



Interim Results

5 October 2011



David Reid

Chairman



Philip Clarke

Group Chief Executive



A progress report

- Six immediate objectives
- Progress, change, firm action – more to come
- Top and bottom line growth – against tough background
- Tesco team – strong focus on customers
- Group breadth and diversity a real strength



Immediate team objectives

Keeping the UK
strong and
growing

Becoming
outstanding
internationally,
not just
successful

Becoming a
multi-channel
retailer
wherever we
trade

Delivering on
the potential of
Retailing
Services

Applying Group
skill and scale

Delivering
higher returns

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UK environment

- Market conditions remain challenging
- Customers highlight rising living costs
- High petrol costs a stress point

Keeping the
UK strong and
growing



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Petrol

Keeping the
UK strong and
growing



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UK environment

Keeping the
UK strong and
growing

- Market conditions remain challenging
- Customers highlight rising living costs
- High petrol costs a stress point
- Food headline growth driven by inflation



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Finest



Keeping the
UK strong and
growing

UK environment

- Market conditions remain challenging
- Customers highlight rising living costs
- High petrol costs a stress point
- Food headline growth driven by inflation
- Non-food market continues to be more affected

Keeping the
UK strong and
growing



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GM, Clothing & Electricals

Keeping the
UK strong and
growing



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Extras

Keeping the
UK strong and
growing

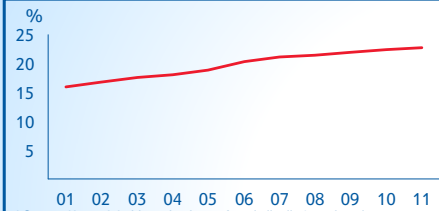


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UK – An outstanding business

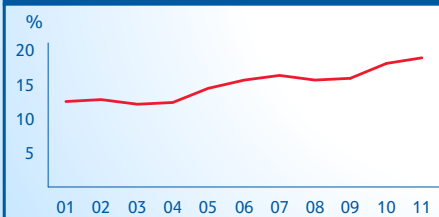
Keeping the
UK strong and
growing

Tesco share of total market*



* Source: Kantar Worldpanel – share of total till roll 52 week ending

UK ROCE*



* Excluding the net benefit of the sale and leaseback programme



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The Big Price Drop

Keeping the
UK strong and
growing



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The Big Price Drop

Keeping the
UK strong and
growing



Milk

Was: £1.49 Now: £1.25



Mince

Was: £2.20 Now: £1.80



Tomatoes

Was: £2.00 Now: £1.20

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The Big Price Drop

Was £1.89
Now £1.69
Kellogg's £2.09

Was 88p
Now 79p
John West £1.65

Was £1.52
Now £1.39
Typhoo £2.09



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The shopping trip



Keeping the
UK strong and
growing

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Quality – Venture brands

Keeping the
UK strong and
growing



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Investment for customers

Keeping the
UK strong and
growing

- Well over £300m from Clubcard going back to single points
- Customers want immediate savings
- Total investment over £500m
- We expect The Big Price Drop to halve the rate of inflation

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Immediate team objectives

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Poland

- Step-up in refit activity
 - 20% like-for-like in completed stores
- Building distribution capacity to add more range

Becoming
outstanding
internationally,
not just
successful



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Korea

- Small rise in like-for-like sales
- Q2 comparisons got five percentage points harder
- Steady growth in H1



Becoming
outstanding
internationally,
not just
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What's good

- Continued excellent growth in Asia
- Strong underlying progress in Europe
- Fresh & Easy's trajectory
- International profits growing faster than sales

Becoming
outstanding
internationally,
not just
successful



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Asia

- Profits up 19%
- Thailand, Korea and Malaysia delivered good growth
- Decision to exit Japan
- In China, sales grew rapidly
 - Fast rate of new store openings
 - 6% like-for-like growth
 - 6 Lifespace malls trading
 - 17 hypers in H2
 - Shop-door profitability

Sources:

+ Kantar Panel (12 weeks ending 17 July 2011)

* KNSO market share (2 months to July 2011)

x China's market share coverage has been restated from 7 cities to 3 regions



Becoming outstanding internationally, not just successful

Market share	July 11	July 10	Change
China ⁺	1.7%	1.7%	➡ 0.0%
Korea [*]	5.5%	5.5%	➡ 0.0%
Malaysia ⁺	9.6%	9.3%	⬆ 0.3%
Thailand ⁺	14.1%	12.2%	⬆ 1.9%

