Introduction from the Chairman
On behalf of the Board, I am pleased to introduce our corporate governance report. The Board believes that how we do business is as important as what we do and is committed to delivering the highest standard of corporate governance. Ensuring we have the right approach to governance and that the Board works effectively will be my key focus in my first year.

Commercial income issue
The overstatement of expected profit was identified in the second half of the 2014/15 year. The Board sincerely regrets what has happened but moved swiftly and decisively to address these serious matters. As this subject is of such major importance, a statement addressing this matter is set out on the following page.

Board changes
The Board has seen significant change over the last year. As well as my own appointment as Chairman, we have appointed a new CEO, Dave Lewis, and a new CFO, Alan Stewart, to lead the turnaround of this great business. Four of our Non-executive Directors retired and a further two Non-executive Directors will not put themselves forward for re-election at this year’s Annual General Meeting (‘AGM’). I would like to thank these Directors for their commitment and contribution to the Company. We have also appointed three new Non-executive Directors, Richard Cousins, Mikael Olsson and Byron Grote, and I would like to welcome them to the Board. Ensuring we have the right skills and experience is a key priority and the Board will continue to evolve to best meet the needs of the business.

The UK Corporate Governance Code
We recognise and support the principles of the UK Corporate Governance Code. This year we complied with the relevant provisions of this Code except for the areas described below:

Board evaluation and Chairman’s performance evaluation
The Board had previously agreed a three-year cycle whereby they would conduct an externally-led review in one year, followed by internally-led reviews in the subsequent two years, one led by the Chairman and one led by the Senior Independent Director. The externally-led evaluation was due in 2014/15 as the last one was conducted in 2011/12. However, given the number of changes to the Board, including my own appointment, the Board agreed that an external review would be of more value if carried out during 2015/16. An internal review of the Board and its Committees was conducted and further details about this can be found on page 36.

Sir Richard Broadbent was Chairman throughout the 2014/15 year but stepped down on 1 March 2015. Given his planned departure, the Board agreed that there would be no benefit in conducting a performance review. My performance as Chairman in 2015/16 will be assessed by the Non-executive Directors, led by our Senior Independent Director, Richard Cousins.

Audit tender
On the recommendation of the Audit Committee, the Board decided to put the Company’s external audit out for tender this year. After 32 years we and PricewaterhouseCoopers LLP mutually agreed that they would not take part in the tender. They will therefore step down as the Company’s Auditor at the conclusion of the 2015 AGM. A resolution to appoint the Company’s new Auditor will be proposed at the Company’s AGM in June, and this is set out within the separate Notice of Annual General Meeting.

It was a challenging year for the business and putting things right will take time but I believe we are on the right road to success and I am looking forward to playing my part in this.

John Allan
Chairman
Commercial income issue
In September 2014, information was brought to the Board’s attention that indicated that the recognition of UK commercial income was being accelerated and the accrual of costs was being delayed. The Board announced on 22 September 2014 that it had identified an overstatement of its expected profit for the half year to 23 August 2014, principally due to this accelerated recognition of commercial income and deferral of costs, in the order of £250 million.

The Board decided immediately to appoint Deloitte to carry out an independent investigation of the commercial income numbers in the UK, and to defer the announcement of the interim results to allow time for this. The Deloitte report confirmed that amounts had been pulled forward (in the case of income) or deferred (in the case of costs), contrary to Tesco Group accounting policies; that there had been similar practices in prior reporting periods; and that the current and prior practices appeared to be linked as income pulled forward grew period by period.

In October 2014 as part of the interim results announcement, the Board further announced that the overstated recognition of commercial income was estimated at £263 million. Taking into account the build-up of such overstatement in prior years, the impact on the trading profit expectation for the half year was an over-estimate of £118 million, with overstatement of reported profits in the previous year to 28 February 2014 of £70 million, and in years prior to that of £75 million.

Subsequent to October 2014 we have continued to focus on this area and we have identified some further amounts, bringing the total one-off adjustment relating to prior years to £208 million for our UK and ROI businesses.

Commercial income arises in a number of different ways, including discounts and rebates that suppliers agree to pay us based on the volume of sales achieved and contributions to product promotion expenses. Our external auditors, PricewaterhouseCoopers LLP, focused on this area in their audit of the 2013/14 accounts because of the significance of commercial income, the judgement required in accounting for commercial income including the amounts owed at the year-end, and because of the potential risk of the manipulation of these balances.

The matters surrounding the commercial income issue are now the subject of an investigation by the Serious Fraud Office, and the Company is co-operating fully with this investigation. This has limited the extent of the Company’s own investigation and what we can say about the circumstances in which the overstatement occurred. A number of individuals have ceased employment with the Group as a consequence of this investigation.

The “pulling forward” of commercial income from suppliers that was more appropriately attributed to future periods, was clearly a management failure within the UK division. The fact that it remained undiscovered has been a matter of the deepest concern.

The Board had two main priorities in their response to the commercial income issue:

1. Ensure that all available steps are taken to ensure that nothing like this can happen again. The Chief Executive’s report details some of those steps. New management is in place, training has been given and the overall commercial relationship with our suppliers and the incentive structure for our commercial teams are being reset.

2. Ensure that the results accounted properly for all commercial income, whether in the UK business or our overseas operations, and with all other aspects of our relationship with our suppliers.

The overarching focus of the Board has been to ensure that this work did not, and does not, distract us from our core business of providing value and a quality service to our customers.

We have noted that the Financial Reporting Council has urged companies to provide greater clarity in respect of their commercial income and the Board has concurred that increased transparency is appropriate. This is discussed in the Financial review, pages 12 to 17.

On 4 February 2015, the Grocery Code Adjudicator (‘Adjudicator’) announced that an investigation has been launched into the conduct of Tesco under the Groceries Supply Code of Practice. The Adjudicator is specifically investigating Tesco’s conduct under provisions of the Code relating to delays in payments to suppliers and payments for shelf positioning. We are continuing to co-operate fully with the Adjudicator’s investigation.
The work of the Board is supported by five key Committees: the Audit, Corporate Responsibility, Nominations, Remuneration and Disclosure Committees.

