

The TESCO logo is displayed in white on a purple background. It consists of the word "TESCO" in a bold, sans-serif font, with four slanted horizontal lines underneath.

Retailing Services Seminar 2009

The TESCO logo is displayed in red and blue. It consists of the word "TESCO" in a bold, sans-serif font, with four slanted horizontal lines underneath.

Retailing Services Strategy

Andrew Higginson, Chief Executive - Retailing Services

Retailing Services Seminar, 19-20 November 2009



Retailing Services as a growth driver for the group

The markets we operate in present attractive growth opportunities for Retailing Services

Tesco.com and Tesco Direct

- Online is a small but rapidly growing channel within the c.£300bn UK retail market¹
 - Only c.7% or £21bn currently online
 - Historic 3 year CAGR of c.25%, with >10% CAGR forecast over the next 3 years
- We can continue to drive the growth of these markets, achieving a higher share online than we have offline

Tesco Bank and Tesco Telecoms

- Financial Services and Telecoms are big, profitable sectors
- We have demonstrated we can be successful in specific product categories, with modest market shares, e.g.
 - Financial Services: Credit cards (8%) and car insurance (4%)
 - Telecoms: Tesco Mobile PAYG (5%)
- However, significant parts of these markets remain un-tapped (e.g. more complex financial services, higher-end mobile users)

dunnhumby

- dunnhumby has a small share of a £multi-billion research/insight market
- Opportunity to continue the c.50% profit CAGR achieved over last 5 years

¹. Source: Verdict



New channels and new services provide opportunities for growth...

- In 1997 we decided that we didn't want to define ourselves as a UK grocery business...but as a retailer
 - International markets provided access to many more customers
 - Non-food and Services provided access to a greater share of the customer's wallet
- In services, we wanted to 'follow the customer' as their spending habits changed
 - New channels – in particular the internet – provided customers with new ways to shop
 - Customers had more disposable income – and services sectors were growing faster than traditional goods sectors
- We expect continued growth in these areas over the next decade



...and our brand values would provide a point of differentiation from our competition

- Offering excellent value
 - Not just price-based
- Rewarding loyalty
 - Rather than penalising it
- Bringing simplicity to complex markets
 - Rather than using confusing jargon
- Providing great customer service
 - In markets often associated with poor service



Leveraging existing assets and capabilities has been key to our success so far

Existing assets and capabilities...

- Customer base
- Trusted brand
- Store network
- Clubcard data
- Customer insight capabilities



...deliver a competitive advantage in these new business areas

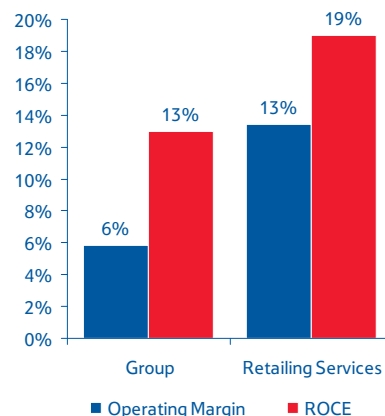
- Low customer acquisition costs
- Opportunity to get scale quickly (e.g. 6m Tesco Bank account holders)
- Unique servicing and distribution capability (e.g. convenient stores, popular website)
- Unique customer insight that we act on (e.g. better informed risk decisions)
- Ability to reward loyal customers with deals



Retailing Services offer us growth with higher margins and returns

- Most of the services sectors in which we operate are higher margin, higher returning businesses than our core retail business
 - Partially because these businesses are highly scalable (as they are not restricted by physical space)
- Sweating our existing assets enables Tesco to deliver great margins and returns
 - Grocery Home Shopping, Phone Shops and Bank branches all utilise existing store assets, with minimal incremental capital

Operating margin and ROCE¹ (2008/09)



1. ROCE: (Profit before interest charges after tax) ÷ (net assets + net debt). Only incremental capital directly associated with the services businesses is included.



Returns will grow further as we realise the full benefit from recent investment

- In the first decade, we leveraged our partners' assets to generate high returns
 - Tesco Bank with RBS
 - Tesco Mobile with O₂, Tesco Broadband with NTL / Cable & Wireless
- The second phase of growth requires higher capital investment in some areas
 - Acquisition of bank and new banking platform
 - New Grocery website recently launched
 - Building out our physical presence – Phone Shops, Catalogue Shops and bank branches
- Returns in retailing services are still higher than the Group as a whole even with this significant recent investment – and going forward the profit growth enabled by this investment will drive ROCE even higher



Retailing Services provide wider benefits to the Group

Driving loyalty and spend

- The award of Clubcard points – particularly from our Clubcard credit card – builds loyalty and encourages spend in stores



