TESCO

News release…

Wednesday 5th June 2013

TESCO PLC
FIRST QUARTER INTERIM MANAGEMENT STATEMENT

- **Group sales growth +2.7% (excluding petrol)**
- **'Building a Better Tesco in the UK' on track – improving customer perceptions on all key measures**
    - **Positive and improving LFL in all food categories with the exception of frozen and chilled convenience foods**
    - **LFL held back by accelerating work to refocus general merchandise**
    - **Online grocery continuing to outperform the market**
    - **Refreshed stores performing ahead of plan**
- **In a challenging environment, Asia and Europe performance similar to Q4 last year**

Philip Clarke – Chief Executive

"In April, we set out our approach for growth and returns for the Group, including a number of appropriate and realistic objectives for the years ahead and we have started the year on track, despite a continued difficult economic environment for consumers. This is notwithstanding our planned work on general merchandise, which has held back sales in the UK, and a small but discernible impact on frozen and chilled convenience food sales due to the customer response to equine DNA being detected in four products.

"Importantly to the objectives we have set out for sustainable and disciplined growth, customer perceptions are improving across all aspects of the shopping trip in the UK, driven by continued progress on our plans to 'Build a Better Tesco' and our market-leading multichannel offer.

"We have set out our plans to put customers back at the heart of the way we do business, and this is particularly evident in our recent initiatives on price and on food trust. Customers across the UK are embracing Price Promise and we are encouraged by performance in our core fresh food categories and uplifts from refreshed stores.

"Conditions outside the UK remain challenging and we have broadly maintained our performance from the fourth quarter of last year. Whilst we are not expecting economic conditions to improve in the near term, we have a customer-focused plan for the year in each of our markets which takes this into account, and we will maintain a disciplined approach to investment and cash flow as outlined in April."

Group sales

Group sales for the thirteen weeks ending 25 May 2013 increased by 1.8% including petrol at actual exchange rates (flat at constant rates). Excluding petrol, Group sales increased by 2.7% at actual exchange rates (0.7% at constant rates).

UK performance

Total sales including VAT and petrol grew by 0.1% and by 1.0% excluding petrol, despite a subdued market. Like-for-like sales, excluding both VAT and petrol, decreased by (1.0)% in the quarter - a similar trend to that seen towards the end of the prior year.

We are making good progress with our plans to improve the shopping trip for customers and are seeing steady increases in customer perception scores across all aspects of our offer. The launch of Price Promise, our automatic price comparison coupon-at-till, has proved highly popular and we have already seen a marked improvement in the number of customers who consider our ability to match or beat our competitors' prices as very good or excellent.

Performance in every food category was stronger in the first quarter than in the last two months of the prior year, with the exception of frozen foods and chilled convenience meals. The performance of these two categories has also picked up in recent weeks.

Since January this year we have completed nearly 1,500 tests on our own-brand meat ranges, which identified four frozen beef products contaminated by equine DNA. The four products were withdrawn, reformulated and reintroduced, with new suppliers. We have also accelerated our work with all of our suppliers to ensure that our market-leading technical processes and specifications can enable customers to place a renewed level of trust in our entire product range.

Online grocery remains the fastest growing channel in the market and our own sales growth continues to outperform. We have continued to strengthen our offer for customers and have driven further improvements in product availability, product quality and overall customer satisfaction. We have continued the roll-out of new drive-through locations for Click & Collect Grocery, with a total of 169 now in place across the UK and in April we introduced a new mid-week option to our successful Delivery Saver subscription scheme.

The drag on like-for-like sales growth from non-food was more significant in the first quarter than in the fourth quarter of last year. This drag continues to be driven by our disproportionate exposure to consumer electronics and, increasingly, by the consequences of implementing our accelerating general merchandise strategy, as we shift our business from low-margin, low-growth categories to higher-margin, higher-growth categories. We are working towards our first relaunch of a new core range of general merchandise in our smaller format stores within the coming months and this will be followed by more extensive repurposing of general merchandise and electrical space in our larger stores starting later in the year, following promising results from our initial trials.

Clothing has once again delivered a strong performance in the quarter, with the F&F brand boosted by the successful industry launch of our Autumn/Winter 2013 collection and the announcement of plans to extend the franchising of F&F to more markets in central Asia and the Middle East.

Net new space contributed 1.9% to sales growth in the first quarter, with new store openings focused on convenience and in line with plan. We are on track with our opening programme for the full year, which will see around 1.1 million square feet opened across our four Tesco formats (Extra, Superstore, Metro and Express).

Our work on Refresh for 2013/14 has also started well, including nearly 40 Express stores relaunched in the first three months alone, and a stronger than expected sales uplift in our refreshed stores. Our programme for the full year is on track, including well over 100 more Express stores, around 70 Superstores and our initial work on the Extra format.

