

# Every little helps

Corporate Social Responsibility Review 02/03



**TESCO**



***“At Tesco, we aim to make a positive contribution to society. Our CSR programme builds on this commitment and is backed by our ‘Every Little Helps’ approach.”***

**John Gardiner, Chairman, Tesco**



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This is our second Corporate Social Responsibility (CSR) Review for the UK business. It sets out our approach to CSR and how we implement it in practical ways by drawing on the strengths of our business.

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# Introduction

This is our second Corporate Social Responsibility (CSR) Review for the UK business. It sets out our approach to CSR and how we implement it in practical ways by drawing on the strengths of our business.

CSR is important to Tesco because it makes sound business sense. It is about being a responsible company; all our stakeholders – our customers, staff, local communities, shareholders and others – expect us to act in a responsible way. So, it is increasingly important to reflect on what we have achieved, how we have performed and to communicate it. We listen carefully to all our stakeholders. In particular, talking to the 12 million customers who shop with Tesco every week, and the 221,000 staff who work here, is essential to the continued success of the business. Their feedback helps us focus on and deliver what customers and communities want and expect of us.

We track public attitudes to Tesco and benchmark our performance against that of our competitors. The most recent survey tracking attitudes to Tesco and CSR shows that our customers, in particular, and the public in general, trust Tesco.

CSR is a journey: whatever we have achieved, there is always more that can be done and that needs to be done. That is why we have adopted an 'Every Little Helps' approach.

The achievements of Tesco and our staff over the last 12 years have been tremendous – we have raised £21 million for charities, given £77 million worth of Information and Communication Technology (ICT) equipment to schools through Computers for Schools, and created an average of 10,000 new jobs a year. And I am immensely proud of the tremendous hard work of all our staff in achieving this.

To make the next steps on that journey, we have focused our CSR programme around:

- *Being a good employer – providing jobs, training and opportunities for all our staff*
- *Making a positive contribution to local communities – giving over 1% of pre-tax profits to charity and community projects every year*
- *Minimising our environmental impact – through recycling, cutting emissions, energy consumption and waste*



Sir Terry Leahy, Tesco Chief Executive

Customer focus is key to our CSR strategy. Our responsibility is to deliver safe, good quality products at the right price for all our customers. We provide access to good quality fresh food at affordable prices in communities across the UK, and our Express convenience stores can often provide access to fresh food in areas with few outlets. Our value line range provides everyday items at unbeatable prices and helps customers on a budget. In this way, we create value for customers and communities.

This review, together with our website, is an important part of our commitment to Corporate Social Responsibility. It illustrates our 'Every Little Helps' approach and reflects on our achievements in the UK. I hope you find it informative, and we would welcome your feedback on the review.

Sir Terry Leahy, Tesco Chief Executive

# CSR highlights 2002/03

## **Economic:**

- Created 10,000 new jobs.
- Opened two new regeneration stores in Beckton, London and in Preston, Lancashire.
- Created 400 new jobs in Beckton, an area of high unemployment and one of the most deprived urban areas in the country.
- More than half of our staff own shares in Tesco through our employee share schemes.

## **Social:**

- Gave away £7 million worth of ICT equipment to schools as part of Tesco Computers for Schools.
- Raised over £1.8 million for Cystic Fibrosis Trust, Tesco Charity of the Year 2002.
- National presenting sponsor for Race for Life with over 250,000 women taking part raising £15.6 million for Cancer Research UK.
- Adopted a group-wide Human Rights Policy for Tesco.

## **Environment:**

- Recycled over 350,000 of our customers' old mobile phones and 35,000 inkjet cartridges, raising over £1 million for charity.
- Improved energy efficiency in store by 5% per square foot, reducing our CO<sub>2</sub> emissions by 45,000 tonnes – the equivalent of 75,000 trees.
- Increased the use of reusable plastic crates, known as green trays, by 5% on last year. These are replacing cardboard boxes for delivering and merchandising products, saving over 69,000 tonnes of packaging – the equivalent of 483,000 trees.

## **How others see us:**

- Top food and drug retailer in Business in the Community (BITC) Corporate Responsibility Index 2002, with a score of over 95%.
- 28th out of 186 companies in the BITC Index of Environmental Engagement 2002, and 3rd in sector, with a score of over 90%.
- 66th in The Sunday Times '100 Best Places to Work' Survey, 2nd in sector.
- Highly commended in Castle Awards (for equality) for training of part-time workers.
- Won Pensions Week, Pension Scheme Design Award 2002 for our new 'Pension Builder' pension scheme.
- Member of BITC 1% club, for donating more than 1% of pre-tax profits to charity and good causes.
- Listed in FTSE4good and Ethibel indices of 'socially responsible' equities.
- Voted Most Parent Friendly Supermarket in the Tommy's Awards 2003.
- Won Retailer of the Year Award at the Mother and Baby Awards 2002/03.
- Won the Major Energy Users Council Award for Best use of Electricity for the second time.

## **Feedback**

We welcome your feedback. Feedback is used to improve how we communicate and what we do each year.

If you would like to make any comments please email: [leonie.smith@uk.tesco.com](mailto:leonie.smith@uk.tesco.com), or write to the Corporate Social Responsibility Department, Tesco, Tesco House, PO Box 44, Delamare Road, Cheshunt, Herts, EN8 9SL.

Any other comments should be addressed to Tesco Customer Services, Freepost, SCO 2298, Baird Avenue, Dundee, DD1 1YP or contact 0800 505 5555.

# Profile and Scope

## Profile

Tesco operates supermarkets in 10 countries: the UK, Republic of Ireland, Hungary, Poland, Czech Republic, Slovakia, Thailand, South Korea, Taiwan and Malaysia, and has a market leading position in 6 of these countries, including the UK.

A full review of the business is contained in the Annual Review and Summary Financial Statement 2002/03. This is available online at [www.tesco.com/corporateinfo](http://www.tesco.com/corporateinfo)

Tesco has 1,982 stores in the UK, employing 221,000 people and serving a population of 60 million in the UK.

During the last six years, we have expanded from our traditional UK supermarket base into new countries and into new products and services, including Tesco Personal Finance and Tesco.com – the world's leading online grocer.

## Our business strategy

Tesco has a four-part long-term strategy for growth:

### Strong UK core business

The UK remains our core market with 1,982 stores. Our focused strategy of providing exceptional value and choice for customers ensures that our market share continues to grow.

### Non-food

Our goal is to be as strong in non-food as in food in a market worth £75 billion in the UK. We now have over 5% market share.

### Retailing services

As customers' shopping habits change, we respond by providing new products and services. We have developed the best grocery home shopping system for the customer and Tesco Personal Finance offers great products at good prices.

### International

Our strategy of building an international business of scale continues to gain momentum. We have made good progress in all markets and now operate 152 hypermarkets overseas.

## Scope of CSR Review

The Tesco CSR Review for 2002/03 covers the UK business.

The UK business represents over 80% of the Group's turnover and employs more than 75% of our staff. Our policies outlined here apply to the UK business and supply chain unless otherwise stated.

Our business activities and employment practices make Tesco a major contributor to the UK economy at a national and local level. We estimate that we pay probably somewhere in the region of 50% of our profit in various direct and indirect taxes, such as corporation tax, rates, National Insurance contributions and climate change levy.

As they develop, our international businesses will look to produce local CSR reports focusing on the issues relevant to the markets they operate in. This fits with our approach to working locally, reflecting the needs and priorities of local customers.

## Our results for 2002/03

### UK Figures

- UK sales up to 7.9% to £23.4 billion.
- UK operating profit up 6.9% to £1,297 million, pre-tax.



### UK Figures

- Tesco is the largest private sector employer in the UK, employing 221,000 people.
- Tesco opened 65 new stores and acquired 1,203 stores from T&S.

For a full summary of the Group's annual results, please see our Annual Report and Accounts at [www.tesco.com/corporateinfo](http://www.tesco.com/corporateinfo)

# Strategy and Values

Our Core Purpose and Values define the way we do business, how we treat our customers, our people, each other and our suppliers. They help to define our responsibility to the communities where our business operates and create the culture and environment in which our business strategy continues to deliver strong results. Our philosophy of *'Every Little Helps'* underpins these wide-ranging responsibilities.

