



from

Farm

to

Fork

Ahold and the environment
Status report 2000

 **Ahold**

The scope of this document

This status report outlines the key environmental issues relevant to our business and provides examples of best practice within Ahold. The environmental activities of our operating companies and joint venture partners presented in this report are new and noteworthy since 1998 and reflect local market leadership. Information about Ahold and the environment is also available on our website (www.ahold.com).

Information on our approach to wider social and employment issues is available from Ahold Corporate Communications (corp.communications@corp.ahold.nl).

Table of contents

Message from the President	3
1. Environmental strategy, from farm to fork	4
2. Key achievements and goals	6
3. Product sourcing	8
Case studies: integrated farming	12
Case studies: marketing organic products	18
Locally grown produce in the USA	22
Ahold statement on biotechnology	23
4. Store design and operations	24
Energy	26
Refrigeration	27
Waste and packaging	30
Transport	32
Preventing water pollution	33
5. Ahold corporate profile	34

Business Strategy

Our **mission** is to become **the best and most successful food provider** in the world. Our **vision** is to achieve this through a tight worldwide network of **best-of-breed companies** that are undisputed market leaders in **quality** and **innovation** in their home markets.

Our **business strategy** is to leverage and optimize the **advantages of our scale** and the effective **transfer of knowledge**, while appreciating and enhancing the **local character** of our food retail activities.

Our **ambition** is to consistently offer our 30 million weekly customers **a superior shopping experience**.

Environmental Strategy

We strive to be an **environmentally responsible company** in every market where we operate. This is fundamental to our **growth, long-term profitability**, and **continuity** as a company.

Our environmental strategy **enhances** our business strategy through:

- **responsible product sourcing** to anticipate customer needs for safe, quality choices that reflect care for the environment
- **innovation and exchange of best practice** to increase efficiency and reduce costs by improving the environmental performance of our stores and operations
- **providing information and opportunities** for customers to make their own responsible choices.

Environmental management around the world

Ahold operates in 18 countries across four continents. We strive to find a balance between global issues and the needs of local communities facing different environmental, social and economic imperatives. Ahold's corporate environmental strategy is based on local decision making and global exchange of know-how.

As a mosaic of operating companies and joint venture partners, Ahold does not impose a single blueprint for environmental management. Nevertheless, each operating company and joint venture partner is expected to play a leadership role in its market. At the corporate level, Ahold stimulates innovation and facilitates the exchange of best practice worldwide.

A profile of Ahold's worldwide operations can be found on page 34 of this report and at www.ahold.com.



Message from the President

The purpose of this environmental status report is to keep Ahold managers and associates around the world informed of key issues, priorities, and examples of best practice. We are pleased with the new initiatives since our first Status Report in 1998, and see the exchange of best practice as the way to drive innovation and keep improving performance worldwide.

‘We strive to stimulate innovation and share know-how – to the benefit of our customers, the environment, and Ahold’



Our company sees environmental care as its social responsibility. At the same time, leadership in environmental management is important to the long-term continuity of our business. As we grow, both the Ahold brand name and those of our ‘best of breed’ companies become increasingly strategic assets. Good environmental management plays an important role in protecting and enhancing our brand value.

In this report we put extra emphasis on product sourcing. Consumer concerns about food in many parts of the world have made it increasingly important to know where food comes from and how it is produced. Greater co-operation with our partners in the supply chain enhances food safety, product quality and care for the environment, ‘from Farm to Fork’. These relatively new efforts reflect an important change in the nature of food retailing and distribution.

Looking to the future, Ahold will place increasing emphasis on leadership in food safety and environmental issues. We remain firmly committed to our strong belief that good environmental management will lead to better business results.

Cees van der Hoeven
President & CEO Royal Ahold
February 2000

Ahold's environmental strategy, from farm to fork

Environmental Strategy:

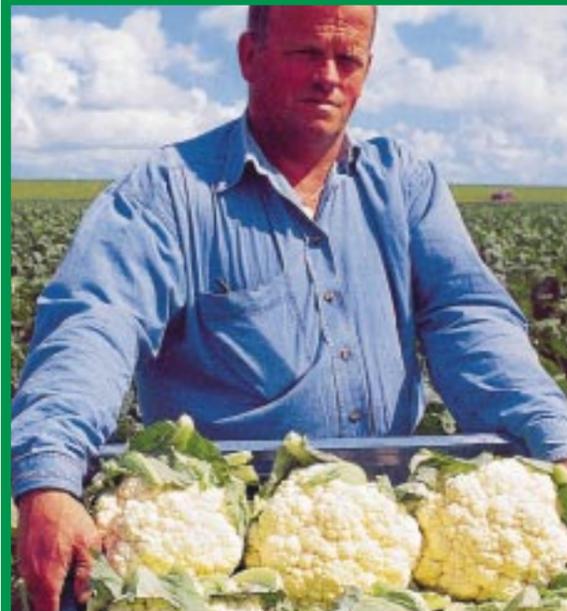
Key focus areas:

Products

'Upstream' indirect impact

Responsible product sourcing

to anticipate customer needs for safe, quality choices that reflect care for the environment.



- Developing programs, in cooperation with suppliers, which integrate safety, quality, and environmental criteria in product procurement.

Stores and Operations

Our own direct impact

Innovation and exchange of best practice

to improve environmental performance, increase efficiency and reduce costs.



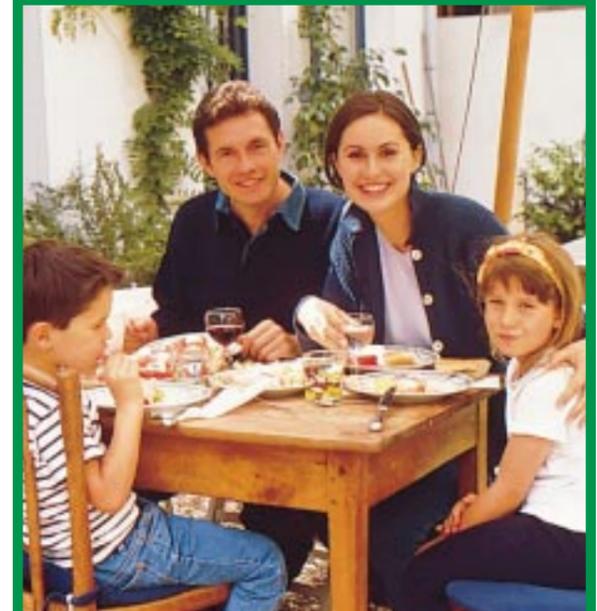
- Energy use in stores and operations
- Refrigeration and ozone depletion
- Waste and packaging
- Transport
- Preventing water pollution.