Europe

- Excellent Central Europe performance
- Background in Ireland remained tough
- Work on skill and scale giving headroom
- Extras starting to drive hypermarket performance
- Profits grew by 12%, over 20% ex-Hungary tax

Sources:

§ GfK Panel (12 weeks ending 31 July 2011)

μ IPSOS Panel (12 weeks ending 31 July 2011)

± Kantar Panel (12 weeks ending 4 Sep 2011)



Becoming outstanding internationally, not just successful

Market share	July 11	July 10	Change
Czech Rep. [§]	11.2%	9.1%	⬆ 2.1%
Hungary [§]	18.9%	18.1%	⬆ 0.8%
Poland [§]	5.7%	6.2%	⬆ (0.5)%
Slovakia [§]	18.2%	16.7%	⬆ 1.5%
Turkey ^μ	1.7%	1.4%	⬆ 0.3%
Ireland [±]	27.9%	27.2%	⬆ 0.7%

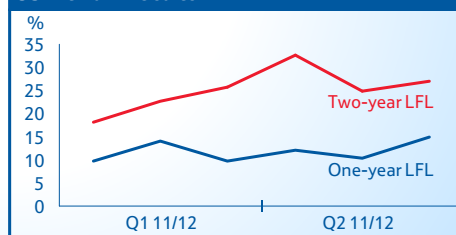
Fresh & Easy

- Delivering on demanding plan
- Losses down by 23%
 - Strong sales growth
 - Improving operating ratios
 - Higher new store sales densities
 - Supply chain efficiencies
 - Manufacturing strong
- Seventh consecutive quarter of strong like-for-like sales
- Customer traffic driving growth



Becoming outstanding internationally, not just successful

US like-for-like sales



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Fresh & Easy

- Improved customer offer and stores
 - In-store bakeries
 - Loose produce
 - Stronger floral displays
 - Better grocery assortment
 - Faster product development on fresh
- Friends card trial going well
 - Full roll-out next week



Becoming outstanding internationally, not just successful



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Becoming a multi-channel retailer

- Store and online – compelling combination
- Well-placed given scale, supply chain and physical footprint
- More integrated offer coming together

Becoming a multi-channel retailer wherever we trade

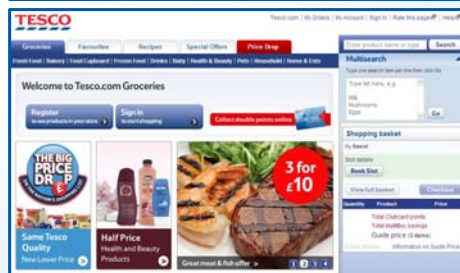


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Tesco.com

- Continuing to grow well
 - Extra one-hour time slots
 - Extended Sunday deliveries
 - Mobile apps very popular
- Capacity up 18%
- New dotcom-only store in Enfield

Becoming a multi-channel retailer wherever we trade

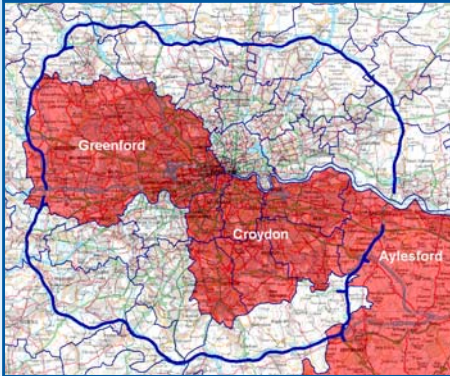


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dotcom-only – M25 coverage

Becoming a multi-channel retailer wherever we trade

M25 area before Enfield opening



M25 area after Enfield opening

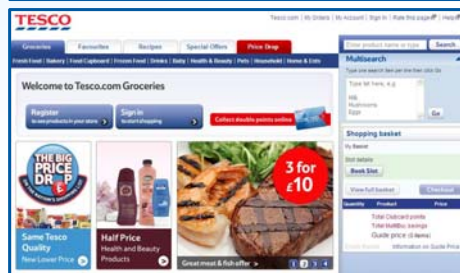


TESCO

Tesco.com

- Continuing to grow well
 - Extra one-hour time slots
 - Extended Sunday deliveries
 - Mobile apps very popular
- Capacity up 18%
- New dotcom-only store in Enfield
- Website upgraded
- Faster growth in H2