Our Corporate Social Responsibility policy objective is to earn the trust of our customers by acting responsibly in the communities we serve. We recognise our impact on society at all levels and work to maximise the benefits we bring, whilst minimising the impacts. We deliver this through a programme of practical community-based and customer-focused activity.

Customers are at the heart of everything we do. CSR is a win-win for our business and the communities where we operate. By building good will and trust with our customers, we can earn their lifetime loyalty, and this is our core purpose.

Corporate Social Responsibility reflects our Values – *'treating people how we like to be treated'*. We strive to attract and retain the best people to work for us by offering support

and development – reflecting another one of our Values, *'look after our people so they can look after our customers'*. This lies at the heart of our business strategy.

Our CSR strategy is supported by an established cross-functional CSR Committee. It meets a minimum of four times a year and is chaired by the Group Corporate Affairs Director, Lucy Neville-Rolfe. Its membership is made up of senior managers from all parts of the business. One of its objectives is to identify threats and opportunities for the coming year and to highlight emerging issues.

At the beginning of each financial year, the Committee meets to agree the priorities for the year ahead, the Key Performance Indicators, (KPIs), targets and programme of activities that will support our strategy.

We are focusing on:

- *Being a good employer – providing jobs, training and opportunities for all our staff*
- *Making a positive contribution to local communities – giving over 1% of pre-tax profits to charity and community every year*
- *Minimising our environmental impact – through recycling, cutting emissions, energy consumption and waste*

For examples of our programmes, please see the policy sections of the review, from page 12 onwards.

Lucy Neville-Rolfe, Group Corporate Affairs Director



Our Core Purpose is to create value for customers to earn their lifetime loyalty. This is supported by our Values –



**No one tries harder for customers:**

- *Understand customers better than anyone*
- *Be energetic, be innovative, and be first for customers*
- *Use our strengths to deliver unbeatable value to our customers*
- *Look after our people so they can look after our customers*

**Treat people how we like to be treated:**

- *All retailers, there's one team...  
The Tesco Team*
- *Trust and respect each other*
- *Strive to do our very best*
- *Give support to each other and praise more than criticise*
- *Ask more than tell, and share knowledge so that it can be used*
- *Enjoy work, celebrate success and learn from experience*



# Managing our business

We manage our business using a balance scorecard approach, which we call the Steering Wheel. It lies at the heart of the company's business planning strategy.

## The Steering Wheel

The Steering Wheel has four quadrants: People, Customer, Operations and Finance with each quadrant subdivided into segments.

We define the key deliverables to achieve our goals in each segment. This is a balanced approach to assessing business performance. We create value for customers by being customer-focused, striving to be more efficient in our operations, and keeping our people at the heart of all we do. This gives us the right emphasis and so the finance delivers itself.

The Steering Wheel is a management tool that helps us decide when adjustments need to be made to stay responsive to our customers and our people. It is linked to every person's objectives, linking strategy to their day-to-day work and so making it meaningful.

Each segment sets the business priorities for the year ahead and is driven and monitored by Key Performance Indicators (KPIs), which set challenging but achievable targets for the business. Each KPI is backed by a sound business case quantifying the benefits.

CSR performance is incorporated into the Operations quadrant of the Steering Wheel. KPIs regarding our staff are in the People quadrant.

KPIs are measured using a traffic light system. This system is simple, visual and transparent. Where KPIs are not on track, action plans are put in place.

The KPIs are measured and reported quarterly to the Board to ensure the business is on track to meet its objectives. A summary report is sent to the top 2,000 managers in the company to cascade on to staff.

To ensure our Corporate Social Responsibility (CSR) policy is delivered, the CSR Committee sets the CSR KPIs each year. Responsibility for delivering specific KPIs is devolved to the relevant business areas. Each store has its own individual Steering Wheel with specific deliverables.

## Performance related remuneration

**At the end of each year, every KPI in the Steering Wheel is reviewed to determine whether the business has met its objectives, and this shapes the level of remuneration for senior management.**

Bonuses are based on a sliding scale according to the level of achievement on the corporate Steering Wheel. CSR KPIs form part of the operations quadrant of the Steering Wheel.

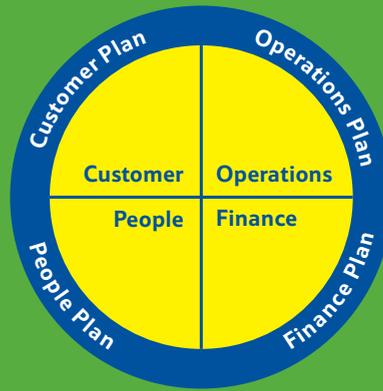
## Assurance

**The CSR KPIs are set annually and progress is reported quarterly to the Board.**

The results are overseen by the Steering Wheel Committee, which is responsible for checking the targets are reported, on track and where they are not that action plans are in place.

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

## Tesco Steering Wheel



*The Steering Wheel is our balance scorecard approach to managing the business*

### Managing CSR in our business

The key to our approach is our integrated business system, where environmental and social performance is managed alongside financial performance.

We have a year-on-year programme of focused action, backed by a business case.

We have identified the key social, ethical and environmental impact areas resulting from the operation of our business.

These have been identified from surveys amongst staff, customers, the general public and opinion formers to understand their expectations of Tesco. This includes our ongoing extensive in-house and external research, attitudinal surveys, and benchmarking against our competitors.

### KPIs

Our KPIs have been chosen as a result of this extensive research.

KPIs fall into one or more of the following criteria:

- *Compliance with legislation or public policy. For example, we have set KPIs for energy efficiency to support our policy and the Government's commitments on climate change.*
- *Customer priority identified from research and feedback. For example, customers expect supermarkets to support recycling and education initiatives.*
- *Staff priority identified from research and feedback. For example, staff expect us to be a good employer and support education and local community initiatives.*
- *Business critical – a significant impact identified by the business, a financial or a non-financial opportunity or risk, or a competitive issue. For example, our energy efficiency KPI aims to reduce our financial exposure to the climate change levy, the tax on the use of electricity.*

By focusing on the main priorities for customers and staff, on what is business critical and where our main impacts are, we can ensure that the KPIs are relevant and meaningful to the business.

### Communication

We are committed to providing as much information about Tesco as possible on the CSR website, [www.tesco.com/everylittlehelps](http://www.tesco.com/everylittlehelps), and for the second year running we have produced the CSR Review, which reports on our performance.

The CSR website is updated every two months. It is designed to provide in-depth information on specific topics and the latest news and press releases. The CSR Review contains an overview of our approach and strategy.

We will continue to focus our efforts on the BITC Surveys on Corporate Responsibility and Environmental Engagement in order to benchmark our performance against our competitors and the best companies in the UK.

# Business practice

## Did you know?

Tesco employs 221,000 people in the UK and creates, on average, 10,000 new jobs each year.



## Managing risk

Tesco is committed to high standards of corporate governance. For the full statement on Corporate Governance, please refer to pages 7-11 of our Annual Report and Financial Statements 2003. This is available online at [www.tesco.com/corporateinfo](http://www.tesco.com/corporateinfo)

The Board regards Corporate Social Responsibility (CSR) as an integral part of the overall corporate governance framework and is fully integrated into existing management structures and systems. Therefore, the risk management policies, procedures and monitoring methods described in the Corporate Governance Statement on page 7 of the Annual Report and Financial Statement equally apply to our CSR activities, including the management of social, ethical and environmental risks.

Many investors take an interest in how companies are managing non-financial risks as these can, under certain circumstances, have an impact on shareholder value. For example, The Association of British Insurers (ABI) has published disclosure guidelines on social responsibility, including social, ethical and environmental (SEE) matters, for investors and companies.

We have an established cross-functional CSR Committee that meets a minimum of four times a year. The CSR Committee is chaired by the Group Corporate Affairs Director, and its membership is made up of senior managers from all parts of the business. One of its objectives is to identify threats and opportunities for the coming year and to highlight emerging issues.

The CSR Committee has established a set of CSR Key Performance Indicators (KPIs), and these KPIs are used to track performance quarterly and annually. The KPIs feed directly into the Steering Wheel monitoring system explained earlier, and thus contribute to the overall monitoring of Group performance and control evaluation by the Board. The Chairman of the CSR Committee makes regular reports to the Executive Board on CSR matters.

