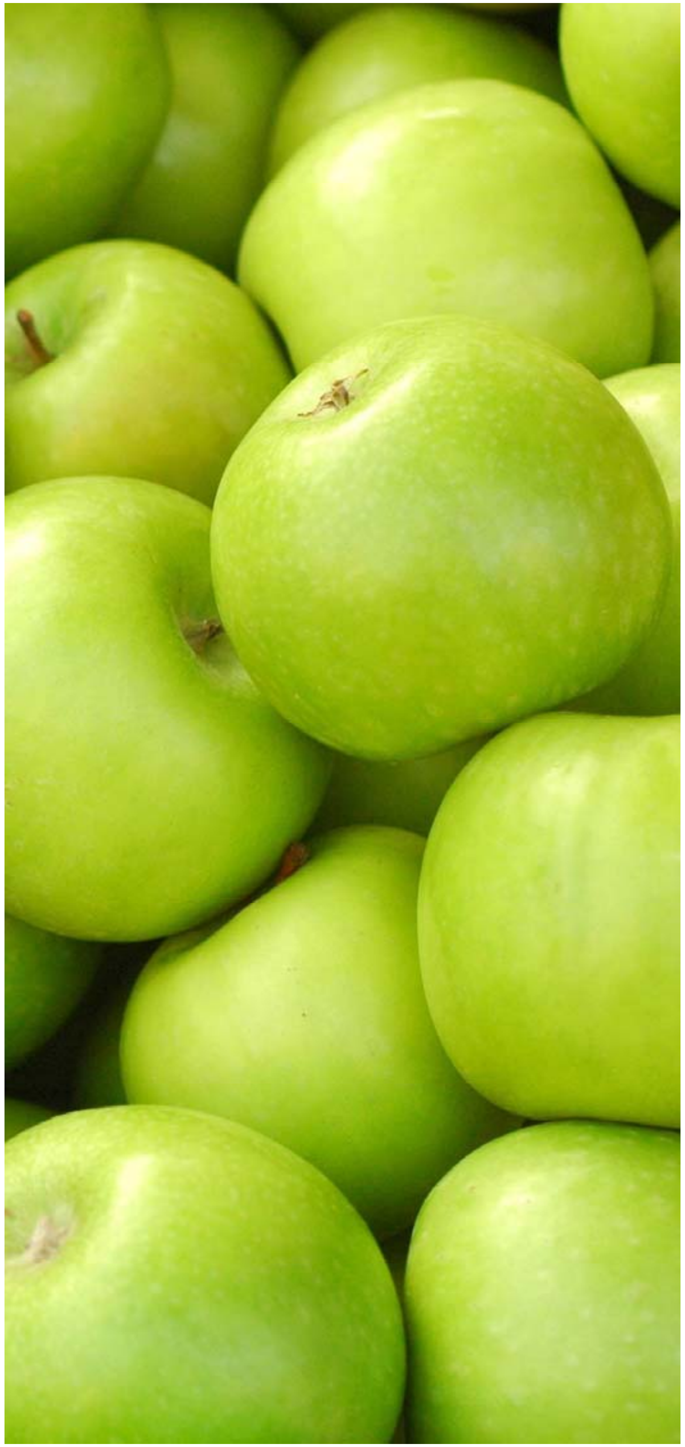
TESCO

Preliminary Results

18 April 2012



Philip Clarke

Group Chief Executive

TESCO

TESCO

The first year – Decisive action taken

- Got Fresh & Easy moving towards break-even
- Announced our decision to exit Japan
- Slowed down Bank migration to focus on reliability
- Significant step in the UK on price position
- Addressing underperformance in the UK

UK industry – Running up the down escalator

- Industry space growth too fast
- Additional very big stores not the answer any more
- Customers moving faster to smaller stores and internet
- Social media soon to be as influential as press advertising

Following the customer....

A new approach:

- Slower new space growth
- Fewer bigger new stores
- More convenience
- More online
- More personalisation
- More localisation

Building a better Tesco….

- Put more back in for customers
- Get back to driving profits through sales
- Make multi-channel a profitable reality
- Act decisively to tackle underperformance
- Strike a better balance between growth and returns for shareholders

Laurie Mcilwee

Chief Financial Officer

Financial performance

- Group headlines
- Segmental performance
- Balance sheet
- Cash flow
- Key financial metrics

TESCO

Group performance

	11/12	vs. 10/11
Group sales*	£72.0bn	↑ 7.4%
Group trading profit	£3.8bn	↑ 1.3%
Underlying profit before tax	£3.9bn	↑ 1.6%
Group profit before tax	£3.8bn	↑ 5.3%
Underlying diluted EPS	37.41p	↑ 2.1%**
Full-year dividend	14.76p	↑ 2.1%
Net debt	£6.8bn	↔ £0.0bn
Return on capital employed	13.3%	↑ 40bp

* Group sales (inc. VAT) exclude the accounting impact of IFRIC13
** Underlying diluted EPS growth calculated on a constant tax rate basis; 3.2% growth on an actual tax rate basis

Group performance

- In line with revised market expectations*
- Demonstrates breadth of Group
- Strong performances internationally
- Delivering profit growth despite:
  - Challenging year in the UK
  - Impact of PPI+

* Source: Vuma consensus estimates, published February 2012
\+ PPI (Payment Protection Insurance)

UK

- Strong total sales growth
- Good new store performance
- Like-for-like sales weakened during H2
- Some improvement post-Christmas

	UK
Sales growth (inc. petrol)	6.2%
LFL (exc. petrol)	0.0%
Trading profit	£2,480m
Trading profit growth	(1.0)%
Trading profit margin	5.79%
Trading profit change	(35)bp

TESCO

Asia

- Good performance across all markets
- Solid like-for-like growth
- Thailand returning to strong growth post-floods
- Margins up
  - Thai insurance cover
  - Good growth in Korea and Malaysia
- Challenging year in China

	Asia
Sales growth (inc. petrol)	10.5%
LFL (exc. petrol)	1.9%
Trading profit	£737m
Trading profit growth	21.8%
Trading profit margin	6.81%
Trading profit change	64bp

TESCO

Europe

- Resilient overall performance
- Two impacts:
  - £(38)m Hungary crisis tax
  - Poland – distribution centre disruption & non-food stock write-off
- Double-digit profit growth in Central Europe*
- Robust performance in Ireland
- Ireland and Hungary – focused on driving trade from existing stores

	Europe Inc Tax	Europe Ex Tax
Sales growth (inc. petrol)	7.7%	
LFL (exc. petrol)	0.9%	
Trading profit	£529m	£567m
Trading profit growth	0.4%	7.6%
Trading profit margin	5.36%	5.75%
Trading profit change	(37)bp	+2bp

