

2 October 2013

INTERIM RESULTS

Building a Better Tesco



- 530,000 colleagues
- More than 70m customers per week
- 6,900 stores
- 12 countries
- Multiformat, Multichannel



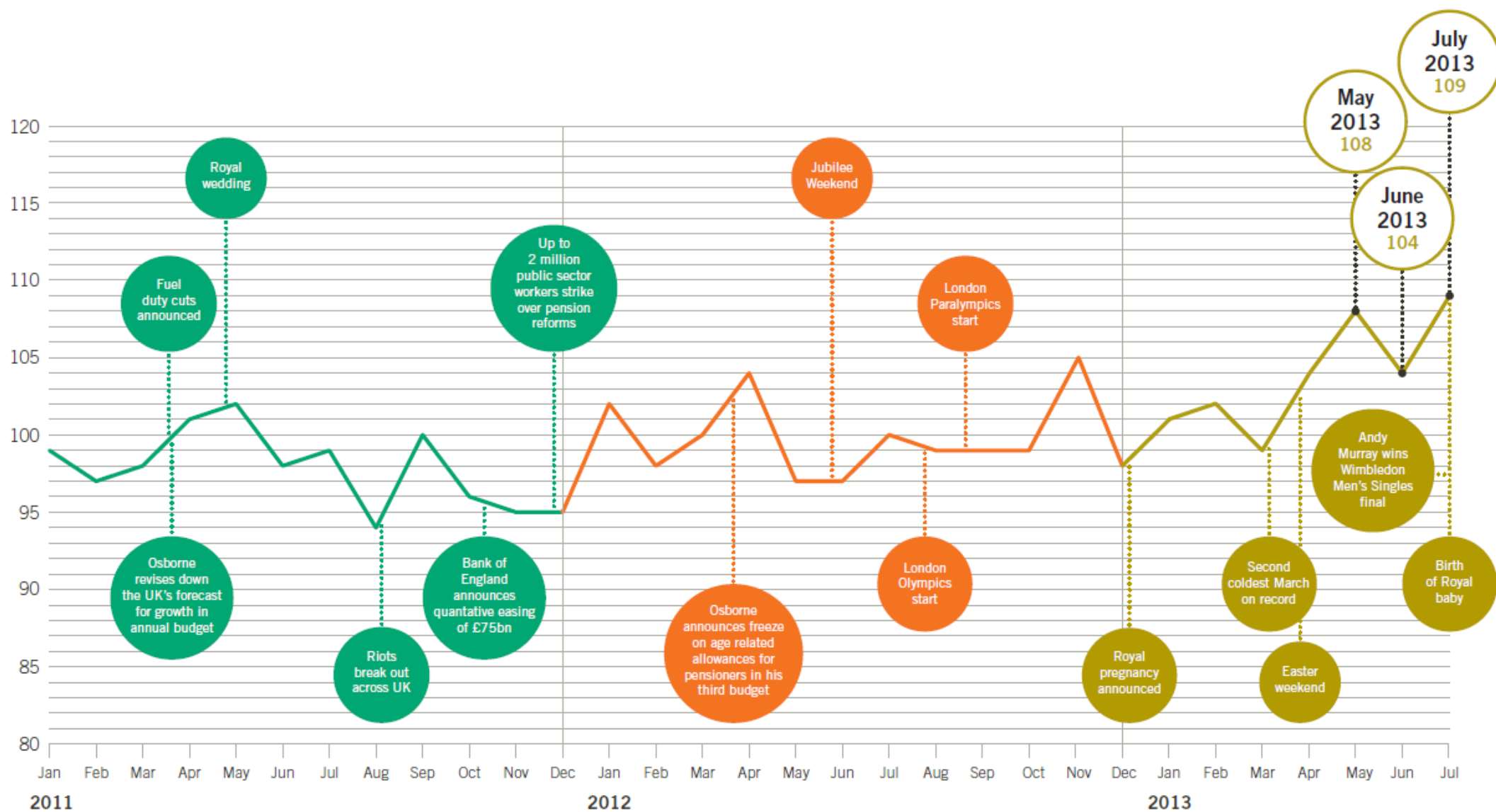
Progress

- Invested for customers in every market
- Opening fewer new, large stores
- Increasing investment in digital capability
- Accelerated transformation of general merchandise business

