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The TESCO logo is in red, bold, uppercase letters with a blue horizontal line underneath.

Every little helps

Corporate Responsibility Review 2005

Tesco Corporate Responsibility Review 2005

We value your feedback on our Corporate Responsibility Review. It helps us to improve what we do and how we communicate.

To give your feedback, please visit

www.tesco.com/crfeedback

Cover: mother and child parenting class at the Cultural Centre in our Yeongdeungpo Store, Seoul, South Korea.
For more information on our education projects see Society, page 33.
Tesco PLC, Tesco House, Delamare Road, Cheshunt, Hertfordshire EN8 9SL



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Our Core Values, 'no-one tries harder for customers' and 'treat people how we like to be treated', characterise our approach to Corporate Responsibility. We believe we can achieve most when we work together on practical things that make a difference. 'Every little helps' can become a great deal when everyone pulls together in the same direction.



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

Our business

Tesco operates stores in thirteen countries – the UK, the Czech Republic, Hungary, Poland, Republic of Ireland, Slovakia, Turkey, China, Japan, Malaysia, South Korea, Taiwan and Thailand. We employ 366,000 people world-wide, working in 2,365 stores, with total sales of £37,070 million.

Our four part strategy focuses on:

Strong UK core business The UK remains our core market with 1,780 stores and 250,000 employees.

International We now operate 585 stores in 12 international markets.

Non-food Our non-food business is growing, both in the UK and in our international operations.

Retailing services We continue to develop our products and services to suit our customers' changing lifestyles.

Our sales by region

SALES BY REGION £m

■ UK £29,511 ■ REST OF EUROPE £4,349 ■ ASIA £3,210



TOTAL £37,070

A full review of our business is contained in the Annual Review and Summary Financial Statement 2005 which are available on our website

www.tesco.com/corporate

Review scope

This Review covers the financial year ending 28 February 2005. It focuses primarily on our UK operations, which account for over 75% of our sales. We have also included information on the contribution of our international businesses. All Corporate Responsibility performance data in this report covers our UK operations, and our environmental data is for our UK stores (unless otherwise stated).

We expect our international businesses to have a CR strategy by 2006 (see page 10). At the core of our approach to CR lie our Values (see page 4). 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.

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 our approach to Corporate Responsibility, please complete our online questionnaire in the Corporate Responsibility section of our website

www.tesco.com/crfeedback

You can also email: cr.team@uk.tesco.com

Chief Executive's introduction *making a difference*

In ten years Tesco has travelled from being the number three supermarket in the United Kingdom to the foothills of becoming a genuinely international business.

It is perfectly fair that people should ask why we are successful and what we are doing with that success. It is also fair that people debate whether supermarkets enhance or inhibit our lives.

My contribution to this debate is to explain how we at Tesco have got where we are – and how we run our business day-to-day. Put simply, we never forget that we are shopkeepers. We buy and sell goods and services. We listen very carefully to what our customers want and we try our hardest to satisfy them better than our competitors do. We know that our customers choose to shop with us and they could change their minds at any time. That is why we strive so hard to get things right.

Now that we are in 13 countries, employ 366,000 people, and serve around 30 million customers a week, it is more important than ever that we retain this straightforward focus. Our Core Values provide the framework within which everyone at Tesco works. We try to stay quick on our feet by avoiding unnecessary bureaucracy: we have a flat management structure – with six levels from me to the checkout, and one in ten staff in training for the next level at any one time.

We believe that our continuing success depends not on any new management system, but on what each member of staff does for each customer. We believe in leadership. But for us this means thousands of local leaders united by common values rather than a global blueprint driven from the centre. We take pride in growing local leaders who can shape our business around local cultures and local priorities. ▶



Chief Executive's introduction continued

Our Values

No-one tries harder for customers

Understand customers better than anyone

Be energetic, innovative and first for customers

Look after our people so they can look after our customers

Use our strengths to deliver unbeatable value to 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 Values characterise our approach to Corporate Responsibility. We believe we can achieve most when we work together on practical things that make a difference. 'Every little helps' can become a great deal when everyone pulls in the same direction.

Some aspects are worth highlighting as they say something about our overall approach and reveal how our size and success can bring benefits to customers, local economies, staff and the environment.

★ **Benefits to customers:** in the UK our investment of over £230 million in price cuts has meant that an average weekly shop costs less than it did a year ago. This year we have also invested £56 million in price cuts in Central Europe. By keeping prices low, we particularly help those on lower incomes to buy fresher and better food. This year, for example, our sales of fruit and vegetables in the UK rose by over 12%, with the increase most marked among our customers on lower incomes.

★ **Benefits to local economies:** supermarkets are sometimes accused of damaging the high street or affecting market towns. We are sensitive to these charges but the evidence often suggests precisely the opposite effect. We frequently reclaim derelict land, breathe life back into communities through our 'regeneration partnerships', and act as a magnet for other town centre stores. Over the past six years we have helped over 2,000 long-term unemployed and disadvantaged people back into work through our job guarantee scheme. This year we opened our first regeneration store outside the UK in Ireland.

★ **Benefits for staff:** with 366,000 employees around the world one of our Core Values is to treat people how we like to be treated. In the UK our rates of pay, pensions, bonuses and shares are industry leading. Through training, jobs become careers for thousands of our people. For example, in Poland, 100% of store directors are of local origin.

★ **Benefits to the environment:** recycling and energy efficiency are key issues for us and for our customers. We are constantly looking for ways of improving our own performance and of helping our customers to do more. This year, we introduced Britain's first fully automated recycling machine which makes it even easier for customers to recycle. In Thailand, over the last three years, we have invested £3.1 million on energy conservation at 49 Lotus stores, resulting in energy savings of £2 million so far.

Our success derives from a genuine partnership with our many stakeholders. It is a relationship built on trust. For us this is a commercial as much as a social imperative – to do the right thing and, in so doing, continue to be successful.



Sir Terry Leahy Chief Executive

CR highlights 2005

- ★ By expanding our range of Fairtrade to 90 products we have become the UK's leading Fairtrade retailer. Our customers now buy 1 in 3 Fairtrade products sold in UK supermarkets.
- ★ We introduced Britain's first fully automated recycling machine, which makes it even easier for customers to recycle by sorting metal, plastic and glass so our customers don't have to.
- ★ We have trained all our buyers and all our high-risk own-brand suppliers on how to uphold labour standards in the supply chain.
- ★ We have audited 100% of high-risk own-brand suppliers against the labour standards set out in our ethical trading policy.
- ★ We worked with the Red Cross to collect over £2.8m for the Tsunami appeal in our UK stores, and gave over £310,000 in the UK and affected countries.
- ★ Through Computers for Schools we gave away over 2,700 computers and over 86,000 items of computer equipment worth £8 million.
- ★ We continued our support for Cancer Research UK's Race for Life with 18,752 Tesco people joining over 390,000 participants around the UK to raise £20 million.
- ★ We raised over €1 million for Childline, our Charity of the Year in Ireland.
- ★ We became the first British retailer to have our in-house training accredited by the Qualification and Curriculum Authority. This means we can now award nationally-recognised NVQ qualifications.
- ★ Our staff benefitted from £169 million through Shares in Success and Save As You Earn schemes.
- ★ We introduced a new 'Supplier Viewpoint' survey to gain an even better understanding of what it is like to work with us.
- ★ We received grade 'A' rating in the Greenpeace Good Garden Furniture Guide for our own-brand garden furniture range.

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managing CR throughout the business

Corporate Responsibility is integral to our entire approach to business, from Board level to checkout. This is clear from the way we treat people, local communities and the environment, and is embodied in our governance framework.



Thelma McGlashen Perth Extra, UK

our integrated approach

We aim to maintain the highest standards of corporate behaviour. This requires clear leadership, exercised consistently, and strong governance. Our overall approach to managing both financial and non-financial risks is set out in our corporate governance statement on pages 11-16 of the 2005 Annual Report, which can be found at

www.tesco.com/corporate

Corporate governance

The Board considers strategic risks every time it meets and discusses Corporate Responsibility strategy annually. The Executive Committee receives quarterly updates on Corporate Responsibility performance, assesses future risks and opportunities, and develops our strategy in this area. Accountability for managing operational risks is clearly assigned to line management. Formal risk assessments are carried out routinely throughout the UK and our international businesses. We have procedures to ensure that significant risks and any control failures are escalated to senior management and the Board, as necessary.

Corporate Responsibility Committee

Leadership is provided by a cross-functional committee of senior executives, chaired by the Company Secretary, Lucy Neville-Rolfe. The Corporate Responsibility Committee meets a minimum of four times a year. It is responsible for:

- ★ reviewing social, ethical and environmental policies as part of our risk management process;
- ★ identifying opportunities in which Corporate Responsibility can help us improve the effectiveness, profitability and prospects of the business;
- ★ agreeing, monitoring and reporting on our Corporate Responsibility Key Performance Indicators (KPIs);
- ★ improving our understanding of 'good practice' throughout the group;
- ★ increasing internal awareness of Corporate Responsibility;
- ★ approving our external stakeholder communication and engagement plan.

The Committee reports to the Board after each meeting and is supported by our Corporate Responsibility team.

Measuring our performance



To manage Tesco in a balanced way we use a management tool called the Steering Wheel. It is divided into four quadrants – Customer, Operations, People and Finance – which, in turn, are divided into several segments, each with a set of Key Performance Indicators (KPIs) which are based on demanding but achievable targets.

Performance is reported quarterly to the Board, and a summary report is sent to the top 2,000 managers in the company to cascade to staff. The remuneration of senior management is shaped by the KPIs, with bonuses based on a sliding scale according to the level of achievement on the Steering Wheel.

Corporate Responsibility KPIs Our CR KPIs are measured and reported within 'the way we operate is responsible and safe' segment of the Operations quadrant. This ensures that the management of Corporate Responsibility issues is embedded in the day-to-day running of the company. The KPIs are monitored quarterly and are reviewed annually.

Our CR KPIs reflect:

- ★ customer priorities – e.g. recycling, local sourcing, organics and the Computers for Schools scheme;
- ★ staff concerns – e.g. training and charitable giving;
- ★ Government requirements – e.g. refrigerant use and energy efficiency;
- ★ business risks – e.g. supply chain labour standards, energy and water usage.

We reviewed the KPIs in early 2005, taking into account feedback from investors and non-governmental organisations, this ensured that:

- ★ our KPIs cover our key Corporate Responsibility priorities;
- ★ the data measured is a relevant way of measuring our Corporate Responsibility performance;
- ★ in each case there is no better or simpler way of measuring this contribution.

Three new KPIs are being introduced in March 2005 – on healthy living, inclusivity and diversity, and on the implementation of our international Corporate Responsibility goals. For a full list of our KPIs, see page 56.

