



TESCO | *Every little helps*

what's inside the reports



Annual Review and Summary Financial Statement

Read a full review of our UK and international business and a summary of our financial statement.



Annual Report and Financial Statements

Read our full financial statements and accounts.



Corporate Responsibility Review

Read about our social, environmental and ethical policies throughout our business.

These reports are available on-line at www.tesco.com/corporate

Every little helps

How to find out more on-line

Every year, more and more information is available for our shareholders, staff and customers on-line at www.tesco.com/corporate

Talking Tesco

Our Talking Tesco website is helping us to listen to our customers, suppliers and staff more easily. If you would like to make a comment please log on to www.tesco.com/talkingtesco



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Sir Terry Leahy

Chief Executive's introduction

A year ago, I identified a growing set of customer priorities and set out our response to them. Customers have always told us that they want us, above all, to provide a good shopping trip. Their trust in us depends on it. But we know that other things matter to them too. They want businesses – including supermarkets – to be good neighbours in the communities they serve. And they want to be assured that businesses are responsible, fair and honest.

We have therefore put community and sustainability issues at the heart of our Community Plans around the world. We have also put the Community Plan at the heart of our business through our Steering Wheel.

Across our business, internationally as well as in the UK, we have taken responsibility for tackling one of the gravest threats we all face: that of climate change. Scientists say with ever-increasing clarity that, if we fail to secure radical cuts in greenhouse gas emissions, the consequences for all of us could be severe. For each one of us this poses a challenge. I am determined that Tesco should meet this challenge by being a leader in helping to create a low-carbon economy.

By next year we will have halved the average energy use of our UK stores compared to the year 2000. We are committed to measuring and publishing our global carbon footprint as a business, including all our existing stores and distribution centres worldwide. And we will reduce emissions from these buildings by at least 50% by 2020.

To combat waste, we are also installing the world's most advanced automated recycling machines in at least 106 of our stores this year – helping customers double the amount they recycle with us.

We are responding positively to growing customer demand for local foods. In the UK, we will soon have eight local buying offices around the country – working with local farmers to bring new, exciting products to our customers. We are moving to long-term contracts with our milk producers and are launching an exciting new brand of local choice milk from small milk producers.

Through our Green Clubcard points, we are rewarding our customers for reusing carrier bags. We are well on the way to reaching our target of cutting the number of new bags issued by 25%.

We've got over one million people physically active with Tesco through events like Cancer Research UK's Race for Life and the Tesco Great School Run. Health and physical activity programmes are priorities in other countries in which we operate too.

We remain determined that everyone involved in our supply chain benefits from their relationship with Tesco. This year, for example, we stepped up our ethical training programme for buyers and suppliers, and increased our audits of employment conditions among overseas producers.

These are just some of the opportunities we have seized already. This, our sixth Corporate Responsibility Review, records what we have done in more detail. It also focuses on what we see as the main issues for Tesco in this increasingly important area of business performance.

There is more to do.

At first glance, some challenges seem dauntingly large. But we have always had confidence that, if we work together with our customers, staff and partner organisations, we can make a difference.

Our unique role is to give customers the information they need to make more sustainable choices, and extend these from a minority to the mainstream by making green options more affordable – just as we have made other products more affordable. This is not altruism. By satisfying this growing demand, we will be rewarded with more custom and more loyalty. Tesco will grow stronger as a result.

We are beginning the search for a universally accepted and commonly understood measure of the carbon footprint of every product we sell. This will enable us to label our products so that customers can compare their carbon footprint as easily as they can currently compare their price or nutritional profile.

Chief Executive's introduction

We will be energetic on other issues too. In the UK, we have set ourselves a target of reducing our packaging by 25% by 2010.

On health and physical activity, we want to double from one to two million the number of people active with Tesco in the run-up to the 2012 London Olympics.

Social mobility, and the problems that young people from deprived backgrounds face when they try to make their way in society, is emerging as a priority in the social and community policy debate. Instead of seeing a new Tesco store as a threat to settled communities, I want people to see it as an opportunity for social mobility and social cohesion. For the truth is that our stores serve a large number of communities and our staff live and work there. By building new stores, creating new jobs and giving people new skills in some of our most deprived areas – in cities like Glasgow, Manchester, Liverpool and Leeds – we are advancing social mobility.

I believe that business itself must operate in ways that nurture and sustain community activity and enterprise. Engaging with communities must be central to the way that businesses operate.

Nowhere must this be more true than in Tesco. Tens of thousands of people come to each of our stores each week. Our staff and our customers are part of the fabric of the local community, along with their parents, children, friends, neighbours and loved ones. People shop with us for their daily needs and for their special occasions. They use our cafes to meet their friends. They collect Computers for Schools vouchers for their local schools – they've got so good at doing this that we have now given away well over £100 million of computer equipment to schools since Computers for Schools began.

Many of our stores are already used by clubs and communities as places to meet. We welcome school classes to learn from what we do – for example, on nutrition. I want to see more of this. I also want to see our stores and our staff engaging more closely in local communities.

More than 2,500 Tesco Express convenience store managers and staff will be spending a day working in their local community over the next year, getting to know the neighbourhood even better, by doing anything from running a stall at the village fete to helping to clean up a local beauty spot. We are also running a pilot staff volunteering scheme in 20 of our stores with the British Red Cross. This scheme will enable selected staff to volunteer their services to a number of British Red Cross projects within their local community for a few hours each month. And we are spending £500,000 over the coming two years to set up 'Tesco Young Volunteers', a new youth volunteering charity whose aim is to empower people between the ages of 16 and 25 to get involved in community projects.

The message from our customers is that they want to be empowered to make more sustainable choices and they want to see Tesco active in their community. They are ready for a revolution in green consumption and community activity. I can think of no more exciting challenge for Tesco.



Sir Terry Leahy Chief Executive

Our Corporate Responsibility achievements, commitments and challenges

In 2006/07, our achievements and commitments included:

- Committing ourselves to opening local sourcing offices in every region of the UK (see pages 44 to 51)
- Offering direct contracts to dairy farmers, raising the price they receive for their milk to around 22 pence per litre, and sourcing new 'localchoice' milk from local farms to be sold for more per litre than standard milk (see pages 44 to 51)
- Achieving an absolute reduction in the energy used by our buildings, despite growing our floorspace by 8% (see pages 22 to 29)
- Launching our Green Clubcard scheme, rewarding customers with extra Clubcard points for environmentally friendly behaviour. Over 400 million bags have already been saved since the scheme launched in August 2006 (see pages 22 to 29)
- Beginning the search for a universally accepted and commonly understood carbon label for our products (see pages 22 to 29)
- Increasing the sales of more sustainable products, with Organic sales up 39% to almost £500 million – and halving the price of energy-efficient light bulbs (see pages 30 to 37)
- Pledging to reduce the amount of packaging on both branded and Tesco own-label products by 25% by 2010 (see pages 38 to 43)
- Investing £15 million in automated front of store recycling facilities (see pages 38 to 43)
- Completing the roll out of front of pack nutritional labelling to 6,600 products, and helping one million people get active in running, walking or cycling events sponsored or organised by Tesco (see pages 58 to 65)
- Eight countries have developed a Community Plan to launch in 2007, with a second wave of countries launching their first Community Plans in 2008. By the end of 2008/9, all of our international businesses will have a Corporate Responsibility Committee, Corporate Responsibility Strategy, and a Community Plan (see pages 6 to 15)
- Raising £3.4 million for our 2006 Charity of the Year, Whizz-Kidz, which provides disabled children with their own customised mobility equipment. This has broken our previous fundraising record, and will help over 750 children (see pages 72 to 77)
- Setting a Guinness World Record when 242,000 children took part in the Tesco Great School Run, and encouraging 750,000 women to take part in the Cancer Research UK's Race for Life (see pages 72 to 77)

In 2006/07, our challenges included:

- The Competition Commission continued their Inquiry into whether the grocery market was functioning effectively, and whether any features of the market prevented, restricted or distorted competition. Because we try to do the right things for customers, in many ways we share the Competition Commission's aim – to ensure that the industry functions in a way that is good for consumers. We welcome the opportunity to share our views with the Competition Commission to help them gain a complete understanding of the marketplace and the perspectives of consumers, suppliers and stakeholders as well supermarkets and their staff (see pages 52 to 57)
- Concerns were raised about worker welfare in the Bangladeshi clothing industry, with allegations that several of our suppliers use child labour. A thorough investigation was carried out by Tesco, independent auditors and local NGOs – and no evidence of child labour was found. However, we remain committed to working with NGOs, suppliers, trade unions and the government to improve our procedures (see pages 66 to 71)
- In the pursuit of sustainability, trying to reduce our carbon impact from food air miles without jeopardising the livelihoods of farmers and growers in developing countries (see page 71)
- In the high street, trying to be a good neighbour and responding to community concerns over planning, noise and congestion (see pages 52 to 57)

Corporate responsibility in our business

Corporate governance

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

The Board considers strategic reputational risks every time it meets and discusses Corporate Responsibility strategy bi-annually. The Executive Committee receives regular 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. Significant risks and any control failures are escalated to senior management and the Board, as necessary.

Corporate Responsibility leadership is provided by a cross-functional committee of senior executives, chaired by one of our Executive Directors, Lucy Neville-Rolfe. Members of the Corporate Responsibility Committee are drawn from across the business, which ensures that corporate responsibility is at the heart of our daily operations.

As our business grows internationally, we recognise the importance of International Tesco participation in our Corporate Responsibility Committee and the work we do on the environment and in communities.

Corporate Responsibility Committee



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



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



3 Keith Aughwane, Engineering and Maintenance Director;

4 Terry Babbs, International Trading Law and Technical Director;

5 Mark Bather, Store Director;

6 Patrick Burrows, Corporate Purchasing Director;



7 Jonathan Church, Media Director;

8 David Cox, International Corporate Affairs Director;

9 Catherine Glickman, Director of Personnel Services;

10 Deborah Hayeems, Corporate Governance Manager;



11 Liz Kynoch, Technical & Trading Law Director;

12 Alex Laffey, Transport Director;

13 Andrew Mann, Clubcard Director;

14 Noel Robbins, Chief Executive Central Europe;

15 Emily Shamma, Head of Local Sourcing;



16 Patrick Stones, Property Director;

17 Nanbin Zhuang, Corporate and Government Director, Tesco China

The Committee has an explicit remit to:

- assess risks
- develop corporate responsibility strategy
- review our social, ethical and environmental policies and practices
- encourage best practice throughout the business
- identify opportunities to improve the effectiveness and sustainability of the business using the Community Plan and other initiatives
- review, agree, monitor and report on our Corporate Responsibility Key Performance Indicators (KPIs)
- increase internal awareness of Corporate Responsibility
- improve stakeholder communication and engagement

In addition to the regular meetings, the Committee holds two away-days each year. External speakers are invited to comment on our CR performance, our strategy and reporting and to provide insight on key issues. This year, speakers have included Peter Madden (Chief Executive of Forum for the Future), Carolyn McCall (Chief Executive of Guardian Media Group), Matthias Schmale (Director of International Division, British Red Cross), and Rosie Hurst (Director of Impactt, ethical audit consultants).

CR COMMITTEE EFFECTIVENESS REVIEW

Each year we carry out an effectiveness review of the Committee, with Members asked to complete an anonymous survey looking at how the group has performed over the previous 12 months. The 2006/7 Review was carried out in February 2007, with Members giving positive feedback on the number of meetings, and the perspective that external speakers had brought. Members also asked for additional time to discuss key agenda items, and for additional International representation on the Committee. Nanbin Zhuang, Corporate and Government Director for our Chinese business, has now joined the Committee.



AWARDS

- Retail Week Awards – Consumer’s Favourite Retailer (March 07)
- Management Today Awards – Britain’s Most Admired Company; Britain’s Most Admired Leader; Quality of Management; Financial Soundness and Value as a Long Term Investment (November 06)
- Grocer Awards – Online Retailer of the Year, Grocer of the Year, Britain’s Favourite Retailer (June 06)
- Tommy Parent Friendly Awards – Best Supermarket; Best Online / Home Delivery Services (March 06)
- Silver Payroll Giving Award (May 06)

CASE STUDY

Developing our Corporate Responsibility strategy

The retail sector is undergoing rapid change, with increasing expectations of business on sustainability and community. Forum for the Future, supported by Tesco and Unilever, is conducting a wide-ranging exercise looking at possible futures for the UK retail industry in 2022, and the implications for corporate sustainability strategies. The project will first seek to understand the major trends and factors that will influence the retail sector’s development over the next 15 years. The second stage will use this information to develop possible futures for the retail sector in the UK in 2022. The third stage will use the scenarios to inform strategic conversations about sustainable development in Tesco and Unilever. Finally, the scenarios and key learnings will be shared with stakeholders at an event in autumn 2007.

Corporate responsibility in our business:

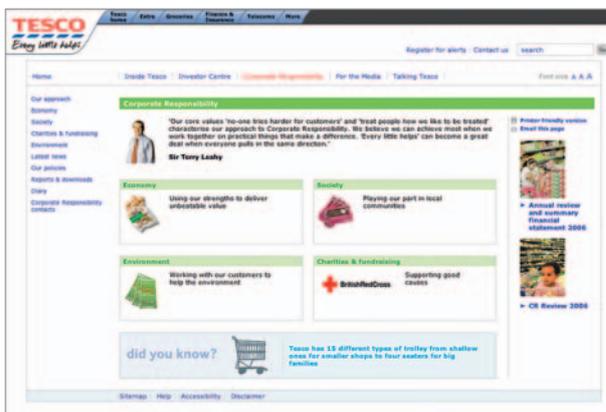
Corporate governance continued

Corporate Responsibility reporting

This annual Corporate Responsibility Review is our main method of reporting to our stakeholders on our social, environmental and ethical policies and performance. The Review covers both our UK business and our growing international presence. The drafting of this Review has taken into account the principles of the Global Reporting Initiative's 2007 Sustainability Reporting Guidelines, and a GRI contents index is available on-line at: www.tesco.com/cr.

Later this year the website will also include new summaries on our Corporate Responsibility priorities and achievements in every region of the UK.

Our overall approach to managing both financial and non-financial risks is set out in our Corporate Governance Statement on page 22 of the 2007 Annual Report and Financial Statements, which can be found at www.tesco.com/corporate.



Our Corporate Responsibility website www.tesco.com/cr contains further information, such as the full text of our various policies in this area, performance data for our international operations and case studies. The site also includes html and pdf versions of this Review.

Later in 2007, the website will also include summaries for each of our International businesses – showing their key challenges and key achievements from the past year, and their Corporate Responsibility KPIs for the year ahead.



In August 2006 we distributed one million regional leaflets setting out our local community and environment achievements

The Community Plan

Our annual business plan has been one of Tesco's strengths in recent years, based on our Steering Wheel (see below) where we set out specific projects which the business will deliver over the following 12 months. In 2006 we launched our first annual Community Plan. This added a Community segment to the existing four business drivers (Customer, People, Operations and Finance). Integrating this new segment into the Steering Wheel is a significant step in building our commitment to community, corporate responsibility and sustainability. We have directed resources, energy, focus and vigour to delivering the expectations of customers, communities and stakeholders that Tesco will:

- be a good neighbour
- be responsible, fair and honest in the way we do business

UK Community Plan projects have already made a huge difference since their launch in 2006, with 400 million carrier bags saved (see Waste, pages 38 to 43), new regional buying offices around the UK (see Farmers and Local Sourcing, pages 44 to 51), and GDA nutritional labelling across 6,600 of our own-brand food products (see Health and Nutrition, pages 58 to 65). A key priority over the next two years will be the roll-out of the Community Plan approach to all of our international businesses.

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

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

As a result of our 2006/07 KPI review, and feedback from our external stakeholders, we have:

- reported on our first externally verified KPIs (for example, vehicle efficiency and energy saving in our buildings)
- introduced our first long-term Group KPI (reducing by 50% by 2020 the carbon footprint of our existing stores globally)
- increased the number of KPIs which have longer-term targets stretching over several years

The new KPIs are featured in the relevant chapter in this report, and a full list is on page 78.



Corporate responsibility in our business:

The Community Plan continued

Rolling out the Community Plan across the Tesco Group

Our businesses in eight countries have developed a Community Plan to launch in 2007/08, with a second wave of countries launching their first Community Plans in 2008/09. By the end of 2008/09, our international businesses will have a Corporate Responsibility Committee, Corporate Responsibility Strategy, and a Community Plan.

The plans have consistent themes covering health and nutrition, suppliers, the environment, and making our stores more local. Specific projects and initiatives have a local flavour, tailored to the communities where we operate.

The UK has been working closely with in-country teams to share the lessons learnt as the UK Community Plan has been developed and implemented.



COMMUNITY PLAN ROLL-OUT

2006 COMMUNITY PLAN LAUNCHED
UNITED KINGDOM

2007/08 LAUNCHING COMMUNITY PLAN
CZECH REPUBLIC
SLOVAKIA
HUNGARY
SOUTH KOREA
POLAND
THAILAND
TURKEY
REPUBLIC OF IRELAND

2008/09 LAUNCHING COMMUNITY PLAN
CHINA
JAPAN
MALAYSIA
USA

COMMUNITY PLAN PROJECTS LAUNCHING IN OUR INTERNATIONAL BUSINESSES IN 2007/08

Common themes



Republic of Ireland projects

- Reducing energy use
- Recycling – store and customer
- Biofuels
- Low energy stores and distribution centres

Local / national sourcing & promotion

- Healthy Living – price investment
- Nutritional labelling
- Get active

Store mobilisation programme

Czech Republic projects

- Reducing energy use
- Recycling – store and customer
- Low energy stores and distribution centres
- Reducing carrier bag use

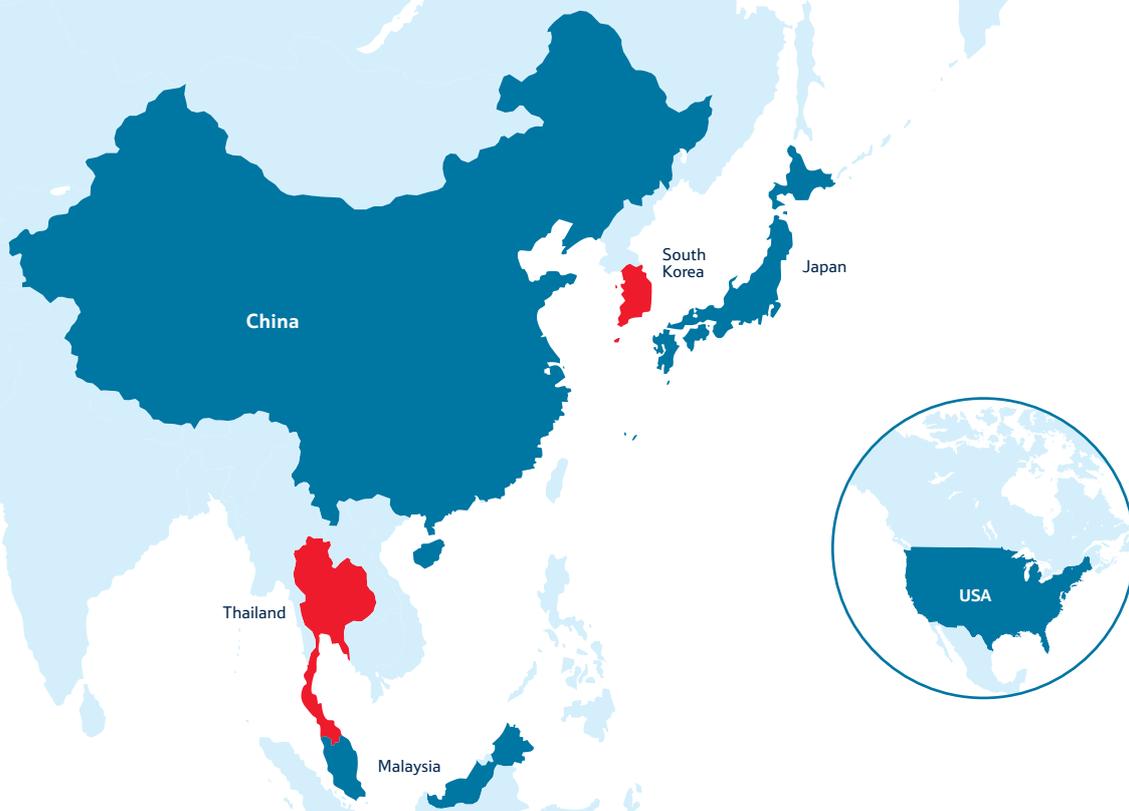
Regional/National/Local sourcing

- Healthy Living – lines and marketing
- Nutritional labelling
- Get active for staff

Missing children with Police

Community boards

Playground for every school



Slovakia projects

- Reducing energy use
- Recycling – store and customer
- Low energy stores and distribution centres
- Reducing carrier bag use

Regional/National/Local sourcing

- Healthy Living – lines and marketing
- Nutritional labelling
- Get active for staff

- Missing children with Police
- Community boards

Playground for every school

Hungary projects

- Reducing energy use
- Recycling – store and customer
- Low energy stores and distribution centres
- Reducing carrier bag use

Regional/National/Local sourcing

- Healthy Living – lines and marketing
- Nutritional labelling

Community boards and charities

Working with schools

Poland projects

- Reducing energy use
- Low energy stores and distribution centres
- Reducing carrier bag use

Championing regional suppliers

- Healthy Living – marketing
- Nutritional labelling

Community boards and charities

Tesco for Schools

Turkey projects

- Reducing energy use
- Recycling – store and customer
- Biofuels
- Low energy stores and distribution centres
- Reducing carrier bag use

Local/national sourcing & promotion

- Healthy Living – lines and marketing
- Nutritional labelling
- Get active

Fund for Schools

Thailand projects

- Reducing energy use
- Biofuels
- Low energy stores and distribution centres

Helping small retailers

- Healthy Living – lines and marketing
- Nutritional labelling
- Get active for staff

Staff volunteers for charities

- Support Schools vouchers
- Education scholarships

South Korea projects

- Reducing energy use
- Recycling – store and customer
- Low energy stores and distribution centres

Supplier open days

- Healthy Living – lines and marketing
- Nutritional labelling
- Get active

Sharing society – volunteering etc

Culture centres

Corporate responsibility in our business:

Stakeholder engagement

Feedback from our stakeholders helps us to develop our Corporate Responsibility Strategy and our Customer and Community Plans. Our aim is to respond with practical initiatives throughout our business and examples of this approach can be found throughout this Review.