The role of the Disclosure Committee includes to assist and inform the Board in making decisions concerning the identification of inside information and make recommendations about how and when the Company should disclose the information in accordance with the Company's Disclosure Policy. The Committee meets as necessary to consider all relevant matters relating to inside information. It will in particular meet in advance of the release of all trading statements and other announcements of inside information to ensure that they are true, accurate and complete, including a review of the preliminary results announcement and the Annual Report and Financial Statements to consider if they are fair, balanced and understandable. The Committee met nine times during the year.

The Disclosure Committee's terms of reference can be found at www.tescoplc.com. The Group Chief Financial Officer ('CFO') chairs the meetings. Other members of the Committee consist of relevant senior management and Group Executive Committee members.

Further details on the other Board Committees can be found on page 37 (Audit); page 40 (Corporate Responsibility); page 41 (Nominations); and page 46 (Remuneration). These Committees report back to the Board after each meeting.

The Board delegates to the Group Chief Executive ('CEO') the responsibility for formulating and, after approval, implementing the Group's strategic plan and for management of the day-to-day operations of the Group. The Group Executive Committee, which the CEO chairs, supports the CEO in carrying out his role. The Group Executive Committee comprises the CEO and CFO and a number of senior executives, details are set out on pages 30 and 31.

Corporate governance highlights

Board focus during the year
During the year the Board spent its time considering a wide range of matters. These included:

• performance of key businesses and functions in the Group;
• budgets and long term plans for the Group;
• financial statements and announcements;
• cash flow, financing and dividend;
• corporate and social responsibility;
• pensions;
• health and safety;
• shareholder feedback and reports from brokers and analysts;
• risk management and controls in the Group;
• delegated authorities; and
• the commercial income investigation.

The Board also had one offsite meeting dedicated to strategy.

In addition to its regular programme of activities the Board made a number of strategic decisions in the year, which included:

• accelerating strategy to improve competitiveness;
• cutting interim dividend by 75%;
• replacing senior management;
• restructuring of central overheads, simplification of store management structures and the closure of 43 unprofitable stores;
• significant revision of the store building programme;
• reduced capital expenditure budget in 2015/16 to £1 billion;
• disposal of Tesco Broadband and Blinkbox; and
• not to a pay a final dividend in 2014/15.

The Directors are responsible for preparing the Annual Report and Financial Statements and consider that, taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy.

Changes to the Board and Board Committees
The Board was pleased to announce the appointment of a new Chairman, two new Executive Directors and three new Non-executive Directors, who bring a wealth of skills and experience to the Board which are detailed in their biographies on pages 28 to 29. The exact number of Directors may rise or fall in line with the normal process of Board development and succession planning. To ensure appropriate balance and succession potential in the Board's Committees a number of changes have been made. Changes to the Board and Board Committees are detailed in the following table.
Changes to the Board of Directors and Committees since 22 February 2014

<table>
<thead>
<tr>
<th>Current Directors</th>
<th>Position</th>
<th>Audit Committee</th>
<th>Nominations Committee</th>
<th>Remuneration Committee</th>
<th>Corporate Responsibility Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Allan</td>
<td>Chairman</td>
<td></td>
<td>Chair</td>
<td>✓ Appointed 1 March 2015</td>
<td>Chair ✓ Appointed 1 March 2015</td>
</tr>
<tr>
<td>Dave Lewis</td>
<td>CEO and Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alan Stewart</td>
<td>CFO and Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mark Armour</td>
<td>Non-executive Director</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stuart Chambers</td>
<td>Non-executive Director</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓ Chair until 1 January 2015</td>
</tr>
<tr>
<td>Richard Cousins</td>
<td>Non-executive Director</td>
<td></td>
<td>✓ Appointed 1 November 2014</td>
<td></td>
<td>✓ Appointed 7 April 2015</td>
</tr>
<tr>
<td>Byron Grote</td>
<td>Non-executive Director</td>
<td></td>
<td>✓ Appointed 1 May 2015</td>
<td></td>
<td>Chair from AGM</td>
</tr>
<tr>
<td>Ken Hanna</td>
<td>Non-executive Director</td>
<td></td>
<td>✓ Chair until AGM</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Mikael Olsson</td>
<td>Non-executive Director</td>
<td></td>
<td></td>
<td>✓ Appointed 2 December 2014</td>
<td>✓ Appointed 2 December 2014</td>
</tr>
<tr>
<td>Deanna Oppenheimer</td>
<td>Non-executive Director</td>
<td></td>
<td></td>
<td>✓ Appointed Chair 1 January 2015</td>
<td>✓</td>
</tr>
</tbody>
</table>

✓ Committee member
New appointment since 22 February 2014 in bold.
* Ken Hanna and Stuart Chambers will not seek re-election at the AGM.

Former Directors | Position | Audit Committee | Nominations Committee | Remuneration Committee | Corporate Responsibility Committee |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir Richard Broadbent</td>
<td>Chairman</td>
<td></td>
<td>Chair until 1 March 2015</td>
<td></td>
<td>✓ Chair until 1 March 2014</td>
</tr>
<tr>
<td>Philip Clarke</td>
<td>CEO and Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laurie McLee</td>
<td>CFO and Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gareth Bullock</td>
<td>Non-executive Director</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patrick Cescau</td>
<td>Non-executive Director</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Olivia Garfield</td>
<td>Non-executive Director</td>
<td></td>
<td>✓ Appointed 1 April 2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jacqueline Tammenooms Bakker</td>
<td>Non-executive Director</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓ Chair from 1 March 2014 until 28 February 2015</td>
</tr>
</tbody>
</table>

✓ Served on committee until resignation

Induction
During the year, the Company provided tailored programmes for Richard Cousins, a Non-executive Director and Audit and Nominations Committee member and Mikael Olsson, a Non-executive Director and Remuneration and Corporate Responsibility Committee member. The tailored induction programme included an oversight of the Group’s governance requirements, a detailed overview of the Group’s operations and discussions with key senior management to support both their main Board and Committee appointments.