Corporate Responsibility audit In March 2004 we completed an internal audit to examine the extent to which Corporate Responsibility is embedded in our Values, policies and behaviour. The audit covered the implementation of Corporate Responsibility strategy, governance, data measurement, accuracy and reporting process, and communication with stakeholders.

Strengths identified by the audit:

- ★ the Corporate Responsibility Committee and KPI reporting process has strong support throughout the business;
- ★ commercial priorities are frequently aligned with social, ethical and environmental priorities;
- ★ there is a strong positive perception of our Corporate Responsibility record among external stakeholders.

However, the audit also identified the importance of continuing to develop our Corporate Responsibility strategy throughout our international businesses, and further strengthening our communications.

As a result of the audit we have:

- ★ put in place a programme to accelerate the development of Corporate Responsibility throughout our international businesses;
- ★ reviewed and updated our CR KPIs and governance structure;
- ★ strengthened our internal and external Corporate Responsibility communications strategy.

International Corporate Responsibility

This year we developed a strategy to strengthen Corporate Responsibility performance throughout our international businesses. These businesses already comply with our core policies on the environment, health and safety, and human rights, as well as with our code of ethics and our ethical trading programme.

In 2006, 'the way we operate is responsible and safe' segment will be incorporated within the Steering Wheel of our international businesses with associated CR KPIs.

To share best practice, we are holding CR workshops for our international businesses. The first workshop was held in Europe in January 2005, the second will be held in Asia in May 2005.

Reporting

This annual Corporate Responsibility Review is our main method of reporting to our stakeholders on our social, environmental and ethical performance. It is available on our website in html and as a pdf, as well as in hard copy. Our website contains further information and policies and is updated regularly.

www.tesco.com/corporate

Surveys

We respond to a number of CR related surveys every year including the Business in the Community (BiTC) Corporate Responsibility Index and FTSE4Good Index Series. The BiTC CR Index benchmarks us against our sector and all participating companies. This year we were noted for outstanding performance in the following areas: corporate strategy, integration, community management, marketplace management and environmental impact. Our membership of FTSE4Good indicates that we meet globally recognised CR standards.

For more information visit

www.bitc.org.uk/crindex

Business in the

Community

www.ftse.com/ftse4good

FTSE4Good

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listening and engaging

ask more than tell



The success of our business depends on listening to people and responding to what they tell us.

Over the past year we have tried harder than ever to listen and respond not only to customers but to a wider range of stakeholders – staff, suppliers, investors, and non-governmental organisations.



Customers

Our Customer Question Time (CQT) meetings enable store and head office staff to hear customers' views on everything from how we are serving them in our stores to our role in the community. CQTs take place in all our stores around the world. For example, this year 1,500 customers in Hungary and 9,000 customers in the UK have attended CQTs. They help us to identify and respond to changing customer needs – for example in the UK, customers told us that they do not like throwing carrier bags away, so we increased the carrier bag recycling facilities in our stores and introduced degradable carrier bags.

This year we held a CQT on disability. Feedback from the session, which went to the Tesco Board, has helped us to better understand the shopping patterns of our disabled customers, their requirements for parking spaces in our car parks and the need to train our staff to recognise disabilities. During 2005, we will be holding CQTs hosted by disability organisations each quarter.

Public attitudes to Corporate Responsibility

Every year we commission an independent survey of public attitudes in the UK to Corporate Responsibility and to Tesco. The findings of more than 2,000 face-to-face interviews carried out in July and August 2004 were that:

- ★ 43% believed that only 'a few' companies are genuinely doing all they can to be more responsible;
- ★ Tesco was most frequently named as the company which helps the community and society. In an unprompted question, Tesco was named by 30% of people, the Co-op next by 10%;
- ★ Tesco was the third most frequently named company when respondents were asked to name a particularly socially, environmentally or ethically responsible company. The Body Shop and the Co-op were listed first and second;

- ★ 56% said that Tesco had a positive effect on their local community, and 8% said that the effect was negative;
- ★ Where respondents thought that we should take our responsibilities more seriously, they said we should invest more in the community and the environment, reduce packaging, reduce prices and consider our impact on small businesses.

We take this as powerful evidence that we are doing a good job in our efforts to be responsible and a valued member of society. However, we recognise that there are areas in which we can do better, and we are focusing our efforts on these.

Staff

Every February we carry out our Viewpoint staff survey. This year, we asked all UK employees to give us anonymous feedback on Tesco as an employer, and 86% of our staff responded.

All our established international businesses carry out Viewpoint surveys. In Poland, over 95% of our employees responded to the survey.

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

Engaging our staff on Corporate Responsibility We have established a CR communications group to improve the way we communicate our CR priorities to staff. In 2005, we will use CR Staff Question Time sessions to understand staff expectations and priorities for our CR programmes.



Tesco Week in Store Together For the past three years we have been running Tesco Week in Store Together (TWIST). Senior managers spend five days working on the shopfloor, refreshing their understanding of our customers and our stores. This year 780 people from head office took part. We also offer our suppliers the opportunity to take part, so that they can have direct contact with customers. Five international TWISTs have taken place so far – 1 in Poland, 1 in Malaysia and 3 in Hungary – and a further 40 are planned throughout our international businesses.

David Potts, Retail and Logistics Director, took on the day-to-day running of Romford store, Gallows Corner, for a week.

Suppliers

Suppliers are vital to our business. We have built up long-term partnerships with many of our suppliers. They have grown as Tesco has grown, sharing understanding of and responding to changing customer trends. We apply our Core Value 'treat people how we like to be treated' to our suppliers.

Listening to our suppliers This year we commissioned a new 'Supplier Viewpoint' survey to understand what is good and where we can improve. The survey is based on our staff Viewpoint model and is fully confidential and anonymous. The results show that our suppliers think we are professional, committed to our customers, fair and consistent.

To strengthen further our commitment to the UK Government Supplier Code of Practice we will be appointing a Supplier Code Compliance Officer in 2005 to hear formal complaints, confidentially if requested (see Economy page 22).

All buying teams hold regular supplier meetings and conferences. This year we held a supplier conference in London at which we explained our strategy and how suppliers could help to deliver it. Over 500 suppliers to the UK business from as far afield as Bangladesh and Sri Lanka attended, along with 300 Tesco staff. Five similar supplier conferences were held in Ireland, Korea, Poland, Hungary and Slovakia, with a total of 700 suppliers attending.

This year, we brought 34 clothing suppliers from around the world to see our Fastway clothing distribution centre, our Milton Keynes Kingston Extra store, and to attend a presentation explaining our business.

Investors

Communication with our shareholders is very important. Our Investor Relations team regularly meets analysts from the financial institutions which invest in us or represent our shareholders. In the past year, we held meetings with 75 of our leading shareholders, representing 42% of the issued shares in the company. We have had a good contact programme with representatives of the SRI (socially responsible investment) sector, including our annual briefing, which this year, our Chairman attended as an observer.

Over the year, CR themes discussed with investors and NGOs included:

- ★ ethical trading and sustainable relationships with suppliers (see page 22 for how we are responding to this);
- ★ implementation of CR in our international businesses (see page 10 for how we are responding to this);
- ★ our contribution to healthy living and how we can measure our impact in this area (see page 40 for how we are responding to this).



Non-governmental organisations

Over the past year, our Corporate Responsibility team has met more than 30 non-governmental organisations (NGOs). Feedback is reported to, and carefully considered by, our CR Committee. Several of our initiatives have resulted from work with NGOs, including the launch of our own-brand Fairtrade range, recruitment initiatives for disabled people, our sponsorship of Race for Life

and renewable energy trials. This year, in response to both NGOs and customers, we have launched new customer recycling facilities, developed Gi labelling (see case study) and ensured that all our own-brand garden furniture range is from sustainable timber sources (see Environment page 55).

case study Diabetes UK and Gi labelling

'We are delighted to be working with Tesco on this pioneering initiative. Eating a healthy diet is an important part of diabetes management, and the new Tesco Gi labelling helps people with diabetes make informed food choices.'

Douglas Smallwood, Chief Executive, Diabetes UK

One example of how we have acted on the concerns of NGOs and others has been our work with Diabetes UK to provide information on the Glycaemic index (Gi) of foods. Over 1.8 million people in the UK have been diagnosed with diabetes, and it is estimated that as many again have the condition undiagnosed. People with diabetes are better able to control their blood sugar levels by eating a healthy diet with low and medium Gi foods. Gi labelling is also helpful for customers who want to control their weight. This year we launched Gi labelling and Gi information leaflets. Food scientists at Oxford Brookes University helped us by testing the Gi ratings of 50 Tesco brand foods. As a result, Tesco has the most advanced research, testing and labelling programme in the world. Our relationship with Diabetes UK is set to develop further next year, providing even more information and options for our customers with diabetes.



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economy

using our strengths
to deliver unbeatable value



Tesco makes a significant contribution to economic activity wherever we operate. Every week our 366,000 staff serve around 30 million customers in 13 countries. We have a track record of providing value for customers, creating jobs and training, providing opportunities for suppliers, and regenerating deprived areas.

Last year we paid our workforce £3,534 million, re-invested £779 million back into the business and returned £587 million to our shareholders. Our success delivered a Tesco group turnover of £33,974 million with profits of £2,029 million.

Customers

Delivering value At the heart of all we do is delivering cheaper, better products and providing more choice. During the year, we continued to make long-term price reductions throughout our businesses. This year we invested £56 million in price cuts in Central Europe. In the UK, our price cuts of £230 million this year plus the £67 million more announced in April mean that the average weekly shop at Tesco costs less than it did a year ago.

Supporting this price reduction process are a set of exacting standards, policies and guidelines which ensure that our drive for value doesn't mean reducing quality, environmental or labour standards in our supply chain.

Informed choices More than ever, our customers are conscious about their health and what they eat. Many people still think that eating well costs more. We believe that income should not be a barrier to healthy eating. So, on top of our extensive Healthy Living range, we have extended our Value range to include fruit, vegetables, salads and many other healthy foods. We have calculated that a healthy daily diet bought from our Value range can cost just £1.40, compared to £1.87 for a less healthy option.

More information on how we are addressing a range of health issues, including nutritional labelling and salt reduction, can be found in the Society section on page 40.

Staff

Tesco is the UK's biggest private sector employer with over 250,000 people, and we employ a further 116,000 internationally. With a total wages bill of £3,534 million, our business has a direct positive impact on local economies. As well as paying salaries and local taxes, we foster skills in areas often overlooked by other investors.

Share schemes While many UK companies grant share options to their directors and senior managers, we are committed to providing share ownership for our employees after one year. We encourage staff to become part owners of the company and share in our success. This year, £63 million worth of shares were given to 160,000 staff as part of our Shares in Success scheme. All staff with more than one year's service received shares worth 3.6% of their salary. In addition, we offer a save as you earn scheme to enable staff to buy shares at a discounted price as a medium or long-term investment.



