



Interim Results

5 October 2010





David Reid

Chairman







Laurie McIlwee

Group Finance Director



Financial headlines

- Double-digit profit growth
- Continued investment in customer offer and long-term growth
- Investment funded through productivity
- On track to beat net debt reduction target
- Commitment to deliver improved returns



Group performance

	H1 10/11	vs H1 09/10
Group sales	£32.9bn	↑ 8.3%
Group trading profit	£1.7bn	↑ 9.1%
Group profit before tax	£1.6bn	↑ 12.5%
Underlying profit	£1.8bn	↑ 14.1%
Underlying diluted EPS	16.62p	↑ 12.3%*
Interim dividend	4.37p	↑ 12.3%

* Growth on a constant tax rate basis

UK



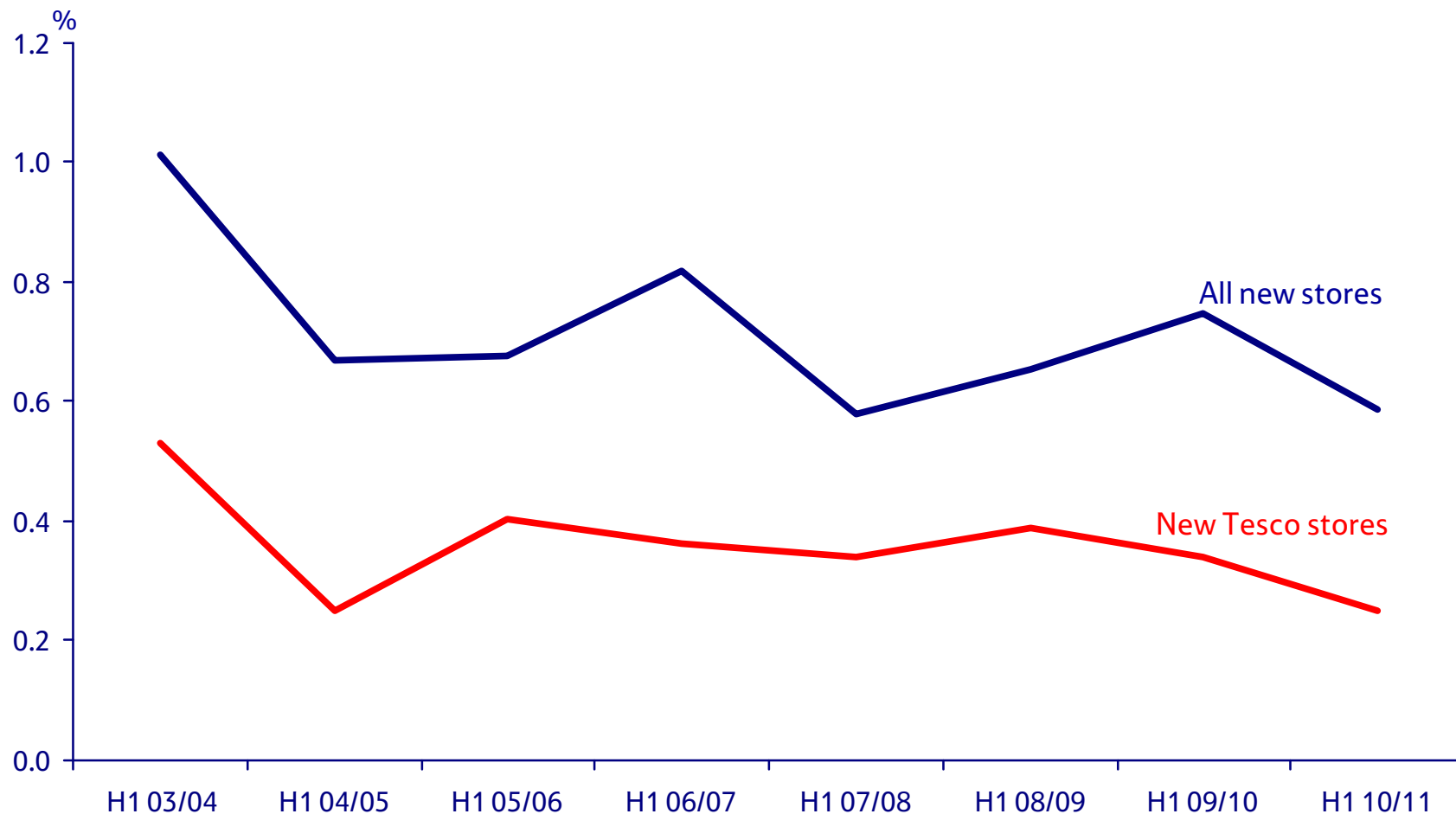
- Unusually low industry growth
- Sales up 4.2%
 - Like-for-like growth of 1.2%*
 - 3.0%* from net new space
- Outperforming the industry
- Trading profit £1.2bn, up 5.5%
 - 8.6% before sale and leaseback effect**
- Step-change on track to deliver £550m savings

* Ex-petrol, inc. VAT

** Additional rent net of depreciation

New capacity impact minimal

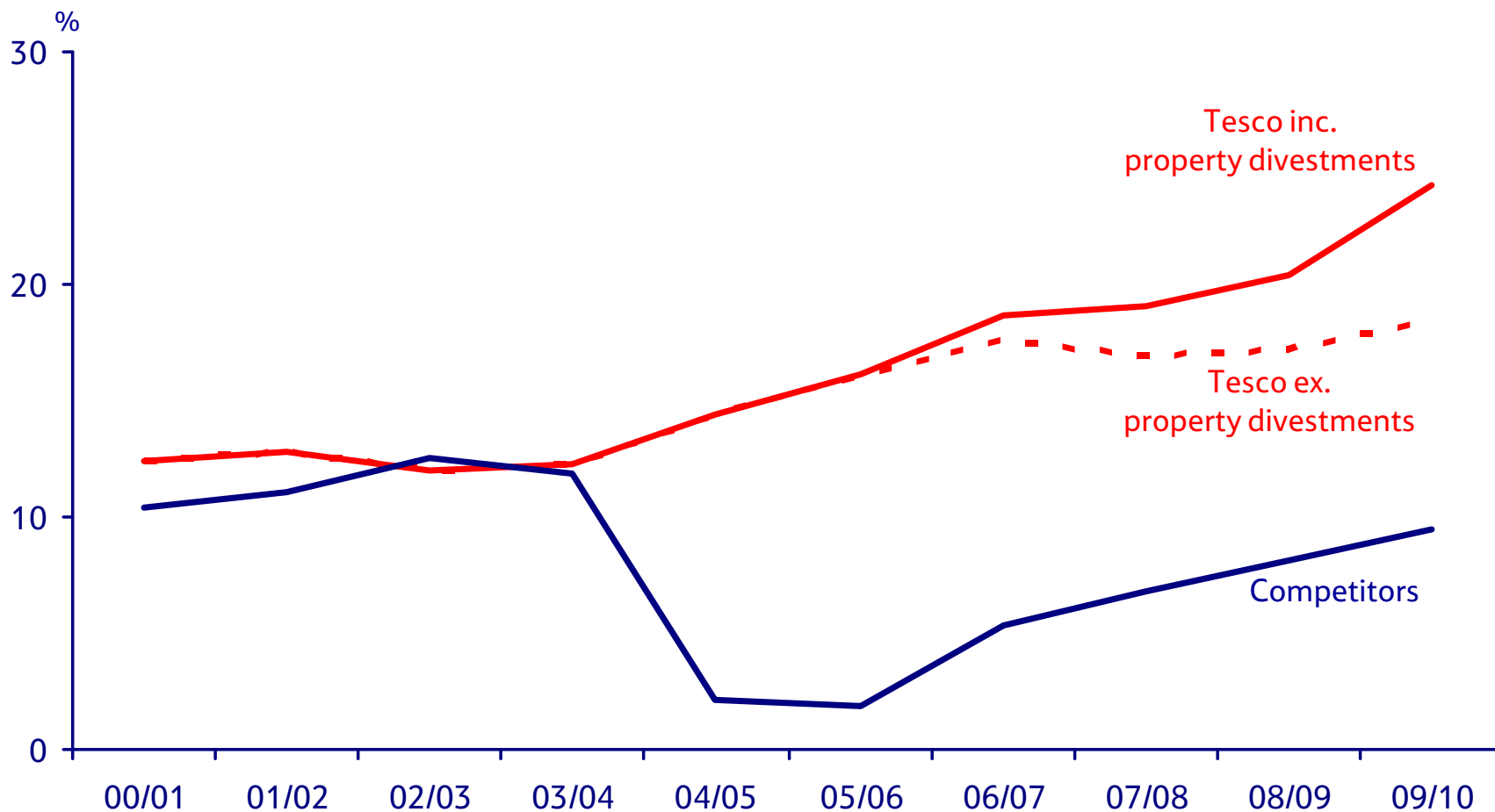
Annual reduction in Tesco UK sales as a result of new stores opening



Note: Competitor set comprises Asda, J Sainsbury, Wm Morrison, Waitrose and Discounters

UK returns robust

UK ROCE



Source: Deutsche Bank Research ('Competitors' comprise average of J Sainsbury and Wm Morrison) and Tesco

Asia



- Sales up 20.3%
- Trading profits up 30.3%
- Good performance from new space
- Strong growth in Korea
- Goodwill in Japan now fully impaired

Europe



- Sales up 5.8%
- Profit up 11.0%
- Improving sales trend
- Further improvements expected in H2

United States



- 47% sales growth
- c.10% like-for-like growth
- Small increase in losses:
 - Additional costs from acquisition of two suppliers
 - Increased rent from unopened stores
- Dollar losses not expected to be materially different to 2009/10



Tesco Bank

TESCO Bank | *Every little helps*

Collect even more Clubcard points on whatever you buy...
...wherever you buy it.

Typical **16.9% APR** (variable)

Must have available credit. 1 point awarded per £4 spent in each transaction (£4 min).
The Tesco Clubcard Credit Card is available to over 18s UK residents, subject to status.

0%
on all purchases
for 13 months

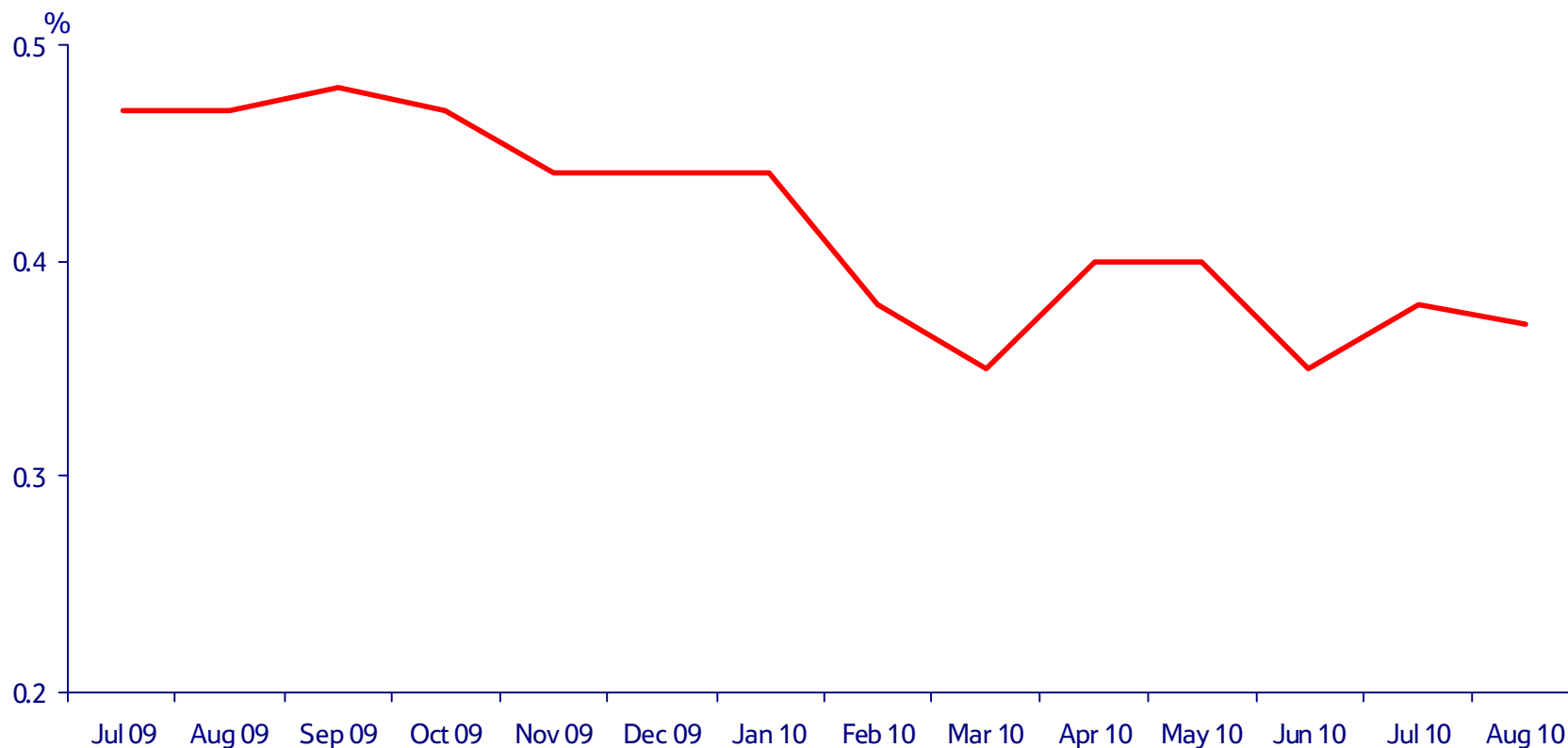
Tesco Clubcard Credit Card
tescobank.com

A Tesco Clubcard Credit Card is shown, featuring a silver and red design with a strawberry illustration. The card displays the number 5186 5212 3456 7891, the name MR. STEPHEN J. JONES, and the expiry date 07/07 07/11. The MasterCard logo is visible in the bottom right corner.

