

17 April 2013

# **PRELIMINARY RESULTS**

# Introduction

- Some significant challenges in the past year
- Long-standing issues addressed
- External factors in Korea and Europe a drag on performance
- Progress made in the UK
- Strategic review of Fresh & Easy well-advanced – decision to exit
- Ensuring our businesses are well-placed to cope
- Focusing relentlessly on customers

# Responding to customers' changing needs

- Period of profound and rapid change
- Digital age transforming peoples' lives
- Exciting opportunities
- Change in focus towards multichannel and smaller formats
- Tesco: better placed to prosper
  - Profitable online grocery
  - Unique insights into customers' behaviour
  - Superb portfolio of stores
  - Focus on capital discipline
  - Determination to deliver shareholder value

## OUR APPROACH TO GROWTH AND RETURNS

### Financial disciplines

**Generate positive free cash flow**

**Allocate capital within range of 4% down to 3.5% of sales**

**Maintain a strong investment grade credit rating**

### Guidrails

#### Trading profit growth

- Mid-single digit

#### Sustainable ROCE

- 12 - 15% range

#### Dividend growth

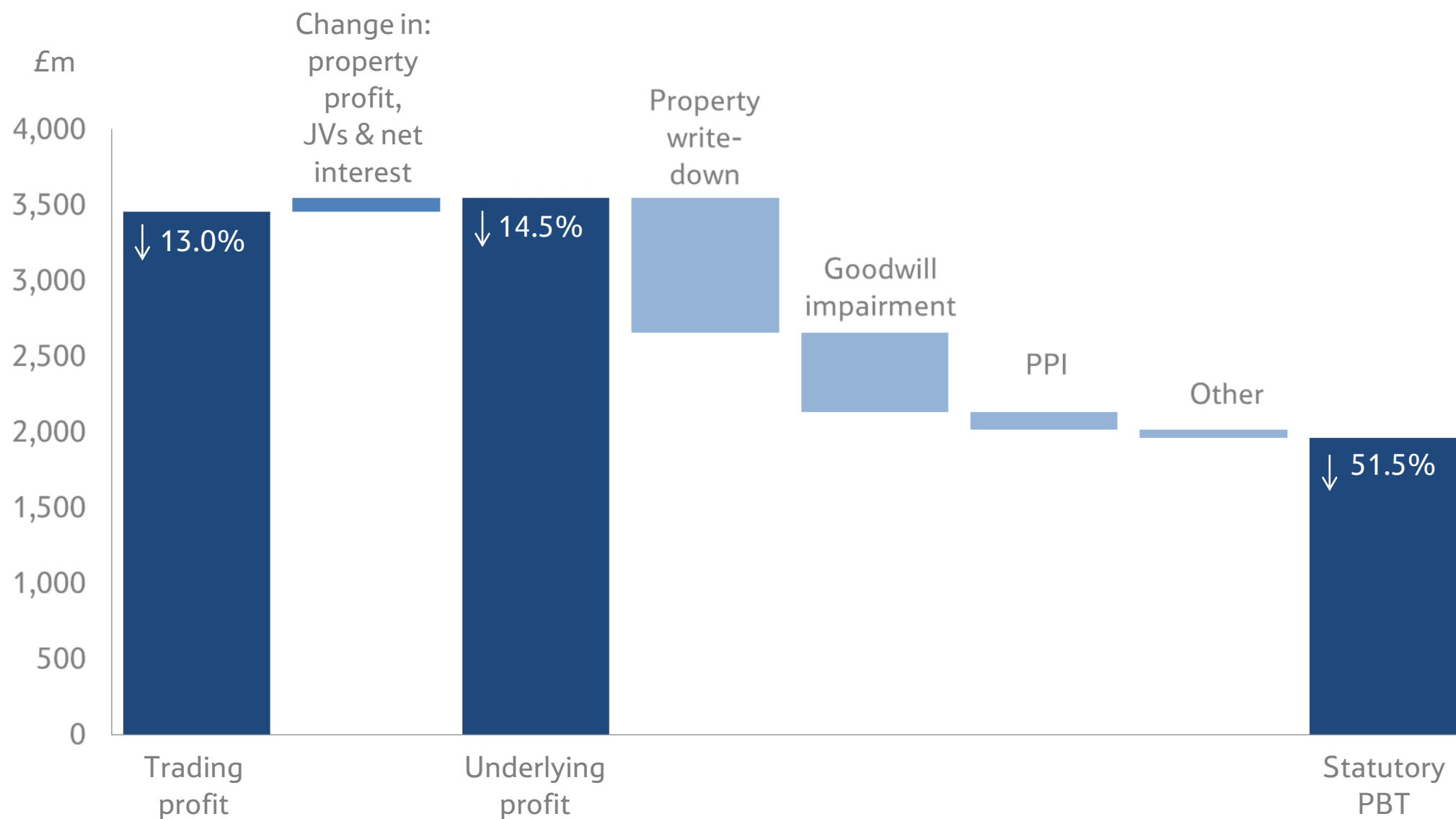
- In line with underlying EPS
- Target cover of more than two times

**2012/13**

# Decisive action taken

- Exited Japan
- Launched US strategic review
- More measured approach to growth in China
- Set appropriate pace of migration for the Bank
- Getting the UK business back on track

# Group performance\*



\* On a continuing operations basis

# Group performance

	12/13	vs. 11/12
Group sales	£72.4bn	3.1%*
Group trading profit	£3.5bn	(13.0)%
Underlying profit before tax	£3.5bn	(14.5)%
Underlying diluted EPS**	35.97p	(14.0)%
Final dividend	10.13p	maintained
Net debt	£6.6bn	↓ £0.2bn
Return on capital employed***	12.7%	(200)bps

\* At constant exchange rates excluding petrol

\*\* Underlying diluted EPS growth calculated on a constant tax rate basis

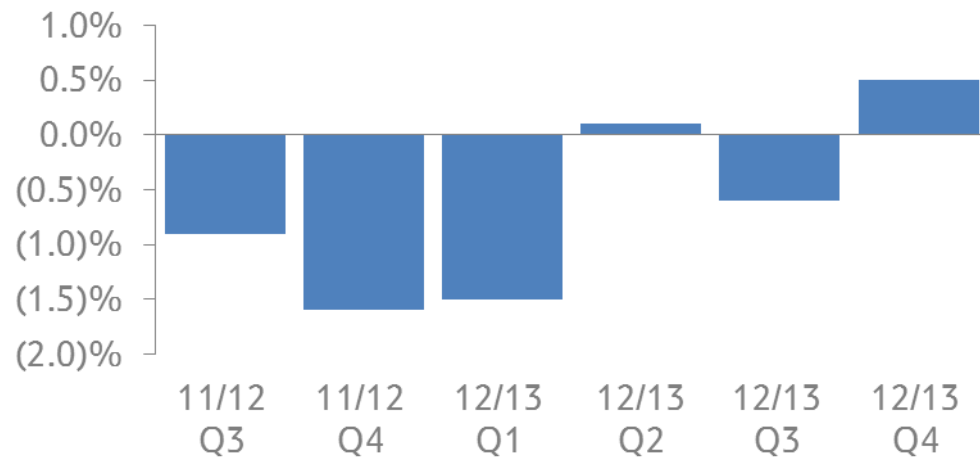
\*\*\* Last year restated to exclude discontinued operations and one-off charges



# UK

- Plan firmly on track
- Investment made as planned
- Clear improvement in performance

## LFL (exc. Petrol, exc. VAT)



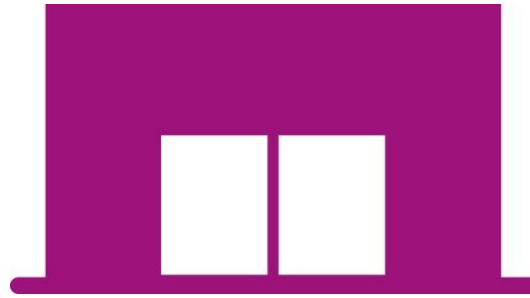
- Margin in line with expectations

	UK
Sales growth (exc. petrol, exc. VAT)	2.6%
Trading profit	£2,272m
Trading profit growth	(8.3)%
Trading profit margin	5.21%
Trading margin change	(58)bp