Driving footfall in stores

- 46% of Travel Money customers visited the store specifically to purchase currency
- Bank branches, Phone Shops and Catalogue Shops will be reasons to visit our stores



Reducing our cost base

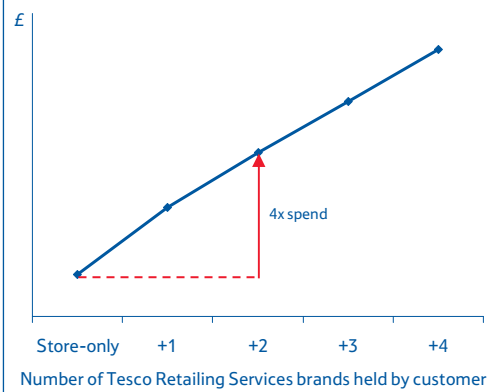
- Tesco pays >£100m per year to banks in interchange fees for card transactions
- c. 15% of credit card transactions in Tesco stores are on a Tesco Bank Credit Card, meaning we retain the interchange fees within the Group
- Future opportunities include:
 - Increasing the penetration of our credit card
 - Introducing a debit card



Retailing Services customers are our most valuable and our most loyal

- Customers who use two Retailing Services spend four times as much in store than those who don't use any Services
- Customers with a Tesco credit card spend c.30% more with Tesco than 'lookalike'¹ customers who don't have a Tesco credit card
- Customers with two Retailing Services² are 25% less likely to 'lapse' over a 12-month period than 'lookalikes' without services

Weekly store spend



Source: dunnhumby

1. Lookalikes are customers with the same lifestage, share of spend, lifestyle and preferred store, who don't have a Retailing Service

2. Based on customers who have services from both Tesco Bank and Tesco Direct

3. 'Lapse' defined as customers who have dropped two or more share of spend categories over a 12-month period



TESCO

Retailing Services – an overview of our strategy

We have built a big business during the first phase of our development

Phase 1: 1998 - 2008

- Transactional services, sold “off the shelf”
 - **Bank** – general insurance, credit cards, basic savings products
 - **Telecoms** – Tesco Mobile PAYG, branded retail of PAYG mobiles and airtime
- Products and services not as differentiated from competition as we would like
 - Often limited by partners’ infrastructure
- Limited use of our physical estate
 - Focused on leaflets at tills
- Almost entirely UK-based
- Limited investment

Retailing Services already generates c.£460m profit



We have now entered the next phase of our development

Phase 2: 2008 onwards

- Increased management focus
 - New main Board position announced July 2008
 - Senior hires in Tesco Bank and Telecoms now completed
- More complex, relationship-based services
 - Telecoms – contract mobile
 - Tesco Bank – current accounts? mortgages?
- Reinforce Tesco Values
 - Including bringing our Every Little Helps customer focus to industries which do not always treat customers well
- Make better use of our stores to create a market-leading multi-channel offer
 - Phone Shops, Bank branches, Catalogue Shops, Direct Desks
- Expand internationally
- A little more investment – to deliver substantial returns



We have put strong management teams in place, led by experienced CEOs

Benny Higgins

CEO of Tesco Bank

- CEO, Retail Business of HBOS Plc (prior to joining Tesco)
- CEO, Retail Banking at RBS (1997 – 2005)
 - Led the successful integration of NatWest Retail Banking within RBS
 - Board member of TPF 1999 - 2005

Lance Batchelor

CEO of Tesco Telecoms and Tesco Mobile

- Former Marketing Director of Tesco, having joined in 2007
- 4 years as UK Marketing Director of Vodafone
- 2 years as Chief Marketing Officer of Amazon.com
- 8 years with Procter & Gamble

Laura Wade-Gery

CEO of Tesco.com and Tesco Direct

- CEO of Tesco.com since 2004
- Non-Executive Director of Tesco Bank
- Non-Executive Director of Trinity Mirror PLC
- Previously Tesco Group Strategy Director, having joined Tesco in 1998

Edwina Dunn and Clive Humby

Co-founders of dunnhumby

- Edwina Dunn
 - Former Vice-president of CACI Market Analysis
 - Co-founder and CEO of dunnhumby
- Clive Humby
 - Former CEO of CACI Market Analysis Europe
 - Co-founder and Chairman of dunnhumby



The Tesco Values will be central to our strategy

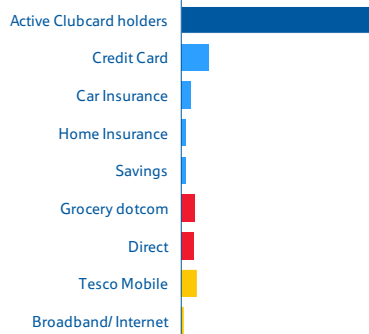
- By delivering 'No one tries harder for customers' we will differentiate ourselves from the competition
 - Offering great value
 - Rewarding loyalty
 - Bringing simplicity to complex markets
- 'Treating our people how we like to be treated' will be key to delivering great customer service
- Every Little Helps approach – fixing the small things that frustrate customers
 - e.g. price match substitutions on Grocery Home Shopping
 - e.g. change of Ts and Cs for Tesco Bank written in plain English



