

## Corporate governance

### Statement of compliance with the principles in the Combined Code

This statement sets out the manner in which the company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to provide an explanation which enables the company's shareholders to evaluate how these principles have been applied.

### Directors

The Board of Tesco PLC comprises ten executive directors and six independent non-executive directors. The Board is chaired by Mr J A Gardiner, an independent non-executive director, who has primary responsibility for running the Board. The Chief Executive, Mr T P Leahy, has executive responsibilities for the operations, results and strategic development of the Group. Clear divisions of accountability and responsibility both exist and operate effectively for these positions. In addition, Mr G F Pimlott is the senior non-executive director. The Board structure ensures that no one individual or group dominates the decision-making process.

The full Board meets ten times a year and, in addition, annually devotes two days to a conference with senior executives on longer term planning. The Board manages overall control of the Group's affairs by the schedule of matters reserved for its decision. Insofar as corporate governance is concerned, these include the approval of financial statements, major acquisitions and disposals, authority levels for expenditure, treasury policies, risk management policies and succession plans for senior executives. In order that the Board is able to make considered decisions, a written protocol exists, and has been communicated to senior managers, ensuring that relevant information is presented to all Board members one week before Board meetings. All directors have access to the services of the Company Secretary and may take independent professional advice at the company's expense in the furtherance of their duties.

The Board delegates day-to-day and business management control to the Executive Committee which comprises the executive directors. This meets formally every week and its decisions are communicated throughout the Group on a regular basis. The Executive Committee is responsible for implementing Group policy, the monitoring and performance of the business and reporting to the full Board thereon.

Appointments to the Board for both executive and non-executive directors are the responsibility of the Nominations Committee which is chaired by Mr J A Gardiner and whose members are set out in the table on page 11.

The company's Articles of Association ensure that on a rotational basis one-third of the directors resign every year and, if so desire and being eligible, offer themselves for re-election. This is reflected in the section on 'Directors and their interests' within the Directors' report on pages 7 and 8. Non-executive directors are appointed for a period of three years.

### Directors' remuneration

The Board has a long-established Remuneration Committee composed entirely of non-executive directors which is chaired by Baroness O'Cathain, and whose members are set out in the table on page 11. The responsibilities of the Remuneration Committee, together with an explanation of how it applies the Directors' remuneration principles of the Combined Code, are set out in the Report of the Directors on Remuneration on pages 12 to 16.

### Relations with shareholders

The Board attaches a high importance to maintaining good relationships with all shareholders and, primarily through the Investor Relations department, ensures that shareholders are kept informed of significant company developments. During the year, directors have met with more than 40 of our leading shareholders representing over 45% of the issued shares of the company.

While the focus of dialogue is with institutional shareholders to whom regular presentations are made on company direction, care is exercised to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements.

The Board regards the Annual General Meeting as an opportunity to communicate directly with private investors and actively encourage participative dialogue. The Chairman, executive directors and chairpersons of the Audit and Remuneration Committees attend the Annual General Meeting and are available to answer questions from shareholders present.

## Corporate governance continued

### Relations with shareholders continued

Each year-end, every shareholder may choose to receive a full Annual Report and Financial Statements or an abbreviated Annual Review and Summary Financial Statement. At the half-year, all shareholders receive an Interim Report. These reports, together with publicly-made trading statements, are available on the company's website (<http://www.tesco.co.uk>).

### Accountability and audit

The company has an Audit Committee, chaired by Mr J W Melbourn and consisting entirely of non-executive directors, which meets a minimum of three times a year. Membership of the Audit Committee is set out in the table on page 11. Its terms of reference represent current best practice. The Audit Committee's primary responsibilities include monitoring internal control throughout the Group, approving the Group's accounting policies and reviewing the interim and annual financial statements before submission to the Board. In terms of financial reporting, an assessment of Group performance is set out in the Operating and Financial Review on pages 2 to 6.

