

CONTINUED POSITIVE MOMENTUM AT TESCO

Headlines

- **Positive like-for-like sales growth maintained**
 - Group like-for-like sales growth of 0.9%
 - UK like-for-like sales up 0.3% (volumes up 2.2%, transactions up 1.7%)
 - International: like-for-like sales up 3.0% (volumes up 2.7%, transactions up 1.5%)
- **New, exclusive fresh food brands performing very well in the UK**
 - Strong initial customer response; launch performing in line with our expectations
 - Volume growth in ‘produce’ and ‘meat’ outperforming the market by c.5%
 - Deflationary impact of c.(0.7)% on total UK like-for-like sales
- **Customer, colleague and supplier measures all continue to improve**
- **Greater focus on our core business: sales of Kipa in Turkey, Giraffe, Dobbies and Harris + Hoole agreed**
- **Sustainable improvements in our customer offer; creating long-term value for shareholders**

Dave Lewis, Chief Executive:

“We have delivered a second quarter of positive like-for-like sales growth across all parts of the Group in what remains a challenging market with sustained deflation. In both the UK and Internationally, we are putting customers at the centre of everything we do and re-configuring our business to serve them a little better every day. Our new fresh food brands are performing very well, with over two-thirds of our customers having bought products from the new range.

We are encouraged by the progress we are making. By growing volumes, transforming the way we work together with our suppliers, and further optimising our store operating model we are rebuilding profitability in a sustainable way. I am confident that the improvements we are making for customers are working and will create long-term value for our shareholders.”

Like-for-like sales performance

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1Q 2016/17
UK & ROI	(1.5)%	(1.0)%	(1.5)%	0.9%	0.3%
UK	(1.3)%	(1.0)%	(1.5)%	0.9%	0.3%
ROI	(4.4)%	(2.9)%	(1.2)%	1.0%	0.3%
International	(0.7)%	1.9%	2.7%	3.8%	3.0%
Europe	1.5%	3.5%	3.0%	4.1%	2.8%
Asia	(3.4)%	0.1%	2.4%	3.5%	3.3%
Group	(1.3)%	(0.4)%	(0.6)%	1.5%	0.9%

Trading Update

Group like-for-like sales grew by 0.9% for the 13 weeks to 28 May 2016, with positive like-for-like sales growth in all regions. Including a small contribution from new store openings, total sales grew by 1.1% at constant rates. At actual exchange rates, sales grew by 1.8% including a 0.7% positive foreign exchange translation effect due to a weakening of sterling, principally against our European currencies. The results of Kipa, our business in Turkey, have been excluded following its proposed sale, which was announced on 10 June 2016.

Like-for-like sales growth in the combined **UK & ROI** business was 0.3%, representing a second quarter of growth.

In the UK, the launch of our seven new exclusive fresh food brands in March has helped to meet more of our customers' shopping needs, further removing any reasons for them to shop elsewhere. Customers are able to save nearly £1.60 - around 17% - off the cost of a typical basket of ten of the most popular meat, fruit and vegetable lines by choosing to buy products from the new ranges.

As expected, a significant number of customers have traded into the new brands, with a total deflationary impact on sales of around (0.7)%. Two thirds of customers have now bought products from the new ranges and customer satisfaction scores of quality and taste are exceptionally high, at more than 90%. Customer ratings for the quality of our fresh food offer as a whole have improved to their highest level in more than two years.

We continue to reinforce our brand proposition by giving customers lower, more stable prices they can trust across their whole shopping basket. Underpinned by Brand Guarantee, and including the investment in our fresh food brands, the cost of a weekly shop at Tesco is now 6% lower than it was in September 2014. We have continued to redirect coupon spend into lowering shelf-edge prices and focus promotional spend on the lines that matter most to customers. Our spend on couponing and number of products on multi-buy promotions in the quarter, were down by 38% and 42% respectively year-on-year.

Availability continues at record levels, following the reduction of 18% of SKUs in our range resets which concluded in February. We are now working more closely with suppliers to enhance the uniqueness of our customer ranges, with exciting and exclusive new products. In partnership with suppliers, we are also reducing costs by improving efficiency and leveraging our scale, enabling us to fund further investment in the customer offer and continue to rebuild profitability.