* exc. Hungary crisis tax

TESCO

US

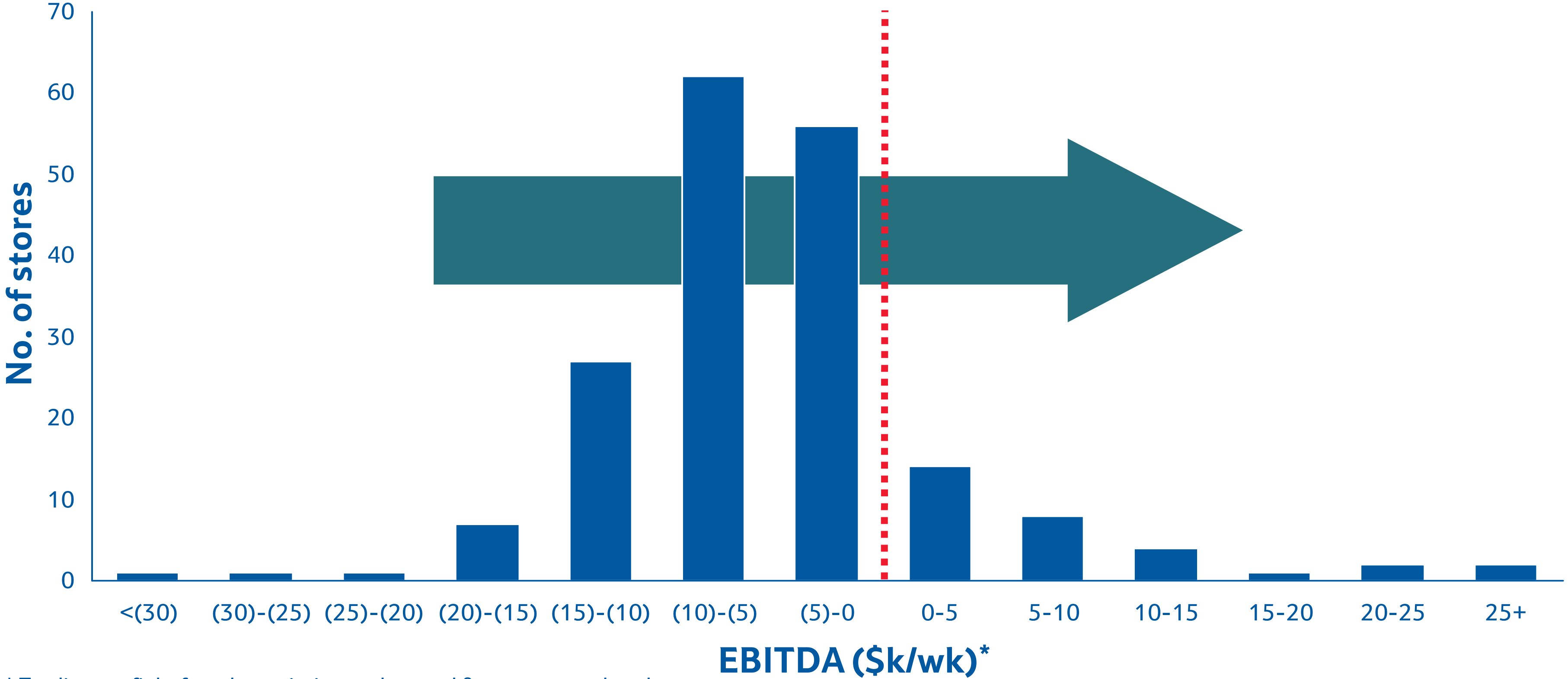
- Strong top-line performance
- Reduced losses by nearly 18%
- First full-year reduction in losses since entry

	US
Sales growth (inc. petrol)	27.1%
LFL (exc. petrol)	11.9%
Trading profit	£(153)m
Trading profit growth	17.7%
Trading profit margin	(24.29)%
Trading profit change	1,329bp

TESCO

US – Improving store profitability

Store profitability – grouped by weekly contribution cohorts

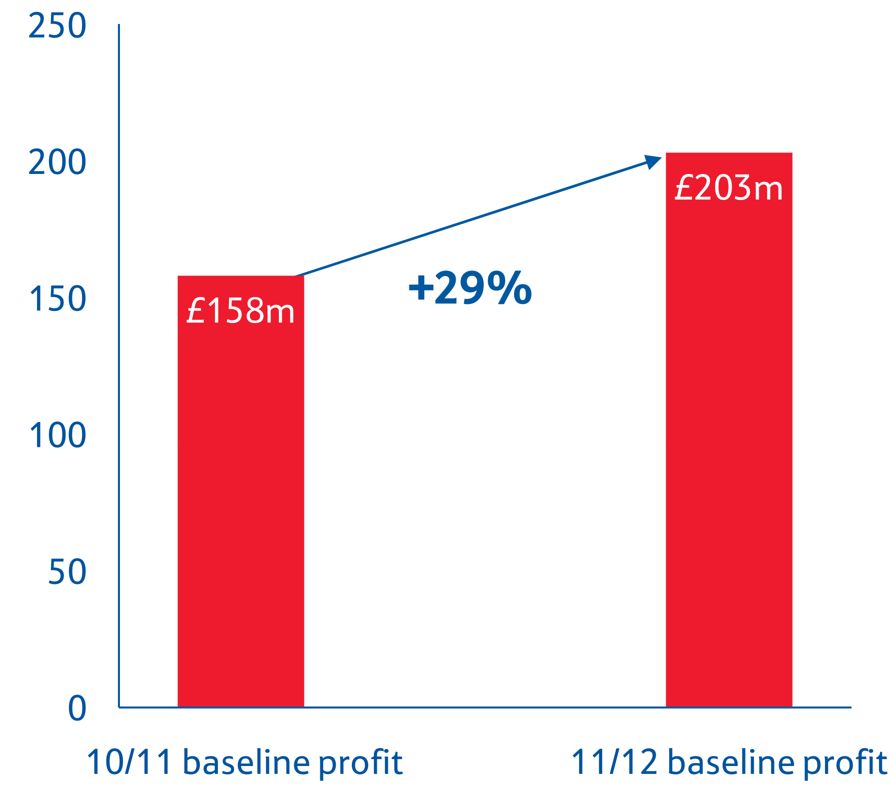


* Trading profit before depreciation and central & campus overheads

Tesco Bank

- Baseline profit increased by 29% to £203m*
- Fair value releases reduced from £155m to £22m
- Trading profit of £168m
- Capital position improved
  - Risk asset ratio now 16.0%
- Liquidity also improved

Strong baseline profit growth



* Baseline profit is defined as Bank trading profit before provisioning movements (PPI) and Fair value

TESCO

Japan – Discontinued

	11/12 (£m)	10/11 (£m)
Revenue	436	476
Trading loss	(25)	(35)
Non cash impairment	(77)	(55)
Restructuring	(20)	(9)
Other (property and interest)	(3)	(7)
Loss before tax	**(128)**	**(106)**
Tax	(14)	0
Loss after tax	**(142)**	**(106)**

Cash flow and balance sheet

- Net debt remained stable at £6.8bn
- Group capital expenditure slightly below guidance at £3.8bn
- Retail operating cash flow £3.8bn*

* Cash generated from retail operations excluding Tesco Bank

Releasing value from property

- Successful year
  - £376m property profits
  - £1bn disposals
- Tesco Lotus Property Fund, Thailand
  - Raised £379m from 17 stores and malls after the 2011/12 year-end
  - Priced at top end of range
  - Strong demand – 11 times over-subscribed
  - Initial trading ahead of list price