Our Clubcard penetration is modest – but this presents a great opportunity

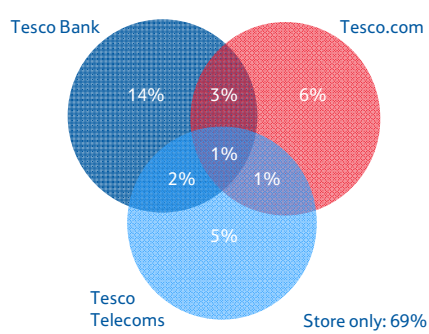
We have an opportunity to increase the penetration of Clubcard holders...

% of Clubcard holders taking each product



... and to capture more from cross-selling between our services

% of Clubcard holders taking products from each business



Although our focus is on targeting Clubcard customers, a third of our Retailing Services customers are not active Clubcard users



We have an opportunity to build the leading multi-channel proposition

- Customers increasingly expect an integrated, multi-channel offer in which they can mix-and-match amongst delivery channels and 'touch-points'
- We are developing our in-store presence – with Phone Shops, Direct Desks, Catalogue Shops and increased range of banking services
 - Staffed in-store units are key for more complex products and for some customer segments (e.g. mobile contracts, non-Internet users)
 - A presence will increase awareness and credibility
- The convenience of our stores gives us a competitive advantage
 - Long opening hours
 - Easy parking

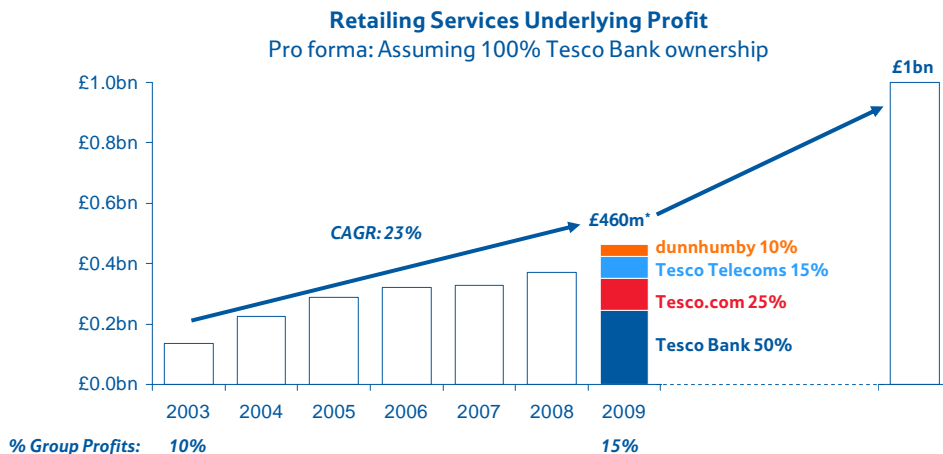


International expansion presents a significant opportunity in the future

	Existing presence limited	We are developing our international strategy
Dotcom	<ul style="list-style-type: none"> Small businesses established in Korea and Ireland with strong growth plans 	<ul style="list-style-type: none"> For our online businesses (Grocery Home Shopping and Direct), the timing of market entry will be dependent on broadband penetration
Financial Services	<ul style="list-style-type: none"> In several countries, but very small scale <ul style="list-style-type: none"> Few products Small customer bases 	<ul style="list-style-type: none"> Development of Financial and Telecoms Services will be dependent on the strength of our brand and regulatory restrictions in each country <ul style="list-style-type: none"> We have strong positions in several of our markets (e.g., Tesco Homeplus is the #9 brand in Korea) Regulation will impact the business model we can adopt in some countries
Telecoms	<ul style="list-style-type: none"> We sell Branded phones in most markets, but our only services business is a small MVNO in Ireland with O2 	



Retailing Services contributes c.£0.5bn (15%) of Tesco group profits



We will more than double profit to reach £1bn

*stated before a deduction of £23m minority interest relating to the ATM business



Summary

- Retailing Services offer Tesco attractive avenues for growth in large, profitable sectors
- Our existing assets and capabilities enable us to be successful
- We can utilise these assets to achieve growth with higher margins and returns than our core business
- Retailing Services are popular with our customers and help us to build brand loyalty - with wider benefits to the Group
- Services businesses are closely interconnected with - and complementary to – our core retail business