



Central Europe and Turkey: Becoming an outstanding retailer

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Agenda

- The journey since 2006...what has gone well
- The challenges we have started to overcome
- Becoming an outstanding retailer
- The model for delivering long term returns
- Applying Group skill & scale to all areas of our business
- Looking ahead
- Conclusions – Getting to the next level



The journey since 2006...what has gone well

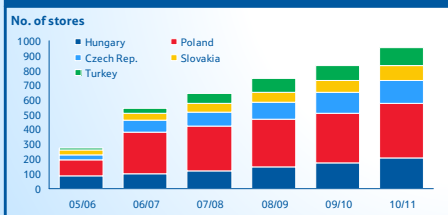
Built substantial scale

	05/06	10/11	Increase
Number of stores	272	952	+250%
Space (m sq ft)	14.5	27.0	+86%
Employees	55,294	76,044	+38%

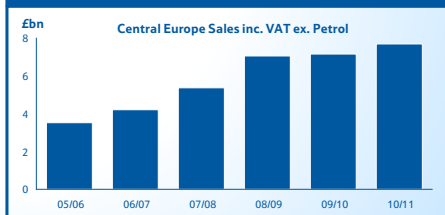
Market share growth

Country	05/06	11/12	Position
Hungary ⁺	13.9%	18.4%	1
Poland ⁺	4.0%	6.0%	2
Czech Republic [§]	4.7%	10.6%	2
Slovakia [§]	11.0%	18.9%	1
Turkey [*]	0.6%	1.9%	4+

Our continued investment in stores



Strong sales growth



⁺ GfK Panel (12 weeks ending March 2006; 12 weeks ending 24 April 2011)
[§] GfK Panel (52 weeks ending December 2006; 12 weeks ending 24 April 2011)
^{*} IPSOS Panel (12 weeks ending 24 April 2011)



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The challenges we have started to overcome

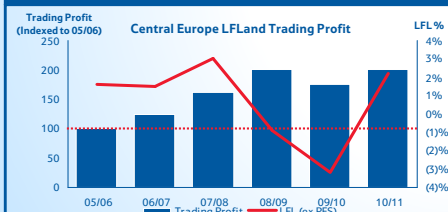
Economic background

- Export-led economies recovering well
- Government austerity measures remain a challenge for consumer sectors
- Inflation in commodities is sapping spending power
- Individual wealth has increased but the strain of fuel costs is significant

Competitive environment

- Fragmented markets giving way to steady consolidation
- Discounter challenge remains – but improved price position means Tesco is generally winning share against mainstream players
- Structural shift to modern channels and format diversity continuing

LFL and profit are recovering well



Evolving customer needs

- Value for money & convenience still the highest priority
- Aspiration increasing for:
 - breadth and depth of range
 - great quality
 - increased service & services



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Becoming an outstanding retailer

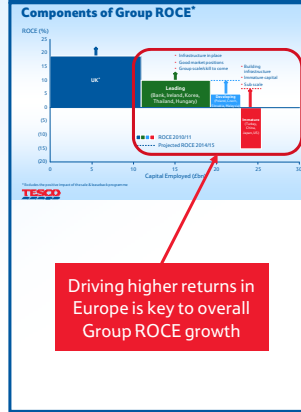
Improve the brand



Improve the shopping trip



Improve returns



My personal commitment



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The model for delivering long term returns

To drive sustainable growth in:

Sales

Profit

ROCE



Generating savings to step change the business by:

Buying together

Common operations

Shared services

Creating a competitive advantage by focusing on customer needs:

Brand

Shopping Trip

We are creating significant headroom to invest for customers



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Applying Group skill & scale to all areas of our business