TESCO

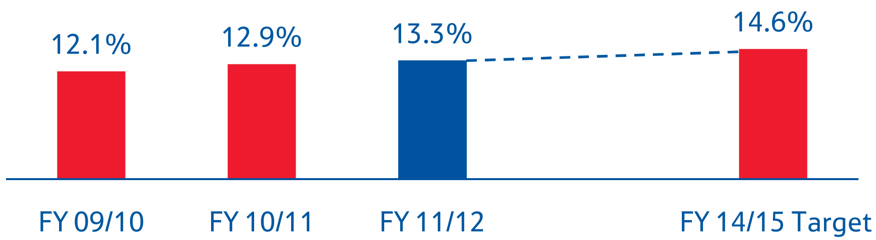
Cash flow and balance sheet

- Net debt remained stable at £6.8bn
- Group capital expenditure slightly below guidance at £3.8bn
- Retail operating cash flow £3.8bn*
- £ 1bn property proceeds; £376m property profits
- Net IAS19 pension deficit (post-tax) increased to £1.4bn
- One-off cash contribution of £180m to defined benefit scheme after year-end

* Cash generated from retail operations excluding Tesco Bank

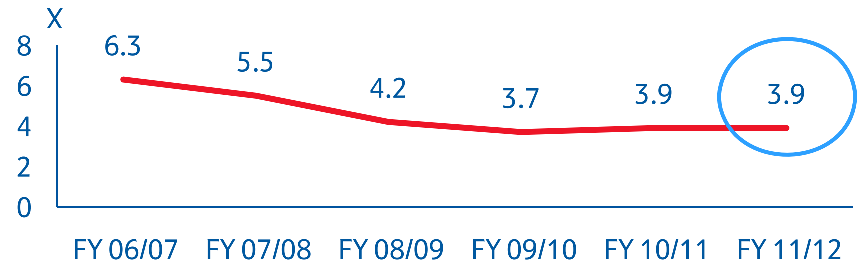
Key financial metrics

Return on Capital Employed



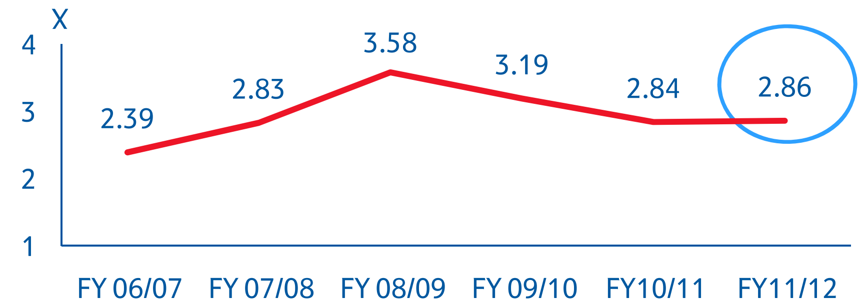
Target to hit 14.6% ROCE by 2014/15

Fixed Charge Cover: EBITDAR/(Interest + Rent)



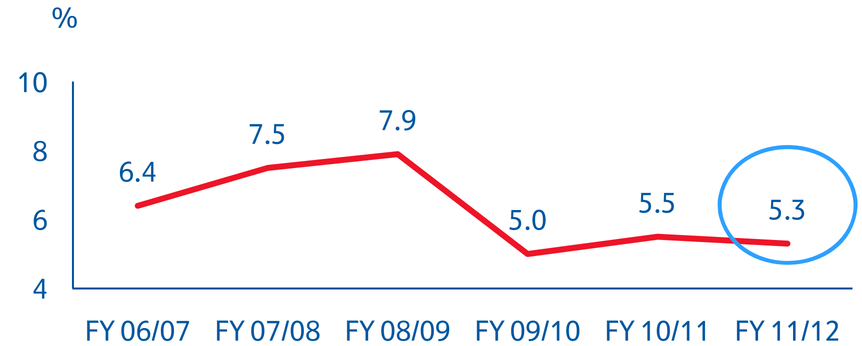
Target of 4.0 to 4.5x

Net Indebtedness: Adjusted Net Debt/EBITDAR*



Target of <2.5x

Capital Expenditure as % of Group Sales



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

TESCO

Philip Clarke

Group Chief Executive

A tough year

- Strong International performance only just compensated for UK
- Difficult environment for consumers at home
- Important financial consequences
- Decision to give up some short-term profit to safeguard the long-term

Diagnosis

- Pace of change needed to accelerate
- Inherited a great business
- Built around customers and staff
- High quality assets
- Multiple opportunities for growth
- Recession hit hard – longer and deeper than expected

Driving change – Decisive action

1. Putting more back into the UK business

2. Reducing the drag :
   – United States
   – Japan
   – Bank migration

3. Increased focus on remaining well-positioned for the opportunities and challenges of the internet

TESCO

Team priorities

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 – The Bank

Applying Group skill and scale

Delivering higher returns

International performance strong

- Total profit growth 22%*
- Despite very tough economic conditions in several markets

* Pre-Hungary crisis tax

Fresh & Easy

- Reduced losses, more progress
- Decisive change of trend
- Customer offer significantly improved
- Two year like-for-like over 20%
- Focus on store profitability
- Measured approach to new capital

TESCO

Market share growth – Good progress

Asia	Market Share	Change
South Korea*	5.7%	↑ 0.1%
Thailand ±	13.0%	↑ 0.6%
Malaysia +	10.2%	↓ (0.1)%
China +×	2.9%	↔ 0.0%

Sources:
* KNSO market share (Month of January 2012)
± Kantar Panel (12 weeks ending 26 February 2012)
+ Kantar Panel (12 weeks ending 27 January 2012)
× China's market share coverage is based on the 7 cities coverage

Europe	Market Share	Change
Poland §	6.9%	↑ 0.4%
Hungary §	20.0%	↑ 0.8%
Czech ∞	11.2%	↑ 1.0%
Slovakia ∞	20.3%	↑ 1.2%
Turkey μ	1.7%	↔ 0.0%
Ireland α	28.2	↑ 1.0%

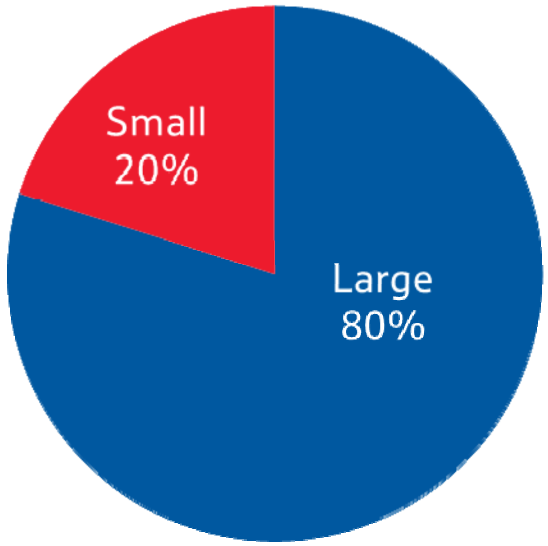
Sources:
§ GfK Panel (3 months ending January 2012)
∞ Kantar Panel (3 months ending December 2011)
μ IPSOS Panel (3 months ending January 2012)
α Kantar Panel (12 weeks ending 18 March 2012)