We have also continued to work on further optimising our store operating model, allowing us to run our stores more simply in addition to improving the customer shopping experience. Having stabilised the business, we have now built a strong operational foundation on which we can successfully overlay new customer propositions.

Our measure of overall customer satisfaction has improved by a further 2% since the start of the year. The progress we are making has also been recognised by customers who voted Tesco 'Britain's Favourite Supermarket' at the Grocer Gold Awards last week.

As part of our effort to streamline the customer experience across our mix of formats and channels, this month we will complete the integration of the customer websites for Tesco Direct and F&F. The rate of sales growth in online grocery has continued to moderate, as expected, reflecting the changes we made last year to improve the sustainability of the offer.

Following on from the agreed sales of Dobbies Garden Centres and the Giraffe restaurant chain, we are announcing today the proposed sale of Harris + Hoole to Caffè Nero. Together, these sales allow us to place even greater focus on our core UK business.

Like-for-like sales performance in the Republic of Ireland remained positive as we have continued to make improvements across the offer, including further investment in price reductions across core food lines.

International like-for-like sales grew by 3.0%, with a positive result in both Asia and Europe for the fourth consecutive quarter. Sales growth of 3.6% at constant exchange rates included a strong performance from our business in Thailand where we saw a positive customer response to improvements in our fresh food offer and to focused promotions, particularly for the important Songkran festival (Thai New Year).

In Europe, innovation, range and quality improvements in fresh foods supported growth across the region. As we looked to bring more excitement to the shopping trip, customers enjoyed new events to celebrate the Tesco Finest range and healthy eating. There was a sustained strong performance in Slovakia and an improvement in performance in Hungary as we responded effectively to the repeal of the legislation which had previously enforced Sunday closures. On 10 June 2016, we announced the proposed sale of our 95.5% controlling stake in Kipa, our business in Turkey.

Tesco Bank continues to add value for customers with a simple, clear product offer. Sales increased by 3.5% in the quarter, as strong lending growth helped offset reduced credit card interchange fee income.

Contacts

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Appendix 1

Total Sales Performance at Actual Rates (Exc. VAT, Exc. Fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1Q 2016/17
UK & ROI	(1.0)%	(1.4)%	(1.9)%	0.4%	0.7%
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	0.3%
ROI	(14.7)%	(12.2)%	(9.3)%	(1.1)%	8.7%
International	(3.8)%	(4.7)%	(5.8)%	(0.6)%	5.6%
Europe	(9.7)%	(7.8)%	(6.9)%	(0.5)%	8.2%
Asia	3.5%	(0.7)%	(4.5)%	(0.6)%	2.8%
Tesco Bank	0.9%	(2.5)%	(1.7)%	6.9%	3.5%
Group	(1.6)%	(2.1)%	(2.7)%	0.3%	1.8%

Appendix 2

Total Sales Performance at Constant Rates (Exc. VAT, Exc. Fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1Q 2016/17
UK & ROI	(0.4)%	(0.9)%	(1.5)%	0.5%	0.3%
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	0.3%
ROI	(2.7)%	(1.7)%	(0.9)%	1.1%	0.2%
International	(0.7)%	2.0%	2.6%	3.7%	3.6%
Europe	1.6%	3.3%	1.7%	2.6%	2.4%
Asia	(3.5)%	0.3%	3.7%	5.0%	5.0%
Tesco Bank	0.9%	(2.5)%	(1.7)%	6.9%	3.5%
Group	(0.5)%	(0.3)%	(0.7)%	1.3%	1.1%

Notes

Like-for-like sales performance is shown at constant exchange rates and all other figures are quoted at actual exchange rates, excluding VAT and excluding fuel unless otherwise stated.

Growth rates are shown on a continuing operations basis and exclude the results of Turkey, following its proposed sale which was announced on 10 June 2016.

Growth rates are based on comparable days for the current year and the previous year comparison. For example, for UK and ROI, these results are for the 91 days for both the current year and the previous year comparison, for the periods ended 28 May 2016 and 30 May 2015 respectively.