- Re-platforming of systems going well
- Trading profit £129m, up 12.2%
- Banking profitability strengthening
- Insurance impacted by industry trends in injury claims and lower investment income

Bad debts on an improving trend

Credit Cards - balance of all customers who have missed three payments as a percentage of total customer balances



Bad debt performance is significantly better than industry average

Tesco Bank

- Savings book up by £374m (8.6%)
- Loans and advances to customers up by £362m (8.8%)
- Tier 1 capital ratio of 13.6%
- Fair value provision releases to decline
- Strong underlying profitability growth
- Improving growth profile





Group capital expenditure

- Group Capex of £1.9bn in H1
 - £0.8bn International
 - £1.1bn UK (including Tesco Bank)
- Aim to reduce UK capital-in-progress balance to c.£1bn
- 9.1m sq ft of net new space across the Group planned this year
- £3.5bn Capex guidance for 2010/11 maintained
- Retail operating cash flow £2.2bn
 - £0.3bn higher than Capex

Property



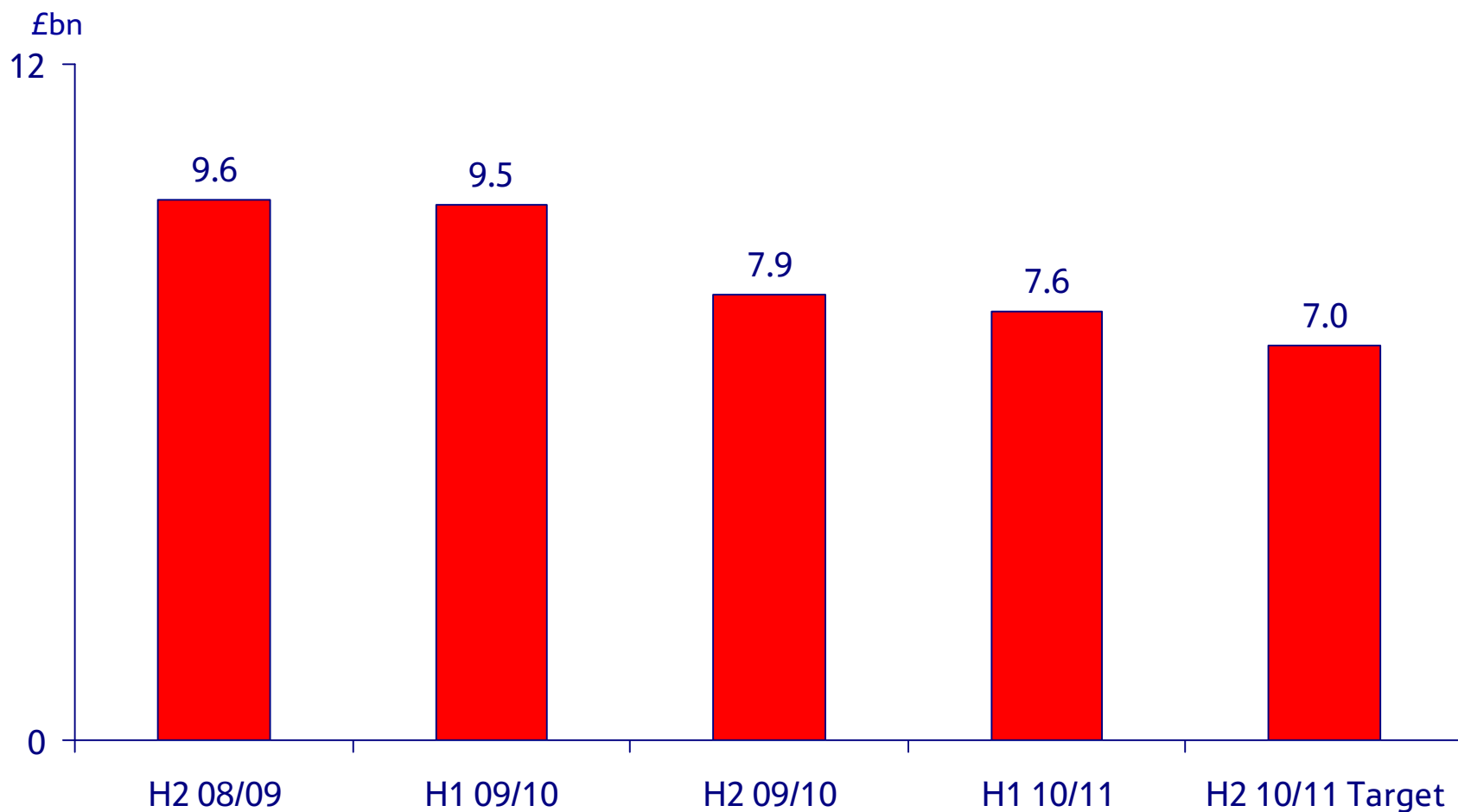
- £1.2bn proceeds in H1
- Initial store yields less than 5%
- Divestments for the year to be similar to 2009/10
- Programme now in fifth year
 - Cumulative proceeds of £5bn
 - Property profits of £1bn
- Direct benefit to shareholders:
 - £1.1bn of share buy-backs
 - £300m additional dividends

Pensions



- Deficit £1.46bn, up £130m
- Funding obligation unchanged
- Actuarial deficit remains small and manageable

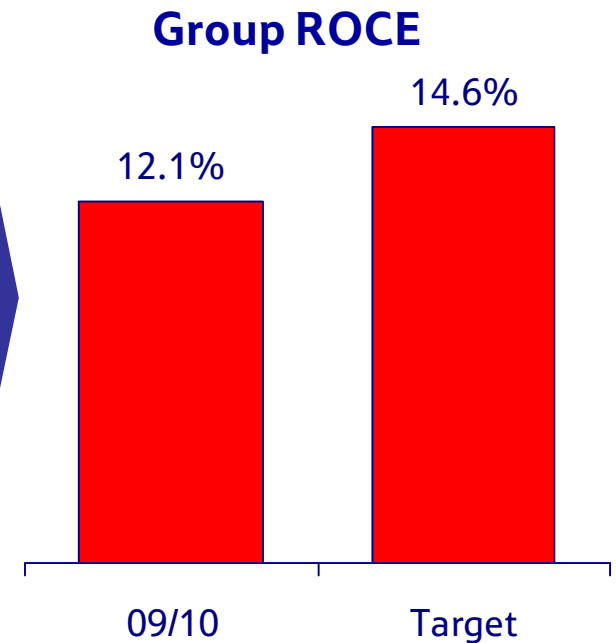
Group net debt



On track to reduce net debt to £7.0bn by year-end – ahead of target

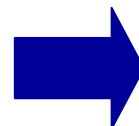
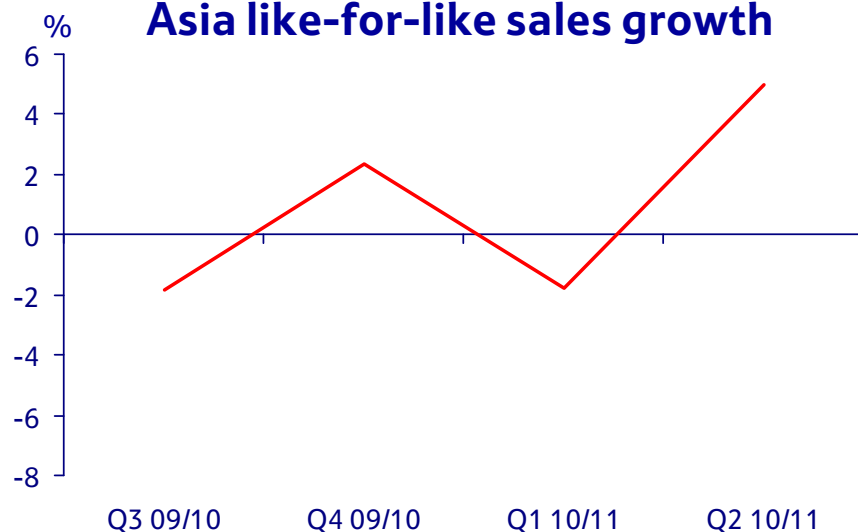
Improving returns

1. Economic recovery
2. Maturing International assets
3. Delivering on acquisitions
4. Growth in Retailing Services
5. Increased capital efficiency
6. Leveraging Group scale and skill

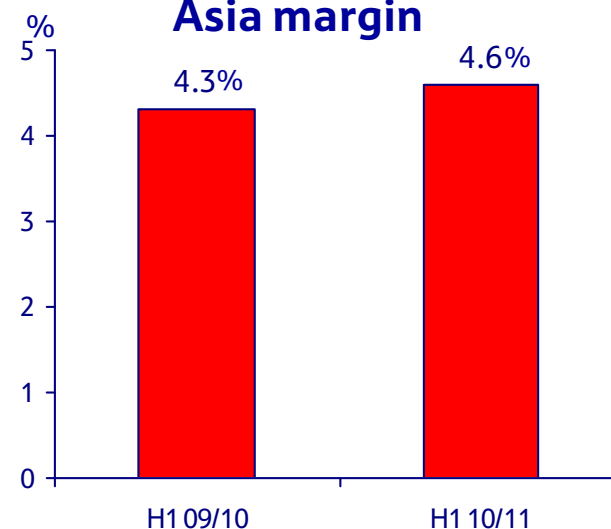


Economic recovery

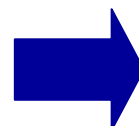
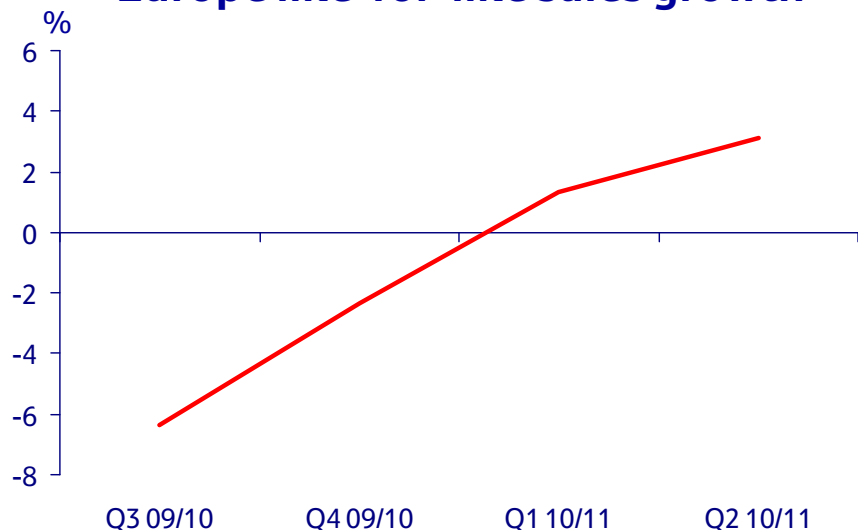
Asia like-for-like sales growth