# UK – Building a Better Tesco



**Service & Staff**



**Stores & Formats**



**Price & Value**



**Range & Quality**



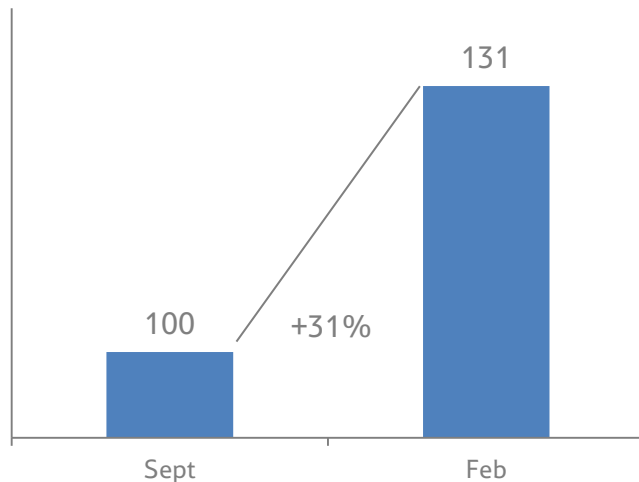
**Brand & Marketing**



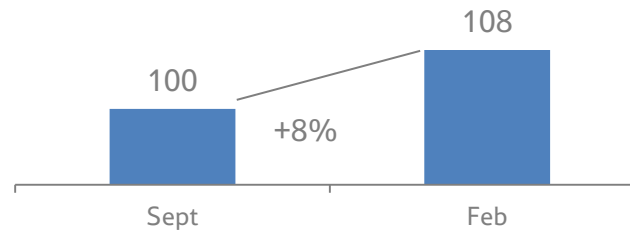
**Clicks & Bricks**

# UK – customer feedback

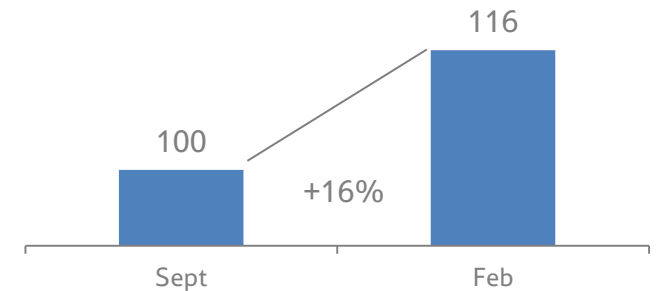
**Overall customer service  
and staff helpfulness is  
excellent**



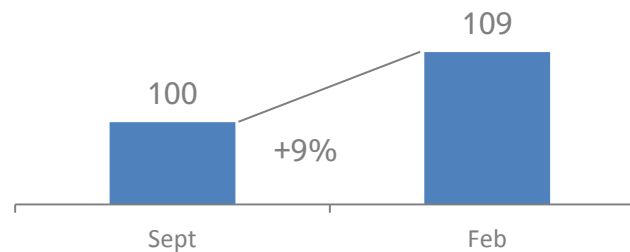
**Length of wait at our  
checkouts is very good**



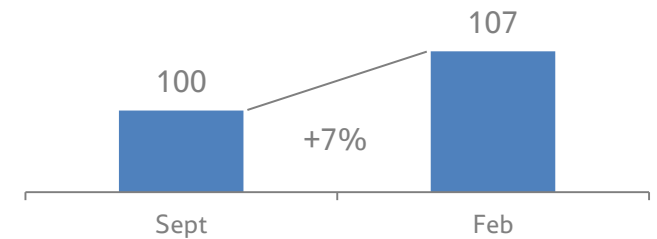
**Staff are very welcoming**



**Staff are very helpful**

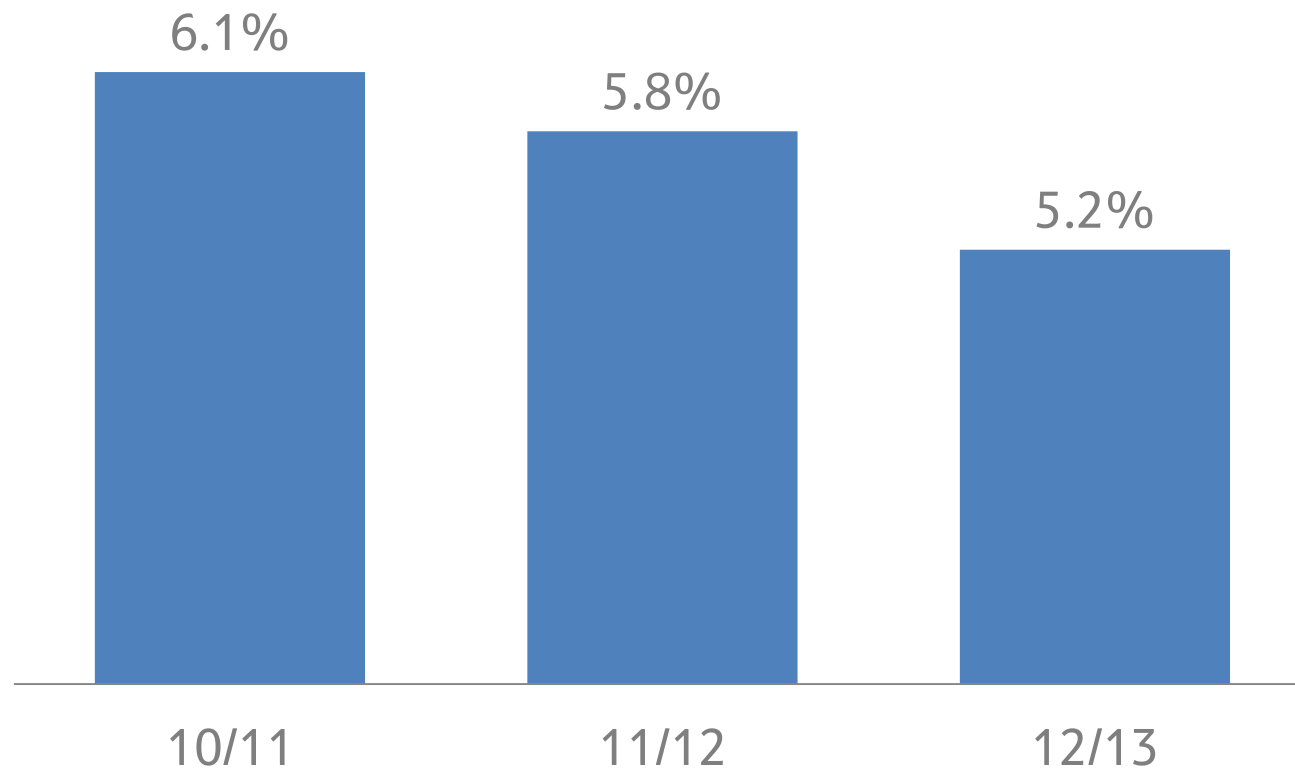


**Availability is very good**



Note: The index represents the percentage change in the proportion of customers responding positively to these statements

# UK – trading margin



- Current level sustainable for the foreseeable future

# Asia

- In line with expectations

	Asia	
	Actual FX	Constant FX
Sales growth	5.9%	6.1%
LFL	N/A	(1.7)%
Trading profit	£661m	£665m
Trading profit growth	(10.3)%	(9.8)%
Trading margin	5.76%	5.78%
Trading margin change	(105)bp	(102)bp

# Asia

- In line with expectations
- Korean regulatory changes held back progress
  - Impact broadly in line with £100m guidance
  - c.£40m incremental impact expected in 2013/14



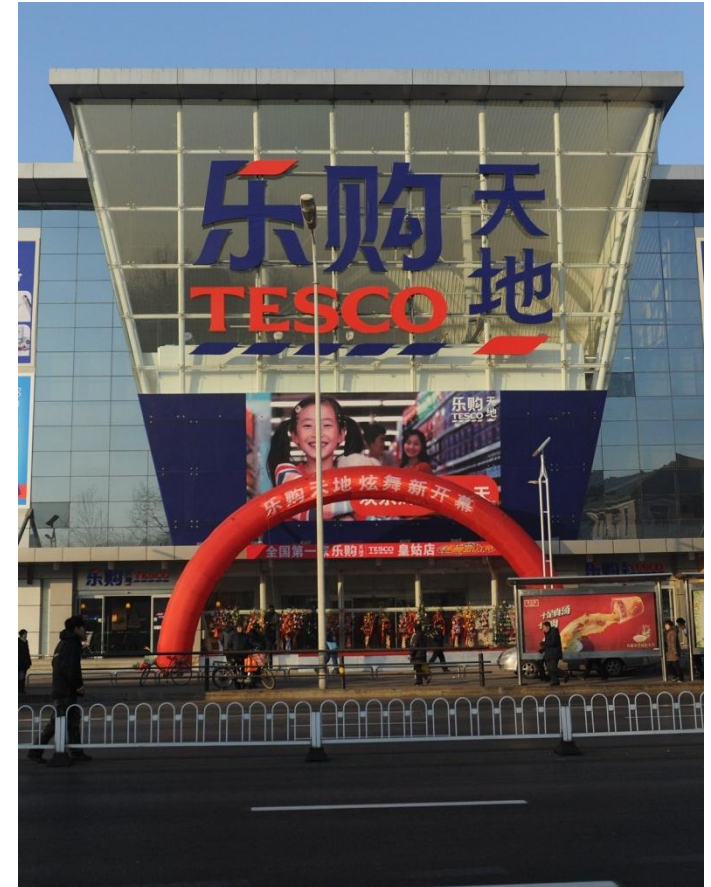
# Asia

- In line with expectations
- Korean regulatory changes held back progress
  - Impact broadly in line with £100m guidance
  - c.£40m incremental impact expected in 2013/14
- Thailand performance strong
  - +3.1% LFL
  - Nearly 300 new Express stores
  - Launched dotcom grocery in Bangkok



# Asia

- In line with expectations
- Korean regulatory changes held back progress
  - Impact broadly in line with £100m guidance
  - c.£40m incremental impact expected in 2013/14
- Thailand performance strong
  - +3.1% LFL
  - Nearly 300 new Express stores
  - Launched dotcom grocery in Bangkok
- More cautious approach in China
  - 12 new stores opened
  - 5 stores closed – increased focus on three regions




























# Europe

- Markets remain attractive
- Significant headwinds throughout the year

	Europe	
	Actual FX	Constant FX
Sales growth*	(4.9)%	2.2%
LFL*	N/A	(2.3)%
Trading profit	£329m	£353m
Trading profit growth	(37.8)%	(33.3)%
Trading margin	3.53%	3.53%
Trading margin change	(183)bp	(183)bp