Communities

As well as bringing lower prices, more choice and better food, a Tesco store in a local community also brings wider economic benefits – directly, by creating jobs and generating taxes, and indirectly, by helping to attract further inward investment.

We are sensitive to both the opportunities created and concerns raised when we invest. We try to work with the grain of planning law and social change – embracing town-centre stores and bringing life back to declining urban areas where possible rather than building edge-of-town stores accessible only by car. We strive to balance the interests of all our various stakeholders and take a sustainable approach.

Regeneration partnerships In the past few years, we have focused on opening stores in some of Britain's most deprived urban areas. Working with local community groups and

agencies, we have been delivering what we call regeneration partnerships. These focus on training and employing staff who have been out of work for years: single parents, older people who have been made redundant, and younger people who may never have worked.

We try to address the issues which are often seen as barriers to getting a job – low levels of literacy and numeracy, responsibilities as carers, and disabilities. We aim to assess people on aptitude rather than existing qualifications. Crucially, we promise that provided a recruit finishes the 8-12 week training programme, we will guarantee them a job. This guarantee is one that no other UK employer matches.

This year we completed two large-scale regeneration partnerships at Dumfries and Stockport and a smaller scheme in Stafford.

case study Dublin

This year we opened our first regeneration store outside the UK at Clare Hall, Dublin, Ireland. The Clare Hall Centre won the Irish Property Award for Commercial Development of the Year.

We worked with the Northside Partnership to allocate 100 of the 400 new jobs created to the long-term unemployed.

'I hope that other employers planning to recruit on the north side of Dublin and elsewhere in the future will mirror the Tesco model and play their part in reducing the number of unemployed.'

Micheál Martin, Ireland's Minister for Enterprise, Trade and Employment.



case study Coventry

Over the past year, more than 9 in 10 new Tesco stores were built on brownfield sites, exceeding our published target (see page 56).

This year we opened an Extra on a former gasworks site in Coventry, England. The Tesco store was the main catalyst for a major mixed use development including a sports facility that will provide a new stadium for Coventry City FC and create over 1,000 jobs.



Over the past six years we have created a total of 12 regeneration partnerships, creating 3,000 jobs and helping back into work over 2,000 long-term unemployed and disadvantaged people through the job guarantee scheme. Over the next year, we hope to open another three partnership stores, bringing the total completed to 15.

'Tesco continue to invest in local employment opportunities and contribute to the vitality and viability of towns across the country'

Jon Ladd, Chief Executive, British Urban Regeneration Association.

Market towns Supermarkets are sometimes accused of having an adverse effect on the high street, especially in market towns. We are sensitive to such concerns and try to address any specific issues which are raised by local communities when we invest in a new store.

Among large retailers, we have pioneered small neighbourhood stores. By linking local convenience stores to world-class distribution and supply chain management, Tesco is bringing to otherwise neglected neighbourhoods all the benefits of big supermarkets – economies of scale, prices and product ranges that are close to superstore levels.

Our experience of operating in more than 100 UK market towns suggests that we play a positive role in rural regeneration by keeping shopping local and improving the viability of surrounding businesses. Independent research in the market town of Beverley, with corresponding studies in Ludlow, Brackley and Haslemere, supports our view that Tesco stores have improved the availability of food shopping, reduced the leakage of trade away from the town centres, and improved the reputation of market towns as shopping destinations.

case study Ludlow

In August 2000, Tesco opened a store in Ludlow town centre, on the site of the former cattle market. At the time of planning application by Tesco in 1998, Ludlow was losing as much as 60 per cent of its convenience shopping trade to other towns in the area. Research on the vitality

and viability of Ludlow town centre has concluded that our new store had no significant impact on convenience stores in the town centre. Indeed, the study indicates that our store benefits the town centre by retaining shopping which may have been lost to other towns.

Urban renewal and affordable housing

Working with local authorities, housing associations and other community groups we have successfully delivered a number of mixed-use schemes with housing, leisure or community facilities as well as retailing. Over the next 12 months we hope to deliver over 1,000 new residential units in South East England – including 500 flats in Dartford and 200 in Streatham.



Affordable housing and play area above our Kensington store.

Post offices In 2003 Tesco purchased the T&S chain of around 900 small convenience stores. Around half of these are being upgraded to the Tesco Express format, which offers an improved convenience store service with wider choice, including more fresh fruit and vegetables.

Roughly one in three of the T&S stores contain post office counters and the majority are retained if the store is converted. In some cases, however, this is not possible for reasons of space: our Express stores need a little more room to provide the wider range of products that our customers like to have. In these cases we work to relocate the post office counter locally by advertising for suitable candidates and providing financial and practical support for those who want to transfer the post office to their business.

We have successfully relocated post office counters to a variety of locations including other retailers and community centres. For example, in Bury St Edmunds we worked with the local MP and Council to relocate the post office to a nearby community centre.

Suppliers

Tesco does business with nearly 2,000 own-brand primary suppliers in 98 countries. The supply chain is made up of a complex range of relationships – from individual farmers and growers through to processors, manufacturers and distributors.

We have built strong long-term partnerships with suppliers at all levels. This partnership approach ensures that our customers have a reliable supply of goods, and new and better products through investment and innovation. We do not encourage practices which are unsustainable such as below-cost selling. These are bad for suppliers, and are therefore bad for customers and for Tesco.

A partnership approach benefits our suppliers by giving them a certain and growing market for their products, regular payments and payments on time, and our commitment to sharing our understanding of customers and changing consumer behaviour. Partnership also means working with suppliers to apply the ETI base code (see page 22) and to improve environmental standards through Nature's Choice accreditation (see page 51). For example our largest South African supplier runs programmes to develop and train women workers and encourages farm worker ownership and empowerment through the Thandi initiative.

'Nine years ago we were just normal farm workers. Today we are owners. The Thandi initiative is developing leaders for sustainable agriculture in South Africa.'



Susan Kraukamp of the Lebanon Trust, the first Thandi farm to be accredited to Tesco Nature's Choice.

We also work with suppliers to help prepare them for legislative and subsidy changes, such as the removal of European Union production-related subsidies. An example of how we are trying to help is the Tesco-Grampian cattle initiative in Scotland. This has produced a guide for producers on cattle production methods that maximise non-subsidy returns. It advises on weight-for-age ratios, food conversion ratios, conformation grades and processing yields. We think this is a responsible way to help manage significant change in the industry at the same time as reducing costs and maintaining quality for our customers.

Supplier Code of Practice We are one of only four signatories to the UK Government's statutory Supplier Code of Practice. Since the introduction of the Code, we have run a tailored training programme for all Tesco buyers to promote understanding and compliance. In March 2005 The Office of Fair Trading (OFT) audit found no breaches of the Supplier Code at Tesco. The audit showed that suppliers do take up issues with us regularly, and to support this process we will be appointing a Code Compliance Officer to hear formal complaints, confidentially if requested.

Managing our supply chain ethically We aim to act reasonably and responsibly in all 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 standards of our suppliers meet relevant international requirements.

As a founder member of the Ethical Trading Initiative (ETI), Tesco uses the ETI Base Code as its standard for all primary suppliers across our businesses.

ETI Base Code

- ★ 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 practised;
- ★ regular employment is provided;
- ★ no harsh or inhumane treatment is allowed.

In 2004 we started a three-year initiative to extend our ethical trading policy and programme beyond the UK to cover primary suppliers to all our businesses. We were also influential in developing Sedex (Supplier Ethical Data Exchange), a web-based system that encourages businesses to share data on labour standards at production sites. This means that retailers can now get important information without duplicating assessments. It allows inspection resources to be better targeted and removes unnecessary costs for suppliers across the world. For further information visit:

www.sedex.org.uk

Buyer training All Tesco commercial staff involved with buying for the UK are expected to understand and reflect ethical considerations in their purchasing practices – their job description makes this clear. All buying staff must attend a 'Buying With Your Eyes Open' course which teaches them how to recognise potential problems and employ purchasing practices that minimise ethical risks. Over the past year, we have restructured the training into two half-day courses – one specifically for food buyers and one for non-food buyers. Our 89 UK technical managers must complete a two-day social accountability audit training course, run in conjunction with Bureau Veritas Quality International (BVQI).



treating our partners as we like to be treated

Supplier training We organise 'Supplying With Your Eyes Open' courses and ethical trading workshops for our suppliers. These courses explain our ethical trading policy and programme, raise awareness of ethical issues and build supplier confidence in managing ethical issues in their own countries and industry. This year ten full-day courses have been held in the UK, Hong Kong, Shanghai, Bangalore, Dhaka, Cape Town, Sao Paulo, Lyon and Malaga. Based on the positive feedback we received from participants we will continue to run supplier training as a tool for ensuring the delivery of our ethical trading programme. To date, 100% of high-risk suppliers have attended this training, enabling us to achieve our target for the year.

In the UK this year there has been increasing public concern over the poor employment practices of gangmasters – principally in picking and packing fresh produce. We are committed to making the Gangmaster (Licensing) Act a success, and are participating actively in the ETI Temporary Labour Working Group. This year, we wrote to all our produce suppliers to explain the work done by the Working Group, and are holding workshops for our suppliers to raise awareness of the legislation and the Code of Practice for Labour Providers.

case study supporting Sri Lanka's fishing industry



A small but very tangible example of our positive relationship with suppliers can be seen in our response to the Asian tsunami. In addition to our support for the Tsunami Appeal and funding a number of new fishing vessels to replace those lost (see page 31), our fish buyers plan to increase the amount of tuna we buy from Sri Lanka from £5 million to £6-7 million this year. We hope this will help the Sri Lankan fishing fleet by sending a clear message of our commitment to their future.

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

We assess ethical risk using three criteria:

- ★ the risk inherent in the country where the supplier is located, using a country risk matrix provided by an independent ethical consultancy;
- ★ the risk inherent in the industry and employment types, e.g. use of seasonal workers, homeworkers and subcontractors;
- ★ our own knowledge of the risks posed by the site and supplier, e.g. the types of raw materials, the role of secondary sites, and any previous record.

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

- ★ we carry out annual reviews of the Sedex self assessment forms of our **high-risk** suppliers, and require them to have a 2-3 day ethical assessment by a third party every year. This year we reached our target of assessing 100% of our high-risk suppliers;
- ★ we carry out annual reviews of the Sedex self assessment forms of our **medium-risk** suppliers, and require them to have a 1-2 day ethical assessment by a third party assessor at least every two years;
- ★ we carry out annual reviews of the Sedex self assessment forms of our **low-risk** suppliers.

We write to suppliers to inform them of their risk rating. Third party assessors conduct the ethical assessments, highlight non-compliance and manage the verification of corrective actions to ensure implementation. If a non-compliance has not been verified as resolved by the third-party company six months after the assessment date, a Tesco technical manager will assess the suitability of the site to continue supply. When problems with compliance emerge, our aim where possible is to work with the supplier to resolve the issue. We believe this approach helps achieve long-term improvements in ethical performance. However, if there is no commitment from the supplier to improve, we would cease to trade with them.