Length of service and independence of Non-executive Directors

<table>
<thead>
<tr>
<th>Non-executive Director</th>
<th>Date of appointment</th>
<th>Expiry of appointment term</th>
<th>Full years in post at 2015 AGM</th>
<th>Considered to be independent by the Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Allan</td>
<td>1 March 2015</td>
<td>1 March 2018</td>
<td>–</td>
<td>✓</td>
</tr>
<tr>
<td>Mark Armour</td>
<td>2 September 2013</td>
<td>2 September 2016</td>
<td>1</td>
<td>✓</td>
</tr>
<tr>
<td>Stuart Chambers</td>
<td>3 July 2010</td>
<td>3 July 2016</td>
<td>5</td>
<td>✓</td>
</tr>
<tr>
<td>Richard Cousins</td>
<td>1 November 2014</td>
<td>1 November 2017</td>
<td>–</td>
<td>✓</td>
</tr>
<tr>
<td>Byron Grote</td>
<td>1 May 2015</td>
<td>1 May 2018</td>
<td>–</td>
<td>✓</td>
</tr>
<tr>
<td>Ken Hanna</td>
<td>1 April 2009</td>
<td>1 April 2015</td>
<td>6</td>
<td>✓</td>
</tr>
<tr>
<td>Mikael Olsson</td>
<td>1 November 2014</td>
<td>1 November 2017</td>
<td>–</td>
<td>✓</td>
</tr>
<tr>
<td>Deanna Oppenheimer</td>
<td>1 March 2012</td>
<td>1 March 2018</td>
<td>3</td>
<td>✓</td>
</tr>
</tbody>
</table>

Appointments are subject to annual re-election by shareholders. Ken Hanna and Stuart Chambers will not seek re-election at the AGM.
Corporate governance report continued

Board evaluation
The Board last conducted an externally facilitated evaluation in 2011/12. Given the Chairman’s succession, the Board agreed that an externally facilitated Board evaluation in 2014/15 would have limited value and that an internal interview-based evaluation process, tailored to the need to respect the Serious Fraud Office investigation, would be conducted. The review covered a range of factors relevant to the effectiveness of the Board including:
• skills, knowledge and diversity;
• clarity and leadership of purpose and values;
• teamwork;
• relationships;
• succession and development;
• quality of information, papers and discussion;
• decision making processes;
• risk processes; and
• communication with stakeholders.

The evaluation found that overall the Board was felt to have confronted the major challenges both in the industry and with the replacement of senior management, rigorously addressed the commercial income issue and the process of transformation of the Company, whilst retaining its effectiveness and building towards the future. The assessment of views and suggested actions from the evaluation will be considered further and taken forward by the new Chairman, John Allan. The intention is to conduct an externally led review during 2015/16.

Board meetings
During the 2014/15 year, the Board held seven scheduled meetings, plus a strategy meeting with ad hoc meetings being arranged to deal with matters between scheduled meetings as appropriate. Board meetings were preceded by a day of Committee meetings. This pattern of meetings was intended to support the Board’s focus on the strategic and long-term matters, while ensuring it could discharge its monitoring and oversight role effectively through intensive high-quality discussions and high-quality information flows.

Board attendance

<table>
<thead>
<tr>
<th>Current Directors</th>
<th>Position</th>
<th>Number of possible meetings attended</th>
<th>Actual meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Allan</td>
<td>Chairman</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dave Lewis</td>
<td>CEO and Executive Director</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Alan Stewart</td>
<td>CFO and Executive Director</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Mark Armour</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Stuart Chambers</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Richard Cousins</td>
<td>Non-executive Director</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Byron Grote</td>
<td>Non-executive Director</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Ken Hanna</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Mikael Olsson</td>
<td>Non-executive Director</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Deanna Oppenheimer</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Former Directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir Richard Broadbent</td>
<td>Chairman</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Philip Clarke</td>
<td>CEO and Executive Director</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Laurie Mclwhee</td>
<td>CFO and Executive Director</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Gareth Bullock</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Patrick Cescau</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Olivia Garfield</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Jacqueline Tammenoms Bakker</td>
<td>Non-executive Director</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>
Audit Committee Chairman

Ken Hanna

Audit Committee Chairman

Audit Committee attendance

<table>
<thead>
<tr>
<th>Members</th>
<th>Number of possible meetings attended</th>
<th>Actual meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ken Hanna (Chairman)</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Mark Armour</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Patrick Cescau</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Gareth Bullock</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Olivia Garfield</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Richard Cousins</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Byron Grote</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Audit Committee responsibilities

The Committee’s terms of reference can be found at www.tescopc.com. Ken Hanna, Mark Armour, Richard Cousins and Byron Grote all have recent and relevant financial experience.

The key responsibilities of the Committee are to:

- Consider the appointment of the external auditors, their reports to the Committee and their independence, including an assessment of their appropriateness to conduct any non-audit work;
- Review the financial statements and announcements relating to the financial performance of the Company;
- Review the internal audit programme and ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Company;
- Discuss with the external auditors the nature and scope of the audit;
- Review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board;
- Review formally the effectiveness of the external and internal audit processes;
- Consider management’s response to any major external or internal audit recommendations;
- Review the Company’s plans for business continuity;
- Review the Company’s plans for the prevention and detection of fraud, bribery and corruption;
- Report to the Board on how it has discharged its responsibilities.

Audit Committee Report

The Audit Committee has an integral role in providing confidence in the integrity of the Company's processes and procedures in relation to internal control, risk management and financial reporting.

The Committee supports the Board in assessing whether the Annual Report and Financial Statements are fair, balanced and understandable and provide sufficient information to allow an assessment of the Company.

A major part of the Committee’s work this year has been dominated by the discovery that commercial income had been overstated in both prospective and historic financial information published by the Company. Further details are set out elsewhere in the Governance Report, and below.

Since the year end, Olivia Garfield, Gareth Bullock and Patrick Cescau have retired from the Board and the Audit Committee. It was announced on 5 March 2015, that Byron Grote will join the Board on 1 May 2015 and will also join the Audit Committee.

Ken Hanna

Audit Committee Chairman

Activities during the year

Much of the Committee’s time this year has been spent dealing with the commercial income issue, details of which are set out under ‘Commercial income issue’ elsewhere in the Governance Report.

