Group Sourcing

Matt Simister - Commercial Director for Group Food Sourcing
Chris Holmes - Commercial Director for Central Europe General Merchandise

June 2011

Agenda

Winning locally, by applying the Group’s skill and scale

Our Food sourcing strategy

Our Non Food sourcing strategy
Tesco is evolving

- Keeping the UK strong and growing
- Becoming outstanding internationally, not just successful
- Becoming a multi-channel retailer wherever we trade
- Delivering on the potential of Retailing Services
- Applying Group skill and scale
- Delivering higher returns

The global market is changing

### Commodity food price index

- Cotton by 140%
- Wheat by 85%
- Coffee by 74%
- Sugar by 58%
- Palm oil by 45%
- Beef by 22%
- Shrimp by 10%

### Raw material price inflation*

- The need to get cheaper for customers
- Growing global demand consuming the world’s natural resources
- High price inflation in raw materials
- Energy price increases
- Currency volatility
- Consumers’ disposable income reducing

*Source: Indexmundi – 12 months year on year to June 2011

We are innovating further down the supply chain to offset these inflationary pressures
Group Sourcing: what do we do

- We source, produce and ship food (produce, proteins, chilled, grocery), clothing, electrical, general merchandise, health & beauty & household and goods not for resale

Group Food Sourcing

Matt Simister
Winning locally through delivering competitive advantage in cost and offer

- BETTER products
- SIMPLER global supply chains
- CHEAPER prices

Our five priorities

1. Buy more together
2. Develop efficient global supply chains
3. Use our scale and expertise to buy for less
4. Grow our brands
5. Develop a high quality, sustainable global supply base
How we are building capability

- Developed a Global Sourcing team who work very closely with the local country teams
- Delivering world class processes to enable enhanced sourcing capability to buy better, improve quality and to sell more.

<table>
<thead>
<tr>
<th>Local Team</th>
<th>Global Sourcing Team</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan</strong></td>
<td><strong>Source</strong></td>
</tr>
<tr>
<td>Using customer insight enables a clear product brief to be created by the country category teams</td>
<td>Using the central food sourcing team and hubs we are able to develop product sourcing plans for each region</td>
</tr>
<tr>
<td><strong>Sell</strong></td>
<td><strong>Buy</strong></td>
</tr>
<tr>
<td>Local teams are able to concentrate on selling and merchandising their categories better</td>
<td>Demand across countries is aggregated and expert buyers ensure we pay the right price for the right specification</td>
</tr>
</tbody>
</table>

Buy more together

The journey in Central Europe over the last 5 years

<table>
<thead>
<tr>
<th>Cost of goods sourced by Group Food across Central Europe £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protein</td>
</tr>
<tr>
<td>0</td>
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</tbody>
</table>

Growth plan for the Group

<table>
<thead>
<tr>
<th>Cost of goods sourced by Group Food across the Group £m</th>
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<tbody>
<tr>
<td>Asia</td>
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<tr>
<td>0</td>
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</tbody>
</table>
We will maximise the international opportunity by applying a regional and global approach

### International Opportunity
- UK and Republic of Ireland
- Central Europe and Turkey
- Asia
- United States

### Regional Approach
- **Europe**
  - 2-3,000 core common lines across the region

### Global Approach
- **Asia**
  - Expanding the current sourced ranges from imported produce to protein, dairy and grocery commodities
- **United States**
  - Leveraging European, Asian or Group scale as relevant

Global examples: shrimp; bananas; kiwi; canned fruit

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Our progress in Central Europe so far

- Currently sourcing c.£35m/wk at cost for the Group, c.£15m of which is for CE (up 100% YoY)
- Over 2,000 lines sourced across the region

**What we are currently sourcing for CE:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>70% of fruit; 50% of salads; 15% of vegetables</td>
<td>Fruits, salads, vegetables</td>
</tr>
<tr>
<td>100% of core pork, beef and poultry</td>
<td>Meats</td>
</tr>
<tr>
<td>20% frozen foods; 30% pet food; 10% total grocery through establishing 1,400 regional own label grocery lines</td>
<td>Frozen foods, pet food, total grocery</td>
</tr>
<tr>
<td>Plans to source core commodities (e.g. oil, sugar, flour), ingredients and packaging</td>
<td>Oil, sugar, flour, ingredients and packaging</td>
</tr>
</tbody>
</table>

**Benefits**

- Strong margin growth on common lines
- Common trade plan to further drive regional trade and optimise buying opportunities
- Improved product quality and consistency for Value range
- Established Tesco Standard brand
- Regional Discount brand to compete with discounters
We plan to centralise inbound supply chains

