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# MUSGRAVE GROUP *Sustainability Report 2006*

**Musgrave**  
G R O U P

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*In our view, honest, transparent  
reporting is a critical element  
of any robust Corporate  
Social Responsibility Programme*

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## CEO's Statement

**The last reporting cycle (2004-2005) has been a time of transition for Musgrave. We have seen a number of changes to the Board, including myself succeeding Seamus Scally as CEO, and it has seen us growing and establishing our business in Britain. I am pleased to report that this has been a successful and busy start for our new team, not least in the areas of environmental and social, as well as economic performance.**

We have also come to the end of a cycle in terms of our CSR management with the revision of our Environmental Policy Charter (2000), and the publication of our new Environmental and Social Accountability Policy (2006). This policy re-affirms our commitment to sustainability as espoused in our core values, the guiding principles we use to organise ourselves and make business decisions and through which we commit to taking a longer term view of our business activities. We are equally resolved to ensuring that our sustainability objectives are supported and resourced at the highest level of our organisation's corporate governance structure.

Simultaneously, we are also publishing new policies on 'Energy and Natural Resources Management' and 'Ethical Trading'. These are further evidence of how seriously we are committed to leading our sector in environmental and social management and care.

As I said in our Annual Report, 2005, our business is about having a unique relationship with our retailers. Musgrave retailers are there in the local community, listening to the customer and delivering a range that meets local needs – including locally sourced products. In a world of big retail brands driving blandness, homogeneity and impersonality, they deliver something unique that many local communities crave, and show essentially how we think sustainable retailing will develop in the years to come.

In relation to the environment, we are devoting the focus to energy and climate change at present – reminding us of when we published the Environmental Policy Charter (2000); then, management of wastes was the environmental issue that taxed the minds of business. Climate-change, energy security and energy management are worrying developments for us all as human beings, and it is clear to us that the successful businesses of the future will be to the forefront in addressing the risks and opportunities these issues present. I am confident that we will show the leadership on energy and climate-change management that we demonstrated in our innovative and mould-breaking waste management contracts in the past.

In preparing this report we have used the draft Global Reporting Initiative's (GRI) 'g3' Guidelines, which we consider to reflect our commitment to worldwide best-practice.

We were the first company in the world to report using the 2nd GRI Guidelines, and we would like to think that we remain progressive, on a global level, in this way. We were also the first Irish company to join the United Nations Global Compact Network, thereby committing to its ten principles within the areas of human rights, labour and environmental standards. We are confident that the processes used to prepare this report, and the written content therein, are representative of our company's performance during the reporting period.

For this report, we have taken account of recommendations from the assurers of our previous CSR report, we have undertaken an extensive consultation with our primary stakeholder groups on the issues they would like to see us discussing and reporting, with a view to making our report more focused, more readable and more material to our performance. We have found the exercise extremely useful, and I hope you find that it has increased your interest in our business, and our progress towards sustainability.

*Chris Martin,  
Group Chief Executive Officer*

## Company Highlights for the Reporting Period

### ECONOMIC

- We have grown our company turnover by nearly 17% in 2005, to almost €4.4 billion.
- The SuperValu brand accounts for 19.7% of the total grocery market share in Rol.
- In GB, we have successfully completed a good first year's trading following the acquisition of the Londis business.
- In NI, sales have increased by over 9%, with the addition of 17 new SuperValu and Centra stores.
- MWS has acquired Variety Foods in 2005, adding to the capacity of Musgrave Foodservices in Rol.

### SOCIAL

- By the end of 2005 our direct workforce had increase to over 9,000 people, with our retail partners employing just under 48,000 people.
- We have reviewed the Musgrave Environmental Policy Charter, launched in 2000 – the new 'Musgrave Environmental and Social Accountability Policy' will guide our efforts to build a sustainable company.
- We have prepared the 'Musgrave Ethical Trading Policy' which commits us to ensuring that all our supply chain stakeholders, regardless of where they live or work, are treated with respect and dignity and are able to live in an environment undamaged as a result of production.
- We have prepared this report following consultation with a broad range of our stakeholders in order to address those areas of our environmental performance which are of most relevance, from their perspectives.
- We continue to innovate in our reporting – this report is prepared following the new Global Reporting Initiative's 3rd Draft Guidelines, whilst being 'in accordance' with the second GRI Guidelines.

### ENVIRONMENTAL

- We continue to provide leadership in commercial recycling in Ireland, meeting our corporate target of 62% recycling in 2005, servicing nearly 300 of our own and our retail partners' premises through our 'one-stop-shop' contracts.
- Our last 'Environmental and Social Accountability Report 2002-2003' won the Irish ACCA Environmental Reporting Award in 2004, and represented Ireland in the European Environmental Reporting Awards in 2005. We also won 'Best Environmental Project' in the large indigenous company category at the Chambers of Commerce of Ireland President's Award for CSR 2005.
- The company has initiated an energy monitoring & targeting programme across the business, aimed at reducing Musgrave carbon emissions over the next five years.
- We have prepared a new corporate 'Energy and Natural Resources Management Policy' to guide our efforts in working to deliver sustainability.
- Our transport fleets have initiated the use of biofuels, again as part of a campaign to reduce the company's carbon footprint.



## Group Environmental Executive's Statement

**This report details our performance in managing key areas of environmental and social accountability and in promoting sustainability during 2004 and 2005 against the background of the commitments contained in our Environmental Policy Charter, (this document was replaced recently with an expanded Environmental and Social Accountability Policy as outlined below).**

We believe that our reports are a means of demonstrating our commitment to our core values, and to promoting sustainable development whilst also helping us to map our future environmental strategies. Our philosophy is to ensure that sustainability remains a key element on our corporate governance agenda.

We were delighted when our last report won the Association of Chartered Certified Accountants (ACCA) (Ireland) Environmental Reporting Awards in 2004. We were equally pleased to be awarded the 'Best Environmental Project' in the Large Indigenous Company section of the 2005 Chambers of Commerce of Ireland Environmental Awards. We and our Retail partners in Ireland and the UK have also been recognised through a significant number of industry awards in the area of environment, quality management and food safety during the reporting period.

We are again reporting in accordance with the Global Reporting Initiative (GRI) Framework, a reflection of our confidence in the GRI and their vision that reporting of economic, environmental and social performance by all organisations will become routine and comparable to financial reporting and because the GRI is committed to continuously improving and building capacity around the use of its Sustainability Reporting Framework and Sustainability Reporting Guidelines.

We have also applied the findings of a very useful and informative stakeholder interview process to 'fine tune' the way in which we have constructed and presented our report, ensuring that those issues, which are relevant and of real concern to our stakeholders are given prominence. We hope you will agree that this makes our report less bulky and easier to read, whilst retaining its transparency, accuracy and attention to detail.

Our business continues to grow significantly both in scale and complexity, but also in terms of its geographical spread. Managing our sustainability performance in areas such as waste management, energy efficiency and ethical trade are challenges for us, but we are approaching these issues in a systematic and thorough way.

During 2005, we undertook a review of our Environmental Policy Charter, which was originally published in 2000. The development of our broader Environmental and Social Accountability Policy represents a new milestone in our programme to meet international best practice in the management of our environmental and social impacts. In this regard, we continue to focus on issues, which are common within our sector, inter alia, waste minimisation, energy efficiency, emissions reduction, natural resource conservation, climate change and the promotion of ethical trade.

In this report we finally 'close-out' our first Environmental Policy Charter and set the scene for how we will implement our new Environmental and Social Accountability Policy in the coming years. During its development we also identified a need for additional documents; our Energy and Natural Resources Management Policy and our Ethical Trading Policy clearly articulate our stance on important issues and provide a basis upon which to develop our future plans. All documents are available on our website at [www.musgrave.ie](http://www.musgrave.ie)

In the area of Waste Management in the Republic of Ireland, for example, we achieved our 60% waste recycling target in 2004 in our own and our retail partners' facilities. We also met our 62% target for 2005 and are on target to achieve 64% recycling in 2006. Central to the success of our waste management programme has been our unique One-Stop-Shop waste contracts, which enable us to manage the full range of store and facility wastes using approved contractors.

Another key aspect of our strategy is the minimisation of waste at source, through for example projects aimed at reducing amounts of packaging on the products we sell. In the UK we are supporting the Waste & Resources Action Programme (WRAP), which aims to promote sustainable waste management practices by increasing resource efficiency and reducing carbon emissions. Through our strategic engagement with WRAP, we have joined many of our industry peers in becoming signatories to the Courtauld commitment. We look forward to reporting progress in this area in future reports.

Energy consumption, particularly electricity use, presents another significant challenge to our organisation in terms of lowering emissions of CO<sub>2</sub> and other greenhouse gases. At a time of rapidly rising energy costs coupled with concern regarding global supply, our focus on energy use also makes sound economic sense. During 2004 and 2005 we completed an energy auditing programme in all of our facilities in RoI and NI, following which we have introduced a co-ordinated energy monitoring and targeting programme designed to improve energy efficiency and lower consumption. We are also progressing this activity in our premises in Great Britain.

We continue to focus on reducing the distances travelled by our truck fleets through logistics planning whilst also delivering greater vehicle fuel efficiency through the use of new technology, driver training and incentives. The recent integration of our logistics network in RoI following the opening of our Kilcock facility means that we have 'taken-on' the supply distances previously undertaken by our suppliers. We believe that our expertise in logistics planning will significantly reduce these previously unaccounted distances and provides us with an opportunity to reduce the emissions associated with our business yet further. In Great Britain, similar initiatives are underway, whilst we also recently began trials of bio-diesel in vehicles operating from our Thamesmead distribution centre near London.

Our Ethical Trading Policy is now being communicated and implemented by our trading teams who are in turn making our suppliers aware of our requirements. Our policy was developed in line with the principles of the United Nations Global Compact (UNGC), to which we are signatories. This report has also been drafted to meet the UNGC's requirement for ongoing 'Communications on Progress (COP)' and describes the actions we have taken in support of the Global Compact.

We are indebted again to the many people throughout the organisation for their contribution to our performance and for their assistance in providing information for this report, particularly our Environmental Action Teams and the team at Patel Tonra.

We have asked csrnetwork to audit our report for accuracy and authenticity against the AA 1000 Standard and a copy of their assessment is printed on page 85.

We hope that you will find this report interesting and informative. We believe it demonstrates our continuing commitment to our values and to the principles of sustainable development and to identifying and addressing all of our environmental and social impacts and to reporting our performance transparently and honestly. We welcome your views or suggestions at [group@musgrave.ie](mailto:group@musgrave.ie)

We look forward to reporting further progress in our next report in 2008.

**John Curran,**  
**Musgrave Group Environmental Executive**





# Stakeholder Consultation on Materiality

Musgrave Group, in line with international best practice on Sustainability Reporting, employs the GRI (Global Reporting Initiative) Guidelines, which lists a range of issues and indicators that are recommended to be included in a company's sustainability report.

Due to the length, complexity and detail of the guidelines, we were concerned that our report could become too complex, overly long, and that perhaps some of the issues that are important to our stakeholders could get lost within other less significant information.

In order to address this, input was sought from a broad range of stakeholders for their opinions in relation to the issues that they perceived to be most relevant to the Company, and therefore, deserving of more in-depth focus. Five core stakeholder groups: (i) Shareholders/Family/Executives, (ii) Employees, (iii) Customers/Retailers, (iv) Consumers and (v) Suppliers were consulted in order to determine their opinions. The participants covered the geographical spread of the company – Ireland, Northern Ireland and Britain were each represented by at least one participant in every one of the stakeholder groups.

The research took the form of 30 to 40-minute interviews, consisting of a series of questions/discussions in relation to what the stakeholders were interested in seeing in this year's report. In addition to 'open' type questions designed to draw out issues of interest to the participants, a closed question was put to them which requested that they choose, from their own perspectives, the 'Top 5' issues of priority from a list of ca. 35 issues. This list of issues was broadly prepared from the GRI indicators list, and a list of topics previously covered in Musgrave sustainability reports.

The results were compiled and analysed to examine the most significant issues to be reported in 2006.

## RESULTS OF INTERVIEWS

### CLOSED QUESTIONS:

A series of 20 questions (with additional sub-sections) were posed to a total of 24 interviewees, across the range of stakeholder groups. Overall, the most significant issues (cited by more than 40% of respondents overall and by greater than 60% within each stakeholder group) for reporting purposes were identified - see Table 1:

TABLE 1: FINDINGS OF 'CLOSED' STAKEHOLDER QUESTIONS

	Family/ Shareholders	Retailers/ Customers	Suppliers	Consumers	Employees
Waste - generation & management	✓	✓	✓	✓	✓
Cross-reference to annual financial report for financial information	✓	✓	✓	✓	✓
The company's energy use & climate change	✓	✓	✓	✓	✓
Labelling of products (in particular, nutritional labelling)	✓	✓	✓	✓	
Musgrave Group's budget/spend on environmental management		✓	✓	✓	✓
Human rights performance of suppliers	✓	✓	✓	✓	✓
Fines/environmental non-compliances issued to Musgrave Group	✓	✓		✓	
Workforce statistics: numbers employed				✓	✓
Summary of key financial information		✓	✓		✓
Work-related issues			✓		✓
Workforce statistics: temporary/permanent staff numbers					✓
Workforce statistics: H&S performance				✓	✓
Employee training	✓				
Discrimination in the workplace		✓			
Corruption in business and measures taken against corruption	✓				

### OPEN QUESTIONS

A number of open questions were posed in relation to specific issues. A wide range of responses were received, however an issue was regarded as 'significant' if it was cited by more than 15% of respondents.

The most important **work-related** issues were identified as:

- Job satisfaction
- Working hours
- Pay issues
- Job security
- Health and safety

The most important **supplier-related sustainability issues** were identified as:

- Packaging – minimisation and recyclability
- Product sourcing, Fair Trade, child labour
- Suppliers' environmental policies, procedures and compliance broadly
- Fuel/energy use
- Organic food

The most important sustainability issues from a **consumer/shopper perspective** were identified as:

- Health and wellbeing/organic products
- Labelling, advertising and consumer education
- Packaging

With regard to making the report **more readable** or interesting to a wider readership, the following was suggested

- Preparation of a Summary Report
- Use of photographs, graphs and diagrams
- Web access
- Good indexing

The most important economic and social **impact on communities** were noted as:

- Sponsorships/donations by Musgrave Group businesses and Retailers
- Employment/payroll
- Provision of local/rural social focal-point
- Provision of local/rural shopping service

#### TOP FIVE ISSUES

The total number of participants in the consultation was 24; we anticipated that, overall, an issue could be considered of 'High' priority if it was indicated more than 5 times as a 'Top 5' issue by a participant, and a 'Medium' priority issue if indicated more than twice – otherwise the issue was considered 'Low' priority.

Within each of the stakeholder groups (as each group had only 5 participants), a further analysis was undertaken in which 'High' status was attributed to any issue that received 3 mentions, and 'Medium' significance was attributed to 2 'votes'. This filter served to highlight issues particularly significant to individual stakeholder groups.

The issues that were overall considered to be of High significance, in the context of the upcoming sustainability report were: (a) Economic Performance, (b) Energy, (c) Emissions, Effluents and (particularly) Waste, (d) Employment, (e) Child Labour & Fair Trade, and (f) Community.

**TABLE 2: 'TOP FIVE' STAKEHOLDER ISSUES**

	<i>Family/ Shareholders</i>	<i>Retailers/ Customers</i>	<i>Suppliers</i>	<i>Consumers</i>	<i>Employees</i>	<i>Overall</i>
<i>Economic Performance</i>	MEDIUM	MEDIUM	HIGH	MEDIUM	HIGH	HIGH
<i>Market Presence</i>	MEDIUM	LOW	HIGH	LOW	LOW	MEDIUM
<i>Indirect Economic Impacts</i>	MEDIUM	LOW	MEDIUM	LOW	LOW	MEDIUM
<i>Materials</i>	MEDIUM	LOW	LOW	LOW	LOW	MEDIUM
<i>Energy</i>	HIGH	HIGH	LOW	LOW	MEDIUM	HIGH
<i>Water</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Biodiversity</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Emissions, Effluents &amp; Waste</i>	HIGH	HIGH	LOW	LOW	MEDIUM	HIGH
<i>Products and Services</i>	MEDIUM	LOW	MEDIUM	LOW	LOW	MEDIUM
<i>Compliance</i>	MEDIUM	MEDIUM	LOW	LOW	LOW	MEDIUM
<i>Transport</i>	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM
<i>Employment</i>	MEDIUM	LOW	MEDIUM	LOW	MEDIUM	HIGH
<i>Labour/Management Relations</i>	LOW	MEDIUM	LOW	LOW	MEDIUM	MEDIUM
<i>Occupational Health and Safety</i>	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	MEDIUM
<i>Training and Education</i>	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM
<i>Diversity and Opportunity</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Management Practices</i>	MEDIUM	LOW	MEDIUM	LOW	LOW	MEDIUM
<i>Non-discrimination</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Freedom of Association</i>	LOW	MEDIUM	LOW	LOW	LOW	LOW
<i>Child Labour &amp; Fair Trade</i>	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH
<i>Forced and Compulsory Labour</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Disciplinary Practices</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Security Practices</i>	LOW	MEDIUM	LOW	LOW	LOW	LOW
<i>Indigenous Rights</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Community</i>	HIGH	HIGH	MEDIUM	MEDIUM	HIGH	HIGH
<i>Corruption</i>	LOW	LOW	LOW	LOW	LOW	LOW
<i>Public Policy</i>	LOW	LOW	MEDIUM	LOW	LOW	MEDIUM
<i>Anti-competitive Behaviour</i>	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	MEDIUM
<i>Customer Health and Safety</i>	MEDIUM	LOW	LOW	LOW	LOW	LOW
<i>Market Communications</i>	LOW	LOW	MEDIUM	LOW	LOW	LOW
<i>Customer Privacy</i>	LOW	LOW	MEDIUM	LOW	LOW	LOW

**GROUPS:**

Interestingly, of the 'high significance' issues, Economic Performance did not feature in the requirements of the Family/Shareholders/Executive Group, but Energy, Waste and Community did, in addition to Transport.

The issues that were awarded 'High' significance for Retailers/Customers were: Energy, Waste and Community.

Suppliers were most interested in: Economic Performance and Market Presence, followed by, broadly, consumer issues such as anti-competitiveness and customer privacy.

Consumers had a broad range of opinions and requirements, but none rated as of 'High' significance; Economic Performance, Child Labour & Fair Trade and Community were the issues that rated 'Medium' significance.

Employees rated Economic Performance and Community as the issues of High significance, interestingly of more importance than employment topics such as Labour Relations, Occupational H&S or Training & Education.

**ISSUES:**

Child Labour & Fair Trade did not feature as a 'High' significance issue in any of the stakeholder groups, but featured as at least a medium-interest issue in all groups except Employees.

Environmental issues, such as Energy and Emissions were very important to Retailers and Shareholders/Family/Executives but were of lower interest/significance to the other groups.

Economic performance was of most interest to both Suppliers and Employees, while they had lower interest in issues relating to the Environmental performance of the company, i.e. Energy, Waste and Transport.

The social issue rated of greatest significance was the effects of the company on 'Community', rated 'High' for Family/Shareholders/Executive, Retailers/Customers and Employees, and at 'Medium' for Consumers and Suppliers. This was followed closely by Employment which was not rated as High by any group, but was significant enough to the Family/Shareholders/Executive, Suppliers and Employees groups to make it of 'High' significance overall.

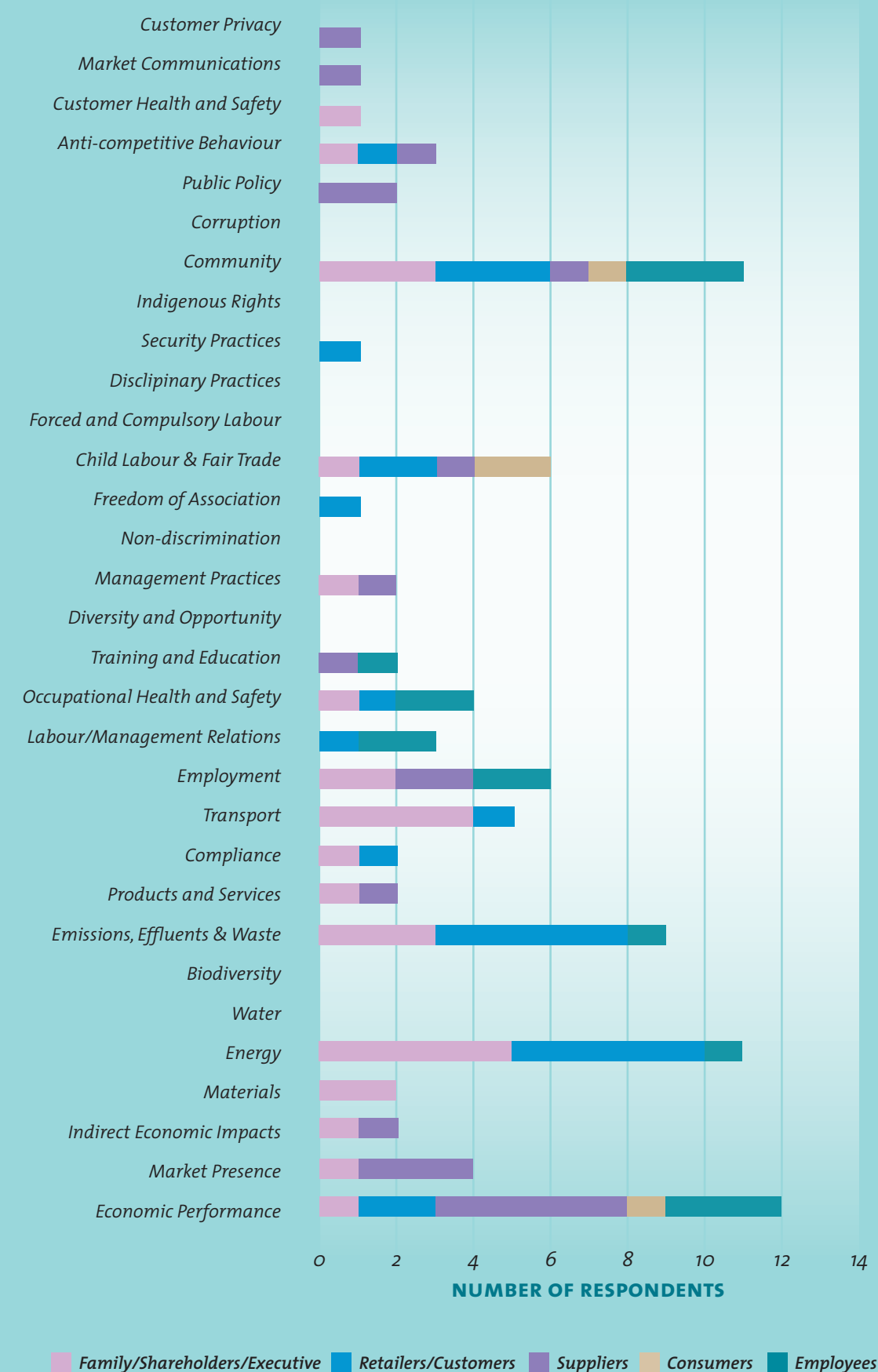
While we have dealt with the outcomes of the 'open' questions in another section, it is interesting that one of the issues of most significance in those discussions, namely 'Packaging' did not come up in this part of the discussion – other than in the Family/Shareholders/Executive group, who identified the 'Materials' issue as being synonymous with this perceived issue for the company.