Customers

'Downstream' indirect impact

Information and opportunities

to enable our customers to make their own responsible choices.



- Product choice
- Communication and labeling
- Packaging.

Key achievements and goals

Achievements 1998-1999

The Netherlands

- Expansion of Earth & Values program from fruit and vegetables to other categories (see page 12).
- Test and launch of Good Agricultural Practices initiative in Europe (GAP) (see page 15).
- Successful introduction of 210 private label organic products (see page 19).
- Introduction of new packaging guidelines to meet the requirements of the Dutch Packaging Covenant II (see page 31).
- New pilot projects for secondary refrigeration systems to reduce emissions of ozone-depleting gases (see page 28).
- Expansion of store waste recycling program, reduction of product losses (see page 30).
- Start of 'Sustainable Food Chain' project (DuVo) (see page 11).

USA

- Expansion of organic and natural products at Giant-Carlisle to a total of 150 produce and 1200 grocery items (see page 19).
- Establishment of an environmental office at Giant-Landover (Full-time Environmental Manager at Stop & Shop since 1996, at Albert Heijn since 1995).
- Expansion of composting initiative at Stop & Shop (see page 30).
- Tops initiated a test to recycle various waste streams.
- Environment Synergy Group initiatives: Best Practice Guidelines on hazardous waste management and preventing water pollution (see pages 31 and 33).
- Synergy group benchmarking of refrigeration installation standards (see page 29).
- Stop & Shop efficient truck loading project (see page 32).
- Stop & Shop's leadership role in Clean Charles Coalition to share expertise in preventing water pollution (see page 33); Giant-Landover takes leadership initiative with the Keep America Beautiful organization (KAB) to find better alternatives for beverage container deposit legislation (see page 31).
- Improved recycling efforts at BI-LO (Trash Removal Cost Reduction Project) (see page 30).
- Store level Energy Conservation Contest at Giant-Landover (see page 26).

Other Markets

- Integrated crop management and agri-chain quality projects at TOPS Thailand (see page 16) and Bompreço in Brazil (see page 17).
- An innovative energy management system in supermarkets and hypermarkets in Portugal and Argentina leads to significant energy savings (see page 27).
- Reusable crates initiative at TOPS Thailand (see page 31).

Goals

The Netherlands

- Support research on animal feed without antibiotics (part of the Earth & Values pork program) (see page 13).
- Set new targets for Earth & Values program 'Produce' (2005).
- Further develop guidelines for all Earth & Values programs, especially poultry.
- Further expand organic range (see page 19).
- Achieve the targets agreed upon in the Dutch energy covenant for energy efficiency (32%) and the use of sustainable energy (5%) between 1995 and 2010 (Albert Heijn and all other food retail formats in The Netherlands) (see page 27).
- Continue research on innovative refrigeration systems (see page 28).
- Further reduce waste and packaging in order to achieve the 30% total waste reduction goal of the Dutch Packaging Covenant between 1997 and 2001 (Albert Heijn and all other food retail formats in The Netherlands, plus Etos and Gall & Gall) (see page 31).
- Further optimize the product ordering system, to reduce waste due to over-ordering (see page 30).

USA

- Start projects on good agricultural practices in relation to product sourcing.
- Expand organic product range.
- Expand composting initiative at Stop & Shop (see page 30), start composting projects at other operating companies.
- New pilot projects for secondary refrigeration systems to reduce emissions of ozone-depleting gases (see page 28).
- Better communication and education of employees and customers.
- Improve and expand packaging and recycling initiatives.
- At Tops, reduce same store energy expenditure by 10% in 2000 (see page 27).

Other Markets

- Introduce private label organic products at Disco in Argentina, Spring 2000 (see page 21).
- Expand supply chain projects at Bompreço in Brazil (see page 17) and TOPS Thailand (see page 16).
- Implement recycling of cardboard boxes throughout the distribution chain at TOPS Malaysia.



Product sourcing

Do you know **where** your products come from
and **how** they are made?

In recent years, we have seen an increase in consumer concern about food. This poses both opportunities and risks for Ahold. Management of the supply chain 'from farm to fork' is critical to safeguarding and enhancing consumer trust in the brand value of our individual operating companies, joint venture partners, and Ahold as a whole.

Concern over food safety is one of the key drivers behind the establishment of farm-to-fork strategies. In 1999, an Ahold Global Food Safety Committee was formed, reporting directly to the Corporate Executive Board. A global Ahold food safety network has been established to connect all food safety managers and facilitate the exchange of best practice.

Once the basis for food safety and consistent product quality has been established, we can cooperate with suppliers to improve their environmental management in farming, production, and animal welfare. We believe the most efficient way to do this is to develop programs that integrate food safety, quality and environmental concerns in a single supply chain management system.

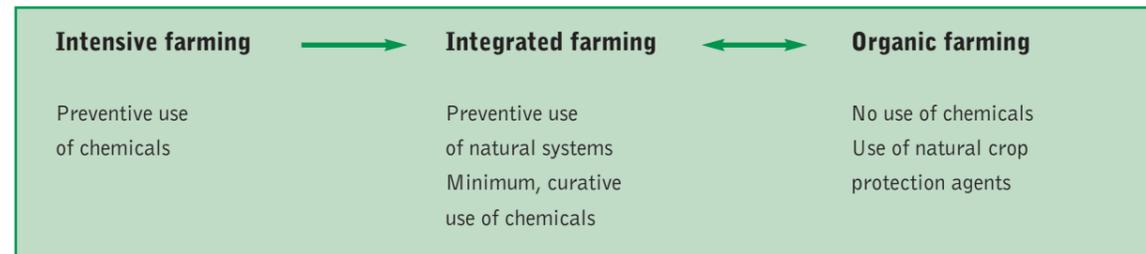
'We are the
buyers for
our customers:
responsible product sourcing
is about maintaining
their trust'

Working with farmers

Several projects are emerging at Ahold companies for specific agricultural product lines to deal with the whole supply chain, 'from farm to fork'.

These projects address environmental issues at the farm level with two different strategies, 'integrated farming' (for case studies see page 12) and 'organic farming' (for case studies see page 18).

Integrated farming encourages farmers to use fewer chemicals and more natural crop protection systems. The basic premise is that such agricultural practices keep crops and animals healthy, enabling them to resist disease as much as possible through natural means. Organic farming uses no chemicals, but is still predominantly small scale. We think both approaches are important.



Case studies: integrated farming

Albert Heijn in The Netherlands, TOPS Thailand and Bompreço in Brazil have each developed programs to work with farmers to improve farming practices. The aim of Ahold programs around the world is to stimulate suppliers to adopt locally appropriate ways to reduce the environmental impact of farming. This includes the adoption of Integrated Crop and Pest Management programs as well as programs for improving animal health and welfare.