Details of the CSR KPIs and the related management system are available in the [Managing our business](#) section of the CSR Review, on page 8.



## Productivity

We continue to cut prices for the customer and this has contributed to deflation in our business. We have worked harder to become more efficient and more productive in the way we work in order to manage differential inflation and make a profit.

We have done this in a number of ways. The key one has been to improve the efficiency of our own supply chain – the way Tesco collects and distributes products to stores, and the way in which it merchandises products in store. For example, the use of reusable plastic crates, known as green trays, has reduced costs in the form of packaging waste and damaged goods, and because they are merchandised directly onto the shop floor, it has reduced the number of hours needed to replenish shelves.

Savings are invested in price so that we create a virtuous circle of investing the savings from improved productivity into reduced prices for customers. These savings have meant we have been able to invest over £1 billion in price in the last five years. Our margin has remained the same whilst our sales have increased and our profits have tracked this increase. Savings have come from improvements in productivity, and savings in the way we build and operate stores, for example, by cutting energy costs. In this way, the savings from our environment programme are proving fundamental to our overall business strategy, illustrating the success of our integrated approach to CSR.

## Business ethics

Tesco is committed to conducting business in an ethical and socially responsible manner.

This relates to all aspects of our business, treating employees, customers, suppliers and shareholders in a fair and honest manner and ensuring that there are constant and open channels of communication.

Tesco has Codes of Ethics for its staff, which include a policy on the receipt of gifts and a grievance procedure that covers employment issues. Last year, Tesco launched a confidential telephone help line, Protector Line, for any employee who wishes to raise concerns relating to alleged criminal offences, failure to comply with legal obligations, miscarriages of justice, health and safety, damage to the environment and concealment of any of these issues.

## Code of Practice on Supermarkets' dealings with suppliers

In 2001, The Department of Trade and Industry (DTI) introduced a Supermarkets' Code of Practice to regulate trading relationships between the four largest UK supermarkets and their suppliers.

Tesco is a signatory to the Code and has met its obligations for implementing the Code fully. We remain committed to maintaining strong mutually advantageous relationships with our suppliers.

## Supply chain labour standards

It is our aim to act responsibly in our commercial and trading activities. The welfare and safety of the employees of our suppliers is important.

We expect all Tesco suppliers to extend fair and honest dealings to their employees and to all whom they do business with.

In 2001, we developed a new course for our buyers and technical managers to raise their awareness of the Ethical Trading Initiative (ETI), ethical issues, and worker welfare in the supply chain. This was the first course of its kind in the industry and has now been rolled out to our commercial teams. We will continue to train all new commercial buyers and technical managers in this way.

Managing standards across our large and complex own brand supply base is a challenge, but Tesco is committed to working with our suppliers to maintain, develop and improve standards. This commitment was reinforced last year with the creation of a new senior Ethical Trading management role with the sole responsibility for ethical issues in the supply chain. Tesco remains a member of the ETI, actively participating in projects that aim to address the complex social issues that exist in global supply chains.

# Economic policy and practice

## Creating value

Tesco makes a positive and significant contribution to the UK economy every year. Tesco Plc is a British company, registered in the United Kingdom. It is the largest private sector employer in the UK, employing over 221,000 people in over 1,000 communities. We serve over 12 million customers every week, making us the biggest retailer of food, retail goods and services in the UK.

### Did you know?

Tesco and its suppliers run Producer Clubs for livestock farmers and produce growers to share information on customer trends and improve communication. The meetings often include a tour of processing facilities and a Tesco store – from farm to plate.

Last year, we launched [www.tescofarming.com](http://www.tescofarming.com), a website for farmers and suppliers to help improve communication in the supply chain and share information.

We have a comprehensive network of stores throughout the country, giving us a presence in over a thousand communities. Tesco creates wealth and income in local communities for our people, our suppliers, our shareholders and central and local government. Our flexible store formats improve access to good quality, affordable, fresh food. Our recent acquisition of T&S Stores will enable us to continue to bring convenience and quality to small neighbourhoods across the country through our Express store format.





### Suppliers

Tesco has several thousand suppliers in the UK. Tesco is the biggest customer of UK suppliers, stemming from our long-standing commitment to source and promote as much quality UK produce as possible, availability and season permitting.

We have over 7,000 regionally sourced lines that are sold locally in our stores. To promote their regionality, they are labelled with the country and county of origin and with British, Scottish and Welsh flags. More information on Tesco's commitment to UK farming is available online at [www.tescofarming.com](http://www.tescofarming.com)

We work with our suppliers to find innovative ways of improving the way we work, for example, by improving the efficiency of our distribution and merchandising systems. These savings benefit both the supplier and Tesco by identifying efficiency savings for both companies. One example is the pallets on which bottled soft drinks are delivered to stores. These are now rolled onto

the shop floor and put in situ – cutting the hours needed to put the products on the shelf. They reduce the amount of time needed to pack and the amount of secondary packaging to deliver to stores. Because of the volumes involved, these small savings can add up to significant financial savings.

We build long-term working relationships with suppliers of all sizes throughout the UK. Many of our suppliers began as small local suppliers and have grown alongside us to become national businesses. Tesco has a strong commitment to open and transparent relations with suppliers, actively seeking opportunities to share knowledge and improve transparency within the supply chain. We share data on projected demand to help improve efficiency and minimise waste, and we share information on customer trends to assist with new product development.

### Fairtrade

Tesco supports the work of the *Fairtrade Foundation*. We sell and

promote Fairtrade products in stores, including a range of Fairtrade tea, coffee, chocolate and bananas.

The Fairtrade Foundation was set up to give a better deal for third world producers. The Foundation awards the Fairtrade Mark to products that meet internationally recognised standards for fair trade. This guarantees small producers in the third world a fair price, regardless of international market conditions. Companies that market Fairtrade Marked products pay an additional social premium that producers invest in business development or community projects, such as building new roads, books for schools, and healthcare projects.

This year, we launched our own brand Fairtrade bananas sourced from the Windward Islands. Tesco is already the largest retailer of Fairtrade Windward bananas, selling over 500,000 a week. We are looking to see how we can extend our range of Fairtrade lines in the future.

# Economic policy and practice

## Job creation

Tesco invests in all types of communities throughout the United Kingdom, providing jobs and careers for local people.

### Did you know?

The Tesco regeneration store at Dragonville, Durham created 340 new jobs when it opened in 2001 – 296 of which went to local unemployed people.



Tesco is the largest private employer in the UK, employing 221,000 people and creating on average 10,000 new jobs each year. 2,200 new positions have been created in our regeneration partnership stores located in six of the most deprived urban communities in the UK since 1999.

The Tesco regeneration partnerships are helping to bring people back into the world of work, working in partnership with local learning providers to deliver nationally accredited qualifications. Tesco

offers a job guarantee to people who may have been out of work for many years, or left school without any qualifications, provided they complete the training on offer.

Rebuilding communities requires long-term commitment and considerable investment. Making jobs and economic activity stay in, or close to, local neighbourhoods starts to boost the local economy through a standard economic multiplier effect, where what one person earns is spent, in turn, on another service.

*Beckton, London shoppers*





Above: Seacroft, Leeds before and after redevelopment

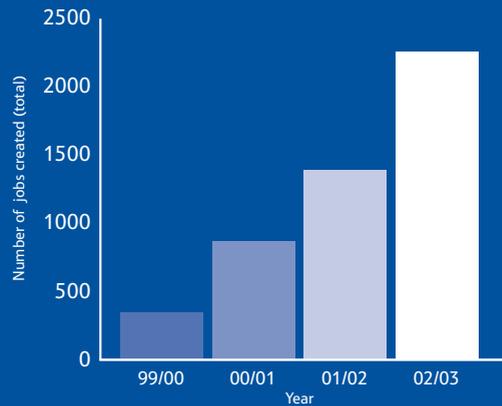
### Case study: Regeneration

In November 2000, we opened a Tesco Extra store in Seacroft, Leeds. This is one of the most deprived wards in the UK and the store opening created 350 jobs. 240 of these were filled through the unique Tesco regeneration partnerships jobs and training schemes. By 2002, 19% of the partnerships recruits were either training for more specialist positions or had been promoted to more senior jobs.