To date, almost all our primary suppliers have registered on Sedex and we aim to have independent audits from all high and medium-risk suppliers uploaded on to Sedex by the end of the year. We also aim to have all self assessment for all primary suppliers complete by September 2005.

We received five external complaints during 2004, concerning the labour standards at two salad suppliers, a flower supplier, a fruit supplier and a hosiery supplier. All complaints were followed up by unannounced visits from Tesco technical managers and Product Integrity Unit auditors. Third-party ethical assessments were carried out, which were then verified by a second set of unannounced visits by Tesco. We are also working with ethical consultants to strengthen the confidential complaint mechanisms for workers throughout our supply chain.

case study Fairtrade

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

We stock over 90 Fairtrade lines, of which 14 lines are own-brand, including roses, mangoes, avocados, citrus fruits and cookies. This year we have achieved a 60% increase in Fairtrade sales. Our customers now buy 1 in 3 Fairtrade products sold in UK supermarkets. We supported the Fairtrade Fortnight in March 2005 by raising customer awareness through in-store promotions and by inviting local Fairtrade groups to hold food tastings and talk to customers about Fairtrade in our stores.

'Fairtrade has been the saviour of farmers in Dominica - of agriculture and the whole economy. Since we started selling Fairtrade to Tesco, we have moved on by leaps and bounds.'

Amos Wiltshire, National Fairtrade Co-ordinator for Dominica.

Tesco has worked with the Fairtrade Foundation over the last three years to secure the supply of Fairtrade bananas from the Commonwealth of Dominica. As a result, the smallest producers in three communities are able to supply the UK market. Fairtrade has helped fund the following projects:

- ★ constructing, furnishing and equipping a pre-school building so children no longer have to walk four miles to school;
- ★ construction of a community centre and a bus shelter, and installation of streetlights;
- ★ renovation of 12 farm access roads with labour supplied by the farmers;
- ★ renovation of a former banana distribution centre to accommodate the Dominica Fairtrade Group meetings;
- ★ purchase of weed trimmers to replace the use of chemical herbicides, and mist blowers to control leaf spot disease of banana plants;
- ★ upgrading of packing sheds, building charcoal pits for the safe disposal of fungicides and the provision of hand washing facilities in the field.

Photograph provided by WINFA



Marius Ismael, Fairtrade banana farmer, Dominica.

Buying locally

Although we are increasingly an international company, to our customers we are their local store and as such we recognise the importance of buying locally in all our businesses. However, not everything can be sourced locally – and customers now expect to be able to buy what they want regardless of season or country of origin.

We have dedicated buying teams in Scotland, Wales and Northern Ireland, whose task it is to seek out and develop relationships with suppliers. In the UK, Tesco stocks over 7,000 local products. All products are labelled with the country of origin and, where appropriate, with national flags.

Tesco remains British agriculture's biggest customer. During the year we sold more British apples and strawberries than any other supermarket. Our fresh chicken is 97% British, fresh beef is 95% British, fresh pork is 92% British and fresh lamb is 88% British. All our fresh shell eggs and fresh, UHT and organic milk come from British farms.



Scottish white potatoes labelled with the national flag.



Penang hypermarket, Malaysia.

Buying locally – internationally

We promote local produce in all our stores, not just in the UK. A team of buyers in each country work with local suppliers to tailor our range to local customers. There is a huge range of in-store promotions of local produce throughout our international businesses. For example, our businesses in Poland and Malaysia source the vast majority of their own-brand range nationally. At the same time, our international growth has created new opportunities for many local producers.

In Thailand we help more than 1,700 One Tambon One Product (OTOP) producers to sell their products. Village residents work together to produce one quality product. We now sell 89 such products in our stores across Thailand and encourage OTOP producers to hold exhibitions in our malls and car parks.

case study working with our suppliers in Northern Ireland

'Tesco have provided local farmers and food processors with a very valuable route to market not just in Northern Ireland but more importantly throughout the whole of the UK and Ireland. Many local businesses who have been able to meet the challenging requirements of the Tesco consumer have seen their sales grow and their business flourish.'

David Dobbin, Chairman of CBI Northern Ireland and Group Chief Executive of Dale Farm, Northern Ireland's leading dairy company.

Many Northern Ireland suppliers have grown in partnership with Tesco. This is crucial to keeping what we offer customers fresh, attractive and local. As a result:

- ★ Tesco is the biggest customer of Northern Ireland's agriculture;
- ★ we spend more than £300 million per year with Northern Ireland food and drink suppliers;
- ★ we have a team of eight based in a dedicated regional office who focus on buying local products, to try to reflect customer preferences;
- ★ our stores in Northern Ireland stock over 1,500 local and regional products.

All fresh beef and lamb sold in our Northern Ireland stores is sourced from over 1,500 local farmers through Foyle Meats.



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society

One of our most important Values is to treat people how we like to be treated. We try to achieve this by being a good employer and by playing our part in local communities.



Chatchawan Sepsirisuk Rama 1 hypermarket, Bangkok, Thailand

People tell us that they want us to use our size and success to be a force for good. We accept this challenge with enthusiasm and commitment.

Tesco, and supermarkets in general, are sometimes criticised as being too big or too remote. But by growing, learning and applying what we have learned to running our shops better, we are able to reduce prices, provide thousands of new jobs, and help our suppliers by providing a growing market. Our size can also be a great help when thousands of people pull together for a great cause that they believe in – our Charity of the Year.

playing our part in local communities

Communities

Charitable giving Tesco has been a member of Business in the Community's Per Cent Club for over 15 years. We give at least 1% of our pre-tax profits to charity in the form of donations, employee time and gifts in kind. This year, the total value of our charitable contribution was £21,762,931.

The Tesco Charity Trust made cash grants of £878,556 to local and national charities in the UK. The Charity Trust Community Award Scheme awarded grants totalling £420,000 to local projects. These provide practical benefits in the local community for three vulnerable groups: children, the elderly and those with disabilities.

For information on our Community Awards visit

www.tesco.com/corporate

Charity of the Year Through Tesco Charity of the Year, we aim to combine the strengths of a great charitable cause with the contribution that Tesco can uniquely bring – our 250,000 staff and over 15 million customers up and down the country. Together we pool our strengths to achieve something more powerful than we can achieve alone.

Charitable giving 2005 by type

Donations	£10,936,087
Gifts in kind	£3,250,391
Staff time	£6,219,189
Management costs	£1,357,264
Total contributions	£21,762,931

We aim to choose a charity which is close to the hearts of our staff and customers, works locally in the communities we serve and is focused on delivering practical benefits. The Charity of the Year becomes the main focus for staff fund raising and receives a 20% top-up from the Tesco Charity Trust.

In 2004 staff raised an estimated £3 million for Help the Hospices, our Charity of the Year.

Our 2005 Charity of the Year is Age Concern. Our aim is to help combat social isolation and poverty among older people.

Tesco businesses in Ireland, Poland, Slovakia and Hungary also support a 'Charity of the Year', raising £670,000, £7,500, £32,000 and £15,000 respectively last year.



Tesco Company Secretary, Lucy Neville-Rolfe, with David Praill, Help the Hospices and Gordon Lischman, Age Concern.

'Tesco staff across the UK took part in an amazing variety of activities in support of their local hospice. The Company joined in with our national campaigns and promoted our work. A great year and a great partnership.'

Steve Razzell, Partnership Manager, Help the Hospices.

Race for Life In 2004, over 409,000 women took part in Cancer Research UK's Race for Life, raising over £20 million. Tesco gave £250,000 to sponsor this five-kilometre event, paid the registration fees of our 18,752 staff who took part, and topped up all funds raised by our staff by 20%. Since our involvement started in 2002, over £52 million has been raised, and this year we won the Marketing Society's Cause Related Marketing award. We are committed to sponsoring the event for a further three years and we hope that in 2005 425,000 women, including 20,000 Tesco staff, will help raise £23 million. Over the next year we will be extending our sponsorship of Race for Life to include a series of 10-kilometre races for men and women.



Photograph provided by Southern Daily Echo



case study Asian tsunami relief

Tesco made an immediate donation to the British Red Cross on the morning of Boxing Day, 2004, as soon as we heard that the tsunami had struck. We have donated over £310,000 in total. Of this, £100,000 went directly to the British Red Cross, and the rest was donated by our international businesses to aid efforts in Thailand, Malaysia, Sri Lanka and India.

Together with the Red Cross, we have helped to collect over £2.8 million for the Tsunami Appeal in our UK stores. In addition to direct financial aid, Tesco staff worked with disaster charities to

provide practical assistance, such as lorry loads of food, water and shelter materials in Thailand, Malaysia and Sri Lanka. Staff in India gave up one day's pay and staff in Thailand helped by putting up people who were made homeless, in their own homes. We also bought a trawler and four smaller fishing boats to help Sri Lankan fishermen.

For more information on how we are helping to re-establish trade in badly affected parts of Sri Lanka, see page 23 of the Economy section.

'It is great news that Tesco are helping in this way, both with a very generous donation and by inviting the Red Cross to collect in its stores across the country. This gives us an unrivalled opportunity to ask the British people for help.'

Mark Astarita, Director of Fund Raising, British Red Cross, January 2005.

Supporting education As the largest private-sector employer in the UK, we have a responsibility to contribute to the capabilities of tomorrow's workforce. Education is one of the key areas where customers believe our support is very important, and where we can make a real difference. Our education initiatives focus on providing practical benefits for local communities. For example, Tesco is partnering I CAN, a UK charity that helps children with speech and language difficulties, to sponsor the Chatterbox Challenge. Children across the UK choose a rhyme, song or story and family and friends sponsor them to perform it aloud. This year, Chatterbox Challenge raised over £150,000 for I CAN.

Computers for Schools Now in its 14th year, our Computers for Schools programme is the largest of its kind in the UK – over 29,000 schools are registered to take part. This year we carried out six two-day workshops in stores around the UK to increase awareness of the scheme and show parents that computers can be both fun and educational. This year, 2,700 computers and over 86,000 items of related equipment worth over £8 million were ordered by UK schools. This brings the overall total value of equipment given to schools since 1992 to £92 million. Next year, we aim to reach £100 million.

This year in Poland, our 'Tesco for Schools' scheme gave equipment worth £225,000 to 156 schools.

case study St. Birinus School, Oxfordshire

As a specialist technology college, St. Birinus School is a particularly keen collector of our Computers for Schools vouchers. Over the past 12 years, the school has purchased 21 computers, 13 printers, 3 digital cameras, 3 video recorders and 2 scanners.



'It's by far the best company collection scheme we are involved in. Everyone becomes involved, the promotion dates are put on the school calendar and each classroom has its own collection point. Computers have been put into rooms that would not otherwise have been equipped.'