It is important to recognize that environmental ambitions are just one of the elements of integrated agri-chain management programs. By working more closely with farmers, Ahold also aims to reduce costs throughout the supply chain and to generally improve product quality. These programs therefore include elements such as coordinated planting and harvesting, standards for post-harvest handling and packaging, and streamlined logistics. Three case studies describe specific approaches to this and the results achieved so far.

Dutch cauliflower supplier. The produce is grown according to the standards of Albert Heijn's Earth & Values program.



'By working closely with suppliers, the chain becomes shorter, faster and more transparent'

10 years Earth & Values

Albert Heijn's 'Earth & Values' is an innovative program of agricultural production that takes the interests of people, animals and the environment into account. It is a way of working together with suppliers to enhance the quality of the products and to maintain the competitive prices that Albert Heijn's customers expect.

The Earth & Values program started in 1990 with produce (fruit and vegetables) and was later extended to meat, fish, poultry and coffee. It has resulted in:

- reduced use of chemicals in the production of fruit and vegetables through integrated crop management programs,
 - improvements in animal health and welfare, and
 - a better understanding of the supply chain.
- In the case of coffee, economic and social issues are being addressed as well as environmental issues.

The Earth & Values program is a good example of customer-driven supply chains. Its core principles are knowing where the food comes from and how it is made, without creating extra costs for the customer. In close cooperation with research institutes, Albert Heijn has systematically developed production standards. These standards are repeatedly adapted to new technologies and insights in a continuous two-way dialog with suppliers.

Special project groups have been set up to investigate new and innovative ways to solve crop-specific problems. An important catalyst for innovation is the exchange of knowledge, nationally as well as internationally.

The Earth & Values program has achieved a great deal in ten years. A few examples:

- In Italy, cauliflower, broccoli, peaches, kiwi and strawberries are grown without herbicides.
- The use of pesticides in tomato production at Albert Heijn's preferred supplier in Spain has been reduced dramatically.
- In The Netherlands, spring onion growers have successfully interrupted the reproductive cycle of the onion fly by introducing sterile males. This means that spraying is only required in exceptional circumstances.
- Growth stimulants in fish (salmon and eel) are prohibited. That is better for the fish and also improves quality. The fish is less fatty and water-logged, because it can grow at its own pace.
- Pork production follows guidelines for animal welfare. Studies are underway to eliminate the use of preventive antibiotics in feed.
- An integrated chain management program has been started for poultry.



Ward de Groot, Product Group manager for coffee and tea at Marvelo, an Ahold production company: "Earth & Values is not just about treating the environment with respect; it's also about human dignity. That's why we feel it is important to also address social and economic issues on the plantations with which we have close contact."



Coffee picking at the El Volcan plantation in Guatemala.

Sustainable coffee

Sustainable development involves more than integrating environmental criteria in decision making; it also includes social and economic concerns. The Sustainable Coffee project run by Marvelo, an Ahold production company, is a good example of the first steps being taken to put sustainable development into practice.

In Costa Rica and Guatemala, Marvelo works with plantation owners to reduce the environmental impact of coffee production. Programs have been started to improve health care and housing for local employees, and Marvelo has financed the construction of a school at the El Volcan plantation in Guatemala.

How it works

Marvelo buys direct from coffee growers and maintains long-term commercial relationships with them. As a result, the growers have a regular outlet for their products and can get advice, both on the best time to sell their coffee and on how to improve their farming methods. This relationship also improves their credit worthiness when they need loans for making investments.

The aim of the project is to improve the total economic, social and environmental context in which the growers operate. This is done in an integral and cooperative way. Marvelo pays them the world market price for coffee and, by cutting out intermediaries, is able to invest in improving local conditions. It is a step-by-step process that exemplifies the Earth & Values approach. Marvelo's ultimate goal is to supply high-quality, sustainably grown coffee, on a large scale and at a competitive price.

Beef from Argentina

Albert Heijn sources some of its highest quality beef from Argentina. The cattle there are specifically raised for meat production, resulting in tender and tasty beef. Farmers are carefully selected and the cattle are raised on the Argentine pampas according to Albert Heijn's quality specifications.

This Albert Heijn program is unique in Argentina. It is a good example of partnering with suppliers to develop a better product by focusing on the whole supply chain. The cattle are numbered with a specific Albert Heijn label so that the meat can be traced back 'from fork to farm'.

The farming approach is extensive rather than intensive with sustainable stocking densities. Thanks to favorable local weather conditions, the animals always graze outside on the pampas.

Trust but verify: monitoring and auditing

Trust between growers and buyers is essential. Growers need to know that their innovation will be rewarded. Buyers need to know that growers are making real progress toward the agreed targets, which are the 'technical translation' of customer expectations.

Growers are required to monitor the environmental impact of their production, enabling measurement of progress year-on-year. To verify the claims of the Earth & Values program, Albert Heijn authorized a series of third-party audits. These were carried out by independent Dutch auditing institutes from June to October 1998, involving 38 growers. The figures provided by the growers proved to be 100% accurate in all but a very few cases.

Since independent third-party auditing is valuable for raising awareness among growers, it will also be continued outside of The Netherlands using the GAP standard (see box).

Sustainable food chain project (DuVo)

Albert Heijn participates with 14 leading Dutch food companies in the 'Sustainable Food Chain Project', known by its Dutch abbreviation 'DuVo'. The companies include seed and feed producers, branded product suppliers, food service companies, and Albert Heijn as food retailer. The goal of the project is to collectively give meaning and practical application to 'sustainability' in the food supply chain. The main purpose is to research the environmental impact of the food industry and create a platform for 'sustainable' solutions.

**'Step by step,
Earth & Values helps farmers
to reduce their impact on
the environment'**



Cattle on the Argentine pampas, specially raised for Albert Heijn. Thanks to favorable weather conditions, the animals always graze outside.

Good Agricultural Practices (GAP)

Albert Heijn, along with other leading European food retailers represented by the Euro Retailer Produce working Group (EUREP), has developed standards for Good Agricultural Practices (GAP) for growers of fruit and vegetables. GAP is a means to harmonize the different Integrated Pest Management (IPM) and Integrated Crop Management (ICM) programs that retailers and growers have developed in recent years. Its adoption is regarded by EUREP members as essential for the long-term improvement and sustainability of agricultural production.

The purpose of the GAP standard is to:

- maintain consumer confidence in food quality and safety
- minimize detrimental impacts on the environment, while conserving nature and wildlife
- reduce the use of chemicals through the adoption of Integrated Protection systems
- improve the efficiency with which natural resources such as soil, water, air and energy are used
- ensure a responsible attitude to workers' health and safety, welfare and training.

