Tesco Investors Presentation

Izmir/Antalya, 25/26 May

TESCO kipa

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Turkey: Economy & Demography

- Location: Southeastern Europe and Southwestern Asia
- Total Area: 780,580 sq km
- Population: 71 million
- Population Growth Rate: 1.06%
- GDP: GBP £192 billion
- GDP per capita: GBP £2.800
- GDP per capita (PPP) GBP £4.400
- GDP real growth rate: 6%
- Inflation rate (consumer prices): 7%
- Exports: GBP £41 billion
- Imports: GBP £57 billion

Turkey: Economy & Demography

Turkey: Economy & Demography

- Attractive for multinational investors: proximity to Europe, dynamic business environment, liberalised markets, young population, increasing urbanisation, unsaturated market structure
- Over 100 cities with populations in excess of 100,000
- Falling inflation and interest rate cuts fuel consumption
- Economy marked by erratic economic growth, booming foreign trade and increasing foreign interest
- Vast difference between spending power of major cities and elsewhere in country remains

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Retail Structure

Balçova Kipa

Bornova Kipa

Çiğli Kipa

Gaziemir Kipa

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Retail Structure

- Retail market still in hands of traditional retailers, despite strong growth by organised retailers
- Large western style outlets mainly confined to major cities
- Locally owned retail chains concentrate on smaller cities
- Size of total retail market estimated GBP £33 billion, expected GBP £44 billion by 2010
- Traditional retailers account for 60% of market, organised retailers capture 40%
- Forecasts: traditional retailers 45% of market, organised retailers 55% by 2010

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Retail Structure

- Organised retail market shared by 3 domestic, 3 multinational firms and some other medium–scale retailers
- Organic development by organised retailers throughout 2003-05
- Organic growth expected to maintain, despite food retail market overcrowded with small operators ready for consolidation
- Koç and Sabancı, two major Turkish conglomerates dominate hypermarket and supermarket formats, although over 50 different chains operate in sector
- German Metro Group and local BIM other important players

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Retail Structure

- **Migros** owned by Koç Holdings
- Primarily supermarket operator (MMM, MM, M) but also run 3 hypermarkets and discount chain (Şok)
- Acquired Tansaş in September 2005
- After acquisition, annual turnover estimated GBP £1.2 billion
- **Carrefour** entered in 1993 and established as joint venture with Sabancı Holdings
- Acquired 6th largest operator in May 2005
- After acquisition, annual turnover estimated GBP £780 million
- Operate 12 hypermarkets, 6 located in Istanbul

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Retail Structure

Comparison of Market Share of Top Retailers- March 2006

Major Retailers	% Share (Rank)	Number of Stores	Fascias/ Formats
Migros	(1st) 4.6%	722	191 Migros, 219 Tansaş, 312 Şok
Carrefour	(2nd) 3.1%	446	12 Carrefour, 7 Champion, 82 Gima, 345 Dia
Bim	(3rd) 2.1%	1204	Discounters only
Metro	(4th) 1.6%	16	9 Metro, 7 Real
Kiler	(5th) 0.9%	110	Kiler Maximum, Kiler, Kilerim
Tesco Kipa	(6th) 0.6%	8	Hypermarkets only, excludes Express
Bakkals	30%	125.000	Number decreased from 155.000 in 1998

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Tesco Kipa Development

Denizli Kipa

Bodrum Kipa

Antalya Kipa

Çanakkale Kipa

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Tesco Kipa Development

- Kipa established in August 1992 in Izmir
- First store opened in 1994 in Bornova
- Quoted to Istanbul Stock Exchange Market in 1997
- Further stores opened in Çiğli (1999) Gaziemir (2000) Denizli (2001), Balçova (2001), all in Aegean region
- Tesco acquired Kipa in November 2003
- After acquisition Kipa name changed to Tesco Kipa
- First Tesco Kipa store opened in June 2005 in Bodrum
- Antalya and Çanakkale opened in January 2006, both outside Aegean Region

