Homeplus – A world class business

SH Lee, CEO

Tesco in Asia 2010, 21st–23rd November
Contents

• Korea Overview

• Introduction to Homeplus

• Business performance

• Key success factors

• Future growth

• In closing
South Korea

- 41% in size compared to the UK
  - Korea peninsula is 90% of the UK
  - Only 30% of the land mass is habitable

- 50m population (growing at 0.5% annually)
  - 48.6% lives in Seoul metropolitan area
  - 37 cities have over 250,000 people which is similar to Nottingham

- 13th largest economy in the world

- 10th largest international trading volume (Export 9th)

- 81% of all students go to college/university
Korea is one of the fastest growing countries

GDP per Capita

- Approx. USD 20,000 in 2010, from USD 300 in 1970 (Nominal)
- GDP has grown at 5.4% during last 4 decades

Korea’s historical GDP growth rate has been more than four times the world average

Source: ERS International Macroeconomic
The economy has grown throughout recent international crises – and steady growth is expected going forward.

* Source: EIU November, 2010
Korea has a modern and dynamic economy

<table>
<thead>
<tr>
<th>Now</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>127 World No. 1 products</strong>&lt;br&gt;<strong>387 World Top Class products</strong></td>
<td><strong>22 categories in 6 industries for next generation Engine</strong></td>
</tr>
<tr>
<td>LNG Delivery Ship 80.5%</td>
<td>New IT&lt;br&gt;Non memory Semi-conductor, LED lighting, AMOLED, RFID Network</td>
</tr>
<tr>
<td>Memory Semiconductor 49.1%</td>
<td>Convergence - Fusion industry&lt;br&gt;Robot, Nano Fusion (Nano Tech + other industry) IT Fusion (IT + Conventional industry)</td>
</tr>
<tr>
<td>Desalination Plant 43.0%</td>
<td>Bio&lt;br&gt;New Medicine &amp; Medical equipment</td>
</tr>
<tr>
<td>TFT-LCD 38.5%</td>
<td>Energy Environment&lt;br&gt;Solar Energy, Ocean Bio Fuel, Nuclear Plant</td>
</tr>
<tr>
<td>Mobile Phone 31.0%</td>
<td>Transport system&lt;br&gt;Green Car, Vessel system, Ocean system</td>
</tr>
<tr>
<td></td>
<td>Knowledge Service&lt;br&gt;Design, Health Care, Cultural Contents, Tourism</td>
</tr>
</tbody>
</table>

Source: SERI | Source: MKE
Modern retail still has significant potential for growth, as it currently represents only 54% of retail sales.

Source: NSO, SERI
Our business in Korea

118 Hypermarket stores

245 Express stores

Tenant

Retailing Services

305 Artisee Boulangerie bakery shops

Grocery Home Shopping

- Established 1999
- Sales £4.5 bn, Profit: £287 m
- Leading store formats
- Retailing Services

- Offering 19 products
- Personal Finance, Telecom Services and Living Services

222 Direct / 23 Franchise

Approx. 32.5% of Trading Area

Hyper 117 / Express 188

50 stores / 78.5% Coverage
## Our main competitors

<table>
<thead>
<tr>
<th></th>
<th>Home plus</th>
<th>3·MART</th>
<th>LOTTE Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Share</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Retail*</td>
<td>4.3%</td>
<td>4.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Fresh &amp; Grocery**</td>
<td>9.2%</td>
<td>10.5%</td>
<td>5.7%</td>
</tr>
<tr>
<td><strong>Sales Growth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3 yr CAGR 2006~2009)</td>
<td>21.7%</td>
<td>5.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>Hypermarkets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Acquired 35 Homever in 2009)</td>
<td>118</td>
<td>123</td>
<td>86</td>
</tr>
<tr>
<td>(Acquired 16 Walmart in 2006)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Acquired 14 ex GS Mart in 2010)</td>
<td></td>
<td></td>
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<tr>
<td><strong>Express (Superstores)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>245</td>
<td>17</td>
<td>277</td>
</tr>
<tr>
<td><strong>Total Space</strong> (sqm. March 2010)</td>
<td>1.0m</td>
<td>1.1m</td>
<td>0.8m</td>
</tr>
</tbody>
</table>

* KNSO Market Share (12 mth - 2009)
** TNS Market Share (12 wks – 12th Sept ‘10)
Fastest growth in Korea