Graham Long,
Design & Technology teacher



In Korea we hold 'Learn to Give' days in the Cultural Centres in our stores.

International education Education also provides the focus for much of our community activities in our international operations. For example:

- ★ In **Turkey**, our Tesco Kipa stores have held first aid training sessions in stores and schools. These have been attended by 25,000 children and adults since 2002. We plan to train another 5,000 people this year. We have also held parenting sessions for 1,200 customers, focusing on parent-child communication, attention problems and hyperactivity;

- ★ In **Korea** there is a Cultural Centre in every store. These centres are used for a wide variety of activities including 'Learn to Give' training, held in partnership with the Beautiful Foundation. Last year around 100 parents and children attended this training, which aims to encourage a culture of giving;
- ★ In **Thailand**, we have set up 250 scholarships and funded training for retail undergraduates. At the Sukhothai Thammathirat Open University we also sponsored the development of a one-year diploma in retail business. Each time a Tesco Lotus Value store opens we set up 50 scholarships for high school students from deprived backgrounds. So far 300 scholarships have been awarded in six provinces.

Staff

Employment Tesco is the UK's largest private-sector employer and provides the best overall benefits package in the industry, including popular profit share and save as you earn schemes. This year we slightly exceeded our target of retaining 80% of staff with more than a year's experience.

At the beginning of 2004 we set out to improve the workplace by strengthening delivery of our People Promises. We have achieved four aims:

- ★ to develop store structures to better meet the needs of both customers and staff;
- ★ to provide our leaders with coaching to support their teams better;
- ★ to get more people in to work more of the time;
- ★ to reduce our management vacancies down to a minimum.

Benefits Our people are our most important asset, and a key objective is to select and retain the best. We therefore offer our staff an attractive benefits package, including flexible hours and leave, profit-share, an award-winning defined benefit pension, subsidised meals and childcare vouchers.

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, holidays, gym membership, childcare vouchers and health cover. Each staff member receives a Benefits Book annually to explain all the benefits they can take advantage of, and a personal Benefits Report summarising their total package. This year 160,000 staff shared £63 million in profits. For more information on our employee share schemes, see page 17 of the Economy section.

Careers & training We are committed to developing our people to fulfil their potential. This year over 2,000 people in our stores have progressed into management positions. 95% of retail staff were trained to our 'bronze' level of competency.

All our staff have access to training programmes and a personal development plan, with six-monthly reviews, to ensure that they have the right skills for their job. Tesco delivers an extensive programme of learning through the Tesco Academy. This offers everyone in the company learning that is tailored to their own personal development needs – from induction and core skills to operational and leadership skills.

Following a successful trial apprenticeship scheme in three stores in the Midlands, we created a further 480 apprenticeships across the UK in late 2004. As well as providing formal training at local colleges, this pioneering partnership with the Government apprenticeship scheme gives 16-24 year-old staff experience of working in different parts of our stores and warehouses. Tesco managers check on progress, coach and assess candidates. The apprentices are then externally certified by City and Guilds.

This year we were the first British retailer to have our in-house training accredited by the Qualification and Curriculum Authority, which means that we can now award nationally-recognised NVQ qualifications to our staff as part of our retail apprenticeship scheme. In the coming year, we plan to extend the apprenticeship scheme to staff over the age of 24.

Our commitment to training and development is also important in our international businesses. For example, in Poland, 100% of store directors are of local origin. On average each staff member in Poland has completed three different training modules.



This year, Tesco became the first retailer to be accredited to award NVQs.

Debut Last year, we launched Debut, a programme to encourage students working at Tesco in the UK to stay on with us after completing their studies, as well as to attract other graduates and young people. Our website

www.tesco.com/debut

offers on-line training and development, financial guidance, discounts and career advice to help 16-24 year-olds through the transition from full-time education to full-time careers. So far, 21,071 students have become members of Debut, and we have launched our Debut Clearing House scheme, which organises transfers for students between their home stores and stores local to their university.

'Tesco staff are fortunate in that Tesco's pension system is one of the best in the retail sector.'

Gordon Lishman, CEO,
Age Concern England.



Michelle Sweeney and Amy McDonnell Newcastle Extra, UK

'We demand high standards from our accredited organisations, and have been impressed by the Tesco approach to training and development. The retailer has real energy and desire to give its people every opportunity to get on, and we look forward to working closely with them to help achieve this.'

Edwina McQueen, Head of Business Development, City & Guilds.

Human rights In 2002 we introduced a group-wide human rights policy, addressing employment conditions including wages, hours, freedom of association, health and safety, discrimination, child labour and security.

The Chief Executive of each national business is responsible for implementing this policy. We support the United Nations Universal Declaration of Human Rights and the International Labour Organisation's Core Conventions. Our human rights policy can be found at

www.tesco.com/corporate

We support the right of all our employees to join a trade union. Around half of our UK employees are 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 in conjunction with Usdaw. In the last year we have worked with Usdaw on a Freedom from Fear campaign to raise awareness of the verbal and physical abuse that can be suffered by shopworkers, and to promote respect and improve safety in the retail workforce.

We have issued all managers in the UK, as well as our overseas CEOs, with our code of ethics, which governs relationships between employees, suppliers and contractors, and refers to our human rights policy.

We have a confidential Protector Line for our staff to ring. This helps us be more aware of, and take action against, potential problems like theft, dishonesty and any practices that endanger our staff, customers or the environment.

Health and safety We are committed to protecting the health and safety of our people, our customers, and our visitors as far as is reasonably practical. 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.

We have a comprehensive risk management process to identify and minimise occupational health and safety risks across the business. We constantly monitor and review our performance and seek feedback from our people. Every store measures health and safety performance and reports on it three times a year through the Staff Forum. Safety campaigns are launched three times a year at Staff Forums to focus our people on how we can improve safety in our stores.

We have successfully reduced the rate of reportable staff accidents in our stores over the past five years. We are introducing improved measures for assessing risk and reducing accident numbers as the size and nature of the business develops.

Inclusivity Inclusivity and diversity benefit our business in many ways, especially through fostering greater customer and staff loyalty. Studies show that organisations with best practice diversity policies tend to outperform on operational and business levels. A copy of our equal opportunities policy can be found at

www.tesco.com/corporate

This year the Board asked our Diversity Advisory Group to analyse the diversity of Tesco's UK workforce compared with the UK population – our aim being to mirror the composition of the population as a whole.

The Diversity Advisory Group found that we need to increase the proportion of:

- ★ female store managers and senior team members;
- ★ store managers and senior team members from ethnic groups;
- ★ 45-54 year-old store managers and senior team members.

We have consequently set targets to increase the proportion of women, ethnic groups and older staff in these positions and are planning to achieve them by providing improved coaching and mentoring, providing foreign language tapes for staff training, improving communication to celebrate success, and by conducting research to identify further short and long-term solutions. New ideas emerging from this research may be fast-tracked; and we are introducing a KPI to measure our performance on diversity over the coming year.

We have done more to make our jobs more attractive to people from ethnic minorities. This year, for example, during Ramadan we changed the time of store activities to allow staff time to pray, and promoted use of the staff training room as a quiet space for this purpose. We encouraged stores to look at flexible leave so that staff could take time off for the Indian festival of Diwali. During Diwali, staff organised celebrations in store, wore traditional dress, and brought in home-cooked food to share in the canteen. We are increasingly looking at language needs in our stores, for example, in our Beckton store staff briefings are held in four languages – Hindi, Urdu, Bangladeshi and English.



Caroline Sithole Coventry Extra, UK

Steve Cross Coventry Extra, UK

Family We aim to be a family-friendly employer, giving mothers in particular the most favourable employment terms possible. We offer family-friendly shift patterns, maternity leave for all, paid paternity leave, equal training and development opportunities for part-time workers, and a career break scheme. Where practical, our staff are able to job-share, work flexi-time or compressed hours, shift swap, work from home or work part-time. We offer childcare vouchers to all staff, whether full or part-time, and these can be used for most types of childcare. Last year we took part in the DTI Work-Life Balance Challenge Fund and ideas arising from this have been implemented in our flexible working request policy.

Disability Research tells us that 14% of our UK workforce have some kind of disability, compared to a national average of 13%. We are working with the UK Government agency Remploy and with the Shaw Trust, which both act as 'job brokers' for disabled people. We now have nearly 100 people supported in work by these two agencies. We are members of the Employers' Forum on Disability.

Older staff We have long recognised the benefits of a mixed-age workforce, and our research has shown that older employees are more loyal and less prone to absenteeism. We were one of the first companies to positively encourage the recruitment of the 50+ age group. We are members of the Employers Forum on Age, and are an Age Positive champion under the scheme run by The Department for Work and Pensions. We won the Personnel Today 2004 Age Positive Award for our work on supporting both younger and older workers in the workplace.

Employee age diversity



Our work on supporting both younger and older workers lead to us winning the Personnel Today 2004 Age Positive Award.



Peter Gill Newcastle Extra, UK

treating people how we like to be treated

Customers

We aim to appeal across the social and economic range, and are pleased that the profile of our customers reflects this. We achieve it in three ways:

★ **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;



This year we offered customers a range of over 275 Asian and 15 Halal lines in 117 UK stores and offered special promotions for Diwali and Ramadan.

★ **Price** – we are able to bring value to customers no matter how much they want to spend. We constantly strive to deliver cheaper, better food, which means customers have more choice. More details can be found on page 17 of the Economy section;

★ **Stores** – our range of store formats has brought benefits to customers – in different places, at different times, doing different types of shopping. Our Metro and Express stores target convenience shoppers, while Superstore and Extras formats appeal to customers wanting to do their weekly shop.



Our stores in Malaysia are recognised as a role model for the provision of disabled facilities, providing wheelchairs, ramps, special toilets, elevators and reserved parking lots.

Disabled customers Tesco aims to provide fully for disabled customers. We will be holding themed Customer Question Times each quarter over the coming year, in partnership with disability organisations, to listen and respond to what customers with visual, hearing and physical disabilities tell us.

This year we were recognised by AbilityNet, the UK computing and disability charity, as the only supermarket to have a website meeting the basic accessibility needs of disabled people.

Our access website was the only site found to be easily accessible to people with a vision impairment, dyslexia or physical disability. It gained a four-star rating on AbilityNet's five-star scale.

www.tesco.com/access

'Many fully-sighted people find the simply-designed Tesco Access site offers them a better user experience than any other supermarket website.'

Julie Howell, Digital Policy Development Officer at the RNIB.



Healthy living

Our customers tell us that eating healthily needs to be easier, and that they need better and simpler information to enable them to eat a balanced diet. Publication of the UK Government's Public Health White Paper, and campaigns by the UK Food Standards Agency, have also helped these issues figure prominently.

