

2008 AGM: QUESTIONS RAISED BY SHAREHOLDERS AND SUPPORTERS

1. ECONOMIC/COMMERCIAL ISSUES

Questions asked at the AGM:

- a) **Stephen Tully: Fair Trader:** *Stephen opened by advising he had been a supporter for many years, and offered his thanks to Paul Chandler, Chief Executive for his excellent presentation and all his hard work – it always re-inspired him to attend AGMs. How can we expect customers to pay more for products at a Fair Trader stall than in supermarkets – the extra mile message isn't always enough? We then also write out asking for donations to Traidcraft Exchange, how many times do you expect us to give?*

- b) **Sian Petterman: TX Supporter and Fair Trader -** *Can Traidcraft make a strategic review of its products' cost in catalogue compared to cost in local supermarket, especially items such as cookies, FairBreak wafers and Fruit Passion juice? If our price difference is too great we will lose credibility.*

Response by Larry Bush, PLC Marketing Director: Larry prefaced his remarks by reminding everyone that Fairtrade has been growing at a huge rate: last year sales were worth £500m, which from a producer point of view is something to celebrate. This growth has been due to everyone who has attended today and everyone who sells on behalf of Traidcraft. Larry had been speaking to a producer from Belize earlier in the week who told him that 6,000 children had been enabled to attend school because of Fairtrade sugar, which brought home the real impact we were having.

Turning to the issue of product pricing, he noted that in the last year food commodity prices have increased around the world causing huge increases in the ingredient costs of manufacturers supplying supermarkets. The experience of sharp food price rises economic downturn has led to intense competition between supermarkets as they try to out-compete each for the lowest prices. Fairly traded goods are not immune from the general price rises, and are being caught up in this price war. Supermarkets are sometimes choosing to sell our products at very low or no profit to make claims about the overall cheapness of their range offerings, and although we aim to keep our prices to supermarkets at levels which should lead to retail prices in line with those offered by Fair Traders, we cannot in law insist on their setting a particular price level. Nor can we afford to reduce our prices to Fair Traders further – supermarkets are cross-subsidising their offerings from other lines, but we don't have alternative sources of profit. We recognize that at times this is leading to some significantly cheaper Traidcraft products appearing on supermarket shelves, and this is difficult for Fair Traders, and we will continue to battle to get supermarkets to raise their prices.

Whilst many Fair Trader customers will buy cheaper Fairtrade products in supermarkets, many also recognize that the prices of all products vary with location, and that convenience factors mean they are prepared to pay more for goods in a local shop or catering outlet than in a supermarket – and this applies to Fair Trader stalls too. We need to continue emphasizing the added value impact on producers of customers supporting Traidcraft by buying through our stalls.

Tricia Rutter: Key Contact and Fair Trader commented from the floor: She had made the decision to hold food prices at Summer 2008 rates because of the economic situation and does so to ensure support for her stalls.

Response from Mags Vaughan, PLC Business Director: With regard to Fair Traders receiving requests to donate to Traidcraft Exchange, we are aware of the dangers of over burdening people with mail requests, and try to recognize people's multiple relationships with us. However, Traidcraft Exchange does need public donations to sustain its work, and we know that many Fair Traders do generously make donations (about 36% do this at the last count). We don't want people to feel guilty if they can't support us in both ways, but we owe it to our target beneficiaries to make people aware of their needs and all the ways in which Traidcraft can help.

c) **Stephen Tully: Fair Trader:** *Do we have any plans to introduce a Traidcraft Wedding List service?*

Response from Mags Vaughan, PLC Business Director: We do currently sell our products to a couple of companies who produce wedding lists, and if you "Google" wedding lists you will find them. Our own range is probably not wide enough to offer a Traidcraft only wedding list, but this is an idea we'll continue to bear in mind for the future.

d) **Moira Bridge: Retailer York:** *When the catalogue is published we claim to offer the UK's largest range of fair trade products – do we ?*

Response from Larry Bush, PLC Marketing Director: Larry recognised that some fair trade retailers do sell even more fair trade products than appear in our catalogue, but these are sourced from a variety of organisations. Our range of food and crafts products is the most diverse and largest list of any UK fair trade importer.