**PROPOSED 'DELETIONS':**

The issues that were not considered of appropriate significance (for inclusion in the main body of the report), arising from this exercise are considered to be:

- **Economic:** Not applicable
- **Environmental:** Water, Biodiversity
- **Social:** Diversity and Opportunity, Non-discrimination, Freedom of Association, Forced and Compulsory Labour, Disciplinary Practices, Security Practices, Indigenous Rights, Corruption, Customer Health and Safety, Market Communications, Customer Privacy

Although the above issues did not rank as significant for Musgrave Group as a result of the Stakeholder Consultation, we confirm that we are in full conformance with all legislative requirements in relation to these matters.

**FIGURE 1: STAKEHOLDER CSR ISSUES**



# About this Report

**This report details Musgrave Group initiatives and actions in the implementation of our Environmental Policy Charter (2000) through which we are endeavouring to create a more environmentally sustainable business.**

The report is a record, in this context, of the calendar years 2004 and 2005, as defined in the scoping statement on page 13. This is our fourth report (our last report was published in 2004 based on data for the calendar years 2002 and 2003), and we believe that it is a positive step forward in the quality of our reporting.

Musgrave Group is satisfied that we continue to improve on the standard of our reporting since the last report, and we recognise that the standard and quality of our disclosure must continue to improve as our business and the information requirements of our stakeholders grow. We have identified our core stakeholders as our shareholders (family and employees) and executives, our employees, our suppliers, our customers (i.e. retailers), and consumers (i.e. shoppers in our stores). We have, for the purposes of this report consulted with all these stakeholder groups on materiality issues for the content of this report; and we are pleased that the outcome of those discussions has led, this time, to a more rounded report (see Stakeholder Consultations, page 5).

This report is divided into three separate sections, which we feel accurately reflect how we have managed environmental issues taking account of our impacts, namely:

- Economic Performance,
- Environmental Performance, and
- Social Performance

Interspersed in these sections are descriptions of how we have progressed in the implementation of our Environmental Policy Charter, published in 2000, as well as some dialogue on how we will progress these issues (as well as others) in our recently revised Environmental and Social Accountability Policy. In future, we will use the revised policy as our touchstone for our progress toward sustainability.

## ECONOMIC PERFORMANCE:

In this section we detail, from a business perspective, how our company has progressed financially during the reporting period, as well as detailing the changes within the structure of the company in that timeframe.

## ENVIRONMENTAL PERFORMANCE:

This section addresses our environmental performance in relation to: (i) Energy in Buildings, (ii) Energy from Transport and (iii) Waste Management, within our business. We also report our data on climate change and pollution emissions arising from each of those facets of our operations. We have detailed resource use, major impacts and sustainability initiatives undertaken during 2004 and 2005 at our retailers' stores, and in our distribution centres and cash & carry outlets.

## SOCIAL PERFORMANCE:

This section gives details of the company's record on human resources management, employment statistics and communications and training of our staff. We describe some of our employees' involvement in initiatives through which our company has achieved environmental and social improvement.

We also deal with our interactions with the world outside our company – our retail partners, our suppliers, our consumers and our contribution to public affairs.

## REPORTING FRAMEWORK AND STANDARD

The Global Reporting Initiative (GRI) is an international, multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of organisation-level activity. This report has been prepared using the 3rd Revision (Draft) of the GRI Guidelines (G3) as a framework. While, at this time, there are no criteria for reporting 'in accordance' with this framework, we have successfully met the 'in accordance' criteria of the 2nd draft of the GRI Guidelines.

We have used the GRI Sector Supplement in relation to Logistics and Transport for reporting on our transport fleet and have also referred to the GRI Boundary Protocol to assist us in defining the Scope of our Reporting Process.

By continuing to report 'in accordance' with the GRI Guidelines, as we did in our last two reports, we believe that we are reporting to the highest possible standard, and that we are allowing readers to compare our sustainability efforts with those of other companies throughout the world.

We are reporting on 100% of the G3 GRI indicators (both core and additional), as per the index on page 83.

## DATA REPORTING & MEASUREMENT TECHNIQUES

In reporting our Emissions Data we have used 2001 Emissions Factors (for Thermal Emissions, for Electricity Emissions and for Transport Emissions) for all reporting years (for comparativeness of data, i.e. to avoid 'claiming' any improvements in emissions attributable to other parties). The Emissions Factors used were taken from the Irish Environmental Protection Agency, the OECD, Sustainable Energy Ireland and the Irish Electricity Supply Board (ESB). International defaults were used for transport efficiencies, where specific facility data was not available.

## ASSURANCE STANDARD

Musgrave is committed to independent verification of the information we report. We instructed our assurers, csrnetwork, to undertake their assurance audit of this report with reference to the open-source AA1000 Assurance Standard. We believe this standard to be worldwide best-practice in this regard.



## SCOPE OF BUSINESS AND REPORT BOUNDARY

This report discloses information on the activities of Musgrave companies in the Republic of Ireland (RoI), Northern Ireland (NI) and Great Britain (GB) in the implementation of our Environmental Policy Charter (2000). We are reporting on the activities of:

- Musgrave SuperValu-Centra (RoI),
- Musgrave SuperValu-Centra (NI),
- Musgrave Wholesale Services (RoI and NI),
- Musgrave Budgens Londis (GB),
- 'Own Stores' (NI) and
- 'Own Stores' (GB).

The information reported is based on data gathered for the years 2004 and 2005, unless where specified. For elaboration purposes, we have also included some information on initiatives and projects undertaken in 2006.

We are confident that this report represents just over 96% of our business (it was 95% in the last report), based on turnover in 2005. We have not reported on our Spanish business in this reporting cycle.

We feel that we have reported honestly on the 'real' impact of our company, in that we have included the 'outsourced' transport logistics, where practicable, within our transport data. Furthermore, during this reporting period, we have removed more of our suppliers' transport logistics (initiated some years ago through our backhauling process) by integrating it in our own business operations. [See the feature on 'New Distribution Depot for MSVC' on page 38.]

Our acquisition of the Londis business within GB has also increased the effective geographic boundary of the report, in that our Logistics now covers effectively all of the GB territories, compared to our Budgens business, which was based in South East England, heretofore.

We have also endeavoured to focus on issues 'outside' the recognised company 'boundaries' in this report. For instance, we have reported on our retailers' wastes, through our successful initiative on waste contracts; and we detail our negotiations with our suppliers to streamline commercial packaging.





# Economic Performance

COMPANY PERFORMANCE

Musgrave Group was founded in Cork in 1876 by brothers Thomas and Stuart Musgrave, and has grown to become Ireland’s biggest grocery distributor. In the UK, we completed the acquisition of Budgens convenience stores in 2002 and bought the Londis franchise in 2004. We now have operations throughout the island of Ireland, Britain and Spain.

TABLE 3: FIVE YEAR FINANCIAL HIGHLIGHTS

		2005	2004	2003	2002	2001
Turnover	€M	4,393.6	3,761.8	3,341.1	2,775.1	2,269.0
Operating Profit	€M	102.6	108.1	97.3	82.9	57.2
Profit Before Tax	€M	72.5	68.8	59.3	57.6	47.1
Profit After Tax	€M	55.9	51.8	42.9	39.9	33.2
Dividend per Share	€ cent	25.2	24.0	20.0	18.2	16.5

REVIEW OF 2004-2005

We have experienced significant gains in turnover and market share right across the Group. The acquisition of Londis, the ongoing divestment of Budgens stores to independent entrepreneurs, combined with substantial investment in supply chain innovation, means that this was a period of transition for Musgrave.

Underpinning our success lies a great deal of hard work on the part of staff in all our divisions, alongside an equal measure of passion, commitment and local knowledge from our independent retail partners.

MUSGRAVE SUPERVALU-CENTRA – REPUBLIC OF IRELAND

SuperValu Stores

For the year ending 31 December 2005, SuperValu’s 171 independently owned Republic of Ireland supermarkets delivered €1.82 billion in retail sales – a five per cent increase on 2004. Super Valu now hold 19.7% of the grocery market share in Ireland.

The Musgrave Group is proud of all its brands. We have continued to work hard to make SuperValu stores even more appealing through systematic improvements to service, quality and range.

The SuperValu brand continues to differentiate through strength in fresh food, particularly Irish meat and produce, a consistent keen value offer and the expertise of local owners. Throughout the reporting period, brand recognition was sharpened with a wide range of marketing initiatives, creating a strong uplift in sales for retailers.

Store investment

More than €70 million was injected into SuperValu stores in 2005, including the refurbishment of 22 stores and five new SuperValu stores in Rol. SuperValu reach and scale was further strengthened in November with the announcement that the Pettitt’s independent supermarket group would join SuperValu in 2006, bringing an additional €85 million retail turnover and 80,000 square feet of food retail space for SuperValu.

Plans for 2006

Looking ahead, SuperValu retailers plan to invest €40 million in new store development during 2006. By year-end, 11 new supermarkets will be trading with the brand, including the five new Pettitt’s stores. A further €105 million will be invested in the refurbishment or extension of an additional 54 SuperValu supermarkets.

Such investments mean that SuperValu continues to make significant contributions to job creation in local communities across Ireland. Around 350 jobs will be created as a result of the 11 new store openings, with an additional 250 jobs expected through the extension and refurbishment of existing stores.

Centra Stores

For year-end 31 December 2005, Centra independent convenience stores achieved a 14 per cent increase in sales on 2004 to €1.035 billion. This growth builds on the 9.5 per cent retail turnover increase achieved in 2004.

2005 was the first time Centra retailers have exceeded the €1 billion retail sales mark, an exceptional business performance in a climate of food price deflation.

Centra storeowners invested €70 million in new stores and the refurbishment and development of existing stores, creating approximately 525 new jobs in 2005. More than 11,000 people are now employed in Centra stores in the Republic of Ireland.

The year ahead

Responding to consumer demand for quality plus convenience, MSVC plans a further 40 Centra stores in 2006, creating an additional 900 jobs, and will see Centra store numbers in the Republic of Ireland exceed 400.

An additional 40 new appointments in trading, marketing, fresh food development and customer service will also be made in MSVC in support of the Centra business.

MUSGRAVE SUPERVALU-CENTRA – NORTHERN IRELAND

For year-end 31 December 2005, MSVC NI retail sales grew by 9.4 per cent to £267 million (approximately €395M). The business was further strengthened by an additional £10 million (approximately €15M) investment in both 2004 and 2005 towards new and existing stores.

Sixteen stores opened in the course of the year, along with rapid development of the off licence category, which saw the thirtieth unit open during 2005. At year-end, store numbers totalled 120, comprising 86 Centra and 34 SuperValu stores.



### MUSGRAVE BUDGENS LONDIS – UK

The combination of Budgens and Londis has annualised retail sales of £1.8 billion (approximately €2.6 billion) in 2005 and after an extensive review and consultation with retailers we have now initiated a major programme of investment in supply chain and systems. This is a significant development programme that will be systematically rolled out over the next few years.

#### *Divestment of Budgens Stores to independent retailers*

It is now two years since we announced our intention to divest Budgens corporate stores to focus on supplying and supporting the independent sector. In what should be regarded as an important transitional phase for the business, it seems likely that the sales process will be completed – as planned – by the end of 2008. At the end of 2005, there were 131 company-owned Budgens stores, 80 independently-owned Budgens stores and in excess of 2,050 independently-owned Londis stores.

Our focus on a local, consumer-led approach goes to the very heart of our business model and is what helps differentiate our stores from the multiples. It's an approach that has helped the Group gain significant market share in the Republic of Ireland, and which we believe has the same potential in new markets.

#### *Londis – strong sales growth*

2005 saw the first full year of trading of our Londis GB business. Not only have we seen strong sales growth both at wholesale and retailer level, but there has been significant uplift in the numbers of retailers trading regularly with the Group.

Central to this growth has been the extensive communication undertaken to understand retailers' needs. Based on this feedback there have been a number of changes to our offer resulting in significant improvements in sales and retailer loyalty.

Since acquiring the business in 2004, we have worked hard with retailers to drive up standards right across the brand. Key to this has been to instil consistency with regard to basics like service, promotions and standard of shop-fit. Considerable progress has been made to this side of the business in 2005 and a great deal more is expected in the year ahead.

### MUSGRAVE WHOLESALE SERVICES (MWS)

MWS operates four brands in both the Republic of Ireland and Northern Ireland – **Musgrave Cash and Carry, Musgrave Foodservices, Daybreak** and **Day-Today** – two chains of convenience stores owned by independent retailers.

During the reporting period, MWS continued to develop its strategic focus on the €3.5 billion a year foodservice market, an important growth market for MWS and it is anticipated that this side of the business will be further developed in 2006.

In January 2005, the business acquired Variety Foods (NI) Limited which, together with its acquisition of C&R Frozen Foods Limited in October 2004 and the launch of the Musgrave Excellence foodservice product range, will ensure that the Musgrave foodservice business will continue to grow rapidly thanks to the benefits of the enhanced reach and scale of its nationwide distribution network.

In November 2005, MWS launched new symbol store group 'Daybreak' with an initial investment of €0.5 million. After six months, 75 stores were already operating under the Daybreak banner.

### DIALSUR – SPAIN

Dialsur, the Group's Spanish division, continues to make progress. 2005 saw a three per cent growth in sales to €174 million in an extremely competitive trading environment.

Our Spanish division serves 16 SuperValu stores in south-east Spain, including three new independently-owned stores added in 2005. In addition, the business comprises 55 Dialprix stores, of which 30 are owned by the company. Dialsur also owns and operates a chain of 17 medium-sized cash and carry outlets.

**TABLE 4: NUMBER OF STORES OPENED / CLOSED**

	2004		2005	
	<i>Opened</i>	<i>Closed</i>	<i>Opened</i>	<i>Closed</i>
<b>SuperValu (Rol)</b>	11	11	5	10
<b>Centra (Rol)</b>	25	18	40	22
<b>SV (NI)</b>	3	2	0	2
<b>Centra(NI)</b>	18	10	16	6
<b>Day Today</b>	23	6	20	8
<b>Daybreak</b>	0	0	43	0
<b>Budgens</b>	18	9	12	34
<b>Londis</b>	183	256	134	281
<b>Dialprix</b>	0	2	7	1
<b>TOTAL</b>	<b>281</b>	<b>314</b>	<b>277</b>	<b>364</b>

## Corporate Governance

**Today the world faces a range of environmental and social challenges – from climate change, depletion of natural resources and biodiversity to human rights, health and poverty.**

We believe all organisations in every sector have a responsibility to be good corporate citizens. This is why we make every effort to ensure our social and environmental strategy informs all aspects of our business. Our view is that corporate responsibility should be founded on strong principles and long-term goals, but must reveal itself in practical day-to-day activities.

Musgrave Group remains an Irish-based, family and employee-owned and non-quoted company.

### DIRECTORS

The names of the persons who are currently or were directors for the entire year ended 31 December 2005 are set out

1. **N Keeley** (appointed 24 March 2005)  
(Group HR Director)
2. **D Horgan** (Managing Director, MSVC Rol)
3. **M Taylor** (appointed 24 March 2005)  
(Managing Director, MBL)
4. **P Liston** (Group Commercial Director)
5. **K Byrne** (appointed 24 March 2005)  
(Group IT Director)
6. **S Scally** (Non-Executive Director, MBL)
7. **P J Musgrave** (Vice Chairman)
8. **S Musgrave** (Non-Executive Director)
9. **P Mackeown** (Non-Executive Director Designate)
10. **F P Coghlan** (Managing Director, MWS)
11. **T Kenny** (appointed 24 March 2005)  
(Group Finance Director)
12. **M J Hyson** (Executive Director, MBL)
13. **H N Mackeown**, (Chairman)
14. **C N Martin** (Group Chief Executive Officer)



### DIRECTORS' RESPONSIBILITIES

The directors are responsible for the presentation of financial statements for each accounting period which comply with the provisions of company law and professional guidelines for good practice and sustainability issues applying certain estimates and informed judgements that are reasonable and prudent. The Group maintains systems of internal control which have been designed to give reasonable assurance that transactions are executed in accordance with management's authorisation, that assets are safeguarded, that fraud is prevented and that proper financial records are maintained.

### POLITICAL DONATIONS

There were no donations made to political parties during the reporting period.

### ACCOUNTING POLICIES AND STANDARDS

Our financial statements reflect the adoption of a number of key financial reporting standards, including 'Retirement Benefits' (FRS 17), 'Events After the Balance Sheet Date' (FRS 21) and 'Financial Instruments Disclosure and Presentation' (FRS 25).

### FINANCIAL RISK MANAGEMENT

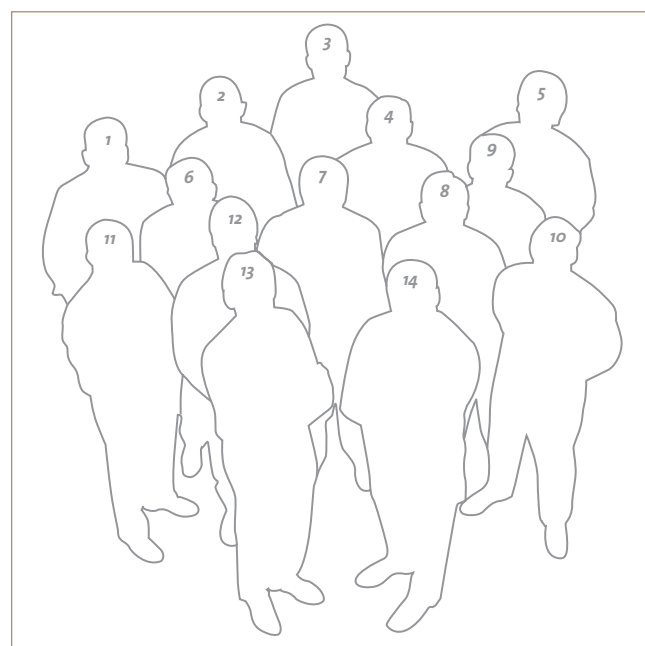
The Group's operations expose it to a variety of financial risks that include foreign exchange risk, credit risk, liquidity and interest rate risk. The Group has in place a risk management programme that seeks to manage the financial exposures of the Group and a treasury policy that has been approved by the Board. The policy is implemented by the Group's finance department and includes specific guidelines to manage interest rate risk, credit risk and sets out the circumstances where it would be appropriate to use financial instruments to manage these risks.

### HEALTH AND SAFETY

It is Musgrave Group policy to ensure that the health and welfare of its employees is protected by maintaining a safe place and system of work. The policy is set out in the safety statement and complies with the safety, health and welfare at work legislation in every jurisdiction in which we operate. We have had no breaches of health and safety legislation during the reporting period.

### CSR PROGRAMME

The management and implementation of our CSR strategies are controlled by the Group Environmental Executive, reporting to the Group Commercial Director, who steers the CSR programme at Group board level. We have had no breaches of environmental regulations, and no environmental incidents or accidents of significance at any Musgrave Group facilities, during the reporting period.





CASE STUDY:

Indirect Economic Impact  
Navan, Co. Meath

Readers of our previous reports have suggested that we should seek to quantify our indirect economic impact on communities, especially in our developed and mature business in RoI. We have made a number of attempts to address this issue, but have not found it possible to carry out a complete analysis on a national level owing to the scale and diversity of activities. For this report we have decided to focus on one Irish town - Navan in County Meath - to give an indication of the types and scale of indirect impacts our business has on local communities.

We have chosen Navan for analysis, as it contains four of our franchised stores, is the home of one of our major suppliers (Kepak Ltd.), and has a young, growing and vibrant workforce.

NAVAN, CO. MEATH

Navan has historically been a trading and market town, situated at the confluence of the Boyne and Blackwater rivers, just over 50 kilometres northeast of Dublin City.

In 2002, the National Census, confirmed Navan as the fastest growing town in Ireland, having grown in population since the previous Census in 1996 by more than 50% to a total size of 19,417 persons. This increase is compared with a national population growth of 8%.

Economy:

With the average disposable income in Meath reported as €15,953 in 2002, this gives a total economy size for the town of ca. €310M per annum.

Socio-economic:

There are 14,750 people of employment age in the town (Irish Census Data, 2002), of whom 3,029 are described as 'Non-manual' workers, while 1,338 are in the semi-skilled, and 665 in the unskilled socio-economic groups. These are considered to be the socio-economic employment categories into which Retail workers are most likely to fall.

Travel to work:

Of the 8,792 people in employment in Navan, 2,728 (31%) travel less than three kilometres to work (i.e. work in the town), with 3,888 (44%) travelling more than 25 kilometres. The commuter status of the town is confirmed by the data that 47% of workers spend more than 30 minutes travelling to work.

Types of Work:

Principal employment patterns in Navan, the whole of County Meath, and Republic of Ireland as a whole, are as follows:

TABLE 5: EMPLOYMENT PATTERNS IN NAVAN, CO. MEATH AND RoI

	% of Workforce		
	Navan	Co. Meath	Republic of Ireland
Manufacturing	16.7%	15.7%	14.9%
Wholesale/Retail	14.8%	13.7%	13.4%
Construction	10.2%	12.4%	9.2%
Real estate	8.7%	8.1%	9.1%
Health & Social Work	8.9%	7.6%	8.7%

NAVAN - STORES

There are four stores in the town; two SuperValu stores, Smith's and Bird's, and two Centra stores, McAloan's and Farrelly's. Combined, the stores offer over 4,000 m<sup>2</sup> of grocery shopping for the town.

Local Economy:

It is estimated that the stores have a total of nearly 42,000 customers each week, with their combined retail turnover reaching ca. 13% of the town's annual economy.

Our stores employ over 200 people and provide ca. 16% of the town's workforce in Wholesale/Retail, and ca. 8% of the workforce as a whole. We estimate that our retailers' wage/salary bill amounts to an additional ca. 1.6% of the local economy.

Combined, the stores provide over €50,000 annually in the form of sponsorships/partnerships with local sports clubs, schools and other charities.

