Ethical Trading and the Environment. Over the past year we have increased the seniority of the Committee, which now reports to the Board after each meeting.

COMMUNICATION

This annual Corporate Responsibility Review is our main method of communicating our policies and performance in this area, and is available on our website, www.tesco.com/everylittlehelps, as well as in hard copy. Our website contains further detailed information not included in this report, for example the full text of our various corporate responsibility policies, in-depth information on specific topics frequently raised by our customers, and case studies. It is updated every three months to contain the latest news. We will continue to participate in the Business in the Community Corporate Responsibility and Environment and FTSE4Good surveys, in order to further communicate our performance on CR.



2001, First CR Report

Over the past year, we have tried harder than ever to listen to our customers, staff, investors, NGOs and suppliers.

We are committed to listening to our stakeholders and acting on what they tell us.

CUSTOMERS

One of our Values is to understand customers better than anyone. We go to great lengths to ask customers what they think, listen to their views, and then act on them. We look both at what customers say and what they do. This feedback guides the decisions we take.

Customer Question Time

An important tool to help us understand our customers is Customer Question Time (CQT). A CQT is a forum where store and head office representatives listen to customers' views on everything from product range and price to quality, service, our role in the community, and the Tesco brand. Last year, we held CQTs in 177 locations throughout the UK, speaking to over 9,000 customers and 2,000 members of staff. We believe this is the largest exercise of its kind in the UK. We use CQTs as a tool for understanding customers in all our stores around the world.



1993, Introduction of Customer Question Time

This research has identified five factors which are most important to our customers:



To help us meet these and other customer expectations, we develop an annual customer plan. This directly targets improving performance in the areas identified by our customers, and improving customer loyalty.

Public Attitudes to Corporate Responsibility

In the summer of 2003 we commissioned an independent survey of public attitudes to corporate responsibility and to Tesco. Over 2,000 interviews were carried out among the general public, MPs, City investors and the business press. Headline findings were that:

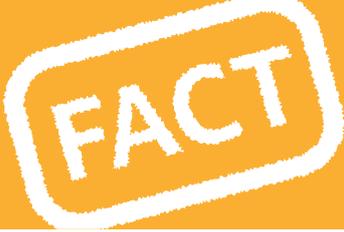
- 70% believed that industry and commerce do not pay enough attention to their social responsibilities;

- Tesco was the most frequently named company when respondents were asked to name a particularly socially, environmentally or ethically responsible company (unprompted);
- Tesco was the fourth most frequently mentioned company when respondents were asked which companies should take their responsibilities more seriously;
- the three most commonly mentioned examples of Tesco's responsibility were the Computers for Schools scheme, our support of education and our support for communities/charity;
- the three top responsibility issues for supermarkets as a sector were recycling, unemployment and re-training schemes, and help for people with disabilities;
- the five top ways in which Tesco could take its responsibilities more seriously were to improve customer service, tackle environmental issues, reduce prices, stock local produce and support the community.

We are pleased with the high level of recognition of some of our CR activities. But there is no room for complacency, and we will be focusing our corporate responsibility efforts over the coming year on areas highlighted by the survey.



1994, Introduction of Clubcard



Last year, we held Customer Question Times in 177 locations throughout the UK, speaking to over 9,000 customers and 2,000 members of staff.

STAFF

Every February we carry out our Viewpoint staff satisfaction survey, which we believe to be the biggest of its kind in the UK. This year over 230,000 of our people were asked to give us feedback on Tesco as an employer and 90% of our staff responded. In addition to the annual survey, a smaller number of staff are sent a quarterly questionnaire so we can monitor interim progress. The Viewpoint survey is also carried out in our international stores.

We use Viewpoint to drive our staff programmes in the same way that feedback from customers shapes our customer plan. As a result, we have been able to develop our People Plan focused on the four things our people tell us they are looking for at work:



Employees give further feedback through our Staff Forum process. These Forums result from our partnership agreement with Usdaw (the Union of Shop, Distributive and Allied Workers) and take place every four months in all stores.

They are designed to involve staff in the business and ensure that their voice is heard. Store Forums are followed by Store Director Forums and National Forums.

TWIST

Last year we introduced the TWIST (Tesco Week in Store Together) programme, where 920 senior managers and directors spent five days working on the shopfloor, gaining a better understanding of what goes on.

It was extremely popular among staff, and generated many new ideas for the business. This year, we have enlarged the scheme so that store managers can work in other stores, and also offered the opportunity to 150 of our largest suppliers, giving them the chance to spend a week in store and see our operations from a different perspective. We are currently analysing the 200 or so suggestions and ideas resulting from last year's programme. TWIST was also held in many of our international stores.



2002, Introduction of TWIST

case study

Disability Customer Question Time



One of the findings of the survey of public attitudes to CR supports work we have been doing this year on disability.

The survey found that 27% of respondees thought that supermarkets should be focusing their efforts on helping people with disabilities. In March we held our first Customer Question Time on disability to understand how we could better serve our disabled customers. Around 35 customers participated in this forum, with sessions on mobility, vision, and hearing impaired customers, which were organised with a number of local disability groups including The Herts Hearing Advisory Service, Herts Society for the Blind and Herts Action on Disability. CQTs provide us with feedback for the Customer Plan, which determines in-store activity across the UK.

SUPPLIERS

Supermarkets have come under criticism for their treatment of suppliers. We treat our suppliers as a vital component of our business, and our aim is to work in ever closer partnership. Alongside the thousands of face-to-face meetings and visits to suppliers, we hold supplier conferences around the world where suppliers can come and meet Board members, and understand how our business



needs and customer trends are developing. More information on our relationships with our suppliers can be found on page 14 of the Economic section and page 24 of the Social section of this Review.

INVESTORS

Our Investor Relations team regularly meets analysts from the financial institutions which invest in us or represent our shareholders. In the past year we met 97 of our leading shareholders, representing over 54% of the issued shares in the company. We also hold an annual meeting for investors from the SRI (socially responsible investment) sector, which helps these analysts ask more detailed questions and give us their opinions. This year we have rationalised our system, following investor requests for a single rather than multiple point of contact, by appointing a Corporate Governance Manager whose responsibility it is to liaise with these socially responsible investors and respond to their requests.

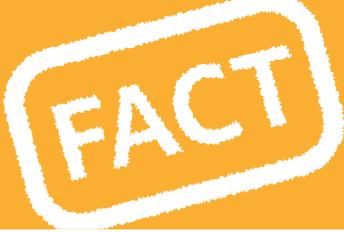
Through the SRI meeting and other events, socially responsible investors have told us that we need to demonstrate better that we are proactively managing emerging issues, that our corporate responsibility is fully integrated across the business, that we are managing the environmental and ethical aspects of our supply chain, and that we should publish our future CR performance targets.

NGOs

In the past year we carried out our first independent review of our relationships with Non-Governmental Organisations (NGOs) and concluded that the hundreds of conversations we have with different NGOs at almost every level of the company need to be better structured. We are setting up a more organised contact programme, with a series of face-to-face meetings with NGOs.

To help us improve our understanding of how we are viewed by NGOs, this year we commissioned qualitative research by an independent agency. Interviews were carried out with a number of leading NGOs.





Among the many surveys in which we participated we achieved an AAAAB Rating and came 19th out of 139 in Business in the Community's 2004 Corporate Responsibility Index.

case study

Fairtrade

The research found that our strengths included regeneration, organics, Fairtrade, customer value and recycling. Areas for further attention were our relationships with suppliers, the level of CR integration into the business, and the need for more dialogue with NGOs. Over the coming year, we hope to strengthen our performance in all these areas.

SURVEYS

Among the many surveys in which we participated we achieved an AAAAB rating and came 19th out of 139 in Business in the Community's 2004 Corporate Responsibility Index. We also continue to be a member of FTSE4Good. We took the decision not to participate in Race to the Top last year because of concerns over confidentiality, complexity and duplication of effort – concerns we expressed to the organisers.

A good example of how listening makes Tesco a better company is the recent introduction of the Tesco own brand Fair Trade range.

Harriet Lamb, the Director of the Fairtrade Foundation met senior executives and suggested that Tesco develop its own Fair Trade range. Since the introduction of Fairtrade products in our stores eight years ago, sales in the sector had been growing rapidly. This growth, combined with the huge popularity of Fairtrade bananas, and customer feedback showing that customers wanted more Fairtrade options meant that we could take this big step to help small producers in developing countries. We therefore created 16 own brand lines, including cookies and flowers, to add to the existing 75 lines, which makes it the largest range in the UK. We estimate that we now sell around a third of all Fairtrade products bought in the UK.

One line we are particularly proud of is our Kenyan roses – we expect to sell 12 million stems over the next year alone. We have been working with our rose supplier in Kenya for the last eight years, on projects including setting up a school for workers' children, building housing for workers and environmental projects to treat water through the planting of reed beds. This supplier



has now been certified by the Fairtrade Labelling Organisation – a world first. We hope that this certification will add a significant extra boost to sales – a win/win situation on an economic and social basis. More information on our Fairtrade efforts can be found on our website at: www.tesco.com/everylittlehelps

“The launch of the Tesco Fair Trade range is a fantastic break-through for this sector of food retailing, making quality Fairtrade products widely available. It will help put Fairtrade firmly on the map.”

*Harriet Lamb,
Director, Fairtrade Foundation*



Using our strengths to deliver unbeatable value.

Over the past year our team of 326,000 people in 2,318 stores around the world achieved record sales of £33.6 billion. We are proud of this outstanding performance, which enables us to make a positive contribution to the economies where we operate through more jobs, better value for customers, particularly low-income families, higher skills and productivity, regeneration of deprived areas, and strong and growing relations with suppliers.

EMPLOYMENT

With over 326,000 employees in twelve countries, Tesco plays an important role in creating employment, fostering skills, and generating economic development. This year alone, our UK workforce has grown by 16,000 and we have created 14,000 new jobs in our international operations. Many of these jobs are created in regions often overlooked by investors or with high unemployment.