e) **Peter George: Fair Trader and Key Contact:** *Is it not confusing and poor practice to have two Traidcraft logos/brands – one on products and another on corporate literature?*

Response from Larry Bush, PLC Marketing Director: We are very pleased with our new style packaging with Circulate logo, and have recently won yet another award from The Grocer magazine. Geobar sales are up 30% since rebranding, and we are getting many enquiries from other potential licensees struck by the power of our brand. However, the "Circulate" branding was deliberately designed as a consumer-facing packaging brand, and does not represent the fullness of Traidcraft's work. Conscious of a mismatch between the packaging and our overall logo, we have recently updated the corporate logo, so that the typeface of the word "Traidcraft" is consistent, and to give a

bolder more confident and modern feel to the corporate logo – whilst retaining the spirit and Christian imagery of our original logo to which many of our supporters are very loyal, but which feels less appropriate on a supermarket shelf where we reach out beyond the Christian community. Whilst a single brand might be easier to manage, we do not feel either one could do the whole job required, and that any slight confusion is something we can live with.

f) Gill Parker: Fair Trader: *Some luxury Christmas items (Divine chocolate footballs) are being sold cheaper by The Ethical Superstore – can you explain this ?*

Response from Larry Bush, PLC Marketing Director: There are always different prices available in different places – and Ethical Superstore does sometimes undercut us on prices of non-Traidcraft products such as those from Divine. We do watch prices carefully. **Comment from the floor:** When she last bought the chocolate footballs from Ethical Superstore it arrived with only one week left before its sell-by date – maybe that’s why it was being sold off so cheaply, but it meant she could not re-sell it and she’ll never do it again!

g) Linda Green: Fair Trader: *Could we comment on delivery problems – if customers work full time they would like to be able to specify delivery at certain times. Also sometimes items are damaged (e.g. olive oil.)*

Response from Mags Vaughan, PLC Business Director: Traidcraft sends out some 170,000 parcels a year through ANC (Fedex) and Parcel Force. We have recently renegotiated our contract with Fedex and are aware that in some parts of the country they are not meeting delivery standards – though in others things seem fine. Much depends on the local office and individual drivers. The new contract is based on service improvements so please provide any feedback into our customer services department: we do want to hear from you. We inevitably suffer some breakages in transit – and recently have been particularly aware of rice bags splitting – though we hope this has been addressed. Olive oil does sometimes break, but I am glad to say this has been much less frequent than we had feared, and is actually quite rare. Where goods are damaged we will of course replace them.

Questions submitted in writing:

a. ***Traidcraft products can be available at different outlets at very varied prices for the same product – even different prices at different Oxfam shops for example. Some genuine purchasers have queried such variables (since the differences do not benefit the producers presumably but only the seller). Are such varied prices a good or a bad thing for Traidcraft and fair trade?*** **Richard Baker**

We are not allowed by law to fix the prices at which outlets choose to sell our products – each retailer will have their own strategies, cost levels and margin policies, and are free to compete. Generally speaking, competition is a good thing in encouraging greater efficiency, and as you say, the retailers’ prices do not affect the income of producers, as they have already been paid the agreed fair trade price for their product by Traidcraft. However, where supermarkets use their financial muscle to charge very low prices for

some of their products, effectively offering them at a loss (and this has been the case on some Fairtrade products during recent supermarket “price wars”) this can be damaging to those offering products at a more sustainable price through other channels, and may create unrealistic consumer expectations about the real price that should be charged for a product.