For more information about GAP, see the website of the EUREP secretariat: www.ehi.org/eurep

Enhancing quality at TOPS Thailand

The fresh food business in Thailand has traditionally been price-driven, with relatively little attention to safety, quality or environmental care. TOPS Thailand wants to offer high quality, consistent availability, reasonable prices, and at the same time enhance food safety and good agricultural practices. To do this, a dramatic restructuring of the supply chain for fresh products was initiated.

In October 1998, TOPS started a far-reaching agri-chain quality project. The goals were to improve the supply of fresh goods in terms of safety, quality, farming practices and costs. The project was set up together with the Dutch CLICT program (Competence in Agri-Chains, Information and Communications Technology). Experts from the Dutch Agricultural Economics Institute, Wageningen University in The Netherlands, Kasertsart University in Thailand, and from business partners such as Rabobank and Novartis Crop Protection, joined in a three-year program, steered from TOPS new World Fresh Distribution and Processing Center.

Key elements are:

- training and certification of farmers, in particular to reduce excessive chemical use, improve post-harvest handling, and obtain better financial returns
- grouping smaller suppliers
- production planning on the farm
- quality control systems
- standardized packaging
- refrigerated transportation.

As a result, TOPS gets better quality products with significantly less product and packaging waste. Chemical use is down and farmers understand the need for integrated crop protection. The project will continue in 2000.



Chiel de Bruijne, Director of TOPS World Fresh Distribution Center: "The key to this project is turning suppliers into partners.

Now a dedicated supply chain is part of our competitive arsenal. This is essential to our strategy of distinguishing ourselves as a safe, top-quality, local food retailer."

Farmers participating in the TOPS Thailand agri-chain quality project receive training in crop protection and harvesting. The results are less yield loss, less environmental impact, lower pesticide residues, and a fresher, higher quality product.

Better lettuce for a better price at Bompreço

Bompreço, Ahold's Brazilian partner, has set up an integrated agri-supply chain project with three of its main lettuce suppliers. As a result, Bompreço gets a more reliable supply of better quality lettuce at better prices. For the growers, the project has led to lower yield losses, lower operating costs, better production planning, and better financial returns.

The project was set up in 1998 with agronomists from Pernambuco Federal University in Recife, Brazil. It involved developing integrated fertilizer and crop protection plans that were tailored to suit the local climate and soil conditions of Northeastern Brazil. As there were no specific crop protection agents for lettuce commonly available to the growers, each tended to apply the pesticides or herbicides they thought appropriate.

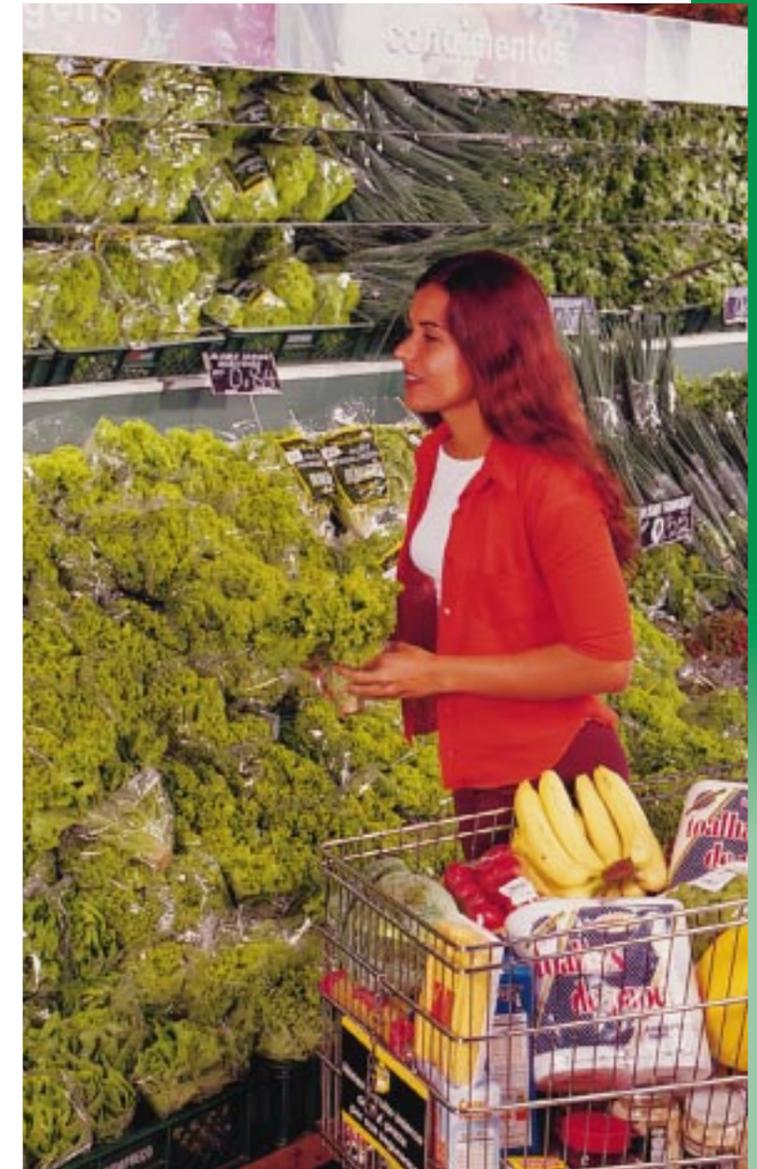
The agronomists introduced crop management systems to reduce applications of nutrients and apply low-cost biological crop protection strategies. New record-keeping systems now enable growers to monitor crop protection and further optimize their applications. Production planning schedules help coordinate production with sales. The success of this initiative has inspired Bompreço to extend its cooperation with the university to more growers and more crops.

Bompreço helped the suppliers and university to create a central seed production facility. This was fundamental to achieving the appropriate quality standard for the lettuce. They are now testing 33 other seed varieties for organic production that are specifically adapted to local growing conditions. Bompreço is planning to launch these organic products in 2000.



Leonardo Miyao, Category Manager for Produce at Bompreço: "Through this partnership with the growers and the university, we can offer our customers a

better, safer, cleaner product. The growers are better off and the supply chain is both more consistent and more reliable."



The quality of the lettuce at Bompreço has improved considerably, now that farmers and the university are working together on better crop protection techniques.

Case studies: marketing organic products

Their style, methods and motivation may differ, but Giant-Carlisle in the USA and Albert Heijn in The Netherlands, have both become market leaders in organic products. They have made a significant commitment to providing organics to distinguish themselves from the competition. Now, Disco in Argentina is heading in the same direction.

Giant-Carlisle, a leader among full-service grocery chains in the USA

Giant-Carlisle emphasizes organic products to distinguish itself from its competitors.