For example Smith's SuperValu is involved in four sponsorship initiatives at present encompassing most of the local community. These involve partnership with local Gaelic Athletic Association (GAA) clubs, sponsorship of the County Meath (Juvenile) football team and sponsorship of local school/rugby teams. The store has just launched a loyalty card promotion with Simonstown Gaels Gaelic Football Club ([www.simonstowngfc.com/supervalupartnership.htm](http://www.simonstowngfc.com/supervalupartnership.htm)). There are 800 members in the club and the loyalty card scheme will run for two years enabling the club to raise in excess of €20,000 for club facilities and a new sports hall. Smith's SuperValu also sponsor the local school Easter egg hunt and baby morning events for new mothers in the area.

KEPAK - KEY MUSGRAVE SUPPLIER

Kepak ([www.kepak.com](http://www.kepak.com)) are an Irish-owned meat-packing and processing company and are MSVC's main meat supplier in Ireland. The contract is worth ca. €80M, of Kepak's total annual turnover of ca. €750M in 2005. The MSVC contract enables Kepak to build their infrastructure and workforce in a planned and sustainable way.

Kepak have five processing plants in Ireland, one of which is alongside their head office, near Navan. In Navan, their staff numbers are 300 (11% of the Navan workforce), of a total company workforce of 2,200.

SYNOPSIS

It is clear that the indirect impact of Musgrave business in Navan is very significant; through the activities of franchise retailers and suppliers, a large proportion of the town's economy is directly attributable to Musgrave business activities. This type of impact is mirrored in towns right across Ireland and Northern Ireland. As we grow our business in Britain, we expect similar positive impacts to develop there.



# Environmental Performance

During the reporting period, we have continued to work on managing our environmental impacts. We have formalised our Environmental Management System at one of our premises – the MSVC distribution centre in Cork. We hope to achieve certification to ISO14001 at this facility during 2006, and roll out further implementations and certifications right across our business units within the next reporting period.

## ENVIRONMENTAL BUDGETS

Budgets for environmental projects are agreed by divisional Environmental Action Teams (EATs) in consultation with the Group Environmental Executive at the beginning of each year. The Group Environmental Executive also manages a central budget for Group-based environmental projects. Budgets for the reporting period are given in the Table below.

TABLE 6: ENVIRONMENTAL BUDGETS FOR EATS, BY BUSINESS UNIT

	2004, €	2005, €
Group	110,000	216,000
MSVC	160,000	43,500
MSVC NI	10,000	30,000
MWS	20,000	7,000
MBL	20,000	10,000
TOTAL	320,000	306,500

The most significant environmental projects during the reporting period included ISO 14001 formalisation at MSVC, buildings and energy management audits, the introduction of an energy monitoring and targeting system, environmental training and communications projects, environmental/sustainability policies development and waste minimisation projects.

Additionally, we have broken down our environmental spend based on: (a) planned/routine operations, (b) projects and (c) mitigation in relation to environmental accidents/incidents, for each of the Business Units, as follows:

TABLE 7: ENVIRONMENTAL SPEND, BY BUSINESS UNIT

Business Unit	Environmental Spend 2004, €			Environmental Spend 2005, €		
	Planned/ Routine	Projects	Mitigation Measures	Planned/ Routine	Projects	Mitigation Measures
Group	–	110,000	–	–	216,000	–
MSVC	642,107	95,836	–	763,108	91,516	–
MWS	263,724	20,000	–	178,420	7,000	–
MSVC (NI)	3,670	19,141	–	28,825	1,169	–
MBL	442,229	20,000	–	639,211	10,000	–
TOTAL	1,351,730	264,977	–	1,609,564	325,685	–

# Measuring Environmental Performance

In our sections following, on (i) Energy and Buildings, (ii) Energy and Transport and (iii) Waste Management, we have tried to take a systematic approach to reporting on how we have progressed on implementing our Environmental Policy Charter (2000), through to the formulation of our ‘new’ Environmental and Social Accountability Policy (2006), and the directions in which we will evolve our practice and performance in this regard.

We have broken down the sections as described into a detailed account of: (i) how we have addressed each of our policy principles in the past, (ii) how we can account for our progress through measurement, and the development of indicators, (iii) how we have evolved our policies, with changing circumstances, technologies and practices, and (iv) how we will progress and measure that performance into the future.

## ENERGY AND BUILDINGS

Environmental goals associated with the use of energy and natural resources are fully aligned with financial goals in that both centre on maximising efficiency to minimise consumption. We are conscious of the importance of energy efficiency for both economic and environmental reasons in all parts of our business. Energy costs in all of our operational regions have risen considerably in recent years, and many analysts believe that high prices are now here to stay. Thus, decoupling business growth from fossil fuel consumption remains a key strategic issue for both cost minimisation and risk management.

### Implementing the Environmental Policy Charter (2000)

Our Environmental Policy Charter (2000) set out our policy principles for buildings, which covers both our own distribution and warehouse facilities and the buildings of our retail partners. The most important environmental element of buildings is energy use and related greenhouse gas emissions; reducing our impacts is an important goal.

### Implementing the Policy Principles

We will apply the principles of ‘best environmental practice’ in the design, construction and development of Musgrave Group buildings

#### 1. Incorporation of environmental elements in new buildings.

Our new headquarters building in Cork was designed and built to be as sustainable as practicable, incorporating both passive energy conservation measures and energy efficiency technologies, as well as a building energy management system for monitoring and control.





We will endeavour to influence and guide the development of retail partners' premises to assess and consider best environmental practice

2. **Incorporation of energy consideration in store design.**  
Our store design departments include energy performance as part of their design services for retail units on a routine basis.



We will promote energy efficiency in buildings and equipment throughout the business

3. **Detailed monitoring of energy use and setting improvement targets.**  
Energy performance became a focus of attention in 2005 with sub-metering and monitoring and targeting projects rolled out across the Group. We are at an early stage of this process and we look forward to reporting performance improvements in the next reporting cycle



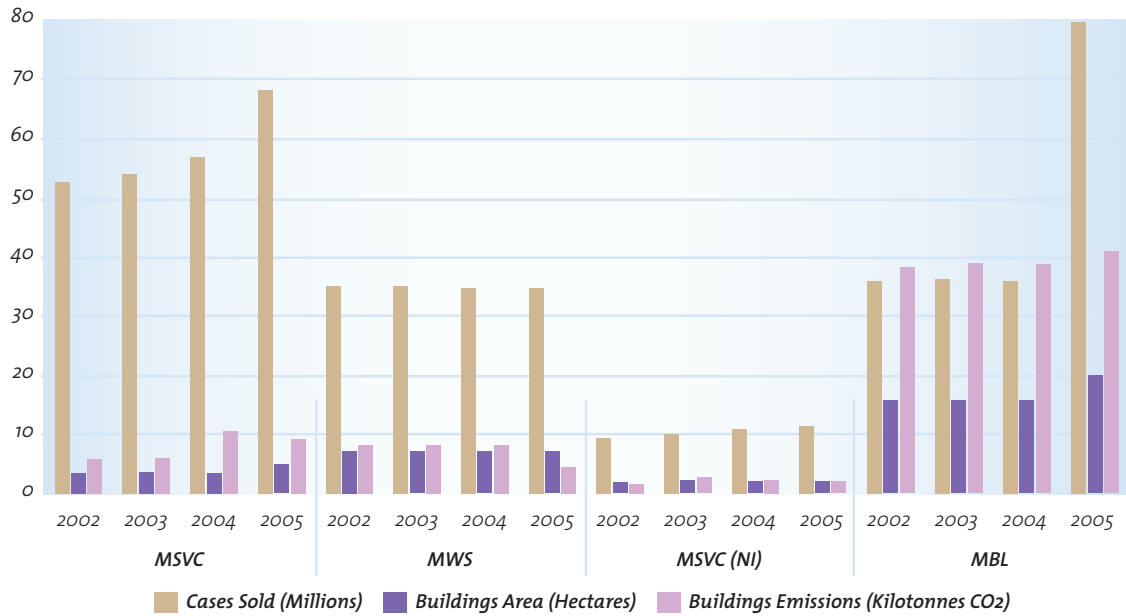
ENERGY EMISSIONS

Overall performance indicators for energy related carbon dioxide emissions for our buildings are as follows:

TABLE 8: ENERGY EMISSIONS FROM BUILDINGS, 2002-2005

		Total Buildings Area (10,000m <sup>2</sup> )	Number of Cases Sold (1,000,000)	Total CO <sub>2</sub> Emissions (1,000 tonnes)	CO <sub>2</sub> Emissions (kg/m <sup>2</sup> )	CO <sub>2</sub> Emissions (kg/case)
MSVC	2002	3.52	52.44	5.44	154.6	0.104
	2003	3.52	53.73	5.87	167.0	0.109
	2004	3.52	56.69	10.60	301.4	0.187
	2005	4.91	68.02	9.20	187.6	0.135
MWS	2002	7.34	34.92	8.32	113.4	0.238
	2003	7.34	35.02	8.56	116.6	0.244
	2004	7.34	34.57	8.22	112.0	0.238
	2005	7.34	34.45	4.44	60.5	0.129
MSVC (NI)	2002	2.06	9.21	1.50	72.9	0.163
	2003	2.41	10.07	2.89	119.9	0.287
	2004	2.09	10.79	2.35	112.5	0.217
	2005	1.90	11.28	2.02	106.4	0.179
MBL	2002	15.72	35.97	38.05	242.1	1.058
	2003	15.72	36.21	38.95	247.8	1.076
	2004	15.82	36.05	38.42	242.9	1.066
	2005	19.73	79.59	40.81	206.9	0.513
MUSGRAVE GROUP TOTALS	2002	28.6	132.5	53.3	186.2	0.402
	2003	29.0	135.0	56.3	194.2	0.417
	2004	28.8	138.1	59.6	207.2	0.431
	2005	33.9	193.3	56.5	166.7	0.292

FIGURE 2: BUILDINGS INDICATORS, 2002-2005



Energy & emissions per case

Energy emissions, measured against either case numbers or building area, are quite variable across the different sites and divisions, reflecting the different influencing factors, from building type and age to the exact nature of activity at each site.

Ideally, energy emissions per case should fall as case numbers (an indicator of business throughput) rise, since base loads generally remain constant, regardless of throughput.

In the period 2002 to 2004, we had seen case numbers increase by 4%, whilst emissions per case increased by 7%, for the same period. In contrast, during the period 2004 to 2005, we have experienced a 40% increase in the number of cases sold, but a 32% reduction in emissions per case. More importantly, absolute CO<sub>2</sub> emissions declined by 5% in the same period. We attribute these emissions reductions to: (a) improved energy metrics at the new distribution facility at Kilcock (RoI), (b) the integration of the new Londis business in Britain, and (c) early benefits of our energy monitoring & targeting programme.

Energy Consumption and Emissions per case sold

Emissions and energy consumption per case sold for the Group are as follows:

TABLE 9: SUMMARY OF BUILDING ENERGY CONSUMPTION AND EMISSIONS PER CASE SOLD

	Thermal energy index MJ/case	Electrical energy index MJ/case	CO <sub>2</sub> kg/case
2002	3.27	2.90	0.402
2003	3.42	2.96	0.417
2004	3.60	3.05	0.431
2005	3.13	2.08	0.292

Across the Group, thermal energy is generally used to provide space heating for offices, and to fuel backup generators, whereas electrical energy powers refrigeration plant, lighting, air handling, and other larger industrial services.

In terms of energy output, thermal energy is regarded as much more efficient (per unit) than electrical energy, for example one unit of electricity is approximately 10 times more efficient than one litre of kerosene. Therefore, although Musgrave Group uses significantly greater amounts of electricity units compared with combustion fuel units, the actual energy outputs levels are comparable.

For the period 2002 to 2005, the thermal energy index remains relatively constant, but a significant reduction was observed in the electrical energy index in 2005, due to the fact that this index is impacted to a larger extent by increased throughput (number of cases sold) than thermal energy consumption.

**Energy consumption & emissions per unit area**

The total area of buildings increased in 2005 (with the addition of the Kilcock and Londis warehouses) and is linked to lower emissions per unit area. However, we believe that this is also driven by lower electricity usage as a result of initial achievements of our energy monitoring and targeting (M&T) programme in RoI and NI.

Thermal energy per unit area rose in 2005, which is linked to the addition of the Londis estate, although direct comparisons may be misleading.

**TABLE 10: SUMMARY OF BUILDING ENERGY CONSUMPTION AND EMISSIONS PER UNIT AREA**

	Thermal energy use GJ/m <sup>2</sup>	Electrical energy use GJ/m <sup>2</sup>	CO <sub>2</sub> Emissions kg/m <sup>2</sup>
2002	1.52	1.34	186.2
2003	1.59	1.38	194.2
2004	1.73	1.46	207.2
2005	1.79	1.18	166.7

*NOTE: Analysis of these energy figures against climate measured (degree days) reveals no significant patterns.*

In line with our ‘Energy and Natural Resources Management Policy’ we view the sourcing of energy from renewable sources as an important priority for the future. We currently source approximately 16% of our UK electricity supply from non-carbon sources.

Musgrave operations encompass a range of facilities, including ambient and refrigerated distribution warehouses, Cash & Carry premises, retail stores and offices. International benchmarks are available for warehouses and light industrial buildings, but because of the variation in building types we operate, such benchmarks are not directly applicable. Accordingly, through data-gathering and analysis, we have developed our own benchmarks specific to each of our buildings, through which we continue to monitor and target performance on an ongoing basis.

**PERFORMANCE: TRENDS AND TARGETS**

Overall performance for the Group is significantly improved in 2005 (compared to 2004), with carbon dioxide emissions down both by case and by building area. This is in the context of considerably increased activity, particularly in terms of numbers of cases sold. The emissions reduction has been driven by lower electricity usage across the Group – good initial results from our M&T programme. On the other hand, use of thermal energy (oil and natural gas combustion) increased in 2005 in some parts of the Group, offsetting to a degree, the emissions reductions achieved in electricity. Patterns of aggregated data are not clear, with trends varying across the Group with different activities. However, we are prioritising further data analysis as we target energy and emissions reductions.

**‘NEW’ POLICY & PRINCIPLES**

Our new Policy Statement on Energy and Natural Resources centres on minimising environmental impact and costs through minimising consumption of energy and increasing our use of renewable energy sources.

**Principles**

1. Musgrave recognises that energy and natural resources are essential for its operations. It also recognises that the production and use of energy and the consumption of natural resources create environmental impacts. Consequently, Musgrave recognises the need to manage its use of energy and natural resources wisely and commits itself to so doing.
2. Musgrave also recognises its need to keep in focus its position on Sustainable Development and, accordingly, will manage its consumption of energy and natural resources in a manner which improves its ability to fulfil regulatory, human health, environmental and business obligations.
3. Musgrave will demonstrate innovation and leadership in its management of energy and natural resources, in accordance with the principles of this policy and those of Sustainable Development (SD) and in line with the commitments contained in the Musgrave Group Environmental and Social Accountability Policy.

**Implementation Actions**

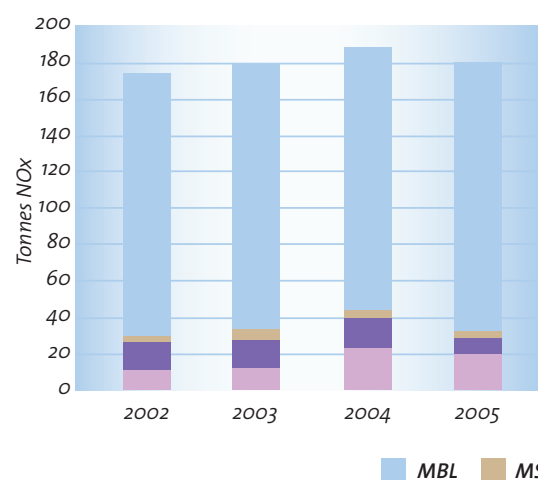
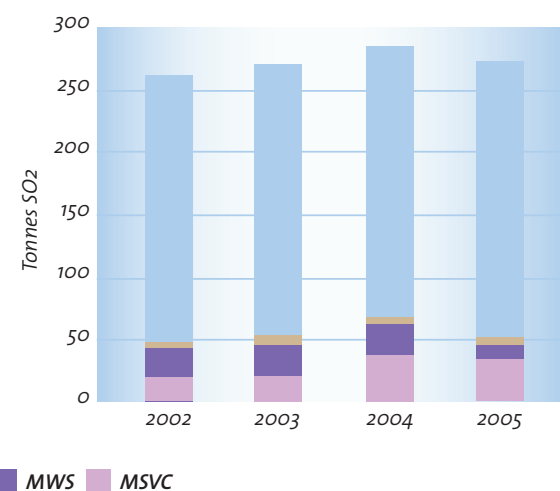
The principles and implementation actions for energy and emissions are articulated in the Facilities and Logistics section of our ‘Environmental and Social Accountability Policy’. This addresses the same principles as above and also emphasises monitoring, reporting and implementing the company vision set out in the new ‘Energy and Natural Resources Management Policy’.

- We will extend our use of monitoring and targeting to tackle energy efficiency. The energy performance data we have been collecting across the Group contains valuable information on energy usage patterns and we intend to examine it further to consider how efficiency might be improved. We have already initiated further analysis of existing energy consumption data and energy auditing through site audits, and are using this analysis to set key improvement targets across our business.
- We will further implement energy efficiency practices. Energy efficiency will be an ongoing priority in order to capture and maintain all potential savings. We will implement energy management and efficiency programmes through regular performance reviews and streamlining of core energy usage. We will pilot a staff awareness and communication programme in relation to energy awareness and efficiency across the Group. We will also pilot energy efficiency projects at a number of retail sites.
- We will examine our technology and energy source choices. We will examine our fuel mix and consider whether changes should be made to capture economic or environmental gains. We will also more aggressively examine the possibilities for purchasing green electricity. Also, we will examine procurement and equipment specification practices to develop policies and guidelines to ensure that environmental considerations and life cycle costs are part of all equipment purchase decisions.



**OTHER CLIMATE CHANGE GAS EMISSIONS**

As in our last report, we can account for our oxides of nitrogen (NOx) and oxides of sulphur (SOx) emissions from buildings, but only in relation to electricity used. [We have not yet been able to access accurate thermal emission factors in relation to the fuels we use on site.] These emissions are shown in the graphs below:

**FIGURE 3: ELECTRICITY NO<sub>x</sub> EMISSIONS****FIGURE 4: ELECTRICITY SO<sub>2</sub> EMISSIONS****MUSGRAVE GROUP ENERGY MANAGEMENT PROGRAMME**

In RoI and NI, we have employed an energy services company to help us undertake energy scoping surveys in each of our facilities. Each survey has identified a number of recommendations where savings can be easily achieved through combinations of increased energy awareness and the introduction of energy efficient technologies.

Additional electricity meters have been installed in each of the facilities surveyed and we now remotely access the electricity consumption data at an Energy Bureau office in Cork. Weekly reports are sent to a nominated 'Energy Champion' in each facility showing the seven-day profile of electricity consumption for each site. Monthly summary reports are also compiled showing the performance of each facility in 2006 compared to 2005, toward a target of 4% reduction in electricity use throughout our building stock.

MBL has a fulltime energy manager, whose role is to deal with energy efficiency and management in relation to warehouse facilities, and company-owned stores in Britain.

*...we recognise that energy and natural resources are essential for our operations...Musgrave appreciates the need to manage its use of energy and natural resources wisely and commits itself to so doing...*



CASE STUDY:

Sustainable Head Office Building

In 2004, Musgrave began designing its new Group Head Office to be constructed adjacent to its existing Cash & Carry building on a site at Airport Road in Cork. The new office building, with a floor area of 2,000 m<sup>2</sup> was designed to house Musgrave head office staff, including Group Finance, IT, Commercial and Human Resources departments along with Group Directors.

At an early stage in the design of the building, it was decided that, in keeping with the commitments contained in the our **Environmental and Social Accountability Policy** and **Energy & Natural Resources Management Policy**, the building should be as sustainable as practicable, and incorporate both passive energy conservation measures and energy efficiency technology as a means of minimising energy demand and emissions of CO<sub>2</sub> and other greenhouse gases. In addition, all supply and service contractors were to be made aware of the sustainability aims of the building and that both the equipment supplied and its installation works would need to have the lowest environmental impact.

By challenging convention in the design of the building we sought particularly to minimise the need for heating and cooling through passive solutions such as better insulation and glazing together with the use of renewable energy sources such as solar. The Musgrave Group board approved the additional capital allocation associated with these features on the basis that the design would deliver both environmental and economic benefits during the building's life-cycle. It was also felt that, as our head office, the building should articulate our values and our position on the environment and promote sustainability by example.

Construction began in June 2005, with a completion date of June 2006.

Key features of the building design include:

- Alignment of the building to make best use of available shelter from the prevailing south-westerly winds
- Increased insulation thicknesses in exterior cladding and high specification double glazing to reduce solar gain in summer and heat losses in winter



- Internal layout of the building and the use of a central atrium so as to maximise the use of ambient daylight
- A Geothermal Heating Ventilation and Air-conditioning (HVAC) System, accessing renewable solar energy contained in ground water on site
- A solar water heating system incorporating roof mounted panels to provide all of the building's hot water needs
- An intelligent automatic lighting system, including occupancy sensors, daylight level sensors and energy efficient fittings and lamps
- A building energy management system to optimise energy usage and operational performance.



The HVAC system uses fresh outside air, unlike many conventional air-conditioning systems, which re-circulate internal air, which has benefits from a health and comfort perspective. The system is also designed to prevent wasteful simultaneous heating and cooling of office spaces.

An iterative design process was undertaken to minimise energy requirements. This led to a reduction from initial conventional design loads in the region of 795 MWh per annum to a final predicted energy load of around 414 MWh per annum, a reduction of approximately 48%. This gives the new building an expected benchmark of about 207 kWh per m<sup>2</sup> per year, rating well against published good practice standards.

The innovative, sustainability-oriented design approach taken for our new headquarters brings a range of important benefits to the Musgrave Group:

- Significantly reduced overall energy demand
- Reduced consumption of non-renewable energy
- Reduced emissions of CO<sub>2</sub> and other greenhouse gases
- Reduced building lifecycle energy costs
- Enhanced company reputation
- Demonstrates environmental leadership and innovation.

GEOTHERMAL SYSTEM AT MUSGRAVE GROUP HEAD OFFICE BUILDING

Pumped geothermal energy is powered by the thermal capacity of the earth, which supplies or absorbs as much heat as the site requires. Energy is extracted from the groundwater on site through 12 circulation coils contained in 150 metre-deep vertical boreholes.

In developing the geothermal energy project for our new HQ, the project team undertook a series of study trips to examine systems already operational in the area.

The system replaces oil or gas as the primary energy source for heating and also removes the need for electricity-powered air conditioning. Although the geothermal system uses less total energy, its use of electricity, which has higher CO<sub>2</sub> emissions than oil or gas, means that the overall reduction in CO<sub>2</sub> emissions is less dramatic than the reduction in total energy use. We expect to reduce CO<sub>2</sub> emissions by approximately 124 tonnes per annum or approximately 32%. We also expect to reduce annual energy bills by approximately 26% per year based on current energy costs.