Tesco has a wide range of stakeholder groups, all with their own expectations. These can sometimes clash, so we need to balance different expectations and ensure that all stakeholder groups know we have listened to their views.

UNDERSTANDING OUR STAKEHOLDERS

STAKEHOLDER GROUP	INTERACTION WITH TESCO	STAKEHOLDER EXPECTATIONS OF TESCO	PROJECTS AND KPIs
Customers 	Store operations, marketing campaigns, new product development, Clubcard, price promotions.	Good shopping trip. Be a good neighbour locally. Operate fairly and honestly. Opportunities to buy sustainable products and recycle.	See chapters: Charities and Community, Sustainable Consumption, Climate Change, Farmers and Local Sourcing, Waste and Packaging.
Governments 	Direct and indirect taxes. Complying with rules and regulations. Developing the skills of the workforce. Positive action on community and the environment.	Strict compliance with legislation, providing stable and family-friendly employment and good training, and paying all relevant taxes.	See Being a Good Employer.
Investors 	Effective communication of strategy, approach and performance. Competitive returns and dividends.	Management of corporate governance, social and environmental risks. Consistent annual dividend yield.	See this Chapter and Annual Report.
NGOs 	Presentation of activities and priorities. Consultation on new policies and projects. Joint working and financial support on shared initiatives. Campaigning.	Leadership approach to Corporate Responsibility, clear policies and principles, reliable reporting, transparent communications and interaction.	See chapters: Charities and Community, Sustainable Consumption, Climate Change, Farmers and Local Sourcing, Waste and Packaging.
Suppliers and Farmers 	Direct commercial relationships with suppliers of food and non-food products around the world. Indirect commercial relationships via processors and manufacturers.	To be treated fairly and honestly. Long-term relationships, opportunities for business growth and shared customer insight. Opportunities for growth.	See chapters: Ethical Trade and Developing Countries, Farmers and Local Sourcing.

Customers

Our Customer Question Time (CQT) meetings help us to identify and respond to changing customer needs. They are recognised as a key factor in our success in recent years. These meetings, held in stores around the world, enable staff and senior managers to hear customers' views on everything from how we are serving them to our role in the community. This year we held 279 CQTs in the UK, involving almost 6,000 customers. Information from these focus groups, alongside feedback from 46,000 customer interviews in-store, is used to drive our Customer and Community Plans. These Plans are the management tools we use to deliver continued improvement in customer satisfaction.

We also held CQTs focussing on particular issues, including disabled parking, packaging and carrier bags.

Every year we commission an independent survey in the UK of public attitudes to corporate responsibility and to Tesco. The results this year, based on the views of 2,000 people, showed that the public believes we are taking our responsibilities seriously. We were also rated strongly on making a positive contribution to communities in which we operate.

Companies helping community or society

Base: All those recalling companies helping the community or society (320 GB adults 16+) MORI August – September 2006



But customers' expectations are continually increasing on corporate responsibility. They want us to do more, particularly on tackling climate change and reducing packaging, making it easier to eat healthily and helping them make sustainable shopping choices.

Consumers and new Tesco stores

Our approach to community consultation on planning is based on listening and responding to customers and potential customers. We use a range of methods to engage with local communities to gain a representative picture of the views of the whole community. Methods include a combination of public exhibitions, leaflet drops, focus groups, consumer panels, and working with local community groups. In 2007, we improved the way we consulted local communities by holding a public exhibition on every new Tesco superstore, to ensure that we have understood local issues and concerns. These approaches reflect Government policy, which encourages developers to engage the community, particularly before a planning application is submitted. For further information on new stores see page 56.

Staff

To do a good job for customers, people need to feel good about the place where they work. It is important that our staff understand the principles that guide the way we do business and feel proud to work for Tesco. So it is vital that we listen to and engage with our people as often and as well as we do with our customers.

Our staff give direct feedback through Staff Question Time sessions and Staff Forums which are part of our partnership agreement with the Union of Shop, Distributive and Allied Workers (Usdaw). They are also invited to give anonymous feedback through our annual Viewpoint survey. In 2006/07, a total of 229,000, or 90%, of our staff completed the survey. The vast majority of staff enjoyed working for Tesco, thought benefits had improved, and thought they had an opportunity to get on. Our 'Pulse' survey also tracks staff views on how they feel about working for Tesco. In January 2007, over 80% of staff thought Tesco acted in a responsible way on the environment, with new initiatives on carrier bags and recycling having a particularly positive impact.

Corporate responsibility in our business:

Stakeholder engagement *continued*



SURVEYS

Business in the Community Per Cent Club

We maintained our membership of the BITC PerCent Club, donating more than 1.6% of our pre-tax profits – over £43.4 million – to good causes.

Business in the Community Big Tick

In 2006 our Sport for Schools and Clubs scheme won a Business in the Community Big Tick and we were highly commended for Computers for Schools with Business in the Community stating that ‘Tesco has made a measurable impact on society through the Computers for School programme’.

Carbon Disclosure Project

Tesco was named a member of the Carbon Disclosure Project’s ‘Climate Leadership Index’, and top of our sector in 2006. This Index shows investors which 50 high impact FT500 companies have the most comprehensive climate-change disclosure practices in place.

Marine Stewardship Council – ‘Sustainable Supermarket Survey’

This year we moved up from fourth place to third, with recognition that our new fish procurement policies had helped us target problem fish species and delist them.

National Consumer Council – ‘Short-changed on health?’

This year we came 2nd in the National Consumer Council (NCC) survey on health, up from 5th place last year. NCC recognised the progress we have made in making it easier than ever for our customers to make healthy choices, with increased Tesco scores for nutritional labelling and healthy promotions.

National Consumer Council – ‘Greening supermarkets’

In September 2006 the NCC published their first ever survey on the environment. This recognised our progress on packaging, reducing carrier bags, and growing our organic range, but gave us an overall ‘Room for Improvement’ rating – calling for us to make green choices mainstream.

Suppliers and farmers

Our Core Value, ‘Treat people how we like to be treated’, forms the basis of our relationships with suppliers. We intend those relationships to be long term.

1,500 suppliers

have supplied Tesco for
five years or more

To help us understand the views of our suppliers, we carry out an annual survey based on our staff Viewpoint model, which is fully confidential and anonymous. In February 2007 1,474 suppliers completed our third supplier Viewpoint survey. The survey found that 94% of suppliers rated us as trustworthy, reliable, consistent, clear, helpful and fair. 95% of suppliers said that we paid them on time, and suppliers also felt that our buyers were becoming more accessible to them.

Our commercial teams hold supplier meetings, training sessions and conferences, and attend industry events throughout the year including:

- Technical manager meetings with suppliers to look at product, packaging, new product development, Nature’s Choice, ethical trading, communication and specification
- Conferences for our organic and produce suppliers
- Grower training for over 200 growers, covering safe handling, quality testing, Nature’s Choice and ethics
- Training all our high-risk suppliers on our Ethical Trading policy (see Ethical Trade and Developing Countries, pages 66 to 71)
- Stands and suppliers’ meetings at the Royal Agricultural Shows
- Local sourcing roadshows (see Farmers and Local Sourcing, pages 44 to 51)

We fully support the legally binding Supplier Code of Practice. All our buyers are trained to understand and comply with the code and the 2006 Office of Fair Trading audit of the code found no breaches at Tesco. One of the key issues is that of supplier confidence. To help increase supplier confidence when raising concerns, we have appointed a Code Compliance Officer, independent from our commercial teams, to advise and help resolve complaints, confidentially if necessary.

Investors

We maintain a good dialogue with shareholders by organising meetings and presentations and responding to a wide range of enquiries. We want to understand shareholder views on a range of issues from strategy to corporate governance and we recognise the importance of appropriately communicating any significant company developments. This shareholder communication is mainly co-ordinated by our Investor Relations team. During the year, we met with 97 of the leading shareholders representing over 53% of the issued shares of the company. To complement these meetings, the Chairman meets with major shareholders to discuss governance matters. The Board is kept informed of the views of shareholders, either through direct meetings or through updates from the Investor Relations team.

As part of our engagement programme, we meet with representatives of the Socially Responsible Investment (SRI) community and with mainstream investors. These meetings give us the opportunity to provide an update on our Corporate Responsibility strategy and performance, discuss key opportunities and challenges and seek feedback to improve our future programme. Sessions during 2006/07 have provided constructive feedback, with Tesco seen to have taken significant steps in CR in the past 12 months, particularly in the areas on which the Community Plan has focused – climate change, local sourcing, and reusing carrier bags. Investors would like to hear more detail on our international approach – and eventually see a global CR Review.

Non-governmental organisations

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

We have met over 60 NGOs throughout the year through seminars and meetings. Engagement covered the full range of key issues for the business, including energy, packaging and waste, health and nutrition and ethical trading. In April 2007, we held a nationwide Community Conference in partnership with the British Red Cross and the Work Foundation. This brought together voluntary groups, charities, businesses and Government to explore the role of business in local communities.

We always respond to requests for information from NGOs as fully and as promptly as we can. In 2006/07 we contributed to research, surveys and information requests on a wide variety of issues, including seafood sourcing, refrigerants, carbon emissions, animal welfare and health and nutrition. We always ask NGOs to share their findings with us to help us understand issues of concern, investigate if necessary and improve our performance wherever possible.

Government

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



Hulya Dikkas, Bornova Forum, Turkey

Being a good employer

Introduction

The ability to attract and retain great staff is the biggest challenge for any business. Society is becoming increasingly diverse with people from around the world making Britain their home. Life expectancy is increasing, and working lives are getting longer. The relationship between work and family is also changing. Similar trends are emerging in other countries where we operate, alongside declining birth rates and growing urbanisation.

Tesco wants to attract people of all races, religions and backgrounds, people with disabilities, part-timers, young and older people to work at our stores. In order to achieve this, we know that we must provide for a variety of career paths and patterns of working, a good work-life balance and comprehensive employee benefits.

We must also provide lifelong learning and workplace training that brings new employees from all walks of life to similar skill levels. By making Tesco a great place to work and giving people interesting jobs, we know that our people will in turn look after our customers.

Our approach

Our aim is to promote a culture within the company where each individual gives his or her best, enjoys work and is well rewarded, trusted and respected. We value everyone's contribution, irrespective of age, sex, disability, sexual orientation, race, colour or belief. We believe that diversity is a strength and we promote it within the company under our policy 'Everyone is Welcome at Tesco'.

One of our core values, which drives the way we operate, is to 'treat people how we like to be treated'. In practice, this means that we:

- are 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 Human Rights Policy, Equal Opportunities Policy and Code of Ethics for employees can be seen at www.tesco.com/cr.

Every January we carry out our Viewpoint staff survey, asking all employees to give us anonymous feedback on Tesco as an employer (see results on page 13).

150,000

members of staff are supported by our Defined Benefit Pension Scheme

The Staff Forums result from our pioneering partnership agreement with the Union of Shop, Distributive and Allied Workers (Usdaw), and take place every four months in all stores. We support the right of all our employees to join a trade union, and around half of our UK employees are members of a union. Our agreement with Usdaw, forged in 1998, has gone on to become a model for employer-union relationships in the UK.



Being a good employer

Diversity

Our Diversity Advisory Group meets every six weeks to monitor our workforce composition and make sure it mirrors that of the UK population. Our target is to have no statistical difference by age, sex or ethnicity in answer to the Staff Viewpoint survey question: "I enjoy working for Tesco."

We have found that for black and ethnic minorities, there is no statistical difference. However, under 25s, over 45s and female members within our workforce are less happy to come to work than the average Tesco worker. We have therefore put action plans in place to address this. Female workers asked for more information on flexible working hours. As a result, we are now training managers on offering flexible working and we are doing more to promote such schemes throughout the business. Next year we will continue to ask our staff what we do well and what we could do better.

Senior women in our business regularly get together around a series of dinners to build informal networks and discuss topics of mutual interest. Whilst this was a small group at the first dinner three years ago, 48 Tesco Directors, including our non-executives and a number from our overseas businesses, are due to attend our next event in May 2007.

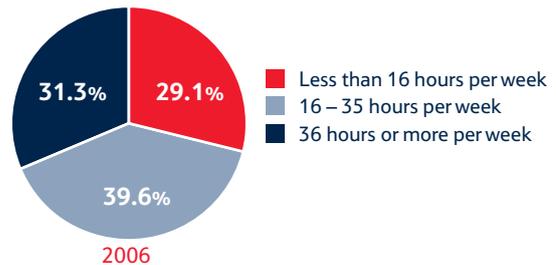
KPI: No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint Survey question "I enjoy working for Tesco."



To ensure that managers understand and support employees from all backgrounds and faiths we provide them with a cultural and religious toolkit. This provides information on diet, prayer, dress and suggestions on how to support their staff during religious festivals. Over 20,000 managers have so far attended one of our 'Everyone is Welcome at Tesco' workshops. Next year, we will be starting a further diversity training programme entitled 'Managing Age with Confidence'.

Shift patterns at Tesco are flexible

Enabling our people to change their hours as life changes



We try to make jobs more attractive to people from ethnic minorities. For example, during Ramadan we change the time of store activities to allow staff to pray in a quiet space. Our stores are issued with a 'selection toolkit' which provides a checklist of information about recruiting people from different backgrounds and cultures, including where to advertise jobs and how to manage interviews with different people. Our dress policy is flexible so that people have a choice to suit their needs; and our holiday policy is equally flexible to allow staff to take an additional day's holiday to celebrate their main religious festival. We also offer basic training in different languages – for example, our store in Beckton conducts briefings in four languages, Hindi, Urdu, Bangladeshi and English.

To help people who otherwise might not be able to work, we allow flexible working hours whenever possible. We offer family-friendly shifts, maternity leave for all, paid paternity leave, equal training and development opportunities for part-time workers, vouchers for most types of childcare, and a career break scheme. We also encourage job sharing, flexi-time or compressed hours, shift swaps, working from home and part-time work when practical.

Disability

We were the first UK employer to set targets for recruiting disabled people and are working with the Shaw Trust and Remploy to reach even more. Over the last year we recruited over 100 staff through these partnerships.

CASE STUDY

Gallions Reach, East London

Our Extra store at Gallions Reach has been working with the Shaw Trust to give a chance to disabled and deprived people from the local community. If someone has been out of work for six months or is disabled, the store trains them and finds them a placement where they work 24 hours a week for six weeks. If they are found to be suitable and there is a vacancy, then they are taken on. The store has taken on six people in this way, mainly as customer assistants in different departments. All six are still working in Tesco. Bakery Assistant Michael Johnson went through a spell of unemployment after leaving college but contacted the Shaw Trust and was given a job at Tesco. "I like the people and have fitted in well. It is a great scheme which has given me the chance of a good career".

Tesco are the Shaw Trust's largest employment partner, with hundreds of clients working in our stores across the UK. We have also begun a new 'into work' programme for young disabled people in partnership with Whizz-Kidz, our 2006 Charity of the Year.

Employee benefits and staff rewards

We offer our award-winning defined benefit pension scheme to all our staff – regardless of their age or the hours they work. Non-members who have been with us for a year and are aged over 25 are entered automatically and 97% of them choose to stay in. As one of a reducing number of companies who offer defined benefits to all staff, we now have over 150,000 employed members who enjoy a comprehensive package of pension benefits payable on retirement, ill health and death. Tesco currently pays around double the amount that members pay. We try to help our employees to understand our scheme through frequent clear and simple communication and a helpline that is open 65 hours a week.

Tesco employees are also eligible for three share schemes, Save As You Earn, Buy As You Earn and Shares In Success. Staff were awarded shares worth a record £77 million last May under our Shares in Success scheme. 50,000 staff were able to benefit when Save as You Earn schemes matured in February, giving them access to shares worth £148 million. This is our largest payout to date and more than 6,000 savers will receive over £7,000 each. We also offer a range of voluntary benefits, bonuses, health care, childcare vouchers, a 10% discount when shopping in store, and vouchers for new services and products.

£148 million

Save As You Earn payout
to staff in 2006/07

Growth in Save As You Earn payouts
Save As You Earn 2005-2007
'Tesco staff payouts are growing'



Being a good employer

Staff training and development

We are committed to staff development – giving all our employees both the skills to do their jobs and opportunities to develop their careers at Tesco. Our training programmes cover everyone from general assistants to senior directors.

Our Training Framework Scheme, started in 1997 and now accredited by the Qualification and Curriculum Authority, delivers most of the training on the shop floor. It involves several layers and we have set targets for 95% of our retail staff to be trained to Bronze level with 75% of retail staff to be trained to Silver level. This year, 85.5% were trained to Silver level and 97% were trained to Bronze level.

2006/07 KPI RESULT:
85.5% of retail staff trained to silver level



2006/07 KPI RESULT:
97% of retail staff trained to bronze level



Having recruited and trained good staff, we want to retain them. Our retention rate for experienced staff is 84.1%, exceeding our target of 80%. We believe in 'growing our own' talent: in the last three years we have appointed 27 Directors, 200 Store Managers and 8,000 Department Managers from within Tesco. Next year, we will appoint over 3,000 new managers in the UK, and want 80% of these to be internal appointments. Worldwide, 1,400 managers have attended our core leadership training courses.

2006/07 KPI RESULT:
84.1% of our experienced staff stayed with Tesco



Our Options scheme is our Development Programme for those identified with the potential to do a bigger or different job. At any time one in ten of our employees is on this scheme, and in the last three years, 50,000 people have been through it.

In the UK we run an apprentice scheme which gives staff aged 16-24 years the experience of working in different parts of our business. Tesco managers coach and assess candidates and successful apprentices are externally certified by City and Guilds. This year, we are opening the apprenticeship scheme to a further 450 staff of all ages and we can now award nationally-recognised NVQs to our staff as the basis of apprenticeships. We are also currently exploring the possibility of providing a foundation degree in Retail Management and Leadership as part of our commitment to providing job-matched qualifications.

We offer lifelong learning in three core areas: Basic IT, Skills for Life (Basic English/Maths and English for speakers of other languages) and Languages.



Selina Larty, apprentice from Glossop, receives her certificate from Martin Cole, Stores Director, Superstores North

165,000 staff

have a stake in Tesco's future through shares and share incentive schemes

Health and safety

Tesco is committed to providing a safe and healthy environment for our people, our customers and our visitors. Our Health and Safety objectives are to comply fully with health and safety law and to reduce accidents and work-related ill health. A statement on our Health and Safety Policy can be seen at www.tesco.com/cr.

Every store measures health and safety performance and reports on it to employees and management three times a year through Staff Forums and the Steering Wheel Management system. Every large store now also has a compliance manager. In 2006, we set ourselves a three-year target to reduce reportable accidents in the workplace by over 10% and we are on track to achieve this. This year alone we have recorded a 21.9% decrease in the customer accident rate and a 13.1% decrease in the retail staff accident rate. Although we have seen a slight increase of 3.7% in the staff accident rate within distribution, we have already taken positive steps to address the increase and we are confident that over the longer three-year cycle we will meet the target.

2006/07 KPI RESULT:

We reduced our reportable accident rate by 6.5%



During 2007/08 we will continue to run our successful awareness campaigns focusing on the main causes of accidents in retail and distribution. In addition, we will:

- launch improved training on manual handling for our staff
- continue to work on improving roll cage safety
- implement and improve our accident reporting system in order to provide better management information, whilst also launching a new accident toolkit to help stores target the main causes of accidents

CASE STUDY

Developing our people

This year, Ryszard Tomaszewski returned to Poland to become the Company's first Polish Chief Executive, after completing his CEO development programme in the UK, which included being responsible for 250 superstores in the north of England. Ryszard's appointment is a great example of our strategy to develop local people in the countries where we operate.