Anne Leadbetter and her husband had both been unemployed for many years until they came to work at the new Seacroft store. Anne says,

*“My husband and I both went to the same open day and joined the training programme. Now we both have jobs at Tesco and our lives have definitely changed for the better. Now I am a trainee section manager of the front desk, in charge of 20-30 people. On top of all that, we’re now looking to buy a house – it’s something I would never have thought possible.”*

### Regeneration partnerships



Our regeneration stores bring wider benefits than just training and job creation. In 2002, an independent study by the University of Southampton found that the Seacroft Extra store has led to immediate improvements in the diets of low-income groups. The research showed that people classified as having poor diets before the store opened increased their fruit and vegetable consumption by one third after the store opened.

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

*This is not just broadening access to employment, it is building careers in a flourishing market sector.”*

Bill Connor  
General Secretary Usdaw

# Social policy and practice

## Looking after our people

Our staff are our best asset and we depend on the skills and commitment of our people. Tesco aims to be a good employer, attracting and retaining the best staff and making Tesco a rewarding place to work.

### Did you know?

Over half of our staff – 122,000 people – are shareholders in Tesco. Tesco Employee Share Schemes are optional for all staff, no matter where they work or whether they are full or part-time.



### Equal opportunities and diversity

Tesco aims to manage people openly, honestly and fairly.

We aim to employ people who reflect the diverse nature of society and we value people and their contribution, irrespective of age, sex, disability, sexual orientation, race, colour, religion or ethnic origin. Four out of five applicants for jobs at Tesco are our customers, which helps us in our aim for our staff to be representative of the local communities we serve.

### Training and development

As an innovative and energetic company in a highly competitive retail environment, learning and progression from within the company is core to our operation.

Training forms an important part of staff development and we give opportunities for all staff to develop their talents to the full.

A key business priority is to serve customers better and so our ongoing training programmes seek to ensure our people understand the Group's customer service objectives and strive to achieve them.

We support our people to achieve their potential through access to training programmes and all staff have personal development programmes (PDPs) to ensure they have the right skills to do their job. All employees of Tesco will be able to access learning tailored to their own personal development needs, from induction and operating and leadership skills to core skills, such as project management, personal efficiency, effective meeting management, presentation skills and facilitation. All retail employees complete basic training (our Bronze Award training scheme) as well as job-specific training, as part of our overall training framework. Last year, we set ourselves a target of training 95% of our retail staff and achieved 93%.

Tesco has launched a new way of helping people develop their careers called *"Talent Spotting"*. Each individual has a career discussion with their manager to plan their career progression. They are then placed in a talent pool and the information is used to determine who fills future vacancies and to identify cross-functional movement and development opportunities.

## Staff retention

Retaining and promoting staff within our business is key to ensuring that we meet our customers' needs. A key objective is to *"select and retain the best."*

We recognise that offering ever increasing levels of flexibility in the way people carry out their jobs leads to enhanced employee commitment. Two thirds of our employees work on a part-time basis and we support many other forms of flexible working that fit with the needs of employees, such as job share arrangements.

In our retail operations, we offer shift swap arrangements to create extra flexibility for our staff, and operate a scheme which allows students to transfer between home and term-time store locations throughout the year.

Additionally, we offer possibilities for employees to take a period of time away from work, through our career break schemes.

To attract and retain the best staff and support the Group objectives, Tesco is committed to paying amongst the best rates of pay for store staff. All staff are entitled to a comprehensive benefits package, including pensions, staff discounts, profit sharing, flexible retirement, career breaks and parental leave. All our staff receive an annual benefits statement.

Last year, we set ourselves a target to retain loyal and experienced staff across the company of 80%. We exceeded this target retaining 83% of our experienced staff.

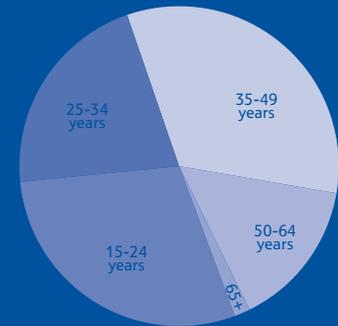
## Staff share schemes

Staff at every level of the Company are encouraged to make their fullest possible contribution to Tesco success.

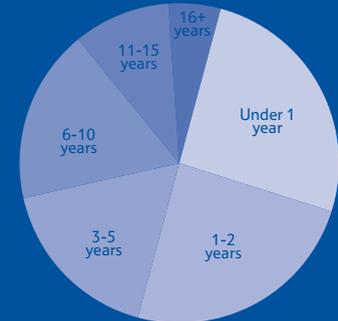
Employees can choose to become involved in the financial performance of the Group through a variety of market leading employee share ownership schemes, including *"Shares in Success"*, our new profit share scheme, Save As You Earn (SAYE) schemes, and a partnership share plan, Buy As You Earn (BAYE).

In this way, our staff can own an equitable stake in the business and so share in its success.

Employee age diversity



Length of service



## Case study: TWIST

Last August, Tesco launched a new initiative to bring staff from head office and stores together so they can get closer to their customer and serve them better. TWIST – *"Tesco Week In Store Together"* – will see 1,000 head office managers leave their desk each year to go back to the shop floor, working on the checkouts, on Tesco.com deliveries and in stock rooms up and down the country.

It's much more than a back-to-the-floor exercise. TWIST goes further because it is built into all senior managers' annual development plans. Each year, managers will spend a week in store working, talking, learning, serving, and seeing life through the eyes of store colleagues and customers. They get to speak to customers and experience operations from the perspective of their colleagues in store, who in turn feel they have been listened to – and so this is making a real difference.

TWIST is led from the top. Chief Executive Sir Terry Leahy was the first one to return to store for a week, working across all jobs from the tills to the fish counter. He said:

*"TWIST will mean that every senior manager has worked for a week in store, served our customers and listened to what they and their colleagues have to say. That is experience you can't get in a training room or on a quick store visit. It doesn't matter who you are, you can never know enough about our stores and the needs of our customers."*

By June 2003, more than 1,000 managers will have gone back to the shop floor.

Sir Terry Leahy on Twist at our Royston store, Hertfordshire



# Social policy and practice



## Did you know?

1 in 5 of our staff are over 50 years old and 4 out of 5 of people who apply to work for Tesco are customers.



### Pensions policy

Tesco believes in providing certainty and security for employees for their retirement, whilst protecting the group from open-ended funding liabilities.

59.2% of our employees are covered by our company pension schemes. Unlike many employers, in 2001/2, we introduced a new defined benefit scheme, Pension Builder, open to all employees, which is based on career average earnings as opposed to final salary. The size of the pension does not depend on the performance of the stock market or other investments. This ensures that our people know what their pension will be, and that we, as an employer, know our funding liability each year.

Following the introduction of Pension Builder, we won the Pensions Week Pension Scheme Design Award 2002, which recognised the company's commitment to building a more secure future for its staff.

### Union involvement

Tesco supports the right of all our employees to have the choice of whether to join a trade union or not.

Around half of our employees are currently members of a trade union – over 100,000 people.

### Tesco and Usdaw – working in partnership

Tesco and the Union of Shop, Distributive and Allied Workers (Udaw) have worked together over a number of years to develop a good union relationship.

In 1998, we signed a partnership agreement which has become

a model for employer-union relationships in the UK. Recognising the need to constantly review the arrangement, we updated the partnership in 2003. Tesco continues to work with Usdaw on a number of common agenda items.

### Workplace health, safety and welfare

**A safe place of work goes beyond legal requirements: it is about providing a safe working environment for our people and our customers.**

It is about risk management and this can improve financial performance – good health and safety is good business.

The commitment to health and safety comes from the Board through our Health and Safety Policy, and they review the performance of the business on a regular basis.

Achieving our goals depends upon all our people working together. Managing health and safety successfully demands investment in our people through training, support and setting standards.

We strive to ensure that health and safety is fully integrated into the way we work. With over 221,000 staff and 12 million customers visiting our stores every week, we take safety very seriously.

To achieve our goals, we constantly review our performance and seek ways to improve it.