The Musgrave geothermal system ranks as one of the major achievements of geothermal technology in Ireland. It is one of the largest systems in the country and one of the very few of its size to combine heating and cooling.

Monitoring equipment is being fitted to the system that will confirm its performance in real-life operation. Results obtained will give a firm basis for the company to evaluate the likely benefits of replicating the approach for other buildings in the Group's operations.



## Energy and Transport

Road transport is obviously a key part of our business. Since the publication of our Environmental Policy Charter (2000), we now have a significantly larger fleet, a significantly greater turnover, and we operate in new marketplaces. Thus, while we have made some strides in improving our transport efficiencies with knock on environmental benefits, we have also had to concentrate on dovetailing new elements into our company and in integrating new ways of working.

### IMPLEMENTING ENVIRONMENTAL POLICY CHARTER (2000)

Our Environmental Policy Charter (2000) included a discrete section on Transport. We acknowledged that we operated one of the largest and most modern distribution fleets in Ireland, covering over 8 million km annually (at that time). We committed to reducing the significant environmental impacts associated with our road transport through the application of new technologies and improved logistics practices.

### POLICY PRINCIPLES

Our company principles in relation to transport in the Environmental Policy Charter (2000) were:

**We will take steps to minimise environmental impacts arising from the transport fleet and to maximise the efficiency of operation of the fleet.**

To implement the policy over the timeframe of the past number of years, we had the following specific tasks in mind:

**1. Collate, report and assess information from the logistics department relating to fleet efficiency and environmental achievements.**

We carry out this type of analysis as routine, throughout our business, whether we operate our transport fleets or if the operation is outsourced, as in NI and GB.



**2. Investigate and report on the environmental cost/benefits related to company-car fleet policies.**

In Rol and NI the encouragement of the uptake of more environmentally-efficient fleet cars has not been as successful as we would have liked, mainly as a consequence of: (a) exchequer taxation barriers, (b) current limited range of vehicle options (c) a general lack of knowledge and confidence among drivers about the technology. In MBL there are 6 hybrid cars on our fleet and we will continue to offer hybrid cars as an option on the company car fleet across the business.



**3. Investigate and report via a 'Code of Practice' on recommended practice on the purchase and use of retailer-owned distribution vans for home deliveries.**

This has been completed through our store design teams in MSVC and MSVC (NI).



**4. Undertake distribution fleet driver training and assessment programmes.**

Driver training and assessment programmes are now a feature of all of our transport fleets. We consider this to be the most important factor in the reduction of our emissions per kilometre indicator over the duration of the Charter implementation.



### LONDIS FLEET DRIVER TRAINING

All new drivers have between two and six days induction training. This includes the following:

- Health and Safety Procedures
- Fuel efficient driving
- Tail-lift training
- 'On the road' training with instructor
- Full review of all training given

Almost all drivers are assessed on driving ability between once and twice per annum. If issues arise during this assessment, corrective training is given immediately.

A company 'Driver's Handbook' is being prepared for all Londis sites, and is due to be completed within 2006. Additionally, all sites are now carrying out Digital Tachograph training, all current drivers will have received formal training by the end of the August 2006, ready to 'go live' when our new vehicles arrive.



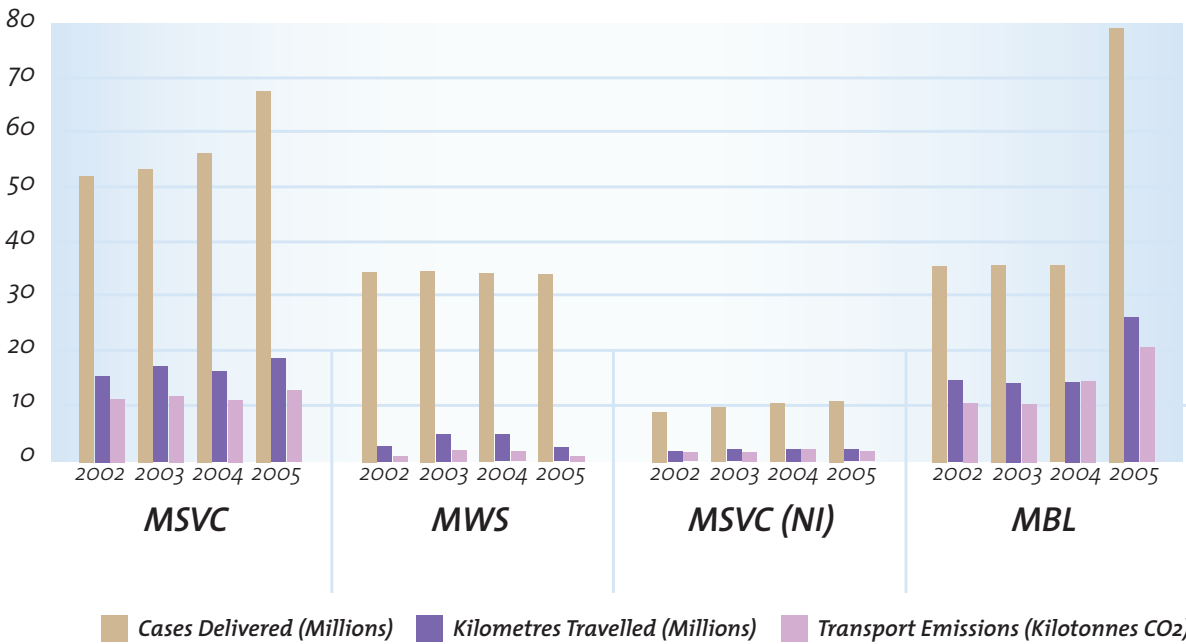
BENCHMARKS

Our Transport performance, over the lifetime of the Environmental Policy Charter (2000), is detailed in the table and graph as follows:

TABLE 11: TRANSPORT INDICATORS, 2002-2005

		Cases Delivered (1,000,000)	Kilometres Travelled (1,000,000)	Total CO2 Emissions (1,000 tonnes)	Transport CO2 (kg/case)	Transport CO2 (kg/km)
MSVC	2002	52.44	15.83	11.66	0.222	0.737
	2003	53.73	17.56	12.21	0.227	0.695
	2004	56.69	16.67	11.48	0.203	0.689
	2005	68.02	19.04	13.18	0.194	0.692
MWS	2002	34.92	2.67	0.95	0.027	0.356
	2003	35.02	4.76	1.94	0.055	0.407
	2004	34.57	4.73	1.72	0.050	0.364
	2005	34.45	2.43	0.91	0.026	0.373
MSVC (NI)	2002	9.21	1.79	1.54	0.167	0.860
	2003	10.07	2.05	1.59	0.158	0.775
	2004	10.79	2.13	2.12	0.196	0.995
	2005	11.28	2.06	1.73	0.154	0.842
MBL	2002	35.97	14.98	10.89	0.303	0.727
	2003	36.21	14.51	10.73	0.296	0.739
	2004	36.05	14.72	14.86	0.412	1.010
	2005	79.59	26.58	21.06	0.265	0.801
MUSGRAVE GROUP TOTALS	2002	132.5	35.3	25.0	0.189	0.710
	2003	135.0	38.9	26.5	0.196	0.680
	2004	138.1	38.2	30.2	0.219	0.789
	2005	193.3	49.8	36.9	0.191	0.740

FIGURE 5: TRANSPORT INDICATORS, 2002-2005



These indicators show increases for Musgrave Group in total, (from 2002-2005) of: (a) 46% in cases delivered, (b) 41% in kilometres travelled by our fleet, and (c) 48% in transport related emissions attributable to the company. In comparative terms, emissions per case (and emissions per kilometre) are decreasing from 2004 to 2005 (after a number of years of increases), due mainly to the results of driver-efficiency training.

PERFORMANCE: TRENDS & TARGETS

Transport distances have increased from 2002-2004, with a large increase in 2005 due to:

- the acquisition of the Londis business in GB (which entailed the effective addition of ca. 12 M km in transport distances), and
- the development of the Kilcock distribution centre in Ireland (with the effective addition of ca. 2.5 M km in transport distances).

The addition of the new Londis business has meant the addition of ca. 2000 stores serviced in Britain, from 3 additional distribution centres. Total company sales have increased, concurrently; by ca. 11M cases in MSVC and ca. 44M cases in MBL.

The indicator on transport emissions from sales (kg CO2 per km) has increased from 2002 to 2005 by just over 4%, for a number of reasons:

1. 'self'-transport (as opposed to logistics outsourcing) has become a part of the MWS business (especially in Foodservices),
2. the addition of Kilcock in MSVC has added more distances 'internally' with some cases (that were delivered by suppliers) now transported by Musgrave, i.e. an internalisation of logistics distances not heretofore measured or accounted for, and
3. the addition of the Londis business, which has significantly increased the geographical and territorial 'spread' of the GB business.

With the huge increase in geographical spread for our GB business, the transport emissions have initially increased to offset emissions-efficiency gains made through the additional sales volumes. Current projects and planned developments in logistics efficiencies will have a positive impact on emissions, in the coming years.

The indicator on transport emissions per sales (kg CO2 per case) has shown slight increases, overall of just greater than 1% – the MSVC performance has shown steady improvement from 2002-2005, the MWS performance is steady and lower in quantum, mainly due to the use of smaller transport vehicles (allied with extensive use of contractors), the MSVC(NI) performance is also steady, though less efficient than MSVC (due to market size/conditions), and MBL is showing a decrease in performance efficiency, due to new markets (with wider geographical catchments) and with significant potential for logistics efficiencies.

Our analysis, in short, is that extensive new travel seems to have been incorporated into the business, without major drops in efficiency at uptake, whilst allowing potential for improvement with maturity.



**‘NEW’ POLICY & PRINCIPLES**

In the formulation of our new Environmental and Social Accountability Policy, published in mid-2006, we recognise that our business consumes energy, which has both a financial and environmental cost.

**Principles**

Our strategic principles in relation to management of transport are:

- To reduce our dependence on and consumption of finite fossil fuels.
- To reduce emissions, conserve resources and reduce expenditure on energy.
- To instil best practice and reduce the lifecycle energy costs of our operations.

**Implementation Actions**

- We will improve efficiency through monitoring and targeting of energy use.
- We will measure and report performance, on a quarterly basis, and in our Environmental and Social Accountability Reports.
- We will implement the company vision for energy use as articulated in our Energy and Natural Resources Management Policy.

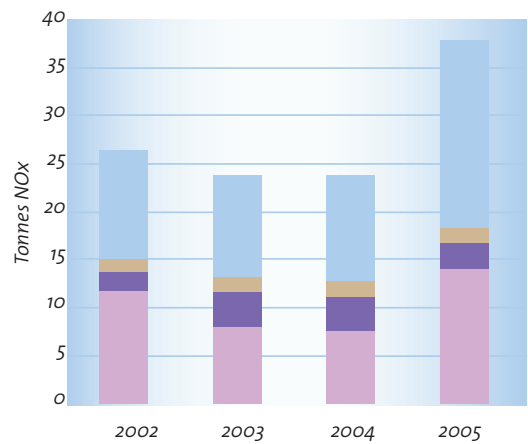
More specifically, in our ‘Energy and Natural Resources Management Policy’, we recognise that energy and natural resources are essential for our operations. We also understand that the production and use of energy and the consumption of natural resources create environmental impacts. Consequently, Musgrave appreciates the need to manage its use of energy and natural resources wisely and commits itself to so doing.

Musgrave also acknowledges its need to keep in focus its position on Sustainable Development and will manage its consumption of energy and natural resources in a manner which improves our ability to fulfil regulatory, human health, environmental and business obligations. We will demonstrate innovation and leadership in our management of energy and natural resources, in accordance with the principles of this policy and those of Sustainable Development.

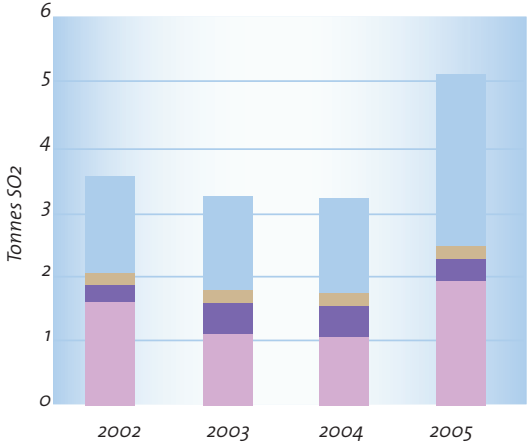
**OTHER CLIMATE CHANGE GAS EMISSIONS**

As in our last report, we can account for our oxides of nitrogen (NOx) and oxides of sulphur (SOx) emissions from transport. These emissions are shown in the graphs below.

**FIGURE 6: TRANSPORT NO<sub>x</sub> EMISSIONS**



**FIGURE 7: TRANSPORT SO<sub>2</sub> EMISSIONS**



■ MBL ■ MSVC (NI) ■ MWS ■ MSVC

**NEW DISTRIBUTION DEPOT FOR MSVC IN ROI**

MSVC’s business in ROI has changed considerably during this reporting cycle, with the development of a new distribution ‘hub’ at Kilcock, Co. Meath. The purpose of this hub is to provide a central location for acceptance and trunking of high-sales ambient products to our retailers’ stores. Environmentally, this has meant that we have ‘internalised’ a large increase in transport distances travelled by our fleet that heretofore hadn’t been measured as it had been undertaken by suppliers’ fleets.

The introduction of Kilcock allowed the re-engineering of the ambient supply chain with additional centralised delivery of goods, principally in the soft drinks, snacks, beverage and beer sectors. Over 150 suppliers, with over 3,850 different product lines, are now handled through the ‘fast moving’ Kilcock and Cork depots with Galway handling the remainder of the ‘slow moving’ ranges.

This development entailed a €35 million investment by Musgrave - our biggest ever investment in distribution facilities on a single site in the Republic of Ireland, which has already created 150 new jobs.

The development took place from a need to enhance the company’s logistics infrastructure, because of sustained growth and expansion in the marketplace. Sales and store development in SuperValu and Centra had been growing consistently, despite operating in a market that was becoming more competitive than ever.

MSVC uses a strategic backhaul system in its logistics operation, which delivers control to the business, as well as cost efficiencies. When goods from loaded vehicles are delivered to SuperValu and Centra stores, the empty vehicle is used to collect goods from suppliers before returning to the depot. Thus vehicle capacity is maximised at all times contributing to a positive environmental impact. The company collects goods from over 120 suppliers, saving on supplier delivery journeys and removing over five million kilometers of lorry movements from Irish roads each year.

This initiative means a very significant reduction in the numbers of supply deliveries at each of our retailers stores each week, which is a significant positive environmental impact (in relation to air emissions, noise impact and traffic congestion) in over 600 locations nationwide.

At the opening of the facility, MSVC MD Donal Horgan said: “An efficient supply chain means our customers in SuperValu and Centra can compete effectively, offer better range and value, and can meet changing consumer needs, whether they’re in a major urban centre or a rural village.



Carbon ‘Footprint’

We have separated the various elements of our carbon emissions pattern over the period 2002-2005, to demonstrate the comparative contributions from the different parts of the business, as shown in the Table and Pie-chart following.

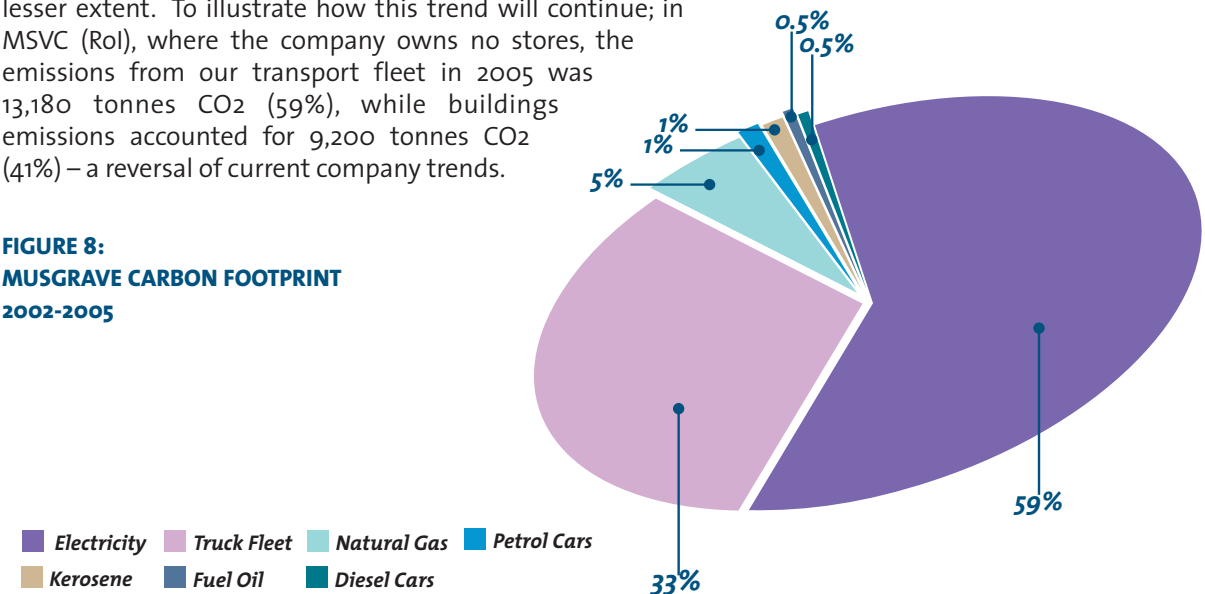
TABLE 12: CONTRIBUTING ELEMENTS OF MUSGRAVE GROUP CARBON EMISSIONS, 2002-2005

Emitting Element	2002	2003	tonnes CO <sub>2</sub> 2004	2005	Total 2002-2005	% Total 2002-2005
Kerosene	800	1,137	542	1,038	3,518	1.0
Fuel Oil	454	515	661	104	1,734	0.5
Natural Gas	4,356	4,596	4,102	5,366	18,420	5.4
Electricity	47,635	50,027	54,283	49,966	201,911	58.7
Truck Fleet	23,660	24,869	28,386	35,513	112,427	32.7
Diesel cars	61	52	515	945	1,573	0.5
Petrol cars	1,315	1,543	1,251	415	4,524	1.3
TOTAL	78,281	82,740	89,740	93,346	344,107	100.0

It is clear that the two major contributions (accounting for 91.7% of our total emissions over the period) to our emissions profile are our electricity-use and our truck transport fleet.

The electricity contribution is dominated by the operation of company-owned stores in GB. It is our company policy to divest ourselves of these stores to independent retailers over the coming years, so we will expect to see gradual reductions in our electricity-related emissions, while our truck-related emissions will decrease to a lesser extent. To illustrate how this trend will continue; in MSVC (RoI), where the company owns no stores, the emissions from our transport fleet in 2005 was 13,180 tonnes CO<sub>2</sub> (59%), while buildings emissions accounted for 9,200 tonnes CO<sub>2</sub> (41%) – a reversal of current company trends.

FIGURE 8: MUSGRAVE CARBON FOOTPRINT 2002-2005



Biofuels

A recent initiative (April, 2006) in our Transport Divisions is the establishment of Biodiesel as a fuel for our Logistics fleet in MBL. Thamesmead Distribution Centre General Manager, Alan Saddington said: “We are well aware that Musgrave Group are very proud of their ‘Green Credentials’, so we are always on the lookout for ways to improve our own local environmental performance. Seizing on a recent opportunity provided by our fuel suppliers, the Thamesmead RSC recently took one of the first deliveries of ‘Bio-Plus Biodiesel’ coming out of the Petroplus site in Thurrock.”

The first delivery of 36,000 litres, is enough to run the Thamesmead fleet of 45 vehicles into London, the South East and East Anglia for about 3 weeks.

Suppliers Petroplus claim that the biodiesel blend will not only reduce Greenhouse gas emissions but will also increase our vehicle efficiency by 2% - a double bonus for us, helping to improve our environment and increasing efficiency which will benefit the company and customers alike.

Bio-plus is a blend of 95% mineral diesel and up to 5% biodiesel or Fatty Acid Methyl Ester (FAME). FAME can be derived from soy, palm, rape, jetropha, sunflower and used cooking oil. Importantly Petroplus guarantee that it will meet EN14214, the European Standard for FAME in diesel engines. Bio-plus is also guaranteed to meet EN590, the British standard for diesel fuels.

Vehicle manufacturers such as Volvo, MAN, Ford, Scania and Mercedes all approve biodiesel (FAME) blends for use in their vehicles, so long as the FAME meets both the EN14214 & EN590 standards.

Petroplus tell us that in addition to Bio-plus meeting EN590, there are marked benefits that Bio-plus possesses that other standard diesel fuel does not. For example Bio-plus has a ‘natural’ lubricity that complements the use of lubricity additives. Typically our Bio-plus is twice as good as regular diesel. In terms of combustion Bio-plus offers higher heat output. This gives an improved cetane rating, leading to improved fuel efficiency - increasing mpg.





# Waste Management

**Management of wastes arising has always been a significant issue, not just for Musgrave Group, but also for our retail partners. As a responsible business we are aware of our over-dependence on landfill as a disposal route for waste. We have focussed on waste management and recycling as a means of raising awareness of environmental best practice among company employees. We are keenly aware, with the introduction of pay-per-weight or pay-per-throw municipal waste management systems right across Europe, that waste management is also an issue for our shoppers.**

The prioritisation of this issue differs across our regions, as there is a large regional variance in costs. For example, landfill gate fees in the Republic of Ireland (at end of 2005) are, on average (including landfill taxes), over €140/tonne, compared to ca. €90/tonne in Northern Ireland and ca. €70/tonne in Britain. Our experience in RoI is that increased landfill costs have provided an impetus for greater levels of recycling, and we anticipate that similar cost increases in Northern Ireland and Great Britain will drive improvements in recycling rates there also.

## IMPLEMENTING THE ENVIRONMENTAL POLICY CHARTER (2000)

Our Environmental Policy Charter (2000), had a discrete section on Waste Management. We acknowledged that our commercial activities generated significant quantities of waste and we were keenly aware of our over-dependence on landfill as a disposal route for these wastes. Prior to this focus on waste, we estimated that only 10% of wastes were being recycled, across the business.

In the policy we pledged support to the principle of 'Producer Responsibility' and acknowledged that as generators of waste we were responsible for its safe handling, treatment and ultimate disposal. We pledged to apply 'best practice' in our management of wastes, providing leadership to enable our retail partners to manage their waste streams systematically and cost-effectively.

We also committed to maximising the number of public recycling points at our premises, and those of our retailers, demonstrating our approach to a cleaner local environment.

## POLICY PRINCIPLES

Our company principles in relation to waste, in the Environmental Policy Charter (2000) were:

- We will actively seek to minimise wastes generated by the commercial activities of the business.
- Through improved management of our operations we will improve our control of the costs of waste management within the distribution business (and assist our retailer customers to do likewise).
- The company will comply with statutory guidance and where practical, exceed the legislative requirements through 'best practice'.