TESCO

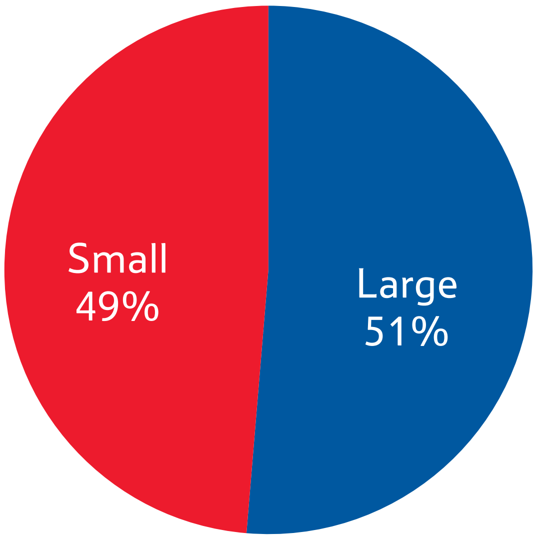

Thailand
TESCO

Smaller formats driving growth

Total international space – as at Feb 2012



New international space – forecast 12/13



The hypermarket – more to come

- 31 conversions to Extra in Europe, 3 in Asia
- 17% cumulative improvement in sales
- Food and service-focused, tight general merchandise assortment, strong clothing offer

Poland


Witamy w TESCO Kraków Kapelanka
Dove MEN+CARE
NOWY DOVE MEN+CARE

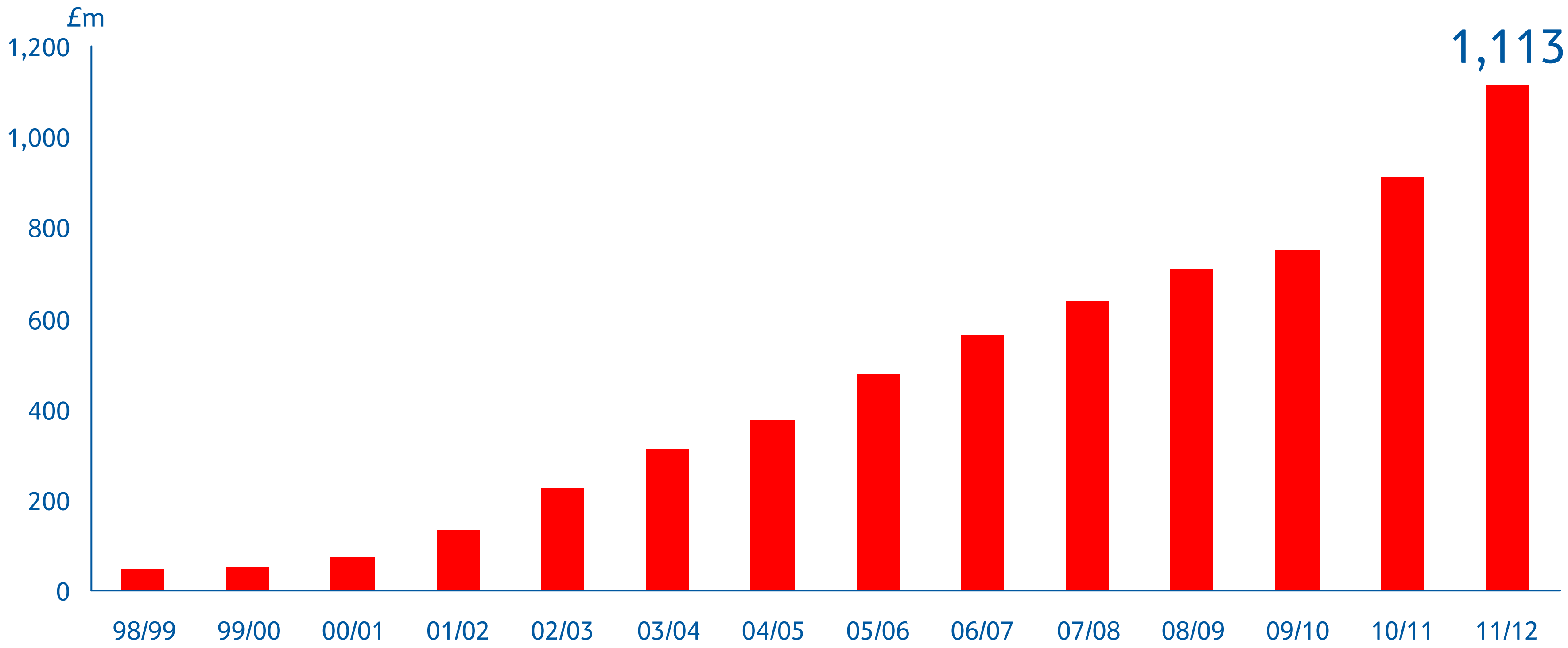
China

- Tough environment
  - Slowing economy
  - High inflation and wage costs
- More cautious stance
  - No new substantial freehold commitments
  - Holding back on leasehold hypers for the time being
  - 16 new hypers in 2012/13
- Potential engine of growth, constrained by short term challenges

Korea

Tesco International – Rapid growth

Operating/trading profit



Note 1: 11/12 is on a continuing operations basis; all other years are as reported
Note 2: Includes US losses (10/11: £(186)m, 11/12 £(153)m)
Note 3: From 98/99 to 05/06 this data is statutory operating profit; from 06/07 this data is trading profit