Areas of particular concern for the Committee in relation to the commercial income issue have been:

- to understand how the overstatement identified has accumulated over time, how it has affected prior year’s results, and to consider whether the impact on past year’s results was such as to require them to be restated;
- to ensure that all financial aspects of the Group’s relationship with its suppliers, both in the UK and in our international operations, have been the subject of rigorous internal and external audit focus;
- to satisfy itself, in discussions with the CEO and CFO and the internal and external auditors and advisors, that the remedial steps proposed to the Group’s financial systems and internal controls and the interim measures to be applied until these new steps are fully implemented are sufficient to avoid any repetition of the issues that have emerged in relation to commercial income. This included comprehensive internal audit reviews of commercial income controls across all Group territories; and
- to consider the appropriate treatment in our accounts for potential fines and litigation risk arising as a result of these matters.

As well as the exceptional matters referred to above, during the year the Committee received update reports from the Tesco Bank Audit Committee, PricewaterhouseCoopers LLP, the Disclosure Committee and the Group Compliance Committee. It also received updates from Internal Audit on its work, including findings from its internal audit programme and a comprehensive Group-wide review of stock controls carried out after the discovery of the commercial income issue. The Committee considered a variety of matters including Group and business unit risk registers; fraud, bribery and corruption; business continuity management; the Group’s compliance with the Groceries Supply Code of Practice and reports from the Group Compliance Committee.

In relation to the financial statements, the Committee: reviewed and recommended approval of the half-yearly results and annual financial statements; considered impairment reviews; considered going concern status; reviewed and recommended the interim dividend level; reviewed corporate governance disclosures; and monitored the statutory audit. The Committee also advised the Board on whether the financial statements, taken as a whole, were fair, balanced and understandable and provide the necessary information to assess the Company’s performance, business model and strategy. The Committee concluded that the disclosures, and the processes and controls underlying their production, were appropriate and recommended to the Board that the annual Report and Financial Statements are fair, balanced and understandable.

On the recommendation of the Audit Committee, the Board decided to put the Company’s external audit out for tender this year. After 32 years we and PricewaterhouseCoopers LLP mutually agreed that they would not take part in the tender. They will therefore step down as the Company’s Auditor at the conclusion of the 2015 AGM. A resolution to appoint the Company’s new Auditor will be proposed at the Company’s AGM in June, and this is set out within the separate Notice of Annual General Meeting.
Corporate governance report continued

Given the substantial changes in the composition of the Committee it was decided that it would not be appropriate for a formal review of the effectiveness of the Audit Committee to take place this year.

The Committee considered a number of significant issues in the year taking into account in all instances the views of the Company’s external auditors. The issues and how they were addressed by the Committee are detailed below:

### Significant financial statement reporting issues

<table>
<thead>
<tr>
<th>Issue</th>
<th>How the issue was addressed by the Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going concern basis for the financial statements</td>
<td>The Committee reviewed management’s assessment of going concern with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the availability of financing facilities in light of the Company’s downgraded credit ratings and the capital and liquidity plans of Tesco Bank. Based on this the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.</td>
</tr>
<tr>
<td>Recognition of commercial income</td>
<td>The Group has policies in place for the recognition of commercial income as disclosed in Note 1 to the financial statements. The overstatement of historical commercial income reported in the half year to 23 August 2014, led to a significant increase in focus on this area during the year. The Committee reviewed the activities that management carried out to address this issue together with the outcomes of investigations by internal audit and external third party experts, and concurred with management’s assessment that adequate training and processes were implemented to address compliance to policy and appropriate recognition of commercial income. See Note 3 and front half of the financial statements.</td>
</tr>
<tr>
<td>Restatement of prior year comparatives</td>
<td>The Committee reviewed management’s assessment of the need to restate prior year comparatives in light of the prior year errors identified during the year. The Committee considered management’s evaluation of the impact of these errors, on both prior year and current year performance and/or position, including the potential impact on user perceptions. The Committee concurred with management that the nature and impact of the errors were not material to either prior year comparatives or current year reporting, and that correcting the errors in the current year accompanied by adequate presentation and disclosure was the appropriate treatment.</td>
</tr>
<tr>
<td>Fixed asset impairment and onerous lease provisions</td>
<td>The Committee reviewed management’s impairment testing of property assets and estimate of onerous lease provisions for unprofitable assets in light of the competitive environment and reduction in profitability in most markets, particularly the UK. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging cashflows, growth rates and discount rates and the use of independent third party valuations. The Group has recognised a £(5,266) million impairment of trading stores, and a further £(903) million charge for closed stores, investments, WIP, intangibles and head office properties, together with an onerous lease provision of £(669) million in the year. See Note 11 to the financial statements for Fixed assets impairment, and Note 24 for Property Provisions.</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>The Committee reviewed management’s process for testing goodwill for potential impairment. This included challenging the key assumptions, principally cash flow forecasts, growth rates and discount rates. The Group has recognised a goodwill impairment of £(116) million. See Note 10 to the financial statements.</td>
</tr>
<tr>
<td>Valuation of China associate</td>
<td>The Committee reviewed management’s assessment of the valuation of the Group’s China associate, Gain Land, covering the methodology and assumptions used by management including latest market information and independent valuation experts, in determining the fair value of the investment. This included review of Gain Land’s projected cashflows, growth rates and discount rates used, and the external market indicators to include in the valuation. Following this exercise, a £(630) million write-down to fair value was recognised at year end. See Note 3 to the financial statements.</td>
</tr>
<tr>
<td>Provisions</td>
<td>The Committee considered the judgements made by management in arriving at the restructuring provisions for head office and stores structures, and concurred with management’s assessment to recognise a restructuring provision of £(325) million. See Note 24 to the financial statements. The Committee further considered management’s assessment of the status of the ongoing regulatory investigations and litigation relating to the prior period and forecasting errors. The Committee concurred with management’s assessment that due to the early stage of these matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at year end was appropriate. See Note 32 to the financial statements.</td>
</tr>
<tr>
<td>Valuation and provisioning of inventories</td>
<td>The Committee reviewed management’s judgements in assessing the required level of inventories provisioning, including adopting a forward looking methodology based on recent sales activities, in light of the competitive environment and changes to range and stockholding. This resulted in a £(402) million charge in the income statement. The Committee further reviewed management’s approach to identifying the directly attributable overheads capitalised in inventories, and agreed with the exclusion of certain overhead costs amounting to £(168) million from the cost of inventories. See Note 3 to the financial statements.</td>
</tr>
<tr>
<td>Tesco Bank judgemental matters</td>
<td>The Committee reviewed management’s judgements made in relation to Tesco Bank’s provisions for customer redress, loan impairment provisions and insurance reserves, covering the estimated provision based on legal advice, estimates of the number and value of cases, and expected outcomes. The Committee considered the reviews by the Bank’s own Audit Committee and Board to develop a detailed understanding of the matters. During the year, an additional £(27) million of provisions for customer redress were recognised. See Note 24 to the financial statements.</td>
</tr>
<tr>
<td>Income statement non-GAAP measure presentation</td>
<td>The Committee considered the presentation of the Group financial statements and, in particular, the appropriateness of the presentation of one-off items in the calculation of underlying profit. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed, consistent across years and appropriately presented movements on items which have an effect over a number of years. The total restructuring and other one-off charges for the year was £(6,814) million. See Note 3 to the financial statements.</td>
</tr>
</tbody>
</table>