To implement the policy, over the timeframe of the past number of years, we had the following specific tasks in mind:

- 1. Characterisation of wastes arising from different parts of the business e.g. retail, distribution, and administration. This was undertaken first in 2001, and repeated in 2004.**

It remains a task of significance, with the changing nature of the retail industry – in 2000, the percentage of food/compostables in the waste streams of warehouses (and supermarkets, especially) was much lower than it is in 2006 (ca. 5-10%, rather than 10-15%, as it is today) as a result both in the growth of convenience foods, and consumer demands for fresh produce.



- 2. Investigation of the feasibility of providing recycling centres for consumers through partnerships with recycling businesses and other organisations.**

We have recycling centres now in several of our own premises (and indeed those of our retailers) and we continue to meet the challenge of organising a standardised level of service from third party specialist recycling organisations. It has been possible to date, in partnership with local authorities, in some areas, to provide such services for the public. We currently estimate that throughout the business (including the premises of our retailers) we make available 112 bottle-banks (there were 35 in 1999, prior to the introduction of our Environmental Policy Charter (2000)) or recycling centres for public use.



- 3. Development of integrated regional waste management contracts for the distribution business, the administration functions and our retail partners on the 'one stop shop' concept.**

We continue to work on this commitment, right across the business. The first contract was put in place in mid-2002 in RoI, based in the southern part of the country (8 counties), but has been expanded since to cover 22 of the 26 counties. [The remaining counties do not have a waste contractor of the 'scale' needed, at present, though we will review their status when this situation changes]. A contract has been operational in NI since 2004, and a similar type contract has been 'inherited' with the acquisition of the MBL businesses in Great Britain.



- 4. Development of internal waste management "Codes of Practice" for the retail and distribution businesses.**

Again, we are pleased to report that this element has been implemented throughout the business, in four different ways: (1) through the implementation of a retailer 'Environmental Training' module in RoI, since 2002, (2) through the publication of a 'Waste Management Handbook' in RoI and NI, distributed to all warehouses and retailers in 2004 (and revised in 2006), (iii) through the provision of the Wastewise contract management service, providing on-site advice and analysis for contract participants in RoI and NI, since 2002, and (iv) provision of a comparable (to Wastewise) contract management service in GB, through Waste Cost Reduction Services, since 2004.



CONTRACTS

The main focus in implementing the Environmental Policy Charter (2000), on Waste Management, was in the development of the regional ‘one stop shop’ contracts, especially in the Republic of Ireland and Northern Ireland (in GB, an existing similar contract was ‘inherited’, and continues to operate well, with the acquisition of those businesses). The focus of the contracts was to divert as much of the wastes generated in the business (and for our retailers) from landfill, through reuse and recycling options.

The data gathered from these ‘one stop-shop’ contracts is analysed as follows, in terms of Group premises performance, and overall (including retailer participation) performance, from 2002 to 2005.

TABLE 13: MBL WASTE MANAGEMENT DATA 2002-2005, (WAREHOUSES AND OWN-STORES)

Year	Number of Premises Participating*	Total Waste Collected (Tonnes)	Diversion from Landfill	
			(Tonnes)	%
2002	173	9,707	6,075	63%
2003	173	9,320	5,642	61%
2004	173	9,712	6,020	62%
2005	177	10,974	5,914	54%

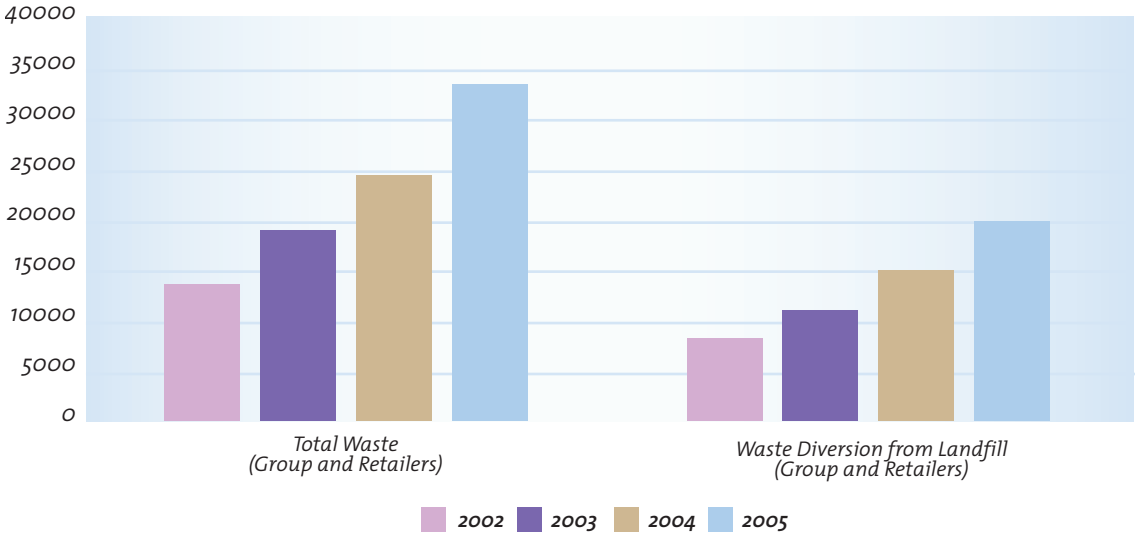
\* NOTE: Number of Participating Premises on 31st December of the year in question.

TABLE 14: ‘ONE-STOP-SHOP’ WASTE CONTRACT DATA (INCLUDING RETAILER STORES) 2002-2005, REPUBLIC OF IRELAND AND NORTHERN IRELAND

Year	Number of Premises Participating*	Business Unit	Total Waste Collected (Tonnes)	Diversion from Landfill	
				(Tonnes)	%
2002	1	MSVC	227	50	22%
	3	MWS	203	123	61%
	109	Retailers	3,556	1,933	54%
TOTAL (AGGREGATED)			3,986	2,106	53%
2003	3	MSVC	1,018	476	47%
	3	MWS	380	224	59%
	124	Retailers	8,174	4,559	56%
TOTAL (AGGREGATED)			9,572	5,259	55%
2004	4	MSVC	1,413	794	56%
	8	MWS	614	387	63%
	233	Retailers	12,934	7,683	59%
TOTAL (AGGREGATED)			14,961	8,864	59%
2005	4	MSVC	1,641	910	55%
	1	MSVC (NI)	292	40	14%
	10	MWS	1,492	896	60%
	264	Retailers	19,356	12,244	63%
TOTAL (AGGREGATED)			22,781	14,090	62%

\* NOTE: Number of Participating Premises on 31st December of the year in question.

FIGURE 9: WASTE COLLECTED AND DIVERTED FROM LANDFILL, 2002-2005



BENCHMARKS

Because of a lack of comparable industry benchmarks that would allow us to assess our waste management performance, we have developed our own. We thus measure our waste management generation and our recycling (diversion from landfill) in terms of sales (which we measure in cases sold). Our performance, over the lifetime of the Environmental Policy Charter (2000), is detailed in the table below:

TABLE 15: WASTE INDICATORS FOR OUR ‘OWNED’ FACILITIES, 2002-2005

		Cases Sold (1,000,000)	Total Waste (Tonnes)	Total Waste per Case (kg per unit)	Diverted from Landfill (Tonnes)	Diverted Waste per Case (kg per case)
MSVC	2002	52.44	1346	0.026	286	0.005
	2003	53.73	1351	0.025	693	0.013
	2004	56.69	1421	0.025	797	0.014
	2005	68.01	1641	0.024	910	0.013
MWS	2002	34.92	1599	0.046	359	0.010
	2003	35.02	1475	0.042	771	0.022
	2004	34.57	1542	0.045	960	0.028
	2005	34.45	1558	0.045	921	0.027
MSVC (NI)	2002	9.21	144	0.016	74	0.008
	2003	10.07	364	0.036	194	0.019
	2004	10.79	275	0.025	66	0.006
	2005	11.28	322	0.029	49	0.004
MBL	2002	35.97	9707	0.270	6075	0.169
	2003	36.21	9320	0.257	5642	0.156
	2004	36.05	9712	0.269	6020	0.167
	2005	79.59	10974	0.138	5914	0.074
MUSGRAVE GROUP TOTALS	2002	132.5	12796	0.097	6794	0.051
	2003	135.0	12510	0.093	7299	0.054
	2004	138.1	12951	0.094	7842	0.057
	2005	193.3	14496	0.075	7794	0.040



These indicators show that there are distinct differences in the ways that waste is generated and recycled across the business: in MSVC and MSVC (NI), generation and recycling is similar, as both businesses are distribution and warehousing businesses, where much of secondary and tertiary packaging is passed on to customers; in MWS, a wholesale business, more waste is generated per case, as more of the secondary packaging on products is MWS's responsibility; and in MBL, where the business owns retail stores, as well as a warehousing/distribution business, the high generation (and recycling) performance is due to the fact that effectively all packaging associated with commercial products remains within the business.

#### PERFORMANCE: TRENDS & TARGETS

We are pleased with our performance on waste management since 2002; we have developed a very successful system across our business (and those of our retailers), which captured nearly 23,000 tonnes of waste in Ireland in 2005, and diverted 62% of that waste from landfill. In addition, we collected almost 11,000 tonnes of waste in MBL, with a landfill diversion rate of approximately 54%. We are particularly pleased that we have been able to develop a 'culture' of recycling across the business (with our contractors), through the evolution of awards systems, and a rebate system for 'rewarding' recycling best practices.

When we look closely at our indicators, it is also clear, that along with diverting increasing amounts of waste from landfill, we are also making progress in reducing waste generation. This is an area that we know consumers are interested in, and we address our initiatives in this regard in our review on packaging on page 47.

As the company continues to divest itself of the Budgens' stores in GB, we will see some decreases in total tonnages recycled by the company (though we will continue to report retailers tonnages handled in Group contracts). This development is also likely to show further decreases in the Total Waste per case, and Diverted Waste per case too.

Furthermore, we are focussing at the moment in diverting the organic fraction of our waste from landfill; this is a difficult challenge, both from legislative and technical perspectives, though we envisage significant progress within the next reporting cycle. A positive outcome, in this regard, will result in increases in Diverted Waste per case.

#### ENVIRONMENTAL AND SOCIAL ACCOUNTABILITY POLICY

In the formulation of our Environmental and Social Accountability Policy (2006), we recognise that our operations continue to create significant amounts of waste, with negative environmental and business impacts.

##### Principles

Our strategic principles in relation to management of wastes are:

- To focus on waste reduction/minimisation rather than treatment solutions.
- To manage waste more efficiently.
- To instil best-practice in waste management at our facilities, at our retail partners' stores and among our consumers.

##### Implementation Actions

- We will work with our suppliers on research projects which aim to minimise packaging wastes.
- We will continually improve our waste management contracts with the aim of growing and optimising them, and utilise improved waste management technologies and infrastructure as they become available.
- We will set annual recycling targets and seek to maximise recycling through our contracts and increase access for consumers to recycling facilities, at our retail partners' stores.
- We will measure and report performance, on a quarterly basis, and in our Corporate Environmental and Social Accountability Reports.

*...we want to ensure that our values  
are embedded in our trade with  
direct suppliers, especially those  
supplying own brand products...*



# Packaging

In our sector, packaging is a significant contributor to waste streams. In the past, the emphasis has been on maximising recycling and even though we already achieve significant recycling rates (>60%), we believe that this ‘end of pipe’ solution alone is not sustainable in the longer term. In keeping with our Environmental and Social Accountability Policy we have commissioned a study of our top own-brand lines in order to determine opportunities for minimising packaging from a material point of view whilst ensuring that neither the robustness of the packaging nor product quality are compromised. We also expect to expand the use of returnable transit items (RTIs, also known as reusable crates) where appropriate, in place of single-use cartons. Apart from reducing environmental impacts, a further benefit of this approach will be a reduction in disposal/recycling costs as well as in the costs associated with packaging levies.

Own-brand products were selected from a range of categories for initial examination, and after desktop research, additional information was collected during visits to the Musgrave Distribution Facility in Tramore Road, Cork, and a number of stores, as per the Table opposite. The Table reports total primary and transit packaging for the products included in the study, based on 2004 sales data. The study also compared the weight of primary packaging on selected items with competitive products in an effort to ‘benchmark’ the performance of the own-brand products, with results presented based on ‘best’, ‘mid’ and ‘worst’ findings.

The work carried out, and the information gained, during this study has led Musgrave to broaden its recommended approach in this area. We now believe that our primary focus should also be on secondary/transit packaging, as this is where the greatest number of improvement opportunities are more likely to be found, in both packaging weight and handling costs, either through more effective packaging design and materials, or through the extended use of Returnable Transit Items (RTIs).



Though Musgrave are keenly aware that consumers are anxious that commercial packaging be reduced, in the interests of reducing their own wastes and the charges paid for its management, the results of this initial study suggest that the potential savings associated with reductions in primary packaging on the products examined are not significant enough for the investment required. Notwithstanding this, we will continue to benchmark our packaging against best-practice.

Thus, the next phase of the project (in the next reporting cycle) will focus on those own-brand products with high volumes of secondary packaging, and in particular on ways of eliminating this through the extended use of Returnable Transit Items (RTIs). Although initially focussed on own-brand products, because of the relative ease with which Musgrave can influence their packaging methodology, the project will indicate the potential saving which could be achieved if any improvements were to be rolled out to include equivalent branded products.

In Britain, our Musgrave Budgens Londis (MBL) division is supporting the UK government-backed Waste & Resources Action Programme (WRAP) in its campaign to improve resource efficiency and reduce waste. Through its strategic engagement with WRAP, MBL has joined many of our industry peers in becoming signatories to the Courtauld Commitment, which aims to design-out packaging waste growth by 2008, deliver absolute reductions in packaging waste by 2010 and identify ways to tackle the problem of food waste.

TABLE 16: DATA FROM 2005 PACKAGING STUDY, IN RELATION TO CERTAIN ‘OWN-BRAND’ PRODUCTS IN ROI

Sub-Department	Product	Current Primary Packaging Weight g/unit	Comparative Data for Comparative Products - Primary Packaging			
			Sample Size, #	Best g/unit	Mid g/unit	Worst g/unit
Fruit Juices	SuperValu Orange Juice	42.0	160	23.9	39.4	52.0
Pet-foods	Select Chunks – Chicken	51.3	36	47.7	60.0	71.2
Eggs	SuperValu Large Eggs	49.4	No comparative data available			
Cheese	SuperValu Cheese Singles	7.5	11	5.4	6.5	7.9
Fruit Juices	Centra Orange Juice	10.5	19	7.5	8.8	10.5
Cleaning	SuperValu Lemon Washing-Up Liquid	34.4	41	11.0	30.0	48.5
Cleaning	SuperValu Cistern Block Twin	35.8	33	11.0	30.0	48.5
Ice-cream	SuperValu Ice-Cream Vanilla	37.0	42	27.0	60.0	102.0
Hot Beverages	Centra Tea-Bags 80 pk	31.2	71	21.7	38.5	55.4
Cases per annum (2004)						153,384
Total Primary Packaging (tonnes)						98.2
Total Transit Packaging (tonnes)						17.3
Potential Savings (tonnes per annum)						26.2



## Social Performance

### EMPLOYMENT

Our responsibility for Human Resources (HR) management is largely delegated to the Business Units, while there is a Group HR Department, it largely focuses on policy development, and routinely collects only headline data in relation to employment grades and numbers. All other data is managed locally, thus not all business units collect or analyse identical indicators/data of this type.

The employment breakdown by region is described in the Tables following. In addition to direct employment, the Group also contributes to a significant level of indirect job creation through its retailers and suppliers.

**TABLE 17: EMPLOYMENT BREAKDOWN BY BUSINESS UNIT**

	<i>Employment 2004</i>	<i>Employment 2005</i>	<i>Net Employment Creation 2005</i>
MSVC RoI	1,229	1,561	+27%
MSVC NI	77	85	+10.4%
MWS RoI & NI	1,037	1,048	+1.1%
MBL	6,502	6,478	-0.37%
<b>TOTAL</b>	<b>8,845</b>	<b>9,172</b>	<b>+3.7%</b>

**TABLE 18: EMPLOYMENT TYPE BY BUSINESS UNIT**

	<i>2004</i>		<i>2005</i>	
	<i>Full Time</i>	<i>Part Time</i>	<i>Full Time</i>	<i>Part Time</i>
MSVC RoI	1,190	39	1,485	76
MSVC NI	75	2	79	6
MWS RoI & NI	839	198	850	198
MBL	2,700	3,802	1,727	4,751
<b>TOTAL</b>	<b>4,804</b>	<b>4,041</b>	<b>4,141</b>	<b>5,031</b>

**TABLE 19: INDIRECT EMPLOYMENT FIGURES BY BUSINESS UNIT**

	<i>Indirect Employment 2004</i>	<i>Indirect Employment 2005</i>
MSVC RoI ( <i>SuperValu &amp; Centra Stores</i> )	20,000*	20,787
MSVC NI ( <i>SuperValu &amp; Centra Stores</i> )	4,470	4,530
MWS ( <i>Day Today Stores</i> )	2,011	3,714
MBL UK ( <i>Budgen &amp; Londis</i> )	6,000*	18,820
<b>TOTAL</b>	<b>32,481</b>	<b>47,851</b>

\*Estimated

While there are differing employment conditions across the countries and regions in which we operate, our remuneration rates for employees, at all levels, are above average for our sector. We regularly monitor and evaluate, through management controls, that our pay-rates are meeting legal requirements and market expectations in all of our business units.

## Labour Relations

It is established policy and practice at Musgrave to inform and consult with employees and their representatives on all matters affecting them and/or their terms and conditions of employment. The company has a policy of having open and honest communications with staff via regular staff briefing sessions throughout the business. For example, at MSVC NI the policy for formal communications with employees includes two team briefs, plus an annual review each year, plus monthly department meetings. Organisational changes are communicated separately.

Musgrave Group treats all employees as individuals and operates practices and procedures to enable issues to be addressed directly and effectively within the company. The majority of Musgrave employees are not represented by an external body. Some employees in warehouses, wholesale outlets and clerical administration are covered by collective agreements between the company and specified trade unions. All employees are entitled to join a trade union, but only the specified trade unions have rights of representation.

The number of Musgrave employees that are represented by trade unions are presented in the table below.

**TABLE 20: TRADE UNION MEMBERSHIP BY BUSINESS UNIT**

	<i>% of Employees 2004</i>		<i>% of Employees 2005</i>	
	<i>members</i>	<i>covered by collective bargaining</i>	<i>members</i>	<i>covered by collective bargaining</i>
MSVC RoI	71	71	72	72
MSVC NI	None	None	None	None
MWS RoI & NI	45	39	43	37
MBL	Numbers not available			

There were no successful Employment Legal Cases taken against the Group during the reporting period.

# Occupational Health and Safety

Musgrave Group divisions, because they are located in a number of jurisdictions, comply with health and safety legislation in a number of different ways. The primary piece of health and safety legislation in the Republic of Ireland is the Safety, Health and Welfare at Work Act (2005) and in the UK it is the Health and Safety at Work Act 1974 (and associated regulations).

We also work with two health and safety advisory commissions, the Health and Safety Authority (HSA) in RoI, and the Health and Safety Executive (HSE) in the UK. We have established links with both bodies and keep up-to-date on new directives and guidance relevant to our business.

We strictly adhere to requirements of legislation and Health and Safety commission, as a minimum, and have installed Occupational Health Management Systems in Group divisions. For example, MSVC adopted the ILO (International Labour Organisation) Occupational Safety and Health Management Systems (ILO-OSH 2001) guidelines when implementing our Health & Safety Management System. In compliance with management procedures, MSVC notifies any occupational accident and/or disease to the appropriate statutory authority as soon as it is reported or confirmed.

The ILO Code of Practice on Recording and Notification of Occupational Accidents and Disease is based on the premise that the collection, recording and notification of data concerning occupational accidents and diseases is instrumental in accident prevention, and that the identification and examination of the causes of such accidents and diseases is of paramount importance in order to develop preventive measures.

A healthy workforce is generally linked to positive trends in staff morale and productivity. The table below demonstrates the extent to which systematic approaches to OHS has been adopted within the organisation to promote the spread of best practice approaches to management.

TABLE 21: LA9 GRI-INDICATOR TABLE, DETAILING PROCEDURAL ASPECTS OF OSH IN PLACE IN THE MUSGRAVE BUSINESS UNITS

	MSVC RoI	MSVC NI	MWS RoI & NI	MBL
Are any violations noted in the MDF related to H&S?	No	No	No	No
Is training offered on process hazards, H&S etc., with refresher every 3 yrs?	Yes	Yes	Yes	Yes
Are hazard control strategies developed with priority given to control at or near the source?	Yes	Yes	Yes	Yes
Is health and safety part of the criteria for selecting materials, tools and equipment for purchase?	Yes	Yes	Yes	Yes
Targeted corrective action time period	Dependent on severity of assessed risk			

## HEALTH AND SAFETY MONITORING

Musgrave has collected occupational health and safety data in respect to injury rates, lost days, absentee rates and number of fatalities (see table below). There are a number of different reporting structures in place in various Group divisions, although we are aiming for a more consistent approach to reporting and data collection moving forward.

NISO/NISG (National Irish Safety Group / Northern Ireland Safety Group) have awarded MSVC the annual Occupational Health & Safety Award for the Retail/Wholesale category in 2002, 2003, 2004 and 2005 in its annual "Awards for Excellence in Occupational Health and Safety". The awards are a showcase enabling health and safety professionals to demonstrate their commitment to providing a safe workplace for all persons in their organisation. The overall aim of the Awards scheme is to improve safety performance.

The OSH data in our business units, for the reporting period, is detailed in the Table below.

TABLE 22: OSH DATA IN MUSGRAVE GROUP BUSINESS UNITS DURING THE REPORTING PERIOD, (GRI Indicator LA7)

	2004					2005				
	Injury Rate	Occupational Disease Rate	Lost Day Rate	Absentee Rate	No. of Fatalities	Injury Rate	Occupational Disease Rate	Lost Day Rate	Absentee Rate	No. of Fatalities
MSVC RoI	16	0	157	1257	0	12	0	80	640	0
MSVC NI	0	0	283	0	0	0	0	0	0	0
MWS	14	0	5	2263	0	9	0	357	2893	0
MBL	17	0	5	40	0	16	0	7	32	0

These rates are calculated using the methods outlined in the GRI G3 Protocol (Labour Practices and Decent Work) as defined below:

**Injury Rate:** Expresses the frequency of injuries relative to the total time worked by the total workforce in the reporting period

**Occupational Disease Rate:** Expresses the frequency of Occupational Disease to the total time worked by the total workforce in the reporting period

**Lost Day Rate:** Refers to the impact of occupational accidents and diseases, as reflected in time off work by the affected workers. It is expressed by comparing the total days against the total number of hours scheduled to be worked by the workforce in the reporting period



**Absentee Rate:** Refers to the measure of actual absentee days expressed as a percentage of total days scheduled to be worked by the entire workforce for the same period

**Note:** For all rates, a factor of 200,000 was applied, based on 50 working weeks at 40 hours per 100 employees. By using this factor, the resulting rate is related to the number of employees and not the number of hours.