TESCO

Tesco Bank

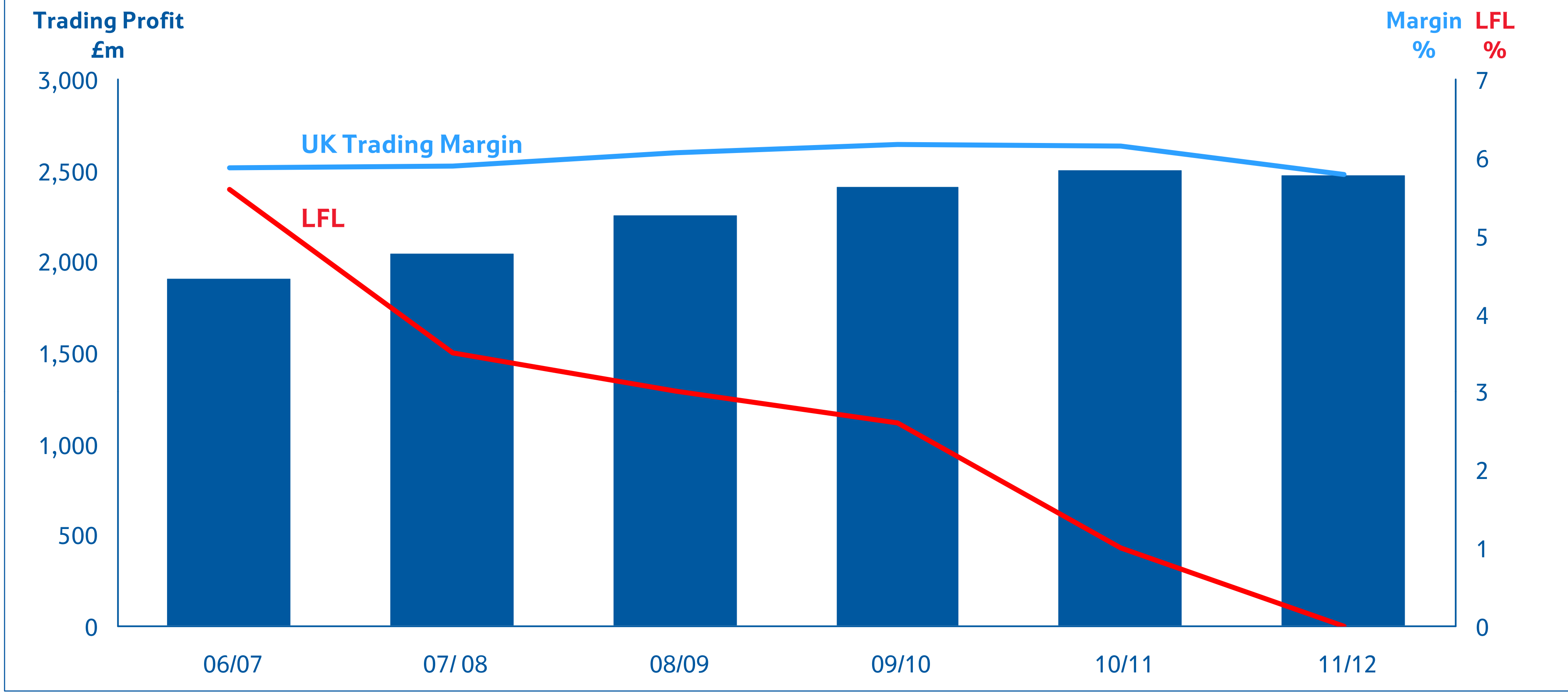
- Migration project almost complete
- Low cost model
- Robust, modern systems
- Good market positions
- 75% of business online
- New products appearing soon
- Well-placed to deliver good growth

TESCO

Keeping the UK strong and growing

UK performance

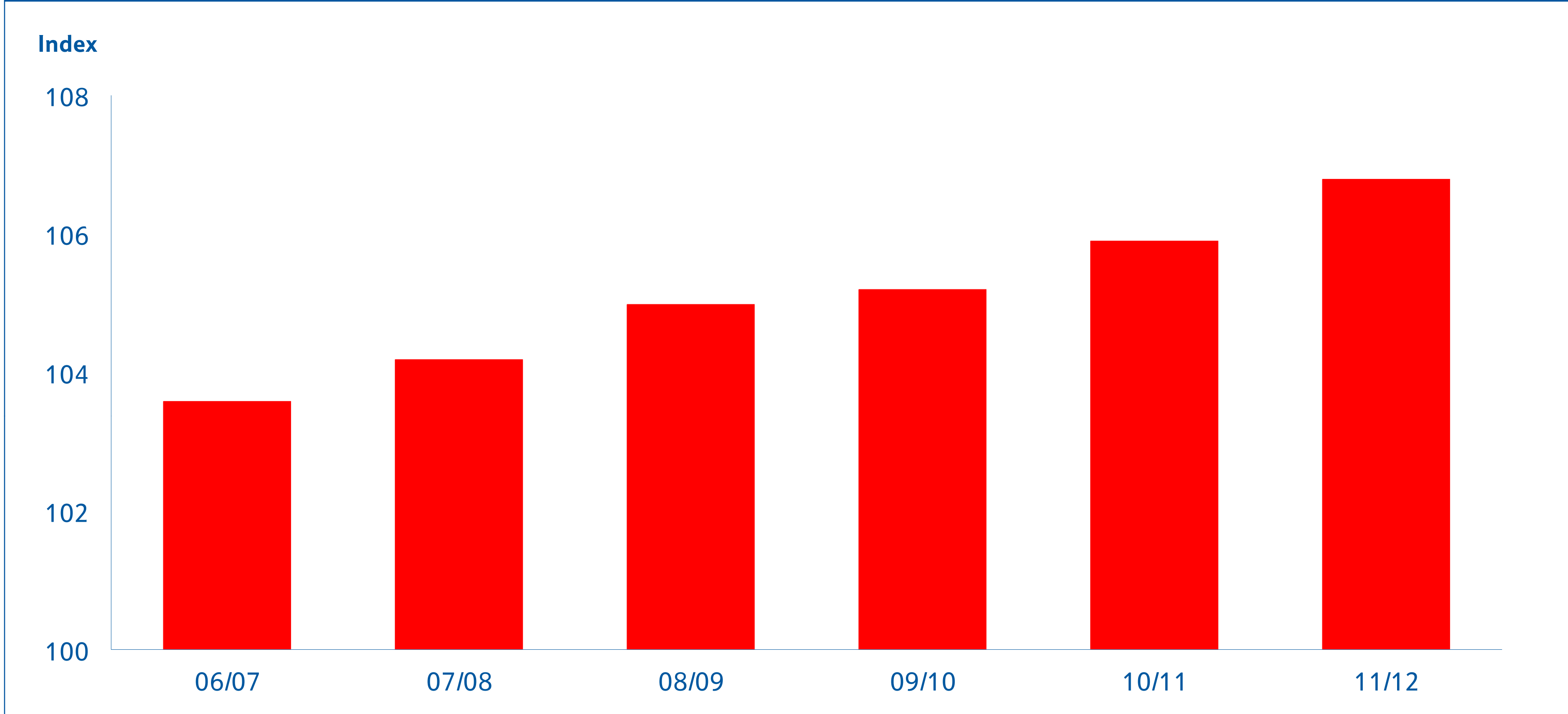
UK Sales and Profit Growth – 2006/07 to 2011/12



TESCO

Productivity index too high

Store Productivity Index (PI) – Total store



UK

Customer perceptions

Shopping Trip – Long Term Performance Summary				
Promise	**Every Little Helps Measure**	**2002 Position**	**2007 Position**	**2011 Position**
Prices are good	Price		2nd	2nd
	Promotions			
I can get what I want	Food Range	1st	1st	1st
	Food Quality		2nd	2nd
	Availability		1st	2nd
I don't queue	I Don't Queue	1st	1st	2nd
Shopping is easy and enjoyable	Enjoyable Shopping	1st	2nd	2nd
Staff are great	Staff Helpfulness	1st		

Source: Customer Spotlight reports; TNS image and attitude tracker;

BLUE = Best in market
GREEN = 2nd position amongst leading grocery retailers
AMBER = 3rd position or below amongst leading grocery retailers

TESCO

The UK Plan – Building a Better Tesco

1. Service & Staff

2. Stores & Formats

3. Price & Value

4. Range & Quality

5. Brand & Marketing

6. Clicks & Bricks

Service & Staff

- Putting staffing levels back in
- Particularly in fresh areas & large stores
- Recruiting, training, equipping 8,000 staff
- Our biggest ever service investment: over £200m
- Dedicated staff in key departments
  - Produce
  - Meat
  - Chilled convenience food