\* Excluding petrol

# Macro environment

	GDP 	Consumer Confidence 	Unemployment 	Food Inflation 
Hungary		Still weak but starting to 		> General rate of inflation but 
Slovakia	+ ve growth but trending 			
Poland	+ ve growth but trending 	Remains very low 	5yr high 	Highest category of inflation
Czech Republic	4 quarters of recession	Remains near 5yr lows 	3yr high 	Reached 4yr high during the year
Ireland	Still weak but starting to 			> General rate of inflation
Turkey	Slowest growth since 2008-9			Remains high but 

# Europe

- Hungary and Slovakia – two of our strongest positions
  - Both more resilient to external pressures
  - Hungary crisis tax held back profits – this ended in March 2013



# Europe

- Hungary and Slovakia – two of our strongest positions
  - Both more resilient to external pressures
  - Hungary crisis tax held back profits – this ended in March 2013
- Czech Republic and Poland seen increased competitive activity
  - Dotcom now in 13 cities in these markets alone



# Europe

- Hungary and Slovakia – two of our strongest positions
  - Both more resilient to external pressures
  - Hungary crisis tax held back profits – this ended in March 2013
- Czech Republic and Poland seen increased competitive activity
  - Dotcom now in 13 cities in these markets alone
- Particularly intense competition in Turkey
  - Retrenched from large store expansion to the East
  - Intense cost-price inflation
- Write-down of acquired goodwill in Poland, Czech Republic and Turkey





# Strategic review of Fresh & Easy

- Announced the strategic review in December
- Significant interest from a number of parties
- Decision to exit
- Booked loss after tax of £(1.2)bn including current year trading losses of £(169)m
- Further update when appropriate

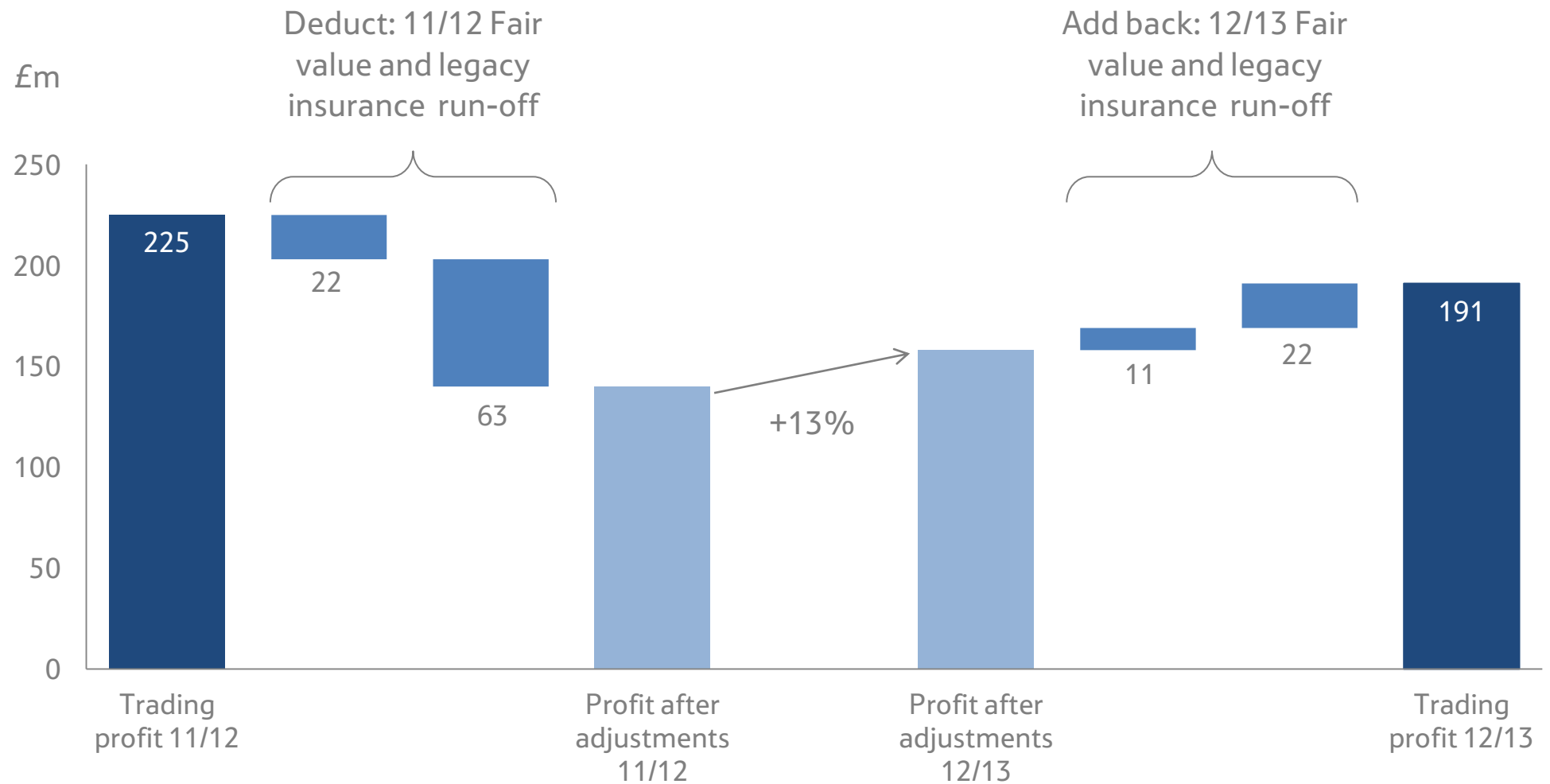


# Tesco Bank

- Completed final stages of migration
- Resumed marketing our existing products
- Launched mortgages and ISA range
- Good progress in banking products
- Insurance held back by challenging market
- Focused on Clubcard customers



# Tesco Bank performance





# Tesco Bank

- Completed final stages of migration
- Resumed marketing our existing products
- Launched mortgages and ISA range
- Good progress in banking products
- Insurance held back by challenging market
- Focused on Clubcard customers
- £115m increase in PPI provision  
(H1: £30m, H2: £85m)



# Property

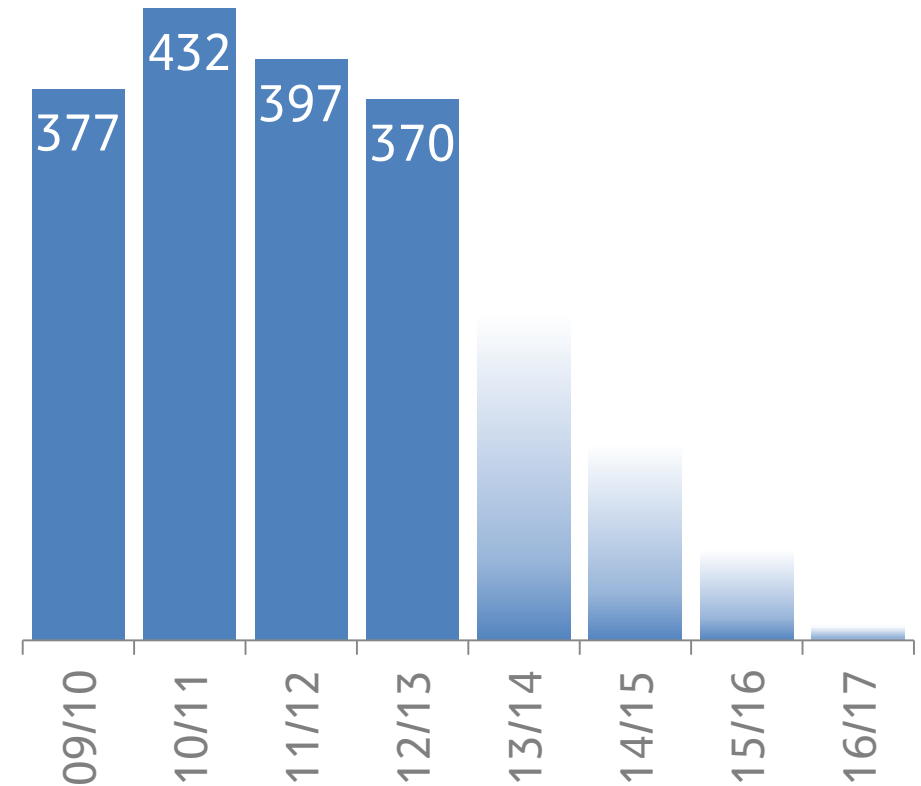
- UK property:
  - Market value of £20bn
  - > 50% premium to book
  - £9bn released over last 7 years → £2bn profit
- New space growth reduced
- New focus on multichannel and convenience
- Detailed review of pipeline prioritising returns
- Write down of £(804)m announced today



# Sale and leaseback programme

- Historically significant unrealised property profits have built up
- Announced planned reduction in level of property profits two years ago
- Now accelerating reduction of sale and leaseback deals

**Profit arising on property-related items  
£m**



# Summary

- UK firmly on track
- Good growth in Asia held back by regulatory changes in Korea
- Severe economic challenges in Europe
- Completion of migration of the Bank
- One-off charges as consequence of strategic decisions
- Well-positioned for the future

# UPDATE ON GROUP STRATEGY

# Prospering in the new era

- Building our business around customers
- Changes starting to make a difference
- Empowering our colleagues
- Winning back loyalty
- Using the power of multichannel



## DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in strong UK business



2. Establishing multichannel leadership

Freshly clicked

[tesco.com/groceries](https://www.tesco.com/groceries)

3. Pursuing disciplined international growth





## DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in  
strong UK business



2. Establishing multichannel  
leadership

Freshly clicked

[tesco.com/groceries](https://www.tesco.com/groceries)

3. Pursuing disciplined  
international growth





# Building a Better Tesco



We  
promise.