In addition to the economic benefits of paying salaries and local taxes, we go further by increasing share ownership among our staff, so that

they have an active stake in the success of the business. In June 2003 we gave more than 147,000 of our UK staff shares worth £89 million. A third of these shares came from the most recently matured Tesco profit share scheme, and £57m worth of shares were given as part of the new Shares in Success scheme to all employees with more than a year's service. In addition, our Buy As You Earn scheme gives employees the chance to buy our shares at a 20% discount. These schemes are our way of saying thank you to our staff.

In a rapidly changing world, we have to ensure that we remain a dynamic and flexible business. One step we took this year was the opening of a high tech IT and business support centre in Bangalore, India. This enables us to support our operations more effectively and to develop new services which were previously unaffordable. It also reflects the intense competition we face not only from within the grocery sector, but increasingly from within the financial services, telecoms and internet sectors. We identified 350 roles to transfer to our new centre from the UK. We have consulted with Usdaw

Wages & salaries, pensions and bonus costs
£3,247 million

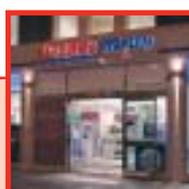
Tax on profit on ordinary activities
£498 million

Dividends to shareholders
£516 million

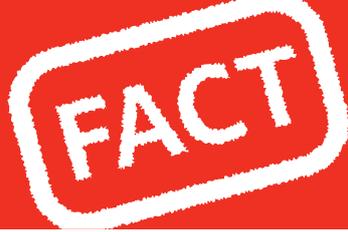
Net interest payable
£223 million

Profit retained for growth
£584 million

and our people on the policies we have in place to support affected staff. We have committed to offering every affected member of staff another job within Tesco, although not necessarily in the same role or location. We offered these staff re-training and relocation support, and 12-week work trials.



1991, Launch of Tesco Metro stores



Last year we gave more than 147,000 of our UK staff shares worth £89 million.

VALUE

We aim to offer unbeatable value, through outstanding prices, quality, choice and service. We continue to benefit customers by cutting prices and helping them spend less every day. Over the past year, we have made long-term price reductions twice in the UK – in August 2003 by £60 million and in January 2004 by £70 million, reaching a total of £130 million in price cuts. A typical basket of our Value line products is now 35% cheaper than it was ten years ago.

For low-income households, food remains an important cost. Low prices mean more choice and better value for these groups in particular. Suppliers benefit from volume increases and their own economies of scale. Food now accounts for an ever-declining proportion of household expenditure in the UK, thanks in part to this deflation in real prices. We believe that this is one of our key contributions to the UK economy and society.



case study

How We Cut Prices

Our commitment to cutting prices is driven by customer demand, competition within the industry and our desire to meet shareholder expectations.

Our approach is to identify savings from within our own operations via our Step Change productivity programme.

Examples of Step Change Projects include:

- *increasing the volume of products going through our Primary Distribution channel to 50%, by collecting more products from suppliers on the way back from stores to distribution centres, thereby reducing the number of miles trucks drive empty;*
- *using hand held scanners in all stores, allowing staff to access product and stock information at the shelf edge;*
- *introducing better labour scheduling systems;*
- *establishing a dedicated clothing distribution centre handling all clothing going into UK stores, so that suppliers have the option of delivering to just one distribution centre rather than several or to hundreds of stores.*

The results of these productivity gains are cost savings, which are then invested in reducing prices.



1992, Value lines introduced

“The Tesco Regeneration Programme is designed to offer maximum opportunity for people to develop their potential, providing the right tools to help them into new retail and service jobs and generating a new and positive approach to learning.”

*John Hannett,
General Secretary, Usdaw*



REGENERATION

In the UK, our growth has a particular focus on the regeneration of deprived communities and the reclamation of derelict sites. A Regeneration Partnership is our term for a partnership with a wide range of local groups, including the local authority, JobCentre, family learning centre, schools, colleges, resident association and other local employers. Through these Partnerships, we aim to help local people escape the poverty trap and take a proper stake in the social and economic well-being of their own areas. Over the past 12 months we have created 950 new regeneration jobs in Shettleston, Warrington and Batley and launched a further seven new Partnerships, bringing the total number of regeneration jobs to 3,200 since 1999.

High long-term unemployment is often combined with low skill levels, travel problems, caring responsibilities and disabilities, all of which pose barriers to getting a job. We try to work around these obstacles by holding open days where staff explain what it's like to work for Tesco, by printing local leaflets and newsletters about the store and by offering a basic skills assessment to identify training needed to bring the candidates up



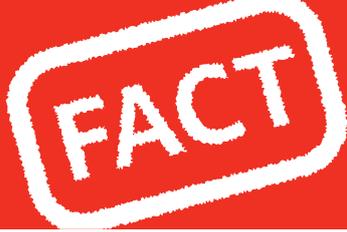
Above: Warrington Store

to nationally accredited standards in reading, writing, numeracy and fluency in English. We provide seminars before holding selection meetings so that recruits know that we are assessing aptitude rather than existing qualifications. We try to ensure that the aspirations of candidates, for example on working hours, are matched as closely as possible to our needs. But perhaps most importantly we guarantee that, provided a recruit finishes their training, there will be a permanent job waiting for them.

While the job guarantee is the catalyst, it is long-term commitment and perseverance that make this approach work. Within regeneration stores the promotion record is very strong – for



1995, First stores in Central Europe



Over the last 12 months we have created 950 new regeneration jobs in Shettleston, Warrington and Batley.

case study

Alloa Regeneration Partnership



Above: Beverley Store

“Tesco had a genuinely supportive culture and a caring approach to the particular problems of their trainees. The company assisted them in overcoming personal and domestic difficulties which might otherwise have led them to abandoning the training course.”

Changing Practices report, Neighbourhood Renewal Unit, Office of the Deputy Prime Minister

example at our first regeneration store in the Seacroft area of Leeds, 19% of partnership recruits are either training for more specialist positions or have been promoted to more senior jobs.

MARKET TOWNS

Market towns make a huge contribution to the economic, social and cultural life of the UK. Our 100+ stores in market towns form a core part of our UK business. People sometimes fear that new investment can threaten local business and employment. We understand this concern, but believe it is misplaced. Tesco stores stimulate the local economy, bring new investment, and create jobs, which in turn help support local wealth creation, greater training opportunities, increased services and improvements to local infrastructure. Stores in town centres act as magnets – as shown by a study by independent planning consultants of our new store in Beverley. Our store replaced the town’s historic cattle market – but the study found that two thirds of our customers also visit other stores in the town centre. Local business leaders say it has boosted Beverley’s reputation as a popular shopping destination.



Above: Alloa store

Employment in the town of Alloa in Scotland was traditionally based on the manufacture of textiles, brewing and glass making. In the late 20th century all of these went into serious decline, leaving the town with relatively high levels of unemployment and a deteriorating urban fabric. The Tesco Regeneration store is positioned on the site of an old yarn mill, in the shadow of the recently renovated historic Alloa tower. The Partnership created over 100 new jobs for local long-term unemployed people through the Tesco Job Guarantee, where everyone who completes the training course is guaranteed employment.

When Napier University evaluated our scheme they found that: “The commitment of Tesco managers was vital. They attended evaluation and review sessions with participants on a weekly basis. All this has produced excellent relationships which look like having positive benefits in terms of long-term retention of staff.”



1996, Tesco Personal Finance launched

case study

Longer UK Growing Season

By extending seasons and introducing new growing techniques, UK farmers have enabled us to buy more British produce and reduce imports.

New glass-houses in Kent produce high quality English strawberries three weeks earlier than ever before. As a result, we bought an extra 2.1 million punnets, helping reduce imports from Spain and Holland.

All Cox apples sold in the past year were British: 80% came from Kent and 20% were from Hereford. This is a prime example of extending the UK season, when we would have had to import to meet demand. We have seen 40% like-for-like sales increases on these lines. We are also seeking to extend the volume of sales of traditional varieties such as Lord Lambourn, Laxton Fortune and Chivers Delight. We now stock British potatoes for 10 months a year and have a year-round supply of White, Maris Piper, King Edwards, Red Desiree and baking potatoes. Three years ago, we would have imported some 5,000 tonnes of potatoes from Cyprus in July and August. Likewise, with new potatoes, the growing season has been extended by four months.

We now have an all-year supply of cauliflowers from Cornwall, which means we no longer import cauliflowers from Spain. Our Cornish growers will be growing an extra 3 million more cauliflowers than last year.

SUPPLIERS

Supermarkets are often criticised for exploiting rather than working with their suppliers. This is wrong because it ignores a simple truth – a successful and sustainable food business needs to work in partnership with its suppliers. We work with suppliers to build long term partnerships to provide a stable supply and increased innovation for our customers. The result is increased volumes for our suppliers. We work with them to help improve processes and increase productivity, and the many businesses which grow with Tesco know that this benefits them by increasing their profitability.

We are a signatory to the UK Department of Trade and Industry's (DTI) Supplier Code of Practice, and fully support its objective of ensuring suppliers are given a fair deal. We are co-operating with the review of the Code and the audit conducted by the Office of Fair Trading. To date we have not had any complaints from suppliers under the Code. Since the introduction of the Code, we have run a tailored training programme for all Tesco buyers to ensure understanding of

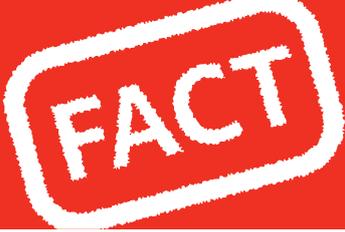
the Code and full compliance. We have complemented this programme with regular follow up sessions for new starters.

Every year we hold supplier conferences around the world, where suppliers can meet Board members and gain a better understanding of Tesco's business needs and customer trends. This year, 270 suppliers attended the annual UK conference and were given the opportunity to question Board directors. To help make the discussion as open as possible, suppliers generate questions in groups which are then put anonymously to the Board.

A second conference was held in Edinburgh in conjunction with the Institute for Grocery Distribution, where over 200 Scottish suppliers were given the chance to meet our Scottish sourcing team, question senior Tesco figures and share our understanding of customer trends. Presentations were given on our growth strategy, customer needs in today's market place, promotional strategies employed, and case studies of successful partnerships with Scottish suppliers. Maggie McGinlay, director of Scottish



1998, First store in Asia



Last year we sold more British apples than any other supermarket.

case study

Tesco and Scottish Farmers



Enterprise's food and drink strategy group said: "The conference was a huge success and is just one of the ways we're helping to build relationships between suppliers and retailers."