Challenging conditions

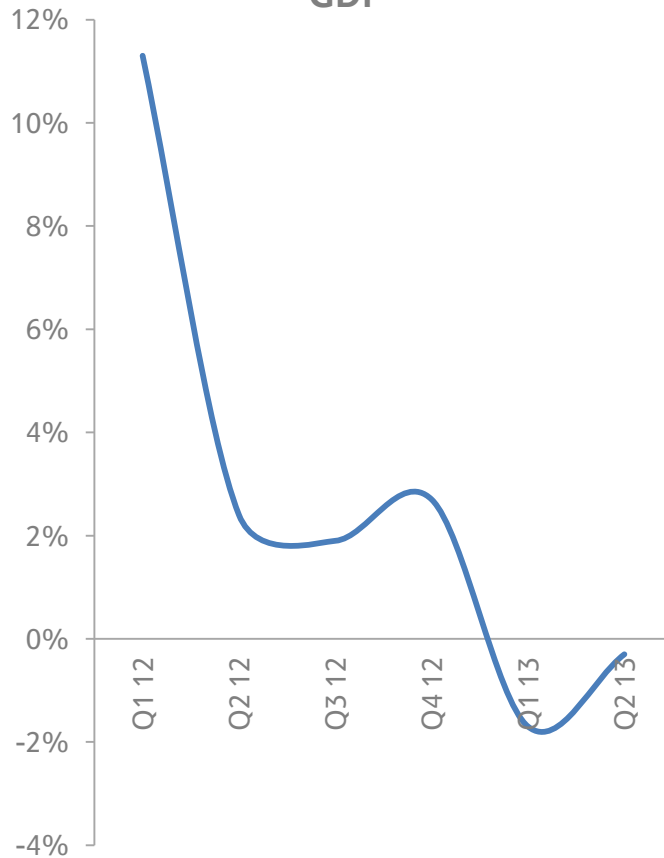


UK consumer confidence: at a glance



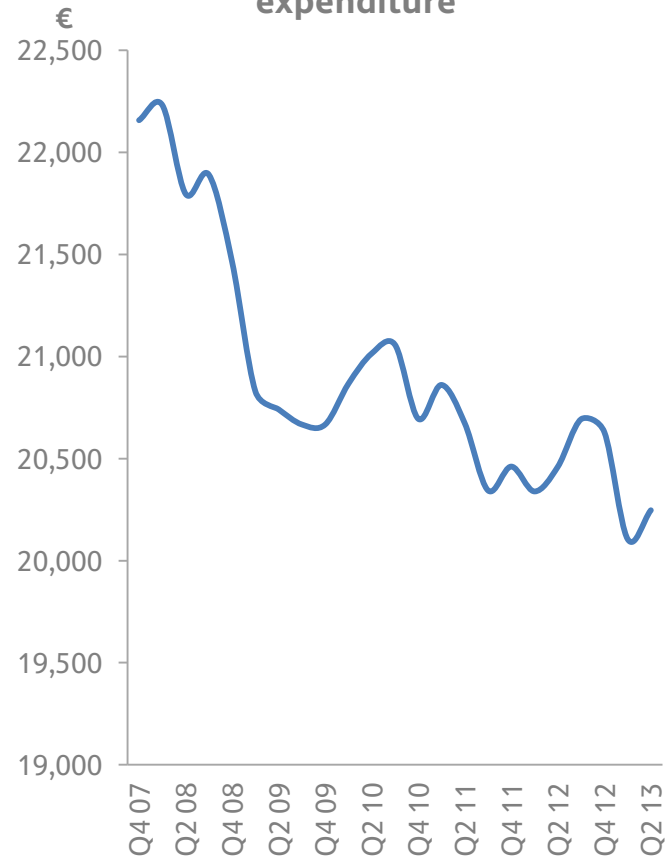
Challenging conditions

**Thailand in recession:
quarter-on-quarter change in
GDP**



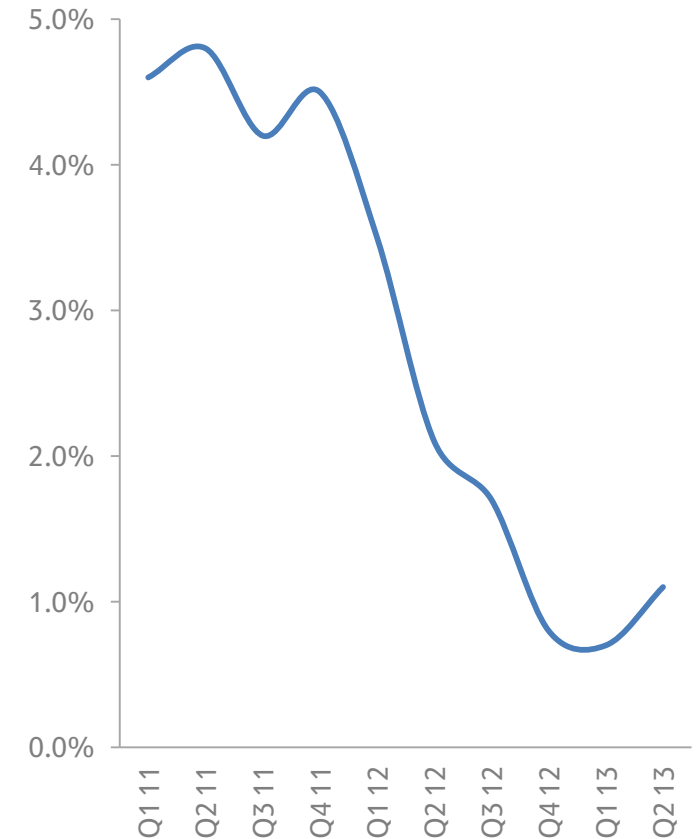
Source: Office of the National Economic and Social Development Board, Thailand

**Ireland in recession again:
personal consumption
expenditure**



Source: Datastream

**Poland slowdown:
year-on-year change in GDP**



Source: GSU, Polish Central Statistics Office

Progress

- Invested for customers in every market
- Opening fewer new, large stores
- Increasing investment in digital capability
- Accelerated transformation of general merchandise business
- UK business getting stronger
- Right direction, journey underway