Becoming a multi-channel retailer wherever we trade



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Tesco Direct

- Continued double-digit growth
- Newer categories performing well – Clothing up 45%
- Direct website upgrade – a step forward in range and functionality
 - First phase of Marketplace to go live in first half of 2012



Becoming a multi-channel retailer wherever we trade

Click & Collect

Direct

- Extended to over 500 stores
- Half of Direct's order fulfilment

Grocery

- Trial now extended to 15 stores



Becoming a multi-channel retailer wherever we trade

International dotcom

- dotcom grocery established and growing well in Korea and Ireland
 - Annualised sales over £150m
- Launch in Prague in a few weeks and Warsaw early next year
- Planning to put dotcom into all our major markets over next few years

Becoming a multi-channel retailer wherever we trade



Tesco Bank

- Chosen to slow down final phase of migration
 - Ensure we avoid disruption to customers and staff
 - Better to complete well than quickly
 - Almost ready to launch mortgages, planning for early 2012
- Increasing PPI provision in line with other banks

Delivering on the potential of Retailing Services



Tesco Bank

- Baseline profit grew well – up 24%
- Customer account numbers up across product range, with credit card spend up 14%
- All major products except credit cards on new IT and call centre platforms
- Customer service innovations
 - Instant loan application decisions
 - 10-minute lead times to set up savings accounts
- Welcome Independent Banking Commission's findings on switching

Delivering on the potential of Retailing Services

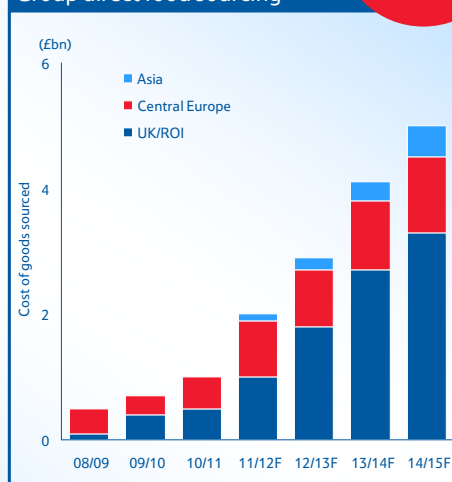


Applying Group skill and scale

- Better buying across the Group
 - Lower our cost of goods, improve quality, sell more
 - Plan to double direct food sourcing from £1bn to £2bn this year
- Apply Tesco operating model globally
- Creating virtuous circle of productivity, volume, margin and investment for customers

Applying Group skill and scale

Group direct food sourcing



Immediate team objectives

Keeping the UK strong and growing

Becoming outstanding internationally, not just successful

Becoming a multi-channel retailer wherever we trade

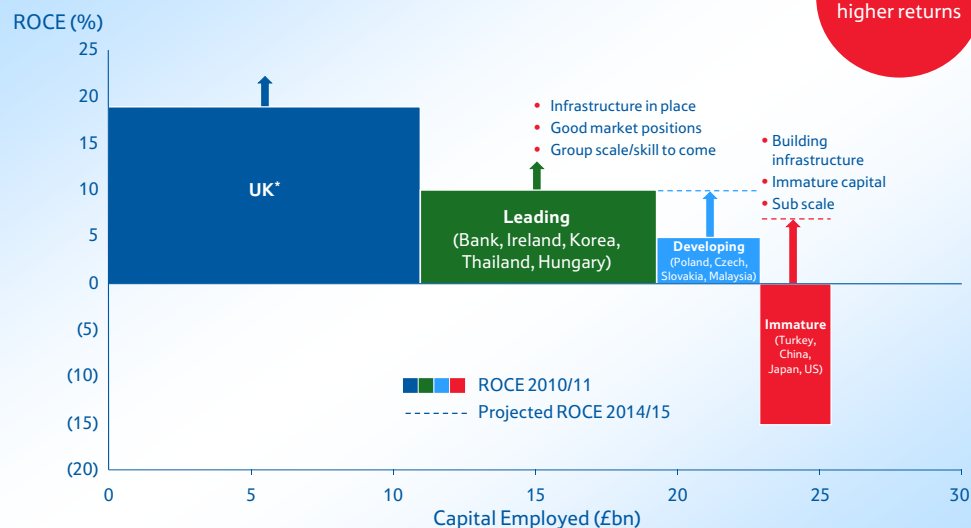
Delivering on the potential of Retailing Services

