



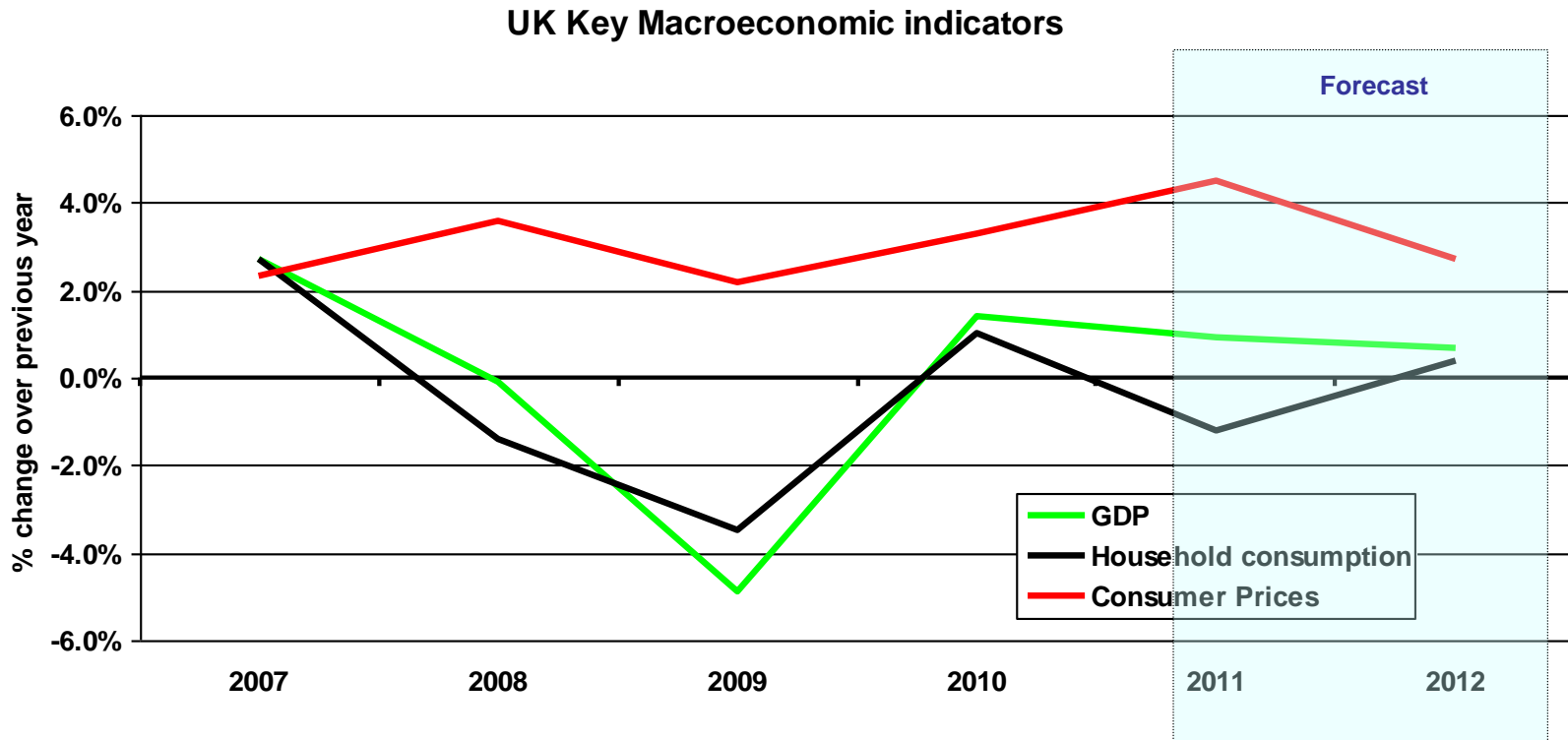
Increasing importance of Price

Jan 2012

For more information contact ESA on +44 (0)1727 735435

Double whammy on Consumers

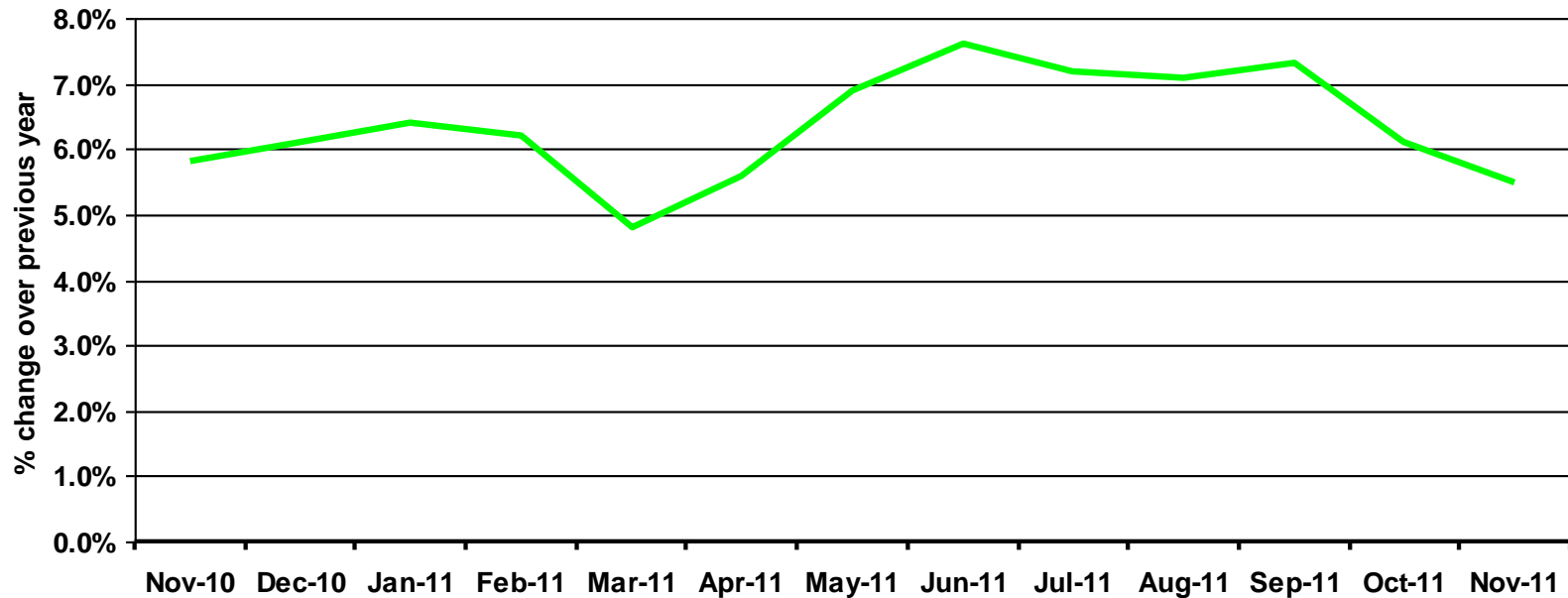
- Overall stagnant growth prospects in 2012 (GDP forecast = 0.7%)
- Consumers hit by:
 - ✓ Stubbornly high prices (4.5% growth in 2011)
 - ✓ Reduction in disposable income thus in household consumption (1.4% decline in 2011)



Food price inflation still high

- Food, drink and tobacco price inflation at 5.5% in November 2011
- Reduced from a high of 7%+ in Summer 2011