1999
Sales: £0.1 bn
Profit: £0.06m
Retail Market Share: 0.04%
No. of Stores:
• Hyper: 2
• Express: 0

2009
Sales: £4.5bn
Profit: £287m
Retail Market Share: 5.4 %
No. of Stores:
• Hyper: 114
• Express: 193*

* 2 Franchise stores included

Homeplus has grown sales at an average of 42% per year over 10 years

Acquisition of 35 Homever stores
Opened Fresh Food DC
JV Artisee Boulangerie

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

£bn
5

£bn
5

sales
Most admired brand value

- Service Hall of Fame  
  (June 2008)

- Management Quality Hall of Fame  
  (October 2008)

- Best Employer in Asia  
  (March 2009)

- Corporate Culture Grand Prix  
  (May 2003)

- Most Admired Company  
  The First to enter Hall of Fame  
  (October 2010)

- 130 Grand Awards since establishment
Customers love Homeplus the most

Price & Promotion
✓ The prices are good
  • Competitive Price, Attractive Promotion

Range
✓ I can get what I want
  • Various Food & Non-food Range

Store Environment
✓ Shopping is easy and enjoyable
  • One-stop shopping with a variety of amenities

Customer Services
✓ The staff are great
  • Kind & helpful staff service

Source: Q2 2010 Homeplus Image Tracker (Competitor A&B are either E-Mart or Lotte Mart)
World class capabilities

**Community Centre Store Concept**
- One Stop Shopping Services
- One Stop Living Services

**Most efficient supply chain**
- World Class ambient DC
  - 99% store service level
- Korea’s best quality controlled Fresh DC
- Leading CO₂ reduction

**Tesco Operating Model**
- Common standards across international business
  - Customer driven range
  - Simple replenishment
  - Enhanced ordering
- Accommodate local practices

**High talented people**
- Best Employer in Asia (Hewitt & WSJA)
- We recruit the best talent
- We develop the talent to the best
- We retain talent the best

**Family Card**
- 5.7 m active members
- 86% sales participation

**World class capabilities**
- Right Range
- High Availability
- Enjoyable Shopping
- Wide Range
- Cheaper Price
- Good Quality
- Extensive Customer Service
- Community Centre Store Concept
- One Stop Shopping Services
- One Stop Living Services
Successful Homever integration

• Completed integration faster than planned
  ✔ All 32 stores refitted within 6 months
  ✔ Integration completed earlier:
    - IT (42 days), DC (60 days)
  ✔ Labour union issue resolved in 45 days which lasted for 510 days before acquisition

• Achieved integration synergies than more than business case

• Dramatically improved customer satisfaction in shopping experience

• Won the hearts of the Homever staff and aligned the corporate culture

• Sales density and profitability continues to converge with our core business
Synbaration Culture – The best of the West with the best of the East

**Eastern culture**
- High Loyalty
- Group working
- Synbaram relation
- 250 hobby clubs
- Fast execution
- Deductive approach

**Western culture**
- Rational process
- Core Skills
- Talent Spotting
- Knowledge based
- Inductive approach

**Synbaration Culture**
- Customer Focused
- Creativity
- Speed
- Execution Oriented

**CSP-CSE Culture**
- Synbaram Spirit
- Rational Thinking
- Team-spirit
- Emotional
- Passionate
- Relationship
- Team-spirit

**Synbaration Culture**
- Rational
- Professional
- Analytical
- Systematic

ESI
Social contribution has improved Homeplus brand value

### <Stakeholder Viewpoint>

<table>
<thead>
<tr>
<th></th>
<th>Local Community</th>
<th>Think Tank</th>
<th>Government</th>
<th>Supplier</th>
<th>Media</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Homeplus</strong></td>
<td>74.9</td>
<td>74.2</td>
<td>70.1</td>
<td>67.2</td>
<td>58.9</td>
</tr>
<tr>
<td><strong>Competitor A</strong></td>
<td>57.7</td>
<td>62.5</td>
<td>66.1</td>
<td>59.4</td>
<td>58.0</td>
</tr>
<tr>
<td><strong>Competitor B</strong></td>
<td>53.1</td>
<td>55.6</td>
<td>59.9</td>
<td>58.0</td>
<td>55.2</td>
</tr>
</tbody>
</table>

- Most Admired Company Hall of Fame
- 1st place for KS-SQI (Korea Standard Service Quality Index)
- Brand Stock 6th place

*Source: Quantitative Stakeholder Audit 2010 (Competitor A&B are either E-Mart or Lotte Mart)*
Homeplus has many avenues for organic growth

Modern retail market is still underdeveloped

- 46% remains in traditional markets

Homeplus is strong in hypermarkets

- But only 4.3% of the total retail market

Rapid growth in grocery home shopping

- Significant on-line opportunities in Non-food

Extending Dot.com multi-channel opportunities

Evolving to new retailing services

- With an admired brand, strong store network and large customer base

- Great opportunity to develop a new retailing services offer

If Homeplus were to grow to the same size of the total retail market that Tesco have achieved in the UK it would be more than three times as big
Planned growth in existing formats