By providing an impressive array of 1,200 organic and natural products, including 150 organic produce items, the stores show a strong commitment to this growing market. Its store-wide assortment differentiates Giant-Carlisle from its conventional competitors and gives the consumer an extra reason to shop at Giant.

The organic program started at Ahold's Edwards chain in the New York-Long Island area. Giant-Carlisle took the organic produce program from Edwards. Critics said that Giant-Carlisle's rural market area would not support organic sales. In fact, Giant-Carlisle has been even more successful, largely due to the store-wide approach.

Giant-Carlisle has developed a signage program throughout the store for natural and organic products. All are branded items from leading national organic brands. Natural and organic products are highlighted with purple signs, and the products are integrated within their categories in the aisles.

In order to efficiently manage the daily supply of organic grocery items, a full-service vendor procures and stocks the products, while a category manager for specialty items makes sure these items remain in category plans. Giant's vendor partners in produce have played a critical role in establishing the program.



Steve Kaszynski, EVP Sales and Marketing, Giant-Carlisle:

"We're very pleased with our organic program. We feel we have done a good job communicating to our customers that we have the best offering of organic products in our market. To be successful with organic products, today's food retailer has to be truly committed to the program, store-wide."



'To be successful with organics, you have to be truly committed, store-wide'

Organic signage in Giant-Carlisle stores. Customers can easily find organic products throughout the store.

Introducing organic products in The Netherlands

Albert Heijn introduced its first private label organic products in February 1998.

Now, two years on, there are more than 210 organic products in 15 categories, and sales volumes are growing. This has positioned Albert Heijn as market leader in organics in The Netherlands.

The main reasons for Albert Heijn to launch a full organic range were awareness of limited but significant customer demand and the company's strategy as an innovator in the market. The initiative also reflects Albert Heijn's broader policy of social responsibility. Crucial to the success of the initiative was the decision to place the assortment under the Albert Heijn private label, demonstrating a strong commitment to suppliers and customers alike. An innovative initiative like this also enhances Albert Heijn's brand value.

Unique marketing activities have been used to promote the new line, including an 'Organic Week' during which the full range of products were presented with informative displays, and both customers and employees were able to taste them. Sales of organic products increased substantially.

It is important to keep customers continuously informed. Regular articles in the company's customer magazine, which is read by 4 million readers – a quarter of the total population of The Netherlands – keep consumers up to date on developments. Packaging is also important. Albert Heijn gives the products a 'fun and

'Meeting a niche market need'

tasty' image rather than a traditional sober green image. This reflects the most recent trends in packaging and makes the products more attractive for a broader range of customers, at no extra cost.



Leontine Gast, organic products manager at Albert Heijn, responsible for the marketing concept:

"The introduction of private label organic products supports Albert Heijn's overall brand strategy of being an innovator in the market."

Albert Heijn tries to procure its organic products from existing 'conventional' suppliers. The relationships built up over the years provide continuity of supply and a guarantee of quality. The development of its organic range is a continuous learning and challenging process, both for Albert Heijn and its suppliers.

Albert Heijn's strategy is to make organic food available for wider groups of consumers and to provide more choice in virtually every category. The prime target group is not so much the green market, but mainstream customers. The main buyers of organic products are among Albert Heijn's primary customers.

Best in Argentina

In 1999 Disco in Argentina also decided to introduce an organic product line. The products are introduced under their private label, 'Bell's Organics', which lends them additional credibility.

Although organic products have existed in Europe and the USA for many years, they are only now becoming available in Argentina. Government policies are encouraging producers to shift to organic production.

Buyers from Disco consulted in 1999 with the organic products manager at Albert Heijn to learn from Dutch experience. After market testing, Disco is rolling out a full organics line during 2000. As a first step, the organic products are introduced in all Disco stores in Buenos Aires. Communication is a key point as consumers need to be educated about organic products and how they differ from other products.



Carolina Garaño, responsible for the marketing of private label products:

"Our logic is simple: Disco is always the first and the best in the super-market business here, so we're going to be first and best in organics too."



During the 'Organic Week', Albert Heijn associates offered customers the opportunity to taste the new private label organic products. This was an effective way of introducing mainstream customers to a new range of products.

Locally grown produce in the USA

Ahold USA companies support local farmers, because this helps to maintain the social and economic fabric of farm-based communities and reduces transportation distances. However, working with small local suppliers requires a big commitment from the produce department. Quality can vary considerably compared to the larger farms in year-round agricultural states like California and Florida.

In 1995, Giant-Landover produce buyer Bob Hartman started developing direct relationships with local growers. The motivation was to improve produce quality through closer coordination with growers and direct store delivery, eliminating unnecessary steps in the chain. Research conducted by Giant showed that the locally grown produce program clearly differentiates Giant from its competitors. More than half of the customers perceived the product as being fresher, and nearly a third cited the benefit to the local economy and support of local farmers.

Locally grown produce is important in other US chains as well. Stop & Shop works with 50 local farmers in its 'Harvest New England' program. Tops has a long-standing relationship with the local growers cooperative in Eden Valley, New York.



Bob Hartman (right), senior produce buyer at Giant-Landover, works closely with local farmers to help them deliver consistently high-quality products.

Biotechnology – the customer has a right to know

Biotechnology, or genetic modification, is currently one of the most dynamic areas of science but also an issue of major public debate in many parts of the world. Advocates of biotechnology in agriculture hope to reduce the use of environmentally harmful chemicals by 'embedding' crop protection abilities in the genetic make-up of plants. Critics are concerned about uncertainties regarding human and ecological health.

Ahold has no principle objections to the responsible use of safe biotechnology where there are clear, demonstrable benefits to consumers. Products made with this technology must have the approval of the regulatory authorities, based on their safety and environmental impact. Ahold believes that consumers have a right to know where their food comes from and how it is made, and that they should be offered a free choice in what they buy. We therefore actively promote labeling of products made with the help of biotechnology.

The European retail trade organization, EuroCommerce, has been pressing continuously for clear GMO (Genetically Modified Organism) labeling legislation in the EU. In The Netherlands, Albert Heijn has worked with supplier organizations, trade boards, the government and consumer organizations to establish clear, understandable labeling guidelines for products made with genetically modified ingredients. In 1999, Albert Heijn required its private label suppliers to ensure that products containing detectable genetically modified ingredients are labeled according to European guidelines.

