

TESCO

Retailing Services Seminar 2009

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Tesco Telecoms

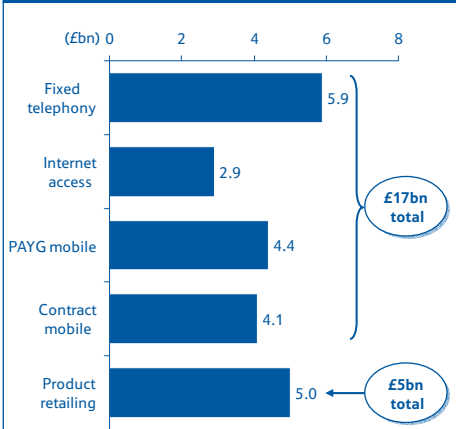
Lance Batchelor, CEO Tesco Telecoms

Retailing Services Seminar, 19-20 November 2009

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Consumer telecoms market is worth £22bn

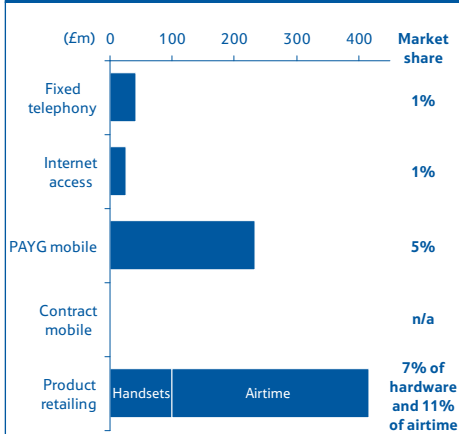
Consumer telecoms services market



Source: Ofcom & Tesco analysis

Note: Market size estimates exclude SME and corporate services

Tesco telecoms revenues 2008/9



Market share source: Ofcom and Tesco analysis

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We will use Tesco's assets and capabilities to offer great value and differentiated services

Tesco's Assets and Capabilities

Customer base

Trusted brand

Store network

Clubcard data

Customer insight

- Simplicity and customer focus will cut through in a market with complex pricing and poor customer experience
- Tesco's loyal customer base, in-store footfall, brand and service mean we can acquire customers at low cost
- Infrastructure and technical capabilities of O₂ and Cable & Wireless enable Tesco to compete with limited incremental capital
- Tesco Mobile's success demonstrates the potential of our brand and assets in the telecoms market

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Tesco Telecoms' strategy

Our Core Purpose

To bring simplicity and value to the consumer telecoms market, to earn customers' lifetime loyalty

Our Goal

To become a leading provider of telecoms services and products to Tesco customers, with the medium-term potential to generate c.£2bn revenue and c.£200m profit

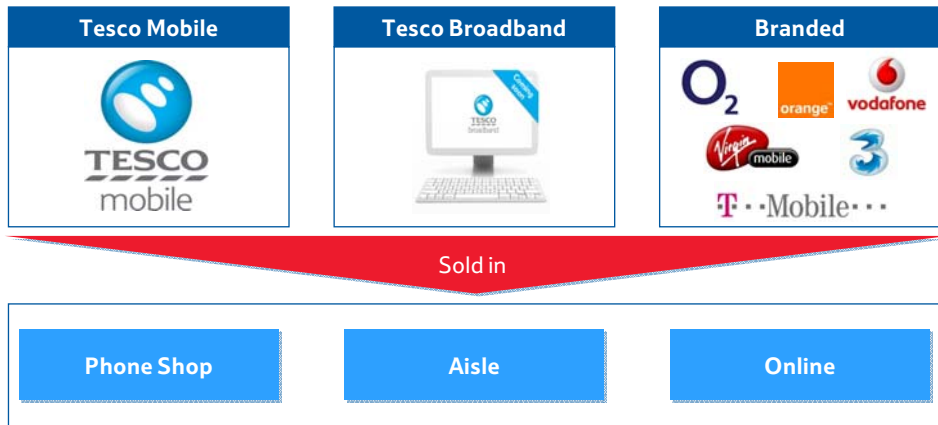
Our Strategy

To offer highly competitive prices combined with great service, consistent quality, ease of purchase and unique Tesco benefits, across a wide range of services and products

Our strategic priorities

- Offer telecoms services and products through all of Tesco's retail channels – in Phone Shops, in-store, online and through (in-bound) call centres
- Build a stronger range – by extending the range of mobile services and re-launching our broadband / home phone offer
- Establish Tesco's credibility as a telecoms service provider and increase customer awareness
- Transform customers' buying experience – bringing simplicity and transparency
- Deliver world-class customer service
- Build strong and effective working relationships with strategic partners

Three businesses operating through three channels



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Tesco Mobile: market context and opportunity

Market context

- £4.4bn 'pay as you go' (PAYG) market
- £4.1bn contract mobile market
- High growth market phase is complete (penetration >100%)
- Market is competitive on price, although tariff structures remain complex
- Quality of customer service is variable