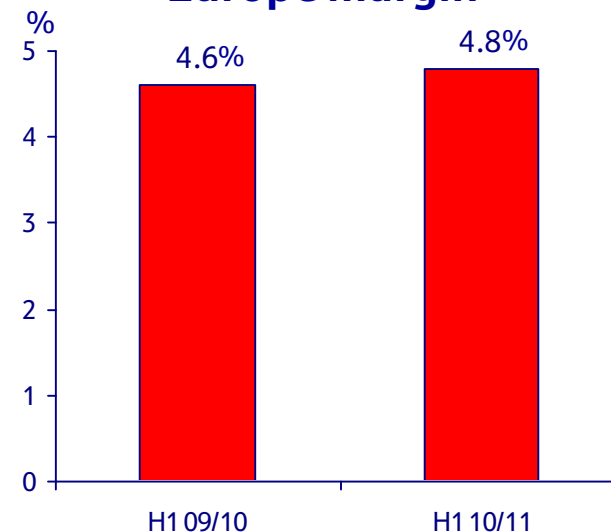
Asia margin



Europe like-for-like sales growth

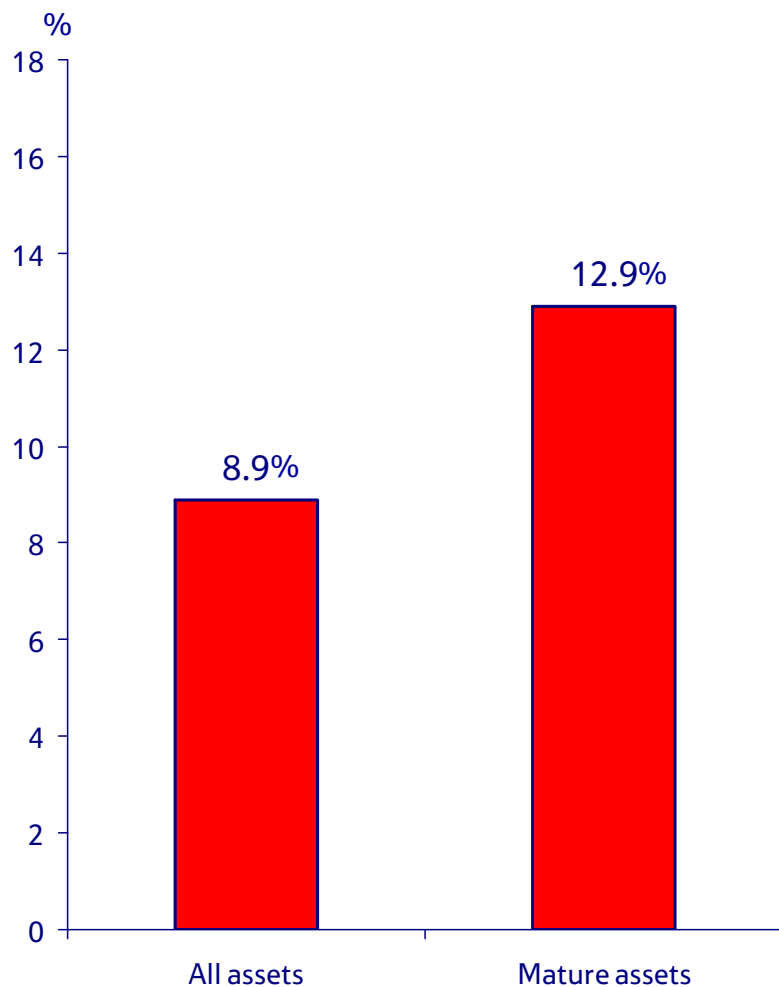


Europe margin



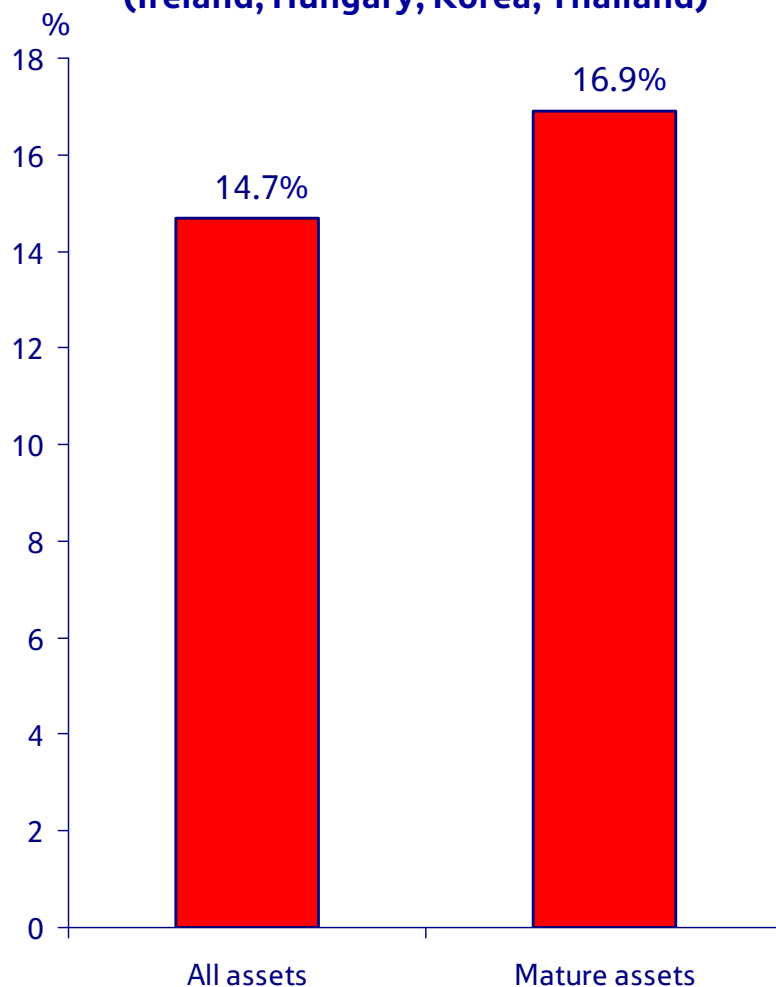
Maturing International assets

International CROI



Note: Mature assets defined as stores older than four years

Leading International businesses CROI (Ireland, Hungary, Korea, Thailand)



Delivering on acquisitions



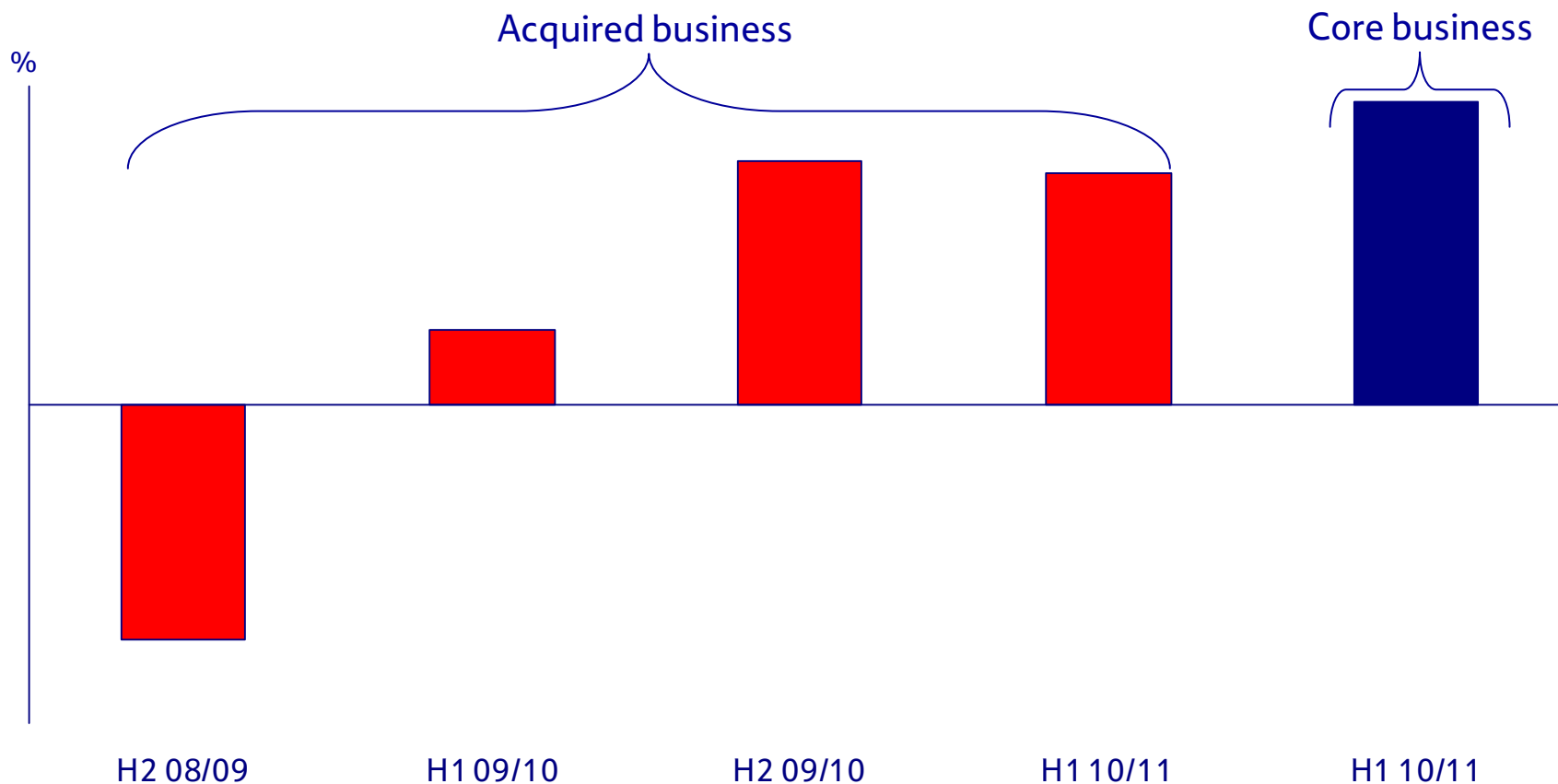
Korea



Tesco Bank

Delivering on acquisitions

Korean EBIT

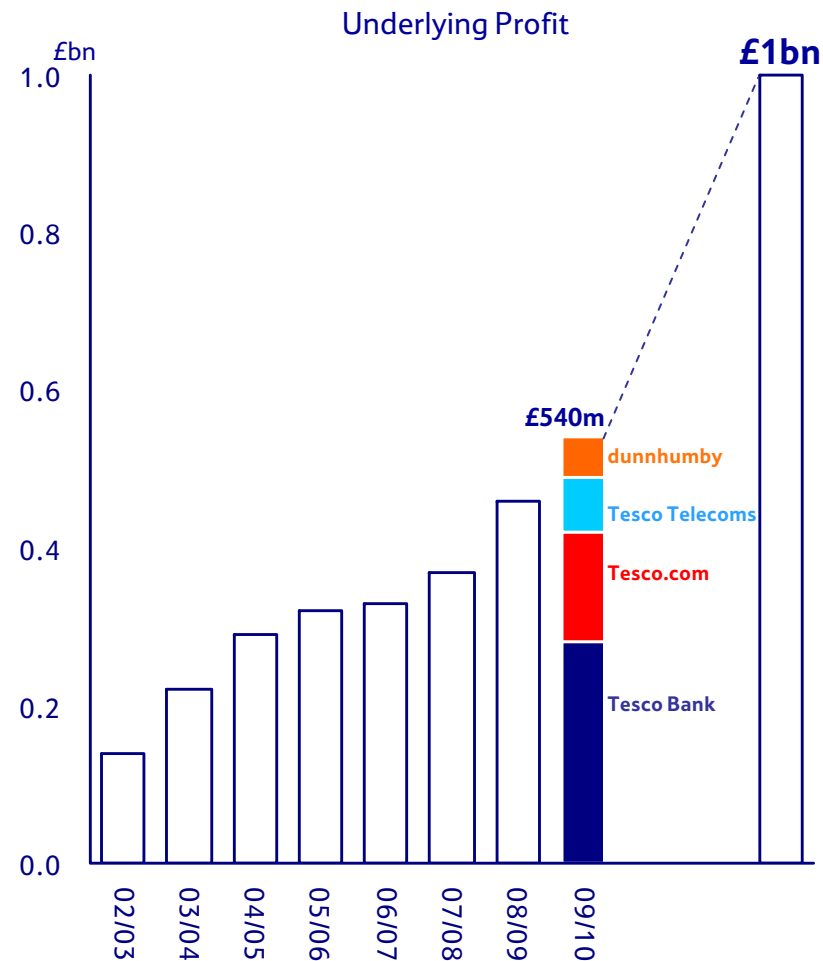
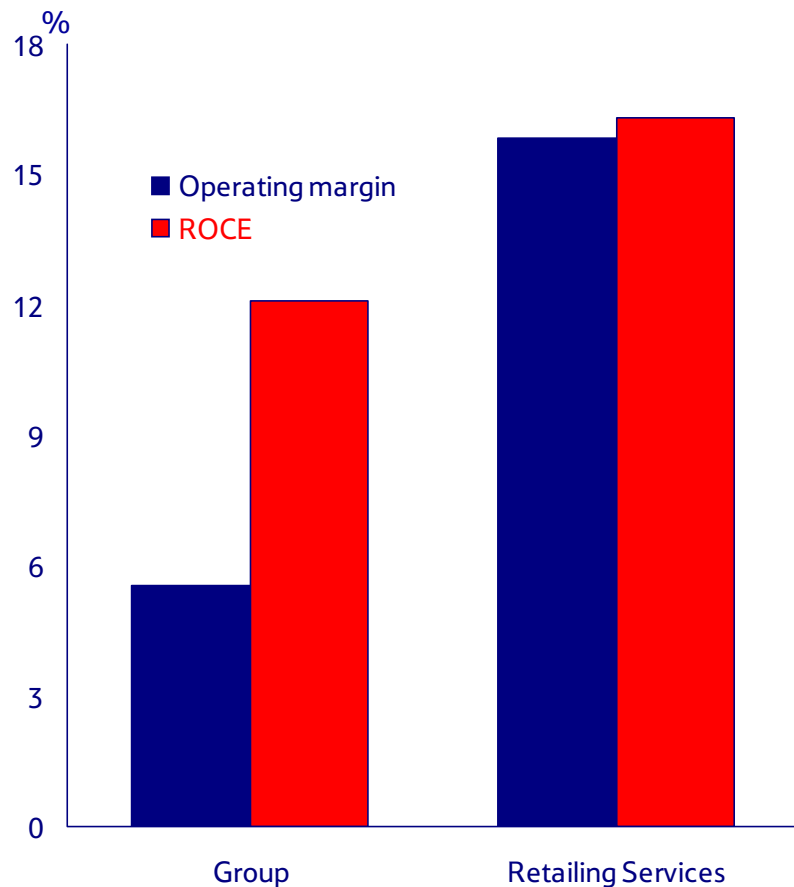


Korea - rapidly rising profitability and returns

Growth in Retailing Services

Higher profitability and returns....