**You won't lose out on big brands, fresh food or own-label.**

If your comparable grocery shopping is cheaper at Asda, Sainsbury's or Morrisons, we'll give you a voucher for the difference at the checkout. To qualify, you need at least ten different items including one comparable item in your basket.

**TESCO** *Every little helps*













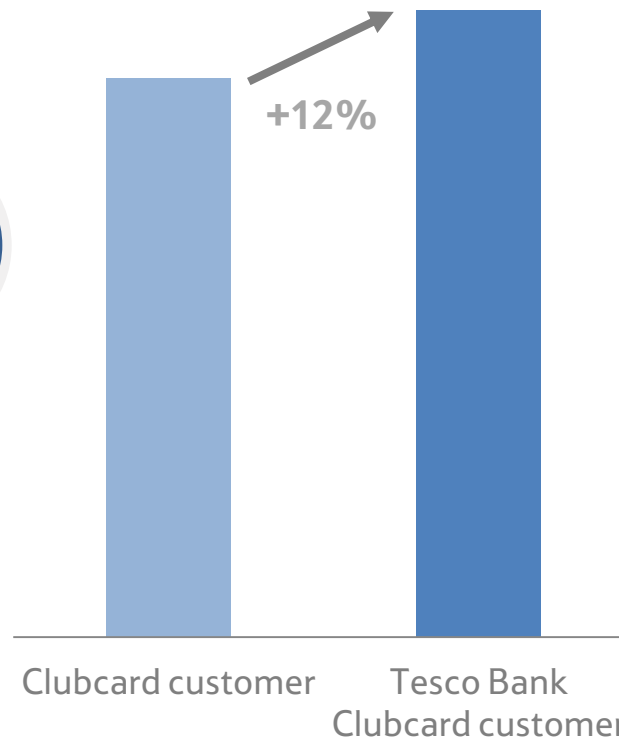




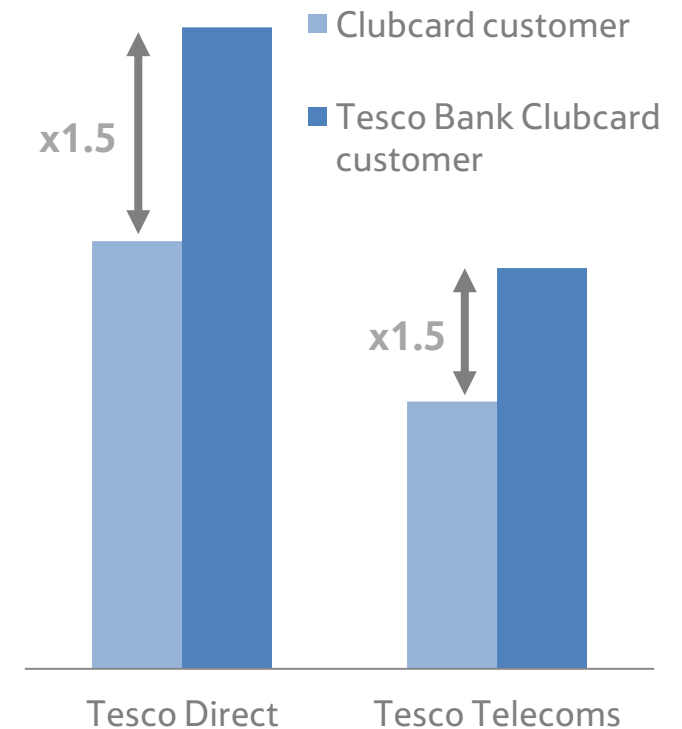
# Loyalty driver - Tesco Bank



Average weekly increase of in-store spend when a Clubcard customer becomes a Tesco Bank Clubcard customer



Tesco Bank customers are 50% more likely to use another Tesco channel or service



## DRIVING SUSTAINABLE GROWTH

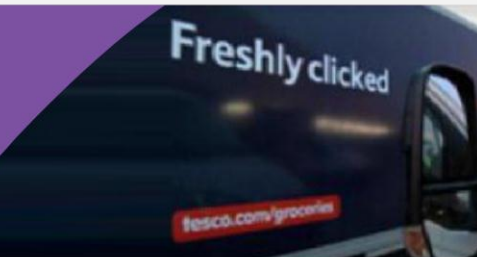
1. Continuing to invest in strong UK business



2. Establishing multichannel leadership

Freshly clicked

[tesco.com/groceries](https://www.tesco.com/groceries)



3. Pursuing disciplined international growth





# Multichannel leadership



# Online grocery

2. Establishing multichannel leadership

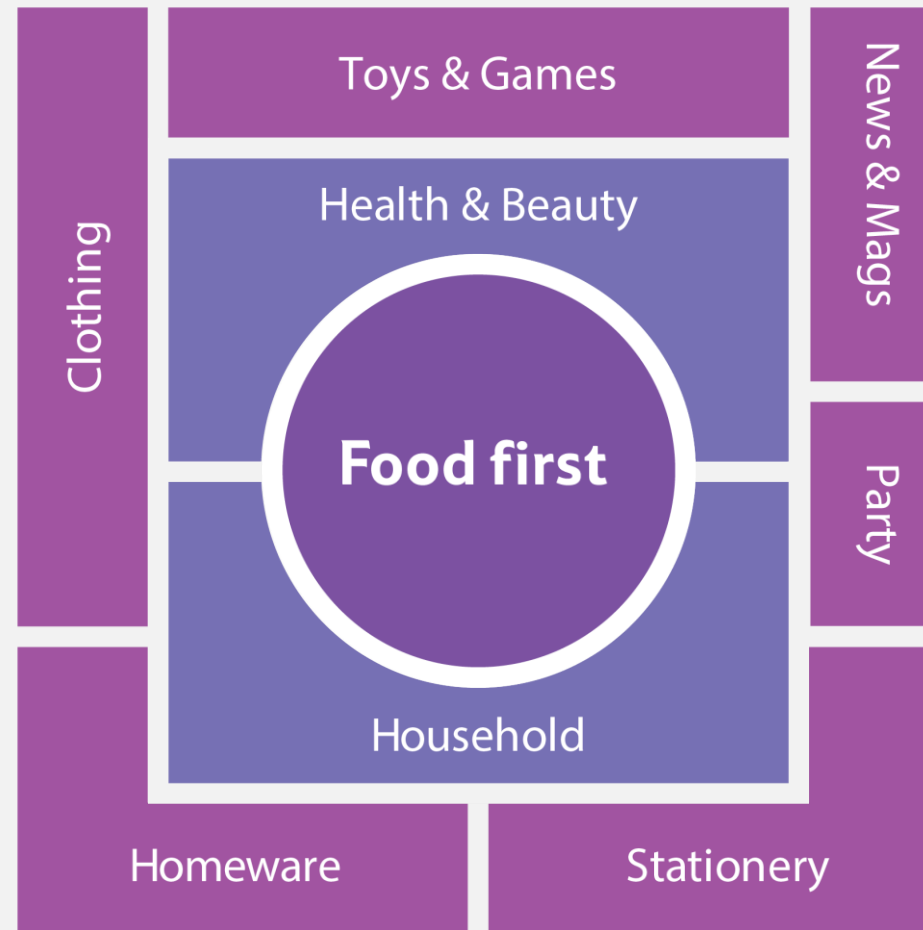


# Existing stores at the heart of multichannel

- Refresh, remodel, repurpose
- Relevant, compelling destinations for customers
- 'Food first' approach



## REFOCUSING OUR EXISTING SPACE





# Clothing





# Compelling destinations



# Case study - Karlovy Vary

- Before remodelling:
  - 80,000 sq ft with adjacent 70,000 sq ft mall
- Reduced store by 30,000 sq ft
  - Capital investment £1.6m
  - Repurposed mall space rented to C&A and Sports Direct





# Case study - Karlovy Vary

- Before remodelling:
  - 80,000 sq ft with adjacent 70,000 sq ft mall
- Reduced store by 30,000 sq ft
  - Capital investment £1.6m
  - Repurposed mall space rented to C&A and Sports Direct
- Improved layout and range of our store
- Footfall increased +25%
- Cash return on investment of over 30%