This year, we will launch our three-year Health and Safety Programme to reduce accidents to our people and customers further. At the heart of the programme will be a series of high profile safety awareness campaigns across the business to engage and raise awareness

amongst our staff. It is about the things everyone can do to make our places of work safer. We are issuing new guidance and training initiatives to support our store management teams to help them to manage safety better.

### Human Rights policy

Tesco is committed to upholding basic Human Rights and supports in full the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions. We are committed to the following:

- We will treat all employees fairly and honestly regardless of where they work. All staff will have a written contract of employment, with agreed terms and conditions, including notice periods on both sides. All staff are entitled to reasonable rest breaks, access to toilets, rest facilities and potable water at their place of work, and holiday leave in accordance with the legislation of the country where they work. All employees are provided with appropriate job skills training.
- We will pay a fair wage reflecting the local markets and conditions. We always meet the national minimum wage and this is a key factor which we take into account when looking at pay and conditions.
- Working hours shall not be excessive. They shall comply with industry guidelines and national standards where they exist.
- Employment must be freely chosen. Overtime shall be voluntary. We will not employ illegal child labour, forced or bonded labour or condone illegal child labour, forced or unpaid overtime.
- Employees have the right to freedom of association. We recognise the right of our staff to join a recognised trade union where this is allowed within national law.
- We provide a safe working environment for our employees by minimising foreseeable risks in the workplace. All employees receive regular health and safety training. We provide proper governance for health and safety.

Key staff benefits



\* All staff with one year's service are able to receive free shares in Tesco under our Share Incentive Scheme.

- Tesco shall abide by the non-discrimination laws of every country where it operates. It does not discriminate unfairly on any basis.
- We will not use, or condone the use of corporal punishment, mental or physical coercion or verbal abuse. Tesco has disciplinary procedures for any member of staff whose conduct or performance falls below the required standard.
- We have formal grievance procedures through which staff can raise personal and work-related issues.
- Tesco has Codes of Ethics that govern relationships between employees, suppliers and contractors. The Compliance Committee regularly monitors adherence to these Codes.
- We ensure that our store security arrangements do not infringe Human Rights and are consistent with international standards for law enforcement.

Any employee who suspects infringements of the policy or any of the above has the right to inform us without fear of persecution.

We will investigate any allegations of infringements of the Human Rights Policy, and take appropriate action as necessary. Serious breaches by employees will be considered gross misconduct, and may lead to their summary dismissal.

This policy applies to all Tesco employees whether they are in full time, part time or temporary employment.

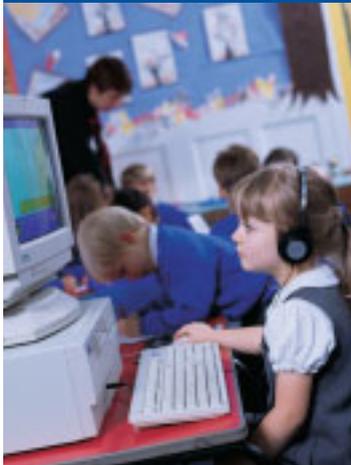
# Social policy and practice

## Community involvement

Our flexible store formats give Tesco a presence in many communities in the country. As part of our commitment to maximising the benefits we bring to the communities in which we operate, we have implemented a strong community strategy.

### Did you know?

Last year, Tesco gave away 273 million Computers for Schools vouchers and 1,000 new schools joined the scheme. Schools can spend their vouchers on ICT equipment or save them up for the following year.



### Sponsorship

In recognition of the importance of our role in local communities, we are committed to sponsoring community-based projects and groups that bring practical benefit to local communities.

We support projects and initiatives that benefit children, education, people with disabilities and the elderly in areas local to Tesco stores. Sponsorship decisions are made at a local level by the regional community co-ordinator. Our stores donate Tesco Community vouchers to charities and good causes in the local area.

### Missing child initiative

Every year, children go missing from home for a variety of different reasons. Tesco has been working with the Charity PACT – Parents and Abducted Children Together, and ACPO – the Association of Chief Police Officers, to launch 'Missing Child' posters in our stores.

Together, we hope to raise awareness of the thousands of missing children and help reunite them with their loved ones.



## Education

As one of the UK's leading companies, Tesco recognises that it has a responsibility to contribute to the capabilities of tomorrow's work force.

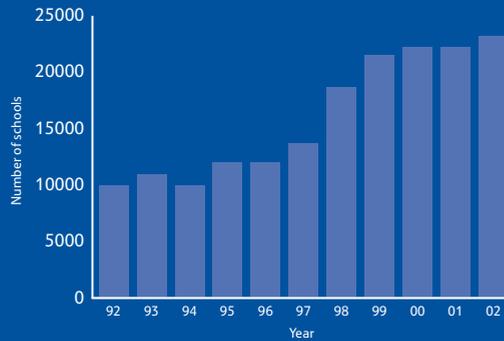
By investing in education projects, Tesco can make a real contribution to the education of the work force that our business will rely on.

Our customers tell us that they think our support for education is very important. By working in partnership, Tesco aims to make a real contribution to the learning and development of young people.

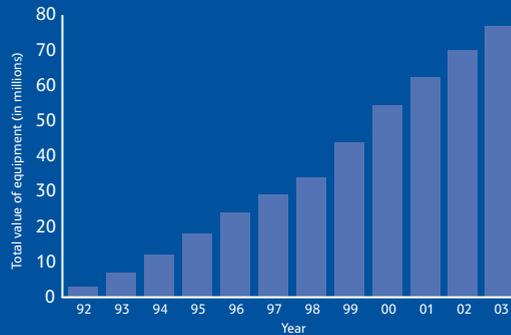
This is best demonstrated by our award-winning Computers for Schools scheme, now in its 12th year. We were the first company to develop an education programme of the scale of Computers for Schools, back in 1992, and the scheme is still the largest of its kind. It continues to go from strength to strength.

We test the scheme regularly against the opinions of schools, parents and customers to make sure it meets their needs. We update the equipment catalogue each year, which offers a wide range of equipment from software and digital cameras to the latest internet-ready equipment. Since Computers for Schools started in 1992, we have given schools £77m worth of computers and computer-related equipment. The scheme continues to receive resounding support – over two thirds of all schools in the UK now participate. In 2003, we aim to give away a further £7m worth of equipment, bringing the overall total to £84m.

Number of schools taking part in Computers for Schools



Total value of equipment given to schools (cumulative)



### Case study: Computers for Schools

Computers for Schools involves over two-thirds of schools in the UK, including primary, secondary and special needs schools. The Middlesex Hospital, which cares for long-term sick children, has also participated in the scheme.

*"The equipment we get through the Computers for Schools scheme is invaluable. We have several PCs for the classroom, and we also have a laptop, which really is a bonus. This can be used by children who are confined to their beds, and even by seriously ill children who are in isolation rooms. It is not just computer equipment that we get from the scheme – last year we collected vouchers for a digital camera and a video recorder, and these are used regularly in creative work by the children. The computer equipment provided by the Tesco scheme is not just an aid to learning – it can also help children recover more quickly. The computers and software are a stimulus and the children enjoy working on them, which raises their spirits."*

Helena Waftage  
Hospital Ward Teacher  
West Middlesex Hospital

# Social policy and practice

## Did you know?

Great Ormond Street Hospital was our first Charity of the Year in 1987. Since then we have raised over £21 million for a variety of charities. The Tesco Charity of the Year for 2003 is Barnardo's.



## Charity

The Tesco Charity Trust was set up in 1987. The Trust aims to help local and national charities, as well as voluntary organisations, to provide practical support for children, the elderly and people with disabilities.

Donations from the Tesco Charity Trust are given to registered charities or organisations that have charitable status.

The Tesco Charity Trust made cash grants of over £470,000 in 2002 to local and national charities. The Trust's Community Awards Scheme ensures grants totalling £360,000 are awarded to local projects.

During 2002, the Tesco Charity Trust gave 122 Community Awards to local community-based projects supporting the welfare and education of children, the elderly and people with disabilities.

## Tesco Charity of the Year

Each year, Tesco adopts a national charity with a strong community presence to be the Tesco Charity of the Year.

