



Deploying the Tesco Operating Model

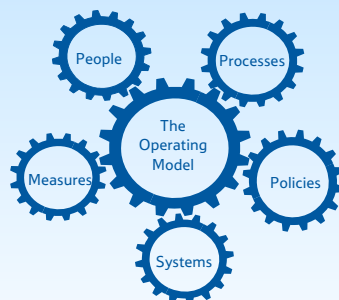
Mike McNamara – Group Information Officer

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The Operating Model is key to achieving best practice operations across the Group

The Operating Model describes how we do things in Tesco...



- The operating model describes our processes ...
- ... how we organise ourselves around those processes....
- ...and the systems we use to execute them

Objectives of the Operating Model Programme:

- Exploit UK operational expertise
- Leverage group assets
- Build a common platform for innovation



Initially implemented into Fresh & Easy, the Operating Model now covers the full breadth of the Group



Fresh & Easy operating model:

- Single format
- Uniform range
- Food and groceries only



Group operating model:

- Multiple Formats
- Complex ranges
- Food, groceries, clothing and general merchandise
- Many promotions



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Three years on from Fresh & Easy the Operating Model is delivering benefit in all Tesco markets...



- New Space, Range and Display capabilities in all markets
- New commercial systems and ways of working
- Automated Ordering
- Labour scheduling
- Transport planning
- Blueprint Warehouses
- Clubcard



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Improved Space, Range and Display capabilities are driving better availability, productivity and LFL sales

Thai Fabric Conditioner



Value Own Brand next to the leading Market Brand

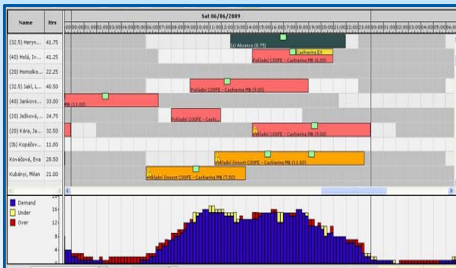
Retail ready packaging in Czech Republic



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- Improved on-shelf availability through allocation of right space on shelves
- Improved replenishment productivity through the introduction of shelf ready packaging
- Introduced customer-focused ranges based on insight from dunnhumby
- Increased LFL sales
 - New space allocation rules in Korea resulting in 1.5% sales uplift in new store openings
 - Seasonal toys in Slovakia up > 50% LFL
 - Confectionery in Thailand 10% uplift in LFL
 - Cleaning products in Korea up 35% LFL
- Floor planning solution perfected in international currently rolling out in the UK

Across Central Europe checkout scheduling will improve productivity



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- New system and processes live in Czech, Slovakia and Hungary (Turkey and Poland later this year)
- Allows stores to match staffing levels with forecast demand
- Results in lead markets are very encouraging
 - 75% reduction in administration of schedules
 - 20% reduction in idle time on the tills
 - 20% increase in sign-in time
- Total capital invested c.£4m will return c.£3m payroll savings per year

We are modernising our distribution network and introducing transport planning systems

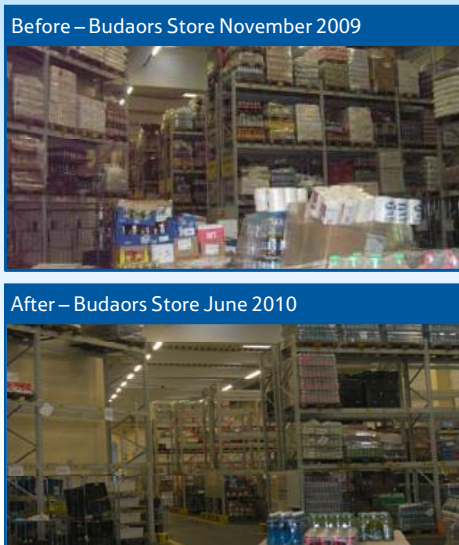


- Developed new warehouses based on our UK blueprint
- New transport planning systems have driven 10% reduction in transport costs in Slovakia
 - Setting up transport planning hub in India
 - Thailand in pilot phase
 - Projected benefits c.£15-20m per annum across Europe and Asia

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We are implementing our UK food supply chain systems in all our operations around the world



- In Central Europe, applying our UK ordering logic has resulted in a dramatic reduction in store stockholding, more efficient store processes and better on-shelf availability
- c.£20m store stock reduction in 10/11, with a further £10m expected in 11/12:
 - Enabled c.£10m of full-year store productivity savings
 - Expected reduction in capital requirements by c.£15m over the next 3 years, as we need smaller warehouses and less equipment
- We project a substantial reduction in our waste bill each year from the implementation of the UK Fresh Food ordering systems

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Around the world we are saying thank you to our customers with Clubcard



- Clubcard operates in 12 out of our 14 countries
- More Clubcard users internationally than in the UK
- Korea has higher Clubcard penetration than the UK; Malaysia and Slovakia not far behind
- 1%-2% LFL sales uplift at launch



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The Operating Model allows us to leverage group assets such as it and the HSC

IT investment leveraged across the entire Group



Tesco Hindustan Service Centre



Located in Bangalore, India

- Clubcard which cost many millions to develop for the UK back in the late '90s cost only c.£0.5m per country to deploy
- We have spent over £100m in the UK to develop world-class food supply chain systems; we can deploy to each country for c.£2m
- Our Hindustan Service Centre, initially set-up to support our UK stores business, now supports all businesses in the group
 - IT
 - Finance
 - Business Services



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And allowing us to continue to innovate across the Group...

Self service checkouts



Dotcom Grocery Delivery Van



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- The operating model allows us to leverage investment in innovations in one market across the Group:

- We are expanding our self service checkouts to many markets
- We plan to introduce online grocery to Central Europe