Applying Group skill and scale

Delivering higher returns

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Components of Group ROCE*



* Excludes the net benefit of the sale and leaseback programme

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Immediate team objectives – Summary

- Continuing to drive forward growth
- Sharper execution – taking decisive action
- On track to meet objective of delivering increased returns for shareholders

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Delivering
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A progress report

- H1 both challenging and rewarding for Tesco
- Made promising progress at Fresh & Easy
- Taken the decision to exit Japan
- Slowed down Bank's near-term growth to focus on quality
- Reset UK business and got it back on the front foot



Laurie Mcilwee

Chief Financial Officer



Group performance

	H1 11/12	vs. H1 10/11
Group sales*	£35.5bn	↑ 8.8%
Group trading profit	£1.8bn	↑ 3.7%
Underlying profit before tax	£1.9bn	↑ 6.2%
Group profit before tax	£1.9bn	↑ 12.1%
Underlying diluted EPS	18.30p	↑ 6.0%**
Interim dividend	4.63p	↑ 5.9%

* Group sales (inc. VAT) exclude the accounting impact of IFRIC13

** Underlying diluted EPS growth calculated on a constant tax rate basis; 7.8% growth on an actual tax rate basis



Group trading profit growth

		Impact on Group growth	
Group trading profit		£1,773m	3.7%
Impact of:	Hungary tax	£20m	1.2%
	PPI provision	£57m	3.3%
Group trading profit (pre-impacts)		£1,850m	8.2%
Sales growth (exc. VAT, exc. petrol)			6.6%



Discontinued operation – Japan

Discontinued operation	H1 11/12	H1 10/11
Revenue	£222m	£245m
Trading Loss	£(15)m	£(18)m
Non Cash Impairment	£(29)m	£(55)m
Restructuring	£(5)m	£(9)m
Other (Property and Interest)	£(3)m	£0m
Loss before tax	£(52)m	£(82)m
Tax	£(13)m	£0m
Loss after tax	£(65)m	£(82)m

- £16m restructuring costs in H2 relating to the closure of 12 stores



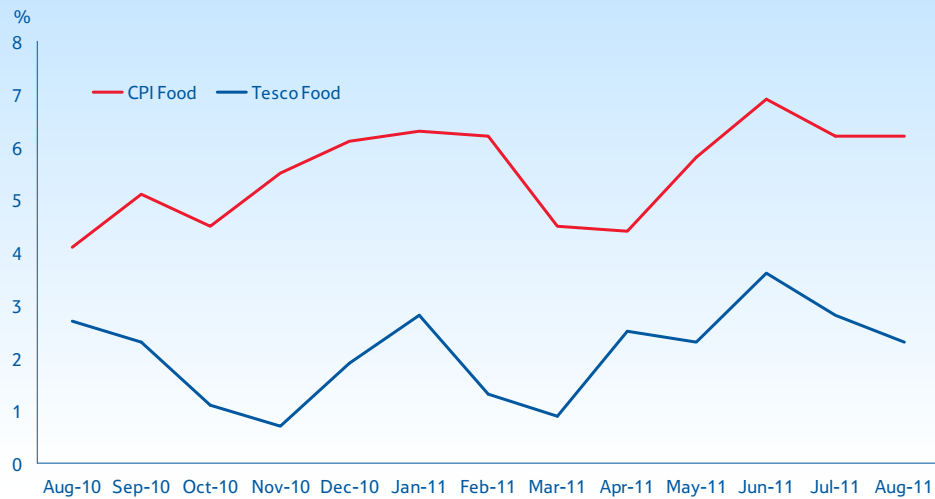
UK

- Sales growth reflects:
 - Difficult trading conditions
 - Continued pressure on household budgets

LFL growth	H1 11/12
LFL (inc. VAT, inc. petrol)	3.5%
LFL (inc. VAT, exc. petrol)	0.5%
LFL (exc. VAT, exc. petrol)	(0.5)%