...and growing rapidly



Pro-forma: Assuming 100% Tesco Bank ownership throughout period

Capital efficiency

- Reducing UK work-in-progress
- Bigger proportion of new space in lower capital intensity formats and leasehold property
- Sale and leaseback programme



Leveraging Group scale and skill

- Dividend emerging from being an international group
- Non-food sourcing shows benefits of international approach
- Applying learnings from our global non-food sourcing to:
 - Own brand and fresh food
 - Goods and Services Not For Resale
- Substantial benefits to grow
- Also leveraging skill in areas such as:
 - Clubcard – now in nine countries
 - Brand development – F&F in ten countries, Discount Brands in seven
 - Tesco Operating Model





Philip Clarke

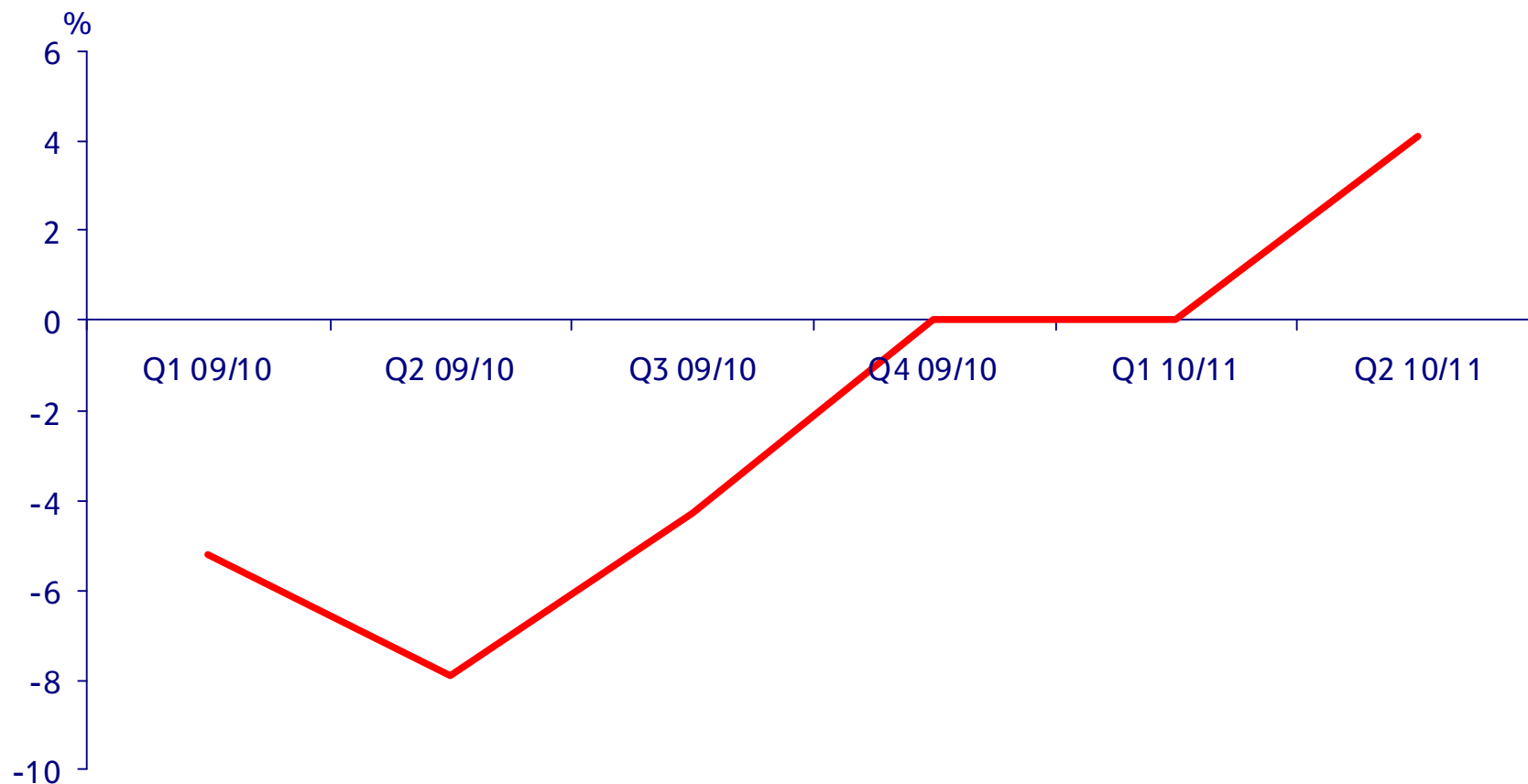
Chief Executive Designate





International performance

International like-for-like sales growth



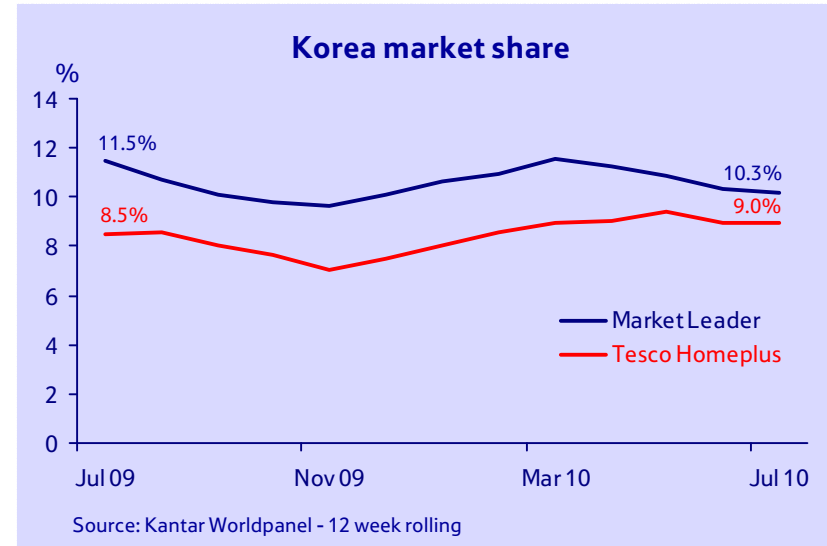
Strongly improving like-for-like growth in Asia, Europe and the United States

Asia



- Improving trajectory with Q2 stronger than Q1
- Sales up 20.3%
- Profits up 30.3%
- Trading margin 4.6% (up from 4.3% in H1 2009/10)

Korea

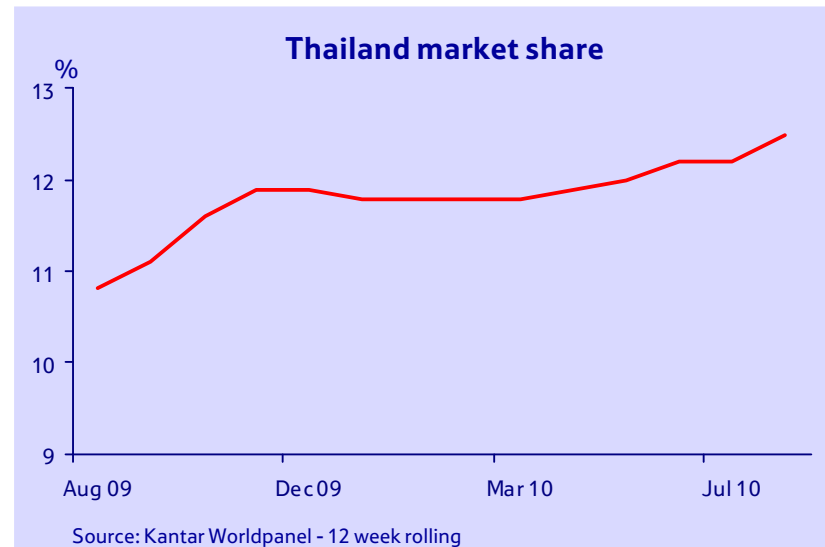


- Sales up 23.4%
- Profits up 50.9%
- Market share continues to grow
- Acquisition synergies being realised
- Improving profitability of acquired stores

Thailand



- Strong Q2 after disruption in Q1
- Sales up 15.4%, profits up 26.3%
- Growing market share



China



- Sales up 19.5% with good space opening programme
- All three regions growing well
- Occupancy rates in shopping malls increased
- Hypermarkets in malls trading similar to Tier 1 city stores

Malaysia



- Consumer cautious
- Sales up 23.6%, supported by space opening programme
- Stepping up rate of expansion in H2

Japan



- Progressing with new Tesco format
 - 12 new store openings
 - 11 conversions
- 20% sales uplift from converted stores
- Kitchen operation is improving quality and reducing costs

India



- Wholesale business fully set up
- Nine Star Bazaar hypermarkets, with two opened in H1
- Cumulative two year like-for-like almost 75%

Europe



- Sales up 5.8%
- Profits up 11.0%
- Trading margin 4.8% (up from 4.6% in H1 2009/10)

Ireland



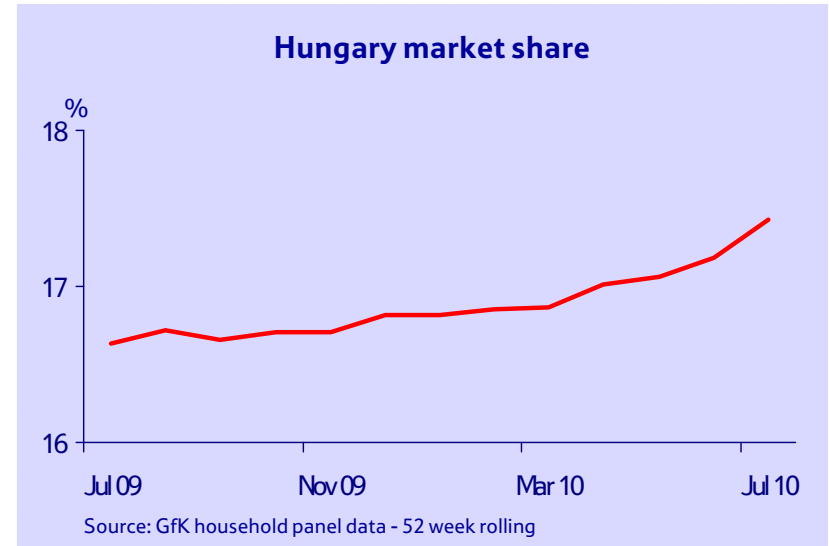
- Sales up 7.7% at constant rates (4.9% at actual rates)
- 6.1% like-for-like sales growth in H1
- Market share gains
- Strong profit performance

Poland



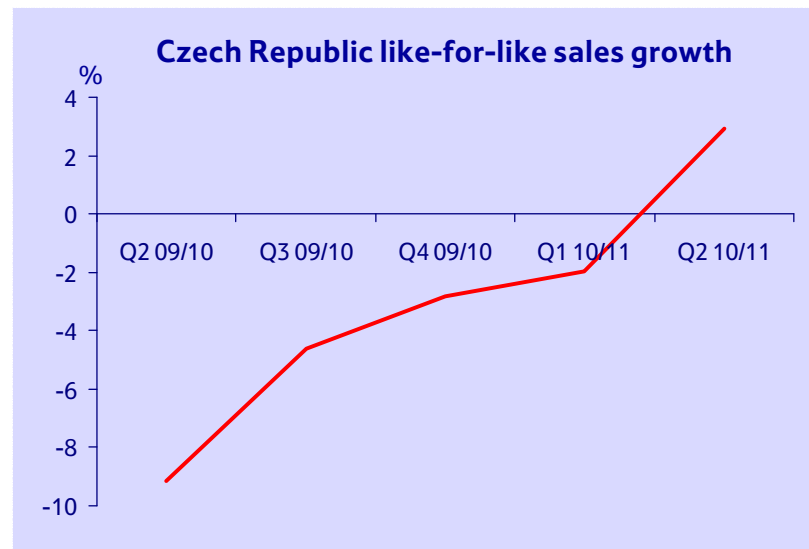
- Sales up 14.9%
- Profits up 25.8%
- Double-digit like-for-like growth from small store formats
- Market share growth

Hungary



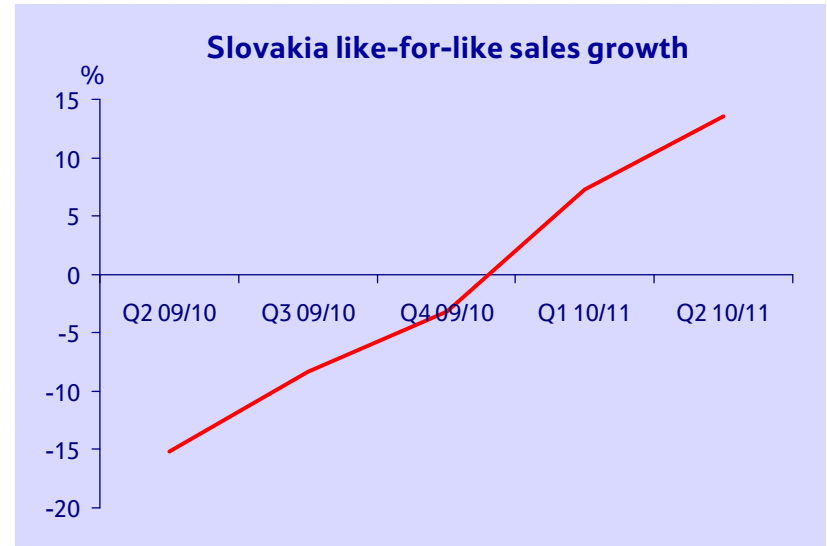
- Difficult economic environment
- Business performing well – good market share growth
- Early signs of recovery with economy now growing
- Clubcard - almost 1m customers signed up in the first 5 weeks