We are constantly striving to find innovative ways to bring young people who have great potential into our business. In September 2006, we launched A-Level Options, giving 100 young people the opportunity to join a scheme which fast-tracks them for management. We are opening this scheme up to even more young people in the year ahead.

1 in 10

proportion of staff on our Options development programme at any point in time



อาคารสีเขียว
GREEN BUILDING

พลังงาน
แสงอาทิตย์

SOLAR
ENERGY

These batteries store energy from the solar
panels above for use at fruit corridor lighting

Climate change

Introduction

There is now an overwhelming scientific consensus that climate change is happening. Scientists tell us that man-made emissions of greenhouse gases are a key factor, and that urgent action by governments, businesses and individuals is needed to combat it. This means there needs to be less reliance on fossil fuel, and that we must nurture the idea of a low-carbon society.

As a result, many customers now want to play their part. However, they need help to overcome some key barriers: a sense that their individual actions won't make a difference; a lack of information about what to do and a worry that buying products that help the environment is expensive.

Tesco is working to tackle these barriers so that we can help deliver a revolution in green consumption – with the fight against climate change at the very heart of it. We also want to set an example by reducing CO₂ emissions in our own business throughout the world, and by sharing information with other organisations, businesses and Government to stimulate a low-carbon economy.

Our approach

We recognise that we need to do more than list a series of environmentally-friendly actions, although those do play their part. We are changing our business model so that the reduction of our carbon footprint becomes an important business driver. We have a comprehensive plan that has three key objectives:

- Helping our customers by making green choices easier and more affordable
- Setting an example by measuring and making big cuts in Tesco's greenhouse gas emissions around the world
- Working with others to develop new low-carbon technology throughout the supply chain

Customers: Green choices

We will make it easier for customers to make green choices by:

Improving information: Working in the widest collaboration, we have begun the search for a universally accepted and commonly understood measure of the carbon footprint of our products covering their lifecycle from manufacture through to use. This will enable us to label all our products so that customers can compare their carbon footprint as easily as they can currently compare prices or nutritional profiles.

We are, for example, working with the Energy Saving Trust to develop stronger energy-efficiency labelling for our electrical products, from light bulbs to televisions.

As an interim measure, we have put an aeroplane symbol on all air-freighted products because this method of transport results in far higher carbon emissions than any other. (For further information on 'food miles', see pages 44 to 51). We will also restrict air freight to no more than 1% of our imports with a bias in favour of sourcing from developing countries.

NEW

KPI: To restrict air transport to less than 1% of our products



Lowering costs: We will offer more energy-efficient products throughout our Value range to help customers on tight budgets. We have begun by halving the cost of energy-efficient light bulbs.

Inspiring children: With DEFRA and the Royal Society of Arts, we are launching Carbon Control (www.carboncontrol.org.uk) to help educate children about the importance of a low-carbon lifestyle. It will show children how simple everyday choices – like sharing a car for the school run or buying seasonal fruit – can make a big difference.

Climate change

Rewarding 'green' choices: We are developing our Green Clubcard scheme to promote energy-efficient and other 'green' products, such as intelligent plugs that switch off appliances when they are not being used. We also use Green Clubcard to encourage customers to reuse and recycle. Last year, we began offering Clubcard points to people for reusing carrier bags, and our customers have responded by taking over 400 million fewer free plastic bags by the end of April 2007 (see also pages 38 to 43).



Carrier bags.
Get Clubcard points when you re-use them.
The more bags you save,
the more points you earn.
We're not fussed whose bags they are.
But we'd prefer the shopping to be ours.

Excludes supermarket and off-peak lifts. See website for details.

TESCO | Every little helps

We promoted reducing carrier bag use through our advertising

Increasing the use of biofuel: We are already the UK market leader in biofuels and during 2007 we aim to double the proportion we sell. This means that customers will be able to buy a 5% bioethanol mix at over 300 petrol stations in the UK. This helps our customers reduce their emissions, as a car driven with our bioethanol mix petrol is responsible for 4.5% less CO₂. We were the UK's first major retailer to incorporate biofuel into our standard petrol and diesel, with no price premium.

We also use a 50:50 biodiesel mix in our own vehicles – the highest percentage blend used by any major distribution fleet. We have a 25% stake in biofuel supplier Greenergy, which has opened the UK's largest single-line biodiesel plant, on the Humber estuary, with an annual production capacity of 100,000 tonnes. Greenergy buys rapeseed for conversion to biodiesel from around 1,500 farmers contracted through Grainfarmers, a large agricultural co-operative in the UK.

“This is big stuff. When you have a company as powerful as Tesco and a boss as influential as Terry Leahy giving serious attention to climate change, the rest of business has to listen.”

Peter Madden,
Chief Executive – Forum for the Future

CASE STUDY

Zero-emission home delivery vans

In April 2007, we launched the UK's first fleet of battery-powered home delivery vans. Each van has a range of 100 miles, and will save 21 tonnes of CO₂ per year – the equivalent of driving 51,000 miles in a car.

Promoting 'green' consumerism: We are setting up a Sustainable Consumption Institute (SCI) to bring together experts from many different areas of environmental work: climate science, technology, economics and consumer behaviour. The SCI will help us to take forward our work on carbon footprinting and labelling, to identify particular pressure points in the supply chain, and to guide our business and our customers towards a low-carbon future. As a first step towards developing the Institute we have commissioned work from the Environmental Change Institute at Oxford University.

Stimulating sustainable technology

Over the next five years we will spend more than £500m on low-carbon technologies to reduce greenhouse gas emissions in our business. We are also working with our suppliers to reduce emissions throughout the supply chain.

Investment: In May 2006 we established a £100m Sustainable Technology Fund to support low-carbon technologies that are not yet fully economically viable, in the hope that we can make them so. We are investing in – or examining seriously – a number of technologies, including renewable energy such as wind turbines and biomass, combined heat and power, and gasification to turn food waste into power. We also consider opportunities for direct investment to make sure that firms with promising technology get the capital they need.

Vehicle efficiency: Although our transport fleet accounts for under a sixth of our carbon footprint, we have made substantial progress in reducing its impact. Our vehicles now rarely travel empty after making a delivery, and we have invested in double-deck trailers which carry more products per load. As a result, last year we cut by 10% the amount of CO₂ emitted to deliver a case of goods. Over the next five years we will reduce by 50% the CO₂ emitted per case of goods delivered.

2006/07 KPI RESULT:

We increased the amount of cases delivered per kilo of CO₂ produced by 7.4%



We are also investing in alternatives to distribution by road. We have already switched from road to rail for transporting goods from our Daventry depot to Scotland and are looking to do more of this, depending on future development of the rail freight network.

Partnership with suppliers: Many of our suppliers are as concerned about carbon emissions as we are, so we are working with them to examine ways in which we can make our processes more efficient. We have already begun to do this with Unilever and are looking to collaborate with others around the world.

To meet a shortage of technicians skilled to work on low-carbon technology, we are starting to train environmental engineers, maintenance technicians and energy 'champions' in our stores.

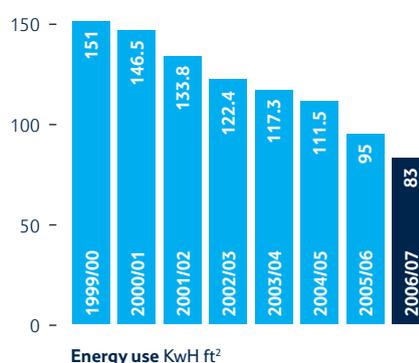
Minimising our impact

Tesco is committed to improving our use of scarce resources such as energy and water. This includes measuring, publishing and reducing our greenhouse gas emissions: our new carbon footprint verification is overleaf, and available at tesco.com.

Energy: We have a target of halving energy use (KwH/sq ft) in our buildings by 2010, against a baseline of 2000. We will meet this target two years ahead of schedule, in 2008 – largely as a result of investing heavily in energy-efficient technologies such as low-energy fans, cold air retrieval systems, timers on lights and high efficiency refrigeration. Superstore managers have been given accountability for energy consumption, and our staff awareness campaigns include an energy training video produced with the Carbon Trust.

2006/07 KPI RESULT:

We reduced our energy use per square foot by 12.5%



Climate change

Carbon Disclosure Project

Tesco was named a member of the Carbon Disclosure Project's 'Climate Leadership Index' in 2006, and the leader in our sector. This Index shows investors which 50 high-impact FT500 companies have the most comprehensive climate-change disclosure practices in place. This is decided by each company's response to the Project's questionnaire.

Reducing our energy use

Our verified carbon footprint includes all our existing stores and distribution centres worldwide. We will reduce emissions from these buildings by at least 50% by 2020. We will also ensure that all new stores built between now and 2020 will emit, on average, at least 50% less carbon than an equivalent store built in 2006.

We have to date built three model 'environmental' stores in the UK, which we use as a test bed for the energy-efficient technologies we hope to roll out in all our stores. Our first such store, in Diss, reduced energy consumption by 29% compared with a standard Tesco store of similar size. At Swansea we achieved a 36% reduction. And our most recent environmental store, which opened at Wick in November 2006, has a carbon footprint 50% lower than similar stores.

"I am determined that Tesco should be a leader in helping create a low-carbon economy. I do not underestimate the task. We are going to have to re-think the way we live and work. For Tesco this involves something much more than listing a series of environmentally-friendly actions, although those do play a part. It demands that we transform our business model so that the reduction of our carbon footprint becomes a central business driver."

Sir Terry Leahy, 18 January 2007,
speech to Forum for the Future conference

CASE STUDY

Wick environment store

The new 50,000 sq ft Tesco at Wick, 10 miles from John O'Groats, "is probably the greenest supermarket in the UK – quite possibly even the world," according to The Grocer publication. Among its pioneering features are:

- water cooled refrigeration units with energy-saving LED lighting
- a retrieval system to move cold air from refrigeration areas to cool the store room
- five wind turbines and six photovoltaic roof cells that generate enough electricity to power the tills and reduce overall energy consumption by 10%
- bakery ovens that are 50% more efficient than similar installations and save enough electricity to power one million light bulbs for an hour
- roof-top rainwater collection for use in toilets and car washes – saving an estimated one million litres a year
- construction specifications – such as timber rather than steel, local stone – and lower roof spaces that reduce the store's embedded carbon



Wick store, UK

NEW KPI: To reduce CO₂ equivalent emissions from our existing buildings worldwide by at least 50% by 2020



In April 2007, after the end of the reporting year, we opened our latest environmental store, in Shrewsbury, which reduced carbon emissions by 60% compared with a standard store. We will also run our Tesco.com home delivery fleet there on electric vans, saving 100 tonnes of CO₂ per year, in addition to the 6,000 customer car journeys each van saves annually.

At Livingston, in Scotland, we will open our first environmental distribution centre.

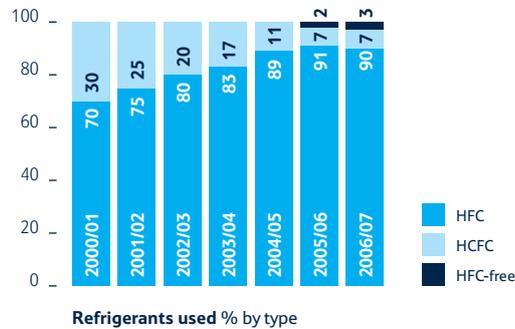
Similar innovations have been introduced in our international businesses. Our Rama 1 store in Thailand has solar panelling over its whole roof. Our environmental store in Turkey will have an earth and glass roof and will use geothermal power. Our new business in California is placing considerable emphasis on saving energy: its distribution centre will include the state's largest roof installation of photovoltaic solar power. This year, we intend to open further environmental stores in the Czech Republic, Poland, Hungary, Turkey, Korea, Malaysia, Thailand and possibly, China and Japan.

Refrigeration: As a food retailer, refrigeration currently accounts for over a third of our direct carbon footprint in the UK. The vast majority of large refrigerators in the food industry currently use HFC refrigeration gases – introduced as a replacement for ozone-depleting CFCs and HCFCs but which are now known to be extremely potent greenhouse gases.

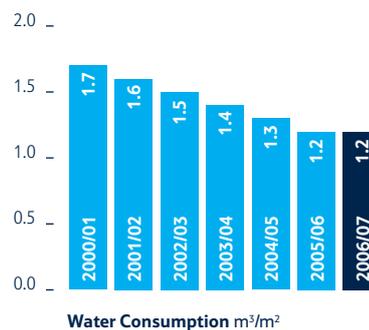
Tesco is leading a programme to phase out HFC-based refrigeration. We have so far installed two alternative systems – one based on CO₂ and one based on CO₂ and hydrocarbon refrigerants. We are sharing what we learn with all interested parties to speed up and promote the use of natural refrigerants.

“A universal system for assessing the carbon emissions associated with individual products and then labelling those products is a major step forward.”

Greenpeace UK Director John Sauven



Water: Last year we missed our target of reducing water consumption by 5% per square metre in our UK businesses. We are putting measures in place to achieve our long-term goal of cutting water consumption in the UK by 15% by 2008/09.



Staff travel: We are committed to reducing the number of journeys our employees make travelling to and from work. Since 2003, green travel plans for staff have become an integral part of our new store and store extension developments.

Climate change

Measuring our carbon footprint

In January, we announced that we would measure and publish our total direct carbon footprint as part of our commitment to tackle climate change. Our aim was to establish a clear baseline from which to track progress in reducing our emissions, and enable us to identify those areas of our business we need to prioritise.

We commissioned Environmental Resources Management Limited (ERM) to map the total direct carbon footprint of the Tesco business across all the countries in which we operate.

Our impact

The direct carbon footprint for the Tesco Group during the financial year to February 2007 was **4.13m tonnes of carbon dioxide equivalent (CO₂e)***. Our UK business

emitted **2.25m tonnes of CO₂e** or 55% of our total Group direct emissions.

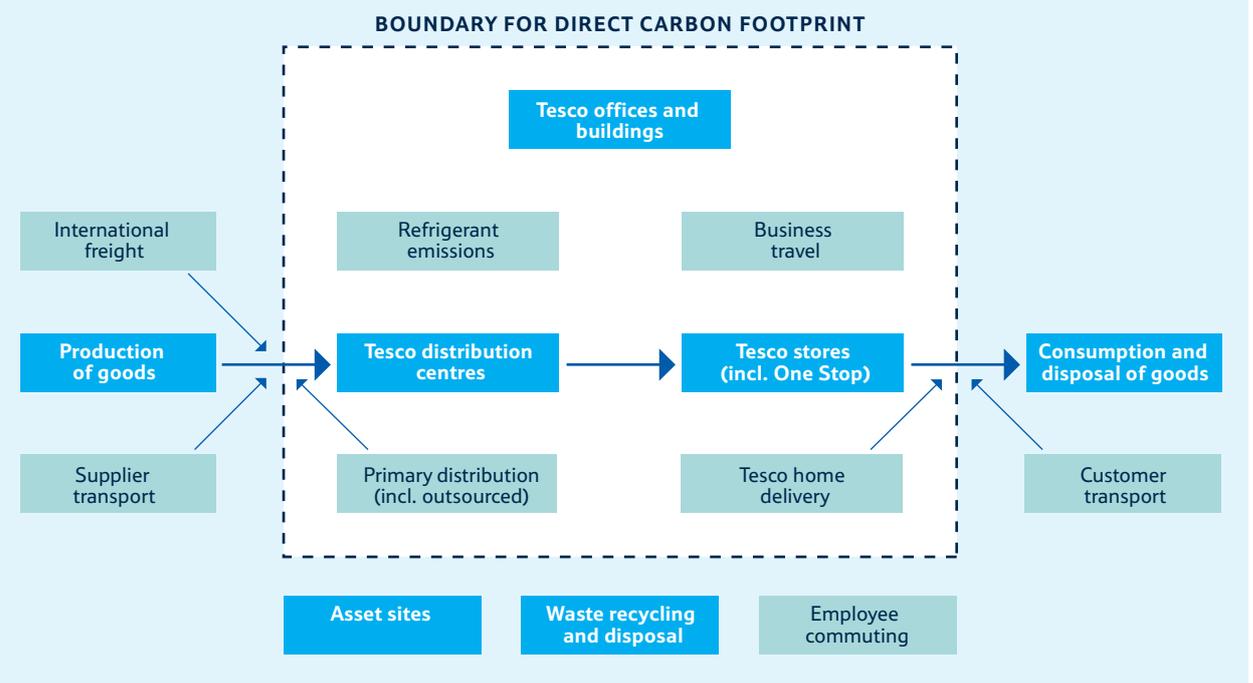
Using data from 2004, Defra estimates that the total (both direct and indirect) carbon footprint of the UK is 659m tonnes CO₂e, and the total footprint of the UK food industry is 111m tonnes CO₂e. To put our direct UK carbon footprint in context, this means that our UK operations represent approximately 0.3% of the UK's greenhouse gas emissions and 2% of the food industry's emissions.

The UK food retail sector is estimated to emit 9.2m tonnes CO₂e annually, plus the associated distribution emissions of approximately 2.4m tonnes CO₂e. Tesco's emissions therefore equate to roughly a fifth of the footprint of food retail.

What we measured

We define the scope of our direct footprint in line with industry standards, which comply with the guidelines set out by the World Business Council for Sustainable Development (WBCSD). We included energy use in all Tesco stores, distribution centres and offices as well as emissions from primary distribution, business travel and our tesco.com home delivery vans. We also included the impact of the HFC gases used for refrigeration.

We recognise that we also have an important role to play in reducing our indirect carbon footprint and are examining ways to help our suppliers and customers reduce their emissions too.

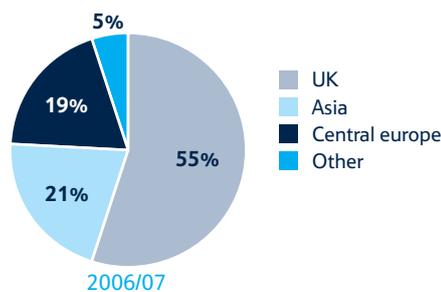


* CO₂e is a commonly used measure of emissions which takes into account harmful emissions from the six greenhouse gases identified by the Kyoto protocol. CO₂e takes into account the relative damage done by each type of gas referred to as Global Warming Potential (GWP). For example, CO₂ has a GWP of 1 while N₂O has a GWP of 310.

Comparing regions

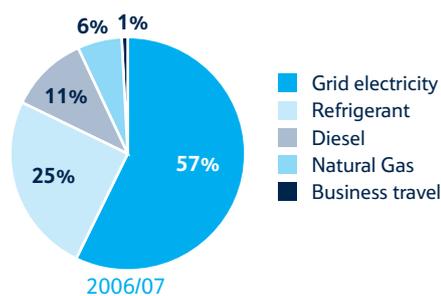
During the 2006/07 financial year, the UK business emitted 2.25m tonnes of CO₂e, our Asian operations emitted 0.87m tonnes of CO₂e, and our Central European business emitted 0.79m tonnes of CO₂e. We have grouped emissions from the Republic of Ireland with the emissions from our Indian service centre and the business travel associated with the set up of our US operations under 'other'. These amounted to 0.21m tonnes of CO₂e.

Split of emissions by country



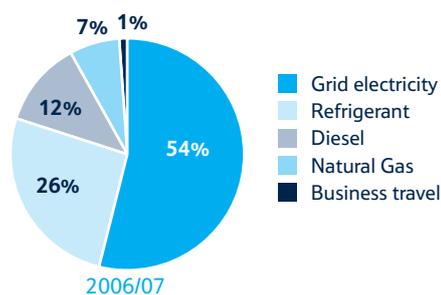
Group split of emissions by source

Total = 4.13m tonnes of CO₂e



UK split of emissions by source

Total = 2.25m tonnes of CO₂e



Progress since 2005/06:

Our carbon intensity has fallen during the 2006/07 financial year: our footprint in tonnes of CO₂e has not changed materially since the 2005/06 financial year despite a 10.9% increase in sales and a 17.2% increase in selling area (our footprint for the 2005/06 year was assessed to be between 4 and 4.3 million tonnes CO₂e).

External commentary from ERM:

About ERM:

ERM is an independent and global provider of environmental, social and corporate responsibility consulting and assurance services. Over the past four years they have worked for over half of the world's 500 largest companies, in addition to numerous governments, international organisations and NGOs. They have 120 offices in 40 countries and employ over 3,000 people.

ERM's Findings:

'Tesco appointed ERM to objectively assess and provide public commentary on its approach to measuring its global direct carbon footprint for the 2006/07 financial year. We found that Tesco has continued to take positive steps towards measuring and managing its carbon footprint. The majority of reported figures for its UK operations are based on sound measurement practices. This data represents approximately 46% of Tesco's global direct carbon footprint. The remaining data – related to UK business travel, UK home delivery, approximately half of UK refrigerants and international operations' carbon dioxide equivalent emissions – are based on part-measurements and extrapolations, as well as estimates, all of which we have assessed and found to be made on a sound basis.' Environmental Resources Management Limited, April 2007.