Food, alcoholic beverages & tobacco price inflation

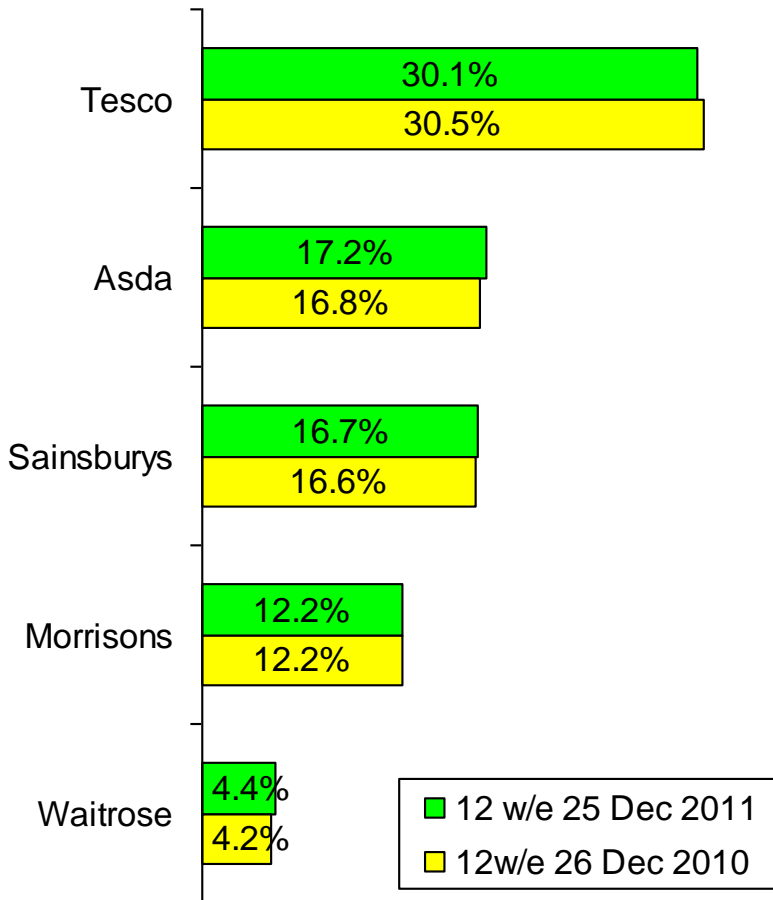


- Expect no letup in Consumer search for value in food

Different Xmas trading outcomes

- Like for like growth across all top 5 apart from Tesco
- Resultant share loss for Tesco
- Why?

Grocery market share



Xmas 2011 sales performance

-2.3%

6 wks to 7th Jan 2012,
based on L4L ex. VAT & fuel

+2.1%

14 wks to 8th Jan 2012,
based on L4L ex. VAT & fuel & Netto

+1.1%

14 wks to 7th Jan 2012,
based on L4L ex. VAT & fuel

+0.7%

6 wks to 1st Jan 2012,
based on L4L ex. VAT & fuel

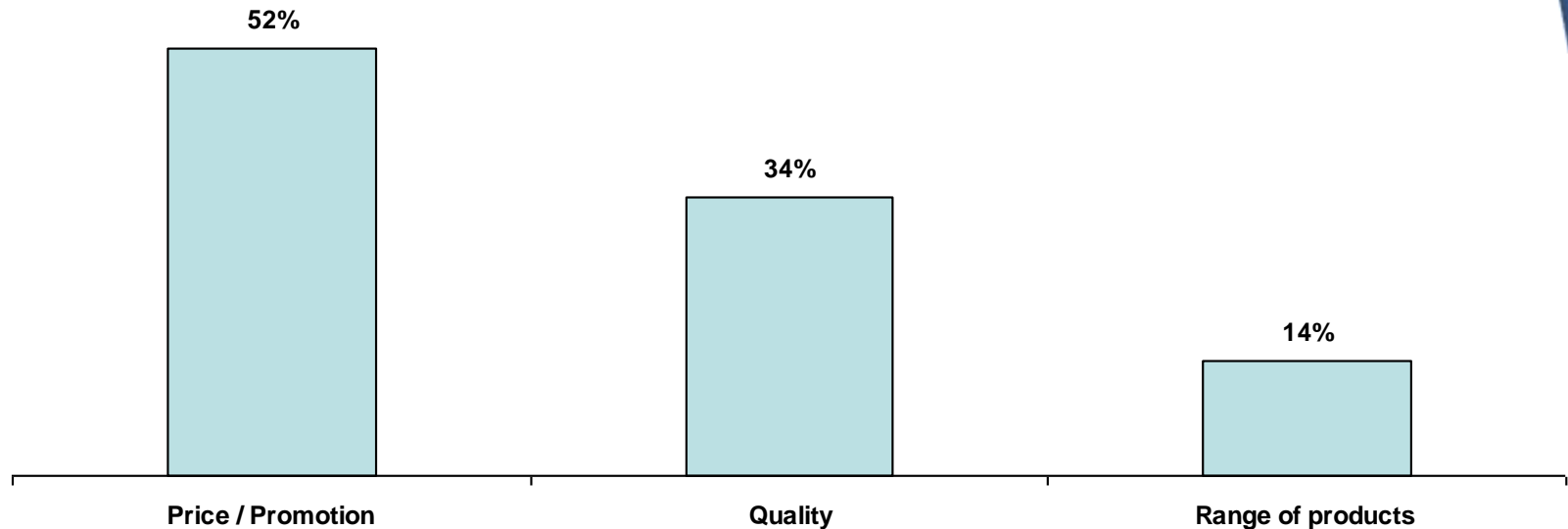
+3.8%

Dec 2011 based on L4L
ex. VAT

Price perception is the driver of value

- Price is key to the value perception for shoppers
- Perception of price includes promotions