Czech Republic



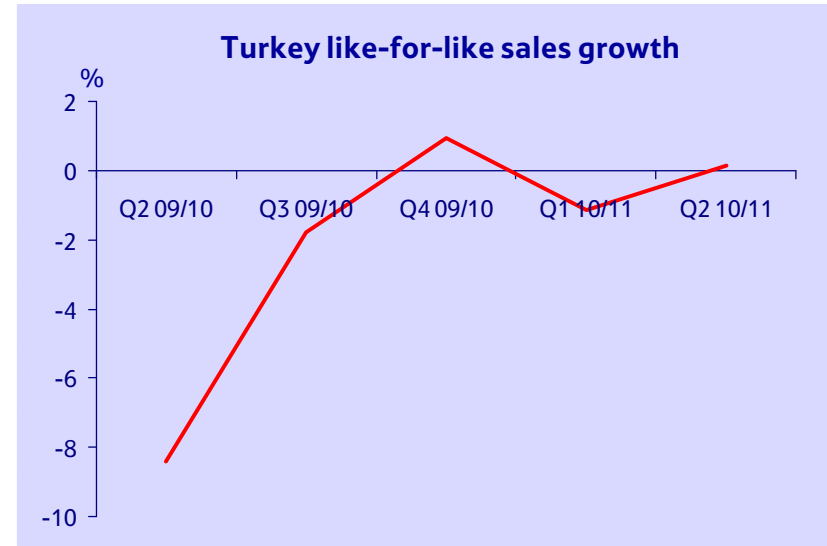
- Strong performance from smaller formats – 1K and Express
- Sales and profits up c.5%
- Increased market share

Slovakia



- Sales up 13.2% at constant rates
- Double-digit like-for-likes
- Significant increase in profitability
- Good market share gains – extending market leadership

Turkey



- Step up in new space – seven hypermarkets, six Express and one 1K
- Sales up 16.9%
- Faster growth to come in H2



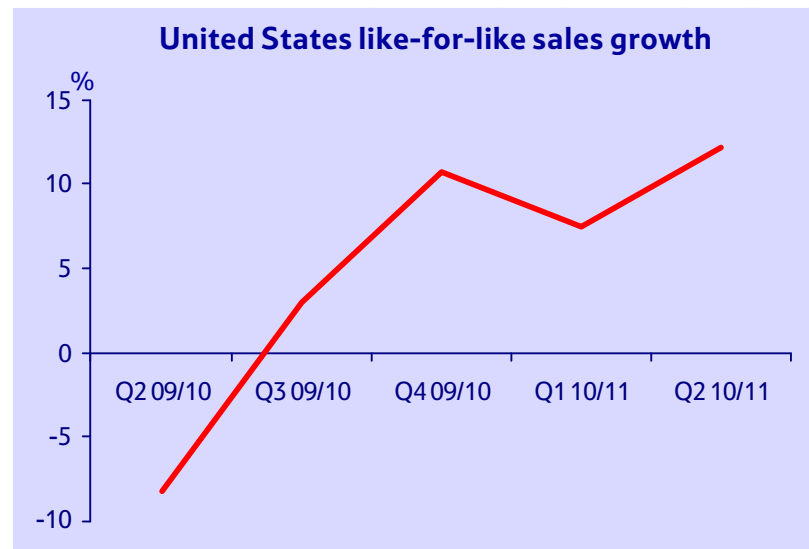
Extra



- 20% like-for-like sales uplift in Petrzalka – our first European Extra store
- Pilot extended to Hungary, Poland and Czech Republic



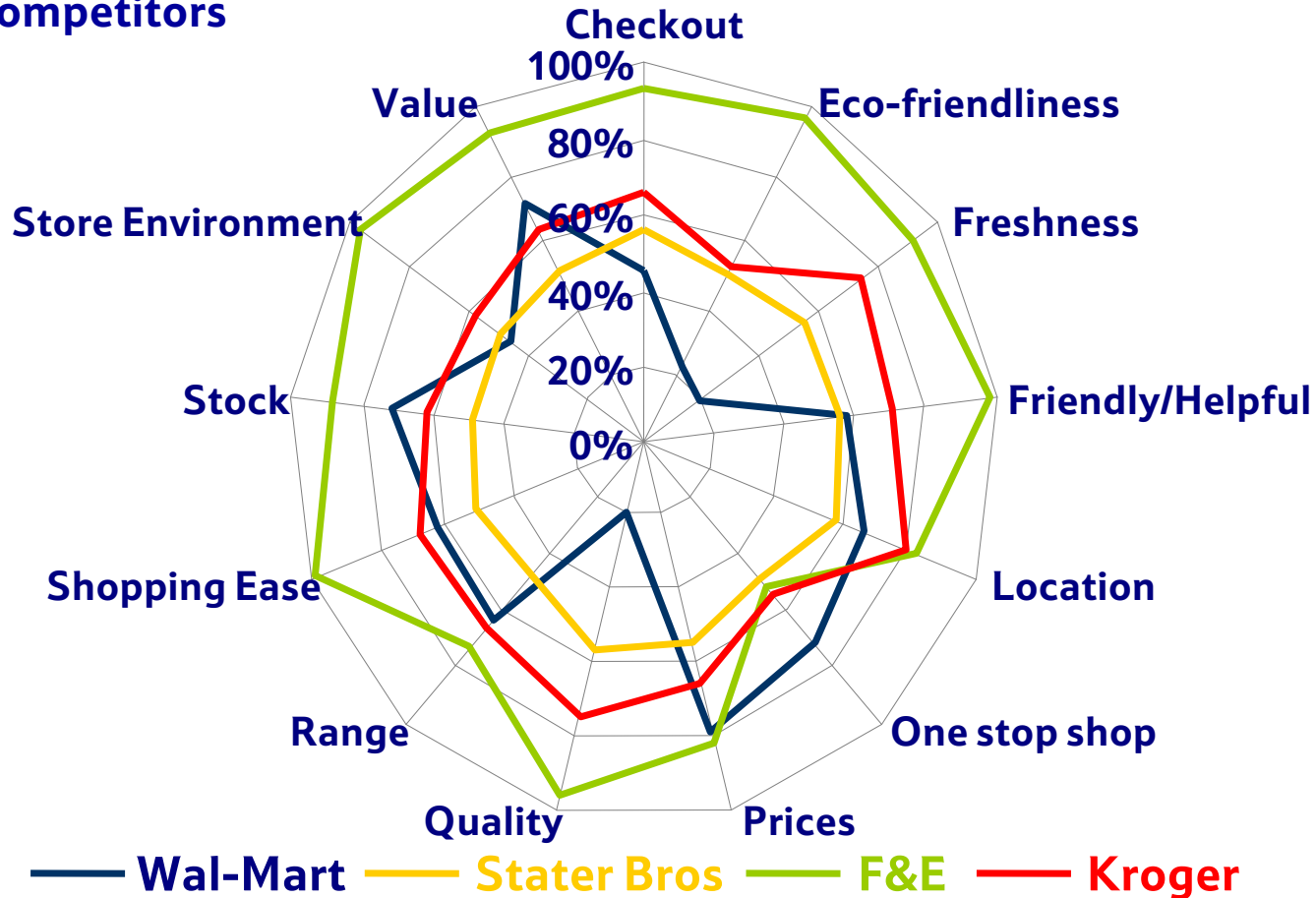
Fresh & Easy



- Sales up 47.1%, with like-for-like growth c.10% in H1
- 14 new store openings in H1
- Plan to mothball 13 stores
- Accelerating new store openings next year

Fresh & Easy – customer satisfaction

F&E vs. Competitors



Very high customer satisfaction levels compared to competitor stores

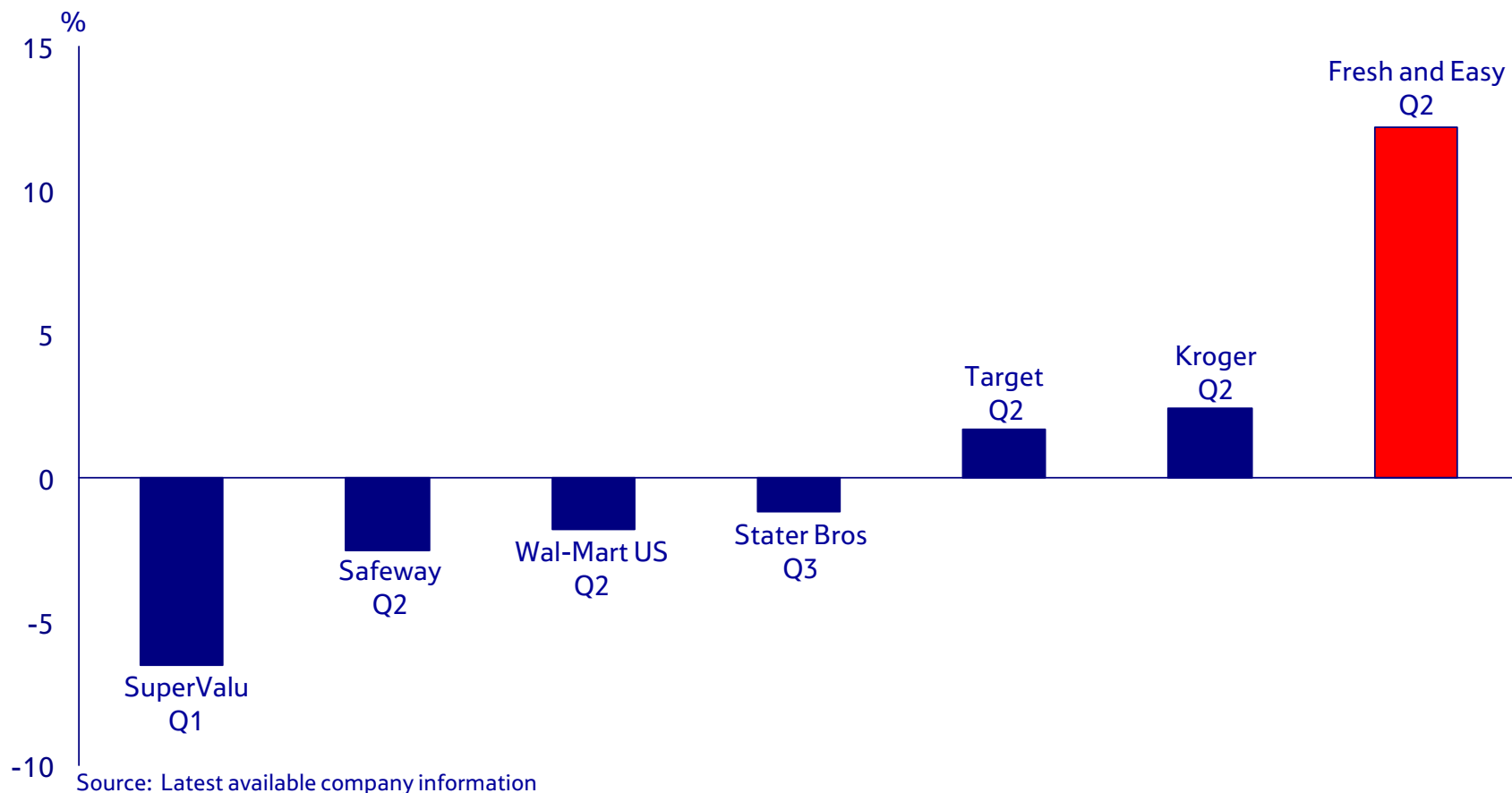
Fresh & Easy – kitchen



- Produces 30% of fresh food sales
- Merged two largest suppliers with existing Campus operations
- Lower costs and improved service levels

Fresh & Easy - growth

Like-for-like sales vs. local competitors



Fresh & Easy is growing rapidly in a difficult retail environment

Progress on store profitability



Losses per store improved by 9% of sales

Fresh & Easy



- Key components of profitable model coming together
- Acceleration of store opening programme next year
- Plan to reach profitability during 2012/13

Conclusion

- International performing well
- Adjusted successfully to the downturn
 - Tightened operations
 - Invested in customers
 - Strengthened market positions
 - Tough action to reduce costs
- Profitability now improving
- Conditions in place for increasing returns