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

The leading multi-format retailer in China



Compelling offer for customers



Coventry, UK



Rama IV, Thailand



Budaors, Hungary

H1 PERFORMANCE

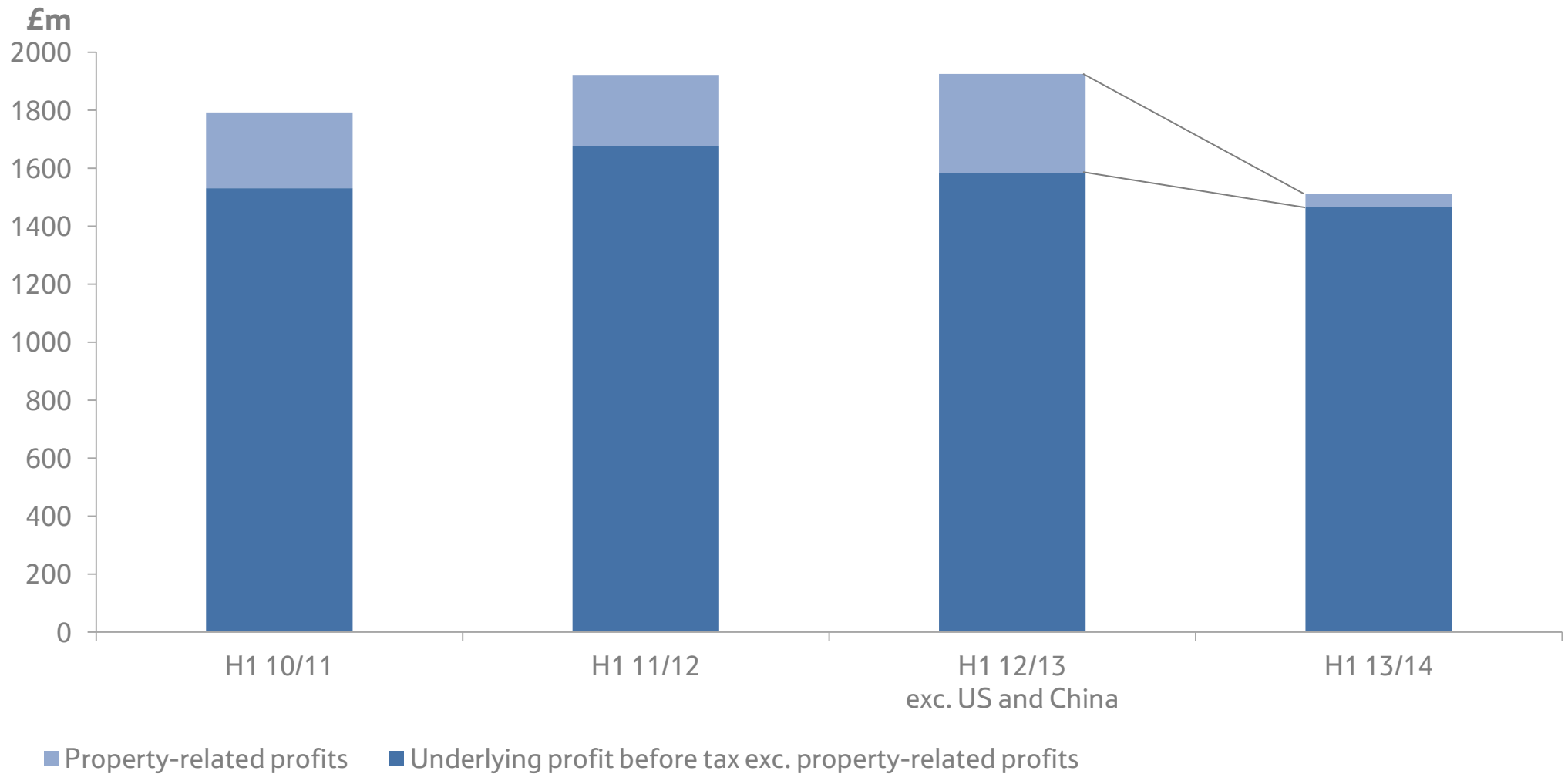
H1 2013/14 – Financial progress

- UK profit up
- Cash flow growing
- Disciplined approach to investment
- Removed drag of US losses
- Partnership with CRE provides platform for profitable growth in China

Group performance

	13/14	vs. 12/13
Group sales	£35,582m	2.0%
Group trading profit	£1,588m	(7.6)%
Underlying profit before tax (excluding profit from property-related items)	£1,466m	(7.4)%

Underlying profit before tax



Group performance

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Group trading profit	£1,588m	(7.6)%
Underlying profit before tax (excluding profit from property-related items)	£1,466m	(7.4)%
Group profit before tax	£1,387m	(23.5)%
Net finance costs	£151m	Reduced by 7.9%
Underlying diluted EPS	14.88p	(7.9)%*

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

- Continued to Build a Better Tesco
- Improved like-for-like sales growth in Q2
 - Food – major driver
 - Q2 Food like-for-like +1%

	UK
Sales growth (exc. petrol, exc. VAT)	1.7%
Trading profit	£1,131m
Trading profit growth	1.5%
Trading profit margin	5.2%
Trading margin change	2bp

General merchandise transformation

- Reflected in declining like-for-like, as expected
- Low margin categories deprioritised
- Focus on more profitable categories
- 'Food First' approach