Service & Staff – Encouraging results

Mystery shopper scores 7.8% higher than control group

All invested stores to date

+1.2% LFL

16 Stores after 31 weeks*

+1.1% LFL

200 Stores after 17 weeks

*16 stores include 4 stores live for 42 weeks & 12 stores live for 31 weeks

TESCO

Stores & Formats

Stores & Formats

Stores & Formats

Stores & Formats

TESCO

Stores & Formats

Stores & Formats

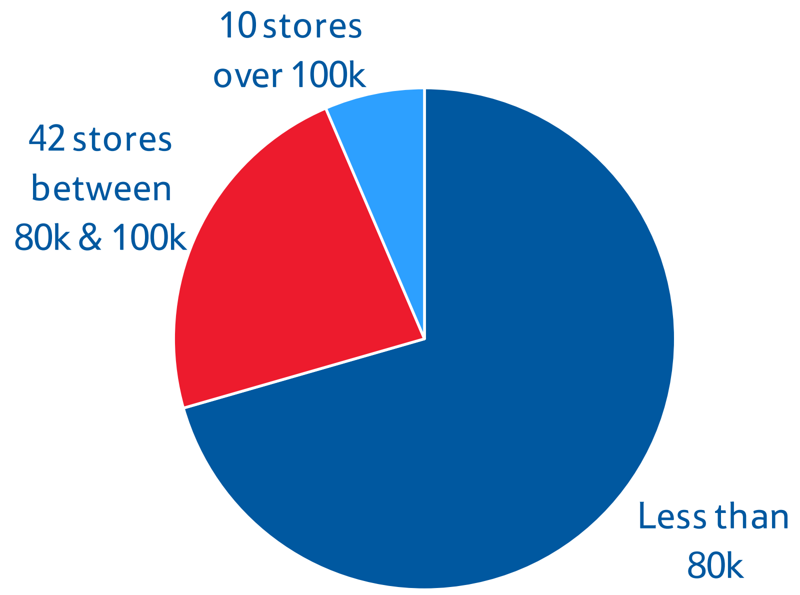
New space – A fundamentally new approach

- Less new space overall
- 1.5m sq ft new space in 2012/13 – nearly 40% less than last year
- Reflecting growing importance of online
- Focusing on most productive use of capital
- Continued growth in all formats; some clear priorities:
  - Express
  - dotcom-only stores
  - Building out committed projects

The hypermarket

- Extra – still an opportunity for growth
- New stores smaller on average
- Food, services and clothing-focused
- Reflecting rapid growth of non-food online
- Existing estate profitable and popular with customers

Proportion of Extra stores by size



Price & Value

Big Price Drop

Loyalty

Value for money

Coupons

Promotions

Range & Quality

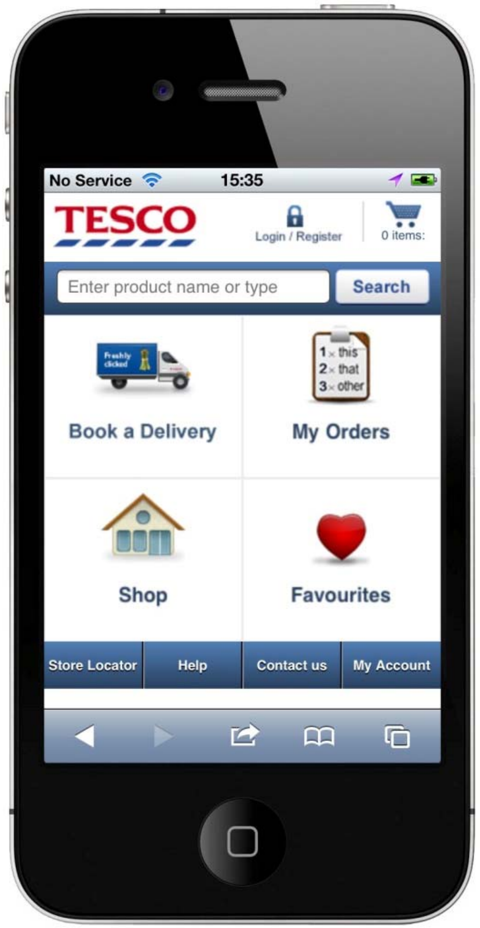
Ranging – More store and format-specific

TESCO

Brand & Marketing

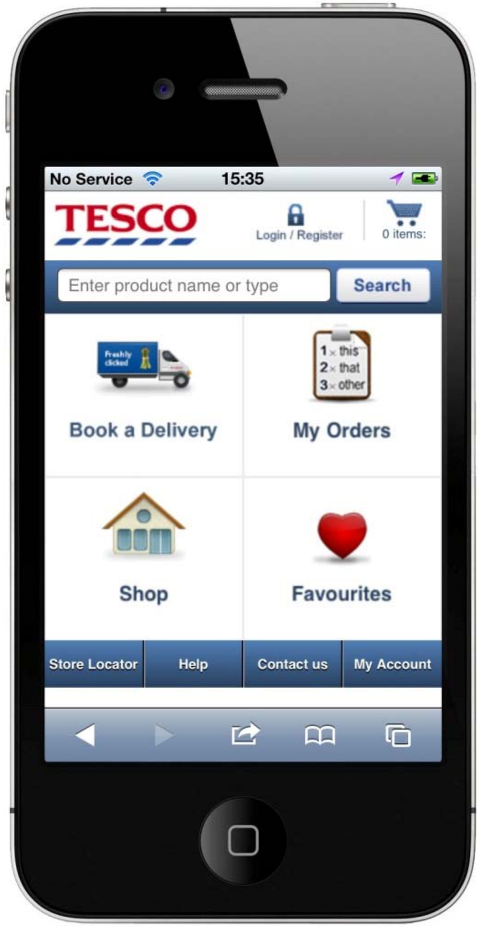
Clicks & Bricks

- Strategic opportunity of internet for business with our scale, reach and capability
- Well-placed to prosper
- Grocery first
  – Profitable
  – Advantage in international markets from our UK model



Clicks & Bricks

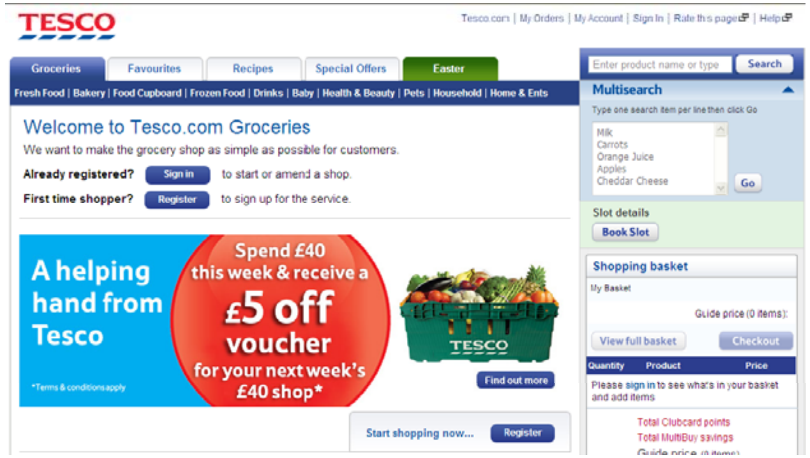
- Total online sales of £2.8bn
- Profits up, despite development cost headwind
- UK grocery accelerating its growth
- Tesco Direct – step-change in offer