International performance

Consumers in our international markets continue to face challenging conditions, particularly in Europe, continuing the trend seen at the end of our fourth quarter last year.

Total sales in Asia grew by 10.9% at actual exchange rates and by 2.8% at constant rates. Like-for-like sales declined by (3.8)%, largely driven by the continuing impact of the regulatory restrictions on opening hours in Korea. Although still negative, our performance in Korea has improved since the fourth quarter last year with some enforced store closures temporarily switching from the peak trading day of Sunday to Wednesday.

In China, our business – like the market as a whole – has been affected by consumer concern over the bird flu crisis and weaker demand for pork products following a national food safety scare. In Thailand, we delivered a further increase in market share, on top of the gains made throughout the prior year. Our like-for-like sales performance follows two years of strong first quarter growth and reflects a slower rate of growth for the market as whole, particularly in food.

Total sales in Europe excluding petrol were up by 0.1% at actual exchange rates and declined by (3.0)% at constant rates. In all markets, consumers continue to exercise caution in their shopping habits, as they face the direct impact of a variety of austerity measures linked to the tough economic environment. The impact of these external pressures increased in Ireland, with a significant reduction in consumer sentiment and spending following the announced introduction of a Local Property Tax on residential properties.

Our business in Hungary returned to positive like-for-like growth, with improved levels of customer spend and in particular, a better performance in general merchandise and clothing. Our performance in the Czech Republic reflects a step-up in competitive intensity in the market, combined with the ongoing impacts of declining economic growth and increasing unemployment.

Our process to exit the United States continues on track and we will update the market as appropriate.

Tesco Bank

Tesco Bank delivered growth in customer numbers and a good performance in banking products year-on-year. Top-line performance was held back by the drag from reduced legacy income from our agreement with Direct Line Group, as we described at our Preliminary Results in April. Although our reported sales show a decrease of (2.3)%, before this legacy impact we saw growth of 0.7%.

Total customer accounts have grown by nearly 4% since the end of the first quarter last year and by 1.4% in the first quarter alone, driven largely by growth in credit cards and loans. Balances across our lending products also increased significantly in the quarter.

The challenging conditions we saw throughout most of last year in the motor insurance market continued in the first quarter, particularly with respect to increased price competition. We continue to focus our new business on existing Tesco customers, in line with our strategy for the Bank as a whole.

Financial Position

There have been no material events, transactions or changes in the financial position of the Group since the year end, other than as outlined in this statement.

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Appendix 1 – Segmental Sales Growth Rates

	First Quarter 2013/14 Sales Growth					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	1.8%	2.7%	0.0%	0.7%	(2.6)%	(2.2)%
International	5.5%	5.8%	(0.1)%	0.1%	(4.8)%	(4.6)%
Asia	10.9%	10.9%	2.8%	2.8%	(3.8)%	(3.8)%
Europe	(0.3)%	0.1%	(3.4)%	(3.0)%	(5.8)%	(5.5)%
UK	0.1%	1.0%	0.1%	1.0%	(1.6)%	(0.9)%
Tesco Bank	(2.3)%	(2.3)%	(2.3)%	(2.3)%	n/a	n/a

Appendix 2 – UK Like-For-Like Growth

	First Quarter Like-For-Like Growth 2013/14	Fourth Quarter Like-For-Like Growth 2012/13
UK LFL (inc. VAT, inc. Petrol)	(1.6)%	(0.8)%
UK LFL (inc. VAT, exc. Petrol)	(0.9)%	0.5%
UK LFL (exc. VAT, exc. Petrol)	(1.0)%	0.5%
UK LFL (exc. VAT, exc. Petrol and IFRIC 13 compliant)	(0.8)%	(0.4)%

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

	First Quarter Like-For-Like Growth 2013/14	Fourth Quarter Like-For-Like Growth 2012/13
Asia	**(3.8)%**	**(2.5)%**
China	(4.9)%	(2.0)%
Malaysia	1.3%	0.6%
South Korea	(5.1)%	(7.9)%
Thailand	(3.0)%	4.5%
Europe	**(5.5)%**	**(4.5)%**
Czech Republic	(9.0)%	(7.1)%
Hungary	0.2%	(2.2)%
Poland	(8.2)%	(8.3)%
Slovakia	(4.1)%	(0.8)%
Turkey	(15.5)%	(10.0)%
Republic of Ireland	(3.0)%	(1.4)%

Notes:

These results have been reported on a continuing operations basis and exclude the results from our operation in the US 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 and ROI, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 25 May 2013 and 26 May 2012 respectively.

For Tesco Bank and India, these results are for 92 days for both the current year and the previous year comparison, for the periods ended 31 May 2013 and 31 May 2012 respectively.

For all other countries, these results are for 87 days for both the current year and the previous year comparison, for the periods ended 26 May 2013 and 27 May 2012 respectively.