For further details please read the full ERM Commentary which is available at: www.tesco.com/climatechange/carbonfootprint.asp



Penang fishing village, Malaysia

Sustainable consumption

Introduction

In recent years, customers have shown an increasing interest in where food comes from and how it is sourced. As well as seeking quality and value, they want to know that the products they buy don't damage the environment and have a positive impact on society. The rapid growth of Fairtrade and organic products reflects these demands.

Research and feedback from academia, governments and NGOs has also helped to highlight some pressing sustainability issues that need to be addressed. Stocks of cod, and many other fish species, have declined dramatically over the past 50 years. Irresponsible growing practices in South America and Asia are contributing to the destruction of valuable rainforests in the name of producing palm oil – a valuable ingredient in many food and non-food products, and soy – a key ingredient in feed for livestock.

At Tesco, we do our best to understand our role in these issues, and take steps to ensure that the products we sell, and the ingredients that go into them, are produced as sustainably as possible.

We are addressing these challenges by promoting sustainable choices for customers, helping suppliers to meet environmental and social challenges and working with stakeholders to find long-term solutions to pressing issues.

Empowering customers

As part of our commitment to tackling climate change, our aim is to make green consumption a mass movement by rewarding customers for buying sustainable products and making them more affordable. We are looking at a number of ways of improving our product labelling to help customers switch to energy-efficient, low-carbon products wherever possible (see climate change chapter, page 22-29).

£500m

sales of organic products at Tesco,
up 39% over the last year

Nature's Choice

Our unique integrated farm management scheme ensures our fruit, vegetables and salads are produced to high safety and environmental standards. The scheme is governed by a committee made up of suppliers, an independent academic, an auditor and Tesco managers.

Nature's Choice environmental standards:

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

"I am delighted to be a Tesco Nature's Choice grower at their Gold Standard. I now farm in a much more environmentally sensitive manner taking greater care to enhance biodiversity on my land."

Robert Pascall, strawberry grower,
Maidstone, Kent

2006/07 KPI RESULT:

We registered all targeted
growers for Nature's Choice



Sustainable consumption

We have completed our three-year Nature's Choice roll-out programme. All of the 12,000 growers from whom we source are now registered and all suppliers comply with the standards. To date, 6,000 independent audits have been carried out. Furthermore, we have completed our review of all pesticides used – 12,600 pesticides have been assessed, with 1,750 extra controls put in place to reduce pesticide levels and 300 uses removed altogether.

2006/07 KPI RESULT:

We audited all growers to ensure they comply with Nature's Choice



2006/07 KPI RESULT:

We audited the pesticide use of all our growers



This year, we listened to feedback from our growers and made the standard easier to use. We have also added a module for small farmers to help them achieve verification to ensure they are not excluded from our supply chain. We intend to extend the scope of the scheme to include organic produce.

Wildlife Choice: Last year, we set up a Wildlife Choice website which gives farmers advice on how to protect biodiversity. This resulted from a three-year biodiversity project which ended in 2005 and measured the impact of the biodiversity and landscape requirements of Nature's Choice, testing techniques for increasing biodiversity on seven farms. Since then, the improved techniques we identified for producing wild bird cover in the winter have become part of Government recommendations.

Organics

Customers buy more organic food from Tesco than from any other retailer and sales have grown by 39% over the last year. One in three customers in the UK put at least one organic item into their trolley and we promote our organic range to over one million customers through four Clubcard mailings a year. Since June 2006 we have launched over 250 new organic products.

We have put more effort than ever before into offering and promoting organic products. In August 2006 – to support National Organic Fortnight – we gave customers double Green Clubcard points on all organic products and this was repeated in February 2007, such was its success. We also launched an organic fruit, vegetable and salad box scheme to householders in south London.

In non-food, we have massively expanded our organic range. We have launched new organic ranges in our health and beauty (BNatural) and household categories (Naturally). In spring 2007, we launched a new organic clothing range, designed by Katharine Hamnett, former British Fashion Council Designer of the Year. These clothes use raw materials that have been grown without chemical fertilisers, and manufactured and dyed in an environmentally-sustainable way. The cotton is grown by farmers in India working in a series of co-operatives, enabling them to be taught skills such as how to control pests organically. The clothing range adheres to the standards set by the International Working Group on Global Organic Textiles, and is certified Fairtrade.

“I think Tesco do more for the environment than any other supermarket. They set a trend that others just follow.”

Customer, Corstorphine Extra



A T-shirt from our new Organic clothing range, designed by Katharine Hamnett

“My design-led but accessible organic collection will be available to millions of people at Tesco. As such, it is the biggest leap forward yet for organic clothing. I believe it could help organic clothing to make the same impact as organic food now undoubtedly does.”

Katharine Hamnett

We will continue to listen and respond to customer expectations for organic products and in 2007/08 will include ‘local’ organic ranges in stores.

Animal welfare

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

We employ a dedicated team of agricultural specialists to ensure that farmed animals are reared for Tesco in a humane and compassionate manner. We also use a number of specialist consultants, including a consultant veterinarian with a certificate in animal welfare, to develop our Codes of Practice. We ensure that our standards are met by using our internal team of agricultural experts and independent auditors, who carry out third party inspections.

At this year’s RSPCA Good Business Awards, Tesco was nominated for the best supermarket – food category, a very public recognition of how we are improving the welfare standards of farmed animals.

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

CASE STUDY

Live Turtles in China

During the year, we received over 300 letters and emails from our UK customers concerned about the sale of live turtles and frogs in our stores in China. Several NGOs have also been active in campaigning on this issue, with a particular concern about whether the methods we use to kill turtles are humane. In response we commissioned new scientific research from Professor Song Wei, who introduced the first Animal Welfare Law course in China at the University of Science and Technology. This evidence, along with papers shared by the NGOs, has enabled us to begin a review of our current standards and procedures on turtle farming, transportation, sale and slaughter.

Sustainable consumption

Animal testing

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

Sustainable seafood

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

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

- Avoid stocking wild fish from over-fished or vulnerable stocks
- Support sustainable sourcing initiatives
- Work with our suppliers and the industry to improve sustainability of fishing methods
- Promote sustainable fish species

We aim to buy from integrated supply chains, in long-term partnership, rather than from wholesale markets, so that we know when and how our fish is sourced.

We believe that aquaculture can make an important contribution to protecting depleted wild stocks where it is carried out sustainably. We have developed four Codes of Practice, which cover farmed salmon, trout, tilapia, bass, bream and warm-water prawns. This year, we also developed a detailed policy to control sourcing of both wild and farmed tropical prawns and shrimp, both those sold as such and also, those used as ingredients in own-label products. These Codes were written in conjunction with external independent veterinary, animal welfare and environmental experts.

We know the importance of protecting fish stocks, so we ask suppliers to introduce procedures to avoid catching young fish and fish in reproduction. Last year, we worked hard on four species stocked on our fresh fish counter, identified by the Marine Conservation Society as 'Fish to Avoid': monkfish, halibut, huss and skates/rays. By February 2007, we had stopped selling huss, moved to farmed halibut from wild halibut and begun to move our sourcing of monkfish from Scotland to more sustainable fisheries in the South West. We also put in place stock-level monitoring, following a workshop with suppliers and NGOs, and have reviewed our skate fishery – where we now stock just two species of rays. We do not source from any fisheries involved in, or financially benefiting from, whaling or sealing.

In the coming year we will roll out this approach across all of the UK categories that buy seafood, a process that will be managed by a new fish sustainability group within the business.

The roll-out of regional buying teams (see Farming and Local Sourcing page 44-51) is aimed at giving small local and regional suppliers access to Tesco stores. Our experience in Cornwall is that we are able to source sustainable, high quality fish from smaller suppliers not engaged in mass-catching methods and with good local knowledge. We hope these benefits will be replicated in other regions as the project grows.

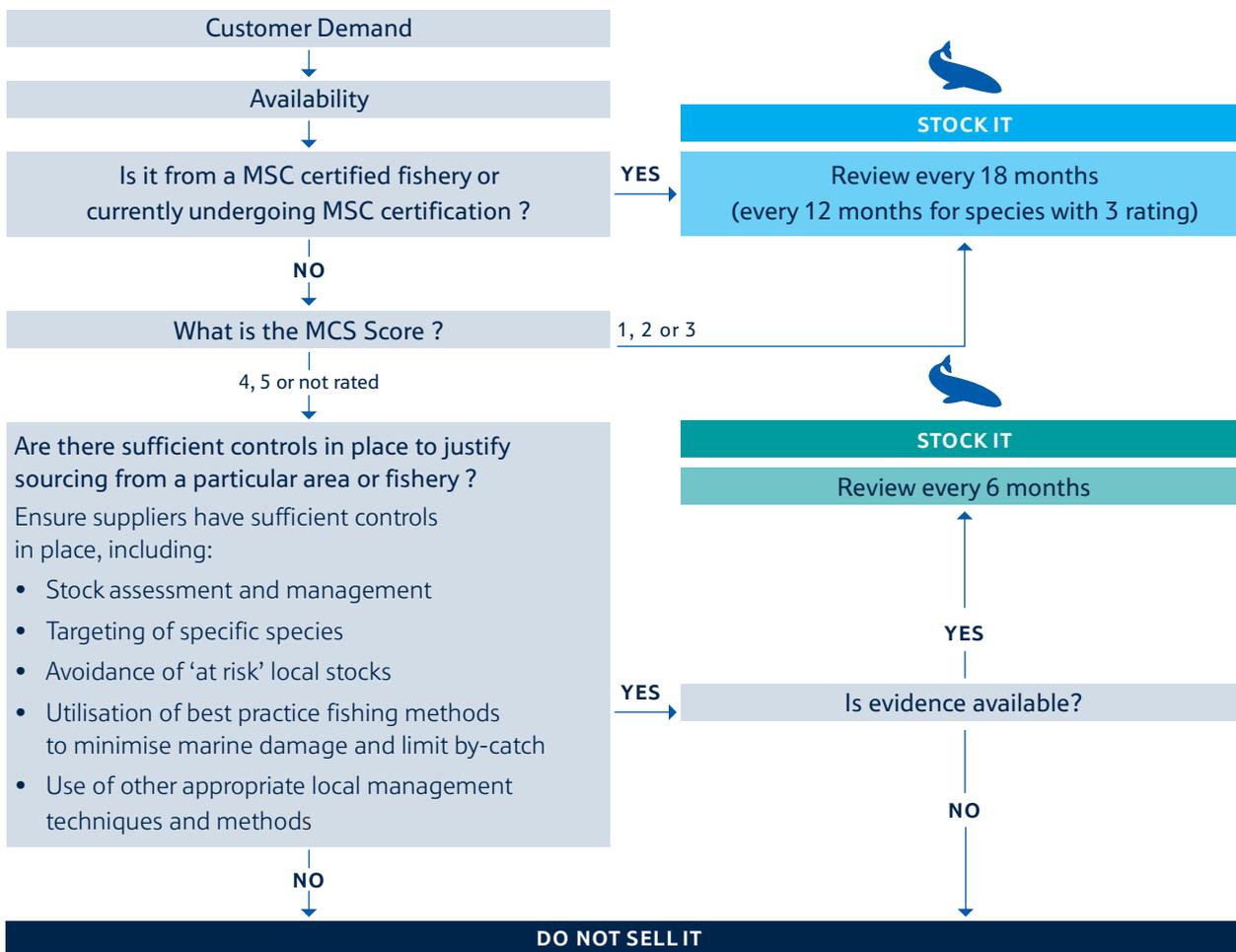
Wild fish stocking decision tree

How we decide what to stock

- 1 Customer demand – If there is sufficient customer demand, we will consider stocking it.
- 2 Availability – Review of world markets to determine if we are able to buy sufficient fish of acceptable quality to meet our customers’ requirements.
- 3 Sustainability and responsible retailing – Using information from the fishing industry, Government and NGOs such as The Marine Stewardship Council and the Marine Conservation Society, we ask a series of questions to determine whether we should stock a particular type of fish from a particular fishery.

Objectives for delivering responsible ‘wild caught’ fish for UK retail

- Promote the Best – Stock species of fish that are sustainable and/or from fisheries that operate in a responsible sustainable manner.
- Avoid the Worst – Do not stock fish species that are ‘at risk’ and/or fisheries with operations that are unsustainable.
- Support, develop and improve the rest – Actively work with suppliers, fisheries and non-government organisations to improve standards and reduce environmental impact.
- Have a structured, transparent decision-making process for wild fish procurement.



The Wild Fish Stocking Tree has been incorporated into our product procurement specifications, and our suppliers of wild fish buy from processors and fishing vessels that own quota and are regulated against it.

Sustainable consumption

CASE STUDY

Beam trawling

During 2006/07 we began a review of our policy around the issues of damage to the seabed, in particular from beam trawling. This is an increasing concern for our customers and NGOs including Greenpeace. In the meantime, we are working with suppliers to move to more sustainable catching methods wherever possible. For example, we have almost halved the amount of fresh plaice that we source using beam trawling and we are working on ways to reduce this further.

Tesco and our principal supplier, Seachill, are members of the Seafish 'Common Language Group', together with the Marine Conservation Society, the Food and Drink Federation, the National Fishermen's Federation, and the UK Government's Sustainable Fishing Group. This group is being expanded to include the World Wildlife Fund, the Marine Stewardship Council and the Seafood Choices Alliance and will be the focal point of dialogue amongst the stakeholders to actively improve the sustainability of UK retail fish supply chains.

The group is currently addressing beam trawling, looking at the range of fisheries currently impacted by this fishing method and whether there are circumstances where its continuation will have minimal impact on the seabed and associated eco-system. The group will consider evidence from seabed impact studies in areas of mud, sand and silt and look at best practice fishing methods.

From February 2007, all fish counter tickets also contained the method of catch so that customers can make an informed choice on this basis. We hope to add this information to pre-packed fresh fish later in the year.

Genetically Modified Foods

Our policy on Genetically Modified (GM) foods is driven by the view of our customers. Our research shows that 75% of UK customers do not want GM food. 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 animals are fed on non-GM feed. Nor is GM feed used in the production of the poultry (fresh and frozen) and eggs we sell.

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

Palm Oil

We sell a wide range of products, both own-brand and branded, which have palm oil as an ingredient. We do not buy palm oil directly – almost all of the palm oil used by the manufacturers of our own-brand products is bought through three of the world's largest palm oil traders. These three traders are members or affiliate members of the Roundtable on Sustainable Palm Oil (RSPO), which works to help industry identify ways of sourcing this ingredient more sustainably.

In June 2006 Tesco too joined the RSPO. We hope that our participation will help the RSPO encourage other palm oil consumers to demand a sustainably sourced supply.

“Given the enormous range of products containing palm oil marketed by Tesco in stores across the UK, it is vital that Tesco should join the Roundtable on Sustainable Palm Oil – as they now have. And given Tesco's increasing international operations, constructive participation from Tesco is likely to be even more important in the future.”

Stanley Johnson,
former MEP and senior advisor to United
Nation's Great Apes Survival Project

Timber

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

Fairtrade

We recognise the important role that Fairtrade can play in bringing stability to many suppliers in developing countries, and the role that we can play in providing access to Fairtrade goods to millions of customers. Tesco offers the largest range of Fairtrade products of any of the major supermarkets. We currently stock around 130 Fairtrade lines, of which 30 are Tesco own-label products. Our range includes own-brand roses, mangoes, avocados, citrus fruit and cookies and is one of the largest in the UK. We were delighted to be the first UK retailer to offer Fairtrade basmati rice, brazil nuts and mixed peanuts and raisins. Recent additions to our range include new varieties in existing categories, such as teas and coffees, sunflowers, cashew nuts and own-label honey, as well as products in new categories, such as cotton wool, rice cakes, spices and ice cream.

To coincide with Fairtrade Fortnight this year, we offered 25% off a range of Fairtrade products and dedicated special promotional space at the end of aisles in around 100 of our largest stores. We also offered customers the opportunity to sample Fairtrade products such as chocolate and nuts in our large stores, as well as welcoming in and offering vouchers to Fairtrade groups to hold tasting sessions. We gave away 50,000 coupons at the tills to thank customers and encourage them to continue to buy Fairtrade.



Tesco Fairtrade Peanut Farmer, MASFA Groundnut Co-op, Mchinji, Western Malawi

To help raise customer awareness, and encourage long-term, regular purchasing of Fairtrade, we have offered double Green Clubcard points on all purchases of Fairtrade products for an eight-week period. We will also be sending a direct Clubcard mailing to thank customers for their loyalty, offering them further vouchers to encourage them to continue to purchase Fairtrade. We have included a feature on Fairtrade in our Tesco Magazine, (which has a readership of 4.5 million), profiling some of the suppliers of our Fairtrade products.

2.4 million

customers who shopped for Fairtrade products at Tesco during 2006/07

Food & Beverage Containers:

- Metal cans & tins
- Plastic bottles
- Glass bottles & jars



Plastic
Bags



Waste, packaging and recycling

Introduction

The amount of waste produced in Britain has risen over the past two decades¹. Packaging is a growing contributor, now creating around one-fifth² of household waste.

The growth in single person households³ has increased consumer demand for processed and pre-packaged foods that can be prepared quickly. But, although customers still want simple meal solutions, they are increasingly concerned about excessive packaging and want supermarkets and manufacturers to do more to tackle it. Consumers also want to take positive action on recycling and reducing the number of carrier bags they take – provided they are given help to do so.

Over the past year, Government, NGOs and the media have become increasingly active on waste and recycling – with campaigns against excessive packaging in the UK by the Womens' Institute, national newspapers, and Government agencies. The EU is also increasingly active in this area, introducing new legislation on consumer electronics, and revising existing directives.

£15m

invested in automated recycling machines for customers during 2006/07

Our approach

Tesco recognises that waste and packaging cannot continue to grow: landfill capacity is finite, and the amount of energy and raw materials used is unsustainable. Our policy is to use the 'waste hierarchy' to deliver change – through waste minimisation, reuse and recycling. Disposal is considered the last resort.

The following targets frame our packaging and waste strategy:

- Reduce the amount of packaging on both branded and Tesco own-label products by 25% by 2010
- Label all our own-label packaging according to whether it can be reused, recycled or composted beginning in 2008
- Increase the proportion of waste from our own operations that we recycle from 71% in 2006 to 80% in 2009
- Double customer recycling at sites where we introduce automated recycling units from 2006 levels by 2008
- Cut the number of carrier bags given out by 25% by May 2008 compared to May 2006

As a signatory to the UK Government's 2005 Courtauld Commitment, we are also committed to helping WRAP achieve the following three targets:

- Design out packaging waste growth by 2008
- Deliver absolute reductions in packaging waste by March 2010
- Identify ways to tackle the problem of food waste

Waste in our operations

71% of our waste was recycled during 2006/07. This included over 80% of our paper, cardboard and plastic. Over the last seven years, our reuseable 'green trays' have helped us to replace the cardboard boxes and other packaging used to transport and display products. In 2006/07, 224 million green tray trips were made, saving over 132,000 tonnes of cardboard packaging.

2006/07 KPI RESULT:

We recycled 71% of the waste in our operations



Source:

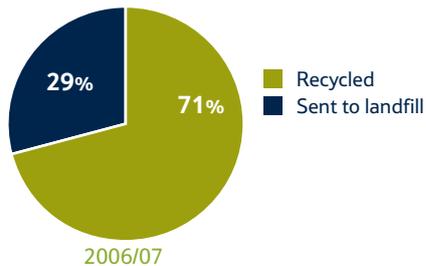
¹ DEFRA Waste and Recycling Statistics

² The Open University Household Waste Study, July 2006

³ The Office of National Statistics, Census data

Waste, packaging and recycling

Waste and recycling at Tesco Less waste is going to landfill



To reduce further the waste we send to landfill, in July 2006 we started supplying surplus food from 35 stores to the charity Fare Share, which distributes it to the needy. Our Elephant and Castle store in south London supplied over 200kg of food. In 2006, Fare Share provided 3.3 million meals to 350 organisations. Over the coming year we hope to supply Fare Share with surplus food from many more of our stores – initially around Bristol, Sunderland, Glasgow, Leeds and Aberdeen. We are also continuing to explore the option of gasification to generate energy from the 120,000 tonnes of general waste produced each year. We participated in WRAP's round table on food waste in 2006, and are also investigating the viability of composting and anaerobic digestion.

Making our packaging more 'retail ready' is also a key strategic focus, particularly where this reduces overall waste. For example, we are now using reusable plastic flower buckets as an alternative to cardboard packaging, saving 150 tonnes of cardboard.



We are now using reusable plastic flower buckets as an alternative to cardboard packaging

Product packaging

In 2006 we carried out a packaging review, and developed guidance with WRAP on the principles of minimisation, reuse and recycling, which have been distributed to Tesco buyers and technical managers. The guidance has already helped us to draw together new plans to reduce packaging on our 'hardline' products such as consumer electricals and toys, leading to reductions of up to 90% in the packaging used.