This becomes the main focus for staff fund raising, which receives a 20% "top up" from the Tesco Charity Trust. This year, the Tesco Charity of the Year is Barnardo's, and together we aim to raise around £2.5m.

## Working to fight cancer

Tesco is working with Cancer Research UK to help to raise awareness of cancer and how to prevent it via two projects – the 5-a-day campaign and Race for Life.

## 5-a-day

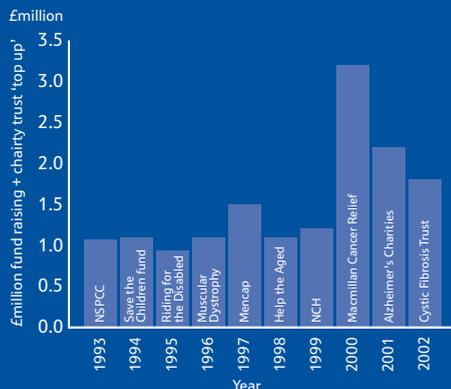
Tesco and Cancer Research UK are working in partnership to combat cancer in the UK.

This is through the "5-a-day" awareness campaign, which not only highlights that eating five or more portions of fruit and vegetables helps prevent cancer, but also gives customers precise advice as to how much of a product constitutes one portion. These guidelines were developed jointly with the Department of Health, whose own 5-a-day campaign Tesco endorses.

Tesco fruit, salad and vegetable packs have been redesigned to feature the 5-a-day advice, which is also supported by display material in our stores.

## Race for Life

For the second year running, Tesco is proud to be National Presenting Sponsor for Cancer Research UK's Race for Life 2003.



Charities that have benefited from being Tesco Charity of the Year



Jill Hunter outside Tesco Head Office, with members of her team who took part in Race for Life.

### Case study: Race for Life

Race for Life demonstrates our commitment to promote Healthy Living outside the confines of our stores. There are 130 fund-raising events nationwide where women come together to walk, jog or run 5km to raise money for research into cancers that touch women's lives.

Race for Life was a tremendous success in 2002. Thanks to our staff and customers' support, we helped to increase the number of women taking part in the races from 160,000 to 255,000 and beat our target of raising £12 million for Cancer Research UK by achieving an amazing £15.6 million.

Staff enthusiasm and dedication were a huge factor in this success as our nationwide team was made up of nearly 17,000 Tesco women! For instance, Prestwich store was almost entirely staffed by men on Sunday June 9th 2002, when their female colleagues took part in the Manchester Race for Life. Customer Service Manager of Prestwich store, Mark Gregg said,

*"I think we had such a tremendous response because cancer has touched the lives of so many of our staff. It was quite funny seeing men doing jobs they weren't used to!"*

With even greater targets set for 2003, we hope to encourage 20,000 staff to participate and increase the amount raised to £17.5 million.

Jill Hunter, who works for Tesco as a Pricing Executive in Head Office, knows only too well the value of every penny raised for Cancer Research UK. Eight years ago, she had to undergo emergency treatment for a tumour and after getting the all clear three years ago, she took part in the St. Albans Race for Life. Commenting on Race for Life, Jill said,

*"It's just great to be able to take part. We're raising money to help fight the disease for others. And every step we take will raise money to bring victory over cancer one step closer. 1 in 3 people are going to get some form of cancer. We want to raise as much awareness and finance as we can. It could happen to anybody."*

# Social policy and practice

## Healthy living

Tesco aims to create the best Healthy Living product range so that we are the retailer that customers trust to meet all their healthy living needs. We will promote “*healthy living for all*”, ensuring that a healthy lifestyle is accessible and affordable, and appeals to all our customers.

### Did you know?

There are now over 100 Free From lines, offering a good range to people with food sensitivities. The Free From range includes lines such as gluten and wheat-free blueberry cake bars, egg-free mayonnaise, Trufree pasta shells, Provamel rice milk and Dietary pizzas.



### Healthy Living

Tesco is committed to providing a comprehensive range of *Healthy Living* products, and now customers will see over 250 different lines in a typical store. The range is growing constantly and has expanded into non-food areas with the recent introduction of 18 Healthy Living clothing lines.

### Customer information

Provision of information to customers and staff alike is key. We talk to our customers and staff about Healthy Living through information, education and promotion in store and via events, such as Race for Life. There is now a wealth of leaflets covering topics from general issues, such as healthy living, to specific subjects, such as salt intake and heart disease. These are available free from the in-store pharmacy, from the information board at the front of each store, and from Customer Services in Dundee, contact tel no. 0800 505 5555.

The Healthy Living magazine, published bi-monthly, provides practical and informative information on all aspects of leading a healthy lifestyle and is available to buy in all stores.

The Tesco Healthy Living Club aims to provide information about fitness, food and relaxation. It now has over 100,000 members and is continuing to grow.

Tesco has in-store pharmacies in 200 stores. As well as offering a prescription service, they also offer advice and stock a range of advice leaflets. Last year, we introduced campaigns to increase awareness of heart disease, diabetes, mental health, and men's health using posters, leaflets and pharmacy advice.

### Healthy Eating range

Tesco introduced its first *Healthy Eating* range in 1985, and relaunched it last year to improve and extend the range. There are over 500 products in the range, which is low in fat, salt or sugar, and the labelling gives customers a quick and easy way to assess the nutritional and dietary content of the products. Tesco was the first retailer to label all its own brand foods with nutritional content, fat, protein and carbohydrate content.

Tesco has launched a range of tasty but healthy and balanced foods for children, called Kids Club.

Tesco stocks a wide range of clearly labelled products suitable for vegetarians, and a vegan range, too. This is supported by the Tesco Vegetarian magazine, published bi-monthly, and last year Tesco promoted Vegetarian Week in store.



### Free From range

The *Free From* range is a further example of our commitment to provide specialist food ranges to cater for dietary needs. There is an increasing number of people suffering from food allergies and intolerance, and the Free From range offers 100 lines which are all free from wheat and gluten, and many are also free from dairy, soya, egg, maize, yeast or artificial additives. We now have 250,000 customers buying into this range on a regular basis.

### The Nutri Centre

Tesco has a complementary medicine and nutritional supplements range, *The Nutri Centre@Tesco*. 120 product lines are available in 180 of our stores, as well as online. We plan to increase the number of Nutri Centre stores in the coming year.

Last year, 92% of our customers stated that Tesco provided them with everything they needed for a healthy lifestyle.

The Nutri Centre, Tesco Kensington

Tesco pharmacist

The Nutri Centre, Tesco Kensington



# Environment policy and practice

## Striving to do our best

Tesco is committed to protecting the environment by doing what we can to reduce our impact. We aim to use our commercial strength to put sustainable environmental principles into practice, both within our own operations and through the sharing of good practice with our suppliers.

### Did you know?

Our environment programme saved the equivalent of 1.9 million trees through energy saving and recycling.



Hucking Wood, Woodland Trust

### Tesco environment policy

Tesco aims to apply the principle of sustainable development, meeting the needs of the present without compromising future generations:

- *Tesco, its directors, officers and employees will at all times comply with all applicable laws and regulations relating to the environment.*
- *We will develop, maintain and implement policies, procedures and management systems to assess and monitor, on a continuous basis, the environmental impact of our operations.*
- *We will set targets annually in order to achieve continuous improvement.*
- *All senior management shall be responsible for ensuring compliance with the Tesco policy, including the establishment of programmes and reporting requirements throughout their organisation.*
- *We will incorporate in our environmental practices the best available technology that is economically achievable.*
- *We will minimise the use of all materials and energy and not use any materials derived from endangered species.*
- *We aim to apply the principles of reduction, reuse and recycling to the management of our products and their packaging.*
- *We will communicate regularly with our stakeholders, including shareholders, staff, and customers, on matters of environmental policy and practices.*
- *Tesco is committed to reporting on its environmental performance through our website, [www.tesco.com/everylittlehelps](http://www.tesco.com/everylittlehelps)*

### Building and operating our stores

Tesco has made a strong commitment to building new stores on brown field sites – areas of land that have previously been used for development and often need to be cleaned and improved environmentally. For the last two years running, we have exceeded our target to build 80% of new stores and extensions on brown field sites by 10%, achieving 90% overall.