### Internal and External Audit

This relationship is developed and maintained through regular private meetings with both PricewaterhouseCoopers LLP and the Head of Internal Audit. Further information regarding the roles of both Internal Audit and External Audit can be found below:

#### Internal Audit – Group Audit & Advisory

Group Audit & Advisory is an independent review function set up within Tesco as a service to the Board and all levels of management. Its remit is to provide independent and objective assurance and consulting activity to add value and improve the organisation’s operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its responsibilities include assessing the key risks of the organisation and examining, evaluating and reporting on the adequacy and effectiveness of the systems of risk management and internal control as operated by management. Management remains responsible for identifying risks and for the design and operation of controls to manage risk. However, Group Audit & Advisory facilitate the Company’s risk management processes with the Board and Audit Committee, by assisting with the annual process to refresh the Group’s Key Risk Registers and by assisting the Company in its formulation and reporting of corporate governance policy.
In line with AS1312 of the International Standards of the Institute of Internal Auditors, the effectiveness of the Internal Audit function was externally assessed by Ernst & Young between July and September 2014. The recommendations that were made were accepted and are in the process of being implemented.

**Internal control**
The Board conducted a review of the effectiveness of the Company’s risk management and internal controls during the year. To support the Board in their annual assessment, a report is prepared by Internal Audit which describes the arrangements that the Board has put in place for internal control and risk management systems and summarises the key issues or non-compliances arising from those processes.

The Control Environment has not been fully effective in the year. This has manifested itself primarily in the events around commercial income and the resultant impact on the financial statements.

The business has invested significant time and resource to understand, evaluate and remediate the control weaknesses. Clear control improvement plans are in place.

**External audit**
The Company’s external auditor PricewaterhouseCoopers LLP (‘PwC’) contribute a further independent perspective on certain aspects of the Company’s financial control systems arising from its work, and report both to the Board and the Audit Committee.

As previously mentioned, the Company put its external audit out for tender this year. In line with best practice the Company intends to put the external audit out to tender every 10 years in the future. Given the audit was put out to tender and the current auditor did not participate in this process, it was decided that there was limited value in conducting an effectiveness review of the external auditor this year.

The Company has a non-audit service policy for work carried out by PwC. This is split into three categories as explained below:

- **Pre-approved work for external auditors** – this is predominantly the audit of subsidiary undertakings’ statutory accounts and is audit-related in nature;
- **Work for which Committee approval is specifically required** – this includes transaction work and corporate tax services, and certain advisory services;
- **Work from which the external auditor is prohibited.**

To safeguard auditor objectivity and independence the Committee oversees the process for the approval of all non-audit services provided by PwC. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from PwC, rather than another supplier. Where PwC were chosen, this was as a result of their detailed knowledge of the structure of our business, combined with an understanding of our industry, which together made them the best supplier to carry out the work cost effectively.

This year the Committee approved PwC to complete £0.8 million of audit-related services. These services principally related to extended half year review procedures arising from the commercial income issue in the UK.

Where any significant non-audit related work is necessary (fee value £300k), the pre-approval of the Committee is specifically required. In total £3.3 million (2014: £4.7 million) was spent on non-audit fees (being 38% of the total spent with our external auditors) and details of the significant items are shown in the table below:

<table>
<thead>
<tr>
<th>Business area</th>
<th>Work undertaken</th>
<th>Safeguards implemented to preserve independence</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Working capital support and forecasting review</td>
<td>Advisory service provided by a team separate to audit</td>
<td>£1.3m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decision-making accountability remained with management</td>
<td></td>
</tr>
<tr>
<td>UK/International</td>
<td>Continuation of prior year consultancy work (vendor assistance and tax) in respect of the divestment of the China business to CRE</td>
<td>Advisory service provided by a team separate to audit</td>
<td>£0.6m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decision-making accountability remained with management</td>
<td></td>
</tr>
<tr>
<td>UK/International</td>
<td>Advisory and compliance services around taxation</td>
<td>Management was sufficiently involved in the preparation of final tax returns to retain responsibility for filing correctly</td>
<td>£0.6m</td>
</tr>
<tr>
<td>UK</td>
<td>Forensic accounting support in respect of the half year commercial income issues on behalf of Freshfields LLP</td>
<td>Advisory service provided by a team separate to audit</td>
<td>£0.25m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PwC neither prepared financials nor took management decisions</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>Head Office cost analysis</td>
<td>Advisory service provided by a team separate to audit</td>
<td>£0.1m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PwC neither prepared financials nor took management decisions</td>
<td></td>
</tr>
</tbody>
</table>

The fees paid to the auditors in the year are disclosed in Note 3 on page 100 of the Annual Report and Financial Statements 2015.
The Corporate Responsibility Committee was established in 2012 to ensure that the Board maintains an adequate focus on corporate responsibility in its widest sense. The Committee’s terms of reference are available at www.tescoplc.com.