Scart leads

We have rolled out new packaging for our scart leads and microphones, with small printed bags and clip hangers replacing cardboard and PVC holders. This reduced the amount of plastic used by 82% (25 tonnes) and the amount of card by 96% (7.5 tonnes)

Over the last year, we have focused our efforts in the following areas:

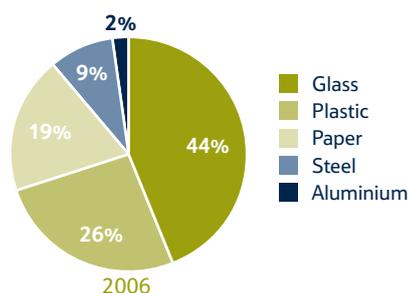
- **Reducing the amount of materials used:**
 - Glass is the biggest single contributor (44% – see chart) to the packaging weight we pass on to our customers. We have been leading a project with WRAP to reduce the amount of glass used in wine, spirits and beer packaging. By challenging the industry to produce lighter weight wine bottles, we have reduced our annual glass usage by 2,600 tonnes from one single supplier, a 15% saving. And by importing New World wines in bulk and bottling them in lightweight glass in the UK, we have saved an estimated 4,100 tonnes of carbon emissions.
 - Packaging on produce has been reduced by 10,300 tonnes this year, through removing packaging such as liners where we could, reducing the types of packaging (trays, film and labels) and introducing reusable packaging such as collapsible and returnable crates.

- We have also been using ‘best in class’ data to ensure that our own-brand products use the lightest weight packaging currently available.
- By using one label instead of two to label clothes, we have halved cardboard use in this area.
- **Using recycled materials in our packaging:**
 - We are introducing a new tray for bakery products. Made from 60-80% recycled plastic, it will divert at least 210 tonnes of plastic going into landfill each year. The tray is also 100% recyclable where facilities exist. A lack of available recyclate in the UK means we currently have to source it from Europe. However, we hope that our own in-store recycling facilities will soon provide source material.
- **Making packaging more valuable to recycle:**
 - We have started using glued plastic labels on soft drinks bottles instead of paper.
- **Introducing compostable and degradable packaging:**
 - 20% of our Organics range is now in fully home-compostable packaging, with a further 60% in degradable packaging – converting 855 tonnes of plastic packaging.
- **We participated in WRAP’s retail round table on biodegradable packaging in February 2007.**

During the year, we collected data to understand how much of our packaging is recycled/recyclable/ compostable/easily lightweighted in order to set clear targets. In April 2007, we committed ourselves to reducing the amount of packaging on both branded and Tesco own-label products by 25% by 2010.

Packaging weight at Tesco

Glass and plastic are big contributors



132,000 tonnes

cardboard saved by 224 million green tray trips during 2006

Recycling by customers

Recycling is important to our customers and we aim to make it even easier. As part of our commitment to double customer recycling by 2008, we have developed market-leading recycling facilities. Our innovative automated recycling units, introduced in 2005, sort plastic, metal and glass so our customers don’t have to. The units then shred the waste so that more can be stored, reducing the frequency of collections.

On average, the installed units are now collecting around eight tonnes of waste for recycling every week, double the amount that our previous customer facilities collected. By February 2008, we plan to have these units at 106 stores – an investment of over £15m this year. We hope to be able to sell materials collected in these units to our packaging suppliers to ensure it goes back into Tesco packaging, thus closing the recycling loop.

We are also undertaking a trial where customers are given the incentive of Green Clubcard Points for the waste that they recycle in the unit.

To help customers further, we have also introduced Green Clubcard Points on mobiles and ink jet cartridges (up to 500 points per mobile and 100 points for an ink jet cartridge). Our mobile phone recycling scheme is the most successful of its kind in Europe, so far collecting 800,000 handsets.

NEW

KPI: To double the amount of customer recycling at sites where we introduce recycling units



Waste, packaging and recycling

Since 2003, we have collected and recycled 800,000 inkjet cartridges. For the sixth year we have worked with the Woodland Trust to collect Christmas cards for recycling, with customers bringing around 75 million cards back to our stores. This equates to around 1,500 tonnes of cardboard in 2006/07, up 300 tonnes on last year. We are also working closely with operators to improve textile recycling facilities on our sites, and are currently participating in WRAP's trial for the collection of used batteries in store.

Recycling by customers

Automated recycling machines have doubled the weekly amount of waste collected from these stores



The WEEE Directive

2007/08 finally sees the implementation of the WEEE (Waste Electrical and Electronic Equipment) Directive in the UK. In support of this, Tesco has continued to play an active role in the development of the Distributor Take Back Scheme. This will provide a mechanism for retailers who do not wish or are unable to provide WEEE returns facilities in their stores to fund the provision of facilities at upgraded local authority civic amenity sites. We believe this arrangement will provide the most sustainable and effective solution for customers.

Carrier bags

In August 2006 we became the first supermarket to reward customers for reusing carrier bags, by giving them a Green point on our loyalty Clubcard scheme for every bag reused. This followed customer research which confirmed our belief that we should reward positive behaviour rather than trying to force change.

We hope that this step will enable us to cut the number of bags we give out by 25% over the next two years – a total of one billion bags saved. With the help of a major national television advertising campaign and an investment of more than £1 million in staff training, we are well on our way to achieving this ambitious target. By April 2007 we estimated that we had given out 400 million fewer bags, roughly 13 million a week saved.

We are also replacing our standard carrier bag with one that is bigger and stronger, saving the overall amount of plastic used as well as the number of bags. Early indications showed a 39% reduction in the number of bags used in store once the new bag is introduced. We have also introduced a new range of our 'Bag for Life', in a variety of sizes, designs and materials.

In August 2006 we also made a commitment to use degradable plastic for all of our standard carrier bags in the UK. By February 2007 around 75% of our bags were degradable. These new bags break down in as little as 60 days with no harmful residue. These bags can also be recycled, unlike biodegradable bags.

“I am delighted that Tesco is taking positive action to combat the waste caused by carrier bags being discarded after only one use.

The UK throws away nearly 250,000 tonnes of plastic carrier bags each year, some of which will take several centuries to degrade. This new scheme will help cut waste and encourage shoppers to recycle bags instead of binning them.”

Jim Sheridan MP

We were the first retailer to sign up to a new UK Government Voluntary Code on carrier bags, launched in February 2007. This aimed to cut the number of bags used, reduce the environmental impact of each bag and increase bag recycling rates.

Customers can recycle carrier bags at all our stores, except Express, and these bags are recycled into new plastic products such as black bin bags. Our home delivery drivers also now collect customers' bags to take back to the store for recycling.

CASE STUDY

Durable shopping bags in Hungary



During 2005/06, Tesco Hungary launched a series of environmental programmes under the banner 'Tesco for Nature'. This year the programme was strengthened with the launch of new 'Bags for Life', the roll-out of recycled paper bags, the printing of leaflets on recycled paper and the installation of containers to collect used batteries.

From June, shoppers were able to purchase 'durable shopping bags', with an initial production run of 500,000. A pilot run took place in May, where in two weeks Tesco sold more than 50,000 bags.

NEW

KPI: To reduce the number of carrier bags given out by 25% by May 2008



"Using Clubcard points to promote the reuse of plastic bags is a very positive and imaginative move by Tesco and we hope it will encourage many of its customers to limit the number of new bags they take at the checkout.

Single use carrier bags are one of the most potent symbols of our throw-away society. Encouraging customers to make a small change in their shopping habits here may lead them to extend their thinking to other areas, making it easier to find solutions to the wider packaging and food waste issues that WRAP is working on with Tesco and other leading grocery retailers."

Jennie Price,
Chief Executive WRAP



The 'Ladybird bag', one of our new range of cloth and jute Bags for Life which sold 2.7 million bags in the first 20 weeks



Dairy cows, Tesco cheddar producer, Somerset

Farmers and local sourcing

Introduction

2006/07 was a challenging year for many UK farmers, with continued increases in the costs of feed and energy and the impact of changes to subsidy payments. Farmers were also striving to satisfy growing consumer demands on value, health, and production methods. However, some sectors saw a recovery in their incomes, with increases in the value of produce, cereals and cattle¹. Dairy farmers continued to struggle, with farm incomes and milk production both falling².

Our customers tell us that they increasingly want to know where the food they buy has come from, what it contains, and whether it has been grown locally. Some also want to know whether it has been produced using sustainable and ethical farming methods and whether the farmer has received a fair deal. NGOs and politicians have also been active on these issues over the last year, helping to focus attention on farming and local sourcing.

Tesco, food suppliers, food processors and farmers all share these challenges. We are responding by developing even closer relationships with our supply chain, particularly with local and regional suppliers. We believe that our own strong performance is good for farmers and suppliers, and that our relationships are based on trust and fairness.

“I have been impressed with the commitment and enthusiasm shown by Tesco to local sourcing. We have been calling for an easier route to market for smaller producers. The fact that we will now be able to make direct contact with the UK’s number one retailer within the south west region is an important step forward in our quest to close the supply chain gap between producer and consumer.”

John Sheaves,
Taste of the West

Source:

¹ DEFRA Farm Income Survey January 2007

² DEFRA Farm Income Survey January 2007

Our approach

In the UK, we place special emphasis on promoting products from British farmers, supporting smaller scale producers whenever possible. We aim to work closely with our suppliers, sharing our market insights to ensure that they understand what our customers want, allowing them to diversify into new markets. We encourage innovation and efficiency through open and constructive relationships between our suppliers and our buying teams.

98%

suppliers who said, in our anonymous viewpoint survey, we maintain high quality standards

We also listen to suppliers regularly through our own annual survey known as Supplier Viewpoint. This allows suppliers to tell us anonymously how they feel about working with Tesco, and tells us where we need to improve.

2006/07 KPI RESULT:

94% of our suppliers believed we were fair, trustworthy, reliable, consistent, clear and helpful



We aim to help drive best practice and efficiency in the supply chain. As one of the founder members of the Ethical Trading Initiative (ETI), we assess suppliers in terms of their ethical standards and worker welfare (see Ethical Trade pages 66 to 71). We insist that all UK produce packers who use temporary labour comply with the requirements of the Gangmaster Licensing Authority.

In 1991, we were the first supermarket to introduce a formal code of practice for crop production – ‘Nature’s Choice’ – which sets environmentally sustainable production standards (see Sustainable Consumption pages 30 to 37).

Farmers and local sourcing

All our fresh produce growers around the world must achieve this independently audited standard. We have similarly high audited standards for livestock, covering all aspects of an animal's life from birth to transportation and eventually, slaughter. For more detailed information on these standards please go to www.tescofarming.com.

Our relations with suppliers are not just governed by our principles and policies, but also the Supermarkets' Code of Practice. In 2004/05, the Office of Fair Trading audited the Code and found no evidence of any breaches by Tesco. Beyond the price that we pay for their goods, suppliers can also count on the fact that we pay promptly, we repeat business if quality is maintained and we provide the kind of partnerships which help our suppliers to improve their businesses through greater efficiencies and more effective processes. We have run a training programme for all Tesco buyers to ensure they understand the Code and have regular follow-up sessions for new members of staff.

Sourcing locally and regionally

Customer interest in locally sourced food has grown significantly in recent years. In our 2006 Community Plan we made a long-term promise to stock more local lines than any other retailer. To deliver this pledge, we were the first supermarket to commit to opening six devolved buying offices in the North, Midlands, East, South, South West and Wales. This builds on our strong regional buying and marketing operations in Northern Ireland and Scotland where, in each, we stock, market and promote around 1,000 local lines. We are now recruiting regional food experts from across England and Wales to our regional teams.



In advance of the opening of these buying offices, we completed our target of holding 'open days' or roadshows for local suppliers in all eight Tesco regions during the year. These gave specialist suppliers dedicated access to our buying teams to explore market opportunities. The roadshows held in Cornwall, the Isle of Wight, the North West and Wales attracted over 300 smaller suppliers.

2006/07 KPI RESULT:

We held an open day for suppliers in every Tesco region



CASE STUDY

We began our new local sourcing initiative in the South West through a Tesco Roadshow in Padstow, Cornwall. Around 100 Cornish suppliers attended the event to showcase their products and to meet Tesco buyers and directors. We encouraged people to bring along their produce even if they thought their business was too small to supply Tesco. The Roadshow showcased a wide range of products – from cream, cheese, beers, fish, water and cakes to biltong. Since the road show in September 2006, we have launched 58 new lines in our stores in the South West, some of which had their first exposure to Tesco at the road show. One of the beers is already performing so well that it is going national in 100 Tesco stores. To help customers identify and choose these products we are also launching new local labelling in Cornwall.

INTERNATIONAL CASE STUDY

In May 2006, Tesco Poland, in co-operation with local NGOs, organised an award-winning promotion of Polish products – supported by in-store labelling and marketing. From July until December, 15 new products from Podkarpacie region were promoted in 5 Tesco stores using special signage and labelling. This focussed on the jobs supported by agriculture and food production in Poland, and resulted in a 130% sales increase of the labelled products.

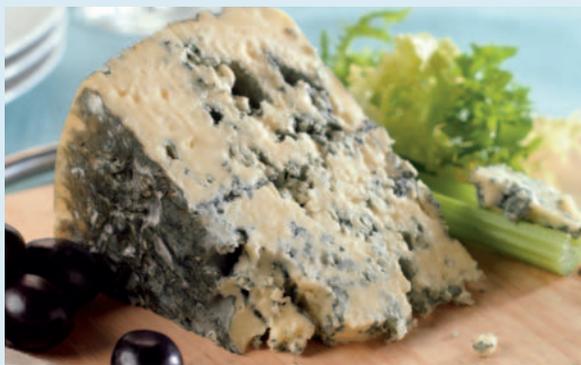
We will also be promoting regional foods through regional food counters in stores, improved promotional material, and through a new website www.tesco.com/regionalsourcing.

This not only tells customers which new products will be on sale in their region but seeks views on which local products they would most like to see in stores. It also enables small regional suppliers wishing to supply our stores to contact the appropriate Tesco team through an online form.

CASE STUDY

Now in its fourth year, the Tesco Cheese Challenge is open to small producers who have devised a new cheese which is not currently stocked, or planned to be stocked, by any large retailer. It offers the winner an excellent route in to Tesco, and to rapidly expand their business.

Bronwen Coward, of Butlers said: “Winning the Tesco Cheese Challenge 2006 provided a superb launch pad for our new, blue cheese, Butlers Blue. From in-store tastings, to articles and news items, the support and profiling arising from the win has been fantastic in helping to introduce the cheese to consumers, and in the process, broaden their knowledge of the variety of quality cheeses that Butlers produces. For any business, being able to count on such solid support for a new product launch is quite simply invaluable.”



Award-winning Butlers Blue cheese, now sold in our stores.

“We welcome the local sourcing initiative by Tesco. Sourcing more local food helps to address the growing demand by consumers. It also supports local producers who wish to supply the larger retailers.”

Robin Tapper
National Farmers' Union

£2 billion

sales of Red Tractor British produce at Tesco during 2006/07

Marketing British and organic products

We continued to support the Red Tractor symbol (British assurance standard) on over 700 fresh produce, dairy and meat products – with sales totalling more than £2 billion during the year. We also ran a campaign to raise the profile of the Red Tractor and were the only retailer to get involved in Red Tractor Day, putting special stickers on British meat and other produce. At present, 90% of our fresh chicken, 95% of our fresh beef, 92% of our fresh pork and 80% of our fresh lamb is British, as are 100% of our fresh eggs and milk (both organic and UHT).

We encourage British farmers to grow their own businesses through their relationships with us. A combination of strong product development, joint promotional activities and marketing initiatives has significantly increased output for some farmers. We have launched new labels on fresh meat, farmhouse cheese and produce lines, featuring farmers to emphasise the provenance of these products.

Farmers and local sourcing



Our new provenance labelling, which gives customers information about the farmer or grower

CASE STUDY

Joseph Heler Ltd., a Cheshire-based dairy company, has developed a range of Tesco-branded local cheeses. The company has increased annual production from 740 tonnes using milk from 20 farms, to 6,300 tonnes from 125 farms.

We aim to double the amount of English apples we sell within three years to support British growers and reduce the need for imports.

We sponsor the Brogdale Horticultural Trust, which holds the national collection of British varieties of apples and other fruit, and are researching with its scientists the feasibility of reintroducing some older varieties of apple.

£300,000

Tesco investment in technical support for organic dairy farmers over next three years

We have also been working with organic farmers to increase their output and aim to source 100% organic meat, milk and in-season produce from the UK. Demand for organic dairy products has grown by 45% over the past year in the UK. Tesco is fully committed to the UK organic dairy community and has invested in it by agreeing to pay the estimated £300,000 costs of organic inspections and technical support for all existing and new organic dairy farmers for the next three years.

In partnership with the Soil Association and DEFRA, we held a workshop on organic livestock farming at The Food Animal Initiative in Oxford, providing farmers with fully detailed and costed blueprints on how to convert to organic.

Encouraging innovation

We are committed to working with our suppliers to innovate and take advantage of new opportunities – for example, in organics, in our Finest range, and in healthier products.

This year, we introduced an organic box scheme on a trial basis in south London to capitalise on increased demand for seasonal organic produce. We are working in partnership with G's Marketing to ensure organic produce is grown as close to the packing house as possible to minimise food miles and maximise freshness. The boxes are sold under the supplier's own brand, Fenland Organics, but can be ordered online via Tesco.com and delivered straight to the customer's door. The bulk of the produce is grown by four core East Anglian growers.



Our new organic box scheme

We have developed new Finest products exclusively sourced from UK producers, for example, a complete range of outdoor-bred pork from farmers in East Anglia. We have also invested £2m in longer maturation for our fresh beef range, helping farmers gain increased value from their product. All our free range, Organic, Finest, and Willow Farm chickens are grown on dedicated British farms and have been developed to give excellent eating quality and high welfare standards. All our Organic and Finest chickens are free range with access to paddocks with trees and shelter; all the farms are approved by the RSPCA Freedom Food scheme. All our free range, Finest and Organic chickens are grown more slowly and both our Willow Farm and Finest chickens are fed on a maize-enriched diet to make the meat more succulent. Willow Farm chickens are housed in spacious barns at the RSPCA-recommended stocking density, with straw bales to perch on and large windows providing the birds with natural light.



Tesco Finest chickens, which are approved by the RSPCA Freedom Food scheme

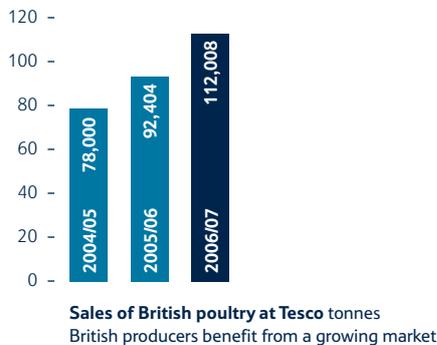
We have worked closely with dairy farmers to develop new products that tap into the growing consumer demand for healthy products (see Health and Nutrition, pages 58 to 65). Our Omega 3 milk offers added vitamins A, C and D, and we are now market leaders for extended shelf-life milk with Tesco Pure. During 2006/07, suppliers have also developed with us new products like cholesterol-reducing milk, milk which tastes semi-skimmed but has only 1% fat, new 250ml cartons of organic milk suitable for lunchboxes, and probiotic cheeses. In 2007, we are running a campaign with the Milk Development Council to emphasise the health benefits of milk and dairy products, with signs and adverts in store, as well as recipe cards and a mailing to our Clubcard holders.

We are also encouraging British farmers to diversify into producing crops for biofuel (see Climate Change, pages 22 to 29). In conjunction with Greenergy Fuels and Cargill, we are building a biofuel production plant that will convert British rapeseed oil into premium biodiesel at Immingham, Humberside.

Sharing best practice

Tesco has 14,000 UK farmers and 45 direct processors and we are always looking for better ways to communicate with them. This year we launched a new-look farming website, www.tescofarming.com, which gives information to farmers on commercial trends and supply opportunities. It covers everything from biodiversity, nutrition and sourcing inputs such as seed and veterinary products to supply chain management. The Tesco agricultural team provides monthly updates, there is a producer newsletter, and a section that gives farmers direct contact with our agricultural and commercial teams.

Farmers and local sourcing



We have also recently re-launched Producer Clubs. These are regional clubs, meeting quarterly to help producers grow their businesses by increasing their understanding of Tesco standards and what our customers want. The clubs are also an opportunity to share best practice, including hints and tips on bio-diversity, nutrition, seeds and veterinary products. We have 12 Beef, Lamb and Pork clubs around the country, and we hope to set up Protected Destination of Origin cheese producer clubs later in 2007.