UK – Inflation



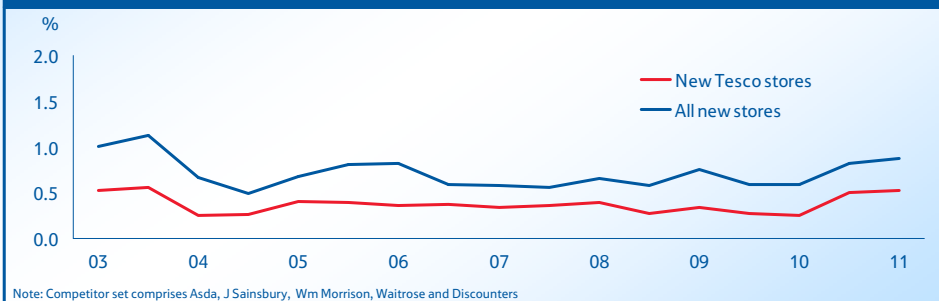
CPI Food Source: Office of National Statistics



UK – New space

- Over 700,000 sq ft in H1
- 3.9%* sales growth from net new space
- New stores beating capital appraisal targets

Annual reduction in Tesco UK sales as a result of new store impacts



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

* inc. VAT, exc. petrol



UK

- Sales growth reflects:
 - Difficult trading conditions
 - Continued pressure on household budgets
- Trading profit up 4.5%
- Trading margin edged down
 - Dilutive impact of petrol

LFL growth

	H1 11/12
LFL (inc. VAT, inc. petrol)	3.5%
LFL (inc. VAT, exc. petrol)	0.5%
LFL (exc. VAT, exc. petrol)	(0.5)%



The Big Price Drop

- £500m annualised investment in price and own-label
- Further investment in increased staffing and store environment
- Partially funded by returning Clubcard to single points
- Changes will reduce inflation
- Planning for broadly flat UK profit growth in H2

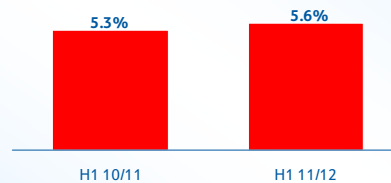


Asia

- Sales growth c.12%
- Profit growth c.19%
- Margin strengthened to 5.6%
 - Strong underlying improvement



Trading profit margin



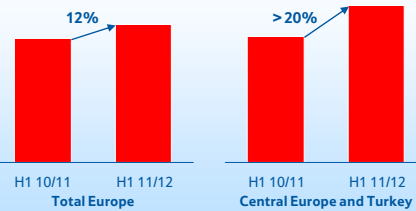
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Europe

- Strong sales and profit growth
- Ireland remains tough
 - (3.4)% LFL sales growth
 - Broadly maintained profits
- Other countries averaging more than 20% profit growth



Trading profit growth



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Fresh & Easy

- Strong sales growth
- 23% reduction in H1 losses



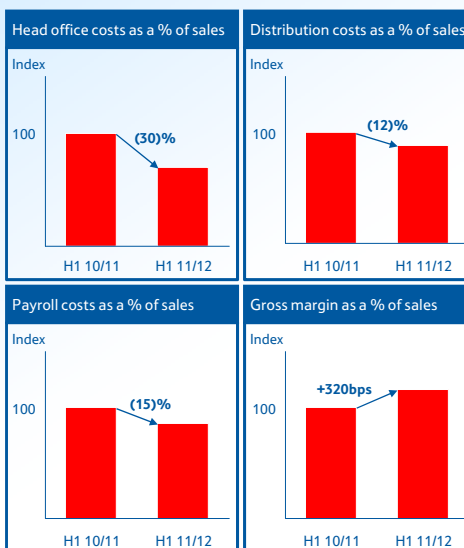
US trading losses



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Fresh & Easy – improvement in profitability

- Substantial reduction in fixed costs as a percentage of sales
- Improved productivity
- Improved gross margin
 - Manufacturing margin benefit



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Fresh & Easy

- Strong sales growth
- 23% reduction in H1 losses
- On track for c.30 stores to reach shop-door profitability by the year end



US trading losses

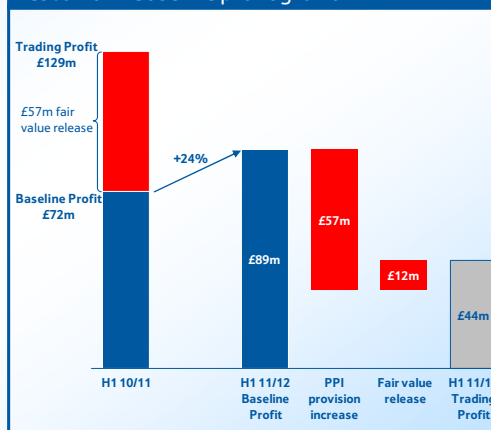


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Tesco Bank

- Trading profit of £44m
 - After £(57)m increase in PPI provision
- Baseline profit increased by 24% to £89m
- Impact of migration delay
 - Extended period of double-running
 - Lower than planned revenue growth
 - c.£(40)m impact on H2 trading profit