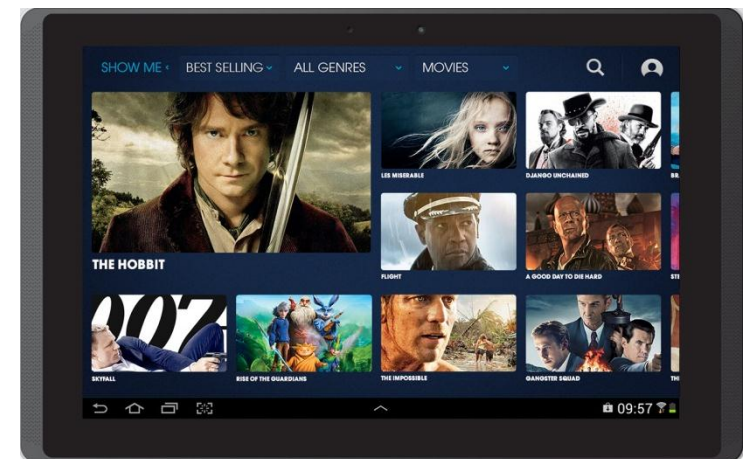




# Technology

- Key enabler
- Exhilarating pace of change
- Mobile commerce growing day-by-day
- Progress:
  - Grocery home shopping capability
  - dunnhumby insight back at heart of business
  - Digital media business – great customer offer
  - App development centre in Shoreditch
  - 5,000 strong technology team

dunnhumby



## DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in strong UK business



2. Establishing multichannel leadership

Freshly clicked

[tesco.com/groceries](https://www.tesco.com/groceries)

3. Pursuing disciplined international growth



# Disciplined international growth

- Exploit skill and scale in high-growth economies to enhance returns
- Allocating capital to markets where we see sustainable advantage and potential market leadership
- Aim to be a multichannel leader in all markets

## DISCIPLINED INTERNATIONAL GROWTH

**Korea, Malaysia,  
Thailand**

Significant  
future potential

**Ireland, Czech,  
Hungary, Poland,  
Slovakia**

Improve  
returns,  
hold position

**China, India,  
Turkey**

Refocus on  
more profitable  
approach to growth

# Current position

## Korea

No. 2  
5%



**Modern Grocery retail  
market size: £49bn**

## Malaysia

No. 1  
11%



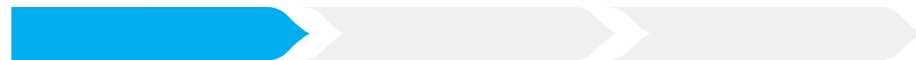
**Modern Grocery retail  
market size: £10bn**

## Thailand

No. 1  
15%



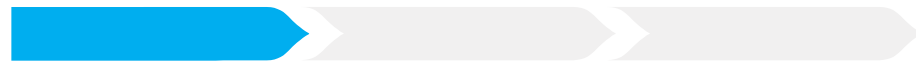
**Modern Grocery retail  
market size: £16bn**



Korea, Malaysia,  
Thailand

# Market Opportunity

- Modern retail still at relatively early stage
- Significant opportunity
- Convenience and online a key focus



Korea, Malaysia,  
Thailand

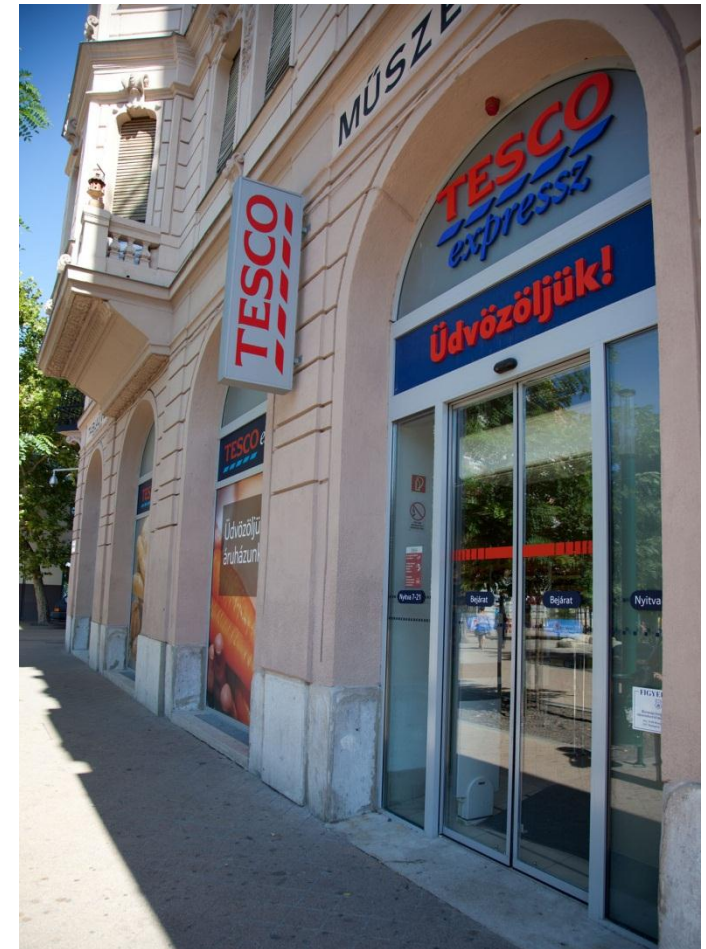
**TESCO**

## Modern Retail Market Growth



# Making the most of existing assets in Europe

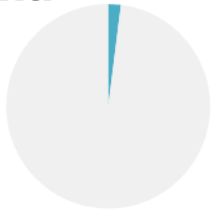
- Focus on improving returns while holding positions
- Portfolio of hypermarkets largely complete
- Limited investment in new space
- Driving further benefits from skill and scale
- Targeted investment in convenience and online



Ireland, Czech,  
Hungary, Poland,  
Slovakia

# Market opportunity

## China



**Modern grocery retail market size: £190bn**

## Turkey



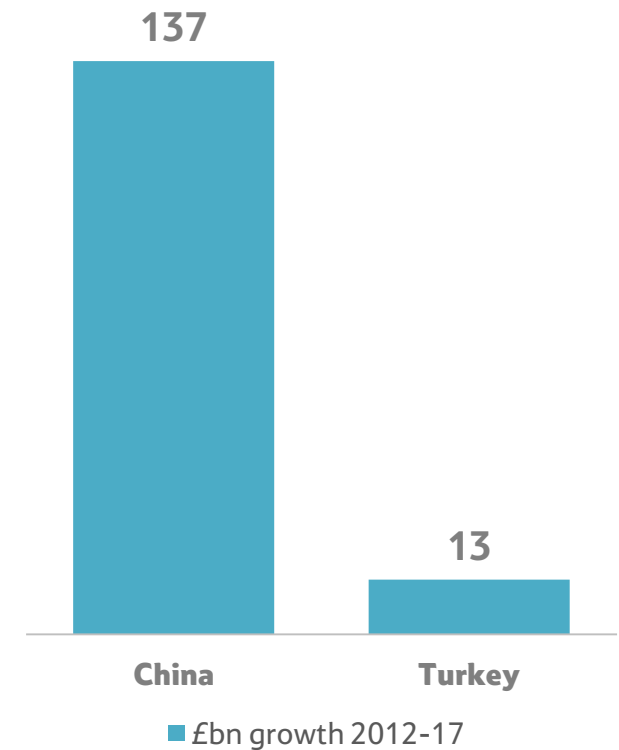
**Modern grocery retail market size: £36bn**

## India



**Modern grocery retail market size: £3bn → very early stage**

## Modern Retail Market Growth



China, India, Turkey



## DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in strong UK business



2. Establishing multichannel leadership

Freshly clicked

[tesco.com/groceries](https://www.tesco.com/groceries)