This year, an invitation to participate in the TWIST programme has been extended to our top 150 suppliers, giving them the chance to spend a week in store and see our operations from a different perspective. See page 7 for more information on TWIST.

Tesco is currently Scottish agriculture's biggest customer. Over 1,000 uniquely Scottish products are sold in Tesco stores in Scotland. All of our products are clearly labelled with country, county and sometimes farm of origin. The use of rosettes featuring the Scottish flag further underlines product origin.

- 181 Scottish companies currently supply product lines to Tesco, with £676 million of product purchased;
- over 1,200 Scottish farmers supply fresh quality beef and lamb to Tesco;
- more than 85,000 tonnes per annum of Scottish cheese was sold in Tesco stores in 2002;
- 2.4 million pints of fresh Scottish milk are sold each week;
- all UK Tesco stores sell Scottish caught fish.

A good example is provided by McIntosh Donald who have been supplying Tesco since 1995. They now supply all of the Scottish beef and lamb sold in our UK stores including the high-value Finest range. Year on year growth of the Finest cuts has been in excess of 20% with their latest product, Tesco Finest Scotch Ground Beef, showing year on year sales growth of 90%. As a result they now employ 375 people and process in excess of 80,000 Scottish cattle every year.

We've also provided technical support to our Scottish fruit and vegetable



suppliers to develop innovative new products including:

- Tesco Finest Raspberries, picked and packed on the stalk for quality and freshness, which are supplied to 650 stores by Angus Soft Fruits of Tayside;
- pre-packed Mediterranean vegetables (yellow peppers, baby tomatoes, red onions) supplied by Kettle Produce of Cupar with sales of up to 12,000 packs a week, demonstrating the ability of Scottish suppliers to source exotic high-quality products in addition to traditional Scottish products.

Nor is size a barrier. Bridge of Allan Brewery, which brews City of Sterling ale, were winners of the last Tesco beer challenge, designed to promote innovation amongst suppliers. As a result they have won a major contract to supply 650 Tesco stores throughout the UK. The beer is hand brewed and as a result of the contract the brewer has doubled his workforce from three to six.



2000, Tesco.com launched

We promote local produce in all our stores, not just in the UK, and there is a huge range of in-store promotions of local produce throughout the international businesses.

BUYING LOCALLY – BRITISH FARMERS

Despite being an increasingly international company, we recognise the importance of being local and buying locally. Alongside value for money, many customers put a premium on locally grown products. However, not everything can be local. Customers expect to buy whatever they want, regardless of season or country of origin.

Tesco is British agriculture's biggest customer. Last year we sold more British apples than any other supermarket, 97% of our fresh beef is British, 90% of fresh lamb and chicken is British and 95% of fresh pork is British. All our fresh, UHT and organic milk comes from British farms, as do all of our fresh eggs.

To help source local products we have set up regional buying teams, and have offices in Wales and Scotland to help us identify local suppliers. This year, we aimed to increase the number of Welsh lines, and reached a total of 600. These joined the 1,500 Irish and

1,000 Scottish lines, to contribute to a total of 7,000 regional lines sold in the UK. All products are labelled with the country and county of origin and where appropriate with national flags.

We also support a number of farm quality assurance schemes. The Red Tractor symbol appears on British meat and produce grown or reared in accordance with UK production standards. British pig meat, which has come from assured pigs, hauled on assured vehicles and slaughtered in assured abattoirs, is labelled with the Meat and Livestock Commission's "Quality Standard, British Meat" mark.

We have also been working on a number of technical projects to help increase the amount of produce sourced from within the UK. A key initiative has been working with growers to extend the UK growing season, by using new growing and better storage techniques.

BUYING LOCALLY – INTERNATIONALLY

Our emphasis on local sourcing is also evident in our international business. For example, the One Tambon One Product programme in Thailand promotes local products by ensuring sales space for local producers. In Poland we have also

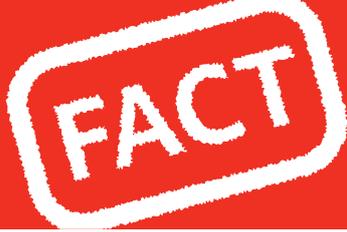


formed a unique partnership with the Teraz Polska (Poland Now) campaign aimed at promoting Polish produce to our Polish customers.

FAIRTRADE

We have long been a strong supporter of Fairtrade, which guarantees that developing world farmers are paid a price that covers the cost of production, plus a premium to be spent on projects which help communities, such as better healthcare, sanitation, education or housing. This is vital in bringing stability to many small suppliers in developing countries, as this can help farmers and workers achieve a better quality of life. Our customers buy more Fairtrade products than those of any other supermarket. Our progress over the past year is set out on page 9.





We estimate that Tesco now sells around a third of all Fairtrade products bought in the UK.

case study

EU Enlargement Seminars



For details of our ethical trading programmes see page 24 of the Social section.

INTERNATIONAL SUPPLIERS

There are many ways in which we share knowledge with and help our international suppliers. For example, in the past year we ran workshops in the Czech Republic and Slovakia to help suppliers prepare for EU accession, and held Vendor Open Days in Thailand aimed at Small and Medium Enterprises (SMEs) focusing on marketing, food hygiene, labelling, and quality standards. The Tesco Ireland Supplier Development programme (in partnership with Enterprise Ireland) aims to help Irish companies compete in a rapidly changing trading

environment and develop new products through sharing knowledge.

This year we have faced accusations of strong-arm tactics in our dealings with South African suppliers of fruit and wine – accusations that we maintain are wrong. We do not prevent suppliers from supplying other businesses, and we discourage suppliers from depending on Tesco. Most importantly, we never encourage suppliers to sell below cost, as this is unsustainable for them and therefore bad for customers and for us.

“We have an excellent long-term partnership with Tesco, supplying wine and fruit from South Africa. Tesco fully supports the importance we attach to ethical and environmental standards, and the need to ground these in a successful business relationship based on trust and dialogue. For example, Tesco sponsor and support our Capespan Foundation which works to promote black empowerment, women workers’ rights and capacity building.”

Louis Kriel, European Managing Director of Capespan



For the second year running Tesco worked in co-operation with the Slovak Ministry of Trade and Ministry of Agriculture to organise a workshop in Bratislava.

The aim of the seminar was to help Slovak suppliers understand the opportunities presented by EU enlargement and how best to prepare for accession. Speakers included representatives from the Slovak ministries of Agriculture and Trade, together with Tesco experts from Central Europe and the UK. Subjects covered included trading with multiple retailers at home and abroad, food safety, adding value and developing own brand products. Sixty supplier representatives attended the all day event. Similar workshops have been run in Poland, Czech Republic and Hungary.



2003, Tesco Telecoms launched

Treating people how we like to be treated.

We never underestimate the potential impact of our business on society. We firmly believe that we can be a force for good. We can do this by looking after our people, promoting healthy living, supporting education, getting involved in the community, advancing inclusivity and managing our supply chain.

LOOKING AFTER OUR PEOPLE

Looking after our people so that they can look after our customers is a central part of our Values. We are committed to providing market-leading working conditions for all our staff, and we encourage our suppliers to do the same.

Sharing Success

Our people are our most important asset, and a key objective across the business is to 'select and retain the best'. We offer our staff an attractive benefits package, including wages that are amongst the best for store staff, flexible hours and leave, profit sharing, free uniform, subsidised meals, childcare vouchers and a pension. Through our Privilege Card scheme, all staff with over 12 months' service receive a 10% discount on their shopping at Tesco. They are also able to take advantage of discounts at Tesco.com, on our financial products

and other products including holidays, gym membership, childcare vouchers and health cover. Staff also receive a Benefits Book annually to explain all the benefits they can take advantage of and a personal Benefits Report summarising their total package. In addition, we have recently introduced a new benefits website, as another easy way for staff to find out full details of benefits available to them.

Pensions

We provide an award-winning defined-benefit pension scheme which now has 127,000 members. Unlike other companies who have moved to money purchase schemes, the Tesco scheme is based on career average earnings. One of the great advantages of the career average approach, compared to a final salary scheme, is that if staff want to reduce their hours as they approach retirement, they can do so without making a big difference to the final pension they receive. As the employer of choice for the over-55s, this is considered one of the major benefits Tesco offers. We contribute 10.5% of pensionable pay, and 56% of our staff are covered by the company pension scheme.

Training and Development

We are committed to developing our people to bring out the best in everyone, and estimate that we spend around

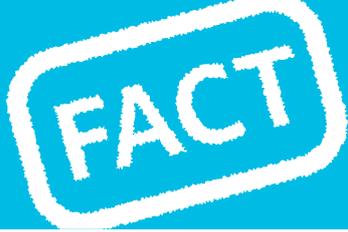


£23 million each year on training. All of our staff have access to training programmes and a personal development plan, with six-monthly reviews, to ensure that they have the right skills to do their job. Through our Talent Spotting programme, every employee has a career discussion with their line manager to plan their career at Tesco. Their details are then put in a talent pool to help individuals to make the most of opportunities available to them.

In 2003 we launched the Living Service training programme after research revealed that, although service at stores was good, we wanted it to be even better. To help improve the workplace atmosphere, Living Service was set up in-store to train the whole Tesco team in new skills. The main message from the programme is that our attitude is



1984, Healthy Living range introduced



In 2003, 300,000 women, including 12,500 members of our staff took part in Race for Life to help raise £17.5 million.

“We are committed to working together with Tesco and staff right across the business and that is what the Tesco partnership enables us to do. As a result, together with Tesco we have made great strides in helping to make it easier for staff to combine their home lives and their working lives in ways which suit them and the business.”

John Hannett, General Secretary, Usdaw

what makes the difference between good and great service. The three Living Service expressions – Know Your Stuff, Show You Care, and Share a Smile were created by staff to show what Living the Values looked like.