FROM – many growers currently supplying many packers whose product is delivered through national distribution networks

TO – buying more from the best growers in the world, supplying better invested packers, serving regional distribution networks

Developing efficient global supply chains

<table>
<thead>
<tr>
<th>Step change project</th>
<th>Deliverables</th>
</tr>
</thead>
</table>
| Supply chain cost modelling                       | • End to end cost matrix by line  
• Indirect cost/duty matrix  
• Cost of volume movements from origin to destination |
| Direct sourcing                                   | • Trials on bananas, shrimp and tinned pineapples  
• Define operating model and develop required infrastructure |
| Regional consolidation of import supply chains    | • Consolidation of volume at source  
• Direct to depot deliveries  
• Trials from Spain and South Africa  
• Transport efficiencies using road, rail, short and long haul sea freight |
| Physical network alignment from suppliers to stores| • Consolidation of service providers and packers  
• Alignment with stores distribution network e.g. cross docking at new Dagenham fresh depot  
• Centralised CE deliveries for imported food |
| Harmonising case configurations and raw material input costs | • Scale buying on supplier packaging  
• Scale buying on supplier input materials  
• Tesco brand cases optimised for end to end supply chain |
We are a key enabler for growing our brands in Central Europe

- We are consolidating the less meaningful brands to create space for our own brands and the power brands
- We also have the opportunity to supply global food brands through our new capability as the Group supply company

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VALUE DISCOUNT</strong></td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>TESCO STANDARD</strong></td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>TERTIARY</strong></td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>POWER</strong></td>
<td>30%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Using scale and expertise to buy for less

Leveraging scale economics
- Our priority is to combine UK and Irish volumes with the core European range

Structurally removing cost from supply chains
- Removing agency fees and consolidating inbound volumes

Purchasing raw materials for producers and processors
- Applying our scale to buy materials common in our products

<table>
<thead>
<tr>
<th>Ingredients</th>
<th>Finished product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>%</td>
</tr>
<tr>
<td>Biscuit Flour</td>
<td>65</td>
</tr>
<tr>
<td>Sugar</td>
<td>15</td>
</tr>
<tr>
<td>RBD Palm Oil</td>
<td>16</td>
</tr>
<tr>
<td>Water</td>
<td>5</td>
</tr>
<tr>
<td>Glucose Syrup</td>
<td>2</td>
</tr>
<tr>
<td>Cream</td>
<td>1</td>
</tr>
<tr>
<td>Salt</td>
<td>0</td>
</tr>
<tr>
<td>Ammonium Bicarb</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Biscuit</strong></td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Packaging</th>
<th>Finished product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>%</td>
</tr>
<tr>
<td>Pallet Wrap</td>
<td>20</td>
</tr>
<tr>
<td>Outer Bag</td>
<td>45</td>
</tr>
<tr>
<td>Tote</td>
<td>1</td>
</tr>
<tr>
<td>American case</td>
<td>20</td>
</tr>
<tr>
<td>Pallet Wrap</td>
<td>0.00</td>
</tr>
<tr>
<td>Pallet Label</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total packaging</strong></td>
<td>100</td>
</tr>
</tbody>
</table>
We are developing a high quality regional supply base

- Sourcing from the right places at the right time from the best producers
- Introduced four regional hubs with technical and commercial capability
- Developing plans to launch Producer Clubs to further engage the best growers into the Tesco community to deliver our sustainability strategy and secure future supply

General Merchandise Sourcing

Chris Holmes
Central Europe: applying skill and scale to add value

- BETTER Ranges
- SIMPLER Supply Chains
- CHEAPER Prices

Six priorities

1. Buy more together
2. Use our expertise to improve our products and ranges
3. Use our scale to buy for less
4. Grow our brands
5. Leverage relationships with global branded suppliers
6. Simplify supply chains
**The platform has been created to transform our Central European General Merchandise performance**

<table>
<thead>
<tr>
<th>05/06</th>
<th>10/11</th>
<th>2011</th>
</tr>
</thead>
</table>
| • Most ranges bought from local distributors and wholesalers | • c.20% of sales from directly sourced product | • Central functions created following clothing model in UK for:  
  – Electrical  
  – Home  
  – Toys  
  – Sport  
  – Nursery |
| • Limited supply chain, merchandise planning and range building capability | • c.25% of product delivered via central European distribution centre, Bratislava | • New centrally bought ranges launched for:  
  – Small domestic appliance  
  – Personal care (hairdryers, razors etc)  
  – Home textiles  
  – Dining |
| • Predominantly direct stop deliveries with no central European supply chain network | • Established merchandise planning and ranging capability in all countries | • Common ranges:  
  – 50% in small domestic appliances  
  – 80% in toys for Xmas |
| • Low participation of directly sourced product | • IT system implemented to support regional buying | |