In environmental terms, regeneration developments are also good news for the communities concerned. In total, over 50 acres of derelict land have been redeveloped in Leeds Seacroft, Dragonville in Durham, and St Rollox in Glasgow. Seacroft and Dragonville were both developed on derelict manufacturing sites, and St Rollox has been built on land formerly used as railway sidings. Transforming the Gallions Reach site at Beckton in East London involved the extensive remediation of the former gas works.

Tesco's approach to sustainable development in building new stores focuses on our construction techniques, materials and processes. Examples of this include significant reductions in the quantity of steelwork and concrete in the construction of our latest concept stores, and the replacement of traditional brickwork and blockwork

with composite sandwich panels. Both of these have dramatically reduced the amount of embodied energy used in the construction of our stores, and also represent our overall approach to store design – minimising the capital costs at the same time as ensuring the business develops using sustainable methods of construction.

*Dragonville, Durham*



### Case study: Hucknall

The Tesco store at Hucknall in Nottinghamshire is a perfect example of Tesco's commitment to using sustainable store construction and operation methods to improve the environmental performance of our stores.

Site selection is a key element in this. By siting on a former colliery, the development is bringing back into use previously used land, thereby contributing to the regeneration of a brown field site.

The energy strategy for the store, developed in collaboration with the Building Services Research and Innovation Association (BSRIA), focuses on minimising heat loss by reducing air leakage to one tenth of the level required under current building standards.

By using 99% glazing on the north façade of the store, we maximise the natural daylight to light the store. This reduces the amount of artificial light used and therefore the amount of energy. This is linked with photo-sensor lighting controls, which automatically turn off the first row of lights in the store when sufficient daylight is available.

We are also looking at ways to conserve water and in the Hucknall store, rainwater will be collected from the roof and stored in underground tanks for use in toilet flushing.

This store will create 300 new jobs when it opens in May 2003.

# Environment policy and practice

## Climate Change

### Tesco supports the UK Government's commitments to the Kyoto protocol on Climate Change.

Tesco is committed to reducing its energy consumption and emissions of greenhouse gases responsible for Climate Change. We welcome the Government's initiatives to develop the renewable energy industry, and are actively looking at the possibility of using energy from these sources, and CHP (combined heat and power.)

#### Did you know?

Last year, we saved 112,000 cubic metres of water through our water conservation programme – the equivalent of around 60 olympic size swimming pools or 400,000 baths.



Willesley Wood, Woodland Trust

#### Water consumption in stores

In 2001/02, we reduced the water consumption in stores by 10% and in 2002/03, we were successful in meeting our target to reduce it by another 5%.

This was achieved through highlighting under-performing stores and targeting mains leaks by using cistern dams and percussion taps. We are also continuing with a trial set up in 2001, in two stores in Wales, to collect rainwater for non-potable use.

#### Energy efficiency in stores

During the last year, we achieved a 5% like-for-like reduction in energy consumption in stores. This also means that we are on track to achieve our long-term target to reduce electricity and gas consumption in stores, per square foot, by 35% by 2006.

We achieved this reduction through staff training and an awareness campaign to highlight where energy savings can be made. We also introduced energy-saving initiatives in stores, such as bakery extract controls, reflex energy saving lamps, and a complete recommissioning of the refrigeration equipment in stores.

To ensure that our energy-efficiency programme grows, we have developed a real-time management alert system to monitor store performance, which highlights increases in consumption, enabling remedial action to be taken promptly.

#### Delivering products to our stores

As part of our commitment to improve the efficiency of our distribution supply chain and so reduce our impact on the environment, we have an ongoing programme to improve the way in which we utilise and operate our distribution fleet.

We measure the efficient use of our fleet using a "delivered units per trip" calculation. Year on year, we have seen an improvement of 3.55%. This means that we have increased the number of products we deliver to stores per vehicle, which has resulted in a more efficient method of distribution. We have also been working on increasing the number of loads that are delivered back to a distribution centre on a vehicle that would otherwise have been empty, thereby reducing the total number of vehicles previously used.

The more products a vehicle carries, the more fuel it uses, and so there has been a reduction in miles per gallon (mpg) but overall, we estimate that the more efficient use of our vehicles outweighs the reduction in mpg.

For the year 2002/03, we set ourselves a very challenging target to improve our mpg by 3%. The operational efficiencies described have led to us not achieving this targeted improvement, in fact, year on year, we recorded a reduction in mpg of 1.07%. We will be exploring ways in which we can improve our fuel efficiency in the coming year, whilst continuing to improve the efficiency of our fleet.

### Alternative fuels – Greenergy

Last year, we invested in the renewable fuel company, Greenergy, by buying a 25% stake. Greenergy produce fuel oil from waste oil and renewable sources, such as rape seed oil.

Tesco launched a trial of Greenergy biodiesel, and also autogas, at the Hatfield petrol station – one of the busiest in our portfolio. If these fuels prove popular with customers, we will offer them at more petrol stations in the UK. In addition, Hatfield store's Tesco.com vans are running on biodiesel. Biodiesel is more efficient than normal diesel and produces less pollutants.

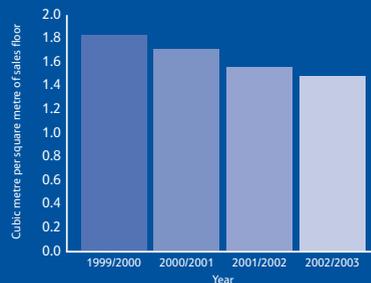
### Case study: UK Government Emissions Trading Scheme

Tesco is one of only 43 companies that took part in the Government's Emissions Trading Scheme. The government initiative aims to reduce greenhouse gas emissions as part of a multi-million pound investment in energy saving.

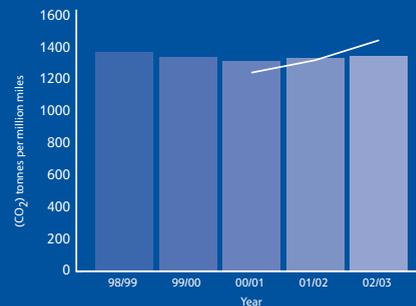
As part of the scheme, Tesco has committed to save 74,000 tonnes of greenhouse gases over five years and will receive a payment for each tonne saved. This money will then be reinvested into more energy-saving initiatives. Savings over and above our target can be traded on the newly created market to raise additional capital for further investment in energy savings.

Tesco has already made an eight-year commitment to reduce energy consumption (per square foot) by 35% by 2006 and in the last five years alone, has invested £13 million in energy-efficiency schemes.

Water consumption in Tesco stores

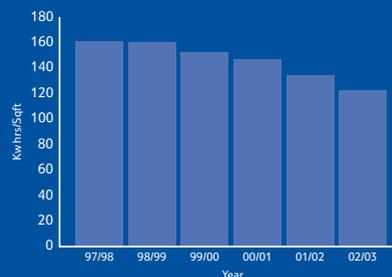


Tesco lorry fleet carbon dioxide (CO<sub>2</sub>) emissions



The line shows the increase in the no. of products delivered to stores by our distribution fleet.

Energy graph



Tesco lorry outside a distribution centre



# Environment policy and practice

## Waste management and recycling

Tesco is committed to minimising the amount of waste produced and to recycle it wherever possible.

### Did you know?

Our recycling scheme has succeeded in recycling 350,000 phones and 35,000 ink jet cartridges, raising over £1 million for charity. And we recycled over 18 million Christmas cards for the Woodland Trust.



*Tom and Josh from Raglan school, who recycled over 8,000 Christmas cards each. The school collected a total of 146,328 Christmas cards as part of the Tesco and Woodland Trust Christmas card recycling scheme.*

*Hucking Wood, one of the woods benefiting from the Woodland Trust and Tesco Christmas card recycling scheme.*

### Recycling and packaging

We have a comprehensive recycling programme for our own operations with our own recycling units recovering paper, cardboard and plastic that would otherwise have been disposed of in landfills or incinerated.

Last year, we recycled over 85% (12,500 tonnes) of plastic packaging and 78% (178,000 tonnes) of cardboard packaging.

Over the coming year, we will build on this commitment by introducing a new recycling initiative for our stores with the aim of significantly reducing the volume of waste going into landfill. The initiative will include a new project to turn some of our store waste into energy, and work on devising effective methods of safely composting the green waste from stores.