Our commitment to training and development is also one of our greatest contributions to the international markets in which we operate. For example, in Thailand, we have invested more than 7.5 billion baht in employee remuneration and training during the expansion of our workforce from 5,500 in 1998 to 17,300 today. Because only 16 of these employees are international expatriates, we are building skills primarily in the local workforce. Our policy of internal promotions wherever possible means that as the network of stores expands, staff already working with the company are offered first option to return to new stores in their home communities so they can be close to their families.

Human Rights

Last year we introduced a Human Rights Policy, which addresses employment conditions including wages, hours, freedom of association, health & safety, discrimination, child labour and security. Over the past year the policy has been rolled out across both our UK and international businesses. The Chief Executive of each national business is responsible

for the implementation of the policy. We support the United Nations Universal Declaration of Human Rights and the International Labour Organisation’s Core Conventions.

[A full version of our Human Rights Policy can be found at www.tesco.com/everylittlehelps](http://www.tesco.com/everylittlehelps)

We support the right of all our employees to join a trade union; around half our UK employees are currently members of a union. Since 1998 we have had a pioneering partnership agreement with Usdaw, which has become a model for employer-union relationships in the UK. Staff Forums are held in all stores three times a year.

This year, in addition to our established Grievance Procedures, we have launched a new confidential Protector Line for our staff to call if they have concerns about whether something at work is legal or in the public interest. This should help us be more aware of possible problems such as theft, dishonesty and practices that endanger our staff, customers or the environment, so that we can take any appropriate action.

Health & Safety

We are committed to providing a working environment and a shopping experience which protects the health and safety of our people, our customers

and our visitors as far as is reasonably practicable. We meet this commitment through a comprehensive risk management process that ensures the ongoing identification and minimisation of occupational health & safety risks across the business. Effective control measures have been developed and incorporated into our operational procedures including investment in training for all staff. We constantly monitor and review our performance and seek feedback from our people. Every store measures health & safety performance and reports on this to their employees, as well as to management. Our aim is to eliminate preventable accidents and ill health associated with our work and premises, and to reduce the rate of reportable accidents as the business grows.

In 2002 we launched our Health and Safety Step change programme to further improve standards of health and safety across the business. 2003/4 has seen significant progress on this programme including:

- *the re-launch of our staff health and safety consultation forums at all stores;*
- *the introduction of improved health and safety management training for our store managers and senior team, again across all stores;*
- *completion of three safety campaigns covering our commonest hazards in-store.*



1988, Tesco Charity of the Year introduced

HEALTHY LIVING

We aim to be the retailer that customers trust to meet all their healthy living needs. We believe in 'healthy living for all', ensuring that a healthy lifestyle is accessible, affordable, and appeals to our customers.

We are aware of the increasing problems posed by obesity. The factors underlying the issue are many and complex: changing eating patterns, a decline in physical exercise, and an increase in meals eaten outside the home, to name but a few. We recognise that retailers have an important part to play alongside manufacturers, government, caterers, and consumers. Our key strength is how well we understand our customers, and the way we can help is by making it easy to make informed choices about a healthy lifestyle.

In January 2004 we re-launched our Healthy Living club, which provides information to customers on general health issues, weight loss, and green and organic products. The club now has 190,000 members.

As part of this re-launch, we added a further 100 products to our existing range of 400 Healthy Living products. Our policy is that these products contain either half the fat of a standard equivalent, or less than 3% fat, and 10% less sodium than the standard equivalent, and cost no more.

Our bi-monthly Healthy Living magazine, which provides practical information on all aspects of leading a healthy lifestyle, was sent to all members, as well as being for sale in-store. Sales of Healthy Living products are up 12% on last year. With our Healthy Living and Kids ranges in particular, we aim to make healthy choices more appealing to adults and children. To help, we do not sell sweets at checkouts in our superstores or target our advertising at children.

We encourage clear labelling, are working to support the 5-a-Day initiative on fruit and vegetables, and we continue to be the national sponsor for Cancer Research UK's Race for Life. This year 300,000 women, including 12,500 members of our staff, walked, jogged or ran 5km to raise £17.5 million.

We also try to make healthy food more accessible. Our data shows that price and value-for-money are key drivers of food choice, particularly for the less well-off. In 2002, an independent study¹ by the University of Southampton concluded that, by opening a new regeneration store in the Seacroft area of Leeds, Tesco had helped bring about an immediate improvement in the diet of low-income families. People classified as having poor diets before we opened our store increased their fruit and vegetable consumption by one-third after our store opened. Overall we have grown sales of fruit and vegetables by 8% over the past year.



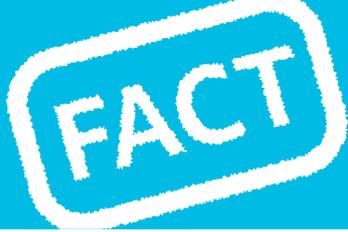
We have further expanded our Free From range for customers suffering from food allergies and intolerances to gluten, wheat and milk, to a total of 120 products, including soft bread rolls, enriched with calcium and fibre, and mixed-berry muffins. We also offer a range of complementary medicine and nutritional supplements – our Nutricentre range.

Nor is our promotion of healthy living limited to UK. Our stores in Poland have a 5-a-Day Healthy Living Campaign and 'Health Shelf' ranges of complementary medicines. In Slovakia we held an 'Apple Week' as part of an anti-cancer campaign, and our stores in Hungary and Ireland sell the Healthy Living range.

Our commitment to reducing price has increased access to healthy diets to communities across Europe and Asia.

¹Deprivation, Diet and Food Retail Access: Findings from the Leeds 'Food Deserts' Study, Wrigley et al, 2002, University of Southampton





We gave away £7 million worth of computer equipment in 2003, bringing the overall total since 1992 to £84 million.

EDUCATION

Computers for Schools

As the largest private employer in the UK, we recognise our responsibility to contribute to workforce educational skills. Education is one of the key areas where customers believe our support is very important, and where we can make a real difference. Our Computers for Schools scheme is now in its 13th year, and is the largest of its kind in the UK – 86% of primary and secondary schools in the UK now actively participate. In the last year, 2,700 computers were ordered by schools, along with over 75,000 items of related equipment, the most popular of which were digital cameras, digital movie creators, microscopes and interactive encyclopaedias. We gave away £7 million worth of equipment in 2003, bringing the overall total since 1992 to £84 million. Next year, we aim to increase this total to £92 million.

As in other areas, we are extending best practice in the promotion of educational skills throughout our international business. In Poland, for example, a Tesco for Schools programme has been developed based on the UK model. The programme has provided 35 schools in Poland with computer equipment worth £100,000. We have also run book collection programmes for children's homes in Slovakia and the Czech Republic.

In Thailand, we run the Tesco Lotus scholarship programme in conjunction with the Ministry of University Affairs and the Sukhothai Thammatirat Open University, to provide vocational training to undergraduate and postgraduate students.

Debut

This year we introduced Debut, a programme to encourage students working at Tesco in the UK to stay on after completing their studies, as well as to attract other graduates and young people. The programme aims to help the 16-24 age range through the transition from full-time education to full-time career. It offers on-line training and development, financial guidance, discounts (for example, on driving lessons), and career advice including information on opportunities in the retail sector. Many of the 30,000 students working at Tesco said they wanted a scheme more specific to them, and so we asked them to design one. www.tesco.com/debut is the result.

COMMUNITY

Charitable Giving

Each year, we select a national charity with a strong community network to become our Charity of the Year. This becomes the main focus for staff fund raising and receives a 20% 'top up' from the Tesco Charity Trust.

This year we managed to raise £2.5 million for Barnardo's, the UK's largest childcare charity.

In addition to this, the Tesco Charity Trust made cash grants of almost £650,000 to local and national charities. Furthermore, the Trust Community Award Scheme ensures that grants totalling £380,000 were awarded to local projects. All provide practical benefits in the local community for three vulnerable groups: children, the elderly and those with disabilities.

The Charity of the Year framework for giving has also been adopted in Poland, Ireland, Hungary and Slovakia. Often these are ground-breaking projects and have won many awards.

In Thailand, we have set up the Tesco for Thais Foundation - a non-profit charitable foundation which provides support to carefully selected projects in the areas of education and health. Since February 2003, the Foundation has contributed nearly 6 million baht to projects including scholarships at primary schools and universities, and the launch of the Tesco for Thais Blood Donation Campaign at all stores in Bangkok and upcountry.

In Ireland, Tesco was the major sponsor of the 2003 Special Olympics for people with learning difficulties.



INCLUSIVITY

Customers

Our desire to appeal to all types of customer with differing needs and demands drives much of what we do. We do this in three ways. Firstly, through our range – from Finest for those wanting something special, to Value for those on a budget. We offer the widest range of organic and Fairtrade products in the UK, and over 500 Healthy Living products. We have also widened our range of kosher and Asian food over the past year. Secondly, through our focus on price, we are able to bring value to customers no matter how much they want to spend.

Thirdly, the range of store formats we now have has brought a huge benefit to customers – in different places, at different times, doing different types of shopping. Our Metro and Express formats target convenience shoppers, including those in urban and deprived areas, previously lacking shops offering value and quality. Our Superstore and Extras formats target customers wanting to do their weekly shop. These formats, supported by our online Tesco.com operation, are designed to meet the ever-changing needs of our customers.



2003, Free From range launched

Disabled Customers

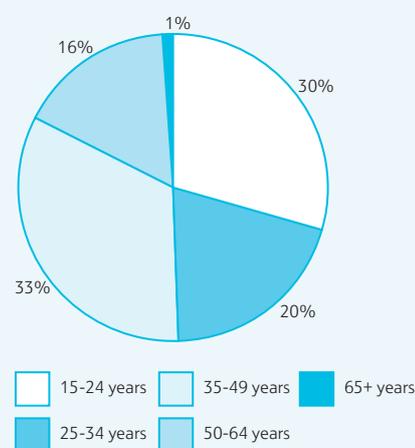
Serving 12 million customers each week means we have to make shopping easier for a wide range of customers. Tesco has always tried to include disabled customers in our offer, providing many services long before the Disability Discrimination Act (DDA) came into force, because we know it makes good business sense. We have consulted disabled customers to make sure the sort of things we are doing meet their needs. From October this year the DDA requires us to make physical adjustments to make our business more accessible to disabled customers. Tesco already makes stores accessible to disabled customers but due to acquisitions and our move back to the High Street accessibility may vary across our range of stores.