Tesco pioneered clear nutritional labelling in the 1980s, introduced our Healthy Living range over 20 years ago, and launched our Healthy Living Club for our customers three years ago. Over the past year we have put a lot of thought into how Tesco can give even more help to our customers to live more healthily. We are working on improving nutritional information on products, reformulating products so that they are healthier without compromising taste, and are encouraging our customers to be more active, for example through our support for Cancer Research UK's Race for Life. We do not sell sweets at check-outs in our superstores or target our advertising at children.

From March 2005 we will include a KPI on healthy living in our Corporate Responsibility performance indicators.

From being the first supermarket to launch a Healthy Living range in 1984, we now have over 500 such products and the volume of sales grew by 17% this year. We continue to work to make healthy food more accessible to all our customers, and now have over 30 Value lines of fresh fruit and vegetables. This year, sales of fruit and vegetables in the UK rose by 12%, and the increase was most marked among our least affluent customers. Further information on our work to make healthy food more accessible can be found on page 17 of the Economy section.

Our Healthy Living Club in the UK provides its 220,000 members with information on how to get fit and stay healthy, as well as providing benefits such as discounts on gym membership and money-off vouchers for healthy products. Our bi-monthly Healthy Living magazine provides practical information on all aspects of a healthy lifestyle.

In Poland, our 5-a-day Healthy Living campaign promoting fruit and vegetables in the fight against obesity and cancer is estimated to have reached ten million customers. In Hungary, our Fitt range introduced in 2003 now has more than 60 lines.



Nutritional information Simpler and clearer communication of the nutritional content of foods is important in empowering consumers to lead healthy lifestyles. We have been providing clear nutritional information on our products for many years.

This year we have introduced nutritional 'signposts', a new food labelling system which makes it easier than ever for our customers to make healthier choices as they shop. The amount of salt, fat, saturated fat, sugar and calories in a serving of each product is clearly stated in grams on the front of the packs. The labels also state how much of the guideline daily amount this makes up. By separating the key nutrients, the labels help customers monitor any or all of the areas they are concerned about e.g. salt if they have high blood pressure or calories if they are watching their weight. The simple labelling means that it is easier for customers to stay within their recommended daily amount without doing complicated calculations. The first new-style labels will be introduced in April 2005 and are being rolled out to more products each month. This follows two years of research and development with customers.

This year we also introduced labelling on the Glycaemic index (Gi) and carbohydrate content of foods, backed up by information leaflets. This helps people with diabetes and those following a low carbohydrate or Gi-based diets (see page 15).



Our Free From range of 150 products for customers suffering from food allergies and intolerances to gluten, wheat, nuts and dairy products is also growing in popularity.

Salt reduction We have reviewed salt levels in over 1,000 products and removed over 50 million teaspoonfuls of salt, or 282 tonnes, from our customers' diets. For example, we have reduced the salt content across our frozen Deep Pan Pizza range by an average of 20%. We are going further and faster than the salt minimisation framework established by the British Retail Consortium, and expect to meet or exceed the agreed targets three and a half years earlier than the BRC's target completion date. In addition to the BRC's priority areas – soups, pizzas, ready meals, quiches, baked beans, sandwiches, cook-in sauces, breakfast cereals and bread – we are reviewing salt content in product categories such as meat pies and snacks. We are also looking at fat and sugar content in these products.

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environment

working with customers



We believe in sustainable growth – it is responsible, it is what our customers want and it makes sound business sense. If we take decisions that are unsustainable, we may harm the world we all live in. Similarly, if we fail to minimise our environmental impacts, we will be inefficient and increase our costs.

Paul Smith Perth Extra, UK

Achieving the objective of sustainability is not always straightforward. Some goals are very clear – for example reducing energy consumption and minimising water use. But environmental, social and economic goals are not always aligned, and may need to be carefully balanced. For example, are the environmental costs of importing fresh flowers from Kenya outweighed by the social benefits of trading with under-developed economies?

We do not have all the answers, and like everyone we have to make difficult trade-offs between competing goals. But we listen to an ever wider range of stakeholders; and take practical steps in what we believe is the right direction whenever we can.

to help the environment

Environmental management

Tesco integrates the management of environmental, as well as social and ethical, issues into our Steering Wheel (see page 8) – the tool we use to manage the company both on a day-to-day and long-term basis. Each quadrant of the Steering Wheel contains KPIs with annual targets, and our Corporate Responsibility KPIs (see page 56) are contained within ‘the way we operate is responsible and safe’ segment of the Operations quadrant. In this way, environmental, social and ethical targets are integrated into the overall running of the business.



Promoting our environmental standards to our customers in-store.

For our full environment policy visit

www.tesco.com/corporate

energy consumption
kwh per ft² sales space



This year we reached our target for a 3.6% reduction in energy used per square foot, at a time when our sales per square foot grew by 6.3%.

Next year we aim to reduce energy consumption by 5%.

Resources

Energy efficiency Tesco is committed to reducing our energy consumption and use of greenhouse gases. In 1997, we made a voluntary commitment to reduce our energy consumption per square foot by 35% by 2006. In 2005 we achieved this target one year early.

Over the past year, we have spent £3.7 million on energy-saving schemes. This has included installing fan inverter drives in 91 stores. These reduce the speed of the fan motor in air conditioning units, reducing the volume of air flowing into the store by 15-20%, and reducing energy consumption by up to 50%. We have also installed a further 104 'Intellihood' systems, to add to the 274 installed last year. This is an extraction system which roughly halves the amount of energy consumed by the extractor fans at in-store bakeries and staff restaurants – saving 15,777 MWh of electricity worth £710,000 last year. We are working with the Carbon Trust to produce an energy efficiency training video for staff.

Our Horsham store has been trialling a Combined Heat and Power (CHP) unit since 2003, and has concluded that there are electricity savings to be made, despite a few problems. We are currently considering plans for future roll-out. We are also examining the potential of Light Emitting Diode (LED) lighting, which uses much less power, releases less heat into the refrigeration areas, and has lower maintenance costs.

Our drive for energy efficiency applies throughout the Tesco group. In Central Europe, we have dedicated energy managers responsible for energy-saving. There are similar programmes in all our international businesses.

Emissions trading Tesco supports the UK Government's position on climate change and the Kyoto Protocol. We are participating in the UK Emissions Trading Scheme and Climate Change Levy. As part of the Trading Scheme, we are committed to an absolute reduction in greenhouse gas emissions over a five-year period at a control group of 118 stores, in return for a payment from the Government which is invested in further energy saving initiatives. Over the past year, growth in the sales areas at these control stores has required us to use up carbon credits we earned in 2003-4 from greater than expected cuts in energy consumption. We participated in the UK Government's consultation on the EU Emissions Trading Scheme, and we expect to be part of the Scheme when it is extended to retailers in 2007.

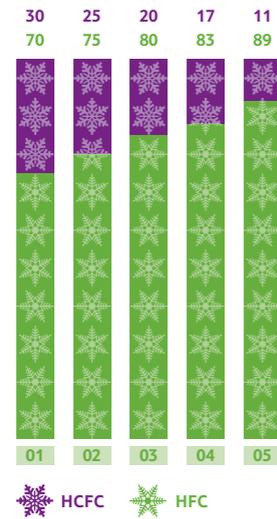
case study Tesco Lotus, Bangkok, Thailand



In Thailand, Tesco Lotus has spent £3.1 million on energy conservation at 49 stores over the last three years, which has resulted in energy savings of approximately £2 million so far. At our new flagship 'green' store in Bangkok, solar panels the area of three football pitches cover more than half of the roof. These provide 12.5% of the store's energy consumption and save 400 tonnes of carbon dioxide. It is the largest rooftop solar energy system in the region. Even the benches at the front of the store are made of photo-voltaic panels. Tesco Lotus is evaluating the success of this scheme and hopes to introduce similar measures in new stores.

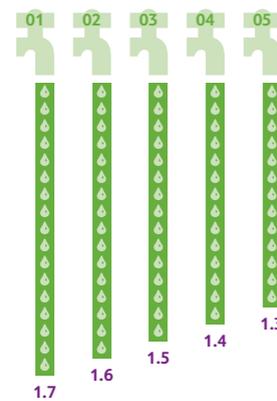
Green Store Rama 1 hypermarket,
Bangkok, Thailand

% refrigerants used



We are reducing our year-on-year refrigerant usage by 3,500 tonnes of CO₂ equivalent.

water consumption
m³ per m² sales space



This year we reduced water consumption per m² by 7%, saving 119,905 m³ of water.

Next year we aim to reduce water consumption by 1.3 m³/m².

Renewables In January 2004 we installed a solar powered roof at our Hucknall store, in partnership with Solar Century and partially aided by a Government grant. The system produced 4,854 kWh over a 15 week period, enough to light the petrol station building for 20 weeks. We expect the system to pay for itself within 13 years. Further roll-out is currently under review.

We are also investigating the potential held by geothermal heating and cooling systems, which use the earth's natural ability to store heat.

Refrigeration Tesco has phased out the use of all CFCs in our UK stores and is in the process of replacing HCFCs with HFCs in advance of European Union requirements. 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. We are actively evaluating alternative refrigeration design and refrigerant technology, including CO₂, with the goal of reducing the overall environmental impact.

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

Water consumption We have achieved our target to reduce water consumption by 7% per m² of sales space. This equates to a saving of 119,905 m³ per year. We have spent £740,000 on water saving programmes, including leakage reduction, push taps, urinal controllers, rainwater recovery and water data loggers.

This year we hope to install rainwater recovery units at 33 stores. Our calculations show that at our Chichester store 1,733 m³ of rainwater could be collected from the roof. Once filtered, this water will be used by toilets and urinals, thus reducing water use from the mains supply by 30-40%.

Emissions

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

Vehicle efficiency This year we exceeded our target to increase the volume of goods delivered per litre of fuel consumed by 2.5%. This means that 22.5 cases of goods are being delivered per litre of fuel this year, compared with 19.9 cases last year. This reduces mileage, emissions and congestion.

We have achieved this by using lorries returning from our stores to our distribution centres to collect goods from suppliers and recycling waste. By collaborating in this way, we have helped reduce the miles travelled by suppliers to our distribution centres by 23% and reduced fuel usage by 14%.

We have also opened three regional consolidation centres. Where previously, stores would receive deliveries from many different regional distribution centres, goods are now moved to fewer regional consolidation centres.

We have continued to fit Continuously Regenerating Traps (CRTs) to our vehicles. These units typically reduce air pollution by cutting carbon monoxide emissions, hydrocarbons and particulate matter by 90% compared with standard exhaust systems. Some 39% of our 1,723 vehicles now have these units fitted, up from 30% last year.



GlobalDiesel is available at 23 of our stores.

