

FRESH FOOD DRIVES STRONG THIRD QUARTER & RECORD CHRISTMAS AT TESCO

Headlines (19 weeks ended 6 January 2018)

- **Strong third quarter performance in the UK and ROI, with like-for-like sales up 2.3%**
 - Continued UK market outperformance in like-for-like sales and volumes, particularly in fresh food
 - Highest rate of market share growth in the Republic of Ireland for five years
- **Momentum continued into record Christmas in the UK and ROI**
 - UK LFL sales growth of 1.9% driven by +3.4% LFL in food (including +3.7% LFL in fresh food) offset by ongoing drag from general merchandise and lost tobacco sales due to Palmer & Harvey integration
 - Biggest ever sales week in the UK, driven by fresh food market outperformance of nearly 4%
 - 58 million customer transactions and 770,000 online grocery deliveries in key Christmas week
- **Positive Central Europe like-for-like sales growth across 19-week period** reflects ongoing improvements in our customer offer, particularly in fresh food
- **Asia like-for-like sales performance reflects ongoing impact of ceasing unprofitable bulk selling activities in Thailand** and a further, planned reduction in promotional activity in recent weeks

Dave Lewis, Chief Executive:

“We have continued to outperform the market throughout this period, particularly in fresh food, thanks to our most competitive offer for many years. Our trading momentum accelerated across the third quarter and into December, with the four weeks leading up to Christmas Day delivering record sales and volumes in the UK.

Incorporating Palmer & Harvey volumes and complexity during this peak period was challenging, resulting in lost tobacco sales across December and putting further strain into our distribution network, particularly post-Christmas. Whilst I am pleased to say these challenges have now been resolved, they took the shine off an otherwise outstanding performance for the period as a whole.

Our colleagues and supplier partners have done a fantastic job serving our customers better every day throughout this exceptionally busy time, and I want to thank them for everything they have done.

We are confident in the outlook for the full year and are firmly on track to deliver our medium-term ambitions.”

Like-for-like sales performance

			(A)	+	(B)	=	(C)
	1Q 2017/18	2Q 2017/18	3Q 2017/18		Christmas period 2017/18		19 week period 2017/18
UK & ROI	2.2%	2.1%	2.3%		2.0%		2.2%
UK	2.3%	2.1%	2.3%		1.9%		2.1%
ROI	0.2%	2.0%	3.3%		4.0%		3.5%
Central Europe	(0.4)%	0.6%	0.8%		0.2%		0.6%
Asia	(6.0)%	(10.7)%	(9.6)%		(13.8)%		(11.1)%
Group	1.0%	0.6%	0.9%		0.1%		0.6%

Group like-for-like sales grew by 0.6% for the 19 weeks to 6 January 2018. Total sales (exc. fuel) grew by 0.8% at constant exchange rates and by 1.8% at actual exchange rates.

Like-for-like sales for the combined **UK & ROI** business over the 19-week period grew by 2.2%.

Whilst inflationary pressures remain in the UK market as a whole, we have continued to work with our supplier partners to help mitigate the impact on our customers. As a result, we have passed on less inflation to date than our competitors, recognised by our customers in a continued improvement in our 'Trust in Price' score¹.

In the third quarter, like-for-like sales in the UK grew by 2.3%, representing the eighth consecutive quarter of growth and continued market outperformance. All formats and channels played their part, including our strongest quarterly performance in recent years in our Extra hypermarkets (+1.8% LFL), continued good growth in our Express convenience stores (+2.3% LFL) and over 5% growth in online grocery sales.

This strong momentum continued into the Christmas period, with record sales and volumes across the four weeks leading up to Christmas Day. We delivered our biggest ever week of sales in the key Christmas week itself, significantly outperforming the market. Fresh food outperformance in this week was nearly 4%².

In addition to the improvements we have continued to make to the competitiveness of our core proposition, customers responded positively to a strong seasonal offer, including our popular 'Festive 5' vegetable deal. All fresh categories significantly outperformed the market during the Christmas period, with a particularly strong volume performance in meat, fish and poultry.

All store formats continued to perform well over Christmas, with a similar level of growth in both large and small stores. Our online grocery business had a record Christmas period, with over four million customer orders over the six weeks contributing to sales growth of 5.0%.