Terry Leahy

Chief Executive





UK Steering Wheel

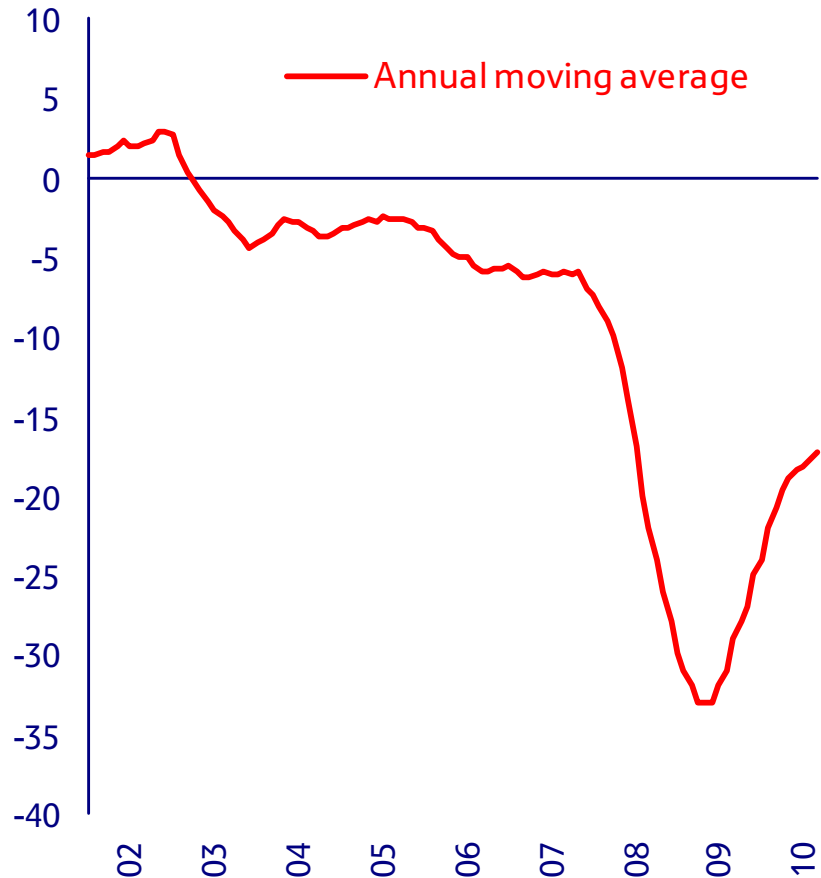


UK Steering Wheel



Consumer sentiment

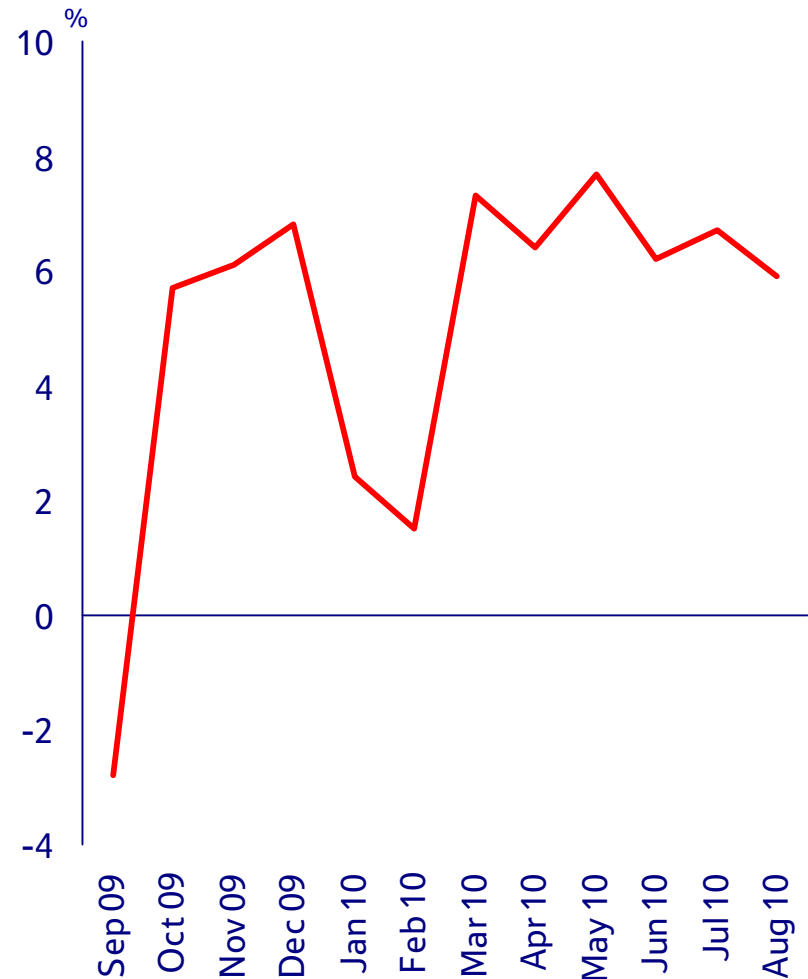
Consumer Confidence since 2002



Source: Research carried out by GfK NOP on behalf of the European Commission

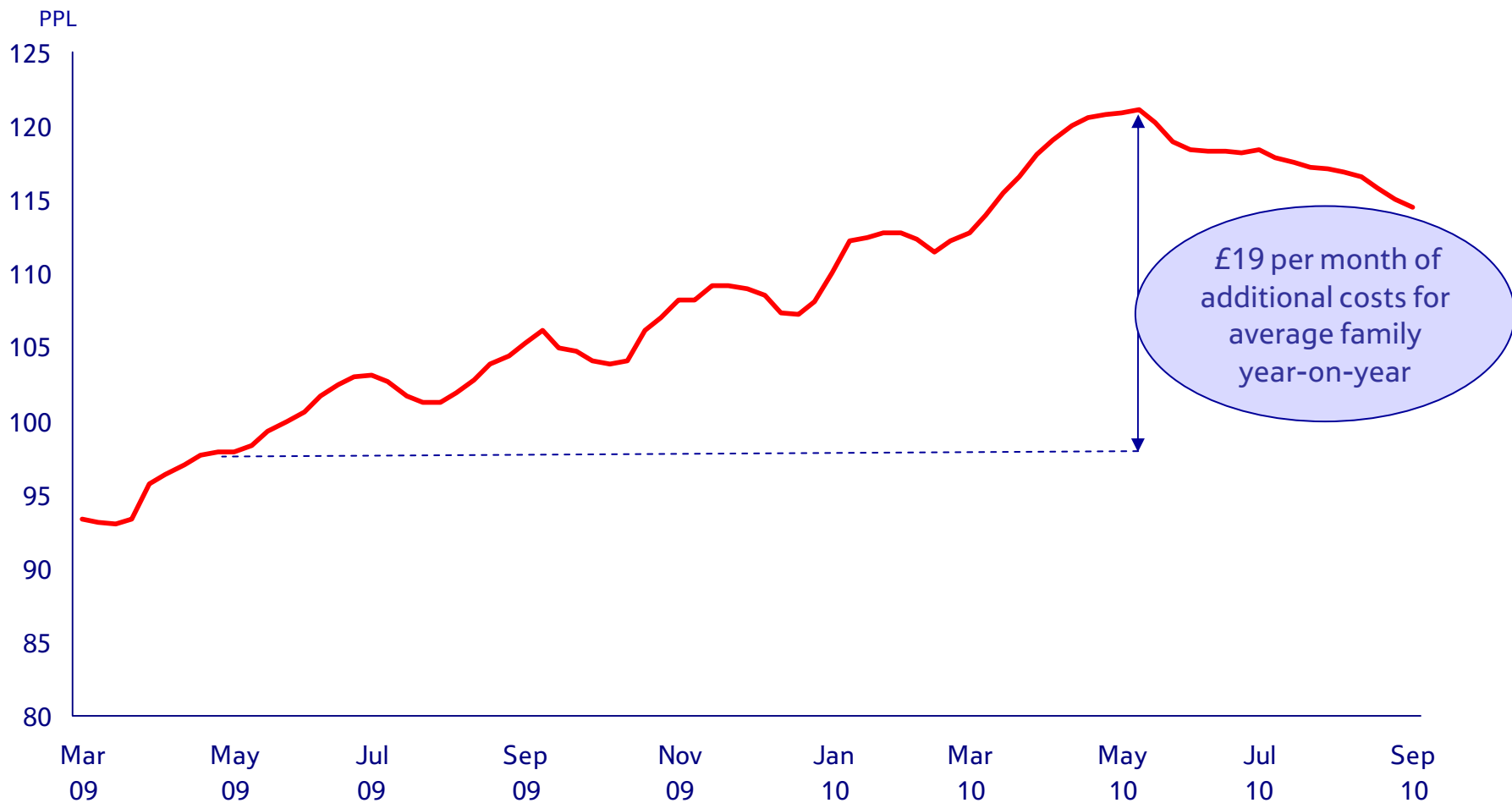
Note: Latest data September 2010

Growth in Finest like-for-like sales



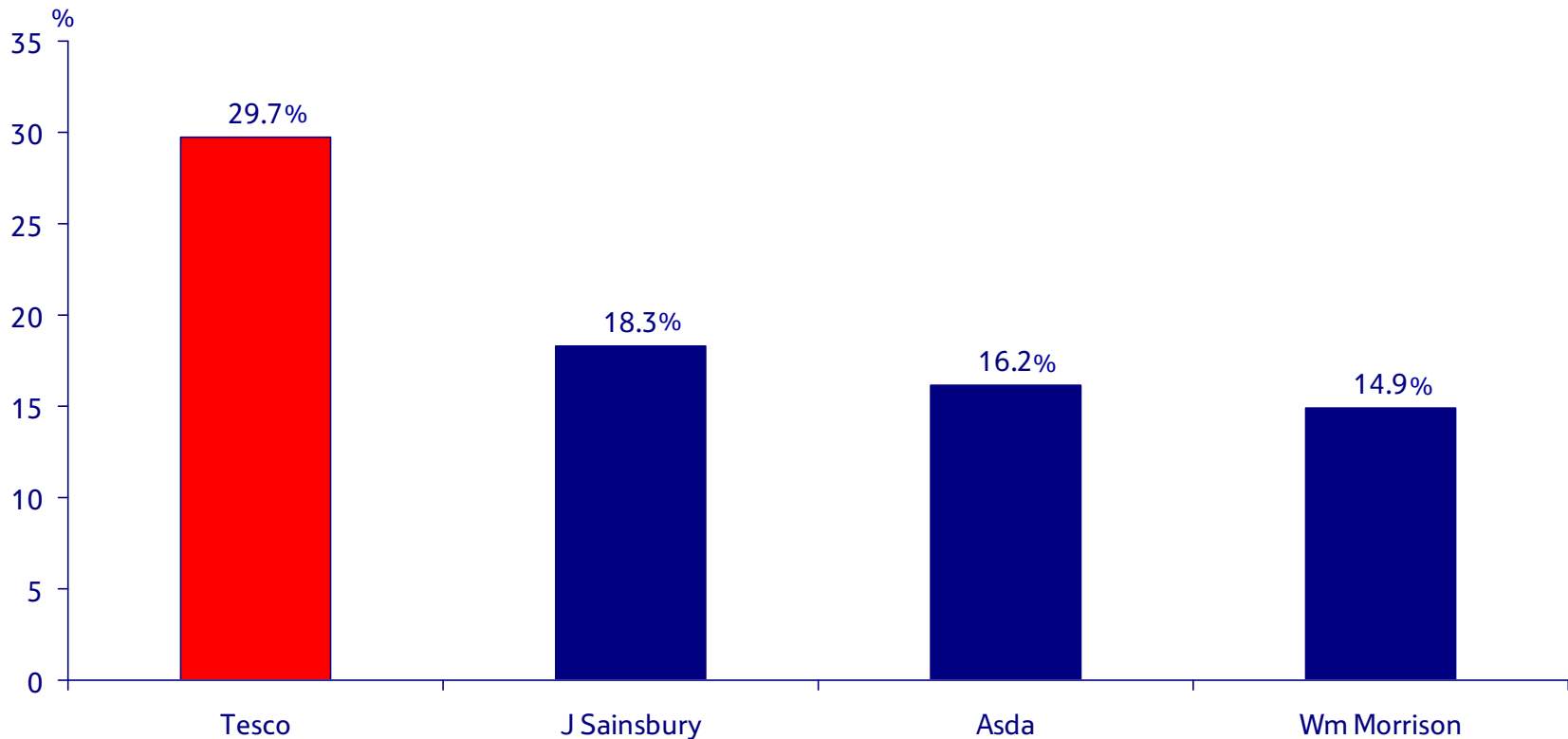
Higher petrol prices are now easing

Average national petrol price



Customer loyalty

Proportion of each retailer's shoppers spending over 50% with that retailer



Source: Kantar Worldpanel – August 2010

High loyalty levels maintained, despite decline for the sector

Clubcard

It all adds up faster with
double points

Spend **£25** per week over 10 weeks on groceries

Normally you get	With double points you get	Which is worth
250 points	500 points*	 in Clubcard vouchers