Property & Formats



Extra, small formats, build for less

Multi-channel



Innovating for customers

Commercial



Buying better to invest for customers

Store operations



Efficient to improve the shopping trip

Supply chain & distribution



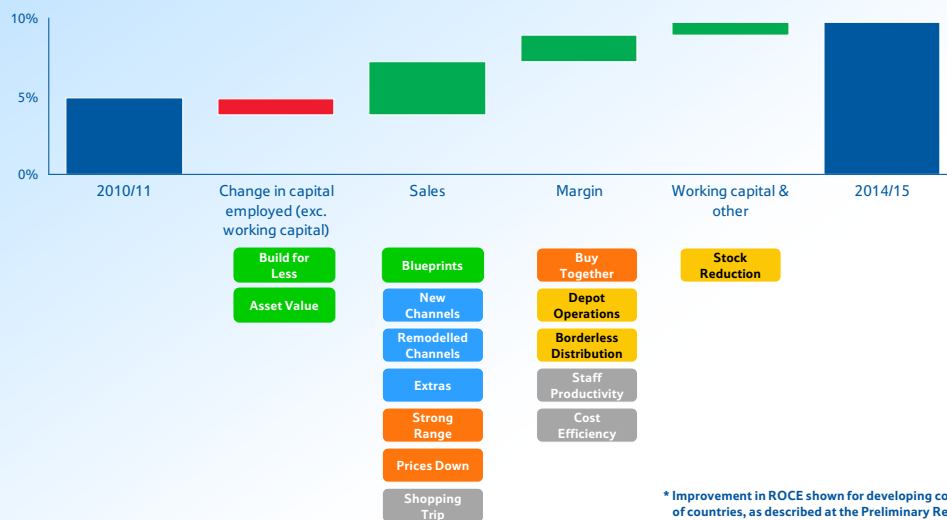
Implementing best practice regionally

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The drivers of ROCE

Contribution to improvement in Return on Capital Employed*



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* Improvement in ROCE shown for developing cohort of countries, as described at the Preliminary Results in April 2011; comprising Poland, Czech Republic, Slovakia and Malaysia

Property & Formats: Lower cost design & build, higher asset yield

Consistent store blueprints

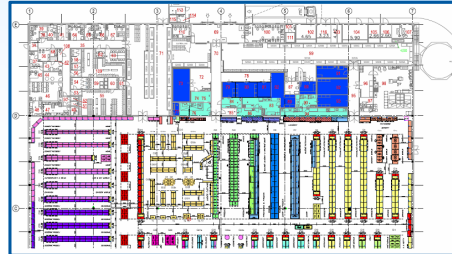
- The same principles for every shop:
 - Same store design and "look & feel"
 - Same shop fit equipment
 - Range and space always localised
 - We open great shops every time

Simple, lower cost design & build

- Design and plan together in one place (HSC)
- Build for less programme across CE and Turkey:
 - Contractors, materials, equipment
- Faster construction
- Carbon footprint reduced through energy saving initiatives

Higher yield from assets

- Reduce backroom size (chillers and offices)
- Lease empty warehouse space
- Increased mall space
- Extra programme a substantial opportunity



Progress to date

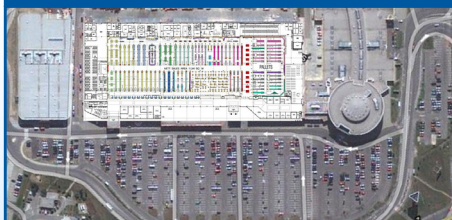
- All blueprints completed
- Build costs reduced significantly during recession
- Build for less programme will deliver £40m capital savings for 11/12 alone
 - £30m build
 - £10m fixtures & fixtures (particularly refrigeration & shelving)



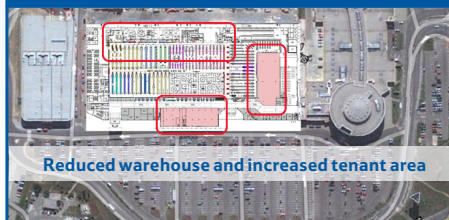
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Property & Formats: The Extra blueprint

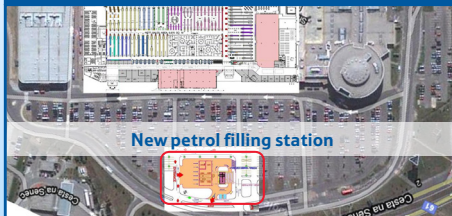
Existing store



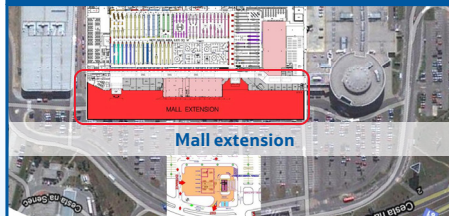
Stage 1



Stage 2



Stage 3



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Extra: Transforming hypermarket performance

Modern Look and Feel

- Better layout
- Modern fixtures
- Improved signage

Improved Space and Range

- Over 5,500 new lines across the store
- Introduced the "Worlds" concept
- Significant upgrade to fresh service counters
- Aligned space to sales (Macro and Category)