We are committed to helping farmers become more efficient. We supported a pilot study with the Dunhumby Academy of Consumer Research where producers received insight from the Tesco Clubcard database on what consumers want, when they want it, and why. The participants reported a significant growth in business and improved efficiencies. Following the initiative, the farmers felt that:

- the information gave them a much better understanding of their markets and their customers
- They were able to tailor their marketing to meet customer needs.
- They had the tools to tailor their business and marketing plans to improve their appeal to new customers, be it retailer, wholesaler, merchant or consumer.

We are also supporting a benchmarking initiative at McIntosh Donald, who supply all of the Scottish beef and lamb sold in our stores, to enable beef producers to measure the performance of their animals against the factory average and identify improvements that can be made.

Stakeholder feedback

We carried out our third Supplier Viewpoint survey which allows suppliers to tell us anonymously how they feel about working with Tesco, with over 1,000 suppliers responding. This year, 94% of suppliers rated us being trustworthy, reliable, consistent, clear, helpful and fair. 95% of suppliers said that we paid them on time and suppliers also felt that our buyers were becoming more accessible to them.

Our local sourcing initiatives have met with positive feedback from customers, suppliers and industry associations. The National Farmers' Union has welcomed our support of local, British produce and suggested that it will encourage medium-sized producers.

British farmers themselves are also keen to supply to Tesco, recognising the business benefits that this can bring and many have been pleased by the flexibility of the arrangements we offer them.

“Tesco said they wanted a partnership whereby we look after each other in good times and bad, so they still took my fruit, even though we could only offer three tonnes. This year the crop looks much healthier and I am hoping to supply between 10 and 20 tonnes of plums.”

Trevor Giles,
Vale of Evesham supplier

Others have experienced significant business expansion as a result of supplying to Tesco. Family company Barfoots began supplying Tesco 20 years ago. Today they are one of our major suppliers of vegetables, employing 400 people.

“You could say we’re one of Tesco’s children. From a small family-run business, supplying only courgettes, we have grown with Tesco over the past two decades.”

Peter Barfoots,
Barfoots of Botley

Emerging plans

During 2007 our new regional buying offices will open, providing an easier route into Tesco for smaller producers. We will also announce a new support package and fund for small suppliers, to help them meet our technical and hygiene standards. Our distribution team will be working on new local transport solutions, to ensure that working with smaller local suppliers also keeps down our carbon footprint. Over the coming year we will roll out new ways to tell customers about the origin and provenance of our products, to take information on local sourcing beyond labelling into people’s lives.

NEW

KPI: To grow sales of local products by 30% during 2007/08



CASE STUDY

Direct deal for UK dairy farmers

In April 2007, Tesco announced a range of measures to support UK dairy farmers and bring shoppers even more choice when it comes to buying milk.

In the biggest change to benefit the dairy industry in decades, we pledged to introduce direct contracts with individual farmers, raising the price farmers receive to around 22 pence per litre – the best price currently being paid by any supermarket. However, Tesco shoppers will pay no more for that milk than they do now. Crucially the new contract prices will be reviewed every six months to make sure they reflect the farmers’ costs of production and will be determined using key variables such as feed, fertilizer, energy and labour.

Recognising that many smaller, often family run, farms can struggle to balance their costs against the market price, we also launched ‘localchoice’ milk, which will be sourced from local farms and sold at Tesco stores in or close to their county. It will sell for slightly more per litre than standard milk, meaning these smaller producers can make returns more in line with the proportionately higher costs of their business.

As well as bringing a higher price to our dedicated milk producers, the initiative will also help us build closer relationships with milk producers. Farmers will join producer clubs, bringing them together with Tesco and dairy processors to share knowledge and understand customer trends.



The Heath family, dairy farmers supplying Tesco, Leek, Staffs



Retail and the high street

Introduction

Over the past decade the UK has seen rising incomes, longer working hours, an ageing population, more working mothers, and more time-poor/cash-rich parents¹. How people shop has changed to reflect these trends, with strong growth in convenience retailing near to where people work and live for example, and in on-line retailing as improved technology has made it quicker and easier to shop via the Internet. These changes have created new challenges for society and Tesco.

We have maintained our popularity by listening to customers and responding to their changing needs. As life has become busier and more complex, and living costs more expensive, Tesco has helped make shopping simpler, more convenient and affordable. Customers have rewarded us with their loyalty. We also listen to our staff, to our suppliers and to many other people who are stakeholders in our business. We work hard to keep our finger on the pulse of social change.

However, our success with customers has prompted increased interest from some stakeholders in the health of the High Street. In May 2006 the Office of Fair Trading (OFT) referred the supply of groceries by retailers in the UK to the Competition Commission for investigation. The focus of the inquiry is to find out whether the market is functioning effectively.

Changes in society, and in the retail sector, are certain to continue. This means that we must continually offer new products and services, from more ethnic food lines to Tesco Finest and Tesco Value. We must create store formats, such as 'Metro' and 'Express'. We must provide for more Internet shopping and home delivery. We must cater for people who want everything in one place, as well as for those who want to buy last-minute and locally. And we must continue to cater for people in deprived communities.

Our approach

Our aim is to serve everyone whatever their social, cultural or ethnic background, and whatever they are paid. Our priorities are:

- bringing low prices, quality products and services, and greater choice to more people
- being an active agent of urban renewal and regeneration
- being a good neighbour

Delivering a great shopping trip

Today's grocery shopper spends less, can get more of what they want, receives better customer service and has a wider choice than ever before:

Prices are falling. The OFT estimates that grocery prices have fallen by over 7% in real terms between January 2000 and December 2005 and falling prices saved consumers £3 billion between 2002 and 2005. At Tesco, prices fell by 15% between 2000 and 2005.



Source: OFT calculations based on ONS RPI data

Product quality is increasing. Many innovations in the supply chain have led to more (and better) choices of locally-sourced meats and produce, organics, high quality ready-meals, specialist bakery products, products such as Halal meats and environmentally-friendly household products. All these have been delivered with improved product safety.

Source:

¹ Henley Centre report prepared for Ofcom

Retail and the high street

Product choice is increasing. The OFT estimates that larger stores have seen a 40 per cent increase in product range over the last five years; we have added around 8,000 new product lines in the last year alone. We have also recently announced that we will be opening six regional buying offices to help us put more local products on the shelves.

Service levels are high and improving. There are more in-store facilities, longer opening hours, shorter queues, better trained staff and increased home delivery.

Supermarkets are doing more to address people's environmental concerns. All the major supermarkets are making more commitments to extensive long-term environmental improvement. As well as our plans to halve energy consumption in our stores by 2010 (compared with 2000), we are also spending £100 million developing renewable energy and other green solutions (see Climate Change, pages 22 to 29).

These points are recognised by the OFT, Verdict, the IGD, Mintel, financial analysts and, most importantly, by customers themselves – our evidence shows that 85 per cent of all shoppers regard their shopping experience as either excellent or good.

The high street

Studies have shown that an investment by Tesco in a town or high street means that the town and high street can benefit¹. Customers often stay in the area and visit other shops, and those linked trips help other retailers to do better business. There may perhaps be a change in market share, for example, in groceries, but the high street as a whole will benefit.

We believe that Tesco stores have been demonstrably good for the high street and neighbourhoods, not a threat to them. Research in diverse locations confirms this: Beverley in East Yorkshire, Ludlow in Shropshire, and Gaywood and Downham Market in Norfolk have all shown reduced leakage away from the town centre since Tesco opened. More details on this research can be found on our website www.tesco.com/talkingtesco.

CASE STUDY

Norfolk

According to the Economic Development Manager at the Borough of King's Lynn and West Norfolk, Downham Market has been much stronger in retail and economic terms since the Tesco store opened in March 2001. And the vacancy rate of shops in the adjoining district centre has fallen significantly since the Tesco store opened in Gaywood, about one mile east of King's Lynn town centre, in April 2001. There is also now a visibly better range of shops. The results of a new telephone survey confirm increased use of other shops in the two town centres by Tesco shoppers.

CASE STUDY

Good Neighbour on Express

Over the past year, we have developed Good Neighbour delivery plans and reduced the number of deliveries to our Express stores by over 1,400 per week. During 2007/08, we will trial new technologies to make our remaining deliveries quieter.

Local shopping

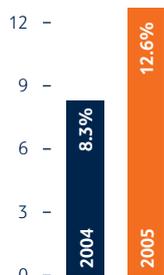
This year we have continued to expand into the local convenience store sector. Through the Tesco Express format we bring local convenience and world-class distribution and supply chain management to the high street. Although this has generated significant public debate, we believe we have helped re-localise shopping through lower prices and better choice.

In Hampshire, for example, we converted several One Stop stores to Tesco Express. A follow up survey conducted by the University of Southampton² shows that more people are now using these local stores as their main food source, that as a result, car use to larger superstores has declined, and that more people are walking or cycling to the local store.

Source:

¹ 'Beverley Retail Study' England & Lyle Town Planners for East Riding Council

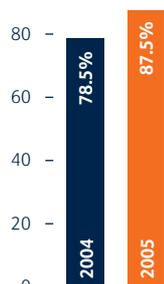
² 'Relocalising Food Shopping: Consumer Responses to Supply Chain Transformation in the UK Convenience Store Sector', Professor Neil Wrigley, University of Southampton, 2007



The impact on primary shopping*
% of respondents using local stores (incl OS/TE) as main food source



The impact on secondary shopping*
% of what respondents are using as main secondary food store in 2004 and 2005



% of respondents walking/cycling to local stores (incl OS/TE) for secondary shopping*

The main reason for this is that the range of products and the chilled food facilities in the new Tesco stores allow healthy, fresh food to be provided locally at low prices. After the conversion of the Hampshire stores, 36% of respondents surveyed bought fresh fruit and vegetables at the store, compared with only 14% before the conversion. The new Tesco stores in Hampshire have had only a small impact on other local stores: people are using other local stores only marginally more or marginally less because trade has been mainly diverted from distant superstores.

“Now Tesco is here you can get a much better range of food... better quality fruit and veg.”

Whitchurch respondent

“It is clear that the introduction of the Tesco Express format to these communities helped bring about a major re-localisation of top-up shopping – away from distant superstores towards local shops.”

Professor Neil Wrigley,
University of Southampton

Similarly, our stores bring increased choice to deprived areas. In 2002, a study¹ by the University of Southampton concluded that, by opening a new regeneration store in the Seacroft area of Leeds, Tesco had helped bring about an immediate improvement in the diet of low-income families. People classified as having poor diets before we opened our store increased their fruit and vegetable consumption by one-third after our store opened.

RETAIL AND THE HIGH STREET

Source:

* ‘Relocalising Food Shopping: Consumer Responses to Supply Chain Transformation in the UK Convenience Store Sector’, Professor Neil Wrigley, University of Southampton, 2007

Source:

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

Retail and the high street

Planning for new stores

Before the opening of a new Tesco store, we work closely with local communities to understand local issues and concerns. We distribute leaflets locally, detailing our plans and inviting feedback. We hold public exhibitions so that people can come and talk to us about our plans for a new store. We talk to local traders about how our stores can attract new customers to the area and improve business for us all.

We aim to build 90% of all our new stores on brownfield sites. This year, 95% of new stores were on brownfield land, exceeding our target. We are also aiming to further improve the way we consult local communities before building new stores. As part of our Community Plan, we are holding a public exhibition or consulting local communities proactively in other ways on every new Tesco superstore.

2006/07 KPI RESULT:
95% of all our new developments were on brownfield sites



We have been criticised for building up a 'land bank' – buying and then hoarding land – but we buy land only when we want to develop or extend a store.

Over the years the process of acquiring land, getting planning permission and building the store has become much more complex, risky and time-consuming. To acquire a single new site, especially in brownfield or inner city regeneration areas, the process can stretch to years. We often have to negotiate with dozens of separate landowners to assemble a complete site where we can build a single store. The increased complexity in planning regulations since the 1990s, involving extensive discussions with the planning authorities and other local stakeholders, means that, once we have the complete site, it now takes much longer to get planning permission. The lead time to prepare a site for construction has lengthened as we move increasingly to brownfield and town centre sites. These changes mean we need to progress more sites now than in the past simply to maintain our pipeline of new store openings.

Regenerating communities

Over the past eight years, we have completed 17 Regeneration Partnerships in areas that have become derelict or run-down. Our Regeneration stores recruit a significant number of people who have been out of work for years – such as lone parents, older people made redundant from declining industries, and young people without qualifications. Working with JobCentre Plus, local authorities and community groups, we provide six weeks of training and a guarantee of a job – provided the individual completes the training.

Our 17 Regeneration Partnerships have revitalised prospects for almost 4,000 long-term unemployed people. This year we initiated new Partnerships in Hartlepool, Failsworth near Oldham, and Newcastle General Hospital. We are committed to building a further three Partnership stores in Cheetham Hill and Gorton in Manchester and in Haydock. This year we also opened four further Regeneration partnership stores. The first, at Deysbrook barracks in Liverpool, created 167 new jobs, 85 of which were through the Job Guarantee for the long-term unemployed. The second, at Pollock in Glasgow, created 448 new jobs, 60 of which were through the job guarantee.

2006/07 KPI RESULT:
We initiated six new Regeneration Partnerships this year



Regeneration Partnership recruits at Wigston in Leicestershire one year on

“Regeneration is all about people, and partnerships of this kind enhance the lives of local people and therefore, the local economy. Regeneration is about the human spirit; it’s about dignity and rebuilding confidence and self-esteem. There is a whole human agenda when it comes to unemployment. Work gets us out. It allows us to meet others and gives people the opportunities to fulfil their own potential.”

Edward Garnier, MP for South Leicestershire

Customer priorities – diversity

This year our Customer Plan has been focusing on how we can provide a better ‘Every Little Helps’ shopping trip for ethnic customers. We have extended food ranges, reduced prices, increased promotions and improved availability – especially at times of key religious events such as Passover, Hanukkah and Rosh Hashana (for Jewish customers), Diwali (for Hindu/Sikh customers) and Ramadan/Eid (for Muslim customers). We are working with Asian, Afro-Caribbean, Jewish, and more recently, Polish groups; and we are looking at how we can improve the range for Muslim (Halal) customers.

We are training our managers to be more aware of these different cultures and religions and to enable them to understand and satisfy customer demands. Since early 2006 we have given managers a ‘religions toolkit’ with information on the diet, prayer, dress and festivals of people from different faiths.

“Looking at the Religions Toolkit, along with studying the demographics in my store, has made me realise what I can do to help.”

Sina, Resource Manager,
Feltham High Street store

CASE STUDY

Polish customers

External research recently identified a rapidly growing need for Polish and Eastern European products. Our growing number of excellent Polish staff helped confirm our beliefs. As a result of this, we appointed one of our Polish executives who began by listening to customers and held our first ever Polish ‘Customer Question Time’ (in Polish) to find out which kinds of products our customers would like to buy. We launched our range in-store in September 2006 with very positive feedback from customers and stores.



Our new ethnic food ranges, designed to appeal to different cultures

We are also making our stores more accessible to disabled customers. In 2006 we sponsored a guide produced by the Employers Forum on Disability entitled ‘Welcoming Disabled Customers’ which we sent to all our stores and which is helping our staff to deliver a better service to customers with disabilities. We also joined the nationwide Disabled Access Register (www.directenquiries.com), which provides information on the access and facilities that businesses offer.



Sports training, Clitterhouse Junior School, London

Health, nutrition and well-being

Introduction

Many of our customers tell us that they now have less time to cook and that finding opportunities to exercise – particularly as a family – is difficult. Eating fresh food appears expensive to some¹. However, customers also tell us they want to lead healthier lives, eat more nutritious diets and exercise more.

Like us, NGOs, socially responsible Investors and the Government are also increasingly concerned about health, nutrition and rising levels of obesity. The last year saw a range of high profile campaigns on health and nutritional labelling, new SRI reports on health reporting, and a new focus from Government on childhood obesity.

We are constantly trying to find new and innovative ways to make it easier for customers to live healthier lives, whatever their income or attitudes towards health. Our health strategy is based on three key objectives which are applied to all our operational plans:

- Providing better health information
- Making healthy options more accessible
- Making it simpler to have an active lifestyle

200

average number of weekly promotions on fresh produce, fish, Wholefoods and Healthy Living products

Providing better health information

Customers have been telling us for a number of years that they want our help in making healthier choices in the products they buy. In response, and based on extensive research, we developed front-of-pack nutritional signposts – using the system of Guideline Daily Amounts (GDAs) developed by the Institute of Grocery Distribution (IGD). These indicate in a simple format the number of calories and the amount of sugar, fat, saturated fat and salt in a serving, as well as how much of a typical adult's GDA this makes up.



This year we achieved our KPI target by completing the roll-out of GDA signposts across the 6,600 eligible products in our own-label range. To achieve this KPI, we rapidly increased our roll-out of new labelling, and invested an additional £300,000 in extra technical staff. In December 2006 we added GDA signposts to tesco.com, with 7,400 own-label and branded products e-labelled during the first two months. The on-line GDAs will eventually cover all eligible branded and own-brand products. Our sales analysis clearly shows that customers have used the labels to make healthier choices with shifts away from products high in salt and fat to healthier alternatives. In turn, this increased demand for healthier options is accelerating product improvement and healthier new product development.

2006/07 KPI RESULT:
6,600 own-brand products now have nutritional signposting



Source:

¹ Henley Centre report prepared for Ofcom

Health, nutrition and well-being

In March 2006 GDA labels were added to our frozen ready meals range. Using our Clubcard data, we tracked the impact of GDA labelling on our customers' shopping habits. Our Sweet & Sour Chicken ready meal, with salt levels of 54% GDA, had sales of £215,784 in the eight weeks before GDA labelling. In the eight weeks following GDA labelling, the product lost £71,200 (or 33%) of its sales directly to healthier alternatives across the rest of the category. Customers who used to regularly buy Sweet & Sour Chicken also bought fewer other products with high salt levels – showing that the labelling helped many customers think more widely about what they were buying.

During the year we undertook further market research through the research agency Taylor Nelson Sofres (TNS) to ensure that our GDA sign-posting was clearly understood by our customers. By October 2006, 92 per cent of our customers thought that our labelling was extremely easy or quite easy to use. The same survey found that Tesco was rated the number one retailer for several aspects of nutritional labelling (see table).

	Tesco	Sainsbury's	Asda	Morrisons	Waitrose
Is the most committed to labelling their products	49	37	13	4	26
I trust their nutritional labels on their products the most	41	40	14	8	30
Their labelling fits best with their brand image	43	37	13	14	29
Their labels encourage me the most to buy healthy products	43	39	15	11	27

TNS October 2006, 1,207 GB Adults 16+

Our international businesses are progressively adding front-of-pack nutritional information to their own-brand products.

In May 2006, Tesco Thailand launched nutritional signposts across our own-brand products, helping Thai customers to make their own choices on healthy diet. Our international businesses are now committed to rolling out GDA front-of-pack nutritional signposts across the Tesco Group.

In addition to effective labelling, we have been providing better health information through a number of other initiatives in the UK:

- Supporting the Government's 5-a-day programme with re-launched on-pack labelling and information.
- Issuing two million Kids healthy eating supplements in the Tesco Magazine, and inserting four million Healthy Living supplements into Sunday papers, both featuring health information, advice and recipes.
- Extending our Healthy Living Club to membership of 603,000, just short of our KPI target. All members receive a magazine with information on how to get fit and stay healthy, as well as benefits such as discounted gym membership and money-off vouchers for healthy products.
- Producing 15 in-store and web-based health information leaflets.
- Using our website to provide information on healthy eating, active living, health services and free online advice from a professional nutritionist: www.tesco.com/health. During the last year alone, the health site has had over 750,000 customer visits.
- Offering diet advice at our pharmacies, and through www.tescodiets.com. In 2006/07 over 100,000 people used our innovative website for dietary advice. Many of our active Tescodiets customers (those who stay on the programme for more than four weeks) were successful in achieving sustained weight loss.
- GDA labelling features on recipes (in-store, in publications and online).

Making healthy options accessible

During 2006 we introduced new promotional policies to make healthy options even more attractive to our customers. For example, we enabled categories to run up to 30 additional offers on more niche healthy products that would not normally be promoted. Increasingly, we use our more prominent promotional space – the aisle ends in stores – for healthy products. This, combined with other policies, increased the average number of offers on healthy products (e.g. fresh produce, fish, Healthy Living, Wholefoods) to 200 each week, up from 160 last year – a rise of 25%.

A highlight was our biggest ever ‘Health Event’ which ran for three weeks in May 2006. During this, we ran hundreds of promotions across our healthy product ranges. One of the most successful promotions was the “5 for 4” promotion on fruit and vegetables – where we sold over 81 million packs by promoting more than 800 healthy products. During the year we ran over 3,000 separate promotions on healthier products – with a focus on fish, fruit and vegetables. Overall sales of healthy products on promotion rose by 33% during 2006/07.



Our biggest ever health promotion in May 2006 was supported by a full range of advertising and in-store promotions

During 2006/07 we marketed seasonal British healthy produce with dedicated aisle end fixtures – selling new potatoes, asparagus, sweetcorn, peas, runner and broad beans, tomatoes, strawberries and raspberries in this way (see also Sustainable Consumption pages 30 to 37).