We surveyed all our stores last year and now have a programme of work in place to make sure our stores are even more accessible.

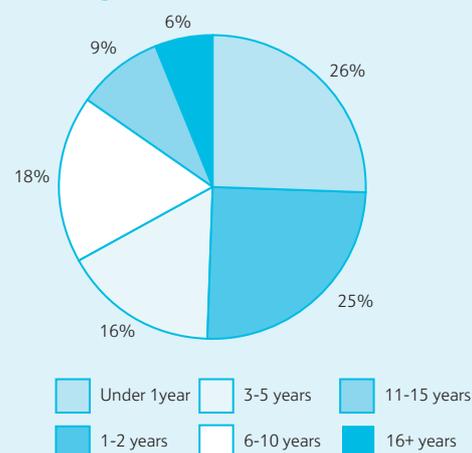
Staff

Diversity benefits a business in many ways, including greater customer and staff loyalty. To review our progress, identify best practice and set next steps, we held an away-day in January for all those responsible for diversity issues across the business. The meeting was facilitated by the Work Foundation. A key follow-on from the away-day was the appointment of an Inclusivity

Employee age diversity

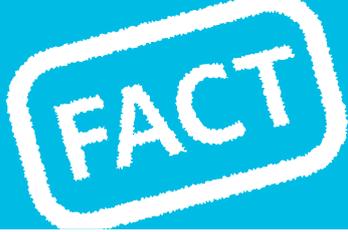


Length of service



Champion on the Board, and the establishment of our Inclusivity Governance Board to identify new and exciting initiatives for staff and customers.

We are committed to ensuring that at all times and in every aspect of employment, including recruitment, training and development, everybody receives the same treatment. Both



17% of our employees are over the age of 50.

internal and external applicants are considered on individual ability, regardless of factors such as gender, age, colour, creed, race, ethnic origin, disability, marital status, religion or belief, trade union membership or sexual preference and orientation.

A copy of our Equal Opportunities Policy can be found at www.tesco.com/everylittlehelps

One of the many ways in which we are able to be a more inclusive employer is by offering our people opportunities to work flexible hours. Where practicable, our staff are able to job-share, work flexitime or compressed hours, shift swap, work from home, or work part-time. We were chosen by the Department of Trade and Industry's Work-life Balance Challenge Fund to conduct further research into flexible working opportunities and to develop new ideas. Employees can also take holiday for a wide range of reasons, including Grandparent Leave, Carers Leave, Study Leave, Religious Festival Leave and Yellow Ribbon Leave – a paid day's leave to staff with relatives returning from military service in Iraq. Not only do flexible hours mean we can attract a wider range of employees, but it also means that staff are more committed to their jobs, which reduces absenteeism and improves morale and retention.

We have been supporting the UK Government's Age Positive campaign and have long recognised the benefits of a mixed age workforce. We are one of the first companies that positively encourages the recruitment of the 50+ age group, and have a Working Beyond Retirement Policy. This enables employees to work as long as they feel fit. We are proud that 17% of our employees are over the age of 50.

case study

Inclusivity in the Workplace

At Tesco, we try our best to provide a welcoming and fulfilling working environment for everybody.

Les Rowe, aged 78, can be found filling shelves with fresh fruit at his local Tesco store in Goldenhill, Bristol. Eager to keep busy, he has chosen to work long past the traditional retirement age. Up until a year ago he worked as a Tesco trolley man. Appreciative of the job's responsibility he notes: "As a trolley man you are the first and the last thing a customer sees when going into the store, a good impression is vital." Before applying for his job with Tesco he was apprehensive that his age may be a factor that counted against him when applying, but was delighted to be told "if you can do the job, it doesn't matter what age you are".

Robert Artiss is a grocery assistant at our Workstop store in Nottinghamshire. Despite two National Vocational Qualifications (NVQs) and many job applications, he had only been able to find temporary work until Remploy arranged for him to join the New Deal for Disabled People programme. Badly



injured in a road traffic accident when he was eight years old, Robert suffered brain damage that affected his left side, but he fought back, regaining the ability to walk and carry out every day activities. During a six week work placement at Tesco, Robert's enthusiasm shone through, and he was eventually offered a permanent job. Delighted with his job, Robert feels that the best aspect of working at Tesco is the companionship: "The people at Tesco are brilliant." he says. "My disability means nothing to them – they see the person I am inside."

Tesco has become the first business to set targets for the recruitment of disabled people. We are working in partnership with Remploy, the UK Government agency, and the Shaw Trust, who act as 'job brokers' for disabled jobseekers. We are looking to recruit 200 disabled

people over the next year, to add to the almost 500 disabled employees we have in supported placements. We have also reviewed our Selection Toolkit this year to include suggestions to make reasonable adjustments for disabled staff.



2003, Debut launched

MANAGING OUR SUPPLY CHAIN

Tesco is a founder member of the Ethical Trading Initiative (ETI), and our ethical trading policy, which applies across all our businesses, is based on the ETI Base Code. We aim to act responsibly in our commercial and trading activities. We cannot claim to have all the answers to complex ethical or social issues. However, we will do what we can to ensure that the labour standards of people working for our suppliers meet relevant international standards.

Tesco uses the ETI Base Code as its standard for suppliers:

- *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.*

This year we have started a two to three year programme to extend our

ethical trading policy to cover all suppliers of all our businesses, rather than just suppliers to the UK business, which was the case until last year. A further significant step forward has been our involvement with the creation of SEDEX, a web-based system that allows suppliers to maintain data on labour standards at production sites and make information available to companies they supply. Previously, suppliers often had to pay for multiple assessments of the same site, which could be costly and resulted in different data held on the same site by different retailers. It also meant conflicting corrective actions where poor standards were found. When fully functional, the new shared system will reduce the need for multiple assessments, so that attention can be focused on driving improvements.

A further area of progress this year is the continuation of 'Buying With Your Eyes Open' (BWYEO) and 'Supplying With Your Eyes Open' (SWYEO) courses, which are labour standard training programmes for our buyers and suppliers respectively. The BWYEO course is half a day training for buying teams, which teaches them how to recognise potential issues, and what to do when confronted with them. In 2003, 261 buyers across 11 commercial categories took part in

BWYEO, which represents just over three quarters of the UK buyers. In addition, all technical managers complete the SA8000 social accountability audit training.

The SWYEO course and Ethical Training Workshops are aimed at commercial and technical representatives from our suppliers, and aims to explain our approach, raise awareness, and encourage them to take responsibility for improving standards in their supply chains. A full-day programme, this year it has been held in the UK and also in Hong Kong, Shanghai, Bangalore, Dhaka, Cape Town, Sao Paulo and Dublin. Some 450 suppliers have attended, roughly three quarters of whom were from the overseas supply chain.

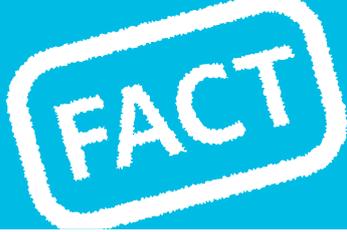
Risk Assessment and Auditing

We take a risk-based approach to managing labour standards in our supply chain, in addition to the due diligence work we do, which includes legal compliance, product 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 provided by an independent ethical consultancy. The country risk matrix is reviewed twice a year;*



2003, SEDEX launched



In 2003, 261 buyers across 11 commercial categories took part in our Buying With Your Eyes Open scheme.

- *the risk inherent to the industry and employment types, e.g. use of seasonal workers, home workers, subcontractors;*
- *Tesco's own knowledge of the risks posed by the site and supplier, the types of raw materials, the role of secondary sites, and any previous record, for example publicity issues.*

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

- *high risk suppliers complete a self-assessment form in SEDEX, and have a two- or three-day ethical assessment by a third party every year;*
- *medium risk suppliers are reviewed annually, through self-assessment via SEDEX, and will undertake a one- or two-day ethical assessment by a third party assessor at least every two years;*
- *low risk suppliers are reviewed annually, through their self-assessment via SEDEX.*

Third party assessors conduct the ethical assessments, raise non-compliances 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, the Tesco Technical Manager will assess the suitability of the site to continue supply. We will always try to persuade the supplier to improve their performance rather than terminate the contract, as we believe that this persuasion is more likely to result in improvements to labour conditions.

case study

Kenyan Roses



The Tesco horticulture team has been involved in and has contributed financially to both environmental and social projects in our Kenyan flower supply base, resulting in:

- *classrooms being built for children of the workers;*
- *mapping of Lake Naivasha, an important water source to the communities that live and farm in this area;*
- *new equipment for the workers' medical centre;*
- *fund raising in the UK by selling off sample stock twice yearly to Tesco head office workers and using the money to buy equipment and toys for the workers' nursery;*
- *the flower supplier becoming Fairtrade accredited.*

Examples of other projects where we have supported small-scale producers can be found on our website at www.tesco.com/everylittlehelps



Because we live here too.

A responsible society should not satisfy today's needs at the expense of being able to meet tomorrow's. We take a very practical approach to environmental sustainability. We know that neglecting our responsibilities may jeopardise our sources of supply in the future. We also know that optimising our environmental performance often goes hand in hand with reducing our business costs and maximising our productivity.

Some environmental goals are relatively straightforward – reducing energy consumption and minimising water use, for example. But others are complex, where the balance of 'sustainability' between competing goals is more difficult to achieve. For example: are the environmental costs of importing fresh vegetables from Africa outweighed by the social benefits of trading with under-developed economies? How far can we reduce packaging if food safety and consumer trends are demanding the opposite? How can we enhance biodiversity without unnecessarily increasing bureaucracy and cost for suppliers? We do not claim to have all the solutions. But we apply our awareness of these competing demands to our decisions; we listen to an ever wider range of stakeholders; and we take practical steps to move forward in what we believe is the right direction.

ENVIRONMENTAL POLICY

Tesco endorses and aims to apply the principle of sustainable development, which means meeting the needs of the present without compromising future generations.

