TESCO

News release…

Wednesday 5th December 2012

TESCO PLC
THIRD QUARTER INTERIM MANAGEMENT STATEMENT

FURTHER PROGRESS WITH BUILDING A BETTER TESCO

- **Six-part plan showing further progress:**
  - **Food offer improving for customers**
  - **Internet food gaining strongly**
- **Improved quarter in Asia; tougher conditions in Central Europe**
- **Separately announced decision taken to conduct strategic review of Fresh & Easy**

Philip Clarke – Chief Executive

"I am pleased with the performance of our food business in the UK. Our six-part plan is about improving the shopping trip for customers for the long-term and this is a positive early sign. We've now refreshed nearly 300 stores, upgraded or introduced well over 3,000 products and added innovations such as Delivery Saver to our already successful online grocery business - and there is plenty more to come in 2013.

"Our general merchandise performance overall in the UK was not good enough, and we are renewing our efforts to deliver sustainable, profitable growth in this part of the business.

"We have seen a further weakening in consumer spending in Central Europe, although the effects of this have been partly offset by a better quarter in Asia.

"I am looking forward to the important seasonal period ahead, and am confident in our plans to deliver further improvements in our shopping trip for customers."

Group sales

Group sales for the thirteen weeks ending 24 November 2012 increased by 2.4% including petrol at constant exchange rates (1.0% at actual rates) and by 2.9% excluding petrol at constant exchange rates (1.4% at actual rates).

UK performance

Total sales including VAT and petrol grew by 1.7% and by 2.3% excluding petrol. Our like-for-like sales, excluding both VAT and petrol, reduced by (0.6)% in the quarter.

We have continued to make good progress on our six-part plan to Build a Better Tesco in the UK. As a result, like-for-like sales growth in our food business - the main focus of the plan to date - has improved to +1.2% for the quarter, outperforming the market. We are also pleased with the strong performance of our online grocery business, which delivered sales growth of 15%.

The six-part plan is still in its early stages but is already delivering an improved shopping trip for customers. Highlights in the third quarter include:

1. **Service & Staff** – 11 nationwide training events for managers and Making Moments Matter customer service training for 300,000 UK colleagues
2. **Stores & Formats** – nearly 300 stores now refreshed; new bakery departments now rolled-out to 850 stores
3. **Price and Value** – greater focus on personalised offers – Christmas mailing being sent to over ten million households
4. **Range & Quality** – 1,200 additional new or improved own-label products, including a complete re-launch of our meat and poultry categories and the completion of our chilled convenience food upgrade
5. **Brand & Marketing** – launch of our Christmas advertising campaign, our first working with W + K
6. **Clicks & Bricks** – over 110,000 customers now signed up to Delivery Saver subscription service; Grocery Click & Collect drive-through now in over 140 locations; over 1,500 stores now offering Tesco Direct Click & Collect for general merchandise

Like-for-like sales further reduced in general merchandise, which has led to a greater drag on overall UK performance in the quarter. While this partly reflects the continuing weakness in consumer demand that is being experienced by the market as a whole, we are renewing our efforts to deliver sustainable, profitable growth in this part of the business.

This includes stronger ranging, pricing and promotional positioning, together with a further reallocation of space away from categories such as consumer electronics and home entertainment. This will enable us to give even greater focus to categories such as clothing, nursery and home, which are delivering better top and bottom line growth.

Clothing – which has already received some of this extra focus – has continued to outperform the market, with another quarter of positive like-for-like sales growth. This is particularly evident in womenswear, essentials and footwear, which are all benefiting from range improvements in F & F, together with improved merchandising.

With Tesco Direct now available through over 1,500 Click & Collect collection points in store, we are focusing here too on driving growth in the more profitable non-food categories and further extending the range offered by third-party Sellers at Tesco.

International performance

Consumers in our international businesses faced even more challenging conditions, particularly in Central Europe. Despite this, we saw improvements in market share in the majority of markets, even with a lower contribution from new space.

In Asia, total sales grew by 6.8% at constant rates and 5.1% at actual exchange rates. The rate of like-for-like sales growth for the region as a whole improved significantly from the second quarter, reflecting a strong growth rate in Thailand, as it annualised on the impact of the floods in the third quarter last year. Malaysia and Korea also both saw an improvement in like-for-like performance, with the latter benefiting from a lower than expected level of enforced non-trading days.

In addition to two new stores in China in the quarter, we plan to open a further seven in the next month, in line with our plans to maintain our annual opening programme at a similar level to last year, in this strategically important market for Tesco. Our like-for-like sales in China declined, driven by a continued slowdown in economic growth and lower consumer spending. This was partly due to two key holiday events falling on consecutive dates this year, rather than being celebrated as two separate occasions, as was the case last year.