Biofuels We were the first major retailer to bring biodiesel to our customers. Since April 2004, we have been selling biodiesel at 23 stores, and to date have sold 5.4 million litres of GlobalDiesel. This ultra low sulphur diesel is blended with 5% biodiesel from rapeseed. The biodiesel cuts particulate emissions by 20%, improves fuel efficiency by 1% and reduces carbon dioxide emissions by 5%. In total, the inclusion of 274,000 litres of biodiesel in the GlobalDiesel has led to saving the equivalent of 818 tonnes of carbon dioxide equivalent emissions.

Tesco has a 25% stake in Greenergy, the GlobalDiesel supplier. This has enabled Greenergy to invest in the UK's largest single-line biodiesel plant, located on the Humber estuary. It is scheduled to open in early 2006 with an annual production capacity of 100,000 tonnes. Greenergy aims to buy rapeseed from around 1,500 farmers through a contract with Grainfarmers, a large agricultural co-operative in the UK.

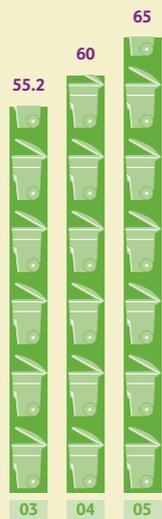
Rail transport Tesco remains committed to exploring all possible alternatives to road haulage, and we are testing the viability of rail distribution in two projects at Edinburgh and Inverness stations in Scotland. Both trials will be reviewed by the end of 2005.

Green travel plans Since the beginning of 2003, green travel plans for staff 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.

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 and schemes such as 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 49 new stores and store extensions, up from 29 last year.

Waste and recycling

% waste recycled



Next year we aim to increase the amount of waste recycled to 68%.

Recycling in our operations Tesco is committed to minimising waste production throughout our operations. We have an internal programme for recycling paper, cardboard and plastic, and more than 80% of these materials are recycled. Over the past year we have increased the proportion of the store waste recycled from 60% to 65%, an increase of 20,000 tonnes. We continually visit and audit stores to encourage staff to improve the amount of cardboard and plastic recycled. Stores with poor recycling rates are given third-party training in best recycling practice.

The bulk of the waste we send to landfill is food waste. We are investigating the viability and sustainability of new technologies that provide alternatives to landfill, including composting, aerobic digestion and gasification.



The Rt Hon Margaret Beckett MP, UK Secretary of State for Environment, Food & Rural Affairs, officially opens our recycling machine at our Winchester store, along with pupils from the nearby Windale Primary School, December 2004.

Recycling by customers Across the UK, Tesco accounts for 13% of all material collected for recycling by local authorities, through recycling facilities at 450 Tesco superstores.

Recycling is a key issue for us and for our customers. With 9 out of 10 people saying they would recycle if it were easier to do so, Tesco is constantly looking for ways to help. This year, we introduced Britain's first fully automated recycling machine, which sorts plastic, metal and glass, rather than expecting our customers to do so. The machine uses revolving arms to throw bottles at an inbuilt stone wall and knives

to shred plastic. Breaking the waste down in this way means that the new machine stores 50 times as much waste, and needs to be emptied less frequently as a traditional recycling unit. Our research predicts that the new equipment will encourage our customers to triple the amount of waste they bring to stores for recycling.

This first pilot machine is operating in Winchester and initial feedback from customers is very positive. We are extending the trial to five more stores in 2005. We are working with the UK Government's Waste Resources Action Programme (WRAP) to deliver the further trial units.



Mobile phone and inkjet recycling by customers raised £200,000 for seven UK charities.

This year we worked in partnership with The Woodland Trust to collect over 630 tonnes of Christmas cards for recycling, nearly 9 million more cards than last year. We have also collected over 100,000 mobile phones and 174,160 inkjet cartridges for recycling, raising a total of £200,000 which was shared by the Alzheimer's Society, NCH, Cystic Fibrosis, Barnardo's, Multiple Sclerosis, RNIB and Help the Hospices.

In 2004, we were one of the first supermarkets to introduce degradable plastic carrier bags into our UK stores. These bags break down in as little as 60 days into biomass, carbon dioxide, water and mineral matter, with no harmful residue, unlike conventional plastic carrier bags. An estimated 719 million degradable carrier bags have since been used by our customers, which means that the equivalent of 6,035 tonnes of non-degradable plastic has been offset.

Green trays In 2000, Tesco pioneered the use of reusable plastic crates – our award-winning green trays – to replace cardboard boxes and other packaging to transport and display products. Green trays have subsequently been adopted all over the world, as they also protect products, minimising damage. This year we missed our target to increase the number of green tray trips by 10%, achieving an increase of 7%. We have consequently introduced a new software system to improve the tracking of trays to ensure we meet our future targets. While the increase in tray usage is mainly due to our sales growth, it still represents a saving of over 4,000 tonnes of cardboard packaging that otherwise would have been used.

Packaging WRAP recently announced the launch of the Retail Innovation Fund to support retailers in reducing product packaging through design innovation. We are discussing a number of projects with WRAP – for example to improve the design of ready meal packaging, with the aim of reducing product packaging by 10%.

WEEE Directive The EU Waste Electrical and Electronic Equipment (WEEE) Directive aims to encourage the recycling of old electrical and electronic equipment such as televisions and washing machines when new ones are bought. Tesco fully supports the principle of recovery, recycling and re-use, and we are working with the British Retail Consortium to provide a workable and effective compliance scheme that will help to provide a network of accessible collection facilities.

Our products

We are constantly working with our suppliers to ensure that we give our customers high quality, competitively priced products that are produced to the high environmental and welfare standards they demand.

Nature's Choice To ensure our fruit, vegetables and salad are grown to high safety, quality and environmental standards, we ask our suppliers to comply with our Nature's Choice scheme.



This is our own integrated farm management scheme and is unique to Tesco. Introduced in 1992, it sets environmental standards and it specifies shape, size, taste, variety and shelf life requirements.

Nature's Choice environmental standards

- ★ rational use of plant protection products, 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.

Farms must have a plan for managing the environment, detailing action to protect and encourage wildlife diversity, including planting hedgerows and creating wildlife corridors. Pollution control and energy use are also important parts 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, an auditor and Tesco managers.

The scheme applies to all fruit, vegetable and salad suppliers to our UK market. Over 6,000 farms in 41 countries are currently working towards the scheme's requirements. Nature's Choice requires suppliers and growers to undergo regular audits, and Tesco requires a third-party audit to apply independent verification of the Nature's Choice standards.

We have achieved our target of 80% of all suppliers to the UK complying with the scheme by April 2005 and we are aiming for 100% of suppliers to comply by 2006/07.

In Brazil, Nature's Choice has led to one of the biggest papaya farms in the world establishing set aside areas totalling 25% of the farm hectare, managing waterways and wetland areas, and conserving tropical forests.

This year we have been working with primary produce suppliers and independent agricultural experts to review the use of pesticides, taking into account best agricultural practices. As a result of examining more than 6,000 pesticide uses on 80 crops, we have stopped the use of 190 and put in place extra controls on another 570. This has involved working with suppliers outside the EU to bring their standards into line with EU requirements, thus helping minimise the risk of residues on imported products to the UK.

Our international operations also encourage good environmental practice from our fresh produce suppliers. For example, Tesco Kipa in Turkey is the first retailer in the country to pioneer EUREPGAP (the Euro Retailer Producer Group's Good Agricultural Practices) standards. Currently seven different products are certified to EUREPGAP, and eight further fruit and vegetables will be certified over the coming year.

Wildlife Choice For the past two years we have been working to strengthen the biodiversity and landscape requirements of Nature's Choice. Now called Wildlife Choice, this separate scheme requires farmers to be fully aware of the wildlife potential on their farms, to agree an independent improvement plan with quantified targets, and then to monitor the impact of the changes to farmland habitats. Initial surveys and environmental record searches are conducted by the Game Conservancy Trust and independent ecologists.

To date, seven farms are participating in this project, and are providing practical evidence of quantified benefits to wildlife. Three winter and summer counts have now taken place by independent ornithologists. A Wildlife Choice website containing each farm's action plan and progress to date will be launched in mid-2005. Our aim is to build a national, regional and county database of how Tesco growers are making a difference in the sustainability of their farms.

case study Wildlife Choice at J.W.Busby & Partners, Leicestershire

John Busby and his family work closely with Tesco's supplier Berryworld to supply top quality strawberries to Tesco.

Their 500-acre farm in the Midlands practises a four-year rotation to produce strawberries and a range of arable crops such as wheat, barley and oilseed rape.

The farm has made great progress, under the UK Government's Countryside Stewardship Scheme, in providing habitats for wildlife on

grass margins, in set-aside and within new plantations. There are well structured hedges with hawthorn, elder, dog rose and poplar together with oak, ash and willow trees. Water is a key feature of manor farm with the River Mease and its tributaries being natural field boundaries. Two ponds provide a water catchment area and aquatic habitats for freshwater life. Initial results indicate that there has been an increase in breeding abundance at this farm.



Sunflowers grown in set-aside areas at Busby's farm provide seeds for feeding birds in winter.



Organic food Customers buy more organic food from Tesco than from any other retailer.

Our organic sales have grown by 22% over the past year. We sell more than 1,200 organic products lines, including 33 million bananas, 48 million eggs, 541,000 mince pies and 30,000 litres of vodka.

This year our sponsorship of Newcastle University's Centre for Organic Agriculture came to an end, through mutual agreement, due to difficulties in delivering suitable research. We are hiring a full-time Organic Technical Manager and holding a conference for our organic suppliers in mid-2005. We will ask our organic suppliers for practical suggestions on how Tesco can help them build their businesses. We will then look to fund any suitable research or initiatives that arise from this consultation.

Animal welfare We demand high standards of animal welfare. We have livestock codes of practice which cover all aspects of animal husbandry for each species. These codes were updated in 2004, and cover animal welfare requirements, environmental impact and food safety factors. The codes ensure compliance with legal requirements and Government welfare recommendations, and are used to ensure overseas suppliers to UK stores have

UK-equivalent standards. All Tesco's suppliers of meat and farmed fish in the UK must be members of an independently audited and certified farm assurance scheme.

We support UK industry initiatives such as the National Farmers' Union (NFU) 'Red Tractor' logo and national farm assurance schemes. This year we extended the Red Tractor logo to our own-brand cheese.



We are committed to achieving an integrated supply base to allow, wherever possible, whole-life traceability. We ensure that our standards are met by using both an internal team of agricultural experts and independent auditors to carry out inspections. We also employ a consultant vet with a certificate in animal welfare to ensure that we are abreast of current issues.

Over the past five years we have committed more than £1 million to support research and initiatives in this area. For example, every year we sponsor Oxford University's Food and Animal Initiative (FAI) with financial support of £100,000. This initiative aims to research and develop sustainable farm systems that provide discernible benefits to animal welfare, the environment and human health, within a commercial framework, and to share knowledge with farmers and the public. More information can be found at

www.faifarms.co.uk

This year we also sponsored a Compassion in World Farming conference.