The full text of our environment policy can be found at www.tesco.com/everylittlehelps

RESOURCES

Energy Efficiency and Emissions

We are committed to reducing our energy consumption and emissions of greenhouse gases. We have made an eight-year commitment to reduce energy consumption per square foot by 35% by 2006. Over the past year, we spent £6 million on energy saving schemes, and this investment contributed to our reduction in energy consumption. We achieved a 2% reduction of energy used per square foot, against a background of unexpectedly high sales growth (6.7%). We would have achieved our target of 4.2% had sales growth been in line with our projections.

We support the UK Government's position on climate change and the Kyoto Protocol. We participate in the UK's Emissions Trading Scheme, and are committed to making an absolute reduction of 74,000 tonnes of greenhouse gases over five years at a



'Energy usage has been measured on a like-for-like basis, stripping out any additional usage due to higher than expected sales volume.'

1990, Introduction of green trays

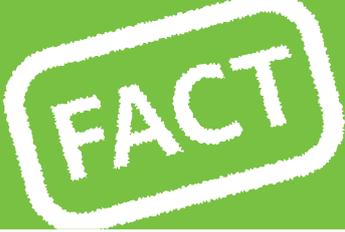
Energy consumption Kwh per ft² sales space

99/00	152.5
00/01	146.5
01/02	133.8
02/03	122.4
03/04	117.3

control group of 118 stores. We receive a financial incentive for each tonne saved, and this money is re-invested into more energy saving initiatives.

One example is the installation of the 'Intellihood' system at 274 in-store bakeries and staff restaurants. This extraction system roughly halves the amount of energy consumed by the extractor fans. At our Feltham store, for example, the bakery oven extract system and the doughnut fryer extractor previously consumed a constant 4.6kW per hour. This has now been reduced to an average of 1.5kW and the investment was recouped in less than 18 months. We plan to install this system in all stores where it can make such a difference.

A second example is the introduction of 'Total Energy Controls' systems at 270 of our sites, which are intelligent boiler/burner control systems. Software



Over the last year, we spent £6 million on energy saving schemes.

is used to reduce any unnecessary firing of burners within heating boiler systems, and we estimate that gas consumption is reduced by an average of 30%.

Our drive for energy efficiency applies throughout the Tesco group. In Central Europe we have dedicated Energy Managers with energy saving objectives. There are similar programmes in all our international businesses.

Renewable Trials

Over the past year we have been investigating the potential of renewable energy. In January 2004, in partnership with SolarCentury and partly aided by a Government grant, we installed a solar powered roof at our new petrol station in Hucknall, which generates 20% of the energy used by the petrol station and prevents five tonnes of CO₂ being generated each year. A comparison of the installation cost of the photovoltaic (PV) panels with the annual savings on electricity bills shows that the panels will take around thirty years to pay for themselves. Tesco is therefore currently evaluating the role that PVs can play, for example using PVs to generate the equivalent electricity as lighting used at one of our average-sized stores.

We have also been carrying out a pilot of a gas turbine Combined Heat and Power (CHP) unit at our Horsham store since August 2003. CHP captures and

uses the heat that is usually lost when gas is burned to create electricity. We have calculated the payback period to be six years, so following this success, we are evaluating the feasibility of installing CHP units in six other stores.

We are also researching the financial viability of wind turbines at a number of suitable sites and exploring the costs and benefits of hydro-power.

Refrigeration

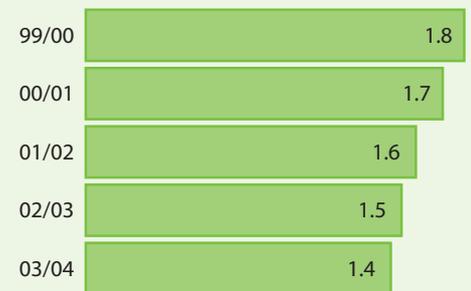
We have phased out the use of all CFCs from our stores and are in the process of phasing out HCFCs. This forms part of an extensive programme that will be completed in advance of the EC Regulation 2037/2000, and these refrigerants are currently being replaced by HFCs. As part of our commitment to the UK Emissions Trading Scheme, we are reducing our year on year refrigerant usage by 3,500 tonnes of CO₂ equivalent.

The efficiency of all new refrigeration systems is assessed across their predicted working life, using Total Equivalent Warming Impact as a major deciding factor, as well as capital cost, maintenance and energy consumption.

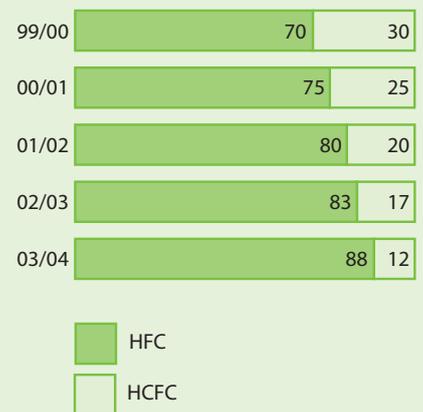
Water Consumption

By the end of 2003/4, we had reached our target of a reduction in water consumption of 4.2% per square foot from the previous year. We did this by continuing our programme of installing percussion taps, water

Water consumption m³ per m² sales space



% Refrigerants used



reclaim systems, water dams in cisterns, and by putting similar sized stores into groups to benchmark their water usage, to identify and spread best practice.

To reduce our water consumption further, we have identified a number of stores suitable for installing rainwater collection systems, and our evaluation of the potential benefits continues.



1990, Bag for Life introduced

The bulk of our emissions to air come from our transport distribution fleet.

VEHICLE EMISSIONS

Vehicle Efficiency

This year we have met our target to increase the number of cases of products delivered per litre of fuel consumed, from 18.4 last year to 19.1 this year, which represents an increase of 3.8% in efficiency. This means that we have increased the number of products we deliver to stores per vehicle, which has resulted in a more efficient use of our distribution fleet. This is a new KPI as of last year, so there is no historic data.

New initiatives include a programme to formalise the work we are doing to reduce emissions, and we have fitted Continuously Regenerating Traps (CRTs) to 30% of our 1,615 vehicles to reduce exhaust emissions. We have also launched a new training scheme for distribution drivers to help them become safer and more efficient. The Driver Operating Skills scheme offers drivers Bronze, Silver and Gold awards for their understanding of safety, vehicle checks, environmental issues and new EU Directives.

We have also been working on projects to minimise the empty space in Tesco lorries returning from stores to the distribution centres. We make sure that return loads include both cardboard and plastic for recycling at our distribution

centres, and goods picked up from suppliers local to our stores. This reduces the number of vehicles travelling empty on one leg of their journey. We have also increased the number of double deck trailers to maximise the amount of product delivered to a store. The result is a highly efficient use of our distribution fleet which minimises the number of vehicles on the road servicing our stores.

Rail

We operate 26 distribution centres around the UK that deliver to stores seven days a week. In the past, this haulage has been completely road-based, with no use of rail. This year, thanks to the increased economic viability of rail freight, we have experimented with transporting clothing goods by rail from the Southampton docks to our Daventry Distribution Centre. A shift to increased use of rail has the potential to reduce emissions and congestion on the roads.

Unfortunately, to date the trial has shown the rail deliveries to be too unreliable. However, we will keep this option under review.

Green Travel Plans

Since the beginning of 2003, green travel plans have become an integral part of all our new store and store extension development proposals. Travel plans are required for new large-scale developments by national

planning policy guidance. We also provide them for smaller developments (excluding our smallest formats – Express and Metro).

These green travel plans outline the measures that we take to reduce the number of store employees coming to work by car, including staff travel surveys, car sharing and walking buddies. Where employees participate in car sharing or walking buddy schemes, we offer them a guaranteed ride home in the event of emergencies. To date, we have produced travel plans for 29 new stores and store extensions.

Biofuels

Following our purchase of a 25% stake in the renewable fuel company Greenergy in 2002, Tesco started selling Greenergy GlobalDiesel at our Hatfield petrol station in early 2003. Independent tests show that this diesel, which includes 5% diesel made from rapeseed oil, reduces carbon dioxide emissions by 5%, particulate emissions by 20% and improves fuel efficiency by 1%. To date we have found that this fuel is popular with customers, and we are planning to extend the trial in the coming months to a further 21 stores.

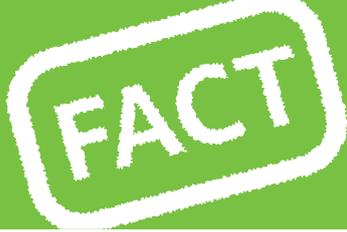
WASTE & RECYCLING

Operational Recycling

We are committed to minimising the amount of waste produced and to a robust recycling programme. We have our own recycling programme that



1991, Nature's Choice launched



To date, we have collected 203,657 mobile phones and 8,356 inkjet cartridges for recycling over the last year, thereby raising £436,124 for the Royal National Institute of the Blind, the Multiple Sclerosis Society and Barnardo's.

Waste Tonnes



recycles paper, cardboard and plastic. Over the last year, we exceeded our target and recycled 79.8% of cardboard waste (185,599 tonnes). However, due to difficulties at our plastic recycling contractors, we just missed our target to recycle 87% of plastic waste – we managed to recycle 85.4%, or 15,033 tonnes. Total amounts recycled are up from last year, reflecting the growth of our business.

Over the past year we sent 131,052 tonnes of waste to landfill. This means we recycled 60% of total store waste, an increase of 4.8% over the previous year. We are now sending 27% less waste, or 48,948 tonnes, to landfill than 5 years ago. This is particularly good performance given the strong sales growth we have experienced. The bulk of the waste we send to landfill is food waste, and we are exploring ways of reducing this form of waste.

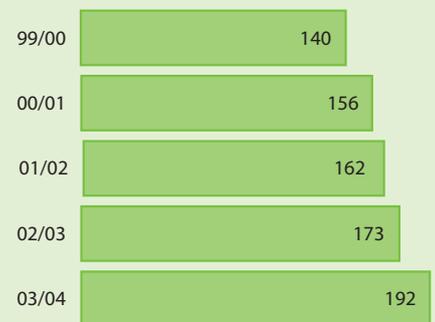
Minimising waste applies throughout Tesco operations. For example, in Thailand, cardboard secondary packaging is recycled, and all our stores have separate waste water treatment facilities.