Tesco Bank baseline profit growth



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Tesco Bank – Balance sheet

- Further cash inflows from Fixed Rate Saver Accounts
- Capital position strengthened
 - Improved risk asset ratio
 - Core Tier 1 ratio 16.2%



Group balance sheet

- Group capex of £2.1bn in H1
 - £3.9bn capex for FY 2011/12
- 3.3m sq ft of new space opened in H1
 - On track to deliver 7.5m sq ft in H2
- Retail operating cash flow £2.3bn*
- Net debt of £7.6bn
 - Further overall reduction to c. £6.4bn by year end

*Cash generated from retail operations excluding Tesco Bank



Property programme

- c.£0.6bn proceeds in H1
- £245m property profits
- Property fund I.P.O., Thailand
 - Seeking to raise over £300m from small number of Thai malls
- Significant value created through property development
- Aim to deliver planned £250 - £350m property profits per year from 2012/13



Group balance sheet

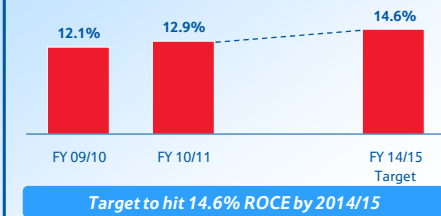
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- Retail operating cash flow £2.3bn*
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 - Further overall reduction to c. £6.4bn by year end
- Pension deficit £1.2bn, up £0.2bn from year end

*Cash generated from retail operations excluding Tesco Bank

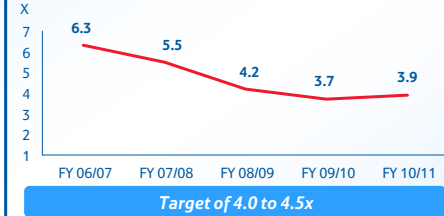


Key financial metrics

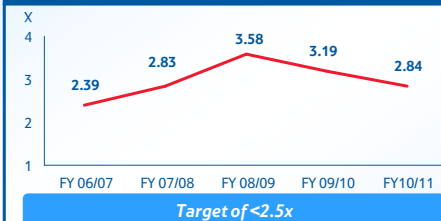
Return on Capital Employed



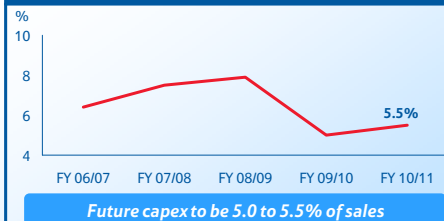
Fixed Charge Cover: EBITDAR/(Interest + Rent)



Net Indebtedness: Adjusted Net Debt/EBITDAR*



Capital Expenditure as % of Group Sales



* Adjusted net debt = statutory net debt + pension deficit + NPV of lease obligations



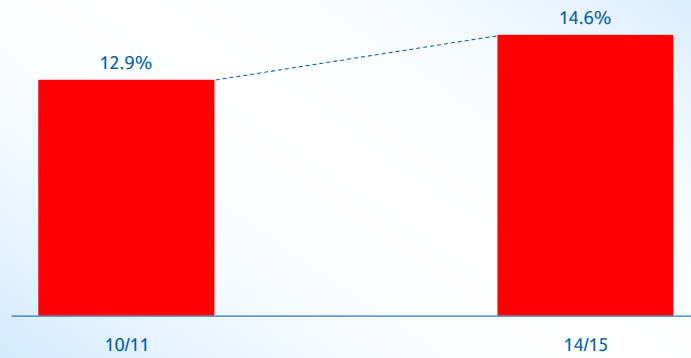
Summary

- Solid first half, benefiting from breadth of Group
- Good trading profit result
- Encouraging performance in Asia, Europe and US
- Significant action to improve UK performance
- Decision to slow Bank migration – long term opportunity undiminished
- Strong balance sheet, clear financial framework



Delivering higher returns for shareholders

Return on capital employed



Target to hit 14.6% ROCE by 2014/15

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Q&A

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