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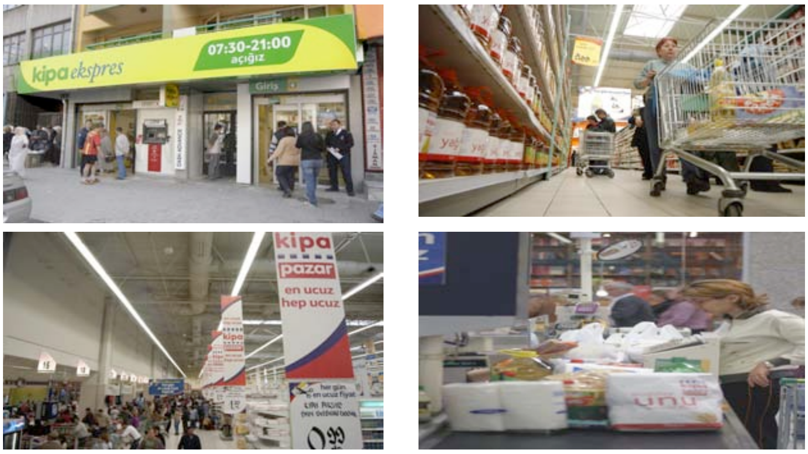
Tesco Kipa Development



Tesco Kipa Development

- First express format store ‘Kipa Ekspres’ opened in March and second in May 2006
- Latest store opened on 23 May in Aydın
- First ‘Kipa’ private label product launched in November 2000
- First ‘Kipa Pazar’ discounted private label product launched in February 2005
- Over 400 Kipa Pazar products, number to increase to over 660
- Over 300 Minimaxi textile products
- 651 Kipa Standard non-food products

Tesco Kipa Development

Kipa before acquisition and today

Stores: 5 hypermarkets	Stores: 9 hypermarkets and 2 express
Other: 2 gas stations	Other: 2 gas stations
Net Sales Area: 39K	Net Sales Area: 56K
Employment: 1447	Employment: 2625
Turnover: GBP £96 million	Turnover: GBP £187 million
Customer per week: 220.000	Customer per week: 262.000. (250.000 in L4L stores)
Suppliers: 1741	Suppliers: 1529
	2004 Total Sales Growth: 9.21%
	2005 Total Sales Growth: 11.04%

Future of Tesco Kipa




Future of Tesco Kipa

2006

- Budgeted total sales growth expected 55,52%
- LFL growth expected 9.84%
- Konya, Lüleburgaz and Çorlu hypermarkets under construction, 3 further stores planned
- 10 express format stores planned
- Assembling new supply chain team initiated
- Centralized distribution centre planned
- 2500 new jobs planned, reaching over 5000 employees
- Lead market for 'Tesco in a Box' development and implementation

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Future of Tesco Kipa

2006

Main Retailers	Number of Stores	Net Sales Area
Migros Group	791(4 Hypers, 457 Supers, 330 Discounters)	541,000
Carrefour	524 (14 Hypers, 88 Supers, 422 Discounters)	291,300
BIM	1260 (Discounters only)	252,000
Metro Group	21 (Hypermarkets only)	180,700
Tesco Kipa	15 (Hypermarkets only)	105,500

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Future of Tesco Kipa

Tesco Kipa vs. Carrefour Expansion (Hypermarkets only)

Stores & Net Sales Areas	1998	1999	2000	2001	2002	2003	2004	2005	2006
Tesco Kipa	1	2	3	5	5	5	5	6	15
	6.000	18.000	23.500	37.700	37.700	37.700	37.700	47.200	105.500
Location of Openings	Izmir	Izmir	Izmir	Izmir Denizli	-	-	-	Bodrum	Antalya Çanakkale Aydın Lüleburgaz Çorlu Konya and others
Carrefour	5	6	8	9	10	11	11	12	14
	47.500	55.000	74.700	83.700	94.600	102.600	102.600	112.800	127.800
Location of Openings	2 Istanbul Mersin Adana Bursa	Izmit	Istanbul Izmir	Ankara	Istanbul	Istanbul	-	Istanbul	Ankara Eskişehir

Future of Tesco Kipa

Opportunities

- Favourable demographics: 71 million people
- Drive change from traditional to modern retailing
- Accession negotiations with EU
- Change in consumption behaviour: declining inflation, increased purchasing power, decreasing interest rates
- Greater number of car ownership: more mobility
- Consolidation opportunity: inevitable in fragmented retail market
- Over 550 towns and cities with population of over 10.000

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Opportunities

- Over 200 opportunities for hypermarkets, even if Eastern side of country excluded
- Low ratio of hypermarkets compared to population of Europe
- 1k format potential in smaller towns and big city infill
- 8 hypermarkets p/a expansion plan
- Expansion plan cover also smaller cities and towns
- Confidence of quickly development of multi format stores and central DC due to transfer of learning from other Tesco markets

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Challenges

- Although more stable than recent years, country still prone to volatile shifts
- Keeping up with rapid pace of change
- Breaking into the largest market: Istanbul, 25% of population and greater proportion of wealth