### HEALTH AND SAFETY: ENGAGING ALL EMPLOYEES

At Musgrave Group we have a duty of care to educate and consult with all of our employees in relation to the management of health and safety at work. Employees at each of our facilities elect safety representatives to represent them in consultations with management, in matters relating to health and safety. We provide training and support for these individuals to ensure that they acquire the knowledge necessary to discharge their functions as a safety representative.

Musgrave sites have joint health and safety committees, which meet on a regular basis and provide a forum for management and employee representatives to co-operate in managing health and safety for each site. The main advantage of a committee is that the practical and frontline knowledge of employees is brought together with management's wider overview of company policies and procedures. Safety Committees employ the principle of "internal responsibility", which allows us to act in a proactive manner in securing the safety and health of all employees in the workplace.

We operate a Health & Safety Visitor Control Procedure. All policies and procedures are documented in either the Operations Quality Systems Manual or in the site specific Safety Statement. These policies are communicated to visitors by way of signage and copies of the policies displayed at each site.





## Training & Education

A range of training opportunities are made available to employees across our business units. For example, MBL offer a range of training programmes, including MBAs, MScs, post-graduate industry-specific professional qualification, basic food hygiene, formal in-house management programmes and IT skills.

The company also runs a number of management training programmes for its employees, including graduate Retail Management Trainee, First Management Trainee, Personal Leadership Programme and “Management Academy”, a two-year management and skills programme.

MSVC’s suite of programmes to support lifelong learning include “Managing for Success”, negotiation, project management and presentation skills, problem-solving and decision making and finance for non-financial managers.

MSVC NI offers a leadership programme for Senior Managers, through the (local) Department of Education and Learning Leadership Programme for Senior and Middle Managers.

MWS has a high performance management development programme in place to manage skills and competency management and provide necessary training and learning. The company has supported 6 senior managers in the Group Master-class process.

The number of training hours for employees, which took place in each division, during the reporting period are given in the following Tables (there is a Table for each Business Unit, as the employee categories are reported differently).

**TABLE 23: TRAINING RECORDS IN MSVC FOR THE REPORTING PERIOD**

<i>Employee Category</i>	<i>Average Training per year 2004</i>	<i>Average Training per year 2005</i>
Office based staff	21 hours	23 hours
Operations staff	12 hours	13 hours

**TABLE 24: TRAINING RECORDS IN MSVC(NI) FOR THE REPORTING PERIOD**

<i>Employee Category</i>	<i>Average Training per year 2004</i>	<i>Average Training per year 2005</i>
Director	0 hours	0 hours
Function Head	192 hours	68 hours
Manager	76 hours	68 hours
Support Staff	0 hours	16 hours
Administration staff	44 hours	140 hours

**TABLE 25: TRAINING RECORDS IN MWS FOR THE REPORTING PERIOD**

<i>Employee Category</i>	<i>Average Training per year 2004</i>	<i>Average Training per year 2005</i>
All Employees	36 hours	36 hours

**TABLE 26: TRAINING RECORDS IN MBL FOR THE REPORTING PERIOD**

<i>Employee Category</i>	<i>Average Training per year 2004</i>	<i>Average Training per year 2005</i>
Corporate Store Team Members	52 hours	52 hours
Corporate Store Management	48 hours	48 hours
Office based employees	32 hours	32 hours
Distribution employees	24 hours	24 hours
Field based employees	96 hours	96 hours

Occasionally the company has made strategic business decisions that have involved staff redundancies. When this happens, we try to support our workers in their search for new employment. The table below outlines the measures taken by each division in doing so.

**TABLE 27: MEASURES UNDERTAKEN TO SUPPORT STAFF AT THE END OF THEIR EMPLOYMENT, BY BUSINESS UNIT**

	<i>MSVC RoI</i>	<i>MSVC NI</i>	<i>MWS RoI &amp; NI</i>	<i>MBL</i>
Pre-retirement planning for intended retirees	✓	X	X	X
Retraining for those intending to continue working	X	X	X	X
Severance pay	✓	✓	✓	✓
If severance pay is provided, does it take into account employee age and years of service	✓	✓	✓	✓
Job placement service	X	✓	✓	✓
Assistance (e.g. training, counselling) on transitioning to a non-working life	✓	X	✓	X

For our staff reaching retirement age, the company provides transition support and retirement support to employees as required, covering areas such as interview preparation and techniques, investment support, key contact details, etc.



EDUCATIONAL ASSISTANCE PROGRAMME

MSVC, MSVC (NI) and MWS offer educational assistance under its Training and Development Policy, which provides financial assistance to employees who voluntarily enrol in and successfully complete approved part-time courses of study in educational institutions. Courses range from Doctorates, Masters and Bachelors degrees to more general courses, which relate to the employees field of work. As well as providing financial assistance of 100% of the costs of fees, the company reimburses in full any additional fees such as membership of institutes, registration fees, and provides three days “study leave” per annum.

The divisions offer the following assistance, as per the Table below, to employees to upgrade their skills.

TABLE 28: EDUCATIONAL ASSISTANCE MEASURES AVAILABLE TO STAFF, BY BUSINESS UNIT

	MSVC RoI	MSVC NI	MWS RoI & NI	MBL
Internal training courses	✓	✓	✓	✓
Funding support for external training or education	✓	✓	✓	✓
The provision of sabbatical periods with guaranteed return to employment	✓	X	✓	X



Company Pension, 2005

**Musgrave is committed to providing its employees with the best pension benefits possible. However, as was identified in our 2004 Financial Report, the long term sustainability of the defined benefit scheme in the Republic of Ireland is an issue given the existence of a significant funding deficit. This situation is not unique to Musgrave and many employers are currently either closing down defined benefit schemes altogether and moving to defined contribution or, at a minimum, closing defined benefits schemes to new employees.**

Musgrave’s situation in this respect was unique in that the company provided employees with very generous pension benefits for which most employees were not making a contribution. In early 2005, the Company, having taken appropriate advice, considered the options available to it including the option of closing the scheme altogether. While this course of action would have made the most commercial sense, the company chose instead to try and sustain the scheme by making certain benefit changes and introducing employee contributions for those already not contributing.

The company also introduced a defined contribution scheme which does not require employee contributions as an alternative for those who, for whatever reason, did not want to contribute. This proposal was taken to employees and, where appropriate, their representatives in late 2005.

Following an extensive consultation and information process the changes were successfully introduced in April of 2006. While the introduction of these changes has not by any means solved the funding problem within the scheme, they have certainly improved the prospect of the scheme’s continuation in the longer term.

## Public Affairs

**As an organisation that interacts daily with both retailers and shoppers, our relationships in the world outside our company are a very important aspect to our business.**

In this section of the report, we will review our interactions with Government and Public Bodies, our Retailers and the Consumers in our Marketplaces.

### GOVERNMENT AND PUBLIC BODIES

Musgrave Group and our retailers actively participate in public discussion and debate on issues which affect our members, the industry as a whole and the wider communities in which we do business. This is most often channelled through industry representative organisations, with which we are associated.

In Ireland, for example, we are members of 'RGDATA', the representative organisation for the independent retail grocery sector. The types of issues championed by RGDATA include the monitoring of new or impending legislation which affects the grocery trade, and lobbying the Government when necessary.

Musgrave Group are founding members of IADT (the Irish Association of Distributive Trades), which represents food wholesalers in Ireland and acts to protect the interest of the independent retail and wholesale sectors and their customers within the EU.

In the UK, Musgrave Group is a member of ACS (the Association of Convenience Stores), whose core objective is lobbying and championing the convenience store channel. ACS has recently been involved in prompting an investigation into anti-competitive behaviour in the UK groceries market. The Office of Fair Trading recommended a referral to the Competition Commission on issues relating to planning and acquisition of land banks by big supermarkets, which could aggravate barriers to entry or otherwise harm consumers. There was also evidence to suggest that aspects of the big supermarkets' pricing behaviour - below-cost selling and price flexing - could distort competition.

ACS has also worked closely with DEFRA (Department for Environment, Food and Rural Affairs in the UK) on a number of consultation exercises concerning the Packaging Waste Regulations.

### RETAILERS

**With almost 3,000 retail outlets throughout Ireland and UK, we recognise the importance of a system of open dialogue and communication with our independent retailers. We need and want to ensure that the decisions we make are effective and, in keeping with good business practice, we need to listen to our retailers, and build their viewpoints into decisions in a way that compliments our business strategies. It is also important that this inclusiveness be transparent to all.**

We have many fora in which we interact with our retailers: our Retailer Councils our Regional Cluster Groups, our National Conferences and our Regular meetings (through our Regional Manager system). All our stores are connected electronically to our depots, allowing us to pass on important marketing information quickly, and to exchange account information.

Our formal system of regionalised SuperValu, Centra, Budgens and Lonsis Councils, was first implemented in Ireland and recently extended to the UK. The primary functions of the Councils are to act as a conduit between retailers and the company and to allow representation of retailers' interests. Council meetings provide an opportunity for the discussion of new ideas and new directions for the Group and provide a retailer perspective on all relevant issues. Meetings also enable us to dialogue with retailers on sustainability initiatives and are particularly useful in presenting guidance in areas such as compliance with new or existing environmental legislation and best practice.

There are 10 retailer members on each Council. The term of membership is 2 years and five members are elected each year. Members are either store owners or their nominees. Meetings take place at least five times per annum. Musgrave personnel are in attendance at all council meetings; Marketing function and Trading function are always represented, along with the appropriate Sales Director. Council meetings are chaired by the relevant Sales Director. A Retailer Chairman is elected by fellow Council members to act for a one-year tenure as Chair of the National Council of Retailers (of the Brand-group).

For some specialised issues sub-committees are formed to move matters forward and report back to the Council. The composition of the sub-committees is usually drawn from a wider group than the council to ensure broader involvement among Group members.

The Council carries out its functions in an open and visible manner. It does not hold executive powers or authority, as it is not deemed appropriate for Council to bind individual retailers through its actions, or to veto decisions taken by the company. However, due weight and cognisance is given to all viewpoints expressed, enabling the company to take reassurance that decisions it makes, having been discussed by the Council, will be acceptable to the wider Group.

We believe that the ongoing exchange of information and ideas between Musgrave and our retail partners affords both parties a greater understanding and appreciation of each-others' businesses, fostering accountability and building trust.

### 10 WAYS MUSGRAVE DELIVERS VALUE TO INDEPENDENT RETAILERS

- 1. *Trusted Partner.*** The Musgrave Group now serves more than 3,000 stores, establishing long-term trusted partnerships with progressive entrepreneurs in Ireland, the UK and Spain.
- 2. *Top Class Logistics.*** We have developed sophisticated retail logistics, including the first central distribution network for chilled, fresh and frozen goods in Ireland.
- 3. *Buying Power.*** The Musgrave Group has more than €4 billion of buying power, allowing local independent stores to enjoy the very considerable benefits of significant economies of scale.
- 4. *24-hour Delivery.*** We have a central distribution centre in Ireland that operates 24 hours a day ensuring that our retailers get the best-in-industry order lead time.
- 5. *Availability and Diversity.*** Advanced logistics enable us to provide the same service and product range to a rural store on Achill Island or in the Cotswolds as to one of our outlets in the centre of Dublin or London.
- 6. *Retailer Support.*** Our staff and retail management training programmes, cluster groups and powerful technical and marketing support mean our independent retailer partners are fit to compete in increasingly aggressive markets.
- 7. *Cutting Edge Systems.*** We are investing millions in advanced IT systems to support retailers by harnessing critical data relating to sales, prices, demand and local consumer trends.
- 8. *Wholesale Services.*** Our wholesale services division serves 32,000 regular independent retail and catering trade customers, accounting for an estimated 33 per cent of the Irish wholesale market.
- 9. *Serving the Community.*** Our support desk expertise, coupled with the experience of local storeowners, ensures product and service offerings are in line with local community needs.
- 10. *Local Suppliers.*** Local suppliers can deliver to a central distribution point, which means lower distribution costs and significant savings in administration and stock control procedures.



CONSUMERS AND MARKETPLACE

Another of our important interactions in Public Affairs is in our corporate sponsorships, which are targeted at four main areas, throughout our business units: (a) Health & Nutrition, (b) Fighting Cancer, (c) Children & Education, and (d) Sustainable Communities. A number of projects in which we have been involved are described in further detail later in the report.

GROUP SPONSORSHIPS

Musgrave Group made donations and subscriptions of €186,501 in 2004 and €175,986 in 2005. In addition, sponsorship amounts were €460,492 in 2004 (dominated by a donation of €350,000 towards the preparations for Cork’s tenure as the European City of Culture 2005), and €139,053 in 2005.

BUSINESS UNIT SPONSORSHIPS

As well as our Corporate Sponsorships and Subscriptions, our Business Units also become involved in support of non-commercial charities and initiatives.

For example, MSVC, through SuperValu, are national sponsors of Tidy Towns (in RoI) since 1992, spending approx €1m annually (in 2004 and 2005) on funding and marketing of the scheme, and local projects; they also support the Community Neighbourhoods projects and the ‘All-Ireland Best Kept Town’s initiative.

Similarly, MSVC, again through SuperValu, run the ‘Kids in Action’ programme promoting healthy lifestyle, physical activity and healthy eating. This programme was developed in conjunction with expert partners, including the Irish Sports Council (ISC), the Irish Universities Nutrition Alliance (IUNA) and INDI, the Irish Association of Nutritionists and Dieticians. 79% of the 3,300 Primary Schools in RoI participated in the initiative (in 2005) and over €1m worth of sports equipment was or will be distributed to these schools. [See also a feature on this project on Page 74].

MSVC have run an Annual triathlon to raise funds for ‘The Irish Cancer Society’ and The Childrens’ Hospital, Crumlin (RoI) resulting in donations of over €1.6m in the last four years to those charities. [See also a feature on this project on Page 73].

MBL, through Budgens, has supported CLIC Sargent, a charity offering practical hands-on care for children with cancer, as its main nominated charity since 2003. Amounts raised via Budgens/ MBL fund raising for the reviewed period have been: 2004 - £100,547 (€148,000) and 2005 - £102,824 (€151,000).

RETAILER COMMUNITY SPONSORSHIPS

As well as our corporate sponsorships, our retailers also are heavily involved in initiatives in their local areas.

**Centra stores** contribute approximately €900,000 every year to local charity and community projects, outside of the major National marketing programmes organised for the brand, like their Irish Safety Council road safety campaign. That is an average of €2,400 per store spent on local community charity.

**SuperValu supermarkets** contribute approximately €1m every year to local charity and community projects, outside of the major National marketing programmes like Tidy Towns and Kids in Action. That is an average of €5,800 per store spent on local community charity.

10 WAYS MUSGRAVE DELIVERS VALUE TO CONSUMERS AND COMMUNITIES

1. **Supporting Choice.** By supporting independent retailers in all the markets in which we operate, Musgrave helps keep independent town centre retail outlets alive.
2. **Great Fresh Food.** To get fresh products to consumers even faster we’ve invested heavily in some of the most advanced fresh food storage and logistics systems in the business.
3. **Meeting Local Needs.** Because our independent retailers tend to live in or close to the communities they serve, they are well-placed to respond to local needs.
4. **Better Range.** We work with independent retailers to deliver diversity in both convenience stores and supermarkets.
5. **Environmentally Friendly Shopping.** With emissions and pollution from traffic rising dramatically, the local option we promote in all our markets is a more environmentally friendly alternative to superstore shopping.
6. **Local Employment.** We bring employment to local communities.
7. **Passionate Retailing.** Our independent retailer partners are utterly committed to their businesses.
8. **Local Produce.** We’re committed to providing consumers with the local, fresh, quality produce they demand.
9. **Innovation and Partnership.** We are determined to improve the local shopping experience through innovation and partnership.
10. **Value for Consumers.** Our scale enables us to bring value as well as quality to the independent retail sector.

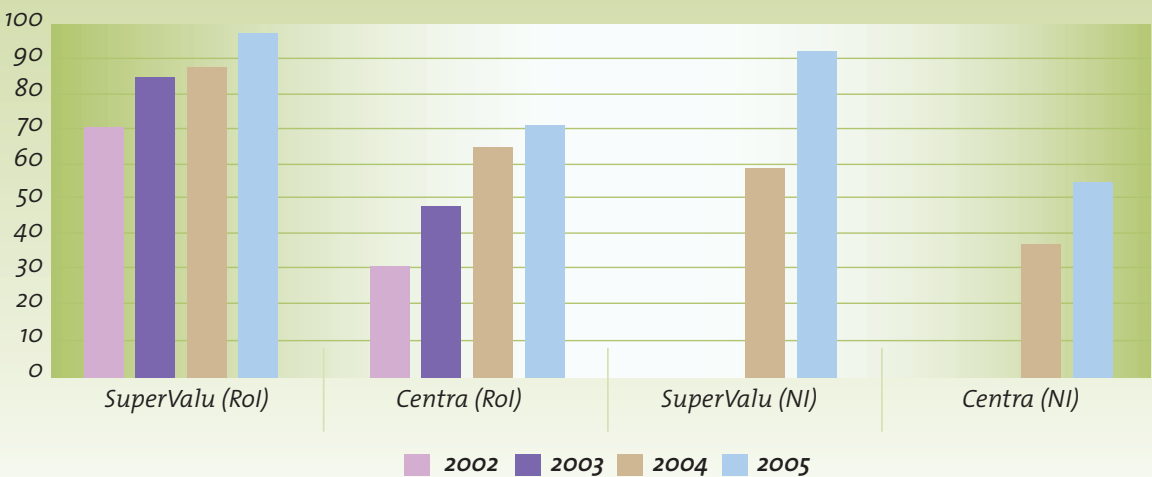
FOOD SAFETY AND HYGIENE

Food safety and hygiene is paramount to Musgrave Group in every element of our business. We are committed to the provision to our customers of safe products in a safe environment, complying with appropriate Codes of Practice and Legislation.

All of our divisions have a Food Safety Policy in place. Putting the policy into practice involves training all of our warehouse staff in Basic Food Hygiene. All of our MSVC warehouses in RoI (as well as MWS Galway, Musgrave Foodservices (MFS) Robinhood and MFS Ballymun) are accredited to the HACCP (Hazard Analysis and Critical Control Point) IS 343:2000 standard. We are certified to the Excellence Ireland “Hygiene Mark”, independently verified by a third party.

MSVC RoI also encourages and supports its independent retailers to obtain certification to an independent hygiene standard. The number of SuperValu and Centra stores certified by Excellence Ireland in RoI in 2002, 2003, 2004 and 2005 is depicted below.

FIGURE 10: PERCENTAGE OF STORES CERTIFIED TO THE HYGIENE STANDARD BY EXCELLENCE IRELAND



## Consumer Satisfaction

Our company regularly undertakes shopper surveys, to establish how our retailers' customers view shopping in our stores. We tend to concentrate our efforts on our SuperValu retailers' stores in Rol, as this is our largest market, and as we have found that consumers using those stores tend to carry out their weekly shop there (as well as 'top-up' shops), while our other branded stores – Centra, Budgens and Londis, are primarily used for 'top-up' shopping.

We have undertaken significant amounts of research of this type for these stores too (in NI and GB, as well as in Rol), but it is not carried out quite as frequently. The frequency of our surveys allows us to quantify specific responses of consumers to different individual marketing or consumer-response efforts we have undertaken.

During the reporting period, we undertook five separate consumer surveys, covering the intervals: (i) Oct '05 – Jan '05, (ii) Jan '05 – April '05, (iii) April '05 – July '05, (iv) July '05 – Sept '05 and (v) Sept '05 – Dec '05.

When we analysed our findings, through a specialist third-party, we found that the SuperValu brand had improved its public image rating significantly, over the time period, which was attributable to the 'Kids in Action' programme, which took place late in 2005 (*see more about 'Kids in Action' on Page 70*).

We calculated our rating based on consumer responses to questions on issues such as:

- Family shopping
- Personal suitability of the store
- The store and the community
- Trust
- Cleanliness/freshness
- Staff conduct
- The shopping experience
- Response to customer needs
- New ideas/products

We also poll customers regularly on topics such as:

- a. quality of individual types of products (stores regularly score very highly for fruit and vegetables, while we need to improve on fresh fish),
- b. the ranges of products stores carry, overall, and in the off-licence and other departments,
- c. how customers rate the appearance of the stores, and other impressions they get during shopping, and
- d. how customers rate our value and prices, in comparison to our competitors.

## Food Labelling – Consumer Health and Well Being

The EU has recently approved new rules on food labelling, which are expected to come into effect in September 2006. The rules will prohibit many of the health and nutritional claims that have been added to packaging for foodstuffs in recent years. There are two key aspects to the new legislation: the phrasing used for nutritional claims, such as 'low fat' or 'high fibre', and the issue around the type of claim made about a product's effect on consumer health.

Products will have to be assessed using a 'nutrient profiling' system to decide whether manufacturers can make any of the permitted claims. With regard to the part of the legislation, two typical health-related claims would be banned outright, i.e. those referring to rates or amounts of weight loss and recommendations by doctors or charities.

Within the United Kingdom, the Food Standards Agency (FSA) has been working on a number of related initiatives, namely, a 'Multiple Traffic Light' system, very similar to the EU's proposed 'nutrient profiling' system. This will highlight on the front of the product's packaging the levels of the following nutrients: Total Fat, Saturates, Total Sugars and Salt.

The intention of the Multiple Traffic Light scheme is to present dietary advice in a visual and easily accessible way, which consumers can interpret and that fits their individual circumstances and requirements. Furthermore, the scheme will reduce potential confusion in the marketplace caused by the increasing range of food retailer and manufacturer signposting schemes which are being applied at the current time, e.g. individual schemes in operation by various multiples, which have different symbols and criteria (for example, some allow a healthy eating symbol to be used on products which may also contain high levels of fat, salt and sugar).

The FSA scheme would show the levels of nutrients as either high, medium or low, and they have proposed in the first instance, that only the following products categories have signposting, where their research has shown that consumers have difficulty in assessing nutritional quality, and which quite often are eaten either frequently or in large quantities:

- Ready Meals
- Breakfast Cereals
- Pizzas
- Sandwiches
- Meal Components, e.g. Burgers, Sausages, Pies, Formed Meat Products, Poultry and Fish Products

The FSA has also proposed that the Institute of Grocery Distribution's (IGD) existing scheme for 'Guideline Daily Amounts' (GDAs) be retained on the back of pack to continue to assist consumers on how much fat, calories and salt are provided by a serving of the food and how this relates to the GDA of average healthy adults. This is something that MBL have participated in for more than five years.