Green Trays

In 2000, our pioneering use of reusable plastic crates – green trays – to replace cardboard boxes and other packaging to transport and display products won the Queen's Award for Enterprise. Since then, these reusable crates have been adopted all over the world, as they not only cut the amount of packaging waste, but also protect the goods in the crates, thereby minimising the amount of damaged produce thrown away.

Over the last year we have exceeded our target of a 10% increase in the number of green tray trips, achieving

Green tray trips million trips



an increase of 11.2% to 192 million trips. While this increase is mainly due to growth in the volume of goods being transported due to increased sales, it still represents a saving of 57,000 tonnes of cardboard packaging which would otherwise have been used.



1992, Organic launched



Recycling for Customers

One of our customers' most pressing environmental concerns is recycling. Our research showed that customers were sometimes reluctant to recycle because recycling centres were often not well maintained or full. During the year we piloted an innovative new recycling unit at three stores in Hertfordshire. These recycling units have been designed to ensure ease of use for the public and easy access for collectors. They are situated in the stores car parks, undercover, and have easily removable collection bins. Customers can recycle plastic bottles and jars, tins, glass bottles and jars, cardboard, textiles and CDs. Tesco already accounts for about 13% of all material collected for recycling by local authorities, and we hope that projects like this will make recycling easier for our customers. We are evaluating these trials to help identify ways to improve.

In response to customer feedback, we have adjusted our pioneering mobile phone and inkjet recycling schemes so that customers can pick up Clubcard points as well as opting for Tesco making a donation to charity for each item recycled. To date, we have collected 203,657 mobile phones and

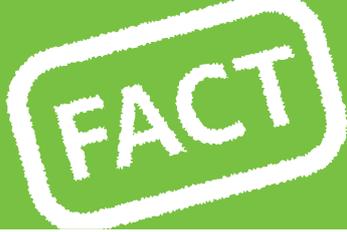
8,356 inkjet cartridges for recycling over the last year, thereby raising £436,124 for the Royal National Institute of the Blind, the Multiple Sclerosis Society and Barnardo's.

After Christmas, we collected 457 tonnes of Christmas cards for recycling, in conjunction with the Woodland Trust and Rethink Rubbish, an increase of 29% from last year. This customer recycling raises funds for the Woodland Trust to continue its work in protecting and creating new native woodland. We have recycled over 600,000 disposable cameras in the past year bringing our total to over a million.

This coming year sees the implementation across the European Union of the Waste Electrical and Electronic Equipment (WEEE) Directive. Tesco fully supports the principle of recovery, recycling and re-use, and to this end, we are working with the British Retail Consortium to provide a fully workable and effective market-based retail compliance scheme. Like most members, we favour a market-based third party collection system, as it is our opinion that in-store take-back of waste products would prove too impractical and bureaucratic.



2002, Christmas card recycling scheme launched



Tesco accounts for about 13% of all material collected for recycling by local authorities.

“Tesco’s support has been central to the success of the Christmas card recycling scheme. It provides The Woodland Trust with the opportunity to educate customers across the UK about the importance of keeping native woodland alive, and how – through recycling their cards, they can do their bit.”

Penny Purley, Senior Account Manager, The Woodland Trust

Degradable Plastic Bags

This year Tesco will become the first supermarket to introduce degradable carrier bags to all UK stores. The use of a new additive (TDPA) developed by EPI Environmental Products Inc., means that the plastic bags, which are as strong as regular bags, start to break down in as little as 60 days into biomass, carbon dioxide, water and a small amount of mineral matter, with no harmful residues. Many people use our carrier bags as bin liners, and this was recognised in developing the degradation timescale.

Last year we also introduced carrier bag recycling units in hundreds of stores, encouraging customers to return their bags to us for recycling. Meanwhile, we will continue to replace our customers’ hard-wearing Bags for Life for free.

Over the past year we have scaled back our trials of biodegradable and degradable packaging on organic produce. Our research showed that customers were not willing to pay extra for the more costly biodegradable packaging. Customers who do not buy organic also told us that price was a major factor deterring them from

doing so. As a result, we have taken the difficult decision to provide biodegradable packaging on a smaller range of organic produce, and to keep the situation under review.

Environment Agency

In July 2003 we were identified by the Environment Agency as a ‘repeat offender’ following our prosecution for a petrol leak at one of our petrol stations in 2002 and a prosecution the previous year regarding the accumulation of trolleys from a store in a local river. We were surprised to be highlighted in this way, for what were two unrelated and relatively small pollution incidents. In relation to the petrol incident, we had been working with the Environment Agency on a risk assessment and refurbishment programme of our petrol stations. We take our environmental responsibilities very seriously and continue to work hard to prevent any such repeats.



2001, Mobile phone recycling scheme launched

SOURCING

Sourcing food of the highest safety and quality is our utmost priority. Our customers also expect food to be competitively priced and have been produced to high environmental and welfare standards.

Nature's Choice

For the past eleven years, we have required our suppliers of fruit, vegetable and salad in the UK to comply with our Nature's Choice scheme, which sets out safety, quality and environmental standards of production. This year the scheme was strengthened in order to make it more rigorous. It now covers all suppliers of produce to the UK, from all countries of origin – a significant extension from its previous UK focus. In the past year we have also moved to independent certification of the scheme which will allow us to roll out the scheme more effectively and quickly.

In strengthening the scheme, the seven pillars of Nature's Choice remain the same but extra controls have been added to ensure best agricultural practice in our supplier base.

The seven pillars of Nature's Choice are:

- *rational use of plant protection products;*
- *rational use of fertilisers and manures;*
- *pollution prevention;*
- *protection of human health;*
- *use of energy, water and other natural resources;*
- *recycling and re-use of material;*
- *wildlife and landscape conservation and enhancement.*

We are working with our primary produce suppliers and independent agricultural experts to review the use of plant protection products in our supply base. All products will be risk assessed for compliance with best agricultural practice and a controlled list of products developed to further strengthen controls on pesticides.

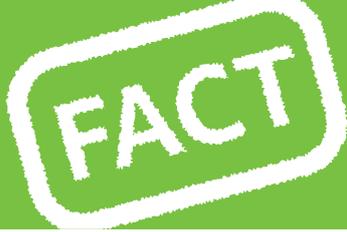
As part of the scheme, farms must have a plan for the management of the environment, detailing the actions to be taken to protect and encourage wildlife diversity including planting hedgerows and creating a wildlife

corridor. Pollution control and energy use are also a fundamental part of the scheme with specific controls on discharges to local watercourses and energy use reviews by independent third parties.

The Nature's Choice scheme is governed by a committee made up of suppliers, an independent academic and auditor and Tesco managers.

We are aiming for 80% of the supply base to comply with the scheme by the end of 2004 and 100% of suppliers in 55 countries worldwide by 2006. Currently all of our 2,500 UK growers now grow their crops to the Nature's Choice standard.





All of our 2,500 UK growers now grow their crops to the Nature's Choice standard.

Wildlife Choice

We have introduced a new code to run in tandem with Nature's Choice, to focus more specifically on biodiversity, called Wildlife Choice. This code, developed with seven of our largest suppliers and growers, establishes management plans to monitor and promote wildlife by establishing habitats and measuring the change in numbers of birds and other wildlife. The code has been trialled at seven UK farms, with the objective of identifying transferable best practice which will be rolled out to farms in 2004/2005.

Animal Welfare

We aim to achieve high standards of animal welfare and best industry practice in our supply base. We have had an Animal Welfare policy in place for the past six years and have Tesco Livestock Codes of Practice for all species, which cover all aspects of husbandry from breeding farms through to slaughter. We are committed to achieving an integrated supply base to allow, wherever possible, whole-life traceability. We employ a team of agricultural experts to ensure that our standards are both comprehensive and adhered to. We employ a consultant

vet with a certificate in animal welfare to ensure that we are abreast of current issues. We also employ an independent auditing company to confirm that our standards are fully met.

We sponsor various research projects on animal welfare issues including the Food and Animal Initiative (FAI) in Oxford. The FAI was set up in 2001 to research sustainable farming systems and animal welfare standards, and to demonstrate practical benefits to UK farmers. This project is looking at all species and aims to provide animals with environments which meet their welfare needs, within a commercial framework.

Animal Testing

Tesco brand non-food products are not tested on animals by us, by our suppliers, nor on our behalf. Tesco is a financial contributor to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), seeking ways to end animal testing.

case study

Food and Animal Initiative



One of this year's projects at the FAI sponsored by Tesco has been to identify new ways of improving the taste of our Finest pork products.

This has examined options on the breed of pig reared, the pig's diet, the type of bedding material used, and the maintenance of stable family groups. For example, much higher fibre content has been introduced to the pigs' diets. This is beneficial to the intestinal health of the animals and consequently their overall well-being. One unexpected but valued extra benefit has been that the odour from the pig unit has been significantly reduced!



2002, Launch of Tescofarming.com

Organics

We are committed to organic farming and Tesco aims to sell more organic food than any other retailer in the UK, a target we hit this year, with a 27.4% market share. Our customers tell us they want to buy more organic food, and this is shown by the increase in organic sales of 9% over the last year. Customers also tell us that the key is price, and we are trying to address this by making our organic operations more efficient.

We currently source 100% of organic milk, eggs and other dairy products, chicken, lamb and mushrooms from the UK. We are sponsoring the Tesco Centre for Organic Agriculture at Newcastle University, which will develop an advisory centre for organic beef, lamb and pork farmers over the next two years. Our sponsorship package is worth £450,000 over five years, and research areas include finding new natural ways to combat weeds, pests and diseases, improving produce shelf life, and organic fertilisation. Through the Centre, we are ensuring that Tesco and our organic suppliers are at the cutting edge of development and technology.

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. We also offer the widest range of organic products in the UK, further extending the choice for customers on this issue.

We moved to non-GM feed for fresh poultry, eggs and fish two years ago. In addition, the use of GM feed is prohibited in organic products, which means that all of our organic meats are fed on non-GM feed. For other categories, we are working closely with the farming community who tell us that to extend the range of meat we sell from animals fed on non-GM at this time 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.