### Internal financial control

The Board has decided that until the working party set up by the Institute of Chartered Accountants in England and Wales has produced guidance for directors on the application of the Combined Code provision on internal control, the Board will report on internal financial control in accordance with the guidance issued by the Rutteman Working Group in December 1994.

The Board has overall responsibility for the systems of internal financial control. Implementation and maintenance of the internal financial control system is the responsibility of executive management. The Board, through the Audit Committee, has reviewed the effectiveness of the systems of internal financial control for the accounting year and the period to the date of approval of the financial statements although it should be understood that such systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The Group has an established framework of internal financial controls, the key features of which are as follows:

**Organisational structure** The responsibilities of the Board set out above are designed to ensure effective control over strategic, financial and compliance issues.

**Financial framework** The Group operates a comprehensive system of financial reporting to the Board and senior management, based upon an annual budget and regular forecasts. Weekly and periodic reports of actual results together with key performance indicators are produced. The Group monitors financial performance along with other non-financial objectives through a balanced scorecard approach ensuring overall alignment of goals and objectives.

**Policies and procedures** The Group employs over 200,000 people including over 1,700 senior managers. Management control is formalised at all levels and is regulated by cascading limits of authority. Formal policies and procedures also exist for areas which are identified, by their nature, as being significant risk areas. Policies and procedures are regularly subject to compliance audits.

**Quality and integrity of personnel** The Group attaches high importance to the values of trust, honesty and integrity of personnel in responsible positions and operates a policy of recruiting and promoting suitably experienced personnel with clearly defined accountabilities.

**Investment appraisal** The capital investment programme is subject to formalised review procedures with key criteria requiring to be met. All major initiatives require business cases to be prepared, normally covering a minimum period of five years. Post investment appraisals are also carried out.

**Control monitoring** PricewaterhouseCoopers, our external auditors, contribute an independent perspective on certain aspects of the internal financial control system arising from their audit work and annually report their findings to the Audit Committee. The Group also maintains an internal audit function whose work is focused on areas of perceived high risk, as identified by risk analysis, and who regularly provide reports to the Audit Committee.

### Pension fund

The assets of the pension funds, established for the benefit of the Group's employees, are held separately from those of the Group. Both the Tesco PLC Pension Scheme and the Tesco PLC Money Purchase Pension Scheme are managed by a trustee company. Its board comprises three executive directors, two senior managers and four members appointed from staff and pensioners. Management of the assets of the Tesco PLC Pension Scheme is delegated to a number of independent fund managers. Contributions to the Tesco PLC Money Purchase Pension Scheme are paid into insurance policies administered by the Equitable Life Assurance Society. There is no self-investment in Tesco shares or property occupied by the Tesco Group. Details of pension commitments are set out in note 26 to the financial statements on page 37.

### Statement of compliance with the Code Provisions in the Combined Code

Throughout the year ended 27 February 1999, the company has been in compliance with all the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance, except as detailed below.

Following the issuance of the Combined Code, the company resolved in September 1998 that Mr G F Pimlott held the position of senior independent non-executive director with effect from 19 October 1998, as in accordance with Code provision A.2.1.

With regard to Code provision B.1.7 on the length of directors' service agreements, the Remuneration Committee considers that the current length of two years is both appropriate and necessary although it reviews the matter every year.

With regard to Code provision C.2.1, the company always counts proxy votes but has not hitherto announced the proxy votes lodged on each resolution although the company will adopt this procedure with effect from the Annual General Meeting on 4 June 1999.

### Board Committee membership

	Nominations Committee	Remuneration Committee	Audit Committee
<b>Independent directors</b>			
Mr J A Gardiner	*	*	*
Mr G F Pimlott	*	*	*
Mr J W Melbourn	*	*	*
Baroness O'Cathain	*	*	
Mr C L Allen (a)		*	*
Dr H Einsmann (b)			
<b>Executive directors</b>			
Mr T P Leahy	*		

a) Appointed to the Board on 19 February 1999

b) Appointed to the Board on 1 April 1999