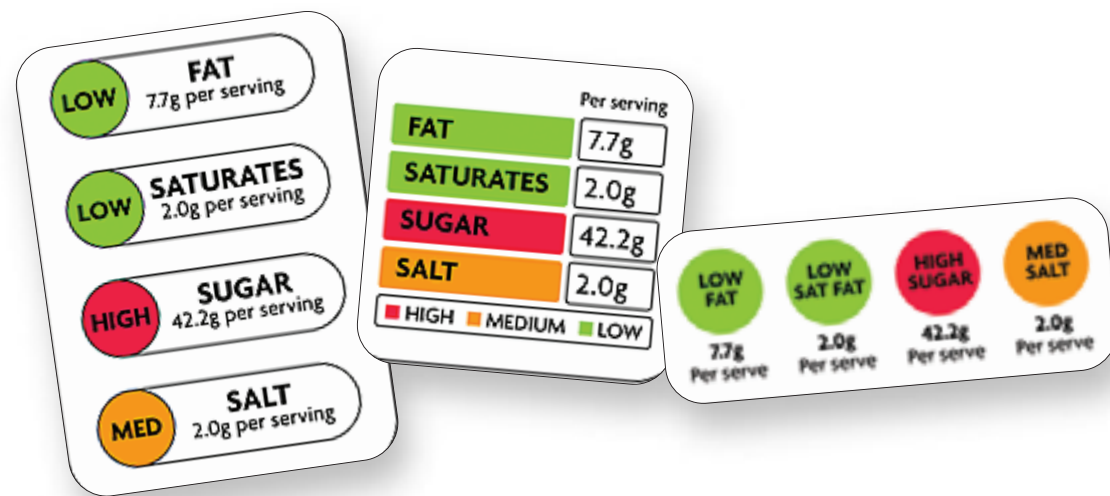




Under the proposed FSA 'Traffic Light' system, foods would be colour-coded red, amber or green on the basis of the high, medium and low criteria. The FSA has made the following definitions with regard to high, medium and low:

- 'High' criteria are based on existing FSA guidance on what contributes 'a lot' of a particular nutrient and are linked to GDA values in women. It has also proposed that a per portion criterion of 30% GDA would be applied to foods that are intended to be eaten in quantities of 100g or more, e.g. ready meals, pre-packed sandwiches, pizza. This has been decided to avoid situations where 'medium' rated products contribute an inappropriate proportion of the GDA.
- 'Low' criteria replicate the criteria proposed in the new EU regulation on Health and Nutrition Claims currently under negotiation. This does not allow per serving criteria to be used.

The following are some examples of signposting labels that meet the core elements of the FSA's proposed signposting scheme (Source: Food Standards Agency, UK).



The FSA has also taken in consideration other UK government-led initiatives, e.g. a programme to reduce the consumption of salt in processed foods in an effort to reduce the levels of cardio-vascular disease within the UK, one of the highest within the EU.

Within MBL, we are working very closely with the FSA on these two initiatives, and will start to introduce the Multiple Traffic Light system onto our own-label range of products from September 2006. MBL has already commenced initiatives in relation to the salt reduction programme, and this ongoing plan is scheduled for completion in 2010.

Other MBL initiatives that we are currently working on include:

- The elimination of intensively-produced eggs in our own-label products, and replacement with free-range
- The elimination of hydrogenated fats and oils from our own-label products
- The removal of unnecessary and/or controversial additives from our own-label product range.

Ireland and most of the remaining European Union countries currently lag well behind the UK in providing guidance on food labelling. In the absence of direction from government bodies and industry in Ireland, Musgrave SuperValu Centra (MSVC) is focusing on developing its own solution. MSVC aims to provide clear and simple on-pack information that will enable consumers to make informed choices when purchasing foods. MSVC is currently investigating several options, but it is likely that it will opt for a front-of-pack solution. This approach will present information in 5 key areas, namely; Calories, Sugar, Fat, Saturates and Salt. It is expected that information will show percentage of Guideline Daily Amount (GDA) per-serving and or per-portion size presented in a clear and consistent way.

The next stage will be to provide a more advisory or directional format, such as colour coding, however, before MSVC can proceed, it is awaiting clear direction from Ireland's Food Safety Authority as to the common and consistent style of banding and or categorisation required. It is not yet clear when a decision will be reached on these issues.

It is also worth noting that our approach to nutrition labelling is only one of the many ways in which we communicate with our consumers on nutrition, health and broader lifestyle issues. Labelling will form part of our overall broader health and lifestyle communication plan, supporting both "Real Food Real People" and "Bright Ideas for Everyday Living" retail strategies.

## Ethical Trade

At Musgrave, it is our policy to source as much of our products as is possible from local suppliers; but of course we also source product overseas. Our trading teams endeavour to meet the demands of our customers (independent retailers and food service operators) and consumers by sourcing products of the highest quality. We endeavour to develop long-term partnerships with our suppliers such that our business relationships are mutually beneficial and in keeping with our well established values.

Musgrave has introduced an **Ethical Trading Policy** in order to articulate our position on issues that are concerned with human rights and the welfare of those in our supply chain. As a company with a long established record of acknowledging and managing its Environmental and Social Responsibility, we want to ensure that these same values are embedded in our trade with direct suppliers, especially those supplying own brand products.

Musgrave believes that, as a responsible organisation, we must ensure that the goods we source are produced in an environmentally and socially sustainable manner. Musgrave underscored this commitment in May of 2004 when we became the first Irish company to sign up to the principles of the United Nations Global Compact and committed to embedding and promoting its ten principles, which are derived inter alia from:

- The Universal Declaration of Human Rights
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

### 10 PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

#### HUMAN RIGHTS

**Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and

**Principle 2:** Make sure that they are not complicit in human rights abuses.

#### LABOUR STANDARDS

**Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

**Principle 4:** The elimination of all forms of forced and compulsory labour;

**Principle 5:** The effective abolition of child labour;

**Principle 6:** The elimination of discrimination in respect of employment and occupation.

#### ENVIRONMENT

**Principle 7:** Businesses should support a precautionary approach to environmental challenges;

**Principle 8:** Undertake initiatives to promote greater environmental responsibility;

**Principle 9:** Encourage the development and diffusion of environmentally friendly technologies

#### ANTI-CORRUPTION

**Principle 10:** Businesses should work against all forms of corruption, including extortion and bribery.

The full text of the principles is available at [www.unglobalcompact.org](http://www.unglobalcompact.org)



We have made a commitment to manage our environmental and social impacts through the implementation of our **Environmental and Social Accountability Policy** and have demonstrated our performance through our Environmental and Social Accountability Reports. Through our **Ethical Trading Policy**, Musgrave has committed to ensuring that all of our supply chain stakeholders, regardless of where they live or work, are treated with respect and dignity and are able to live in an environment undamaged as a result of production. This supports the principles of sustainable development. We want also to ensure that those with whom we trade are similarly committed to these principles.

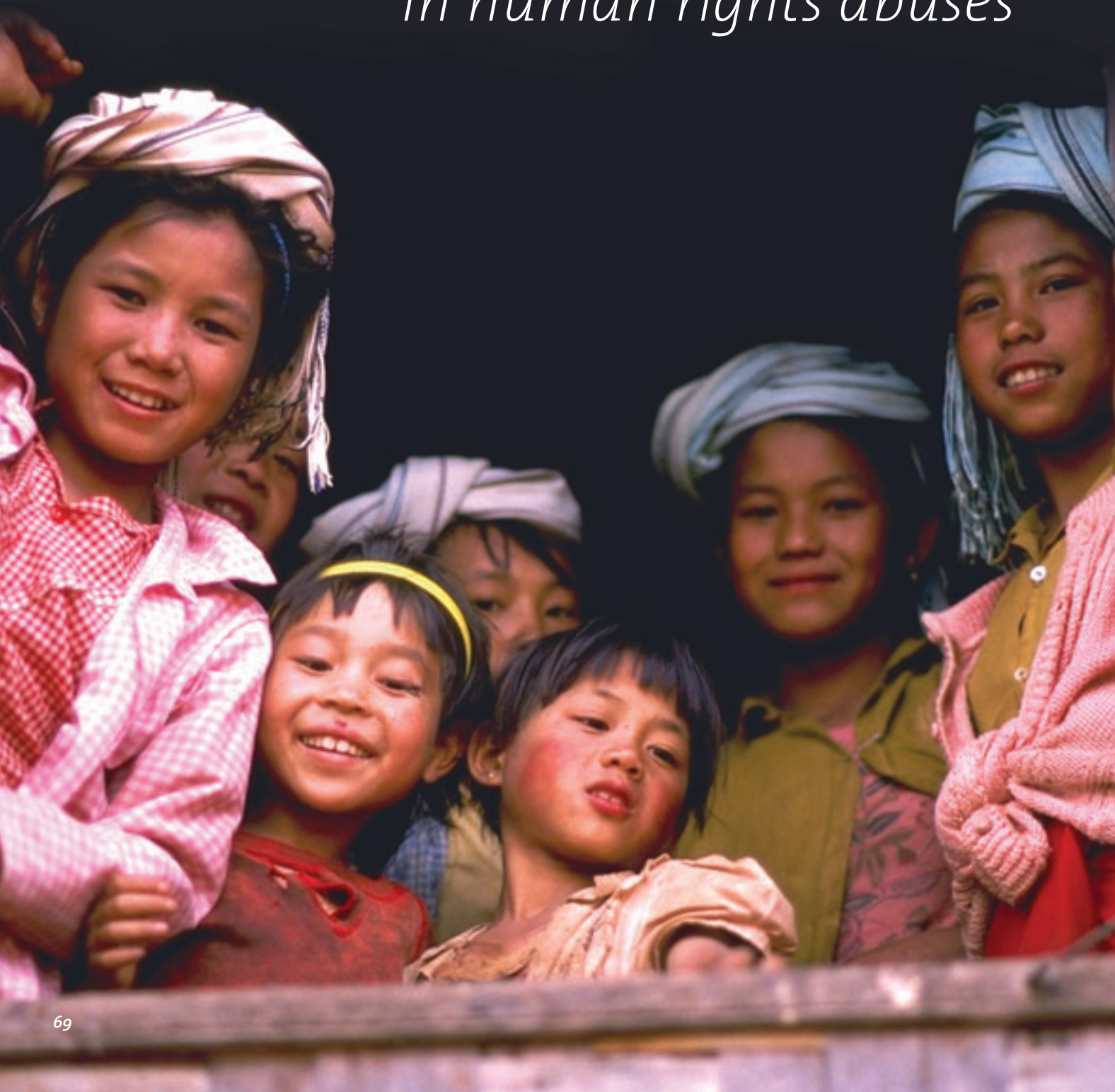
In developing our Ethical Trading Policy, we have focussed on international best practice, International Labour Organisation (ILO) conventions and on those areas outlined in the UN Global Compact's 10 principles, from which we have distilled the following areas of focus:

1. Terms of trading (no undue pressure to cut costs)
2. Promotion of worker rights and human rights in general
3. Freedom of association and the right to collective bargaining
4. Hours of work
5. The elimination of all forms of forced or compulsory labour (bonded labour)
6. The elimination of all forms of child labour
7. The elimination of discrimination in respect of employment and occupation
8. Health, safety and welfare of employees
9. Oppressive regimes
10. The promotion of greater environmental responsibility
11. The elimination of corruption, including extortion and bribery

We continue to communicate the requirements of our **Ethical Trading Policy** to our purchasing and supply chain teams, who are in turn making our suppliers aware of our position on key issues. We recognise the complexity of this task, but we are committed in the longer term to applying our best endeavours to the successful communication and implementation of our policy and to being a positive voice for change.



*Businesses should support and respect the protection of internationally proclaimed human rights and make sure that they are not complicit in human rights abuses*



## UN Global Compact Office – Trends in Corporate Responsibility\*

While business and the United Nations have different stated purposes, our objectives overlap. We focus on peace, development, poverty reduction and protection of human rights. Business has traditionally focused on profit and growth. However, in today's globalized world our overlapping objectives are increasingly clear: building markets, combating corruption, safeguarding the environment and ensuring social inclusion. This shared understanding lies at the center of the UN Global Compact, the world's largest voluntary corporate citizenship initiative. Global Compact participants advance ten universal principles in the areas of human rights, labour standards, the environment and anti-corruption by implementing the principles within business practices and engaging in partnership projects to meet broader societal goals.

Since the UN Global Compact was established in 2000, corporate responsibility (CR) has grown both as a concept and in practice around the world. There are several recent and rapidly-unfolding trends with potential to result in widespread positive change that so many in the CR movement are working to realize:

### 1. CORPORATE RESPONSIBILITY GOES TRULY GLOBAL

Corporate citizenship has seen explosive growth in recent years. For example, the UN Global Compact started off with about 50 participants in July 2000. Today, there are 3,300 participants and stakeholders – including civil society and labour organizations – from over 90 countries. Local Networks, which carry the message to the ground level, have emerged in over 50 countries. And demand, especially in emerging economies where opportunities for change are greatest, continues to grow. Currently, just over half of the UN Global Compact's participating companies are based in developing countries. The initiative has experienced strong and growing engagement by companies from economies such as Brazil, China, Egypt, India, Indonesia, Mexico, Pakistan, South Africa and Turkey. The rising prominence of Southern transnationals could well be the story during the next decade.

But it is not only the numbers that describe the picture. At the same time there is a gradual change towards more quality and deeper engagement. Transparency and public accountability are on the rise. While there are significant leads and lags across countries and regions of the world, there is no doubt that these trends are now truly global across issues and industry sectors.

At the same time, senior management and board responsibilities are expanding, suggesting that CR issues are today taken more seriously than a few years ago. This expansion reflects the recognition that societal legitimacy goes beyond shareholders and that risk management in a globalizing world and related CR activities need to be dealt with at the highest level of a company's operation. And, as corporate responsibility creates new materiality around the issues it advocates, board responsibilities now may also include issues that used to be the exclusive domain of governmental cooperation.

\* This piece (page 72-74) was provided by Mr Georg Kell, Executive Head, UN Global Compact



## 2. FROM AVOIDING COSTS TO CREATING VALUE

One way of capturing this overall trend is to track the broad motives with respect to why corporations have engaged in corporate responsibility initiatives. Leaving aside competition policy – arguably the orphan of the CR debate – there has been a shift from an initial attempt to respond to social tensions and occasional accidents towards a proactive, value-creation attitude. The rapid transformation of philanthropy into a strategic asset that reinforces the fundamental competencies of an enterprise is just one example that exemplifies this change.

Along with the moral case has come the business case for a principles-based change process. And, the business case is no longer just about avoiding costs for getting it wrong. It is increasingly about the benefits for getting it right. Proactive corporate policies and practices that respect human rights and ensure safe and decent workplace conditions, environmental protection and good corporate governance create more sustainable value and benefits for workers, communities and society at large. They also enable business to attract and retain skilled workers, save costs, enhance productivity, create trust and positive reputation with stakeholders, and build brands.

The UN Global Compact has seen over and over again that the principles can become part of a smart corporate strategy that reduces risks and enhances core competencies, at the same time maximizing environmental, social and governance benefits.

## 3. FINANCIAL MARKETS ARE CATCHING UP

Global business has long understood that going global not only brings about efficiency gains and market growth. It also means being exposed to new challenges and risks. Encouragingly, mainstream financial markets have recently started to take seriously the expanding enterprise risks in analysis and long-term investment decisions. What used to be considered “soft issues” are now gaining financial relevance. In particular environmental, social and governance issues are increasingly seen as being relevant to long-term viability and financial performance. Increasingly, for example, mainstream financial analysts are incorporating these issues into research and processes, while institutional investors are recalibrating policies and mandates to reflect this new reality. This trend promises to recognize and reward companies that are taking the long view.

Several important developments are currently taking place in this area with the Global Compact playing a leading role in some of them. One of the most significant is the “Principles for Responsible Investment” initiative (PRI) that was launched by Secretary-General Kofi Annan at the New York Stock Exchange in April 2006. PRI provides a framework for institutional investors – including asset owners and investment managers – to integrate consideration of environmental, social and governance issues into investment decision-making and ownership practices. Investment funds from around the world representing more than \$5 trillion in assets held or managed have backed PRI.

## 4. RELATIONSHIP BETWEEN VOLUNTARY AND REGULATORY APPROACHES

Another important trend is the growing recognition that voluntary and regulatory approaches are fundamentally different but complementary. This understanding is in stark contrast with previous debates where the battle cry was much about “regulation versus voluntary” approaches. It is today widely recognized that both are required and can indeed reinforce each other, and that different situations require different solutions. Often neither regulation nor voluntary approaches may be sufficient to change the tragic case of failing states or systemic abuse of entrusted public authority. But a combination of both may well bring about improvements. Sometimes the real challenge is not the political will to adopt regulation, but the willingness and capacity to give practical meaning to it. In such situations, voluntary initiatives can play a useful role by helping to establish the case for effective implementation of regulation, while encouraging innovation and new approaches.

## 5. A NEW SYMBIOSIS: CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY

The rise and expanding role of corporate governance has given major impetus to the issues before us. Corporate governance and corporate responsibility have reinforced each other in several ways and the overall trend is one of convergence. Anti-corruption and transparency measures have been a driving force in this development, in addition to a greater appreciation of the long-term risk management dimension. In the US, for example, corporate governance rules have de-facto made codes of conduct a legal necessity. Thus, the New York Stock Exchange and Nasdaq have required since 2004 that listed companies adopt and disclose a code of conduct. Federal sentencing guidelines of 2005, in connection with remedying harm from criminal conduct, offer a discount on their “culpability score” if indeed the organization can demonstrate that it had a code implemented in the first place. Against this background of an ongoing internationalization of markets, the rise of corporate governance has thus added much momentum to traditional CR issues, and in the case of the Global Compact led to the addition of the tenth principle on anti-corruption.

### A CALL FOR ACTION



Each of these trends on its own is significant, but in combination they are quickly changing the context within which the UN Global Compact operates. To date, good progress has been made which has paved the way for the large-scale duplication of successful solutions and social initiatives that is needed to make the global market more inclusive and equitable. Without replicating and diffusing best practices, widespread, lasting changes will not occur. In many ways, the current environment for corporate responsibility has never been more promising for scaling-up innovative business approaches that serve both society and commerce.

*Georg Kell, Executive Head, UN Global Compact*

[www.unglobalcompact.org](http://www.unglobalcompact.org)





## Triathlon and Crumlin Hospital



Musgrave SuperValu-Centra Ltd., for the fourth year running, organised the MSVC Triathlon in 2005. As in previous years, this was a combined venture including all SuperValu and Centra retailers, suppliers, company personnel and anybody else who wished to get involved. The event, held in Farran Woods in Co. Cork included an 800-metre swim, 33-kilometre cycle and 10-kilometre run.



What started out in 2002 as a “bit of craic” and a chance to raise some money for a good cause, literally “gained legs” to become an annual event that has, so far, raised a total of €1.7 million for Our Lady’s Hospital for Sick Children in Crumlin, Dublin, Ireland’s largest paediatric hospital, and the Irish Cancer Society.



The Musgrave SuperValu-Centra Triathlon has, to date, seen over 750 teams, (about 2,000 individual participants) take to the waters, roads and running tracks around Farran Woods in County Cork to raise funds for the development of haematology and oncology services for young patients with cancer and related illnesses.

The triathlon generally takes place on the first Saturday in September each year. Some brave individuals attempt all three sections of the race themselves, although the majority of participants take part in two or three person teams, combining their efforts. The majority of participants work for Musgrave Group, or with the independent SuperValu and Centra stores, although sporting members of the public also take part. An additional 200 staff from Musgrave are involved in organising the event, both beforehand and as stewards on the day, and work with professional triathlon organisers and health and safety personnel.



Celebrity supporters over the years have included Irish Olympic athletes Eamonn Coughlan, Nick O’Hare and Sonia O’Sullivan, as well as local rugby hero Mick Galwey. The Irish Examiner is the national media partner on the event, largely involved in advertising and pre-publicity. Musgrave SuperValu-Centra suppliers also help provide teams, cash donations, and free refreshments for race participants on the day.

Donal Horgan, Managing Director, MSVC said: “We are delighted that the Triathlon has raised this amazing amount of money over the last four years, and that it is used in providing such vital cancer care services in the Children’s Hospital. A visit to the hospital for our cheque presentation every year really puts into context how fortunate the majority of us are to be healthy, and shows us that all the training and fundraising by suppliers and staff around the SuperValu and Centra business really does make a difference in children’s cancer treatment.”



## Kids in Action



In January 2006, SuperValu launched a nationwide programme designed to get Irish primary school children more involved in sports and active play. The programme aims both to increase physical activity levels amongst 5 to 12 year-olds and also to encourage them and their parents to take a fresh look at nutrition and diet. SuperValu developed the programme in conjunction with a number of expert partners including the Irish Sports Council (ISC), the Irish Universities Nutrition Alliance (IUNA) and Sarah Keogh, B.Sc. (Nutrition) MINDI.

The programme involves three separate initiatives. The first initiative was the commissioning of research undertaken by IUNA into the activity patterns of children in the 5-12 year age group. According to Dr. Sinead McCarthy, IUNA: “For the first time in Ireland, a database of physical activity in a nationally representative sample of Irish children has been developed. It is very apparent that there are some serious issues with activity levels amongst this group. For example 71% of children are driven to school although they live less than a mile from the schools gates, while only 0.2% cycle. The bottom line is that the child who does not get involved in active play and enjoys more sedentary activities such as TV and computer games is two thirds more likely to be deemed overweight or obese.”



The second strand of the programme is the launch of SuperValu Kids in Action, an in-store collector scheme for sports equipment for primary schools, which is being rolled-out alongside an extensive in-store nutrition education programme. Kids in Action has a strong emphasis on the inclusiveness of sport, rather than competitiveness, and its goal is to promote active lifestyles for children as part of an overall approach to health and well-being.

The SuperValu Kids in Action programme is being supported by Sonia O’Sullivan and Ray D’Arcy. “As an athlete and mother of two young children” said Sonia, “I am probably more aware than most of the need to form good active lifestyle habits amongst our younger children. Unlike me, most Mums do not have the knowledge about how to do this, but this programme provides all of the activity and nutritional advice you could need in easy bite size pieces.” Added Ray D’Arcy: “SuperValu Kids in Action is a fantastic idea; it is solely focused on primary schools, where all of the expert advice is telling us we need to focus our attention to ensure our kids form the eating and activity habits that will ensure they grow up to be healthy adults.”

79% of the 3,300 primary schools in Ireland have participated in Kids in Action and over €1M worth of sports equipment will be distributed to these schools.