3. Pursuing disciplined international growth



# FINANCIAL FRAMEWORK

## OUR APPROACH TO GROWTH AND RETURNS

### Financial disciplines

**Generate positive free cash flow**

**Allocate capital within range of 4% down to 3.5% of sales**

**Maintain a strong investment grade credit rating**

### Guidrails

#### Trading profit growth

- Mid-single digit

#### Sustainable ROCE

- 12 - 15% range

#### Dividend growth

- In line with underlying EPS
- Target cover of more than two times

# OUR APPROACH TO GROWTH AND RETURNS

## Financial disciplines

Generate positive free cash flow

Allocate capital within range of 4% down to 3.5% of sales

Maintain a strong investment grade credit rating

## Guidrails

### Trading profit growth

- Mid-single digit

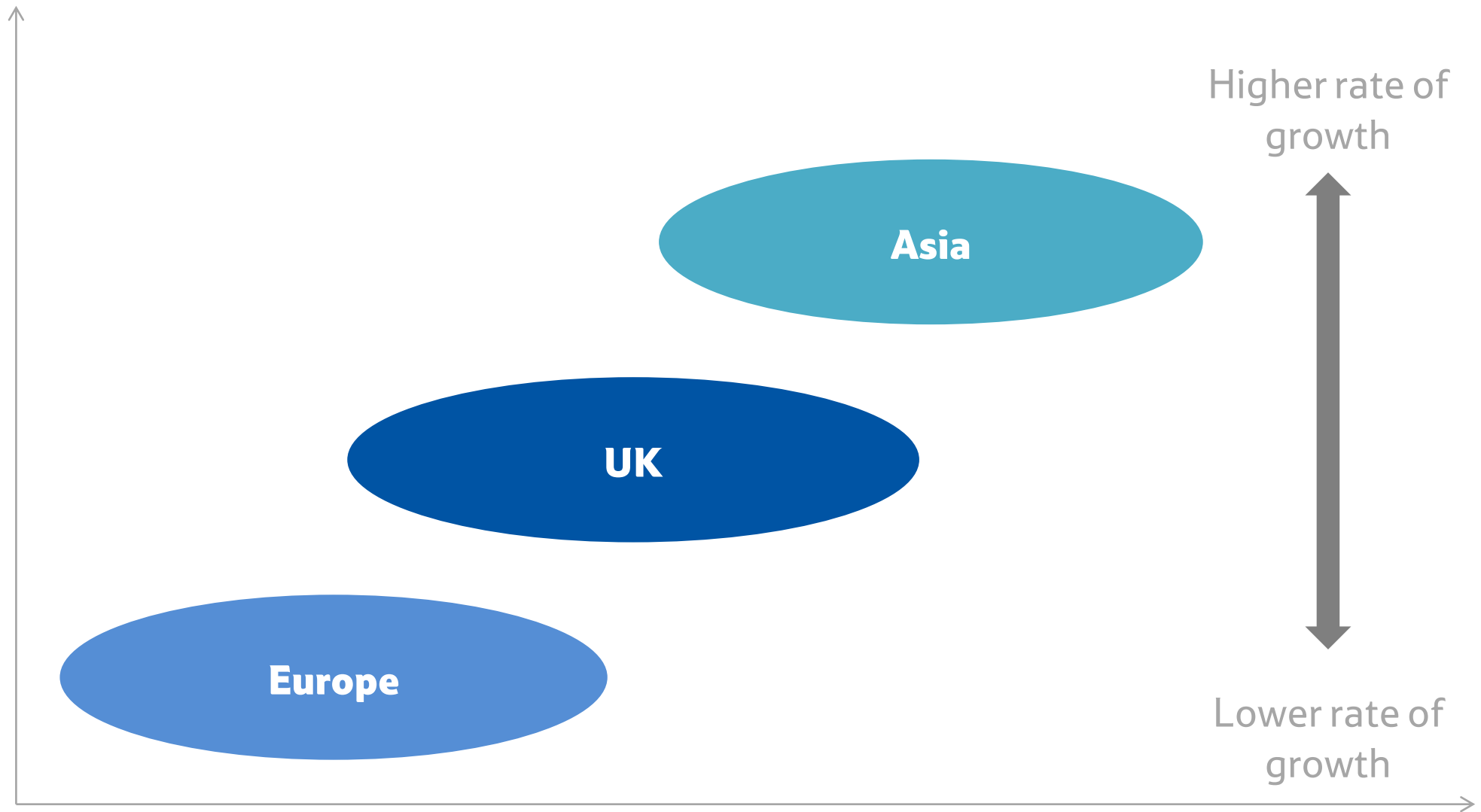
### Sustainable ROCE

- 12 - 15% range

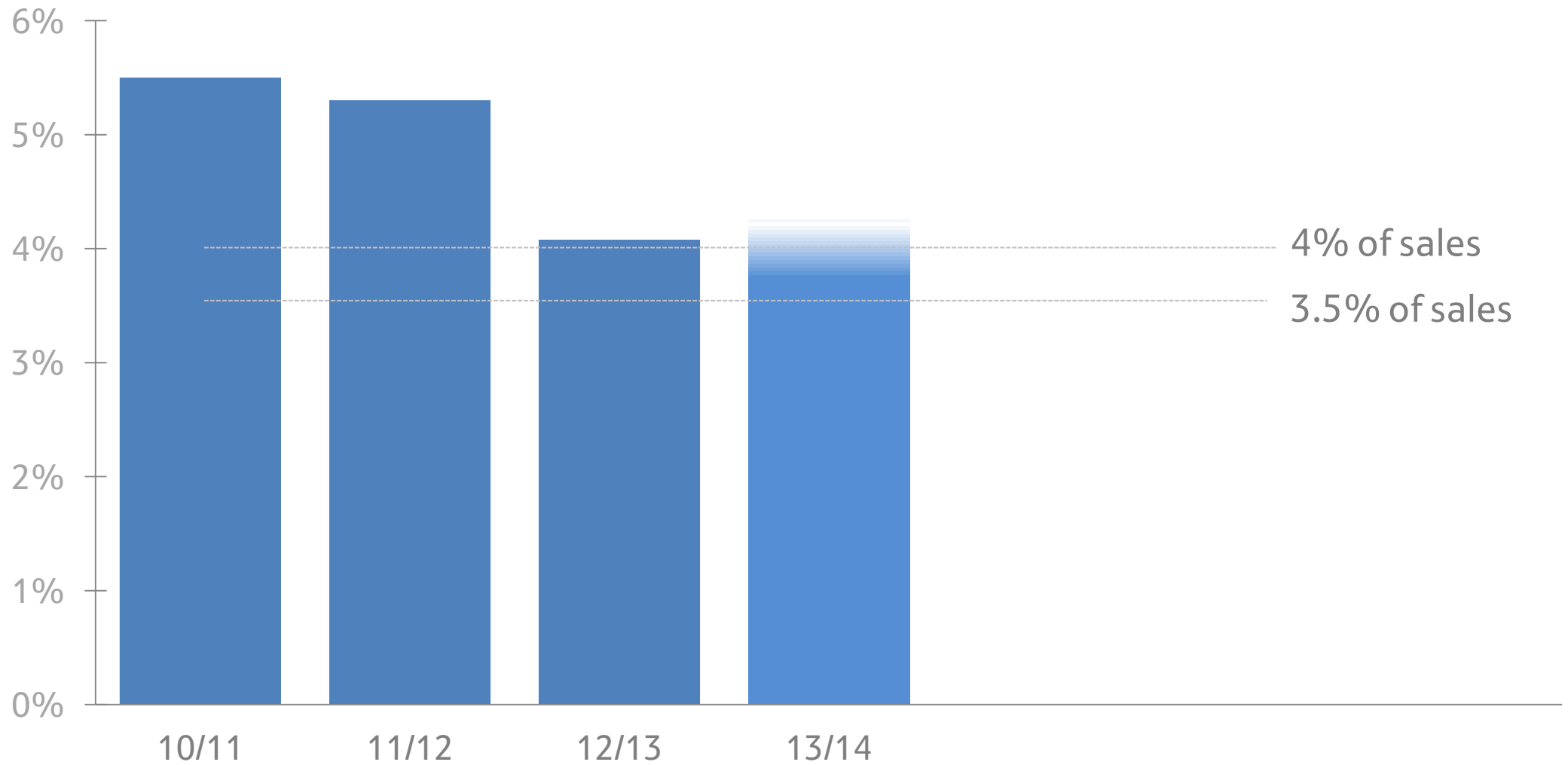
### Dividend growth

- In line with underlying EPS
- Target cover of more than two times

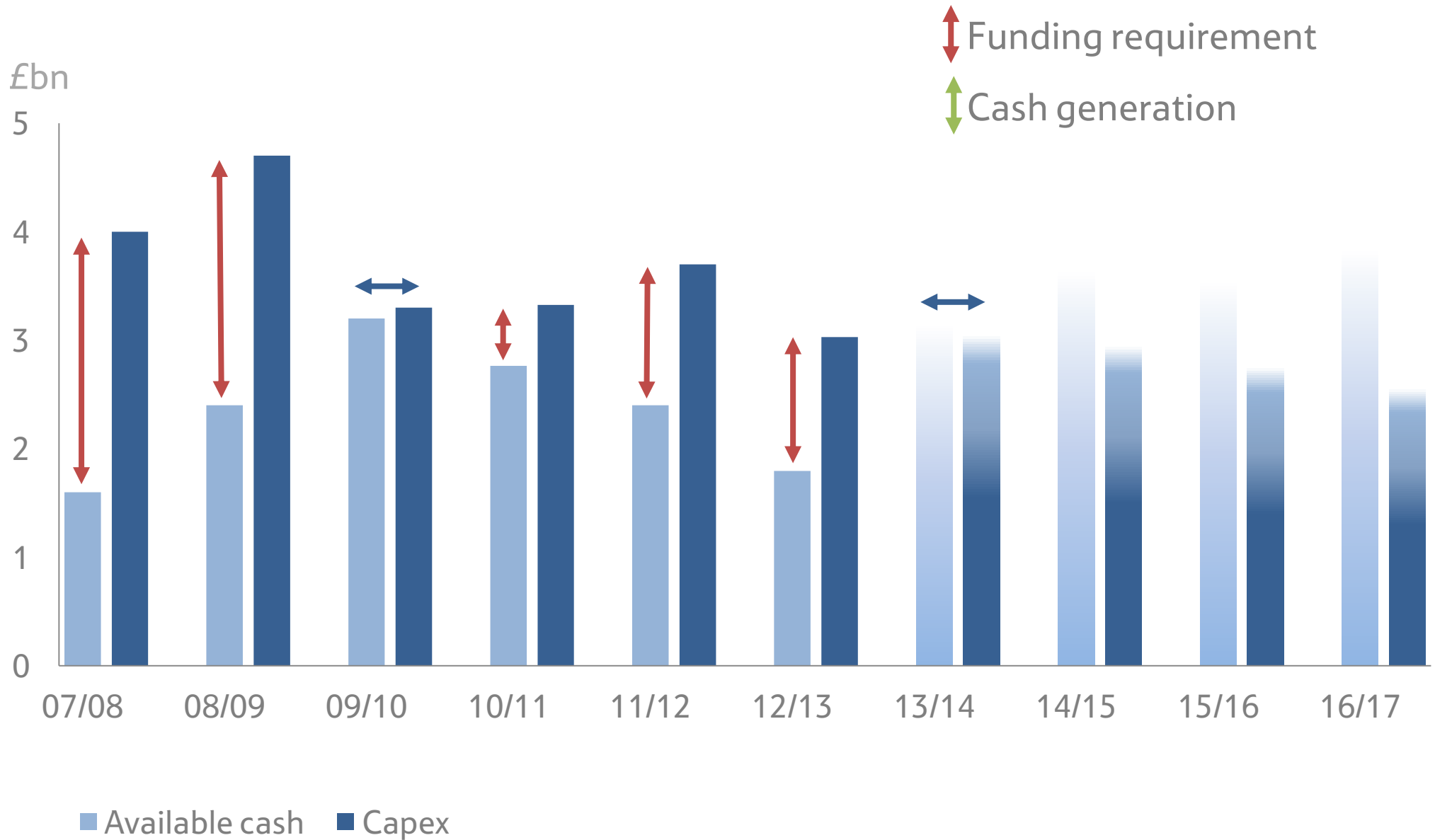
# Sustainable growth



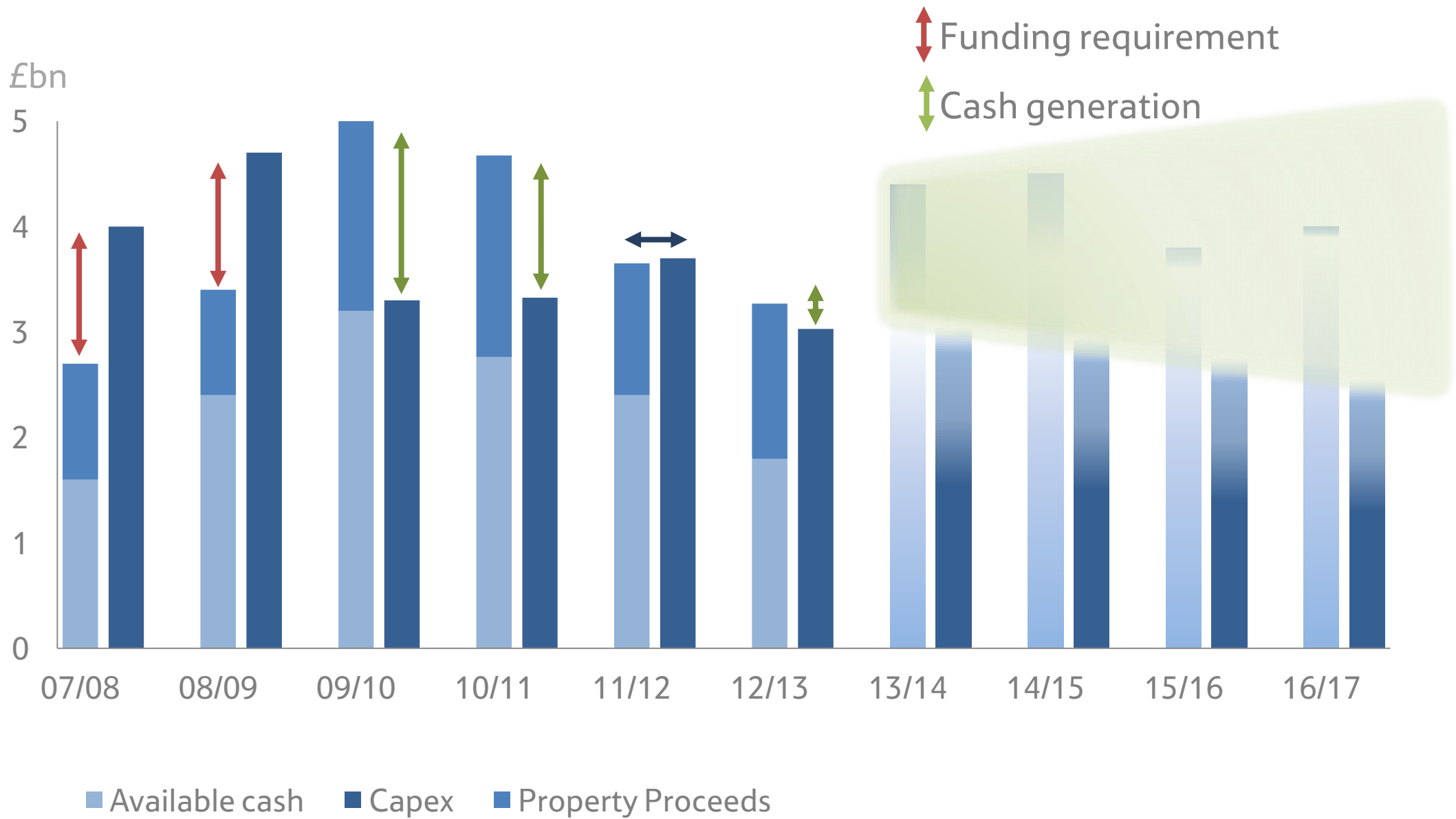
# Limiting capital expenditure



# Cash generation

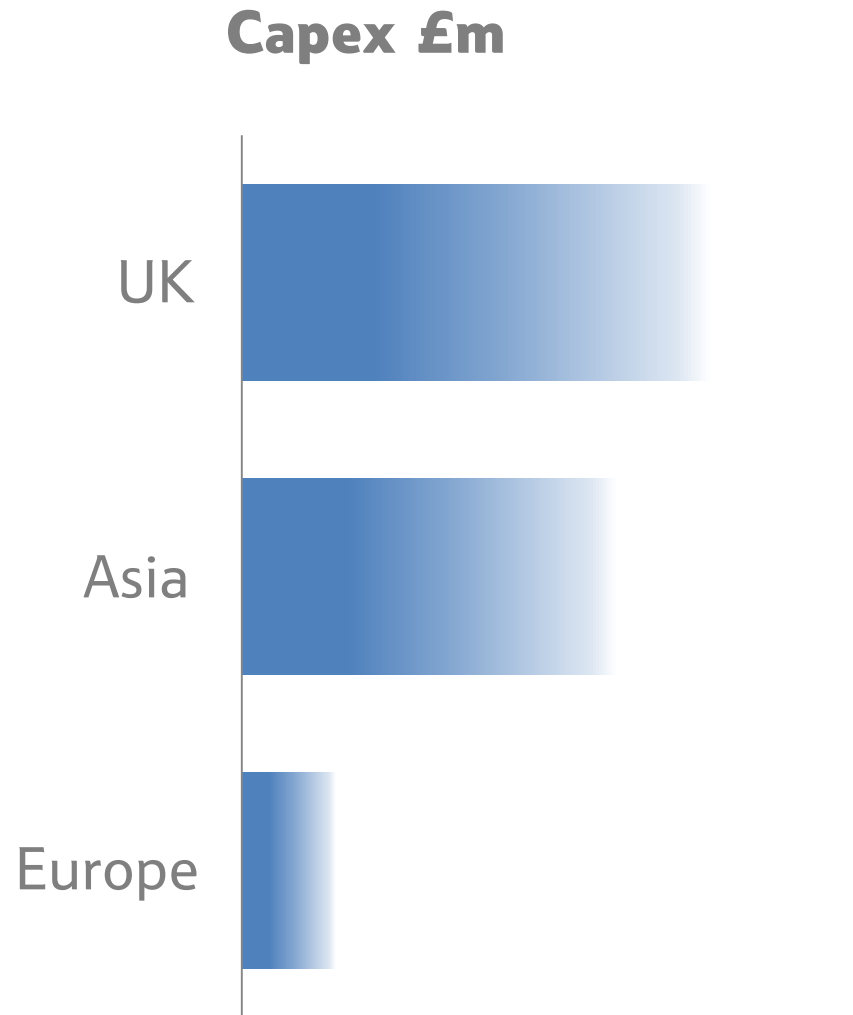


# Cash generation

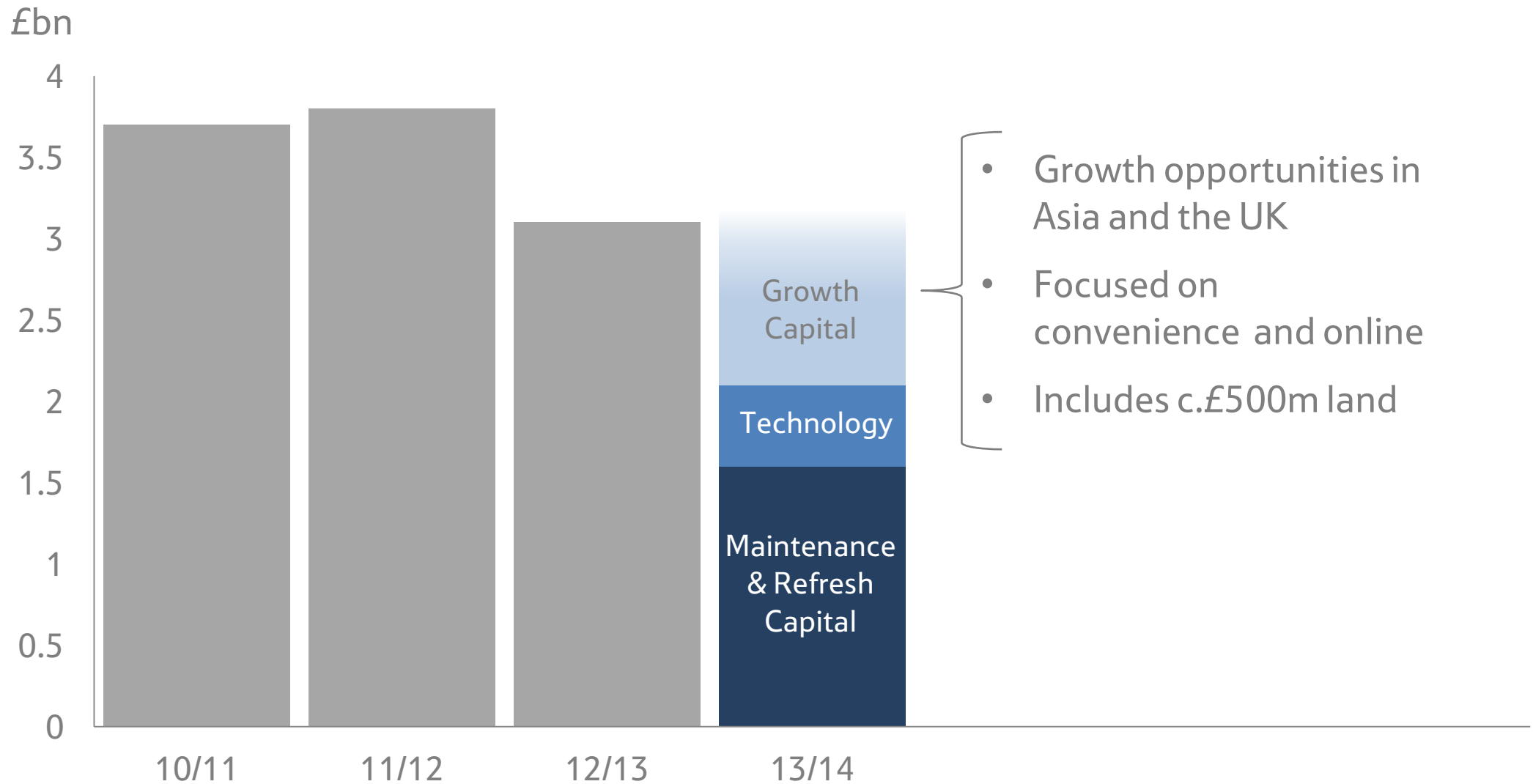




# Future capital allocation



# Capital expenditure by usage



## OUR APPROACH TO GROWTH AND RETURNS

### Financial disciplines

Generate positive free cash flow