Market size source: Ofcom and Tesco analysis

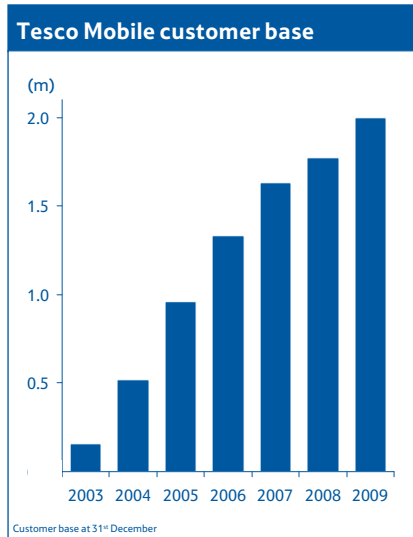
Tesco Mobile propositions

- Strong position in PAYG market; early stages in contract market
 - only PAYG operator to grow consistently, quarter-on-quarter
- Simplicity, transparency and value
 - £30 unlimited tariff
 - SIM-only contracts
- Innovative offers to help customers
 - £10 capped tariff
- Great customer service
 - 13 successive quarters of best-in-market customer service (TNS)
 - market-leading PAYG retention rates

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Tesco Mobile: drivers of growth

- Tesco Mobile's unique proposition and strategy has enabled us to grow quickly to two million customers
- Future growth will be driven by
 - expansion of the core offering into mobile contracts
 - further roll-out of Phone Shops
 - stronger availability in-store (e.g. SIM at checkout)
 - improved online presence
 - targeted campaigns to Clubcard base



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Tesco Mobile: business model

- 50/50 Joint Venture between Tesco and O₂, with both partners committed to long-term growth
- Tesco Mobile owns customer relationship
- Leverages Tesco's strengths
 - Brand
 - Distribution
 - Customer insight
- Leverages O₂'s strengths
 - Proposition development
 - Network infrastructure and IT support systems
- JV model minimises Tesco's capital investment and avoids risk of technology obsolescence
- Tesco Mobile accounts for about one-third of Telecoms' profits

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Tesco Broadband: market context and opportunity

- £5.9bn fixed telephone services market and £2.9bn broadband services market
- Market continues to grow (+1m customer in 2008), but rate of growth is slowing
- Market dominated by large technology focused players and a few smaller operators – all have made large capital investments in local networks
- Significant customer dissatisfaction with service and experience – causing c.20% market churn p.a.
- Customers prefer to buy bundled phone and broadband and have reacted well to our proposed service



Size of market source: Ofcom and Tesco analysis

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Tesco Broadband: drivers of growth

- Tesco Mobile has shown that we can be successful in telecoms if we have the right partners and the right offer
- New agreement with Cable & Wireless enables us to offer
 - very competitive pricing
 - bundled broadband and home phone offer (for the first time)
- Unique ability to differentiate services through Tesco rewards and by bundling across a wide range of goods and services (e.g. laptop sold with broadband package)
- Future growth will be driven by strong promotion, attractive services and service bundles and best-in-class customer service

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Tesco Broadband: business model

- Tesco Broadband is wholly owned by Tesco
- Cable & Wireless is a key supplier providing broadband and home phone services at wholesale prices based on customer volumes
- Leverages Tesco's strengths
 - Brand
 - Distribution
 - Customer insight
- Leverages Cable & Wireless' strengths
 - Network and IT infrastructure
 - Specialist wholesale provider
- Minimises Tesco's capital investment and avoids risk of technology obsolescence e.g. new fibre optic networks

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Branded Contract: market opportunity

- Most mobile contracts are sold through retail shops – either network shops or independent retailers
- £4.1bn market
- Tesco offers a wide range of contracts and handsets from multiple network operators...
- ...coupled with impartial advice from knowledgeable sales staff
- Tesco receives a fee from the mobile operators for each contract sold

The advertisement is for the Tesco Phone Shop. At the top, it says 'TESCO Phone Shop' and 'Latest phones' in a red circular graphic. Below this, there are three phone models: a Nokia 1208, an LG Optimus 2X40, and a Sony Ericsson Satio. A 'FREE' offer is highlighted: 'Pay as you go Nokia 1208 including £60 top-up with this contract'. Below the phones, the 'Dolphin 40' contract is advertised with '1200 minutes*', 'Unlimited texts**', and '500Mb mobile internet browsing*'. It also lists '24 month contract', 'Free 160 email mailbox', 'Free 160 text billing', and 'Free Orange maps (burning your phone into a Sat Nav)'. The price is shown as 'NOW £34.26 per month' and 'was £39.15 per month'. The Orange logo is present. At the bottom, it says 'Ask Phone Shop staff for details or visit www.tescocontractphones.com'.