The key responsibilities of the Committee are to:

- Define the Group’s corporate and social obligations as a responsible citizen and oversee its conduct in the context of those obligations
- Approve a strategy for discharging the Group’s corporate and social responsibilities in such a way as to command respect and confidence
- Identify and monitor those external developments which are likely to have a significant influence on the Group’s reputation and/or its ability to conduct its business appropriately as a good citizen and review how best to protect that reputation or that ability
- Oversee the creation of appropriate policies and supporting measures
- Monitor the Group’s engagement with external stakeholders and other interested parties
- Ensure that appropriate communications policies are in place and working effectively to build and protect the Group’s reputation both internally and externally

Activities during the year

As our business goes through a process of renewal, our Corporate Responsibility Committee discussed the importance of putting our customers and their local communities at the heart of our activities.

The Committee discussed a wide range of reputational insight, and the challenge that we face in regaining our customers’ trust. They recognised that getting the core of our business right is key to regaining this trust, in addition to demonstrating that we are a responsible business through our actions, rather than our communications.

This year we have built closer links between our Corporate Responsibility Committee and our Expert Advisory Panel. This has been very beneficial in sharing best practice and through bringing an outside voice in to the Committee meetings.

Despite the challenges faced by the business, great progress has been made this year. This includes:

- removing confectionery from checkouts in all our stores across the UK;
- through our Neighbourhood Food Collections in the UK, with FareShare and the Trussell Trust, we have collected an additional 11.3 million meals, bringing the total since 2012 to 21.5 million, to help feed people in need;
- since our Eat Happy Project launched in March 2014, 685,000 children have found out where their food comes from, as well as how to cook nutritious meals through participation in Farm to Fork Trails, Online Field Trips and Let’s Cook courses; and
- we have launched a new Code of Business Conduct, followed by a company-wide training programme.

Given the substantial changes to the Board it was decided that it would not be appropriate for a formal review of the effectiveness of the Committee to take place this year. However, the Committee’s effectiveness was considered as part of the internal Board evaluation.
### Nominations Committee report

The primary focus of the Committee during the year was Board succession planning. The Board appointed a new management team, Dave Lewis as CEO and Alan Stewart as CFO, following a search led by the former Chairman, Sir Richard Broadbent, with support from the Non-executive Directors. Both are excellent appointments for the Company with the right blend of experience, leadership and values to lead the transformation of the business. The Committee also identified and recommended the appointment of three new Non-executive Directors, Richard Cousins, Mikael Olsson and Byron Grote, who bring broad skills and experience to the Board.

In the coming year Board composition and effectiveness will be a key focus for the Committee along with developing succession plans for the longer term to ensure appropriate plans are in place to meet the needs of the business.

**John Allan**  
Nominations Committee Chairman

### Nominations Committee responsibilities

The Committee held four meetings during the year and the key responsibilities in 2015 include:

- Reviewing the Board’s structure, size and composition
- Identifying, nominating and reviewing candidates for appointment to the Board
- Reviewing the leadership needs of the organisation, both Executive and Non-executive
- Reviewing the Group’s talent planning programmes
- Reviewing Board succession over the longer term, in order to maintain an appropriate balance of skills and experience and to ensure progressive refresh of the Board
- Monitoring of the Group’s compliance with corporate governance guidelines

### Activities during the year

The Committee divides its time broadly between reviewing Executive management development and succession planning, and reviewing Board development.

Given the substantial changes to the Board it was decided that it would not be appropriate for a formal review of the effectiveness of the Committee to take place this year. However, the Committee’s effectiveness was considered as part of the internal Board evaluation.

### Appointments

This year the Committee discussed the restructure of the Executive leadership team around the core capabilities of customers, products and channels, and the need to continue developing the Board structure and appoint further Non-executive Directors to strengthen the Board with additional skills and plan for future retirements.

During the year, in addition to the Executive appointments, the Committee identified and recommended two appointments to the Board. Richard Cousins and Mikael Olsson joined the Board as Non-executive Directors on 1 November 2014. Richard brings valuable UK and corporate experience to the Board and Mikael brings valuable retail and international experience. In addition, the Committee recommended the appointment of Byron Grote as a Non-executive Director. Byron has extensive executive and non-executive financial and strategic experience and joined the Board on 1 May 2015. Biographies of these new Directors are available on pages 28 and 29.

Appointments are subject to annual re-election by shareholders at the AGM.

The Committee prepared role specifications for the Chairman and Non-executive Director roles and considered a number of factors when making new appointments, including what the new Director will add to the balance of skills and experience on the Board and whether the Director will be able to allocate sufficient time to the Company to discharge his or her responsibilities. Candidates are required to disclose all material commitments to the Committee as part of the process. We worked with the external search consultancy Lygon Group and JCA who do not have any connection with the Company, as well as using our own networks, to identify candidates.

The Committee also considered a number of changes to the composition of the Board’s Committees to ensure appropriate balance and succession potential.

### Diversity

Tesco approaches diversity in its broadest sense, recognising that successful world-class businesses flourish through embracing intellectual, experiential, geographical and skills diversity as well as other factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability or trade union affiliation. With regard to gender diversity which is the focus of significant current attention, we accept the spirit and aspirations of the Davies Report, including the representation of women at the highest levels in the organisation.
At the year end we had three women on our Board (representing 23%) and three women on the Executive Committee (representing 23%). Women in senior management positions across the Group account for 31% as a whole. We believe that the focus must remain firmly on understanding what it takes to develop women and to retain them in senior positions. Senior roles are very demanding for all, regardless of gender, and we are determined to develop a culture and an environment where our people can advance whilst having the time to be good parents, partners and active members of their local community.

Our policy is to find, develop and keep a diverse workforce at all levels within our Company and we are committed to increasing the percentage of female leaders. We set a target in September 2011 for women to represent 32% of senior management and 21% of Business Leaders and Directors. We are close to our target with 31% of senior managers and 24% of Business Leaders and Directors being women.
Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code (the ‘Code’) sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance. In September 2014 the Financial Reporting Council made changes to the Code. The 2012 version of the Code applies to the Company for the year ended 28 February 2015. A copy of the Code is available at www.frc.org.uk.