Allocate capital within range of 4% down to 3.5% of sales

Maintain a strong investment grade credit rating

### Guidrails

#### Trading profit growth

- Mid-single digit

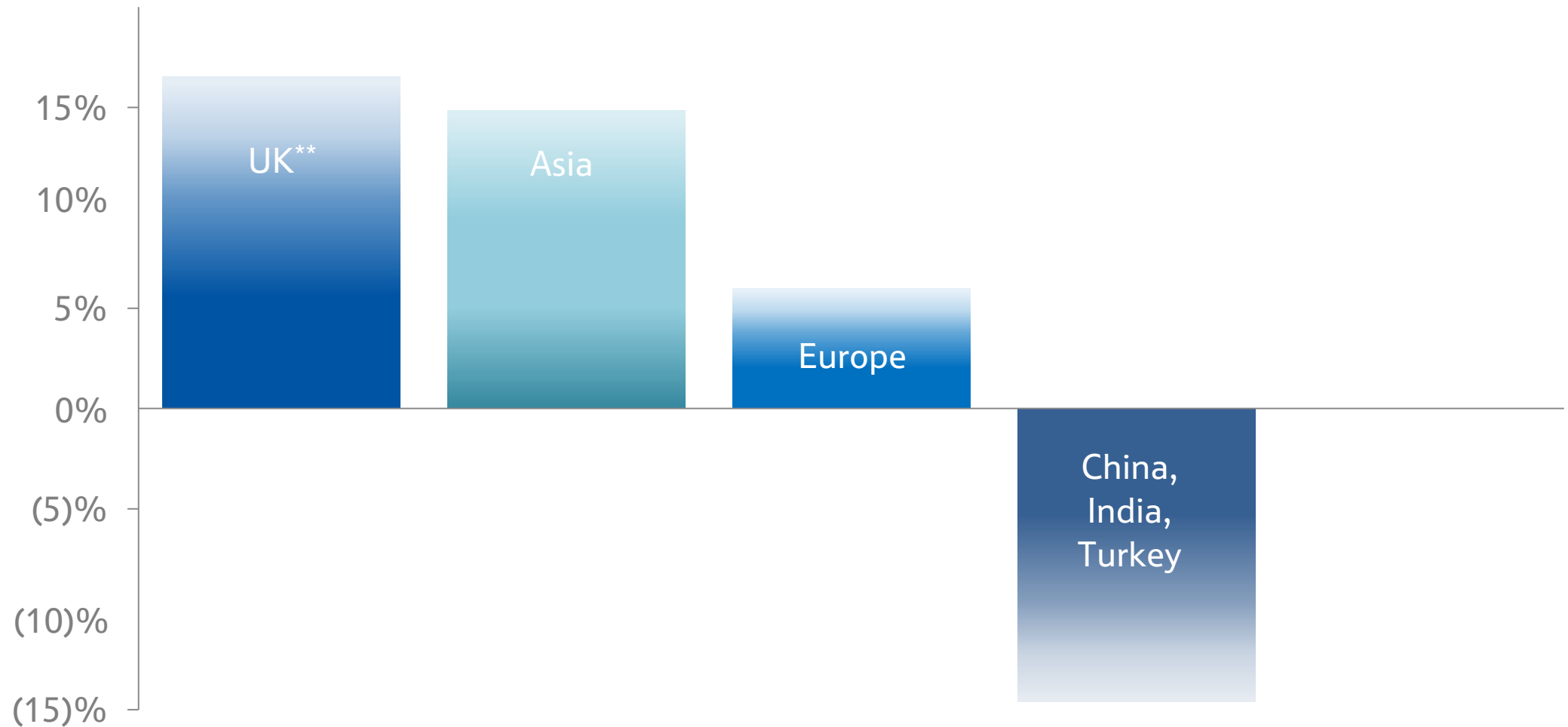
#### Sustainable ROCE

- 12 - 15% range

#### Dividend growth

- In line with underlying EPS
- Target cover of more than two times

# ROCE 12/13\*



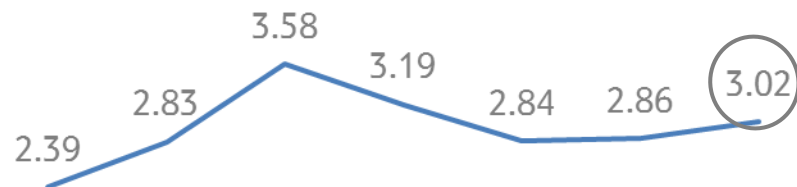
\* Excludes one-off items

\*\* Excludes the positive impact of the sale and leaseback programme

# Key financial metrics

Progress on balance sheet metrics in current year held back by our investment in the UK and the impact of regulatory changes in Korea

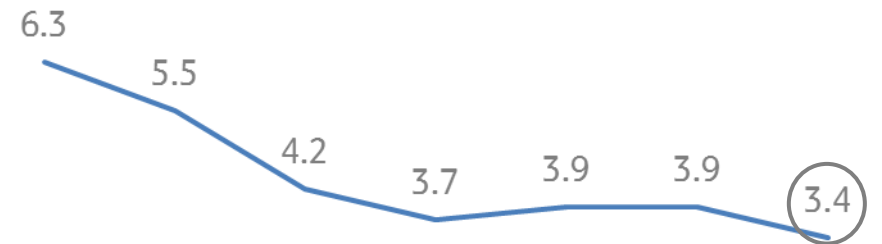
## Net Indebtedness: Adjusted net debt/EBITDAR\*



FY 06/07 FY 07/08 FY 08/09 FY 09/10 FY 10/11 FY 11/12 FY 12/13\*\*

**Target of <2.5x**

## Fixed Charge Cover: EBITDAR/(Interest + Rent)



FY 06/07 FY 07/08 FY 08/09 FY 09/10 FY 10/11 FY 11/12 FY 12/13\*\*

**Target of 4.0 to 4.5x**

\* Adjusted net debt equals statutory net debt plus pension deficit plus NPV of lease obligations

\*\* 12/13 excludes US as a discontinued operation

## OUR APPROACH TO GROWTH AND RETURNS

### Financial disciplines

Generate positive free cash flow

Allocate capital within range of 4% down to 3.5% of sales

Maintain a strong investment grade credit rating

### Guidrails

#### Trading profit growth

- Mid-single digit

#### Sustainable ROCE

- 12 - 15% range

#### Dividend growth

- In line with underlying EPS
- Target cover of more than two times



## OUR APPROACH TO GROWTH AND RETURNS

### Financial disciplines

**Generate positive free cash flow**

**Allocate capital within range of 4% down to 3.5% of sales**

**Maintain a strong investment grade credit rating**

### Guidrails

#### Trading profit growth

- Mid-single digit

#### Sustainable ROCE

- 12 - 15% range

#### Dividend growth

- In line with underlying EPS
- Target cover of more than two times

# Tesco today

- Challenges addressed head on, in better shape for the future
- Strong inheritance:
  - Online base
  - Clubcard
  - dunnhumby
  - Market leading positions
  - Strong portfolio
- More focused
- Fit for multichannel future

# Tesco today

- Led by customers
- Strong team
- Strengthening at home
- Building international
- Powerful combination of geographies, formats, channels, team
- Best-placed to thrive
- Improving returns and good dividend growth

# Q&A

# Disclaimer

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and trading margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is based on information available to Tesco as of the date of the statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution. Tesco does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Tesco's expectations.