

The Board is committed to high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability is assured. Sound governance is central to achieving the directors' prime objective of maximising shareholder value.

## Combined Code

The following statement, together with the Remuneration Report on pages 42 to 46 sets out the manner in which the Group has throughout the year applied the principles contained in section 1 of the Combined Code on Corporate Governance issued by the UK Financial Services Authority ("the Combined Code").

## Board of directors

The Board comprises an executive chairman, five other executive directors and four independent non-executive directors who bring a wide range of collective skills and experience to the Board. Biographical details of the directors are shown on page 33 and changes during the year are set out in the directors' report on page 36.

The Board meets at least seven times a year and has adopted a formal schedule of matters reserved to it for decision. These include responsibility for the Group's overall strategy, acquisition and divestment policy, and the system of internal control, together with the approval of major expenditure projects and significant financing matters. It reviews the strategic objectives of trading divisions, their annual budgets and long-term plans and monitors progress towards their attainment. An annual meeting focuses on the long-term strategic direction of the Group and the markets in which it operates. There is frequent contact between directors throughout the year to progress the Group's business.

A corporate governance framework has been approved by the Board which defines the role and responsibilities of the constituent elements of the Group's management structure. This enables the Board to plan, execute, control and monitor the Group's activities to achieve its strategic objectives.

The Chairman ensures that the Board has full and timely access to all relevant information.

The offices of Chairman and Group Chief Executive are held separately and a clear division of responsibility exists and operates effectively. Sir John Collins has been designated by the Board as the senior independent non-executive director.

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. On appointment, each director receives guidance and training appropriate to their level of previous experience. Non-executive directors are encouraged to meet members of senior management regularly and to undertake visits to all parts of the Group, particularly new activities.

The Articles of Association require one third of the Board to retire by rotation each year and ensure that over a three-year period each director is subject to re-election by shareholders in general meeting. Details of the directors retiring by rotation this year are set out in the directors' report on page 36.

## Board committees

The Board has established a number of committees to which it has delegated specific responsibilities. Membership of the principal committees and a summary of their terms of reference are as follows:

Members	Meetings per year	Summary terms of reference
<b>Chairman's Committee</b> Sir Stanley Kalms (Chairman) Sir John Collins Mark Souhami John Clare Jeremy Darroch	13	Enables the Chairman to monitor and review the development and implementation of strategy and to report appropriately to the Board.
<b>Group Executive Committee</b> John Clare (Chairman) Per Bjørgås Jeremy Darroch David Gilbert David Hamid David Longbottom Simon Turner Nick Wilkinson	12	Responsible for the implementation of strategy and the day-to-day management of the Group's business.
<b>Audit Committee</b> Lord Blackwell (Chairman) Sir John Collins Karen Cook Count Emmanuel d'André	4	Monitors the Group's internal control regime and financial reporting, focusing on accounting policies, compliance and areas of management judgement and estimates.
<b>Executive Directors' Remuneration Committee</b> Sir John Collins (Chairman) Lord Blackwell Karen Cook Count Emmanuel d'André	2	Makes recommendations to the Board on the Group's remuneration policy and determines the remuneration of the executive directors.
<b>Nominations Committee</b> Mark Souhami (Chairman) Lord Blackwell John Clare Sir John Collins Karen Cook Count Emmanuel d'André Sir Stanley Kalms	1 and as required	Reviews, at least annually, the size and composition of the Board and submits recommendations for new Board appointments to the Board for approval.

All committees operate within written terms of reference approved by the Board. The Board receives and reviews minutes of their meetings. Trading divisions are managed by separate executive committees, whose minutes are reviewed by the Board.

The Audit Committee monitors the Group's internal control regime and financial reporting, receiving regular reports from the external auditors and from the finance, internal audit, security and other control functions. The Audit Committee also seeks to ensure that the independence and objectivity of the external auditors is maintained by reviewing the scope of the external audit, recommending to the Board the annual audit fee and monitoring fees paid to the auditors and other accountants for non-audit work. Part of each meeting of the Audit Committee is held between the non-executive directors and external auditors in private.

The Executive Directors' Remuneration Committee invites certain executive directors, including the Chairman and Group Chief Executive, to attend its meetings in an advisory capacity, but they are not present for discussions concerning their own remuneration. The Chairman and Mark Souhami constitute a separate Remuneration Committee which recommends to the Board the fees payable to the non-executive directors.

The remuneration policy and details of remuneration paid to the directors in the 52 weeks ended 27 April 2002 are set out in the Remuneration Report on pages 42 to 46.