In the USA, Ahold companies work with the food retail organization, the Food Marketing Institute (FMI), on labeling issues. With regard to genetically modified foods and biotechnology, the FMI and the Grocery Manufacturers of America believe that consumers have a fundamental right to know about the products they buy. This includes information about genetically modified foods or foods containing genetically modified ingredients. The FMI supports the US Food and Drug Administration (FDA)'s role and responsibility in determining appropriate food labeling and communicating a clear definition as to what constitutes genetically modified foods or food products. In its view, the FDA is the appropriate body to be consulted about all genetically modified foods or food ingredients. Such consultation should include a safety review and a decision on appropriate labeling, with the FDA establishing clear criteria for both 'GM-free' and 'non-GM ingredient' labeling.

Finally, Ahold believes that there is an urgent need to better educate the public about food biotechnology and genetically modified foods. This education will be most effective if undertaken as a cooperative effort between the government, consumers, scientists, and business.

Guiding principles on genetic modification

- safety first
- consumer choice
- benefits to consumers
- traceability
- appropriate labeling
- consumer information



Store design and operations

How do we drive costs out of the business
and improve the environment?

Good environmental management in our stores and operations is about eliminating waste, increasing the efficiency of natural resource use, and ensuring our 'license to operate'. Continuing improvements enhance our reputation for quality and service, while providing better cost control.

This section of the report covers key environmental issues in our operations: energy, refrigeration, waste management, packaging, transport, and preventing water pollution.

Enhancing
efficiency
and driving
innovation:
incremental steps and
quantum leaps

Energy: the challenge to use less

Energy – used in our stores for cooling, lighting and all kinds of equipment – is one of our largest variable operating costs. Energy generation in general creates CO₂ emissions, which cause climate change, as well as natural resource depletion and local pollution. It is clear that reducing energy use is a top global priority.

Higher efficiency at lower cost

Upgrading specific energy-consuming components is taking place on a large scale throughout Ahold, driven by the basic imperative of cost control. Through the Ahold synergy structure, experts exchange know-how and results of component testing. The regional and global energy synergy groups test new components and identify the most cost-effective equipment, based on total lifecycle costs (i.e. capital cost of equipment plus energy use and maintenance). The collective purchasing power of the combined companies also brings down the cost of more efficient but more expensive equipment. After sharing test results of new components, Ahold's specifications are upgraded to the most cost-efficient, energy-efficient equipment.

Radical design changes

Despite increases in the efficiency of individual components, total energy consumption in Ahold stores around the world continues to rise, reflecting the trend towards more fresh products, in-store bakeries, freshly

prepared meals, longer shopping hours, and larger stores. To reduce total energy consumption in stores, radical design changes are needed.

Fundamental store redesign projects underway in both the USA and The Netherlands have set high targets for reducing energy use, forcing the design teams to look at the whole store and the inter-relationships between lighting, refrigeration, heating and cooling systems. These projects are being developed together with suppliers. Far-reaching design changes are thoroughly tested before implementation.

Successful benchmarking at store level

The key to motivating store associates is to explain the importance of simple things like turning off lights and closing doors, and by giving useful feedback. This requires measuring and benchmarking of energy use. Although it is almost impossible to benchmark one store against another – due to differences in trading hours, product assortments, and weather conditions – stores can be benchmarked against themselves.

Giant-Landover has turned this into a contest at store level, challenging stores to reduce their monthly consumption from year to year. Each month, the store within each district with the greatest energy reduction is rewarded. The initial results of the program are positive.

In 1999, Giant expected energy use to rise due to an exceptionally warm summer and the expansion and remodeling of many stores (in which additional refrigeration is installed). As a result of this renewed attention to energy conservation, actual energy consumption in the first months of the contest (June and July 1999) was between 1 and 2% lower than in the same period in 1998. Giant is optimistic that even higher savings can be realized if the program continues to be executed well.



Bob Bittner, Director of Engineering, Giant-Landover: "The hot summer weather alone should have increased our energy consumption last year by about 6%. Thanks to the excellent efforts in the stores, energy use was actually down by about 1.5%. We are wasting less, and the savings go straight to the bottom line."

'There are two ways to achieve improvements: by upgrading components one by one, and by fundamentally redesigning the way stores are built'



Setting specific targets

Albert Heijn, together with competitor supermarkets in The Netherlands, has reached an agreement with the Dutch government to improve energy efficiency by 32% and use at least 5% 'sustainable energy' by 2010 relative to 1995. Tops wants to reduce same store energy expenditure by 10% in 2000.

Energy management system leads to significant savings

In Portugal, an innovative energy management system has been installed in 140 Pingo Doce supermarkets and 12 Feira Nova hypermarkets. By better monitoring and control of the refrigeration system, energy savings of approximately 15% have been achieved in refrigeration. The stores can be monitored from headquarters. The system signals equipment failure, open doors, and other energy wasting occurrences. In addition to energy saving, refrigeration is more consistent and reliable, resulting in less product loss. The system is also installed in about 80 Disco stores in Argentina. It is now being tested at Ahold companies in The Netherlands and the USA.

Refrigeration: reducing ozone-depletion potential

Supermarkets are considered significant contributors to ozone depletion by the US Environmental Protection Agency (EPA) and the European Directorate General for Environmental Affairs (DG XI), because of the risk of leakage associated with in-store refrigeration systems. Ahold companies are therefore:

- **phasing out ozone-depleting substances world-wide,**
- **giving leak prevention a high priority, and**
- **developing alternative, more environmentally sound refrigeration systems.**

Phasing out ozone-depleting substances

The two most common refrigerant gases used in commercial refrigeration, CFCs and HCFCs, degrade the ozone layer and are targeted for phase-out under the Montreal Protocol. Ahold companies have all worked to phase out CFCs. At the end of 1999, approximately 10% of Ahold's food retail stores around the world still used CFCs.

'The most important strategy is to develop new systems that use significantly less refrigerants'

The actual volume of CFCs is even lower than the percentage indicates, because it includes mainly the older and smaller stores, with relatively limited refrigeration capacity. Most of those systems will be changed over or replaced by 2002. No new CFCs are installed anywhere and re-supply of CFC refrigerants is only from our own stockpile from phased-out units.

The vast majority of Ahold food retail stores ($\pm 90\%$) use HCFCs or HFCs, but neither are considered viable long-term solutions. HCFCs are also ozone depleters (although less damaging than CFCs), and both HCFCs and HFCs are powerful global warming gases. For these reasons, Ahold is developing, testing and implementing better alternatives (see below). Prevention of leakage of ozone-depleting refrigerants has top priority.

Better maintenance to prevent leaks

Leakage is inherent to large commercial cooling systems. Leaks occur primarily for four reasons: defective equipment, faulty installation, 'wear and tear', and handling losses. All of these potential causes of leaks are being addressed.

In the USA, extra attention has resulted in the development of best practice guidelines on installation and preventive maintenance. The result is a declining trend in leakage from 1997 to 1999. In 2000 the guideline will be disseminated to all operating companies.