The Board considers that the Company complied in all material respects with the Code for the whole of the year ended 28 February 2015 except with regards to Code provisions B.6.2 (External evaluation of the Board), B.6.3 (Performance evaluation of the Chairman) and C.3.7 (Tender of external audit contract every ten years), as explained on page 32.

The notes below are intended to facilitate the assessment of the Company’s compliance with the Code for the year ended 28 February 2015 but they should be read in conjunction with the Corporate Governance Report as a whole.

A. Leadership

A.1 The Board’s role

The Board is the custodian of the Company’s values and of its long-term vision, and provides strategic direction and guidance for the Company. The matters reserved to the Board for its decisions are detailed in a formal schedule. Matters which must be considered by the Board include: the Group’s strategy; annual budgets; oversight of risk management processes; changes to the capital structure; and material transactions or litigation.

The Board held seven scheduled meetings in the year ended 28 February 2015 and ad hoc meetings were also arranged to deal with matters between scheduled meetings as appropriate. It is expected that all Directors attend scheduled Board and relevant Committee meetings and the Annual General Meeting. Details of Board and Committee membership and attendance can be found on pages 35 to 37 and 40 to 41. All Directors are covered by the Group’s Directors’ and Officers’ Insurance policy.

A.2 A clear division of responsibilities

There is a clear delineation between the role of the Chairman and CEO. Their role descriptions were agreed by the Board in 2012 and are summarised below:

Chairman’s responsibilities:
• ensuring the Directors receive accurate, timely and clear information;
• facilitating the effective contribution of Non-executive Directors and engagement between Executive and Non-executive Directors;
• ensuring an annual evaluation of the Board is conducted and leading the performance evaluation of the CEO and Non-executive Directors; plus ensuring that the Committee Chairmen conduct evaluations of their Committees;
• building an effective Board;
• the induction of new Directors and further training for all Directors as required; and
• communicating effectively with shareholders and other stakeholders and ensuring the Board develops an understanding of the views of the stakeholders.

Group CEO’s responsibilities:
• leading the development of the Company’s strategic direction and implementing the agreed strategy;
• identifying and executing new business opportunities;
• managing the Group’s risk profile and implementing and maintaining an effective framework of internal controls;
• building and maintaining an effective top management team; and
• ensuring effective communication with shareholders and key stakeholders and regularly updating institutional shareholders on the business strategy and performance.

A.3 Role of the Chairman

The Chairman was independent upon his appointment to the Board. The Chairman leads the Board, ensuring its effectiveness while taking account of the interests of the Group’s various stakeholders, and promoting high standards of corporate governance.

A.4 Non-executive Directors

Patrick Cescau was the Senior Independent Director (‘SID’) throughout the year ending 28 February 2015. He stepped down as a Board member on 7 April 2015 and was succeeded by Richard Cousins. Richard was selected for the role because of his experience and expertise, both as an Executive and Non-executive Director with retail and international experience. A biography is available on page 28. In his role as SID, Richard Cousins provides a sounding board for the Chairman and is available to assist in resolving shareholder concerns should alternative channels be exhausted. The SID’s role also includes responsibility for the Chairman’s appraisal and succession; and to hold at least one meeting each year with the Non-executive Directors without the Chairman present.

The Chairman also has one-to-one and group meetings with the Non-executive Directors without the Executive Directors being present.

B. Effectiveness

B.1 The Board’s composition

The Board reviewed the overall balance of skills, experience, independence and knowledge of the Board and Committee members. A number of changes have been made to the Non-executive representation as detailed on page 35.

During the year the Board comprised a majority of Non-executive Directors. At the year end the Board comprised the Non-executive Chairman, two Executive Directors and 10 Non-executive Directors. All the Non-executive Directors are considered to be independent under the criteria set out in the Code.

B.2 Board appointments

The appointment of new Directors is led by the Nominations Committee. Further details of the appointments process can be found in the Nominations Committee section on page 41 and biographies of our Directors can be found on pages 28 and 29. The appointment of the Chairman was led by the SID with support from the Non-executive Directors.

B.3 Time commitments

The Board makes a careful assessment of the time commitments required from the Chairman and Non-executive Directors to discharge their roles properly. This is discussed with candidates as part of the recruitment process and a commitment to the appropriate time requirements is included in engagement letters which are available for inspection at the Company’s registered office. Executive Directors are permitted to hold one Non-executive Directorship in a FTSE 100 company.

B.4 Training and development

All new Directors receive a personalised induction programme, tailored to their experience, background and particular area of focus, which is designed to develop their knowledge and understanding of the Group’s culture and operations. The programme has evolved over time to take into account feedback from new Directors and the development of best practice, and incorporates a wide-ranging programme of meetings with the senior management across the Group, attending results and broker briefings, comprehensive briefing materials and opportunities to visit the Group’s operations across the world, including spending time in-store and in our distribution network. The Chairman agrees a personalised induction plan with each new Director and ensures that it meets the individual needs of that Director.

The Chairman reviews each Director’s development needs as part of the annual performance evaluation process and puts appropriate arrangements in place for specific training. The Nominations Committee reviews the Directors’ skills and experience as a group against those needed to continue to enable the Board to oversee and support the Group’s diverse operations in the future, and identifies any gaps. This informs the approach to ongoing refreshment of the Board as well as the training plan for the current Board. Training is arranged to help develop the knowledge and skills of the Directors in a variety of areas relevant to the Group’s business. All Directors have the opportunity to refresh and increase their knowledge of the Group through visits to Group operations and meeting with senior executives across the business.
Corporate governance report continued

B.5 Provision of information and support
Board papers are circulated a week before each meeting to give the Directors and Committee members sufficient time to fully consider the information.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company’s expense in conducting their duties.

B.6 Board and committee performance evaluation
During the year the Board undertook an internal review of its performance and that of its Committees and individual Directors, with the exception of the former Chairman and the Audit Committee; further detail can be found on page 36.

An external evaluation was due this year however this has been deferred to later this year. Further information can be found on page 32.