#### Relations with shareholders

The Board attaches considerable importance to the maintenance of constructive relationships with shareholders. Effective two-way communication with institutional investors and analysts is established through regular presentations and meetings in the UK and overseas, usually by the Group Chief Executive and Group Finance Director. This programme of presentations is conducted in accordance with the UK Listing Authority's guidance on the dissemination of price sensitive information to ensure the protection of such information which has not already been made available generally to the Company's shareholders.

The annual general meeting is regarded as an opportunity to communicate directly with private shareholders. The chairmen of the Audit, Remuneration and Nominations Committees are available at the annual general meeting to answer relevant questions from shareholders. Notice of the annual general meeting and related documents are mailed to shareholders at least 20 working days before the meeting. Separate resolutions are proposed on each substantially different issue. The notice is contained in a separate booklet accompanying this report.

In addition to the interim and annual reports, shareholders can obtain information about the Group posted on the Company's website ([www.dixons-group-plc.co.uk](http://www.dixons-group-plc.co.uk)).

Services available to shareholders are summarised on page 74 of this report.

#### Pension schemes

The Group operates a number of defined contribution and defined benefit pension schemes. The principal scheme operates in the UK where the Group maintains a funded defined benefit pension scheme.

The assets of the scheme are held separately from those of the Group by trustees. There are six trustees: three members of senior management (who are not directors of the Company) and three external trustees (Hugh Jenkins CBE (Chairman), Mrs Jane Newell OBE and Dr Ann Robinson). The power of appointment of new trustees is vested in the trustees. Asset management is delegated to three independent companies whose performance is monitored by a specialist performance measurement service. Custody and investment management functions are separated. The scheme's accounts are audited annually by Smith & Williamson, who are not auditors to any Group companies. Members of the scheme receive an annual statement of their accrued benefits and a copy of the trustees' annual report.

In February 2002 the Company announced the closure of the UK defined benefit scheme to new employees with effect from 1 March 2002 and to existing employees who are not already members with effect from 1 September 2002.

#### Internal control

In accordance with the guidance of the Turnbull working party set out in "Internal Control: Guidance for Directors on the Combined Code", the Group has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and for reviewing the effectiveness of the system of internal control. This process was in place throughout the 52 weeks ended 27 April 2002 and to the date of approval of the financial statements.

#### Responsibility and accountability

The Board has overall responsibility for the Group's system of internal control and approach to assessing risk and is also responsible for reviewing its effectiveness.

The Board delegates to executive management the day-to-day responsibility for identifying and evaluating the risks facing the Group's business operations, and for implementing and maintaining internal control systems that manage those risks in an efficient and effective manner, appropriate to their nature and scale. Executive management is accountable to the Board for providing assurance over the design and operation of the internal control systems it has implemented.

All the Group's employees are accountable for operating within the internal control systems implemented by executive management.

#### Inherent limitations

In determining its policies on internal control, the Board has regard to the materiality of the relevant risks, the likelihood of losses occurring and the costs of control. The directors are aware that the inherent limitations in any system of control mean that risk cannot be totally eliminated. It follows that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and that it can provide only reasonable, and not absolute, assurance against material misstatement or loss.

### Control environment and control activities

In addition to the Board's activities described in the Board of directors section on page 38, the Group's system of internal control and processes for managing risk comprise the following main elements:

- The Board and management committees meet regularly throughout the year to monitor progress against the targets set out in the Group's budget and long-term plans and to consider the quarterly year-end forecasts that are prepared. A variety of financial and non-financial performance reports is produced on a daily, weekly and four-weekly basis to facilitate this review process.
- The defined lines of authority established by the Board ensure that significant decisions are taken at an appropriate level. This includes requirements for the approval and control of both capital and operating expenditure and treasury operations.
- Each business function has established procedures and controls to minimise the risk of fraud and to safeguard the Group's assets. These procedures and controls include the segregation of duties, the provision of regular performance information and exception reports, review and approval procedures for key transactions, compliance with relevant laws and regulations, the maintenance of proper records and the reconciliation of balances. Wherever possible the Group's IT systems are designed to enforce the execution of such controls.
- Appropriate central controls and procedures have been established over the security of data held on, and functionality provided by, the Group's business systems. These include disaster recovery arrangements. The computer systems are periodically tested and reviewed by both internal and external audit functions.
- The Group appoints individuals who are of a calibre sufficient to enable them to discharge the duties and responsibilities of the roles assigned to them. Established performance review mechanisms exist to identify key objectives and areas for improvement for each member of staff.
- Group Treasury operates within established and documented policies and procedures, as described in the Financial Review on page 31. These policies are reviewed and approved annually by the Group Executive Committee.
- The Group's programme of insurance covers the major risks to the Group's assets and business and is reviewed annually by the Group Executive Committee and the Audit Committee.
- Following major acquisitions, post completion reviews are carried out and reviewed by a principal operating committee. All entities within the Group are required to adhere to common standards of internal control and corporate governance, which are specified in documented guidance.

### Assurance and monitoring

The Board, through the Audit Committee, seeks ongoing assurance that the control environment and activities described above are designed and operating effectively. The manner in which this is achieved is as follows:

- The Group funds an Internal Audit department, which is partly outsourced. The function provides independent and objective assurance over the effectiveness of internal control in key business processes, activities and business development programmes.
- Internal Audit reports its findings to the Audit Committee and to management using a systematic, objective approach to evaluate the overall effectiveness of controls and risk management within the area or process under review.
- Recommendations for improving control are made to management where necessary and Internal Audit monitors progress on these until resolution or implementation. The Audit Committee receives quarterly reports on the status of recommendations.
- Established evaluation mechanisms operate across key business processes within the Group. These provide timely identification for executive management of significant control failures that may affect the successful achievement of the Group's objectives. These mechanisms are subject to regular review and refinement to extend both their reach and the quality of the information they provide. The Audit Committee receives a quarterly report on the status of controls monitored in this way.
- Annually, all members of senior management submit certificates on the effectiveness of controls in their business area. This is supported by assessments of business risks and controls in key processes and business operations.
- Other specialist functions within the Group provide additional assurance over key areas of risk and report regularly to the Audit Committee both on their activities and on any significant control issues arising. These functions include stock control, change management, security, health and safety, insurance, environmental co-ordination, treasury, taxation and legal and regulatory compliance.

### Continuous improvement

The Group's approach to managing and monitoring Internal Control and Risk Assessment are regularly reviewed to identify ways in which it can be improved and further embedded throughout Group operations.

### Corporate Social Responsibility

The Board ensures that, in developing and furthering the strategies and objectives of the Group's business, consideration is given to the needs of local communities, the environment, staff, suppliers, customers and others directly or indirectly connected with the activities of the Group.

A Group Board director has responsibility for environmental and health and safety matters. All members of senior management are required to certify annually their compliance with the Group's internal statement of ethical conduct, which covers a range of matters from conflicts of interest and treatment of staff to observance of legal requirements.

The Legislative and Public Affairs Committee keeps under review new and emerging legislation that may affect the Group's businesses particularly in relation to employment and environmental issues, consumer affairs and other aspects of corporate social responsibility. Standing management committees monitor compliance with legislation and regulations that have a particular impact on the Group's activities, including trading standards, health and safety, competition and disability issues.

Through a long-established charitable foundation, the Group donates significant amounts each year to charities, a number of which are selected by the Group's employees. They are also encouraged to identify and participate in a variety of activities to benefit others, especially in the local communities in which the Group operates.

The Group has developed a range of policies, programmes and facilities to provide a working environment for its staff that engenders mutual respect and understanding and recognises the demands placed on staff outside of their employment with the Group. The *Respect For People* programme, introduced last year, ensures that employees are aware both of the Group's policies and their obligations in relation to anti-discrimination legislation.

A formal procedure exists whereby employees can raise in confidence with designated members of senior management any concerns that they have about the conduct of colleagues or their employer, including suspected breaches of laws and regulations.

The Group has defined its policy on environmental matters, which can be read on the corporate website ([www.dixons-group-plc.co.uk](http://www.dixons-group-plc.co.uk)). Opportunities for the Group to minimise the impact on the environment arising from its core activities are under constant review.

Further information is given on pages 26 to 29 and a more detailed report on corporate social responsibility will be available on the Group's internet site during 2002.

### Compliance

Except for the following, the directors consider that the Company has complied with the provisions set out in Section 1 of the Combined Code throughout the period.

- The Nominations Committee is chaired by Mark Souhami, rather than by the Chairman or a non-executive director. However, the committee comprises a majority of non-executive directors and the Board considers that this constitutes an effective balance of internal and independent views on Board appointments.
- At the start of the financial year the service contract of John Clare contained a two year notice period which was reduced, on a pro rata basis during the twelve months ended 29 April 2002, to one year.