- b. *Could Traidcraft please review its pricing policy for products which it sells to supermarkets and via its catalogue? FairBreak bars from Traidcraft cost £1.25 for a pack of 9 (and with no discount for Fair Traders). FairBreak bars in local supermarket cost 99p for a pack of 10. Traidcraft Cookies cost £1.25 from Traidcraft, while they cost 99p from the local supermarket. A litre of Fruit Passion costs £1.50 from Traidcraft, and 99p from the supermarket. The growing discrepancy between catalogue prices and supermarket prices makes it cheaper for Fair Traders to purchase a range of Traidcraft products from their local supermarkets and then resell them on their stalls at cost price, than for them to buy them directly from Traidcraft. We know that there are good reasons for buying them from Traidcraft rather than supermarkets, and we can try to explain these reasons to customers, but if the price difference is too great, Traidcraft risks losing credibility.* **Hilary Belden**

We are not able to fix the prices at which supermarkets sell our products and in fact since recent changes to the law we are not even allowed to recommend retail prices to supermarkets. This means that even though we offer the best value prices that we can to Fair Traders we can't guarantee that supermarkets won't sell them cheaper. This is particularly challenging right now because there has been significant price inflation of many food commodities (including many Fairtrade commodities) and increased costs of packaging and distribution which have added to the costs of many of our products. At the same time all the supermarkets have launched price reduction campaigns in order to retain customers who are looking for ways of saving money in the current economic climate. In the case of many of our Traidcraft products the cost price to supermarkets has gone up but the supermarkets have chosen to either keep their selling prices the same or even reduce their selling price! Supermarkets can afford to do this across some products (sometimes at a loss!) and make their profits elsewhere. However at Traidcraft we can't afford to do this so we have had to increase some of our selling prices this Autumn including Cookies, Geobars and FairBreak. Fruit Passion is another example of a supermarket promotion where the retailer has chosen to reduce prices (as part of a wider reduced price campaign) well below the expected selling price. We accept that this is a challenging situation for Fair Traders and we are doing everything that we are legally able to do in order to influence supermarkets to sell Traidcraft products at the normal selling prices that we would expect. Please be assured we strive to offer the best possible value to Fair Traders and we recognise the vital role that they play in communities across the country. As you have highlighted there are many other benefits for producers in the developing world when people buy from Traidcraft and we are very grateful to Fair Traders for continuing to explain these reasons to their customers.

- c. *What is the value of stock held for a) more than 2 years and b) more than 4 years?* **Jim Lugton**

Stock to which we attribute value that is four years or more old totals £27,000. The majority of this is rice and £23,000 of it has in fact been sold and will be delivered to the customer over the next few months. There is a limited amount of craft/clothing stock that is between two and four years old, with a value of £45,000. This is a very small proportion of the total stock (some £2.7 million at the last year end), and we are finding that we can use our webstore to achieve sales of older items that cannot be promoted through our catalogues. Overall, we take a very conservative approach to stock valuation, and believe we have a pretty clean stock holding.

2. SHAREHOLDER ISSUES

Questions submitted in writing:

a. *Where and how can I check the value of my shares. No name/address given*
Brewin Dolphin can advise shareholders on the value of their shares. Brewin Dolphin can be contacted at PO Box 512, National House, 36 St Ann Street, Manchester M60 2EP. Tel: 0161 839 4222, email: neil.harding@brewin.co.uk.

b. *Other ethical companies (e.g. Ethical Property Company) aim to give investors a return of about the rate of inflation on their investment. This is fair. Why does Traidcraft not do this when it would be cheaper than bank borrowings and encourage more investors? Dr Hayes-Allen*

At the time of our 2003 share issue we made it clear that we agree entirely that shareholders deserve a fair return on their capital and that we would aim to pay dividends in line with inflation. The fact that our recommended dividend is about 2% of our shareholders funds, and a little below inflation, reflects the fact that after last year's loss we have only returned to modest levels of profitability, and owing to accounting rules and tax law, we only have a limited cumulative distributable reserve from which we are allowed to consider paying dividends. In relation to attracting more investors, it is true that when we next seek to raise capital, having a track record of paying a dividend may attract some investors – although the evidence is that most investors in Traidcraft are much more concerned by our “social dividend”. Incidentally, we understand that the Ethical Property Company does not in fact have a specific target of matching inflation with their dividends, although that may be what they have done in recent years.