B.7 Re-election of Directors
All Directors were subject to shareholder re-election at the 2014 AGM and, with the exception of Stuart Chambers and Ken Hanna, all of the current Directors will be standing for election or re-election by the shareholders at the 2015 AGM.

Information about the Directors can be found in their biographies on pages 28 and 29.

C. Accountability
C.1 Financial and business reporting
The Directors’ statement of responsibilities for the preparation of the Annual Report and Financial Statements 2015 can be found on page 74. Information on the Company’s business model can be found on pages 8 and 9 and its strategy can be found on pages 3 to 7.

The Directors’ confirmation that the business is a going concern can be found on page 71.

The disclosures required under DTR 7.2.6 are contained in the Directors’ Report on pages 70 and 71.

C.2 Risk management and internal control systems
The Board has overall responsibility for ensuring the Group has appropriate risk management and internal controls in place and that they continue to work effectively. Successful management of risk is supported by controls, management oversight and sources of assurance.

There is a comprehensive process for the review and consideration of risk at Tesco. Risk Registers are in place for all businesses and key Group functions also maintain a specific Risk Register. The Group also maintains a Group Key Risk Register which describes key risks faced by the Group and their likelihood and impact, as well as the controls and procedures implemented to mitigate them. Group risks are discussed by discussion with senior management and are reviewed by the Group Executive Committee and then agreed by the Board. Actions are followed up by Internal Audit.

The Company maintains a comprehensive framework of internal controls addressing the key strategic, financial, legal, reputational and operational risks to the business and the accountability for operating these controls rests with senior management as a first line of defence.

Colleagues are required to confirm annually that they complied with the Code of Business Conduct which sets out individual obligations and responsibilities for anyone working at Tesco.

A number of key management committees play a role in monitoring compliance with internal controls. The Group Compliance Committee is responsible for monitoring legal compliance across the Group, including receiving reports from the individual business unit compliance committees.

The Audit Committee reports each year on its assessment of the effectiveness of the risk management and internal controls systems. Throughout the year the Committee receives regular reports from the external auditor covering topics such as quality of earnings and technical accounting developments. Internal Audit and senior management also regularly provide updates to the Committee and any significant breaches of control, together with the appropriate remediation arrangements are discussed.

The Board conducted a review of the effectiveness of the Company’s risk management and internal controls during the year. To support the Board in its annual assessment, a report is prepared by Internal Audit which describes the arrangements that the Board has put in place for internal control and risk management systems and summarises the key issues or non-compliances arising from those processes.

The Control Environment has not been fully effective in the year. This has manifested itself primarily in the events around commercial income and the resultant impact on the financial statements.

The business has invested significant time and resource to understand, evaluate and remediate the control weaknesses. Clear control improvement plans are in place.

These arrangements include:

1. The Annual Risk Management Process (as described in the principal risks and uncertainties section on pages 22 to 25) – there is a comprehensive process for the review and consideration of risk at Tesco. Risk Registers are in place for all Business Units and for some key Group Functions, including Group Finance. Risk Registers are considered regularly by subsidiary boards to assess their control systems and have all been reviewed at least once in the last year. The Group Key Risk Register was reviewed by the Executive Committee and the Board. During the reviews all the Group risks were challenged and refreshed.

2. The Internal Audit Programme – a risk-based programme of Internal Audit is conducted annually and the findings of these audits, together with the monitoring of the progress of management’s remediation programmes is reviewed by the Board.

3. Evaluation of the Control Findings from External Audit – PwC are not a part of Tesco’s internal control system. However, they do form an assessment on the financial control environment as they conduct their audit work and this is another point of reference and information for the Board and senior management to consider on the operation of our controls.

4. Assessment of compliance activities at a Group and business unit level – the results of a number of other key compliance activities are also considered during the review of the effectiveness of risk management and internal control arrangements. These include: the outputs from the Group and Business Unit Compliance Committee processes; the returns from the Annual Code of Business Conduct declaration process; the results of the Key Financial Controls Self-Assessment process; the results of store-based compliance reviews of stock, cash and price integrity processes; the results of the Group Technical and Trading Law assessments including ethical audits; the outputs from the Tesco Bank Risk Assurance and Compliance process; reports from the Fraud and Code of Conduct Investigations; and the results from the Information Security reviews and incidents that occurred in the year.

Whilst an internal control system cannot guarantee that losses will not occur, the Board is satisfied that management has remained diligent in their efforts to ensure that an appropriate level of control remains in place.

C.3 Role and responsibilities of the Audit Committee
The Audit Committee supports the Board in its responsibilities in relation to corporate reporting and risk management and internal controls, and with maintaining a relationship with the Company’s auditors.

The Audit Committee’s report on pages 37 to 39 sets out a description of the work of the Committee.
D. Remuneration
D.1 Level and elements of remuneration
The Directors’ Remuneration Report on pages 46 to 69 explains the work of the Remuneration Committee and the remuneration received by the Directors.

D.2 Development of remuneration policy
The development of our remuneration policy and our rationale for the level and structure of the remuneration is set out in the Directors’ Remuneration Report on pages 62 to 69.

E. Relations with shareholders
E.1 Shareholder engagement
We are committed to conducting constructive dialogue with shareholders to ensure that we understand what is important to them and enable clear communication of our position. The Chairman, CEO and CFO hold regular meetings with shareholders and update the Board on the outcome of those meetings. Investor Relations keep the Board informed of broker and analyst views, and report and present formally to the Board twice a year. In addition we carry out a survey each year of a cross-section of shareholders in order to assess shareholder perception of the Company.

We support greater engagement with institutional shareholders as envisaged by the Stewardship Code. We are also keen to develop engagement with private shareholders through various channels of communication, including the AGM, the Company’s website and social media.

E.2 Constructive use of the AGM
Our 2015 AGM will be held in London on 26 June 2015. The whole Board is expected to attend the AGM and be available to answer questions from shareholders present.

To encourage shareholder participation, we offer electronic proxy voting and voting through the CREST electronic proxy appointment service. At our AGM all resolutions are proposed and voted upon individually by shareholders or their proxies. All votes taken during the AGM are by way of a poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting.