

TESCO PLC

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13 July 1992

Mr N Peace
Secretary
Committee on the Financial Aspects of Corporate Governance
PO Box 433
Moorgate Place
London EC2P 2BJ

Dear Mr Peace,

CADBURY REPORT

I set out below some initial comments on the Cadbury Report:

Non-Executives

I understand fully the desire for independence in the non-executives. However, the desire for independence triggered by an understandable need to do something following recent examples of corporate excess and corporate failure may obviate the benefit to be obtained from a larger number of proper well run companies, where:-

- non-executives may also be company advisers, but provide a major constructive input to the company, very much in the interests of shareholders.
- non-executives who over a long period of time (far greater than the recommended best practice of two terms of office) provide valuable continuity and an excellent service.

Chairman/Chief Executive

The best practice is too rigid in that it implies that unless you comply with such a structure, there is an implied non-compliance or failure on behalf of a company to have proper corporate governance. Many companies will be able to satisfy anyone that their particular structure is appropriate and provides the reassurances that Cadbury is looking for. However, I do not see why they should be singled out as being non-compliant and have to explain that they do not comply.

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Directors: Executive: Sir Ian Maclaurin, Chairman,
V.W. Benjamin, Deputy Chairman, D. Malpas, Managing Director,
M. Darnell, J. Gilderaleve, D.E. Reid, CA, D.C. Tuffin, J.M. Wemms.
Non-Executive: J.A. Gardiner, F.R.N. Krejsa, FRICS, Baroness O'Cathain, OBE, J.M.F. Padovan, LL.B., BC., FCA.

Audit Committees

I feel that it is pedantic and unrealistic for the Finance Director, Internal Audit Director and External Auditors not to be members of the Audit Committee. The Audit Committee I believe would be lost without them, and if they are an integral part of it, they should be on the Committee. Executive Directors are allowed to be on the Remuneration Committee (probably rightly) and so why not the Audit Committee?

Audit

I think the best vehicles for the responsibilities and implications of the Directors and Auditors for the presentation and audit of accounts is the Companies Act. I think there are some dangers of actually making it a "greyer" area by amplifying under a voluntary best practice code.

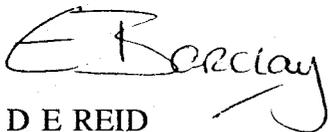
I do not disagree with the points raised but think they should be dealt with formally and legally under the auspices of the Companies Acts.

Presentation

I think there is a danger with substantially increasing the content of Annual Reports for:-

- company statements on corporate governance
- explanations of non-compliance
- possible auditors' comments on management's comments on non-compliance
- detailing directors' responsibilities for preparation of accounts
- expanded audit report
- statements on going concern

in that this may not do what is intended but merely further drown shareholders and readers in a plethora of information, at a substantial increased cost to the company, albeit a benefit to the auditing profession.


D E REID

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