We are also committed to making fruit and vegetables more affordable generally. We increased our Value fruit and vegetable range from 61 lines two years ago to over 90 this year – including fruits such as mangoes and kiwis, as well as staples such as carrots, pears and bananas.

In January 2007 we launched our Fruit and Veg Pledge – that we would offer at least five fresh fruit and vegetable products at half price every week during the whole of the year. During January and February our 200 largest stores ran over 15 Half Price offers.

These initiatives have led to increasing sales of fresh fruit and vegetables at Tesco. From February 2006 to February 2007, fresh produce sales at Tesco rose by 10.7%, with customers also buying fruit and vegetables more regularly than they did before.

NEW

KPI: To deliver five half-price offers on fruit and vegetables every week across 500 stores



Health, nutrition and well-being

INTERNATIONAL CASE STUDY

Tesco Korea introduced a new 'Wellbeing Plus' range in April 2006 to provide customers with healthier choices. 'Wellbeing Plus' already offers over 180 different products including vegetables, fruits, grains and healthy snacks.



Following the popular introduction of the Tesco Wholefoods range in 2005, we have extended it to include an even wider choice of pulses, beans, dried fruit and nuts, breads, oils, cereal bars, breakfast cereals and cooking oils. From 87 products in January 2006, the range has grown to over 200 products which are now bought by over a million customers a month.

Recent research from the National Consumer Council found that traditional convenience stores frequently offer a poor selection of healthy products. Our Express convenience stores, frequently located in the heart of communities, have fresh foods at the centre of their offer, and have an increasing customer participation in healthy alternatives. Over the last year we have:

- Given more space and prominence to healthy and wholefood products
- Introduced snacking fruit ranges into our busy city centre stores
- Expanded the space given to bottled water



Tesco Express now has extra shelf space dedicated to healthier products, including our Wholefoods range

We are also making healthy eating easier by reformulating our products to reduce levels of salt, fat and sugar. This programme is delivered through a code of practice used by all suppliers of our own-label products. The code contains targets for percentages of fat, saturated fat, sugar and salt in terms of Guideline Daily Amounts, as well as portion sizes. The impact of the code has been significant, with over 900 products having their nutritional profile improved, or artificial additives removed, over the last 12 months. The code integrates the Food Standards Agency (FSA) 2010 targets for salt reduction, and over 50% of our products already meet or are below the FSA 2010 limits for salt. Standard loaves of bread are already 15% below the FSA target and ready meals are, on average, 10% lower than the 2010 target. During 2006/07, we reduced the level of salt in over 200 products. More than 150 products had their levels of fat and saturated fat reduced, including sausages, garlic breads, and ready meals.

750,000

customer visits to our health
website in 2006/07

Saturated fat reduction in products 2006/7

Cottage Pie	27% reduction
Steak and Kidney Casserole	53% reduction
Finest Steak and Ale Pie with Vintage Cheddar Mash	44% reduction
Finest Goats Cheese and Red Pepper Quiche	36% reduction
Cumberland Pie	28% reduction
Carbonara Sauce	42% reduction

Improving the nutritional profile of products is now built into the new product development process. Any product that we produce is equivalent or better than the one it is replacing in terms of nutrition and additive content.

Hydrogenated fats were removed from all Tesco own-brand products before the end of January 2007.

81 million

packs of fruit and vegetables sold during our '5 for 4' offer in May 2006

Promoting active lifestyles

We understand that a healthy diet is only part of helping our customers live a healthy lifestyle, and we are also committed to helping them get active. To turn that commitment into action, we want to inspire two million people to get active in the run to the London 2012 Olympics. We are working with many partners to help achieve this ambitious target, and some of the innovative and fun initiatives include:

- Our support for Cancer Research UK's Race for Life which saw 750,000 women take part in 2006, including 22,896 from Tesco raising £53 million for the charity's life-saving work. We also support the Cancer Research UK 10k Run series which encourages men to get involved too.

- Providing £8.7 million equipment and coaching to 30,000 schools last year through the Tesco Sport for Schools and Clubs voucher scheme.
- Developing the Tesco Great School Run which encouraged 242,000 school children to take part in a five-week health and nutrition programme, which culminated in a Guinness World Record-setting 2km race around their school grounds in June 2006.
- Holding the inaugural Tesco Under 13s Football Cup, which saw 35,000 boys taking part in a county cup competition that culminated in a final in May 2006 at Bolton's Reebok stadium.
- Supporting the 'Go-Ride' cycling programme for kids and organising five national 'Bike Active' events with the British Cycling Association, as well as three 'Tesco Great Walk' events.

2006/07 KPI RESULT:

We increased membership of our Healthy Living Club from 548,000 to 603,000



We are also committed to promoting healthier, active lifestyles for our 270,000 staff. Among the initiatives we have developed with our employees are:

- Healthy choices in vending machines and staff restaurants.
- Staff discount of at least 20% on gym membership.
- Staff discount of 30% on subscriptions to Tesco Diets.
- Support and advice to help anyone wanting to give up smoking.

Health, nutrition and well-being

Responsible about alcohol and tobacco

Our approach to healthy living also encompasses the responsible retailing of alcohol and cigarettes.

We are fully committed to playing our part – through staff training and information on our website, in-store leaflets, the Tesco customer magazine and, where applicable, on pack labelling.

We have played a leading role in the retail-wide adoption of the Think 21 Policy. This approach was developed with both the Home Office and other retailers and requires customers to provide proof of age if they look under 21 when buying alcohol. We will be extending this approach to tobacco with the forthcoming change in the legal age from 16 to 18.

Most recently, we have launched a partnership with Diageo Great Britain to target shoppers with reminders to drink sensibly. The partnership included giving responsible drinking hints and tips via Tesco TV in our 100 largest stores and on 'shelf-talker' leaflets across all Tesco supermarkets in the run up to Christmas.

Throughout the year, our 210 pharmacies have advised customers about how best to stop smoking by supporting local NHS stop smoking services. In January 2007 we also issued 700,000 free Quit Kits, which were popular with staff and customers. The Quit Kit was supported by a dedicated one-on-one counselling service using smoking advisors in our pharmacies. In its first month of operation, over 1,300 customers benefited from these sessions. In addition, all our pharmacists are now fully trained to offer free blood pressure testing and diabetes screening to help our customers.



Working in partnership

Tackling obesity and helping customers live healthier lives is a multi-stakeholder challenge. As well as talking regularly to our customers, we work with our suppliers both for our own-brand products as well as the major consumer brands. We also meet Government health officials, health groups, charities, and the Socially Responsible Investment (SRI) community.

Much of what Tesco has done to improve healthy living choices has been developed in conjunction with others. During 2006/07 we met and shared information with nearly 20 health and nutrition expert groups including Sustain, the Food Standards Agency, the Department of Health, Cancer Research UK, the British Dietetic Association and the British Heart Foundation. We also undertake targeted work in partnership with relevant stakeholders – for example:

- with the Pre-school Learning Alliance, we are supporting the delivery of health and nutrition training to practitioners in pre-school settings in deprived areas and researching barriers to healthy eating
- we are also working with the charity NCH to help young people who are leaving care homes to learn how to shop and cook for a healthy diet

“Sport for Schools and Clubs is a great scheme which involves everyone, both family and friends of all ages. It was easy to do and the equipment has been a bonus, giving us something we would not otherwise be able to afford.”

Fred Baker, Telford Raiders
Rugby League Club, Telford

“We’re delighted to be working with Tesco in Leicester to deliver the Feeding Young Imaginations training locally. The Alliance has always known that good nutritional information and advice is vital from an early age and that demand existed for training like this for parents and professionals.

The partnership with Tesco has allowed us to meet this demand. The Tesco team in Leicester has generously offered us use of on-site training facilities and provided free food to cover cookery elements of the session. Their valuable support will enable us to deliver the sessions more cost-effectively with two courses planned to meet increased demand for the training.

Over 800 local families will now directly benefit from this exciting initiative. Tesco’s strong commitment to promoting healthy eating and practical local support has helped make this possible.”

Ros Browse, Pre-school Learning Alliance
Regional Training Officer, Midlands Region

INTERNATIONAL CASE STUDY

2006 was the sixth year that Tesco Hungary organised National Blood Giving Days. In co-operation with the Hungarian Red Cross, we helped almost 3,000 customers make blood donations.



Feeding Young Imaginations training event at Tesco Gateshead



Fairtrade pineapple farmer, Costa Rica

Ethical trade and developing countries

Introduction

Customer tastes are constantly changing, with growing demand for fruit and vegetables, the latest home entertainment technology, and the newest toys and clothes for the family. Tesco now buys billions of pounds' worth of food and non-food products every year from thousands of producers and suppliers worldwide, from Bangladesh to Kenya and Costa Rica. Building our international supply chains has brought huge benefits to our business, and to our customers – but it has also brought some major challenges.

Developing countries are not simple places to do business. They can be politically unstable, have poor infrastructure and high rates of poverty and illiteracy. There can be discrimination against women and minorities and limited concern for the environment. Under such conditions, it is often difficult to gain a picture of what is happening several links down our supply chain. This year we have faced accusations of poor labour standards in some of the factories, farms and plantations that form part of our supply chain. Some NGOs have claimed that our low prices inevitably lead to worker exploitation.

Faced with these allegations, it would be easy to walk away from sourcing in the developing world and leave its problems to others. But we believe that international trade is the key to helping hundreds of millions of ordinary people escape poverty and build better lives for their families. Tesco has strong employment and environmental standards and we are confident that trading with us can be an important force for good anywhere in the world. We also understand that although our customers want low prices, they also want fair prices and decent standards.

Although we have a major economic impact, we alone cannot change the political and social conditions of the countries in which we do business. What we can and must do, however, is ensure that everyone involved in our supply chain – and the communities they live in – truly benefits from their relationship with Tesco.

Our approach

We have two over-riding priorities on ethical trade – the welfare of workers in our supply chain and ensuring a sustainable environmental impact.

As a founder member of the Ethical Trading Initiative (ETI) we strive towards high labour standards throughout our supply chain by using the ETI Base Code as the standard with which our suppliers must comply. The ETI Base Code states that workers must have a workplace where:

- 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

www.ethicaltrade.org

1 million

workers covered by 3,000 ethical risk assessments of our suppliers during 2006/07

Ethical trade and developing countries

Assessing risk of poor labour standards

We take a risk-based approach to managing labour standards in our supply chain, in addition to the due diligence work we do on legal compliance, product safety, quality and capability for product development. We assess ethical risk using three criteria:

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

2006/07 KPI RESULT:

We carried out ethical assessments with 100% of our high-risk own-brand suppliers



2006/07 KPI RESULT:

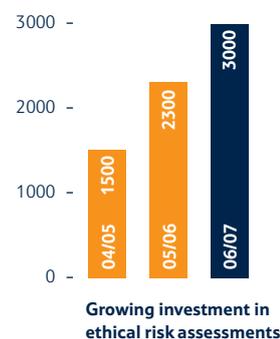
We delivered ethical training to 100% of our high-risk own-brand suppliers



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

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

We write to suppliers to inform them of their risk rating and confirm our requirement that they promote the ETI Base Code in their supply chain. Over the past year, we conducted more than 3,000 risk assessments covering over one million workers.



Independent auditing

We use independent companies or organisations with a verified track record of experience in conducting ethical audits, to conduct the ethical assessments, highlight non-compliance and manage the verification of corrective actions with the supplier sites to ensure implementation. If an instance of non-compliance has not been verified as resolved by the third-party company six months after the assessment date, a Tesco technical manager will assess the suitability of the site to continue supplying us. Where full rectification may take longer than six months, an ongoing status summary report is maintained by Tesco. When problems with compliance emerge, our aim where possible is to work with the supplier to resolve the issue. We believe this approach helps achieve long-term improvements in ethical performance. However, if there is no commitment from the supplier to improve, we would cease to trade with them. During 2006 over 1,038 independent audits were conducted.

CASE STUDY

South Africa

Over the past two years, concerns have been raised about the working conditions of employees on South African apple and pear farms supplying Tesco. We have always responded immediately to any such accusations and no evidence has been found to substantiate any of the claims made. However, we have continued to work with organisations on the ground and agreed a course of action using independent multi-stakeholder audits to reassure ourselves and others that the stringent standards we expect are in place and maintained.

Following on from our discussions in South Africa, a forum has been created which met for the first time in November 2006 and includes workers, suppliers, the South African Government representatives and the action group Women on Farms.

Together we agreed to prioritise apple and pear farms for independent audits and we will have met our target to audit all 150 of these farms by the end of May 2007. To achieve this we have also helped to build the capacity of the independent multi-stakeholder audit teams by funding their training programmes. The next phase will be to audit all grape, stonefruit and citrus farms.

Sharing audit data

We were influential in establishing Sedex (Supplier Ethical Data Exchange), launched in 2004. This web-based system encourages businesses to share data on labour standards at production sites, avoiding duplication of assessments. It allows inspection resources to be better targeted and avoids unnecessary costs for suppliers.

www.sedex.org.uk

Buyer training

All Tesco commercial staff involved with buying for the UK are expected to understand and reflect ethical considerations in their purchasing practices – their job description makes this clear. All buying staff must attend an ethical trading training course which teaches them how to recognise potential problems and employ purchasing practices that minimise ethical risk.

Course content and length varies depending on their job role but this training is mandatory. Based on feedback from each training session we know that a combination of presentations, practical exercises and discussions on recent issues, as well as sharing experiences, is most effective and we regularly review and update all our training materials. We run specific courses for food buyers and non-food buyers in order to address the particular challenges they may face.

2006/07 KPI RESULT:

All our commercial teams received training on labour standards



Over the last year, training on our supply chain labour standards was given to:

- 964 people from Tesco buying teams
- 77 Tesco Board and senior management
- 370 Tesco technical/quality staff
- 3 Tesco ethical trading staff



Labour standards training for Tesco suppliers in China

Ethical trade and developing countries

Supplier training

We organise ethical trading training courses and workshops for our suppliers. These courses explain our standards, raise awareness of ethical issues and build supplier confidence in managing ethical issues in their own countries and industries.

Over the last year we carried out training for our suppliers at three main levels:

- **Senior management** – Managing directors, account managers and human resources managers from 613 suppliers underwent 16,600 hours of training by Tesco staff and specialist consultants. Training was in the local language where applicable and paid for by Tesco. Examples include:
 - Several workshops held for South African apple and pear farmers covering the use of labour providers and the importance of engaging NGOs and local organisations.
 - A series of training sessions to highlight the issues associated with using temporary labour, with guidance offered on what help is available.
 - Training for our Irish produce suppliers to get them to share best practice on managing temporary workers.
 - A presentation by our International Trading Law and Technical Director to our top 100 Chinese suppliers to reiterate the requirements of our ethical trading policy.
- **Local Site Management** – Supervisors and site managers at 63 suppliers' factories and farms received 1,008 hours of training on labour standards. This included training on overtime and productivity management for 20 factories in China, and follow-up training at the 22 factories that undertook this training last year. 90% of the cost was paid for by Tesco and the rest by the suppliers.

- **Workers** – Shop stewards, workers' committee representatives or other worker representatives at 40 suppliers received 1,280 hours of training.

We also put 49 suppliers in touch with each other to share best practice on implementation of the Code. Examples include introducing flower suppliers in Kenya and Columbia to each other, and getting vegetable and fruit suppliers in the UK to talk to each other about how to manage temporary labour.

“We have learned a lot through working with Tesco. Their orders and compliance requirements are clear.”

Produce supplier

CASE STUDY

Raising Standards

By setting clear standards, auditing them to ensure compliance, and supporting suppliers to invest to meet them, we can help raise the bar in developing countries. We can also help deliver safe working conditions, fair wages, reasonable working hours, and the right to join a trade union – often for the first time in some supplying countries. We can see these improvements creating a ripple effect, with our suppliers also adopting high standards for other production.

Over the last year:

- 1,261 meetings with suppliers, where ETI Base Code was given and contents discussed
- 1,411 suppliers given detailed guidance on labour welfare standards during site visits
- For 56 suppliers, we facilitated meetings/ongoing dialogue with stakeholders such as trade unions and NGOs

16,600 hours

training on ethical issues given to senior management from 613 suppliers during 2006/07

Balancing environment and development

In January 2007 we announced a series of ambitious targets and projects to tackle climate change (see Climate Change chapter, pages 22 to 29) – including a target to reduce the ‘air miles’ involved in air freighting products to the UK, and to label such products with a new symbol. But our recent announcements on climate change will not undermine our commitment to source quality products from developing countries. Air freight is by no means the only method of transporting goods from developing countries. And we have stated that priority within the 1% of our sales that will come from air-freighted goods will over time be given to sourcing from developing countries.

We have already identified a number of ways for us to reduce the amount that we air-freight into the UK. For example at Christmas we have brought in last-minute supplies of clothing and electronics to keep up with customer demand. This air-freight can be avoided through better production management with our suppliers in Asia. None of this involves reducing the amount that we buy from developing countries elsewhere.

We remain committed to helping our producers and suppliers improve their local environmental impact. Tesco’s overall environmental standards are set out in our Nature’s Choice code of conduct for suppliers (see Sustainable Consumption chapter, pages 30 to 37).

Our international businesses

The standards in the ETI Base Code only apply to products being sourced for our UK operations. For our International business, we ask that all suppliers conform to the requirements of the ILO Conventions (the ETI Base Code is derived from this) which has been ratified by all the countries in which we currently operate. We have recently completed a two-year programme to improve Tesco capacity and capability to manage supplier issues.

Emerging initiatives

In January 2007, along with fellow supermarket chains – Migros, Wal-Mart, Carrefour and Metro – we announced a draft code of workplace standards called the Global Social Compliance Programme. This aims to standardise a range of competing monitoring initiatives to combat audit fatigue amongst suppliers.

CASE STUDY

Bangladesh

Despite sustained domestic and international efforts to improve economic and social conditions for its population of 150 million, Bangladesh continues to face the challenges of poverty, overpopulation, and frequent cyclones and floods. Clothing manufacture has been one of the few bright spots in Bangladesh’s economy, providing 75% of the country’s exports, and supporting over 15 million jobs directly and indirectly. The clothing industry has also allowed women the freedom to work, often denied them in Bangladesh’s rural hinterland.

Over the past two years, Tesco has increased our orders of clothing from suppliers in Bangladesh. This has helped to support tens of thousands of jobs, but has also opened us to attacks on our reputation. In October 2006, British television’s Channel 4 broadcast a documentary alleging that two Tesco suppliers, Evitex and Harvest Rich, employed children under the age of 16. Tesco staff made unannounced visits to the two Tesco approved sites the next day, and made further visits that week accompanied by independent auditors.

In between these visits, Evitex admitted using an unapproved factory to make products for us, so we also visited this third factory. The age documentation was checked for younger workers in these sites, with none found to be under 16 – and the majority found to be aged 18 or above. Furthermore, after several months working with Marie Stopes, 24 of the 42 workers featured on the programme were traced, the youngest of whom was 18. Overall, our independent auditors found no evidence to substantiate the allegations. However, we are working to improve recruitment processes and better monitor the use of sub-contractors. Our International Sourcing Director held a workshop for all our suppliers in Bangladesh to reiterate our standards and our obligations as ETI members.

Tesco also participates on a number of local and international working groups convened by the ETI to investigate specific issues in the Bangladeshi garment industry. The working groups all have buyers, suppliers, trade unions, NGOs and government representatives involved.



Charities and community

Introduction

Our customers tell us that above all, they want us to provide a good shopping trip. But they also want to be assured that businesses are responsible, fair and honest.

Local communities and residents' groups have increasing expectations of our contribution to local communities, and the past year has seen rising expectations of supermarkets in terms of delivering community benefits.

Wherever our customers find us – in supermarkets large and small, in garage forecourts, on the High Street or on-line – Tesco aims to serve everyone in the community. We give consumers access to quality products and healthy food at low prices. We provide jobs with decent pay and benefits, often in deprived areas (see Being a Good Employer, pages 16 to 21). We are committed to the local communities in which we operate and make a positive contribution to them as a good corporate citizen and a friendly neighbour.

We demonstrate that commitment by mobilising the energy, compassion and generosity of our staff and customers to support local and national charities and good causes. This has a positive effect on staff morale and helps us to develop strong links between our stores and our neighbours.

“We are very different to the young, small organisation which began to work with Tesco in 2005. Instead, we're maturing into a competitive national charity. The partnership with Tesco will be remembered as the turning point in our history.”

Ruth Owen, Chief Executive, Whizz-Kidz

Our approach

We mainly focus our charitable programmes in three areas, which our staff and customers tell us are most important to them:

- Children and education
- The elderly
- People with disabilities

We also work with partners to make a difference in other areas. For example, our support for Cancer Research UK's Race for Life actively supports research to beat cancer, and we help people in deprived areas through our Regeneration Programmes (see High Street, pages 52 to 57).