Ahold's technical input in new operating companies has made leak prevention a high priority there as well. All new stores meet the same installation standards and include the same leak prevention strategies and detection equipment. Ahold companies will continue to focus on reducing leak rates by raising awareness, sharing expertise and monitoring refrigerant use.

Alternative systems

The most promising emerging technology for significantly reducing the volume of refrigerant used is known as 'secondary cooling'. The key is to use small volumes of refrigerant gases and transfer the cold to a harmless medium that can be pumped through the refrigeration cases in the store.

Ahold's testing of secondary cooling systems, reported in 1998, is continuing. For example, Albert Heijn is designing a fundamentally new refrigeration system in cooperation with suppliers and the Dutch energy efficiency authority NOVEM. The test was delayed for much of 1999 because of licencing issues, yet should

go ahead in 2000. In November 1999, Albert Heijn started a pilot project in one store, using a combination of HFC and Flo-ice (water and alcohol or a saline solution). This is one of the first five commercial applications of this technology in supermarkets in Europe. Two pilot projects are planned for 2000, using other promising combinations of refrigerants. At Ahold USA, a system has been designed that is almost as cost-effective as existing systems. It will be tested in two chains in 2000.

Ahold's refrigeration policy

Ahold companies adhere to the spirit of the Montreal Protocol, while experimenting with potential long-term solutions:

- Global phase-out of CFCs.
- No new installation of CFCs anywhere.
- Re-supply of CFC refrigerants only via our own stockpile from phased-out units.
- Recover and recycle refrigerants wherever possible.
- No intentional release of any refrigerants.
- Pressure test all new systems with nitrogen, not with refrigerant.
- Allow refrigerants to be handled only by qualified and legally certified technicians.
- Share best practices through global and regional synergy groups.
- Continue to develop more environmentally sound long-term solutions.

Refrigeration terminology

CFCs

Chlorofluorocarbons: refrigerants containing chlorine, fluorine and carbon. When released into the upper atmosphere, they degrade the stratospheric ozone layer. As the ozone layer is depleted, more ultra-violet (UV-B) radiation reaches the earth, increasing the risk to human health and ecosystems. The most commonly used CFCs are R12 and R502.

ODP

Ozone depletion potential: the potential to damage the stratospheric ozone layer (with CFC R12 as the reference point).

HCFCs

Hydrochlorofluorocarbons: refrigerants, that like CFCs deplete the ozone layer, although with lower ODP. The most commonly used HCFC is R22.

HFCs

Hydrofluorocarbons: refrigerants with no ODP, but with global warming potential when released into the atmosphere. The most commonly used HFCs are R134 and R404a.

Waste and packaging solutions

Waste generation is an excellent indicator of inefficiency. By gaining more knowledge of waste streams we are better able to eliminate unnecessary sources of product loss and waste. Waste reduction programs save money, increase productivity, and more efficient transport packaging can lighten workloads.

Creating value from waste

Stop & Shop initiated a program in 1997 to segregate organic store waste and use it for composting. After a successful pilot project in Western Massachusetts, the program was expanded in 1998 to eleven stores in that region. Stop & Shop is now working to extend composting to two other market areas where waste disposal is a critical local issue: Cape Cod and the state of Rhode Island. Stop & Shop's proactive composting initiative saves money on disposal fees, reduces pressures on municipal land fills, and puts nutrients back into the soil. It also helps to maintain and improve good relationships with both public authorities and the community.

Better insight into over-ordering

At Albert Heijn, all organic waste, paper, plastic shrink-wrap, and cardboard is returned to the distribution centers for recycling. As a result, Albert Heijn has realized a 50% reduction in solid waste and a 40% reduction in waste disposal costs since the start of the project. In the last two years, the program has been improved. Albert Heijn is now starting to use this program to gain better insight into over-ordering, to reduce product shrink (unsold products becoming waste). In 1994 Albert Heijn developed the concept of 'today for tomorrow', which means that store replenishment orders placed today will be delivered tomorrow (see also page 32). By linking scanner-data with the ordering and distribution systems they will be able to substantially reduce product loss and waste due to over-ordering.

Upgrading existing programs yields surprising results

BI-LO's trash removal costs rose more than 30% from 1997 to 1999. In 1999, BI-LO revisited its waste disposal program to identify cost reduction opportunities.



George Sherback, Manager
Environmental Affairs, Stop & Shop:
"Composting won't work everywhere. You need the right combination of hauling costs, nearby composting sites and efficient store procedures for segregating waste. But where it works, we are going to push it. It is good for the communities where we do business, our associates feel good about it, and as waste disposal becomes more expensive, it is going to save us money."

A concerted program to improve recycling of cardboard from stores led to a 10% increase in cardboard recycling tonnage, and a new program was started to recycle shrink wrap and plastic. Not only are revenues up from recycling, but in 1999 BI-LO also saved approximately USD 180,000 in trash removal costs due to the decreased number of pick-ups at store level.

Exchanging best practice on hazardous waste handling

Supermarkets do not generate large volumes of hazardous waste. However, truck fleet maintenance is one area where extra attention is required because of the cleaning of engine parts and disposal of used motor oil. In 1999, the US synergy group prepared an 'Ahold Best Practice Guideline for Managing Hazardous Waste', derived from the experience of the full-time environmental managers at Giant-Landover and Stop & Shop. The Guideline was distributed among the Ahold USA operating companies in 1999 and will be made available to Ahold companies around the world in 2000.

A key element of the program is eliminating hazardous waste handling by changing the processes and solvents that generate them. In 1998 for example, a supplier of cleaning solvents developed a process to separate contaminants from the solvent in the engine parts washer, enabling longer periods between changes of the solvent. By combining this technique with a safer solvent, the yearly volume of hazardous waste generated at Stop & Shop and Giant-Landover has been reduced by approximately 40%.

Innovative packaging and improved logistics

In The Netherlands, Albert Heijn has been a leader in implementing the Dutch industry-wide covenant on reducing packaging waste. In 1998, the company issued new Packaging Guidelines, which have been commended by the Dutch Minister of Environment as trendsetting in the industry. The guidelines integrate the environmental objective of reducing waste with the business objectives of supply chain cost control and more efficient handling in stores and distribution centers.

National pool system for re-usable crates in Thailand

In 1999, TOPS Thailand initiated a project to introduce a national pool for re-usable plastic crates (RPC). It is designed to significantly reduce transport packaging waste and to create handling efficiency gains through standardization. The success of the system depends on widespread use, also by competitors.

RPCs were introduced in The Netherlands years ago and are now used by all major supermarket chains. Drawing on that experience, TOPS Thailand started a national pool with 150 users and initiated the first discussions in Thailand to transform Thai retailing. It is anticipated that the pool system with re-usable crates will be operational in 2000.