Service Offer

- Innovative Retail Services offer
- Introduced Tech Team



Progress to date

- 12 Extras converted so far:
 - LFL growth averaging over 20%* versus control with significant increases in both transaction numbers and average spend
 - Customer Question Time the best ever (99% customers would recommend Petrzalka)
 - Average Capital per store of c.£3m
 - Target CROI of over 25%

* Based on the eight Extras opened more than 8 weeks



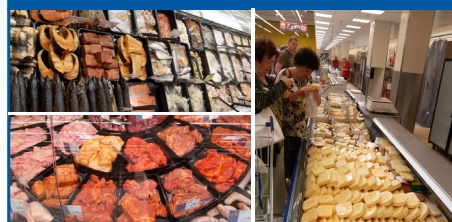
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Extra: Transforming hypermarket performance

Produce



Counters



Bakery



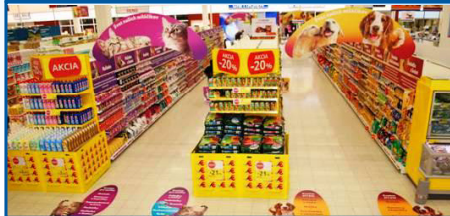
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Extra: Transforming hypermarket performance

Grocery



Pet food



Clothing



Health & Beauty



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Property & Formats: Small formats – low capital growth

Small format growth



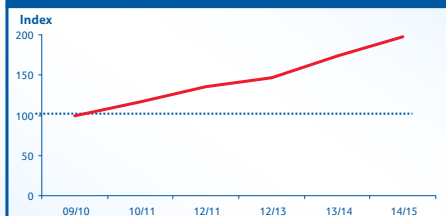
1k



Express



Small format indicative returns*



* Returns calculated as trading profit before central costs/cumulative capex

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Multi-channel: Innovating for customers

New Channels

- Launching grocery online across the whole of Central Europe and Turkey
- Online Retail - £8bn market in CE by 2013
- Further franchise opportunities across all countries
- A range of Retail Services in all Extras
 - Opticians
 - Telecoms
 - Pharmacy
 - Photo



Remodelled Channels

- Large Hypermarkets (Extra)
- Small Hypermarkets (2-4k)
- Small Stores (<1k)
- Express
- Department Stores

Progress to date

- On track to launch three online stores in Prague and Warsaw in 11/12, and plans for Budapest & Bratislava
- Acquired 83 Zabka franchise stores; at least 200 more potential sites identified in the greater Prague area
- Group support to launch all Retail Services
- 14% like-for-like from refitted department stores



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Commercial: Buying better to invest for customers

Strong in every Range

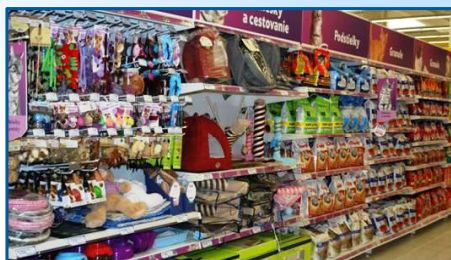
- Own brand development
- Align category reviews across Europe (inc UK)
- Retain strong local element
- Common lines - both food & general merchandise
 - Good, better, best in every category
 - Aligning space to sales to improve densities

Buy Better Together

- Group Sourcing across the store:
 - Food
 - General merchandise
 - Consumables, security, cleaning, etc

Drive down Prices for Customers

- Common lines and a pan-European supply chain enable us to lower prices



Progress to date

- European ranges:
 - 100% of pre-packed meat bought together
 - Cut flowers launched to 630 stores, £250k per wk
 - Small domestic appliances and homeware
 - Trials of c.400 lines of pet food (60% common) and confectionery (40% common)
 - 45% of CE Produce now Group sourced
- All consumables will be Group sourced by year end



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Supply chain: Implementing best practice regionally

Stockholding

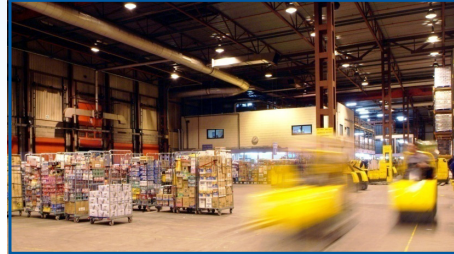
- Group best practice across the end-to-end Supply Chain
- Just-in-time stock for stores

World Class Depot Operations

- Group best practice depot processes, equipment and systems
- Share depots and vehicles
- Great service levels and availability (delivery frequency, order lead times, delivery on time)

Borderless Distribution

- Common ranges and shared infrastructure to move stock across Central Europe
- Introduce primary distribution
- Leverage scale with recycling hubs