TESCO

Grocery online – UK

- Sales grew 10%; profits increased
- Investment in offer well-received:
  - More capacity
  - More delivery slots
  - Flexible delivery charges
- Click & Collect Grocery now in 45 stores



dotcom-only store network

- Enfield opened January 2012
- Offering greater range to diverse London market
- Freeing up room for existing store growth
- Last two London locations open by end 2013

TESCO

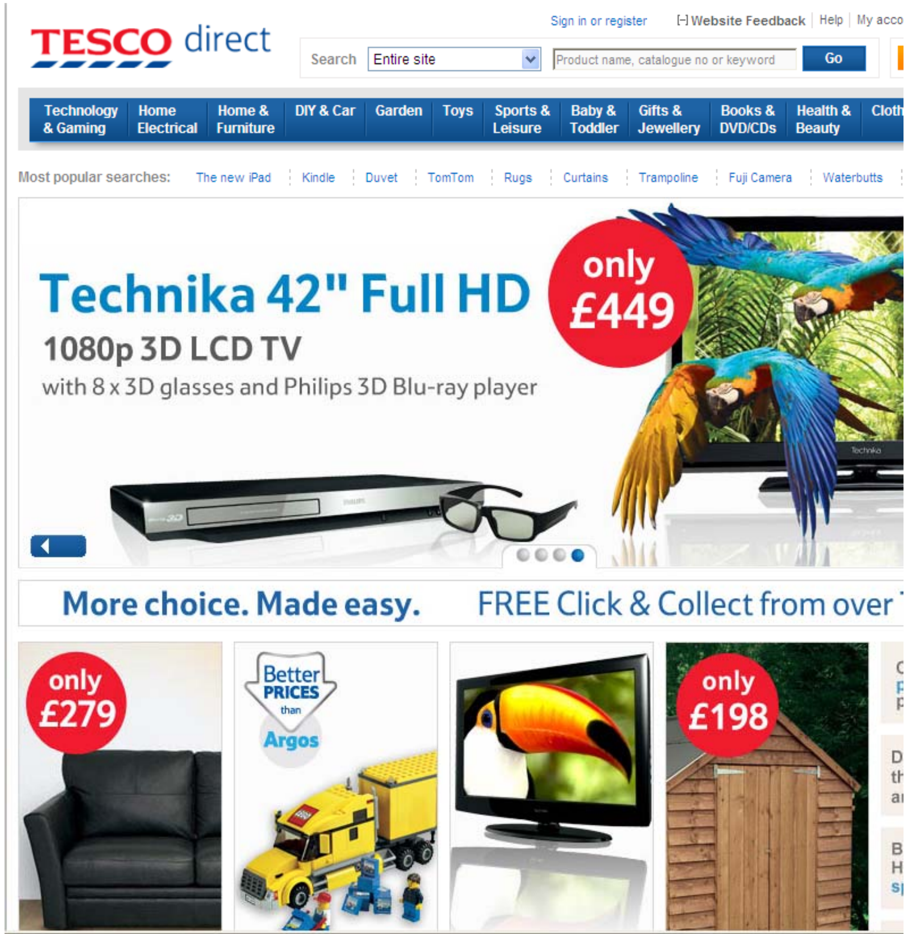
International dotcom

- Existing operations performing well
  - Korea operation doubled profit in H2
- Strong start in Prague – ahead of plan
- Warsaw to launch soon

Prague dotcom grocery

Tesco Direct

- New website launched
  - More content
  - Doubling range to over 75,000 SKU's
  - First stage of Marketplace
  - Phased improvements throughout year
- Click & Collect in nearly 800 stores
  - 70% of non-food online volume
  - In 70 Expresses now – 700 by year-end



The UK Plan – Building a Better Tesco

1. Service & Staff

2. Stores & Formats

3. Price & Value

4. Range & Quality

5. Brand & Marketing

6. Clicks & Bricks

The UK team

Philip Clarke

Chris Bush
UK COO

David Hobbs
UK Operations Planning & Strategy Director

Mike Iddon
UK Finance Director

Nigel Jones
UK Commercial Director

Judith Nelson
UK & ROI Personnel Director

Steve Rigby
UK Property Director

John Scouler
UK Commercial Director

Ken Towle
Internet Retailing Director

David Wood
UK Marketing Director

Andrew Yaxley
UK Commercial Director

TESCO

UK – Summary

- We know what the issues are and we know how to fix them
- Pilots encouraging
- Execution is key
- Getting the UK back to form: the priority
- Strong, hand-picked management team
- Confident we can get the business leading, performing and growing