Animal testing Tesco brand non-food products are not tested on animals by us or our suppliers, nor on our behalf. As a five-star donor, Tesco contributes £10,000 a year to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), which seeks to end animal testing.



MSC10703©

Seafood Tesco is committed to the principles of sustainability in our fish sourcing. We understand this is a concern for our customers and external stakeholders.

We support the Marine Stewardship Council (MSC), which was set up by the World Wildlife Fund in 1997 to investigate ways to conserve fish stocks effectively. The MSC certifies fisheries which are well-managed and sustainable. We sell MSC-labelled wild Alaskan salmon, mackerel and MSC-certified cockles, hake, hoki and Thames herring.

Of the 36 'at risk' species currently identified by the Marine Conservation Society (MCS), we do not source 32. For the four remaining species on the MCS list our sourcing policy is developed on a case by case basis to minimise the impact on the environment and promote sustainability of these species. For example, line fishing is specified in preference to trawling for cod and haddock.

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

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

The farming community have told us that to extend the range of meat we sell from animals fed on non-GM would put immense pressure on them. We will

keep an open mind as the technology develops, listening and responding to our customers.

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

Palm oil Palm oil is an ingredient in a wide range of food and non-food products including soap, cosmetics, confectionary, ice cream, snack products and margarine. The Palm Oil Sustainability Group is investigating concerns relating to palm oil conservation and is helping to define what is sustainable. We are monitoring the work of this group and will actively engage at an appropriate stage in their work. We have recently initiated further discussions amongst retailers through the British Retail Consortium to explore the role of retailers and future opportunities for collective action at a UK and EU level where it is needed.

Timber Tesco is committed to purchasing timber and timber products only from legal, sustainable sources. We will never knowingly purchase timber from illegal sources. All suppliers of timber products are asked what species of wood they use and where it comes from. Every six months an external consultant collates supplier information and conducts a risk assessment to determine which need auditing and further checks. All our paperwork relating to timber products is also audited by a third party.

case study garden furniture

Tesco brand garden furniture uses timber from well-managed forests. Our sources are Forest Stewardship Council (FSC) approved, or members of the Tropical Forest Trust (TFT) committed to achieving the FSC standard through the SGS certification support programme.

In addition to the audits carried out by the FSC and TFT, a Tesco technical manager has visited all the factories, and a Tesco representative has carried out audits at all the manufacturing sites. We are in possession of relevant FSC and TFT documentation to demonstrate that the timber

comes from legal and sustainable sources. Tesco worked with the FSC and TFT to provide improved at point of sale information for customers.

We are pleased this year to have received 'A' grade rating in Greenpeace's 2005 Garden Furniture Survey, in recognition of the controls we have established over the sourcing of timber for our garden furniture. Customers can check the source of the garden furniture they buy through the Greenpeace online garden furniture guide

www.greenpeace.org.uk/products/GFG



'We welcome Tesco's commitment to sourcing and selling FSC-certified timber and timber products, such as garden furniture. The aim of the FSC is to improve the standard of forest management around the world by providing a market driven mechanism. When a retailer the size of Tesco commits to the FSC system it can have a very real effect on the ground and throughout the supply chain. We look forward to seeing the Tesco range of FSC-certified products expand over the coming years.'

Anna Jenkins, Director, FSC UK.

key performance indicators

Our CR key performance indicators (KPIs) are part of our Steering Wheel management process (see page 8). We measure and report internally on performance against each KPI every quarter and performance is reviewed by the CR Committee.

KPI	2005	HOW WE PERFORMED	BELOW TARGET
Economy: Regeneration	To open 3 partnerships stores, initiate 6 new partnerships and create 1,000 jobs and training positions with Tesco for the long-term unemployed in regeneration stores.	Although we completed two large-scale regeneration partnerships at Stockport and Dumfries, and a smaller scheme at Stafford, delays in the Planning Consent process held back other schemes, so we did not meet our target of creating 1,000 jobs and training positions for the long-term unemployed in regeneration stores.	
Economy: Supply chain labour standards	To carry out ethical assessments of 100% of our high-risk own-brand suppliers.	We achieved our target by carrying out 253 assessments of our high-risk own brand suppliers.	
	To train 100% of our high-risk own-brand suppliers.	We met our target by training 100% of our high-risk own-brand suppliers.	
	To ensure all Commercial teams have received training on supply chain labour standards.	All Tesco Commercial teams have received training on supply chain labour standards.	
Economy: Local sourcing	To maintain at least 7,000 regional and local lines and to increase the number of Welsh lines to 1,000 by the end of 2005.	We maintained 7,000 regional lines and have to date increased the number of Welsh lines to 670.	
Society: Charitable giving	To donate a value equal to 1% of our pre-tax profits to charities and good causes through donations, time and gifts in kind.	We exceeded our target by giving 1.1% of pre-tax profits.	
Society: Computers for Schools	To increase the cumulative value of computer equipment supplied to schools to £92m.	We met our target. Since the start of the scheme £92m of computer equipment has been supplied to schools.	
	To increase the number of schools participating to 24,500.	We exceeded our target with 25,221 schools participating.	
Society: Race for Life	To help recruit 350,000 women to participate.	We exceeded our targets with over 409,000 women taking part.	
	To get 15,000 Tesco staff to participate.	We exceeded our target with 18,752 Tesco staff taking part.	
	To help raise sponsorship to £20m.	We met our target by helping to raise over £20m in sponsorship.	
Society: Employee retention	To exceed 80% retention of experienced staff.	81% of our experienced staff stayed with us throughout 2004/05.	
Society: Employee training	95% of retail staff to be trained to Bronze level.	95.4% of our retail staff achieved Bronze level.	

New KPIs

KPI	KPI FOR 2005/06
Inclusivity and diversity	No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint survey question 'I look forward to coming to work'.
Healthy living	To have 2,000 products subject to new nutritional signposting.
	To increase the number of Healthy Living Club members from 220,000 to 500,000.
International Corporate Responsibility	To hold workshops for our International businesses.
	Our businesses to have a CR strategy with performance measured in their Steering Wheel.

ON TARGET	EXCEEDED EXPECTATIONS	KPI FOR 2006	PAGE
		To open 3 partnership stores, initiate 6 new partnerships and create 1,000 jobs and training positions.	18
		To carry out ethical assessments of 100% of our high-risk own-brand suppliers.	22
		To train 100% of our high-risk own-brand suppliers.	22
		To ensure all Commercial teams have received training on supply chain labour standards.	22
		To maintain at least 7,000 regional and local lines.	26
		To donate a value equal to 1% of our pre-tax profits to charities and good causes through donations, time and gifts-in-kind.	29
		To increase the cumulative value of computer equipment supplied to schools to £100m.	32
		To increase the number of new schools participating by 1,500.	32
		To help recruit 425,000 women to participate.	30
		To get 20,000 Tesco staff to participate.	30
		To help raise £23m.	30
		To exceed 80% retention of experienced staff.	35
		95% of retail staff to be trained to Bronze level.	35

Data verification

Verification of the data used for the KPIs is carried out using independent sources where possible. These include market share data, independent surveys, utilities and services bills, inventories and audits for the Emissions Trading Scheme and Climate Change Levy Agreement, and audits and compliance schemes for packaging waste. Where these are not available, internal budget controls are used.

KPI	2005	HOW WE PERFORMED	BELOW TARGET	ON TARGET	EXCEEDED EXPECTATIONS	KPI FOR 2006	PAGE
Environment: New store development	To develop 90% of new stores on brownfield sites.	We exceeded our target, with 100% of all new developments on brownfield sites.				To develop 90% of all new stores on brownfield sites.	19
Environment: Energy efficiency	To reduce energy consumption by 4.44kwh/ft ² which equates to a 3.6% reduction.	We achieved our target – actual performance saw a reduction of 4.75kwh/ft ² , which equates to a 3.9% reduction.				To reduce energy consumption by 4.85kwh/ft ² , which equates to a 5% reduction.	44
Environment: Water consumption	To reduce 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.	We achieved our target to reduce water consumption to 1.32m ³ /m ² , which equates to a 7% reduction.				To reduce water consumption from 1.32m ³ /m ² to 1.1m ³ /m ² , which equates to a 7.6% reduction and saves 493,793m ³ of water p.a.	46
Environment: Vehicle efficiency	To achieve a 2.5% increase in the volume of products delivered per litre of fuel consumed.	We exceeded our target by over 10%.				To achieve a further 2.5% increase in volumes of products delivered per litre of fuel consumed.	47
Environment: Landfill avoidance	To monitor landfill avoidance. 65% of waste to be recycled.	We exceeded our target. 65.2% of waste was recycled.				To recycle 68% of waste.	48
Environment: Green trays	To increase the number of re-usable green tray trips by 10%.	We have increased the number of trips by 7%, just missing our target due to seasonal increase and issues with the availability of trays.				To increase the number of re-usable green tray trips by 10%.	50
Environment: Nature's Choice	To register all growers to Nature's Choice by 2006/07.	This was the first year of a three-year programme to register all growers to Nature's Choice by 2006/07. The registration of growers is prioritised by country. In 2004/05 we achieved registration of 6,000 farms in 41 countries, which is equivalent to approximately 80% of growers.				To register all growers in countries prioritised for the second of the three-year programme. To remain on target to ensure all growers are registered to Nature's Choice by 2006/07.	51
	80% of supply-base to comply with Nature's Choice standards by 2005.	This was the first year of a three-year programme to achieve 100% of suppliers complying with Nature's Choice Standards by 2006/07. The audit programme is prioritised by country. This year we achieved our target for 80% of the supply-base to be compliant to Nature's Choice standards.				To audit suppliers in countries prioritised for the second of the three-year programme. To remain on target to ensure 100% of suppliers comply with Nature's Choice standards by 2006/07.	51
	To review all pesticides used by growers audited in year 1 by the end of 2004/05.	This was the first year of a three-year programme to review pesticide uses by all growers by 2006/07. Pesticide reviews were again prioritised by country. This year we achieved our target, reviewing all pesticides used by growers audited in year 1, of these, 190 uses were removed and extra controls put in place for another 570.				To review all pesticide uses of growers audited in year 2. To remain on target to ensure all pesticides used by growers are reviewed by 2006/07.	51
Environment: Wildlife Choice	Wildlife Choice website to be launched.	We are on track to launch the Wildlife Choice website in the summer of 2005.				To launch the Wildlife Choice website in summer 2005.	52
	Full review of project to be undertaken in October 2004.	A review was carried out in October 2004.					52
Environment: Organic food	To be the number 1 UK supermarket for organics, as measured by Taylor Nelson Sofres (TNS) data.	We achieved our target, with a 27% market share.				To remain the leading supermarket for volume of organics as measured by Taylor Nelson Sofres (TNS) data.	53

All the Corporate Responsibility KPIs in the table to the left are included in our Steering Wheel management process.

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.