Progress to date

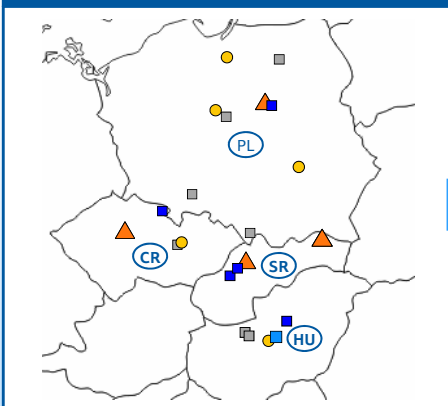
- Grocery stockholding in store backrooms reduced by 70% - £20m working capital saving
- Saved c.£20m from distribution productivity in 2010/11, with plans for an additional £25m in 2011/12
- Significant availability improvements (96hrs taken off order lead times)
- Started primary trials with multi-national suppliers

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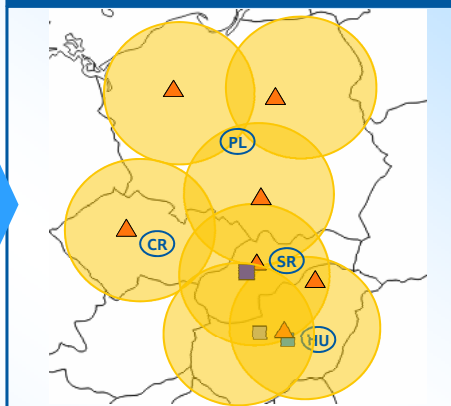
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Our future network plan

2010 Central European Network – 22 Depots



Future Central European Network – 10 Depots



Depot	2010	Future
Fresh	1	1
Frozen	5	0
Composite	4	7
Grocery	7	1
Non-Food	5	1

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Store operations: Efficient to improve the shopping trip

Drive staff productivity

- One productivity model
- Roll out tried and tested Group solutions
- Make efficiency a core skill

Drive operating cost efficiency

- Transition non-customer facing activity (HSC)
- Launch simple processes to minimise stock loss and expenses

Investing in shopping trip improvements

- Market leading queue length (we could offer One In Front if we improve scan rate by 20% to the UK level)
- The right hours in the right place
 - great customer service
 - great availability
 - great standards



Progress to date

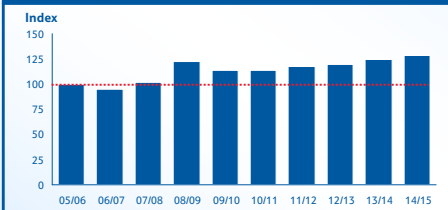
- Supply chain projects increasing store productivity
 - Relayed depot warehouses help store staff
 - Trialling new cages and replenishment equipment
 - Stock reduction programme delivered £6m productivity savings in 2010/11, is forecast to save £3m in 11/12 to deliver zero out the back

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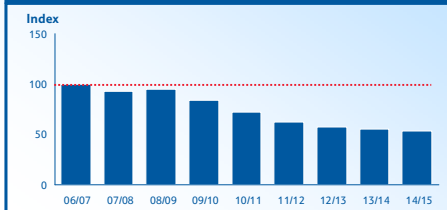
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Looking ahead...

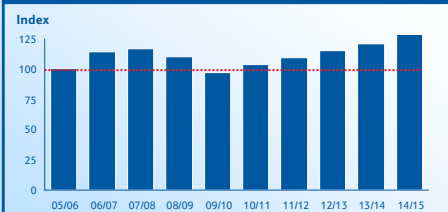
Sales densities improving...



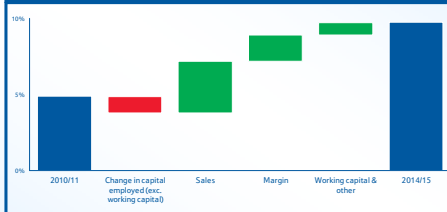
Lower build cost per square foot...



Growing profit margins...



... will ensure ROCE will double



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Conclusions – Getting to the next level

- In 2010/11 we grew LFL, margins, ROCE and market share simultaneously – with more to come
- We are able to invest more for customers as we unlock resources from:
 - Group & regional buying
 - Common operations
 - Shared services
- Formats are starting to drive performance
 - coming of age in smaller formats – 1k, 2k, 3k, Express
 - substantial upside through Extra roll-out
- Central Europe will be an engine of growth and returns for Tesco