Hypermarket & Express Space - sq m (millions)

Total Sales Area (sqm)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/10</td>
<td>1.014m</td>
</tr>
<tr>
<td>13/14</td>
<td>1.455m</td>
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</tbody>
</table>

9% CAGR

Working to achieve good growth within regulatory framework
## Extending multi-format opportunities

<table>
<thead>
<tr>
<th>Store size (sq.m)</th>
<th>Current</th>
<th>Under Development</th>
<th>Under Review</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,000+</td>
<td>Standard hypermarket (78 stores)</td>
<td>Superstore (3K) • Focusing on food</td>
<td>Value store • Small town • Local fresh food tenant + Homeplus grocery &amp; non food offer</td>
<td>Shopping centre (anchored by hyper)</td>
</tr>
<tr>
<td>9,000</td>
<td>Compact hypermarket (40 stores)</td>
<td></td>
<td>Category killer • e.g. electronics</td>
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<tr>
<td>8,000</td>
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<td>7,000</td>
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<td>6,000</td>
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<td>3,000</td>
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<td>2,000</td>
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<tr>
<td>1,000</td>
<td>Express Super (245 incl. 23 franchise stores)</td>
<td>Express Mini</td>
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<tr>
<td>600</td>
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<td>300</td>
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<td>150</td>
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<tr>
<td>100</td>
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With only 4.3% share of the retail market, Homeplus has many opportunities for future growth.
Dot.Com business opportunities

• No.1 Grocery Home Shopping provider in Korea
  ✓ Sales increase: 104% (09/10)

• 4% sales participation planned for 13/14
  ✓ Solidify Grocery Home Shopping and maintain market leader position

• Aim to become a multi-channel online player
  ✓ Extend to Non-Food
  ✓ Grocery Home Shopping + Dropship (supplier based) + DC Based + Market place

Sales participation will reach c.4% in 13/14 with 50% annual growth
Following the customer into Retailing Services

Where we are Today £18m Profit

- Telecom Shop
  - Strategic alliance with 3 MNOs: (SKT, KT, LGU+)
  - Sales commission base
  - Mobile 300K / Broadband 80k customers (09’)
- Mart-surance
  - Strategic alliance/sales commission base
  - Sales by in/out bound call & in-store shop
  - Car 76K / Life 43K customers (09’)
- Co-brand Credit Cards
  - Shinhan, Hyundai, KEB
  - 1.2 million Co-brand cards active (09’)
- Other Retailing Services
  - Loan, ATM, Travel etc.

Tomorrow £50m Profit

- MVNO
  - Add HMP own brand Telecom Services
  - Set up a JV with one MNO
  - Offer competitive mobile services
- Insurance Joint Venture
  - Exclusive alliance with life insurance company
  - Profit sharing scheme with insurance company
- JV Credit Card Company opportunities
  - Offer HMP own brand credit card
  - Set up a JV with credit card Co.
- Other Retailing Services
  - Develop new services

As we progress from commission-based arrangements to our own brand services, we can see the potential to grow our Retailing Services to £50m of profit in the medium term.
Homeplus eParan foundation for sustainability

93% of CEOs believe that sustainability issues will be critical to the future success of their business. (Accenture report, UNGC Leader’s summit)

96% of CEOs believe that sustainability issues should be fully integrated into the strategy and operations of a company.

• e-Paran children program
• Green consumption
• Customer green lifestyle
• Green store / Management

• Work-family balance programme
• Nanny development programme

• All staff participating in ‘Matching Grant’
• Homeplus sharing bazaar
• Support for bakery business of disabled

• Extended education academy
• Scholarship programme
• Music & Art program for local communities

Love Environment

Love Neighbours

Love Sharing

Love Families

Four Loves

TESCO Homeplus
We are confident of future success

• In 11 years, Homeplus, Tesco Korea has grown from two stores to 2nd position in the hypermarket sector and we are closing in on the market leader

• The fast growth of Express, Grocery Home Shopping and the expansion of Retailing Services, together with our planned new hypermarket openings, gives us the platform for strong future growth

• The acquisition of the Homever store portfolio has given us a stronger position in the Seoul Metropolitan area and substantial synergies in terms of commercial margin and central costs

• Our investment in supply chain, global sourcing, private brand and the Tesco Operating Model will enable us to further improve on our world-class operating margin

• Together with outstanding financial performance, building the most respectable corporate image through social contribution to the community, we believe that we can achieve sustainable growth.