The final strand of SuperValu’s programme is Buntús – the Irish Sports Council’s official Primary School’s Sports Programme which provides a quality introduction to sports and physical activity for all primary school children, which has been proudly supported by SuperValu since May 2004.

For further information, see [www.supervalukidsinaction.ie](http://www.supervalukidsinaction.ie)



## Supporting Voluntary Work in Africa

Six years ago, Maria Kidney, an employee in the I.T. Department at MSVC Cork, travelled to Africa with a group of friends to climb Mt Kenya and Kilimanjaro. While in Nairobi she spent time with friends in the Kenyan Girl Guide Association, learning about Kenyan life and the various activities of the Girl Guides in Kenya. Maria returned to Kenya in 2002 to meet with the Management of Bethel Faith Home and Training Centre in Londiani to discuss possible projects that Irish Girl Guides could participate in.

These include:

- An immunisation programme for children at the Ndubusat Maternity Hospital
- Installation of twelve community water tanks in Lelsothet village, Londiani, and in Ndubusat bringing water to the village from a reservoir 5km away.
- Computer Classes - MSVC donated computers to Friends of Londiani and now all classes in the Bethel Secondary School are studying computers. Friends of Londiani raised funds to build two classrooms in 2003 and these classrooms are now the computer rooms.
- Peer education courses on HIV/AIDS, nutrition and hygiene, as well as a literacy programme
- A summer camp for both the children in the Bethel Faith Home and Training Centre, and the children in Ndubusat Primary School.
- Building work on Ndubusat Primary School
- Purchase of malaria nets and distribution to over 600 homes



The centre, located 220kms North West of Nairobi, in the Kericho District of Kenya, looks after 65 orphaned children aged between 2 months and 19 years.

In 2002 a group of 20 Guide Leaders from Ireland travelled to Londiani to participate in local projects. Tasks included running a summer camp for children and a HIV/AIDS education programme for women. On returning home, Friends of Londiani was set up to maintain the links between Ireland and Kenya. It is now an independent charity registered in Ireland, and also a recognised NGO in Kenya.

Maria has received ongoing support from her friends and colleagues in the I.T. Department and company-wide at Musgrave. Many of the staff have organised fundraising events such as raffles and table quizzes for Friends of Londiani. The company has also supported Friends of Londiani on a sponsorship basis, and has donated many computers to the charity.

In 2005, Maria spent 4 months as Project Manager of a large team project in Kenya called "**Harambee 2005**". Harambee is a Swahili word which means "togetherness", and this project involved Friends of Londiani working with the communities in Kenya to complete a number of projects.

Friends of Londiani will continue to work jointly with the communities in and around Londiani and Ndubusat on many projects covering construction, training of healthcare staff, supply of affordable medication to local clinics, and establishment of a centre for HIV testing, which has won the approval of the Ministry of Health in Kenya. It also intends to continue to support education for the children in Bethel Faith Home and Training Centre through an education bursary scheme. The computer classes in Bethel Secondary School, and neighbouring villages will be supported and expanded. The organisation also intends to support, through a grant system, community groups undertaking income-generating projects, and to continue its important work on water projects.

Further information is available from **Friends of Londiani** on + 353 (0)21 466 2730 or [www.friendsoflondiani.com](http://www.friendsoflondiani.com)





Additional Information

Notes (\* = Core Indicators)

**[2.7]**  
Musgrave does not have a ‘capitalisation’ as such. Normally the word ‘market capitalisation’ refers to publicly quoted companies being the number of shares in issue multiplied by the market price per share. Musgrave’s book value, i.e. its shareholders’ funds were €275m at the end of 2005.

**[3.13A]**  
MSVC opened the Kilcock Distribution Centre in January 2005. Musgrave acquired Londis (UK) in July 2004 as part of its strategy to expand overseas. Londis is a convenience retail group consisting of 2,200 independent stores located throughout England, Wales and Scotland. Budgens and Londis have been combined into one operating division, Musgrave Budgens Londis (MBL). In October 2004, MWS acquired C&R Foods and in January 2005 it acquired Variety Foods, both being frozen food suppliers in NI and Rol. These acquisitions will ensure rapid growth in the Musgrave Foodservice business.

**[4.2]**  
The Chairman is a non-executive officer

**[4.5]**  
All company objectives take into account future plans of the organisation as well as corporate strategy. Such long term plans are directly related to an individual’s remuneration package. Non-financial targets are also included in the remuneration package as is the case for the Group Commercial Director who oversees environmental and social accountability goals.

**[4.6]**  
External assessment processes are employed for determining the required qualifications and expertise of Musgrave directors. Such processes are continuously updated and vary for different individuals.

**[4.7]**  
Internal process are implemented to ensure conflicts of interest are avoided.

**[4.8]**  
Musgrave Core Values and the organisation principles are contained in our policy namely: The Environmental and Social Accountability Policy and The Ethical Trading Policy. These policies are applied in all divisions of Musgrave Ltd as is the Musgrave Business Code “Who we are, what we do and how we do it”, in addition to adhering to the principles of sustainable development.

**[4.10]**  
Performance is evaluated through the establishment of strategic plans, strategic targets and deliverables in addition to the key performance indicators, which are used throughout the organisation. All outcomes are documented in the Musgrave Annual Review.

**[4.13]**  
Musgrave Group is a member of European Marketing Distribution (EMD).

**[EC1\*]**  
Reference the 2005 Musgrave Group Annual Report and Review.

**[EC4\*]**  
Zero subsidies received

**[EC5\*]**  
Musgrave complies with the National minimum wage Regulations.

**[EC7\*]**  
Staff are recruited locally in normal situations, however there is no formal procedure in place.

**[EN1\*]**  
Not relevant to any Group divisions

**[EN2\*]**  
Not relevant to any Group divisions

**[EN9\*]**  
Musgrave are not intensive water users, and have not collected data on water use at our facilities during 2004-2005.

**[EN10-11]**  
Water supplies at Musgrave Group facilities generally come from local authority mains supplies, with the exception of MWS in Ballymun, Dublin, which, in addition to the use of local authority supply, also uses an on-site well. Water volumes are not recorded.

**[EN12\*]**  
None of our facilities are located in or near to protected areas.

**[EN13\*]**  
No major impacts on diversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments as all sites are in industrial/commercial locations.

**[EN14]**  
Not relevant to any Group divisions.

**[EN15]**  
Not relevant to any Group divisions.

**[EN16]**  
No IUCN Red List species

**[EN18\*]**  
Some of the refrigerants used within Musgrave Group are classified as “ozone-depleting substances”, notably HCFCs, but there has been much change towards alternative sources in the last five years. These refrigerants are used in “fixed” refrigeration units at Musgrave facilities (mainly MWS outlets) and for transportation refrigeration within trailer units of distribution vehicles.

Our trailer units use approximately 8kg of the HCFC refrigerant R404A in each of our 121 units. The refrigeration units are sealed, with no emissions to the atmosphere. Replacement refrigerant is not required for these units, and at the end-of-life they are degassed and disposed of using industry best-practice techniques.

Ammonia-based refrigeration systems are used at the two MSVC Chill warehouses in Cork. Ammonia has desirable characteristics as a refrigerant which have been well known for over 150 years. It has no ozone-depleting or global warming potential, characteristics which result in a highly energy-efficient refrigerant with minimal environmental problems.

No ODSs are used in the MSVC NI facilities (ammonia-based refrigeration), while within Budgens, Freon 22 (HCFC) is currently used. With growth and expansion, all new plant in Budgens will be ammonia-based.

**[EN21\*]**  
Not relevant to any Group divisions.

**[EN24]**  
All hazardous or potentially hazardous waste produced or handled at Musgrave is collected, transported and disposed of in accordance with relevant European and national legislation. Musgrave Group does not produce significant volumes of hazardous materials as part of its operations, but incidental items generated as part of day-to-day activities, are carefully stored prior to collection by permitted and licensed waste contractors at each facility.

**[EN25]**  
No water sources and related ecosystems/habitats significantly affected by discharges of water and runoff.

**[EN27\*]**  
No data recorded

[LA2\*]

TABLE 29: NUMBER OF EMPLOYEES WHO LEFT EMPLOYMENT

	2004	2005
MSVC Rol	187	308
MSVC NI	15	18
MWS Rol & NI	435	428
MBL	N/A	76
TOTAL	637	830

[LA2\*]

TABLE 30: NUMBER OF EMPLOYEES WHO LEFT EMPLOYMENT BROKEN DOWN BY AGE GROUP &amp; GENDER

	Age Range	2004		2005	
		Male	Female	Male	Female
<b>MSVC Rol</b>	<30	68	16	92	12
	30-50	56	42	148	43
	>50	1	4	13	0
<b>MSVC NI</b>	<30	7	12	11	10
	30-50	37	18	33	27
	>50	3	0	4	0
<b>MWS Rol &amp; NI</b>	<30	273	53	279	53
	30-50	65	25	59	25
	>50	10	8	10	2
<b>MBL</b>	<30	N/A	N/A	12	24
	30-50	N/A	N/A	17	16
	>50	N/A	N/A	2	5

[LA3]

TABLE 31: MINIMUM BENEFITS PROVIDED TO FULL-TIME EMPLOYEES

		Life Insurance	Health Care	Disability/Invalidity Coverage	Maternity/Paternity Leave	Retirement Fund	Stock Ownership
<b>MSVC Rol</b>	Full-time	✓	X	✓	✓	✓	✓
	Part-time	✓	X	✓	✓	✓	✓
<b>MSVC NI</b>	Full-time	✓	✓	X	✓	✓	✓
	Part-time	✓	✓	X	✓	✓	✓
<b>MWS</b>	Full-time	✓	X	✓	✓	✓	✓
	Part-time	✓	X	✓	✓	✓	✓
<b>MBL</b>	Full-time	✓	✓	X	✓	X	X
	Part-time	✓	✓	X	✓	X	X

[LA5\*]

TABLE 32: MINIMUM NOTICE PERIOD REGARDING OPERATIONAL CHANGES

	No. of Weeks Notice		Is there an opportunity for consultation		Is the Notice Period stated in the collective Bargaining Agreement	
	2004	2005	2004	2005	2004	2005
<b>MSVC Rol</b>	4 weeks	2-3 weeks	Yes	Yes	No	No
<b>MSVC NI</b>	4 weeks	4 weeks	Yes	Yes	No	No
<b>MWS Rol &amp; NI</b>	4 weeks	4 weeks	Yes	Yes	No	No
<b>MBL</b>	4 weeks	4 weeks	Yes	Yes	No	No

[LA7\*]

There were no fatalities in any of the divisions during the monitoring period

[LA8\*]

The company does not have a HIV/Aids policy.

[LA10]

Health and Safety topics are not covered in formal agreements with trade unions in any Group division

[LA13]

**MSVC Rol**

2004 100% of all employees received a formal appraisal

2005 100% of all employees received a formal appraisal

**MSVC NI**

2004	Senior Management	100%
	Middle Management	53%
	Administration	100%

2005	Senior Management*	
	Middle Management	17%
	Administration	29%

\*A major restructuring process took place in MSVC NI during 2005. It was therefore not appropriate to undertake appraisals as new staff members were still in induction. Probation reviews were carried out but are not included in the statistics above.

**MWS**

2004 100% of all employees received a formal appraisal

2005 100% of all employees received a formal appraisal

**MBL**

2005	Management	95%
	Team Members	90%
	Distribution Staff	10%

[LA14\*]

The Composition of employees and management on terms of male/female ratio in all Musgrave Group business units for 2005 was 55% male: 45% female. Age group, minority group membership, and other indicators of diversity are not reported on.

[LA15]

Remuneration information not available.

[HR1\*]

Not relevant to any Group divisions.

[HR2\*]

Musgrave has implemented an Ethical Trading policy, which allows for the investigation and evaluation of the human rights performance of our suppliers. A number of checks are carried out within Group divisions; for example, within MWS trading managers identify members of the supply chain to audit in line with the needs of the business. MWS deals mainly through third party supplier arrangements and this normally secures the best sourcing routes for particular products.

[HR3]

Musgrave has issued a number of policies and procedural guidelines relating to human/employee rights in the workplace.

[HR4\*]

There were no incidents of discrimination reported by the Musgrave divisions during the reporting period.

[HR5\*]

There were no incidents of violations of freedom of association and collective bargaining reported by the Musgrave divisions during the reporting period.

[HR6\*]

There were no incidents of child labour reported by the Musgrave divisions during the reporting period.

[HR7\*]

There were no incidents of forced or compulsory labour reported by the Musgrave divisions during the reporting period.

[HR8]

Each division has its own specific procedures for dealing with complaints and grievances filed by customers, employees, and communities concerning human rights in accordance with the Musgrave Ethical Trading Policy.

[HR9]

All our security personnel are outsourced and thus training is not conducted directly by Musgrave Group, with the exception of Budgens. Budgens' security personnel are trained in the use of minimum force.



**[HR10]**

There were no incidents involving rights of indigenous people reported by the Musgrave divisions during the reporting period.

**[SO1\*]**

There are no programmes or practices in place for assessing and managing the impacts of operations on communities, including entering, operating and exiting as it is not relevant to any of the Musgrave divisions.

**[SO3\*]**

There have been no incidents of corruption at any of the Musgrave divisions therefore no actions have been taken.

**[PR1\*]**

Musgrave acts to ensure that its customers are offered products and services of the highest quality. In particular, as a major food retailer, we take every step towards guaranteed food safety and hygiene. We are committed to the provision to our customers of safe products in a safe environment, complying with appropriate Codes of Practice and legislation.

**[PR2]**

No incidents of non-compliance with regulations concerning customer health and safety.

**[PR4]**

No instances of non-compliance with regulations concerning product information and labelling

**[PR6]**

In the majority of instances, product labelling is governed by legislation, for example EU Directive 2000/13/EC relating to the labelling, presentation and advertising of foodstuffs, and the individual state regulations that bring that Directive into legislation. In Rol for example, we work with the Department of Agriculture and Food, Food Safety Authority of Ireland, Local Health Authorities and the Office of the Director of Consumer Affairs on issues relating to product labelling. Where amendments are required to product labels, Musgrave takes immediate action in the case of own brand products, or, in the case of a branded product, passes the issue on to the supplier.

**[PR7]**

No breaches of advertising and marketing regulations.

**[PR8\*]**

All data relating to any person or which could identify an individual (names, addresses, telephone numbers e-mail addresses etc.) are covered by the our data protection procedures

**[PR9\*]**

No complaints regarding breaches of consumer policy

# UN Global Compact Communication on Progress

Indicator Number	Page Number
<b>HUMAN RIGHTS</b>	
1. Business should support and respect the protection of internationally proclaimed human rights	67 – 68; 80 HR2 & HR4
2. Business should ensure that they are not complicit in human rights abuse	67 – 68; 80 HR2
<b>LABOUR</b>	
3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining	50; 67 – 68; 79 LA5; 80 HR5
4. Business should support the elimination of all forms of forced and compulsory labour	67 – 68; 80 HR7
5. Business should support the effective abolition of child labour	67 – 68; 80 HR6
6. Business should support the elimination of discrimination in respect of employment and occupation	55; 67 – 68; 80 HR4 & LA14
<b>ENVIRONMENT</b>	
7. Business should support a precautionary approach to environmental challenges	3 – 4; 58 - 68
8. Business should undertake initiatives to promote greater environmental responsibility	1; 20; 23; 24; 25; 31; 35; 37; 38; 40; 41; 43; 47; 67 – 68; 77 EN1 & EN9; 78 EN12, 13, 18, 21 & 27;
9. Business should encourage the development and diffusion of environmentally friendly technologies	23; 40; 24 – 48; 67 - 68
<b>ANTI-CORRUPTION</b>	
10. Business should work against corruption in all its forms, including extortion and bribery	20; 67 - 68

# GRI Indicator Table

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## ENVIRONMENTAL PERFORMANCE INDICATORS

	Core	Additional
EN1	Note	
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EN9	Note	
EN10		Note
EN11		Note
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EN13	Note	
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EN15		Note
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## LABOUR PERFORMANCE INDICATORS

	Core	Additional
LA1	49	
LA2	Note	
LA3		Note
LA4	50	
LA5	Note	
LA6	53	
LA7	52; Note	
LA8	Note	
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LA10		Note
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LA14	Note
LA15	Note

## SOCIAL PERFORMANCE: HUMAN RIGHTS PERFORMANCE INDICATORS

	Core	Additional
HR1	Note	
HR2	67 - 68; Note	
HR3		Note
HR4	Note	
HR5	Note	
HR6	67 - 68; Note	
HR7	Note	
HR8		Note
HR9		Note
HR10		Note

## SOCIAL PERFORMANCE: SOCIETY PERFORMANCE INDICATORS

	Core	Additional
SO1	Note	
SO2	20	
SO3	Note	
SO4	69 - 60	
SO5		20
SO6		50; 59 - 60

## SOCIAL PERFORMANCE: PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

	Core	Additional
PR1	Note	
PR2		Note
PR3	64	
PR4		Note
PR5		63
PR6		Note
PR7		Note
PR8	Note	
PR9		Note



# Independent Assurance Statement

## SCOPE AND OBJECTIVES

Musgrave Group (Musgrave) commissioned csrnetwork to undertake a limited assurance engagement over the information and data within the printed version of the Musgrave 2006 Sustainability Report ('the Report'). The objectives of the assurance process were to check claims and the systems for collection of data, and to review the arrangements for the management and reporting of sustainability issues. The assurance process was conducted in accordance with the AA1000 Assurance Standard, and we have commented on the report against the principles of materiality, completeness and responsiveness. A review of Musgrave's performance against the UN Global Compact Principles was not included in the scope of our work. Any financial information contained within the reports is excluded from the scope of this assurance process.



## RESPONSIBILITIES OF THE DIRECTORS OF MUSGRAVE AND THE ASSURANCE PROVIDERS

The directors of Musgrave have sole responsibility for the preparation of the Report. In performing our assurance activities, our responsibility is to the management of Musgrave, however our statement represents our independent opinion and is intended to inform all Musgrave stakeholders including the management of Musgrave. We were not involved in the preparation of any part of the Report. We have no other contract with Musgrave. This is the third time that we have acted as independent assurance providers for Musgrave. We adopt a balanced approach towards all Musgrave stakeholders and a Statement of Impartiality relating to our contract with Musgrave will be made available on request. The opinion expressed in this assurance statement should not be relied upon as the basis for any financial or investment decisions. The independent assurance team for this contract with Musgrave comprised Mark Line and Jon Woodhead. Further information, including a statement of competencies relating to the team can be found at: [www.csrnetwork.com](http://www.csrnetwork.com)

## BASIS OF OUR OPINION

Our work was designed to gather evidence to obtain a limited level of assurance on which to base our conclusions. We undertook the following activities:

- We conducted interviews with a selection of directors and senior managers responsible for areas of management and stakeholder relationships covered by the Report. The objective of these discussions was to understand Musgrave's governance arrangements and management priorities;
- We discussed Musgrave's approach to stakeholder engagement with relevant managers, although we undertook no direct engagement with stakeholders (other than employees and management) to test the findings from these discussions;

- We conducted a top level review of issues raised by external parties that could be relevant to Musgrave's policies to provide a check on the appropriateness of statements made in the report;
- Subject to the exclusions set out below, we reviewed data collated at the corporate level for accuracy and completeness, and against claims made in the Report. This process included a review of the systems and processes for data collection and analysis. Specific data were checked for consistency against these systems and processes. The scope of our work did not include visits to operational sites. Selected performance data at site and Divisional level were reviewed as part of our review of consolidated corporate data.
- We undertook an assessment of the company's reporting and management processes against the principles of materiality, completeness and responsiveness as described in the AA1000 Assurance Standard.
- We reviewed the Report against the Global Reporting Initiative (GRI) 2006 Sustainability Reporting Guidelines (Draft), including application of the principles and use of indicators.

## OBSERVATIONS:

**Materiality – has Musgrave provided information on material issues to enable stakeholders to make informed judgements?**

- With the exception of the issues noted below, the Report includes information on Musgrave's main sustainability performance issues and should enable stakeholders to make informed judgements. For the first time this year, the results of stakeholder engagement have been systematically analysed to assist in determining the contents or focus for reporting.
- The report includes useful examples of the role of Musgrave in supporting local community sustainability. We recommend that this issue should be explored further in future reports.
- In our statement for the last Report, we recommended that future reports should discuss the results of employee satisfaction surveys. In our opinion, although there is evidence to suggest that work on employee satisfaction is being undertaken, reporting in this area has not developed substantively.

**Completeness – does Musgrave have systems in place to understand changes to stakeholder expectations and to provide complete and accurate information against the issues identified as material for inclusion in the Report?**

On the basis of the method and scope of work undertaken and the information provided to us by Musgrave:

- For health and safety data, nothing came to our attention to suggest that these data have not been properly collated from information reported at divisional level. Business divisions collect and report health and safety data using differing systems and procedures. Our recommendation is that a consistent approach to internal collation of these data should be developed and applied, to support corporate reporting of comparable data.
- For data on energy used in buildings, nothing came to our attention to suggest that these data have not been properly collated from information reported at divisional and site level. Monitoring of energy consumption at site level has increased, which should further improve the quality of reported data in the future.

- For waste data, nothing came to our attention to suggest that these data have not been properly collated and reported from information at divisional and site level.
- For data on distance travelled by Musgrave fleet, systems are in place to gather data. Nothing came to attention to suggest any systematic issues with the collection of these performance data.
- For employment data and other social issues, nothing came to our attention to suggest that data related to human resources have not been properly collated from the business divisions. The following issues relating to other aspects of the social area should be noted:
  1. Musgrave does not currently have systems in place that enable it to systematically monitor and report against the implementation of the new Ethical Trading Policy, including Musgrave's commitment to the UN Global Compact.
  2. For data on indirect employment, no assurance is provided over these data at a consolidated corporate level.
- For data on number of cases sold, systems are in place at Divisional level to provide these data. Due to different measurement methods between these systems, no assurance is provided over these data at a consolidated corporate level. We recommend that a consistent approach to gathering these data should be introduced and aligned with financial accounting systems, to ensure accurate analysis of normalised environmental performance data between reporting years.

***Responsiveness – how does Musgrave demonstrate that it has responded to stakeholder concerns?***

The work undertaken to engage with stakeholders on the issues of greatest relevance to the Group and the focus for reporting, provides a detailed basis for demonstrating how Musgrave has responded to stakeholder concerns.

Musgrave has developed policies for Environment and Social Accountability, Energy and Natural Resources, and Ethical Trading. Development of appropriate systems for monitoring implementation of these policies should now be undertaken. We recommend that Musgrave's actions to assess and address impacts in the supply chain should receive greater coverage in future Reports.

Energy targeting projects have been rolled out across some areas of the Group. We now recommend that Musgrave should consider setting further quantitative performance improvement targets at a Group level for aspects of energy and waste management.

**csr network ltd**  
**August 2006**