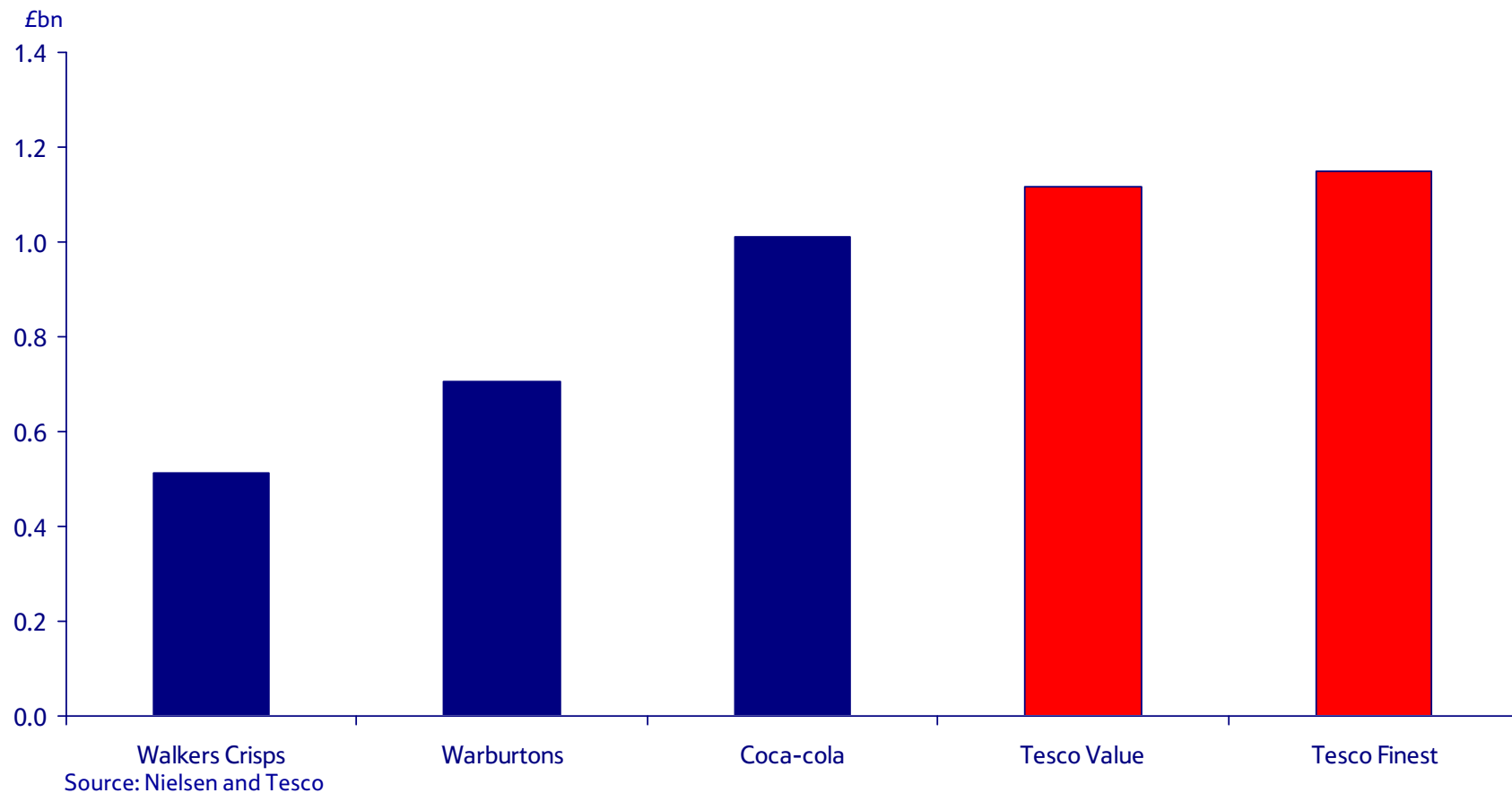
- Increasing customer engagement with Clubcard
- Double Points investment supported by Step-change

Range



UK top grocery brands

UK sales 2010



Both Finest and Value now sell more than £1bn each year

Quality

tesco.com/food



Our British
strawberries go
from farm to
store in 48 hours.

Subject to availability. Selected UK stores. Timings may on occasion vary due to unforeseen circumstances/events. Timings exclude Northern Ireland, Scotland and The Isle of Man.

TESCO

Improved customer perception of fresh food

TESCO | *Every little helps*

UK Community

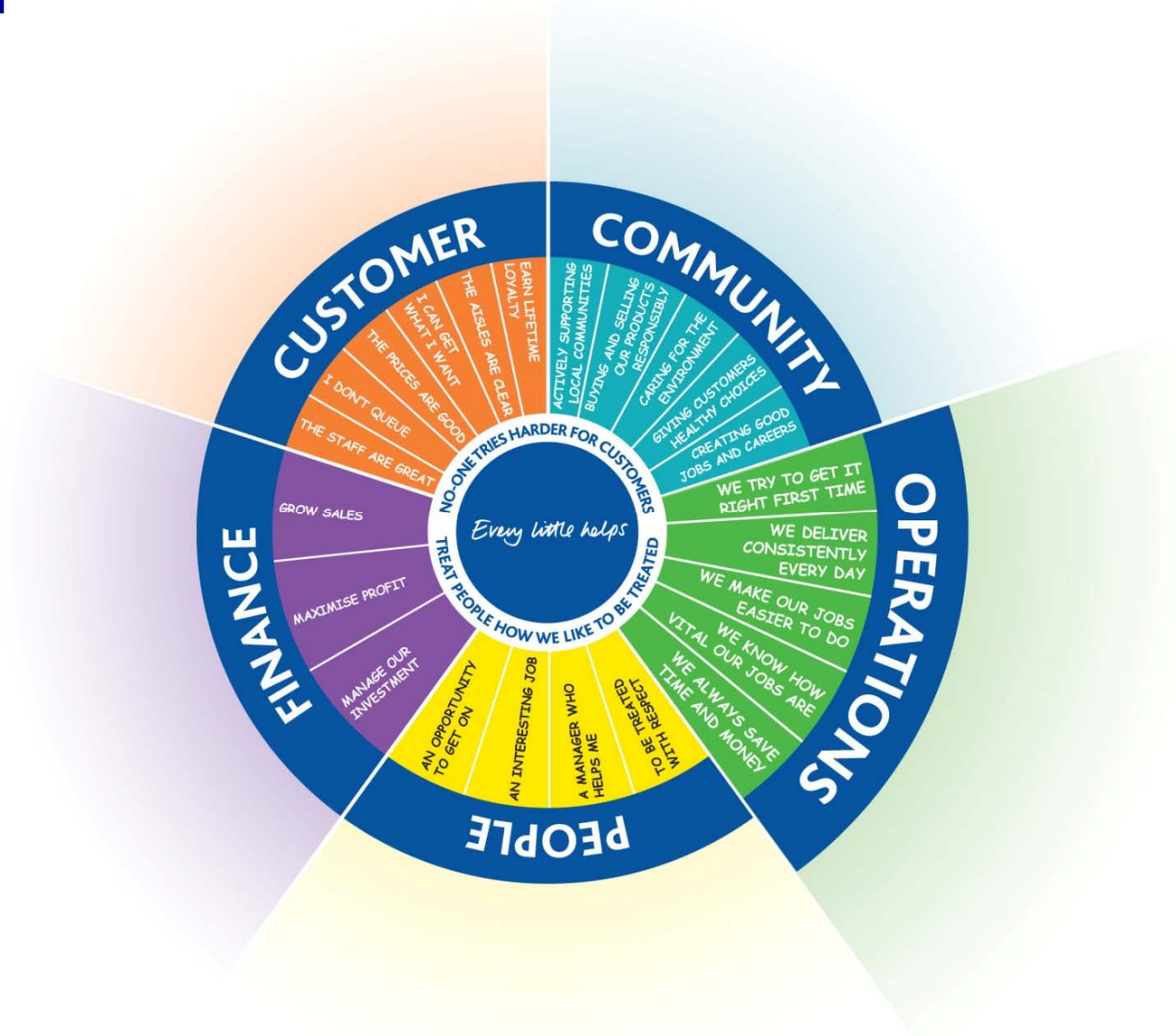


Community



- On track to meet UK emission targets for 2010/11
- Helping our customers become greener
- Organised 100 Community Fairs
- 20,000 staff signed-up for Race for Life and Run10k in aid of Cancer Research UK

UK Operations



Availability



Record levels of availability on dotcom picking measure

Service



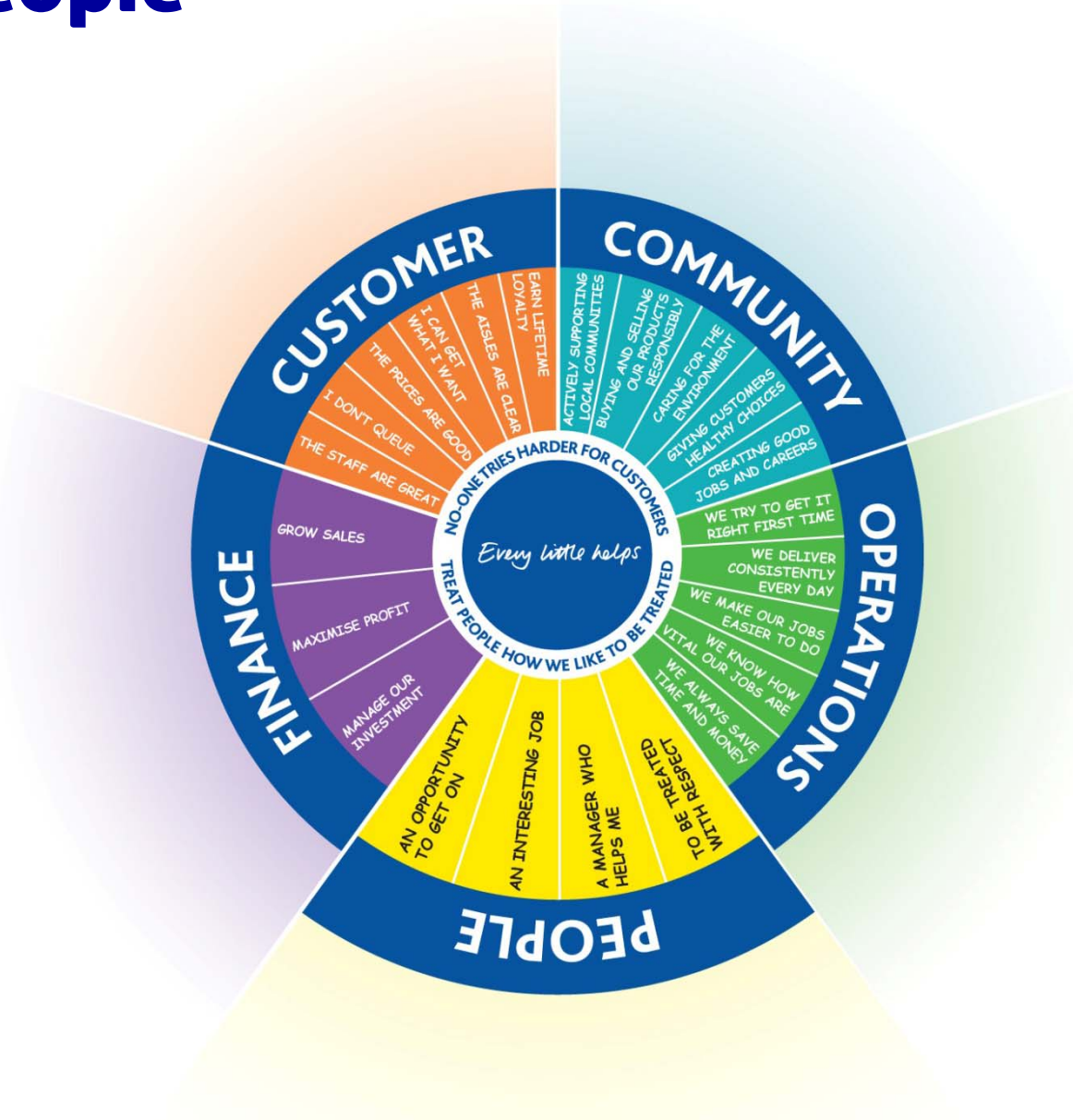
Self-service



Scan-as-you-shop

- Self-service checkouts used in 10 million transactions per week
- Trialling scan-as-you-shop, with plans to roll-out next year