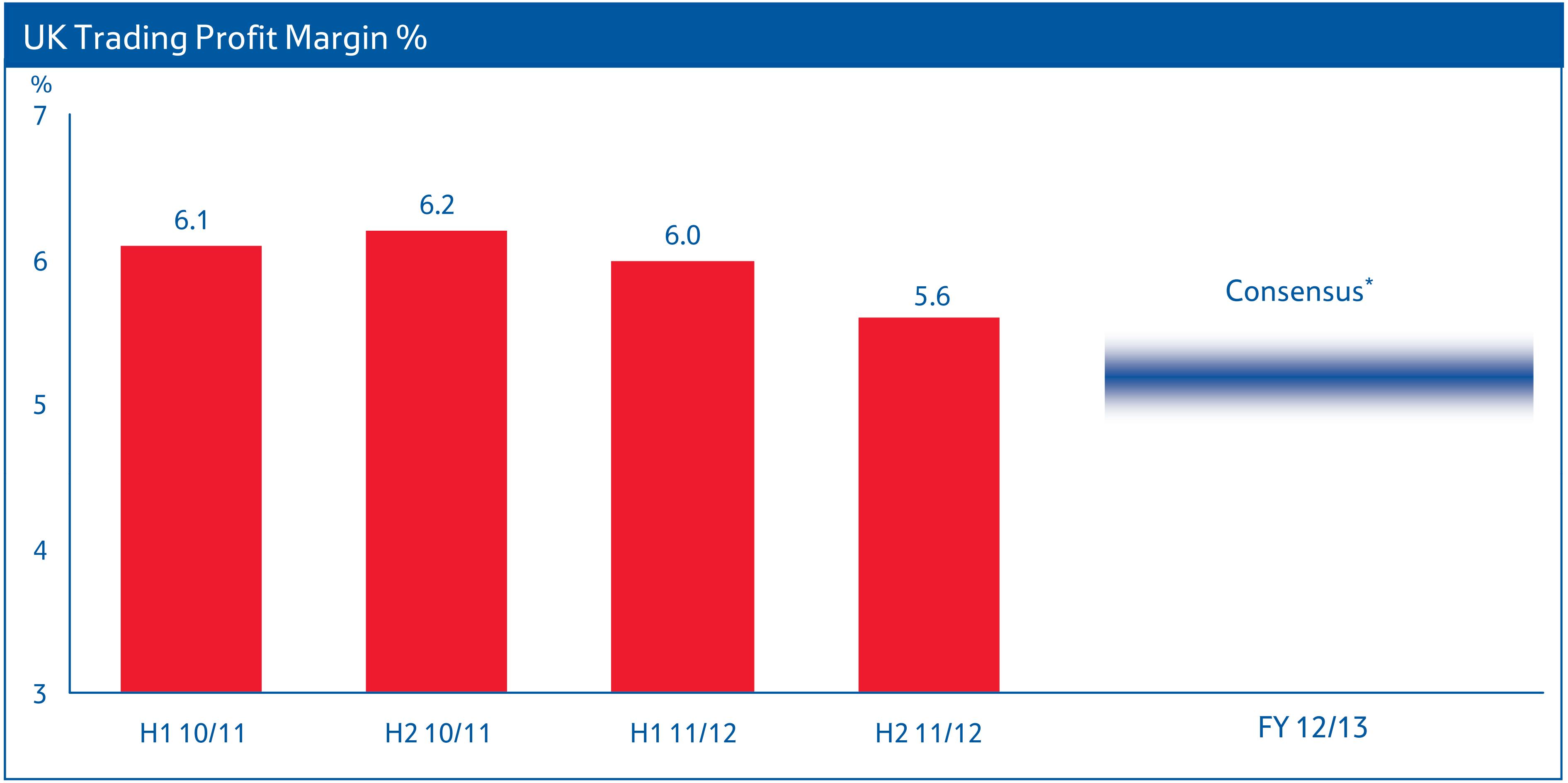
Laurie Mcilwee

Chief Financial Officer

Outline

- Financial implications of UK plan
- Financial strategy
  - Capital expenditure
  - Space
  - Returns
  - Cash

UK – Financial implications



TESCO

Financial Strategy – Group capex

- Group capital expenditure will reduce to £3.3bn in 2012/13
- Going forward, less than 5% of sales
- New phase of growth
- Businesses competing for capital
- Balancing growth and returns

Financial Strategy – Capex and space

- Greater share of Group capital expenditure into smaller, higher-returning formats
- UK:
  - Less overall capital expenditure
  - Less new space
  - New stores: smaller, more focused on food than non-food
- More on existing stores – over £200m in enlarged Refresh programme
- Stepping up investment in online
- Higher returns on new space
  - 2010/11 opening programme ahead of target

Financial Strategy – Capital work-in-progress

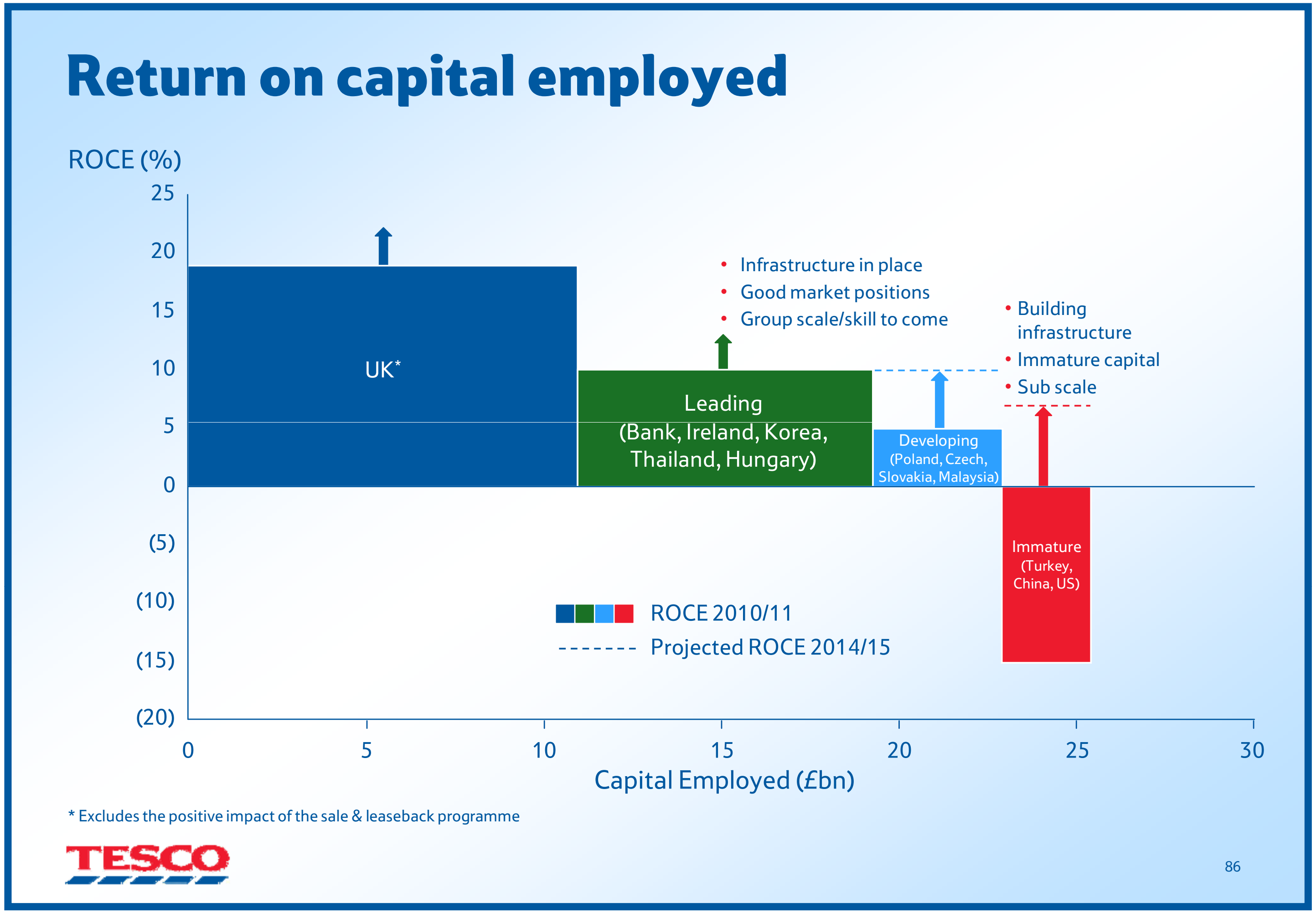
- Pipeline – around £2bn UK work-in-progress
- Reduction going forward
  - Building out pipeline faster than adding new sites
  - Key contributor to UK space growth
  - Completion of mixed use schemes, with build phase in 2012/13

TESCO

Financial Strategy – Cash

- Overall reduction in Group capex
- Return to growth in cash contribution from UK
- International businesses making increasingly positive contribution
- Strong plans to improve working capital inflow
- Outlook for Tesco: increasingly cash-generative

Maintaining ROCE target of 14.6%



Summary

- Greater capital discipline and restraint
- More sustainable level of growth
- Less capital-intensive investment
  - Less new space
  - More focus on existing stores
  - More new small stores
  - More online
- Reduced non-productive capital and higher hurdle rates for new opportunities
- Higher returns and higher cash-generation
- Better for shareholders

TESCO

Philip Clarke

Group Chief Executive

Summary

- Great business
  - UK's biggest retail company
  - Record Group profits
- Confident we can get UK business where we want it to be
  - Innovating, changing, adapting to meet customers' needs
  - Leadership in new era of retailing
- Focus on what we have
- Making sure each part of business is successful, strong and growing
- Making right calls on margins, services, space
- Putting the customer first

Building a better Tesco

Q & A

Preliminary Results

18 April 2012