Total sales in Europe excluding petrol grew by 1.1% at constant exchange rates, with the continuing weakness of the European currencies against sterling impacting growth at actual rates. Like-for-like sales declined by (3.6)%, as the challenging conditions seen in the first half deteriorated in the majority of markets. Poland, Slovakia and the Czech Republic have been particularly affected, with declining economic growth, increasing unemployment and weakening consumer confidence. General merchandise sales across the region were weak as a result, although clothing sales saw positive like-for-like sales growth, helped by a stronger F & F performance.

In the United States, Fresh & Easy's like-for-like sales performance fell below 2%. We have separately announced today that we are conducting a strategic review of the business, with all options under consideration.

Tesco Bank

Tesco Bank's overall performance saw strong growth in banking products and a robust performance in the insurance business in a very challenging market. Although overall Bank revenues have seen a small reduction for the third quarter, this was due to the continued run-off of the legacy insurance business.

In banking, customer numbers and balances increased, helped by a strong balance transfer offer on credit cards and competitive rates on our existing loan products. Customers also continue to respond positively to our mortgage offer, with our initial product range enhanced by market leading interest rates, and backed by the Government's Funding for Lending Scheme. The launch of ISAs in November has allowed us to further meet the savings needs of our customers, while helping to diversify our funding base.

Our motor insurance business – like many in the sector – has faced challenging trading conditions, with increased price competition. Across our insurance business as a whole, we are increasing our focus on meeting the needs of loyal Clubcard customers.

Outlook

In the UK, ahead of the important seasonal period, and with the progress we have made so far on our plans to improve the shopping trip for customers, our outlook for the year as a whole is unchanged.

Elsewhere, we expect the broad trends in the third quarter to continue through the balance of the year, in particular the increasingly tough conditions for consumers in Central Europe.

Appendix 1 – Segmental Sales Growth Rates

	Third Quarter 2012/13 Sales Growth					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	1.0%	1.4%	2.4%	2.9%	(1.5)%	(1.3)%
International	(0.2)%	(0.1)%	4.1%	4.2%	(2.2)%	(2.3)%
Asia	5.1%	5.1%	6.8%	6.8%	(1.2)%	(1.2)%
Europe	(6.1)%	(6.2)%	1.1%	1.1%	(3.4)%	(3.6)%
United States	8.8%	8.8%	9.6%	9.6%	1.8%	1.8%
UK	1.7%	2.3%	1.7%	2.3%	(1.2)%	(0.7)%
Tesco Bank	(1.6)%	(1.6)%	(1.6)%	(1.6)%	n/a	n/a

Appendix 2 – UK Like-For-Like Growth

	Third Quarter Like-For-Like Growth 2012/13	Second Quarter Like-For-Like Growth 2012/13
UK LFL (inc. VAT, inc. Petrol)	(1.2)%	(0.8)%
UK LFL (inc. VAT, exc. Petrol)	(0.7)%	0.2%
UK LFL (exc. VAT, exc. Petrol)	(0.6)%	0.1%
UK LFL (exc. VAT, exc. Petrol and IFRIC 13 compliant)	(0.1)%	0.3%

Appendix 3 – Country Like-For-Like Growth exc. Petrol

	Third Quarter Like-For-Like Growth 2012/13	Second Quarter Like-For-Like Growth 2012/13
Asia	**(1.2)%**	**(3.0)%**
China	(1.5)%	(1.0)%
Malaysia	1.7%	0.9%
South Korea	(5.1)%	(6.6)%
Thailand	4.4%	0.9%
Europe	**(3.6)%**	**(0.8)%**
Czech Republic	(9.2)%	(7.0)%
Hungary	0.6%	(0.8)%
Poland	(6.6)%	1.0%
Slovakia	(2.1)%	2.6%
Turkey	(7.0)%	(1.6)%
Republic of Ireland	(0.3)%	0.2%
United States	**1.8%**	**6.9%**

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Notes:
These results have been reported on a continuing operations basis and exclude the results from our operation in Japan which have been treated as discontinued following our decision to sell the business.
All figures quoted are at actual exchange rates, including VAT and excluding petrol unless otherwise stated.
For UK, ROI and USA, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 24 November 2012 and 26 November 2011 respectively.
For Tesco Bank and India, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 30 November 2012 and 30 November 2011 respectively.
For all other countries, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 25 November 2012 and 27 November 2011 respectively.