Size of market source: Ofcom and Tesco analysis

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Branded Contract: drivers of growth

- Roll-out of Phone Shops
- Weekly sales rate of mobile contracts has quadrupled during 2009
- Significant investment in improved training and better recruitment of specialist staff
- Volume growth enables us to improve commercial terms with network operators
- Currently enhancing other channels – in aisle, online and via call centre

TESCO Phone Shop

SAVE £9.78 per month

FREE Pay as you go Nokia 1208 including £60 top-up with this contract*

Blackberry Curve 8520

Panther 30
600 minutes* 500 texts**
Unlimited mobile internet browsing*
24 month contract. Unlimited push emails**

Ask PhoneShop staff for details or visit www.tescocontractphones.com

NOW **£19.58** per month
was ~~£29.56~~

orange

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Branded Hardware and Airtime: market opportunity

Hardware

- £1.4bn market for mobile handsets, fixed line handsets and accessories
- Tesco has a great track record of offering a wide range of handsets / accessories at attractive prices

Airtime

- £5bn airtime market of which £3bn is sold through non-network retailers – but at low margins
- Tesco has a strong market position due to the frequency with which customers are in store and the ease of purchase

O2

vodafone

orange™

Virgin mobile

T-Mobile... 3

Sony Ericsson

SAMSUNG

LG NOKIA
Life's Good Connecting People

Size of market source: Ofcom and Tesco analysis

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Branded Hardware and Airtime: drivers of growth

Hardware

- 7% market share
- Phone Shops improve the efficiency of the channel
- Innovative retailing approaches
 - ‘selling live’ – having ‘live’ phones (in secure boxes) in the aisle for customers to take directly to the check-out (rather than DVD cases)
 - range intensification – improved merchandising to offer a greater range of phones from a given store format

Airtime

- 11% market share of airtime sold through retail outlets
- Increasing availability through roll-out into all Tesco store formats

Market share source: Tesco analysis

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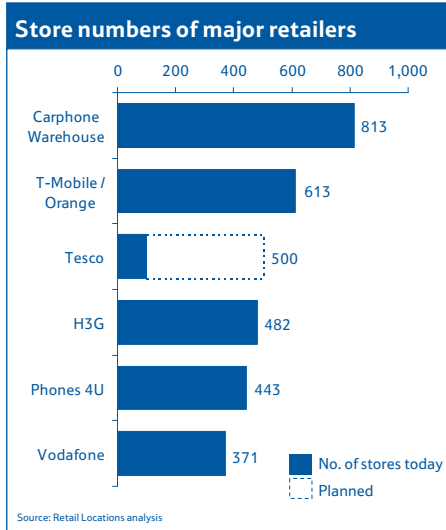
Phone Shops enable us to showcase our telecoms range



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Phone Shops enable us to showcase our telecoms range

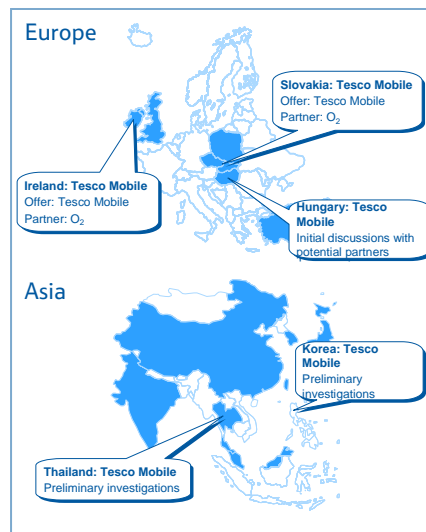
- Phone Shops provide an attractive, assisted-selling environment
 - particularly important for contract market
- 100 Phone Shops today; 200 by end of 2010
- Plan to build a nationwide network of 500
- Investment in staff, propositions and 'look and feel' is paying off with improved sales
- Becoming a 'destination' for telecoms shopping
- Attractive economics
 - operational break-even after c.6 months
 - capital cost covered by value of contracts sold in first year
- Stores without a Phone Shop continue to sell phones and accessories from the aisle



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International markets provide a good opportunity for further growth

- Successful re-launch of Tesco Mobile in Ireland in May 2009 has re-energised sales through a simple, compelling and easy to understand price message
- Early stage of development, but plan is to build a significant international telecoms business
 - **Branded:** step-changing the existing product offer for customers by leveraging Group scale
 - **Tesco Mobile:** developing an MVNO partnership in multiple countries (subject to local regulation)



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Summary – strong foundations to accelerate growth

- Strong partnerships with O₂ and Cable & Wireless enable us to offer competitive services with low capital investment
- Tesco's brand, store assets and website provide low cost access to customers across a wide range of channels
- Fully integrated with – and strong support from – the wider Tesco business
- Success of Tesco Mobile in the PAYG segment demonstrates the potential for Tesco in this market

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Appendix

Appendix: Accounting

Tesco Mobile	<ul style="list-style-type: none">• JV revenue not recognised in Tesco P&L• JV profit recognised in Tesco 'JVs and Associates' line in P&L• Tesco charges the JV for marketing / distribution and recognises this as revenue in Tesco UK P&L
Broadband	<ul style="list-style-type: none">• Revenue and profit in UK P&L
Branded contract	<ul style="list-style-type: none">• Revenue and profit in UK P&L
Branded hardware and airtime	<ul style="list-style-type: none">• Hardware revenue and profit in UK P&L• Airtime – only commission is recognised in UK P&L