



TESCO PLC

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Mr Chris Hodge  
Corporate Governance Unit  
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28 June 2009

Dear Mr Hodge

**Review of the effectiveness of the 2008 Combined Code - March 2009**

Tesco welcomes the opportunity to respond to the Financial Reporting Council's review of the effectiveness of the 2008 Combined Code, and we are happy to provide our feedback on our experience of dealing with the Code within the context of the day-to-day running of our business. I apologise for the delay in sending you this letter – we wanted to ensure that all internal stakeholders had been consulted.

Our view is that the existing Code and the "comply or explain" approach work well and provide an appropriate framework for corporate governance. We agreed with the FRC's conclusion following its previous review of the Code that it continues to have a broadly beneficial impact and has contributed to higher overall standards of governance among UK listed companies and to more professional boards.

We therefore believe that it is not necessary to carry out a major overhaul of the content of the Code.

The recent events in the UK financial services industry and the consequent initiation of the Walker Review on corporate governance standards within that industry have understandably meant that there is currently a strong focus on governance issues. We continue to believe that a consistent approach for all listed companies based on the current Combined Code framework is the best way forward.

We believe furthermore that it is important to ensure that bad management decisions within the financial sector should not undermine the value of the existing Code or lead to the conclusion that there must be something wrong

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with the rest of corporate Britain. The Government, FSA and Walker Review are all addressing the issues which have arisen in the financial services sector, and we do not believe that there is evidence to justify extending the remedial actions being taken in that sector to the whole business community. We do acknowledge, however, that the findings of the Walker Review should be monitored to ensure that any areas for improvement within the Code are captured.

We have set out responses to your specific individual questions below:

1. Which parts of the Code have worked well? Do any of them need further reinforcement?

We believe that the 'comply or explain' approach works well as a framework for good corporate governance, provided that it is treated in the same way by both companies and investors.

We believe that independent non-executive directors have a crucial role to play in ensuring good governance within companies, but a pragmatic and flexible approach should, in our view, be taken by both shareholders and companies in judging whether a non-executive director is independent: it should not turn just on whether the director in question has served for more than 9 years, but also take into account other factors including the skills and experience such director brings to the Board, as well as an evaluation of the director's performance. In our experience voting agencies and shareholder representative bodies have sometimes applied a box ticking mentality in interpreting the independence principle in different ways to companies. This is therefore an area where further guidance from the FRC might be helpful.

In order to carry out their role effectively, non-executive directors should of course be adequately resourced. The Code already provides that all directors should have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities. The Code also provides for all directors to have access to the advice and services of the company secretary. We believe that these are both important aspects of maintaining good corporate governance and that the Code thereby ensures that non-executives are given strong support in carrying out their work. We do not feel that it would be necessary to adopt additional structures within the governance framework to provide support for non-executive directors, as has been suggested in some quarters.

2. Have any parts of the Code inadvertently reduced the effectiveness of the board?

We feel that the requirement for at least half the board, excluding the chairman, to comprise non-executive independent directors, can lead to over-large boards. Although well intended this can have perverse effects. For example, there are costs in terms of fees and board and executive time, and decision making can become more difficult. In addition, the larger the board, the more the logistical challenges. The application of the 9 year rule can also

lead to frequent changes in board composition. We believe that as long as there is an appropriate number of strong non-executive directors providing the right level of contribution and challenge in the board, it should not be necessary to prescribe the number of non-executive directors.

3. Are there any aspects of good governance practice not currently addressed by the Code or its related guidance that should be?

We feel that the Code currently works well in helping ensure strong governance and we are not aware of any obvious areas not covered by it.

A number of suggested changes have been put forward in the press and elsewhere by interested parties, such as compulsory board evaluations, but we feel that changes are generally too prescriptive and cut across the principles-based framework of the Code. We do not believe that moving closer to a Sarbanes Oxley-type prescriptive approach to governance can be the right way forward.

4. Is the 'comply or explain' mechanism operating effectively and, if not, how might its operation be improved? Views are invited on the usefulness of company disclosures and the quantity and quality of engagement by investors.

We believe that the "comply or explain" mechanism works well, provided that shareholders engage effectively with companies in order to understand their explanations of how they have applied the approach.

In our experience our institutional investors show a close interest in Tesco's approach to governance and are keen to engage as often as necessary in order to discuss any concerns they may have. Our largest shareholders attend regular meetings with our Chairman and we have an ongoing dialogue with those who monitor governance matters at such institutions, not just following the publication of our Annual Report and in the run-up to the AGM, but also throughout the rest of the year.

Please do not hesitate to contact us if you have any queries in respect of this response or would like to discuss any of the points we have raised further.

Yours sincerely



Jonathan Lloyd

**Company Secretary**  
**Tesco PLC**