2006/07 KPI RESULT:

We gave 1.63% of pre-tax profits to charities and good causes

1%

Each year, we aim to give more than 1% of our pre-tax profits to charities and good causes in the form of donations, staff time and gifts in kind. We are therefore a member of Business in the Community's Percent Club.

Progress/Achievements

As Tesco grows, so too does our contribution to charity. In 2006-07 we gave £43.4 million to charitable causes, up from £41.7 million in last year.



Charitable giving 2006/07 by type

Our Tesco Charity Trust made cash grants of £1,496,373 to local and national charities in the UK. The Trust's Community Award scheme gave £399,000 to 275 practical projects. Local community coordinators decide which charities should benefit from our Trust donations. We add 20% to all funds raised for charity by Tesco staff which amounted to £714,000 in 2006.

Charities and community

Charity of the Year

We nominate a Charity of the Year to create an opportunity for staff and customers jointly to support a cause that everyone cares about. We started Charity of the Year in 1998 and have so far helped to raise over £31 million for established British charities.



In 2006 our Charity of the Year was Whizz-Kidz, for which we raised £3.4m, more than double our target. This will provide over 750 disabled children with their own customised mobility equipment – including powered, manual and sports wheelchairs, bicycles and tricycles (see case study, page 77).

Our Charity of the Year for 2007 is the British Red Cross – under the partnership theme of Crisis Care in your Neighbourhood. Tesco has worked closely with the charity over a number of years on disaster and emergency efforts such as the London Bombings in 2005 and the Asian Tsunami appeal and our support has been well received. However, a key factor in choosing the British Red Cross as our Charity of the Year is the work they do to help people at a local level in the UK. Many thousands of people every year are hit by crises such as accidents, floods, fires and illness. The British Red Cross ensures that they get the support they need to pick up and rebuild their lives.

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

Sir Nicholas Young,
Chief Executive, British Red Cross



Lucy Neville-Rolfe, Executive Director – Corporate and Legal Affairs, and Sir Nicholas Young, Chief Executive of British Red Cross, launching our Charity of the Year.

CASE STUDY

Multiple Sclerosis in Ireland

We understand the importance of supporting charities, not only in the UK, but in each of the countries in which we operate. In 2006, Tesco Ireland raised £692,000 for their Charity of the Year, Multiple Sclerosis. This represents the single largest donation to Multiple Sclerosis Ireland in its history. The money raised will go towards a nationwide exercise programme.

We also continue to contribute to disaster and emergency appeals where our help is needed. This year we donated a quarter of a million pounds to the Department for Trade and Industry-backed Farepak Response Fund following the collapse of the Christmas Savings scheme.

Community initiatives

Our well-known Computers for Schools programme continues to go from strength to strength. Last year we set targets to increase the cumulative value of computer equipment supplied to schools to £108m and to increase the number of new schools in the programme by 2,500. We have exceeded both of these targets: the number of schools registered to take part has risen by over 2,900 to more than 30,000; and since 1992 we have delivered over £109 million worth of computers and computer equipment to schools.

2006/07 KPI RESULT:

We increased the cumulative amount of Computers for Schools equipment to £109.5m



2006/07 KPI RESULT:

2,961 new schools registered for Computers for Schools



In 2006/07 our stores gave out over 430 million Computers for Schools vouchers, contributing to orders for:

- £9.5 million worth of equipment
- Over 2,500 computers
- Over 127,000 additional items of computer-related equipment, including digital imagery tools, and the award-winning Bee-Bot.

We are also running an increasing number of programmes which aim to help people get active. In our Community Plan we have pledged to get two million people active by 2012. During 2006/07 over one million men, women and children have been walking, running, cycling and playing football as a result of our campaigns.

Our Sport for Schools and Clubs initiative was established in 2005. We give customers vouchers which are then exchanged for free sports equipment and professional coaching sessions by sports clubs and schools around the UK. Last year we set targets to increase the value of sports equipment and coaching to £9.5 million and to increase the number of new schools and clubs participating by 2,500.

2006/07 KPI RESULT:

We gave £8.7m of sports equipment to schools



2006/07 KPI RESULT:

5,689 new schools registered for Sport for Schools and Clubs



In 2006/07, our stores gave away over 390 million vouchers, and since 2005 we have donated over £20m worth of equipment and coaching sessions to more than 20,000 schools.

“The scheme has enabled us to buy equipment we would not otherwise have been able to afford.”

James Coutts, Principle teacher,
Claremont Primary School, Alloa

“We were able to link it to our schools week, which was wonderful. We were very pleased with the high quality of coaching. The new equipment from the voucher scheme has been great for the children.”

Karen Broadbank,
Hazeldene Lower School, Bedford

The Tesco Great School Run is a 2km fun run for children aged seven to 11, which takes place in schools across the UK in June each year. The run was awarded a new Guinness World Record for the largest simultaneous walk ever when more than 242,000 children took part in the 2006 event.

Charities and community



Tesco Great School Run, breaking a Guinness World Record in June 2006 with 242,000 children taking part

We are also continuing to help children get active through our Junior and Mini Great Runs – a series of running events across the UK in Manchester, Sunderland, Newcastle, Portsmouth and Edinburgh. This year over 10,500 children up to the age of 16 took part in the six races. In 2007 we plan to hold 12 Junior and Mini Great runs at six different venues. We also supported the ‘Go Ride’ programme to help children learn new skills on their bikes.

Last year we held the Tesco U13 Cup football competition. This was the first ever UK-wide soccer tournament for under-13-year-olds and included over 2,200 teams and 35,500 boys. The final was held at the Reebok Stadium, home to Bolton Wanderers, and was won by Hutchison Vale Club. We awarded over £90,000 worth of grants to the County, Area and Regional football associations for investment in community football. Due to its success, the tournament is now set to become an annual fixture.

“The Tesco U13 Cup is a great initiative and the grants that Tesco has awarded to all the County, Area and Regional FAs participating in the tournament will help to grow football at grass roots level.”

John Barnes, former England international footballer and Ambassador for the Tesco U13 Cup

2006/07 KPI RESULT:
750,000 women took part
in Race for Life



2006/07 KPI RESULT:
22,896 Tesco staff took part
in Race for Life



For women, we continue to support Cancer Research UK's Race for Life. Since 2002, Tesco has helped to raise over £135m and in total, 2,260,000 people – including 93,000 staff – have participated. The target set this year was to recruit 750,000 women, and to get 26,000 staff to enter and help raise £46m for Cancer Research UK. 750,000 women took part with 22,896 staff and helped to raise £53m (including Gift Aid).

We also supported the Cancer Research UK 10k runs for the second year running. These are held across the UK and nearly 27,000 men and women took part, raising £2.8m.

2006/07 KPI RESULT: We
helped to raise £53m for Cancer
Research UK through Race for Life



In addition to running, we have also been supporting walking and biking events. Our three Great Walk events took place in Darlington, where over 3,000 people participated, in Hatfield Forest in Hertfordshire, and in the Clent Hills near Birmingham, where 1,000 people took part. Our Bike Active events took place in Bath, Manchester, Leeds, Nottingham and Kent and encouraged families to get back on to two wheels for community-based fun rides.

We also carry out a series of smaller scale community-based activities. For example, as part of our Community Sponsorships programme we give small grants of £100-200 to local community groups to help provide practical equipment and resources, and we run a Community Vouchers scheme, which last year gave vouchers worth £633,000 to stores to support local community events and projects. We have also worked with the Princes' Trust, supporting their fund-raising outside our stores which raised £120,000.

Partnerships

CASE STUDY

Whizz-Kidz

“For a disabled child, independent movement can mean the difference between total exclusion and the chance to join in with friends and family – the chance to be a child. Without independent mobility, a child can give up on trying to be in control of their life.”
Joanne Dunsford, Whizz-Kidz Campaign Manager

In 2006, we chose Whizz-Kidz to be our Charity of the Year. Whizz-Kidz changes disabled children’s lives overnight. By providing them with equipment such as powered and manual wheelchairs and tricycles, as well as training and guidance, the charity gives children the independence to be themselves.

Almost every Tesco store in the UK, as well as thousands of head office and distribution centre staff got involved to raise an estimated £3.4m. The Whizz-Kidz Appeal broke our previous record for Charity of the Year fundraising, and helped over 750 children change their lives for the better.



Jabe Peake, age 7, at the launch of the Tesco/Whizz-Kidz partnership in Cambridge.

CASE STUDY

Community volunteering

Over the next two years, Tesco is teaming up with new youth volunteering charity, V and CSV (Community Service Volunteers) with the aim of recruiting 12,000 young volunteers to get involved in community projects ranging from setting up a youth club, organising a party for socially deprived children, or helping out in an old people’s home. Tesco has pledged £500,000 over two years, which will be match-funded by Government through V, to set up Tesco Young Volunteers (TYV), who will recruit 40 full-time ‘Catalysts’ across England. We hope to inspire these volunteers to make a real difference in their communities.

Forward Look

Next year we aim to concentrate even more effort on Race for Life, to help encourage 800,000 women to take part, including 24,000 Tesco staff, and to raise £60 million.

We are also extending our support of the Cancer Research UK 10k runs and will support 34 runs across the country every Sunday throughout September and October. The target set is 36,000 men and women to take part and to raise £3.8 million for the charity.

We will also be promoting the women’s game by supporting of the Women’s Premier League and Women’s FA Cup.

Key performance indicators

Our Corporate Responsibility Key Performance Indicators (KPIs) help us to measure our performance and drive change in the business. Each year, we review our KPIs to ensure that they are meeting the needs of our stakeholders and are still the most appropriate and robust measures of our impact. As a result of our 2006/07 KPI review, and feedback from our external stakeholders, we have:

- introduced our first externally verified KPIs (for example, vehicle efficiency and energy saving in our buildings)
- introduced our first long-term Group KPI (reducing by 50% by 2020 the carbon footprint of our existing stores globally)
- increased the number of KPIs which have longer-term targets stretching over several years

The data is collected quarterly, and reported to the Board via our Steering Wheel (see page 9).

These KPIs are predominantly for our UK business. Later in 2007, our website will also include the Corporate Responsibility KPIs for each of our international businesses.

KPI	2006/07	HOW WE PERFORMED	BELOW TARGET	ON TARGET	ABOVE TARGET	KPI FOR 2007/08	PAGE
Being a good employer							
Employee retention	To exceed 80% retention of experienced staff.	84.1% of our experienced staff stayed with us throughout 2006/07.				To exceed 80% retention of experienced staff.	16 to 21
Employee training	95% of retail staff to be trained to Bronze level.	97% of our retail staff achieved our Bronze level.				95% of retail staff to be trained to Bronze level.	16 to 21
	75% of retail staff to be trained to Silver level.	85.5% of our retail staff achieved our Silver level.				75% of retail staff to be trained to Silver level.	16 to 21
Health & Safety	To reduce our reportable accident rate in the workplace by 10% between 2006/07 and 2008/09.	Overall reduction of 6.5% this year.				To reduce our reportable accident rate in the workplace by 10% between 2006/07 to 2008/09.	16 to 21
Inclusivity and diversity	No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint Survey question 'I enjoy working for Tesco'.	There was a statistical difference by sex. Research and focus groups have told us that staff would like more information on flexible working.				No statistical difference by age, sex or ethnicity in answer to the staff Viewpoint Survey question 'I enjoy working for Tesco'.	16 to 21
Climate change							
Energy efficiency	To reduce energy consumption per square foot by 12% as part of our long-term commitment to reduce energy use per square foot by 50% between 2000 and 2010.	We reduced energy use by 11.92 kwh/ft ² which equates to a 12.5% reduction, saving 137,192 tonnes CO ₂ .				To reduce energy consumption per square foot by 10% as part of our long-term commitment to reduce energy use per square foot by 50% between 2000-2010.	22 to 29
Vehicle efficiency	To increase the amount of cases we deliver per kg of CO ₂ produced by 10%, as part of our long-term commitment to increase the amount of cases we deliver per kg of CO ₂ produced by 30% between 2006/07 and 2008/09.	We are on track to achieve our three-year target, but will replace this with a more stretching five-year target.				To reduce by 50% the amount of CO ₂ used in our distribution network per case delivered between 2006/07 and 2011/12 with a reduction of 8% in 2007/08.	22 to 29
Water consumption	To reduce water consumption per square metre by 5%, as part of our long-term commitment to reduce water consumption by 15% between 2006/07 and 2008/09.	We did not meet our target. We have invested in new sub-meters to better monitor and reduce our usage in 2007/08.				To reduce water consumption per square metre by 5%, as part of our long-term commitment to reduce water consumption by 15% between 2006/07 and 2008/09.	22 to 29

KPI	2006/07	HOW WE PERFORMED	BELOW TARGET	ON TARGET	ABOVE TARGET	KPI FOR 2007/08	PAGE
Sustainable consumption							
Nature's Choice	To register all growers in countries prioritised for the final year of the three-year programme. To ensure all growers are registered to Nature's Choice by the end of 2006/07.	We registered all prioritised growers.				To register all organics growers in countries prioritised for the first year of the three year programme. To remain on target to ensure all organics growers are registered to Nature's Choice by end of 2009/10.	33 to 37
	To audit all growers in countries prioritised for the final year of the three-year programme. To ensure 100% of suppliers comply with Nature's Choice standards by 2006/07.	We audited all prioritised growers.				To audit all organic suppliers in countries prioritised for the first year of the three year programme/to remain on target to ensure 100% of organic suppliers comply with Nature's Choice by 2009/10.	33 to 37
	To review all pesticide uses of growers audited in year 2. To ensure all pesticides used by growers are reviewed by the end of 2006/07.	We reviewed the pesticides used by all growers.				For new targets, please see above.	33 to 37
Waste, packaging and recycling							
Landfill avoidance	To divert 72% of waste from landfill, as part of our long-term commitment to divert 80% from landfill between 2006/07 and 2008/09.	We recycled 71% of waste, a minor increase on last year – but below our target.				To divert 75% of waste from landfill, as part of our long-term commitment to divert 80% from landfill between 2006/07 and 2008/09.	38 to 43
Farmers and local sourcing							
Local sourcing	To hold an open day in every Tesco region for local suppliers to meet Tesco buyers.	8 Roadshows took place in East Anglia (2); Scotland; Cornwall; North West Food; Isle of Wight; Northern Ireland and Wales.				To grow sales of local products by 30% within 2007/08.	44 to 51
Supplier Relations	To monitor supplier relations through our Supplier Viewpoint Survey. Over 90% of our suppliers to view us as being trustworthy, reliable, consistent, clear, helpful and fair.	94% of our suppliers believed we were fair, trustworthy, reliable, consistent, clear and helpful.				To monitor supplier relations through our Supplier Viewpoint Survey. Over 90% of our suppliers to view us as being trustworthy, reliable, consistent, clear, helpful and fair.	44 to 51
Retail and the High Street							
Regeneration	To initiate six Regeneration Partnership stores.	We initiated six regeneration partnerships this year in Glasgow Silverburn, Wick, Linwood, Sheffield Saville Street, Hartlepool and Failsworth.				To initiate six regeneration partnership stores.	52 to 57
Brownfield sites	To develop 90% of our new stores on brownfield sites.	We exceeded our target, developing 95% of our new stores on brownfield land.				To develop 90% of our new stores on brownfield sites.	52 to 57
Health, nutrition and well-being							
Healthy living	All eligible own-brand products to have nutritional signposting.	6,600 own-brand products now have nutritional signposting.				To deliver five half-price offers on fruit and vegetables every week across 500 stores.	58 to 65
	To increase the number of Healthy Living Club members from 548,000 to 650,000.	We grew Healthy Living Club membership from 548,000 to 603,000.				No Healthy Living Club KPI for 2007/08.	58 to 65

Key performance indicators

KPI	2006/07	HOW WE PERFORMED	BELOW TARGET	ON TARGET	ABOVE TARGET	KPI FOR 2007/08	PAGE
Ethical trade and developing countries							
Supply chain labour standards	To carry out independent ethical assessments of 100% of our high-risk own-brand suppliers.	We assessed 100% of our high-risk own-brand suppliers.				To carry out independent ethical assessments of 100% of our high risk own-brand suppliers.	66 to 71
	To train 100% of our high-risk own-brand suppliers.	We trained 100% of our high-risk own-brand suppliers.				To train 100% of our high-risk own-brand suppliers.	66 to 71
	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. Over 1,000 Tesco staff were trained.				To ensure all commercial teams have received training on supply chain labour standards.	66 to 71
Charities and community							
Charitable giving	To donate at least 1% of our pre-tax profits to charities and good causes.	We gave 1.63% (£43,412,965) of pre-tax profits to charities and good causes.				To donate at least 1% of our pre-tax profits to charities and good causes.	72 to 77
Computers for Schools	To increase the cumulative value of computer equipment supplied to schools to £108m.	We raised the total to £109.5 million of computer equipment to schools.				To increase the cumulative value of computer equipment to schools to £118m.	72 to 77
	To increase the number of new schools participating by 2,500.	2,961 new schools registered.				To increase the number of new schools participating by 2,000.	72 to 77
Race for Life	To help recruit 750,000 women to participate.	750,000 women took part.				To help recruit 800,000 women to participate.	72 to 77
	To get 26,000 Tesco staff to participate.	22,896 Tesco staff took part.				To get 24,000 Tesco staff to participate.	72 to 77
	To help raise £46m for Cancer Research UK.	We helped to raise £53 million in sponsorship for Cancer Research UK.				To help raise sponsorship to £60 million.	72 to 77
Sport for Schools	To increase the value of sports equipment and coaching supplied to schools to £9.5 million.	We gave £8.7m of sports equipment to schools but many schools and clubs chose to 'bank' their vouchers.				To supply sports equipment and coaching to schools to the value of £9.5 million.	72 to 77
	To increase the number of new schools and clubs participating by 2,500.	5,689 new schools registered.				To increase the number of new schools and clubs participating by 3,000.	72 to 77

New KPIs

KPI	KPI FOR 2007/08
Climate change: Carbon footprint	To reduce CO ₂ equivalent emissions from our existing stores and distribution centres worldwide by at least 50% by 2020.
Climate change: Air freight	To restrict air transport to less than 1% of our products.
Waste, packaging and recycling: Customer recycling	To double the amount of customer recycling at sites where we introduce recycling units.
Waste, packaging and recycling: Carrier bags	Reduce carrier bags given out by 25% by May 2008 compared to May 2006.

A view from Forum for the Future

'Companies are increasingly realising that sustainability is not an 'add-on'; it has to be at the heart of how they do business. Tesco has recognised this, and is working through what this means.

On climate change, Sir Terry Leahy has promised to: 'transform our business model so that the reduction of our carbon footprint becomes a central business driver.' He has set out an impressive plan, including targets to reduce CO₂ emissions in absolute terms, to introduce carbon labelling on all its products, and to support the development of emerging low-carbon technologies.

As a sustainable development charity, we are also encouraged by commitments to reduce waste, to significantly increase sales of local food and to raise the price dairy farmers receive for their milk. These are all positive steps. The job at hand now is for Tesco to deliver on the commitments it has made.

The report deals with the key issues that the business is facing in a logical and systematic way. This new issue-based structure helps make this report more accessible to a wide range of stakeholders, as it better reflects the information they are likely to want. Going forward, Tesco needs to ensure it is open to ways of continuously improving the effectiveness of engagement with all its stakeholders.

Tesco's international growth needs to be handled responsibly. It has taken leadership positions in areas such as climate change, and needs to ensure that both the positions, and delivery, are maintained as it enters new markets.

It is also important for Tesco to remain engaged with local concerns such as its impact on the high street and on the broader community. Tesco clearly has impacts on the communities in which it operates, on its local environment and on its suppliers. These impacts should be better understood, and tackled head-on. In doing so, Tesco must better demonstrate how a retailer of its size can be part of a sustainable society.

We believe that Tesco is in prime position to make sustainable choices available to millions of consumers in a straightforward and affordable way. It is great news that Tesco wants to make 'green consumption mass consumption', but it is crucial that it does so in a way that benefits its suppliers and local communities. And as it sources and sells more, Tesco must drive improvements in resource efficiency hard, so as to lighten its environmental footprint.

A critical challenge for Tesco is to deliver on the commitments in this report in such a way that drives forward performance improvement in both the Tesco business and in the supermarket sector as a whole. There are some issues, such as carbon labelling and logistics, which would benefit hugely from collaboration in the wider sector. True leadership will be a combination of bold positioning, sector-wide collaboration and the delivery of truly sustainable consumption.'

Peter Madden, Chief Executive

Dan Crossley, Senior Sustainability Advisor,
Business Programme

Forum for the Future

Forum for the Future is a sustainable development charity that works with forward-looking organisations in business and the public sector to find practical ways to build a future that is environmentally viable, socially just and economically prosperous. It is a Registered Charity in the UK (number 1040519). The Forum for the Future is not an auditor or a verifier. As such, these comments should not be read as verification of data or information contained within the report.

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

For more information on Forum for the Future visit:
www.forumforthefuture.org.uk





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