- c. ***How long have Baker Tilly been the auditors? It is my view that all organisations should be required to switch after 5 years – too many examples of auditors who have got too close to the Company and turn a blind eye. David Bryden***

Technically Baker Tilly have been our auditors since 2003, although they were formed as a result of a merger with our previous auditors Grant Thornton. The partner responsible for our audit (who changed at that time) retired last year, although the new partner on our account is in fact the person who previously managed our audit. We retender all our professional services on a regular basis, and the Audit Committee is conscious of issues such as the one you mention when considering bids, but it will only be one of a number of issues to consider. The next retendering of our auditors is scheduled to take place next year.

- d. ***12+ directors. Mr. Bridgland***

Under the rules of good practice corporate governance a Board should have more non-executive directors than executive directors. We currently have five executive directors and one elected Staff Director, so the minimum number of non-executives is seven – which is the number we have in post. We also find that given the diversity of the range of our activities across both the plc and Traidcraft Exchange, we do need that number of non-executives to bring a sufficient range of expertise and perspectives to our Board discussions.

- e. ***Who is paying for the teas and lunch at the AGM, not me I hope? Mr. Bridgland***

The costs of any AGM are funded by the company as a normal business expense, and we believe modest catering that encourages more shareholders and other stakeholders such as Fair Traders to attend and participate is a positive factor that encourages more stakeholder engagement and accountability. Those who attend the meeting are invited to make a voluntary contribution towards costs, but many have also incurred travel costs in coming to the event.

3. REMUNERATION ISSUES

Questions submitted in writing:

- a. *I would like to see how the salaries of Traidcraft executives compare to other international charities e.g. Oxfam. No name/address given.*
- b. *Some Directors salaries and pensions increases are incredibly high. Why? Do you not know how the real world is living? Hard times are ahead for us all so, why is so much of our money being used to boost pensions and salaries. Larry Bush pension up 100% year on year. Simon Grant pension up 400% year on year. Mags Vaughan salary and pension up 10% year on year. John Hinton, part year but pension up over 20%. Mr. Bridgland*
- c. *Directors are happy to destroy our trees and to give themselves salary and pension increases which are not know in the real world. Mr. Bridgland*

The Remuneration Committee sets executive director fees after reference to benchmark data about the salaries of directors in other charities – despite the fact that many of the duties of Traidcraft executives are more related to commercial activities (which normally receive higher salaries). The current levels of salaries are actually slightly below the average for charities of similar size and complexity. The Remuneration Committee does need to set salaries at a level sufficient to attract and retain a high calibre of director, and we believe we have the balance about right – but we are currently undertaking a formal review of our processes and benchmarks with external advice. Some of the apparent “increases” relate to the fact that the individuals in question only served a part year in the previous year (those for Larry Bush, Simon Grant and John Hinton). Mags Vaughan was also promoted during the year, and took on significantly increased responsibilities reflected in her increased salary.

- d. *Shocked to see Non Exec Directors paid £2,950 pa. each. Shareholder serves on boards and is a trustee and receives no fee. Would be happy for letter to be shared with Non Execs. Ruth McNeil*

Traidcraft plc is not a charity, but a public company, with the responsibilities and liabilities that entail, so we believe it is appropriate for non-executives to receive fees in respect of their role on the plc Board (they do not receive fees in respect of time spent on Traidcraft Exchange’s charitable business). Fees are set at a level that is similar to the daily rate paid to an Executive director. Non-executive fees are not being increased this year, but will be reviewed next year as part of a three yearly cycle.

4. ETHICAL POLICIES

Questions submitted in writing:

- a. *One of the things I like about Traidcraft is its ethical stance. So why do you still use HSBC as your sole bankers? When did the Board last review who you bank with? Do you try to persuade HSBC to be more ethical? Ian Salmon*

We have banked with Midland/HSBC for many years – and they stood by Traidcraft in difficult times in the 1980s and 1990s and continue to be very supportive. We do regularly tender for banking services, and the last occasion was in 2005. We invited a number of ethical banks to tender at that time, but they either could not offer the international services we required or failed to show real interest in our business – we found this surprising, but there was in the end no real contest to the reappointment of HSBC. We have indeed used the relationship to meet with HSBC's corporate responsibility team and discuss their company ethics, and note that there are some ways (eg refusing to finance the arms trade) in which HSBC has been leading in its practices. However, like most global banks there are equally other situations in which they are involved which we might regard as less desirable, and we agree that all their customers should continue to encourage them to improve their practices.