%respondents ranking each factor first in determining where they shop and what they buy



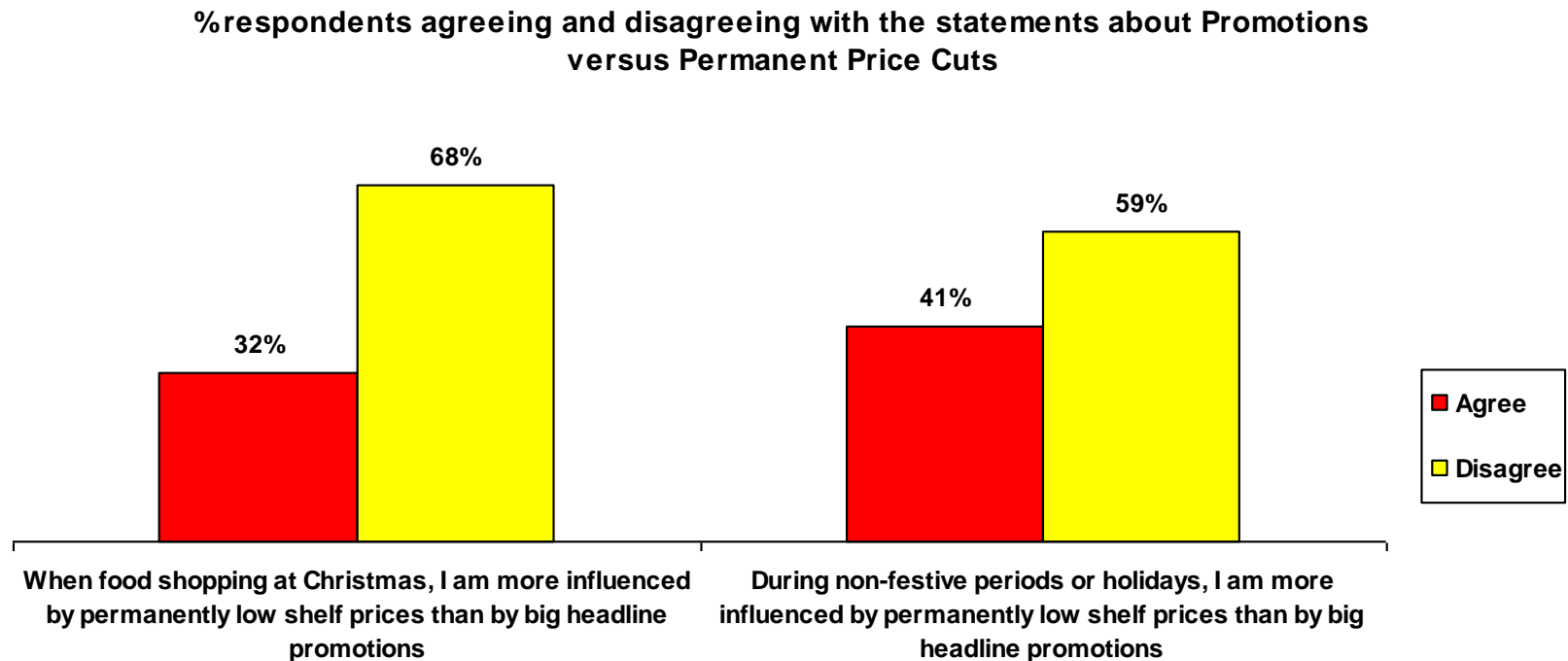
It is the price that makes me decide what to buy

I will go for promotions and switch brands regularly to the promoted brand

Quality is important but I know it will be good, so I actually buy on price

Promotions drive Xmas spend

- At Xmas promotions and associated theatre are far more important in influencing the shop than permanent price cuts
- Permanent price cuts feature more strongly during 'non-festive' periods



- 2012 will continue to put pressure on household income
 - Stagnant growth
 - Relatively high inflation
- Consumers look to price as key to deciding what food to buy during such periods
- Within the overall perception of price, big ticket promotions play a big part in the purchase decision, particularly during Xmas
- Tesco price cuts will work in the long term and particularly during non-festive periods
 - Particularly effective against competitors given Tesco scale advantage
 - But also need big promotions during Xmas, Easter and other holidays
- Successful multiples during Xmas 2011 were those that had significant promotions in addition to the 'hygiene' factors such as range, availability