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**Our success in clothing shows the potential**

<table>
<thead>
<tr>
<th>2006</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>![2006 Image]</td>
<td>![2011 Image]</td>
</tr>
<tr>
<td>![2006 Image]</td>
<td>![2011 Image]</td>
</tr>
</tbody>
</table>
Our success in clothing shows the potential

General merchandise and electrical has started to improve

- Establishing a consistent range architecture
- Getting the right balance between the “A” Brands e.g. Sony, Panasonic
- Introducing new technology
- Improving the in-store presentation and theatre
Our first common ranges landed last autumn

- 20% of range common with the UK
- 50% of range common across Central Europe

We continue to focus on being local and satisfying our customers’ needs

- Applying Group resource and expertise to source the best local products
- For example:
  - Zelmer - No.1 Household Electricals Brand in Poland, with over 40% market share* on key lines
- Opportunity to introduce these ranges to other countries, building scale and the authority of our customer offer
- Supporting development of local supplier growth

*Source: GfK
How we are building capability

- Currently transitioning from locally bought and managed general merchandise to a centralised approach
- Developed a central team with accountability from product ranging to stock management

Local Team: Country Category Managers
- Provide customer insight and competitor intelligence
- Continue to buy local categories (Newspapers, Books, DVDs etc)

Central European Regional Team
- Working in collaboration with UK and local country teams
- Delivering common ranges and providing specialist support to implement best practice

Use our scale to buy for less

- Increasing the degree of commonality, we are rationalising ranges and suppliers to leverage economies of scale

Central Buyers Working Closely With UK Teams

Common CE & UK Ranges

Common CE Ranges

Common Supplier Strategy

Fewer Products
+ Fewer Strategic Suppliers
+ Higher Volumes

= Lower Prices
We are supporting the growth of our own brands

- First launched in Autumn Winter 2010 in Central Europe to become a world leading brand of affordable fashion for your home
- Leveraging brand equity from clothing to differentiate our offer
- Budgeted sales to grow from c.£4m 2010 to over £40m in 2011

We are supporting the growth of our own brands

- Technika brand launched in CE with a range of highly competitive TVs in Oct 2010
- All the features and design you would expect from the A brands but at great value prices
- TV, DVD, Audio and Accessories
- Technika TV’s gained 2.4%* volume share of the CE market at Christmas 2010

*Source: GfK data for November and December 2010
Leveraging relationships with global branded suppliers

- Key suppliers such as Lego and Philips have embraced the opportunities presented by our new regional approach and are working to align their structure with ours

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local Subsidiaries</td>
<td>• Dedicated pan European account teams</td>
</tr>
<tr>
<td>• Country Specific Pricing</td>
<td>• Common ranges</td>
</tr>
<tr>
<td>• Local Ranging</td>
<td>• Common promotions</td>
</tr>
<tr>
<td>• Limited Promotional Support</td>
<td>• Key promotional lines bought with the UK</td>
</tr>
<tr>
<td>• Local Supply Chains</td>
<td>• Exclusive TV advertising</td>
</tr>
<tr>
<td>• Local Advertising</td>
<td>• Exclusive product ranges</td>
</tr>
<tr>
<td></td>
<td>• First to market brand launches</td>
</tr>
<tr>
<td></td>
<td>• Partnership approach to re-engineer the value chain</td>
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</tbody>
</table>

Simpler supply chains

- Transitioning from six country distribution centres to one centralised regional centre
- Improving the end to end supply chain efficiencies and improving availability
What’s the size of the opportunity?

- Market share of Small Domestic Appliances* grown from 6.7% to 7.4% in the year to April 2011
- Toy market share in Poland grew by 2.9% to 27.9%* in 2010
- Working with leading branded suppliers, sharing the benefits of efficiencies in central distribution and regional buying
- Central distribution has the potential to release further significant savings

* Source: NPD group

Key messages

In the last five years we have developed a material own-label business that is sourced together across CE

We have put a strong plan in place to accelerate this further and leverage the Group, including the UK

The work will deliver competitive advantage through cost and offer (quality and range)

The work is part of a bigger picture to develop and protect the best global sources of food, with our food produced and developed in the most sustainable way