Positive alternatives to bottle deposit systems

Deposits on bottles are used around the world to encourage recycling. In the USA, 'curbside recycling' (home pick-up of recyclable materials) is an important way for consumers to recycle many kinds of packaging. Research has shown that curbside recycling would capture more packaging than deposit systems, which only affect a limited segment of packaging waste. Giant-Landover worked closely with the 'Keep America Beautiful' foundation to help strengthen the viability of curbside recycling and provide meaningful alternatives to deposit systems in Washington, D.C. Stop & Shop and Giant-Carlisle also support voluntary industry initiatives to strengthen commercial recycling.

Re-usable crates at the World Fresh Distribution Center that services TOPS Thailand



More efficient transportation

Heightened awareness of the contribution of transportation to environmental problems has led to increasing public concern, particularly in the most congested and pollution-sensitive areas where Ahold operates. Through the focus on reducing distribution costs, Ahold companies also realized reductions in the environmental impact of transportation. The focus is on better vehicle utilization, achieving greater resource efficiency, as well as more efficient routing/scheduling.

Vehicle utilization

Stop & Shop has developed a system to determine the most efficient pallet positioning and wheel placement. By better distributing loads, Stop & Shop has been able to achieve a 10% increase in products shipped per load, resulting in a reduction in overall vehicle miles.

By increasing the weight on the front wheels, traction and maneuverability also improved dramatically, making trucks safer on the road. The latest phase of this program has included replacing heavy steel floors and plywood walls with aluminum and other lighter materials.

Resource efficiency

At Giant-Landover, fleet conversion to synthetic oil will allow trucks to go 80,000 miles between oil changes, compared to the current 20,000 miles using conventional oils. With a fleet of 275 trucks and each oil change using 44 quarts of oil, this represents a significant reduction in waste oil generation. Stop & Shop is currently testing an oil filtering unit, which extends oil changes to 300,000 miles, with filter changes at 75,000 miles.

Better scheduling

Many of Ahold's operations around the world are reducing truck trips by optimizing scheduling and routing with the use of on-board computers and planning software. For instance, a Global Positioning System recently implemented at Giant-Landover is improving deliveries and route planning. Truck deliveries are planned to utilize the most direct routes, but also to

comply with transportation and 'quiet zone' requirements. This system enables significant mileage savings and provides feedback to drivers so that they can further improve efficiency.

In 1994, Albert Heijn developed the concept 'today for tomorrow'. Store replenishment orders placed today are delivered the next day, within 18 hours of ordering. As a result the number of daily deliveries is reduced to two: one by refrigerated truck and one unrefrigerated. The number of direct deliveries by suppliers is kept to a minimum, with only fresh bread and magazines being delivered directly to the store. This streamlining of logistics has led to a 75% reduction in the number of deliveries and the mileage traveled by trucks supplying urban Albert Heijn supermarkets has been cut by 50%.

Exchanging best practice to prevent water pollution

A relatively new issue for supermarkets is preventing water pollution from the water that runs off our parking lots, also called 'storm-water run-off'. The cause of the pollution can be simple leaks from trash compactors, trucks and cars, but also people who unscrupulously use parking lots to dump their waste.

Contaminated water run-off significantly degrades water quality and aquatic habitats. In many urban and industrial areas, it accounts for 50% to 80% of the pollution entering surface waters. In addition, there is concern about new parking lot development because of disruptions to the natural water cycle. New hardened surfaces can result in rainwater flowing too quickly into rivers and streams and not recharging underground aquifers (water-holding layers). Solutions include better design of parking lots, such as building natural water filtration areas and oil-water separators, and good sanitation and maintenance around the store.

Management guidelines

Since 1996 Stop & Shop has implemented a comprehensive storm-water management program in 25 stores in Connecticut. They developed 'best management practices' which are now applied at other sensitive sites. In 1999, based on the experience gained at Stop & Shop, Ahold USA developed storm-water management guidelines for all of its operating companies.

'The Clean Charles Coalition wants to make the Charles River fit for fish and swimming by 2005'

These include a list of preventive actions and a maintenance checklist for use by store managers. Design recommendations are also provided for new store development and retrofitting in sensitive locations.

Cleaning up the Charles River

In 1999, Stop & Shop was invited to join the 'Clean Charles Coalition', a voluntary group of companies formed to make this once-polluted river that runs through the city of Boston fit for fish and swimming by 2005. Stop & Shop, the only retailer in the group, has played a prominent role, sharing its know-how with environmental management staff from local universities including Harvard, MIT, Boston University and Northeastern University, as well as other leading companies in the area.



Charles River, Boston, Massachusetts

Royal Ahold - Corporate Profile

Royal Ahold is a rapidly growing international food provider with almost 4,000 leading supermarkets, hypermarkets, and other store formats in the United States, Europe, Latin America and Asia. 1999 sales amounted to Euro 33.5 billion. Ahold employs more than 300,000 people and services over 30 million discerning customers every week.

In the US, Ahold operates over 1,000 stores grouped in five operating companies along the eastern seaboard. 1999 sales at Stop & Shop, Giant-Landover, Giant-Carlisle, BI-LO and Tops totaled USD 20.3 billion.

In Europe, Ahold operates 2,400 stores with 1999 sales of Euro 10.4 billion. In The Netherlands, it has six store chains with 1,750 outlets including supermarket leader, Albert Heijn. Ahold also holds a 73% interest in Schuitema, a wholesale supplier to independent supermarket operators.

In Portugal, Ahold is co-owner of supermarket chain Pingo Doce and the Feira Nova hypermarkets.

In the Czech Republic, Ahold operates the Mana supermarkets, the Prima mini-hypermarkets and the Hypernova hypermarkets. Ahold is also further developing its operations in Spain and Poland.

In December 1999, Ahold announced its intention to establish a 50/50 joint venture with the ICA Group, Scandinavia's largest food retailer with 3,100 stores and sales of Euro 6.7 billion.

In Latin America, Ahold operates around 500 stores in joint ventures with strong local partners. 1999 sales totaled Euro 3.5 billion. In Brazil, Ahold is co-owner of food retailer Bompreço. In Argentina, Ahold is joint-owner of supermarket chain Disco and in Chile, Peru, Paraguay and Ecuador of the Santa Isabel supermarkets. In December 1999, Ahold and La Fragua, Central America's largest food retailer, started a 50/50 joint venture in Guatemala, El Salvador and Honduras with sales of Euro 535 million.

In Asia, Ahold operates almost 100 TOPS supermarkets in Thailand and Malaysia, including its limited presence in Indonesia. Asian 1999 sales amounted to Euro 500 million.

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