UK People

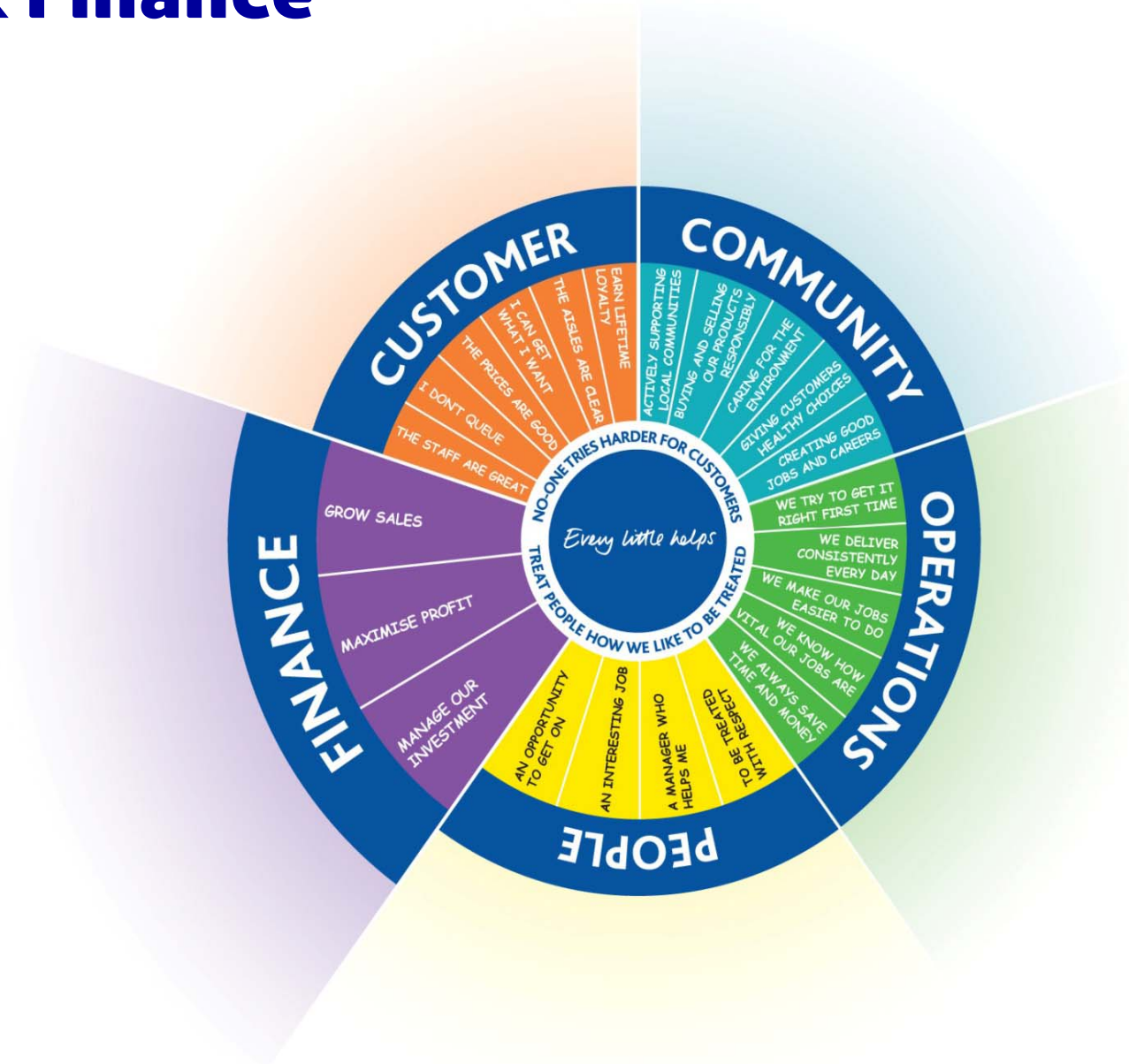


People

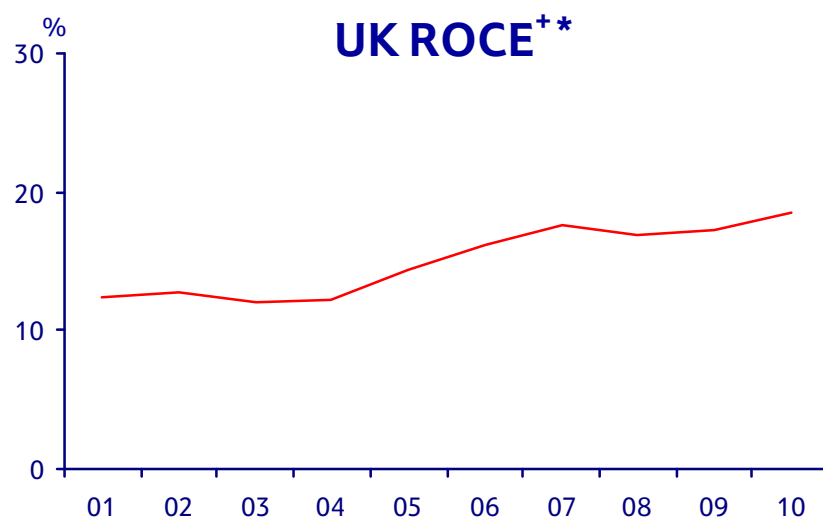
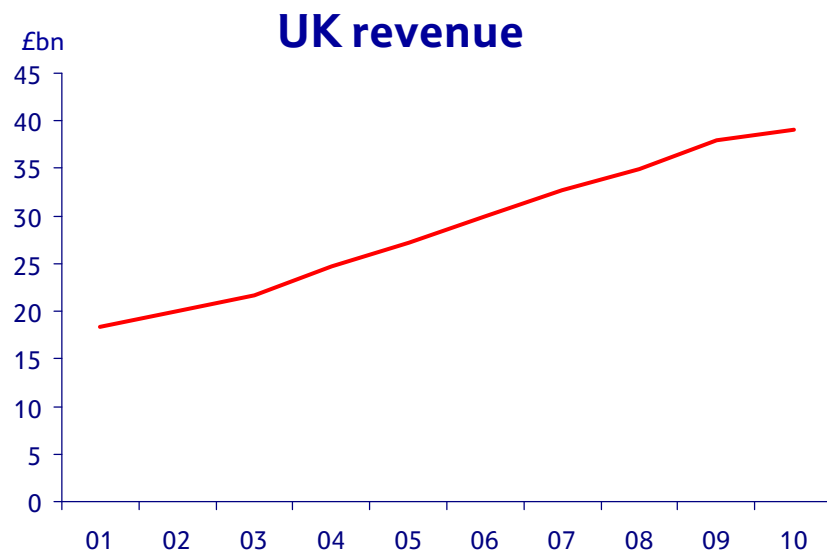


- Almost 8,000 staff training for management roles
- Continued investment throughout recession
- Rates of absenteeism and turnover at record lows

UK Finance



Consistent performance



⁺ Reported under UK GAAP up to 2004/05

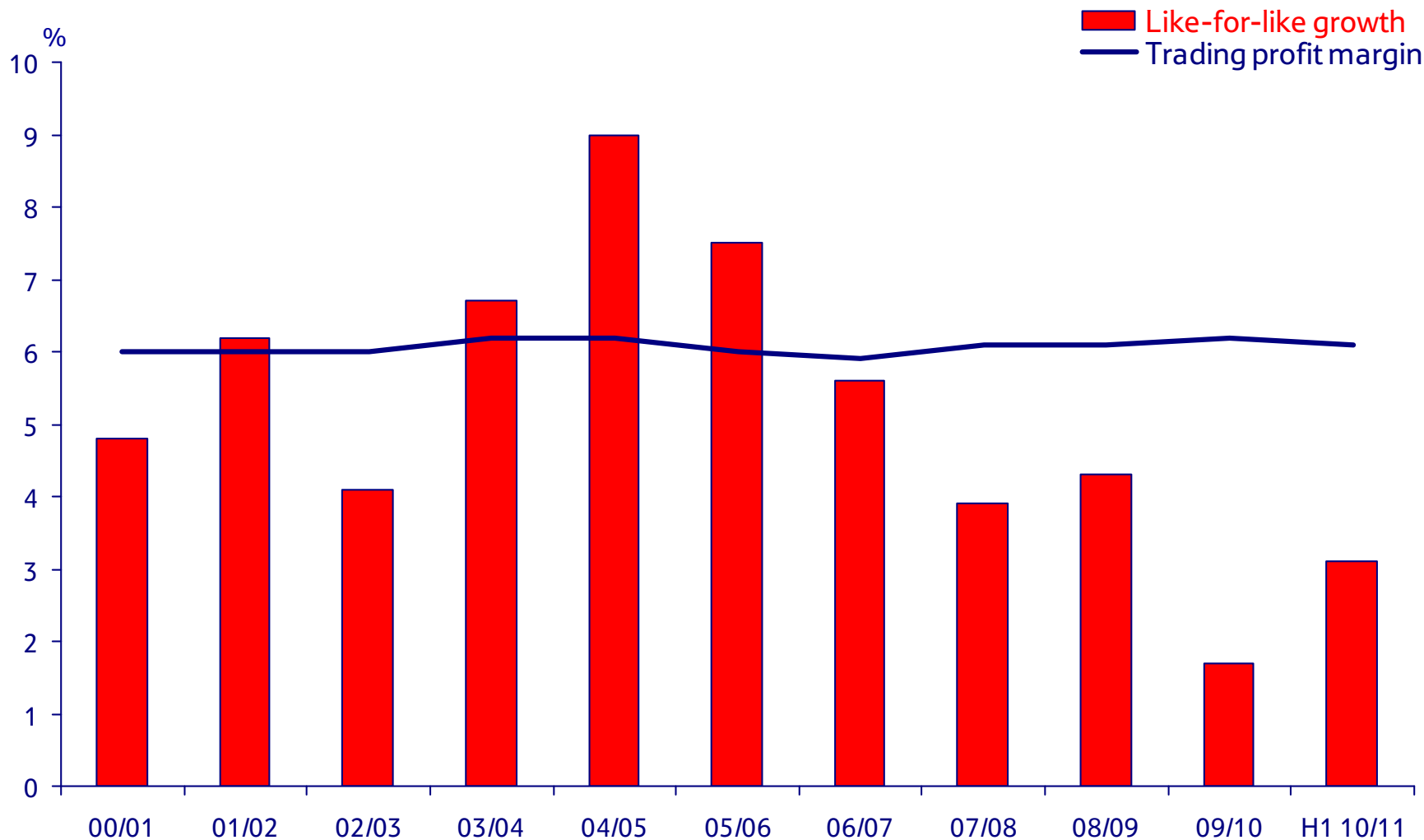
⁺⁺ Excluding effect of property divestments

Space growth



- On track to deliver 6.5% increase in UK space
- Growth across all formats

LFL sales vs. trading profit margin



Note: All like-for-likes based on 52 weeks, excluding H1 10/11



Non-food - International



- Strong International growth
- Central Europe - 12% sales growth in clothing
- Asia – improving performance in electricals and clothing

Non-food - UK



- Positive UK sales growth
- Grown share in electricals and entertainment
- Good performance in clothing

Tesco Bank



	Customer numbers H1 10/11	Growth vs. FY 09/10
Credit Cards	2.5m	▲ 2.0%
Loans	0.3m	▲ 11.1%
Savings	0.5m	▲ 3.1%
Motor Insurance	1.1m	▲ 5.4%
Home Insurance	0.5m	▲ 0.4%

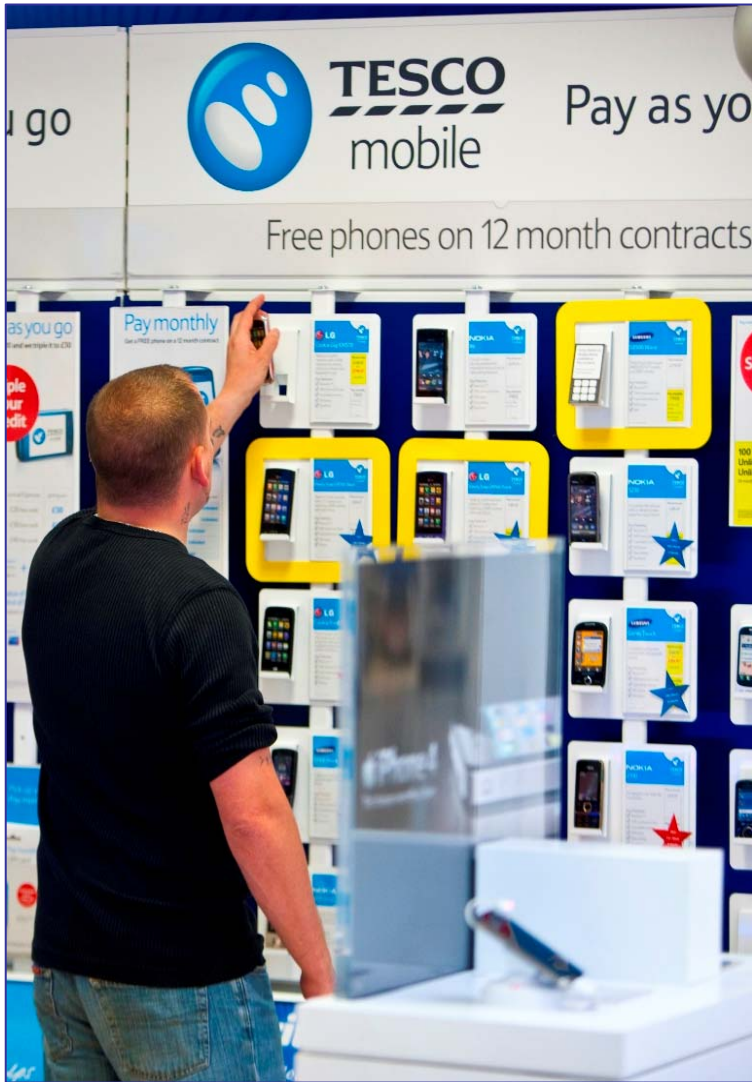
- Increase in customer numbers in all major products
- Customer retention rates rising sharply
- Systems migration making good progress

dotcom



- Double-digit growth in dotcom grocery business
- Opened third dotcom-only store in Greenford
- Trialling 'Click & Collect' drive-through model in Baldock
- Tesco Direct sales up more than 25%

Telecoms



- Almost 2.3m customers for Tesco Mobile
- More than 160,000 Pay Monthly customers – growing at c.25,000 per month
- 143 phone shops, further 50 in H2

dunnhumby



- Good growth both in UK and internationally
- Sales up 25%
- Profits up 50%
- Now a wholly owned subsidiary

Community and environment



- Global scope and objectives
- On track to meet 2010/11 carbon targets
- “Get healthy with Tesco Lotus” target to get 4m people active
- Over 350 Community Champions across the Group
- On track to create 16,000 jobs, including 9,000 in the UK

Conclusion

- Global recovery providing helpful tailwinds
- Profitability in International business recovering strongly
- Robust performance in UK
- Well placed to deliver good profit growth
- Starting to deliver on commitment to improve ROCE



TESCO | *Every little helps*

Q & A





Interim Results

5 October 2010

