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managing CR

throughout the business

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



Thelma McGlashen Perth Extra, UK

our integrated approach

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

www.tesco.com/corporate

Corporate governance

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

Corporate Responsibility Committee

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

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

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

Measuring our performance



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

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

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

Our CR KPIs reflect:

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

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

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

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

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

Strengths identified by the audit:

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

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

As a result of the audit we have:

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

International Corporate Responsibility

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

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

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

Reporting

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

www.tesco.com/corporate

Surveys

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

For more information visit

www.bitc.org.uk/crindex

Business in the

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www.ftse.com/ftse4good

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