Fish

We support the Marine Stewardship Council (MSC), which was set up by

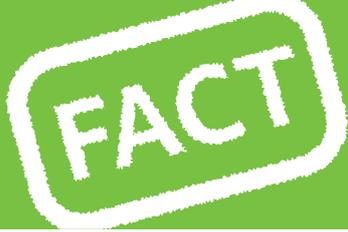


Above: Organic supplier William Rose of Culblair Farm, Inverness.

the World Wildlife Fund in 1996 to investigate ways to conserve fish stocks effectively throughout the oceans of the world. It has developed a labelling scheme for sustainable



2004, Solar energy trials begun



Tesco has a 27.4% market share of all organic food sold in the UK.

seafood products, which provides a real incentive for fisheries large and small to be managed responsibly and in a sustainable fashion.

We are committed to supporting the MSC-accredited fisheries, and have launched a number of MSC-certified products. These include fresh wild Alaskan salmon and Thames herring, when in season. This range will continue to grow as more fisheries become accredited. Of the twenty 'at risk' species identified by the MSC, we have stopped selling nine, and we ensure that for the remaining species, our suppliers source from low-risk areas and that lines are used in preference to nets wherever possible.

Following research this year which highlighted concerns around environmental and labour conditions in the warm-water prawn farming industry, we have reviewed and strengthened our sourcing policy. We do not currently sell wild caught tropical prawns on our counters, pre-packed or within our frozen range. We require all prawns to be farmed in accordance with our Livestock Code of Practice, which covers environmental management, food safety and animal welfare. Tropical prawn farms are also audited against the ETI base code in line with our ethical trading policy.

Palm Oil

We are aware of concerns about the link between palm oil plantations and tropical deforestation. This is an industry issue as palm oil is an ingredient in a wide range of food and non-food products including soap, cosmetics, confectionery, ice cream, snack products and margarine. We are currently assessing the risk for our own brand and evaluating how we can contribute to the debate and on-going research, with our suppliers.

Timber

Last year Tesco left the WWF 95+ Group in response to a disagreement about the sourcing of our hardwood garden furniture. Tesco was one of the founding members of the WWF 95+ Group and continues to support its objectives wholeheartedly. We now employ independent experts to review our supply chains and carry out regular audits and progress checks on our performance against our own timber policy and codes of practice.

We are committed to purchasing timber products only from legal, sustainable sources. We will never knowingly purchase products using timber from illegal sources for Tesco brand products. We will work with our suppliers to support initiatives designed to promote responsible

forest management and increase the availability of certified wood. We support the use of sustainable wood alternatives; recycled wood and products derived from waste wood.

We will offer our customers choice by labelling timber products that are made from wood from certified sources in line with the UK Governmental Green Claims Code and our Honesty in Labelling Policy. We will also label timber products that have been clearly identified as coming from GM sources.

STORE DEVELOPMENT

This year we have exceeded our target to develop over 90% of new stores on brownfield sites. In fact 96% of our 48 new stores opened this year were on land that had previously used for development. This emphasis on brownfield development is good for local communities, particularly those in need of regeneration, and good for the environment, where contaminated sites are cleaned up.

Before construction starts at new sites across Europe, we carry out surveys of environmental impacts, taking into consideration emissions, waste, water, noise and energy consumption.



2004, Introduction of degradable carrier bags

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Key Performance Indicators (KPIs)

All the Corporate Responsibility KPIs in the table below are included in our Steering Wheel management process (see page 5 for further details). We measure and report internally on performance against each KPI every quarter, and performance is reviewed by the CR Committee. As a result, KPIs contribute to the way we monitor and assess overall company performance.

KPI	2003/04 Target	How we performed	Below target	On target	Exceeded expectations	Target for 2004/05	Page
Economic: Regeneration	To open 3 partnerships, and initiate 7 new partnerships. To create 1,000 jobs in new regeneration partnerships.	We achieved our targets to complete 3 partnership stores and initiate 7 new partnerships. We just missed our job creation target by 50 jobs, creating 950 overall.				To open 3 partnership stores, bringing the total completed to 12. 1,000 jobs and training positions with Tesco for the long-term unemployed in regeneration stores. Initiate 6 new partnerships.	12
Economic: Local Sourcing	Offer 7,000 regional lines including 1,000 Welsh lines by the end of 2005.	Over 7,000 regional and local lines. We remain on track to achieve our target. This includes 600 Welsh products, 1,000 Scottish products and 1,500 Irish products.				To maintain at least 7,000 regional and local lines in stores and to increase the number of Welsh lines to 1,000 by the end of 2005.	16
Environment: Energy Efficiency	To reduce our energy consumption per square foot of sales space by 4.2%.	We achieved a 2% reduction of energy used per ft ² , against a background of unexpectedly high sales growth (6.7%). We would have achieved our target of 4.2% had sales growth been in line with our projections.				An annual reduction target of 4.44Kwh/ft ² , which equates to a 3.6% reduction.	26
Environment: Water Consumption	To reduce our water consumption per square metre of sales space by 4.2%.	We achieved our target to reduce water consumption to 1.42m ³ per square metre (4.2%).				To reduce our water consumption from 1.42m ³ /m ² to 1.32m ³ /m ² , which equates to a 7% reduction and saves 119,905m ³ of water p.a.	27
Environment: Vehicle Efficiency	To increase the number of cases of products delivered per litre of fuel used by 2.5%.	We exceeded our target – actual performance saw a 3.7% increase from 19.1 to 19.8 cases of product delivered per litre of fuel.				To achieve a further 2.5% increase in volumes of products delivered per litre of fuel consumed.	28
Environment: Recycling Cardboard	To recycle 74.5% of all cardboard used in our operations.	We exceeded our target – 79.8% or 185,599 tonnes of cardboard was recycled.				We are reviewing our Recycling KPIs to help us monitor landfill avoidance. Our target for 2004/05 will be for 65% of all waste to be recycled, up from 60% this year.	28
Environment: Recycling Plastic	To recycle 87% of plastic used in our operations.	We missed our target by 1.6%. This was due to difficulties at our plastic recycling contractors. We have changed the company we use for plastic recycling.				We are reviewing our Recycling KPIs to help us monitor landfill avoidance. Our target for 2004/05 will be for 65% of all waste to be recycled, up from 60% this year.	28
Environment: Waste Avoidance	To increase the number of re-usable Green Tray trips within our business by 10%.	We exceeded our target, with an increase of 11.2%. Green trays were used 191,957 million times this year, which avoided the use of 57,000 tonnes of cardboard or plastic secondary packaging.				To increase the number of reusable green tray trips within our business by a further 10%.	28
Environment: Nature's Choice	To register all primary suppliers of fresh fruit, vegetables and salad internationally, and to hold training sessions for suppliers on Nature's Choice.	We achieved our target. We have also completed our trial on plant protection product lists.				All growers to be registered to Nature's Choice. 80% of supplybase compliant with Nature's Choice standards by 2005. To review all pesticides used by growers audited in year 1 by the end of 2004/2005.	32

KPI	2003/04 Target	How we performed	Below target	On target	Exceeded expectations	Target for 2004/05	Page
Environment: Wildlife Choice	To implement Wildlife Choice Action Plans on biodiversity at seven specified sites.	We achieved our target, all seven farms are working to the plans, and there is some progress at all sites.				Wildlife Choice website to be launched. Full review of project to be undertaken in October 2004.	33
Environment: Organics	To be the number one UK supermarket for organics, as measured by Taylor Nelson Soffres (TNS) data.	We achieved our 2003/2004 target, with a 27.4% market share.				To remain the leading supermarket for volume of organic products sold as measured by TNS data.	34
Environment: New Store Development	To develop 90% of new stores on brownfield sites.	We exceeded our target, with 96% of all new developments on brownfield sites.				At least 90% of all new developments to be on brownfield sites.	35
Social: Computers for Schools	To provide a further £7 million of equipment to schools.	We met our target, and reached a total of £84m of computer equipment supplied to schools since the start of the scheme.				To increase the cumulative value of computer equipment supplied to schools to £92m.	21
	To increase the number of schools registered and participating.	We exceeded our targets for number of registered schools and number of participating schools. 1,500 schools joined the scheme this year.				To increase number of schools participating to 24,500.	
Social: Charitable Giving	To donate 1% of pre-tax profits to charity through donations, employee time and gifts in kind.	We are on track to maintain our membership of the Business in the Community Per Cent Club.				To donate a value equal to 1% of our pre-tax profits to charities and good causes through donations, time and gifts in kind.	21
Social: Race for Life	To help recruit 300,000 women to participate.	We largely met our targets, with 300,000 women taking part in Race for Life, and we helped raise £17.5m for Cancer Research UK.				To help recruit 325,000 women to participate in Race for Life.	20
	To encourage 20,000 Tesco staff to participate.	However, we were below our target for staff participation, although more than 12,500 members of staff ran.				To encourage 15,000 Tesco staff to run.	
	To help raise sponsorship to £17.5 million.					To help raise £20m of sponsorship for Cancer Research UK.	
Social: Employee Retention	To retain loyal and experienced staff in the business and achieve a loyalty level of 80% i.e staff who have been with Tesco for more than 1 year.	We have exceeded our target. 82% of our experienced staff stayed with us throughout 2003/04.				To exceed 80% retention of experienced staff.	22
Social: Employee Training	95% of retail staff to be trained to Bronze level.	96% of retail staff achieved Bronze level.				95% of retail staff to be trained to Bronze level.	18
Social: Supply Chain Labour Standards	To assess 10% of high-risk own brand suppliers on labour standards.	We achieved our target for assessment of high priority own brand suppliers, carrying out audits at 83 high-risk sites.				To carry out ethical assessments of 100% of our high-risk own brand suppliers.	24
	To train 10% of high-risk own brand suppliers on labour standard issues.	We exceeded our target, providing training to 450 suppliers to date in the Supply With Your Eyes Open (SWYEO) programme which represents 23% of suppliers.				To train 100% of our ethical high-risk own brand suppliers.	
	To train all Tesco high priority commercial buying teams on labour standard issues.	We also achieved our target to train all high priority commercial teams via our Buying with your Eyes Open (BWYEO) training course. All technical managers have now also completed SA8000 training programme.				To ensure all Tesco Commercial teams have received training on supply chain labour standards.	

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