5. ENVIRONMENTAL ISSUES

Questions submitted in writing:

- a. *I was disappointed to receive two notices of annual general meeting in the same envelope as this is clearly a waste of time money and paper. Surely the dividend donation mandate could be on an A5 piece of paper again saving resources and, even better, maybe have them only available on request as most people who have chosen to opt in will have already done so. J.Dawson*
- b. *Why have I been sent duplicates of all AGM literature? We are trying to save the world not destroy more trees. Mr. Bridgland*
- c. *As a member of Green Party regret masses of paper sent. Many sheets printed on one side only. Please send only one mailing per year. Prefer not to receive appeals. Helen Clarke*

We have significantly reduced the amount of paper in our shareholder mailings over the last two years by not automatically sending out printed annual accounts and social accounts, and we are increasingly using our website as an alternative to producing printed materials (though many supporters still don't have or like Internet access, so there are limits to how far this can go). We have also taken steps to overhaul the types of paper used for our catalogues during the year. We sympathise with the desire to reduce paper usage further, but at the same time we do have an obligation to communicate effectively with our shareholders.

- d. *How does Traidcraft propose to reduce the seventy five percent of carbon emissions to make the company environmentally sustainable? Carolyn Zachary.*

Traidcraft is doing what it can to minimise its carbon impact, and in the past year we have made some further progress, with less than 2% of the products we import now being transported by air freight, and continue to buy energy for green sources – among other steps. Where we have not been able to reduce our impact, we seek to make off-setting payments. We will continue to work with our producers and others in our supply chains to reduce our carbon footprint, but we cannot of course let this entirely override the fact Traidcraft's particular mission is to fight poverty through trade, and we will therefore

continue to be engaged in international trade and will thus have a certain level of carbon impact.

6. PRODUCT ISSUES

Questions asked at the AGM:

Could the Fairtrade Mark be included on some of our products, such as sugar, as it would make selling easier?

Response from Larry Bush, PLC Marketing Director: Some of our composite products do not contain enough ingredients for which formal Fairtrade criteria exist to qualify for the Fairtrade Mark, or come from producers that are too small to make the costs of a full Fairtrade Foundation audit worthwhile. However, we will shortly be re-working the recipe for our pasta, for example, to contain more quinoa and thus qualify for a Fairtrade Mark.

Response from Joe Osman, PLC Sourcing and Producer Support Director: Our sugar has for many years come from smallholder sugar growers in Mauritius, and a further key fair trade component of it has been the packaging work carried out by disabled workers at CraftAid. We have been working for over five years to help the sugar growers establish the formal structures they need to qualify for a Fairtrade Mark, and we believe we have finally achieved a breakthrough in certification with the prospect of achieving some formal Fairtrade certification for our sugars next year.

Questions submitted in writing:

- a. *According to the Annual Review, most Fair Traders are women. Could this partially be due to Traidcraft having products which are so female biased. It is hard to find any clothing products for men and so this makes it rather pointless trying to sell products to men! J. Dawson*
- b. *I am disappointed with the August catalogue. There are no men's clothes for sale, and the usual range of candles and ornaments. It's time that a much broader range of goods was offered, or mail order buyers will just lose interest. Simon Rayner*

Most customers have responded very positively to the new catalogue range, but we accept that most of the products are oriented towards women purchasers, and men's clothing is rarely in our range. This sadly reflects the fact that when we include men's clothes and other items they often do not sell – and we can ultimately only produce those items for which there is a market we can reach. Offering a much wider range of clothing would be necessary to address this issue satisfactorily, but we are not primarily a clothing company and the risks in this sector are particularly great, with much depending on short term fashion trends. Nevertheless, other men's items are among the products we are continually seeking to identify, and we are hoping to select a range for the autumn 2009 catalogue. Whilst noting the comments about the “usual range” of crafts products, we note that our commitment to working long term with particular producer groups will always make this challenge, as we need to work with the skills and materials they have available. Fortunately sales of crafts products have been growing strongly over the last two years, so it does not seem that this factor is leading to a loss of customer interest.