Packaging is a key concern for our customers and so we are always looking for ways to minimise product packaging. Secondary product packaging is kept to a minimum and recycled, where possible. We have also introduced biodegradable packaging for our organic range of produce. Paper, polythene and other consumable items, including carrier bags used by Tesco, as well as some non-food products and consumer packaging, contain a proportion of recycled materials, wherever possible.

### Customer recycling schemes

We have pioneered recycling schemes for our customers, such as mobile phone and ink jet cartridge recycling, where freepost envelopes can be picked up in store, and money is donated to charities.

We have plastic bag recycling banks outside stores and during January and February, we worked with the Woodland Trust to recycle Christmas cards. This year, we recycled 354 tonnes – over 18 million cards – 10% more than the year before.

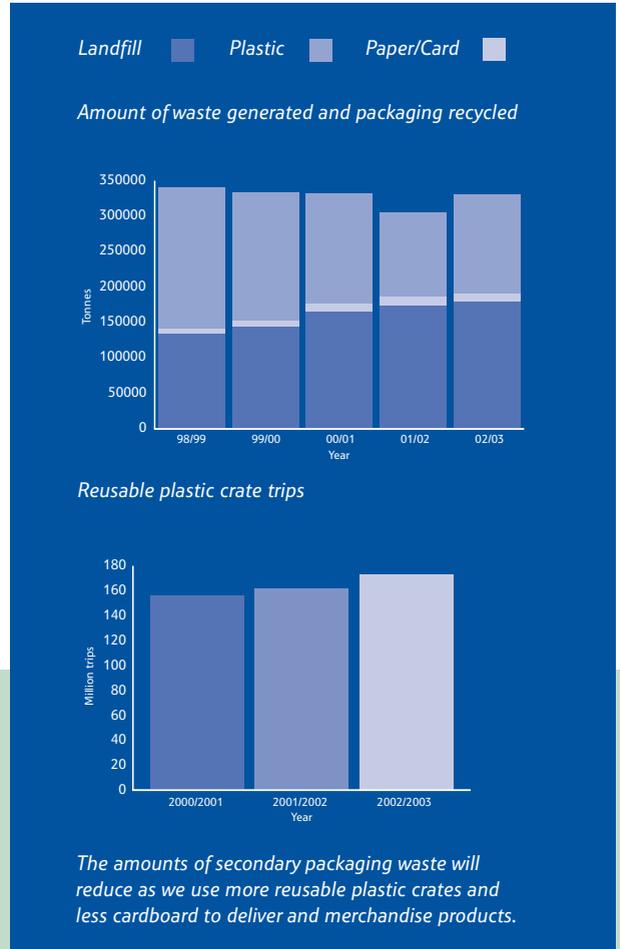
Over the coming year, we are going to be working with Local Authorities to improve and extend the facilities for recycling in our store car parks. We are going to trial a new format during the year.





### Case study: Reusable plastic crates

Our reusable plastic crates, known as green trays, were introduced into our distribution chain as an effective and environmentally friendly method of delivering products to stores. The idea behind the scheme is simple yet effective. The hard-wearing plastic crates, which last for an average of 10 years, are continually reused to take the place of secondary product packaging in distribution. Not only have the green trays replaced the cardboard boxes and other packaging that would have been used to deliver and merchandise products, but they also reduce the amount of damage to products and thus reduce product waste.



Our pioneering use of green trays won the Queen's Award for the Environment in 2000. Since then the reusable crate system has begun to be used throughout the food and retail supply chain, not just in Tesco.

By sharing best practice in this way, we have helped other businesses save thousands of tonnes of waste. Last year, there were 170,262,000 green tray trips, an improvement of 5.4% on the previous year. This has saved a further 69,000 tonnes of cardboard boxes, the equivalent of 483,000 trees.

# Environment policy and practice

## Products

Our customers expect the food they buy to be safe, good quality and reasonably priced. They also expect the food to have been produced to high environmental and welfare standards.

### Did you know?

Tesco has launched a new farming website –

[www.tescofarming.com](http://www.tescofarming.com)

The site provides information on our product standards and codes of practice for UK farmers, producers and suppliers.



### Sustainability

As part of our environmental policy, we aim to apply the principle of sustainability in our business operations.

Tesco supports the Marine Stewardship Council, who are committed to helping preserve wild fish stocks across the oceans of the world, and the Worldwide Fund for Nature 95+ Group (WWF 95+), which promotes and facilitates increased trade in independently certified forest products, and encourages good forest management worldwide. We offer a number of certified fish, paper and wood products in store.

### Genetic Modification

Tesco has removed GM ingredients from all own brand products and has increased non-GM options for our customers by launching our largest ever organic range.

To address customer concerns about GM food, Tesco is committed to providing proper information and clear labelling, so customers can make an informed choice when shopping.

### Organics

We have an extensive range of organic products and are committed to developing organic alternatives to all standard staple lines.

The Tesco Organic Centre at Newcastle University was launched in October 2000, and is headed up by Professor Carlo Liefert. It provides research and development support for the UK organic farming industry, providing advice, training and technology transfer services to farmers, growers and processors.

### Animal testing

None of Tesco's own brand suppliers tests products on animals, and we do not have products tested on our behalf.

By using known ingredients, human volunteer trials and test tube methods, we can guarantee the safety of all Tesco brand products without using animals.

Tesco is a financial contributor to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), seeking ways to end animal testing.



### Animal welfare

Tesco aspires to high standards of animal welfare and best industry practice in its supply base.

We use up-to-date knowledge of research, ethics, scientific facts and legislation to ensure that this happens. This is what our customers expect. We will continue to communicate about the animal welfare standards under which our food is produced.

Our Animal Welfare Policy endorses the “Five Freedoms” concept proposed by the Farm Animal Welfare Council (FAWC). We are committed to implementing codes of practice, which ensure that the requirements of our Animal Welfare Policy are met in all animal husbandry systems, and we have a comprehensive programme of independent animal welfare auditing of suppliers and farms to ensure the effective application of those codes. Tesco is committed to achieving an integrated supply base to allow, wherever possible, whole-life traceability.

We will continue to promote high standards of animal welfare, and we are working with our suppliers to find new practical methods to improve animal husbandry still further. An example of this is our sponsorship of the Food Animal Initiative (FAI) at Oxford University Farm.

### Biodiversity – Nature’s Choice

Tesco aims to sell products that not only look and taste good but also are grown with care for the environment by applying best agricultural practice through its supply chain. Tesco developed *Nature’s Choice* to help achieve this.

All food production causes some disruption to the environment. *Nature’s Choice* is about identifying and adopting farming management systems and practices which will lessen these impacts. *Nature’s Choice* identifies key principles and practices to ensure production and handling systems are sound and responsible.

Last year, 95.4% of our produce suppliers in the UK passed the *Nature’s Choice* audit, and we are making significant progress in rolling this out to our suppliers abroad.

### Case study: The Food Animal Initiative

Tesco is a core sponsor for the Food Animal Initiative (FAI) at Oxford University Farm. FAI was set up in 2001 to carry out research into animal welfare standards in modern food production systems and to demonstrate practical benefits to UK farmers.

FAI has the tenancy of the Wytham Estate, which it runs on a commercial basis with the support of the University’s research teams, including the Department of Zoology. The farm is running several research projects, all of which will be widely communicated, to show that improved animal welfare and environmental standards can be integrated into mainstream agriculture. Together, FAI and Tesco hope to supply both knowledge and training to UK farmers.

One example is the Poultry in Natural Environments (PINE) project. Chickens feel safer and happier roaming free in woodlands as opposed to in open spaces as they feel better protected from predators. So, at FAI, they have planted a whole area of woodland especially for the chickens to roam in, and have been monitoring



their behaviour. The chicken is sold in store under the Tesco finest brand.

*“The exciting thing about this project is that it combines properly replicated research into chicken behaviour and welfare with a truly commercial enterprise. This means that the research results are directly applicable to the real world of farmers trying to make a living, and of consumers wanting high standards of animal welfare.”*

Professor Marian Stamp Dawkins  
Department of Zoology, Oxford University