Our own brand ranges also performed strongly, with sales in our exclusive fresh food brands, core Tesco range and Tesco finest* all growing by more than 4% in the period. Our new Go Cook and Fox & Ivy ranges performed well, driving over 6% growth over the Christmas period in our own brand cook and homeware ranges, with over two million items sold since launch. General merchandise as a whole contributed a drag of c.(0.6)% on total UK like-for-like sales in the Christmas period as we continue to de-emphasise certain categories. Clothing sales grew by c.5% in the Christmas period, as our F+F ranges continued to prove popular with customers.

Incorporating Palmer & Harvey volumes and complexity during a record volume period was challenging, leading to lost tobacco sales across December and putting further strain into our distribution network, particularly post-Christmas. Whilst these challenges have been resolved, the impact of lost tobacco sales on our six-week overall UK like-for-like sales performance was c.(0.5)%.

Like-for-like sales in the Republic of Ireland grew by 3.5% over the 19-week period, driven by fresh food. Our continued focus on improving our offer has resulted in increased volumes, transactions and basket size. The third quarter saw our highest rate of growth in market share for more than five years.

Like-for-like sales in **Central Europe** increased by 0.6% over the 19-week period. We returned to positive like-for-like sales growth in Poland - particularly pleasing in the context of a continued challenging market. The Czech Republic and Slovakia continued to perform well, as a result of improvements we have made to our customer offer.

Asia like-for-like sales were down (11.1)% over the 19-week period, with our decision to withdraw from bulk selling activities in Thailand continuing to be the main driver of the decline. We have also withdrawn from a range of other couponing and promotional activities which, in addition to ongoing deflation as we reinvest in better prices for customers, has further impacted top-line growth - particularly in the last six weeks.

Tesco Bank sales grew by 4.8% over the 19-week period, with strong growth in the number of savings accounts and new mortgage customers. We also saw continued growth in the number of current accounts, which now stands at more than 250,000, with our recently updated mobile banking app now ranked highest in the UK.

Looking ahead

We are confident in the outlook for the full year and are firmly on track to deliver the medium-term ambitions we outlined in October 2016.

Following the CMA's unconditional clearance of our proposed merger with Booker Group PLC, we expect that the Tesco shareholder circular and prospectus will be published during the week commencing 5 February 2018. We anticipate a shareholder meeting towards the end of February, and completion in early March 2018.

We will report our full year results on 11 April 2018.

Contacts

Investor Relations:	Chris Griffith	01707 912 900
Media:	Jane Lawrie	01707 918 701
	Philip Gawith, Teneo Blue Rubicon	0207 420 3143

This announcement contains inside information.

Appendix 1

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

	1Q 2017/18	2Q 2017/18	3Q 2017/18	Christmas period 2017/18	19 week period 2017/18
UK & ROI	2.0%	2.5%	2.7%	2.6%	2.7%
UK	1.6%	2.1%	2.5%	2.1%	2.3%
ROI	9.2%	10.0%	7.1%	10.6%	8.3%
Central Europe	8.9%	9.5%	3.7%	6.0%	4.6%
Asia	10.3%	(2.2)%	(7.3)%	(9.6)%	(8.1)%
Tesco Bank	4.8%	4.8%	4.9%	4.3%	4.8%
Group	3.6%	2.9%	1.8%	1.8%	1.8%

Appendix 2

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

	1Q 2017/18	2Q 2017/18	3Q 2017/18	Christmas period 2017/18	19 week period 2017/18
UK & ROI	1.4%	2.1%	2.5%	2.3%	2.5%
UK	1.6%	2.1%	2.5%	2.1%	2.3%
ROI	0.0%	2.1%	3.8%	6.3%	4.7%
Central Europe	(1.2)%	(0.6)%	(0.8)%	(1.5)%	(1.0)%
Asia	(3.1)%	(8.9)%	(7.9)%	(12.1)%	(9.4)%
Tesco Bank	4.8%	4.8%	4.9%	4.3%	4.8%
Group	0.8%	0.7%	1.1%	0.3%	0.8%

Notes

- As per the periodic Customer Spotlight Tracker
- Shows volume outperformance. Data is for Tesco Week 43 and is sourced from IRI Retail Advantage™, global insight providers to the retail industry. IRI market definition excludes Aldi and Lidl.

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.

Growth rates for the third quarter, six-week Christmas period and the combined 19 week period are all based on comparable days. For example, for the UK and ROI these results are for the 19 weeks ending 6 January 2018 and 7 January 2017, respectively. Like-for-like sales growth in Central Europe has been adjusted for the impact of two fewer trading days in Slovakia due to legislation restricting store openings on public holidays.