REFOCUSING OUR EXISTING SPACE

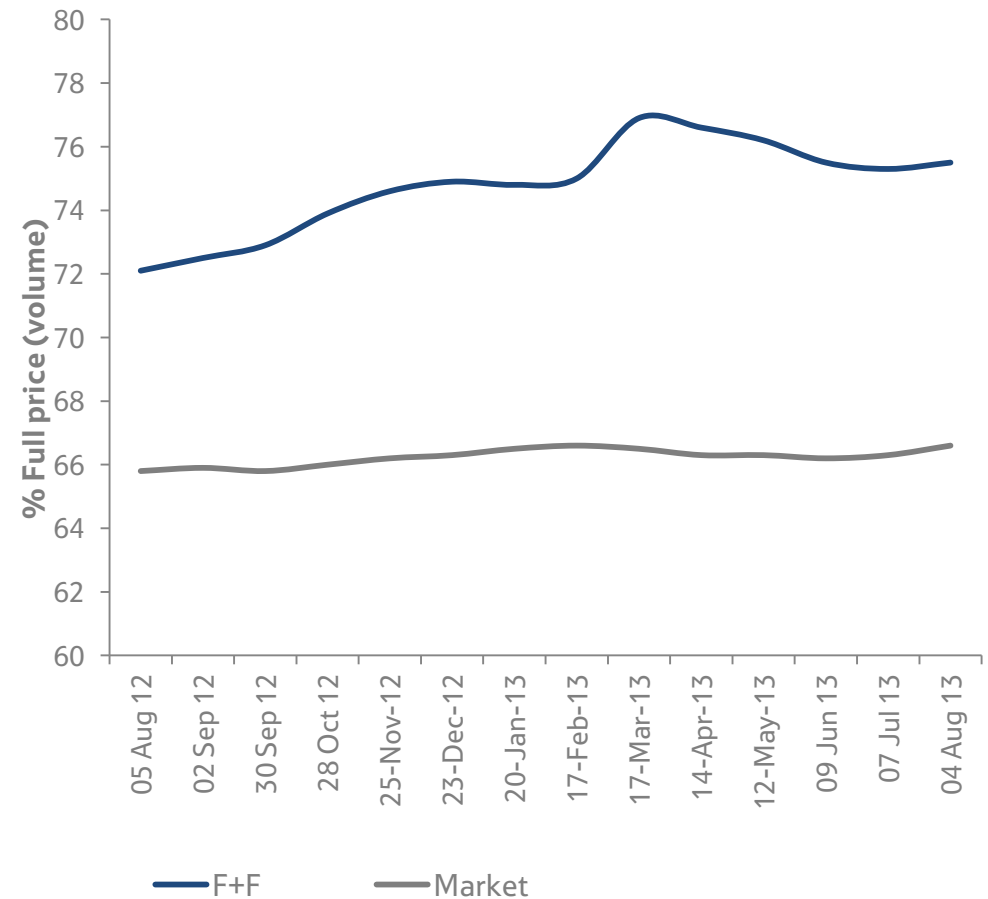




- Strong, improving, profitable sales growth
- Improved margins
 - Lower level of markdown
 - Proportion of full price sales increased



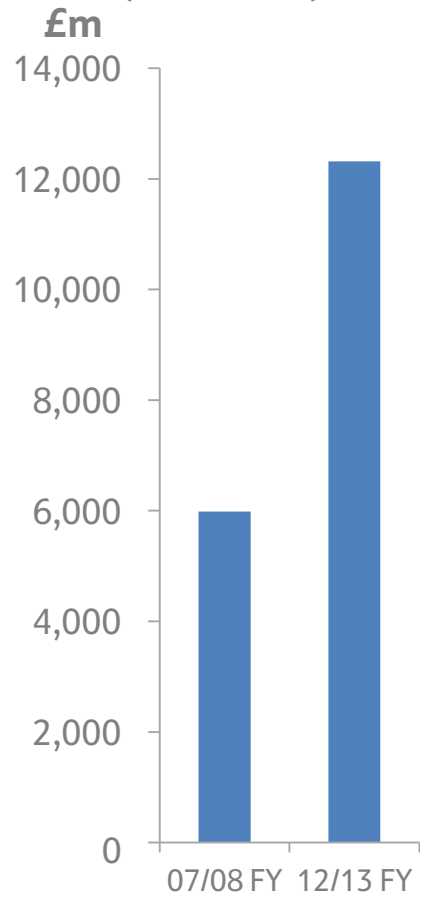
Improving full price sales



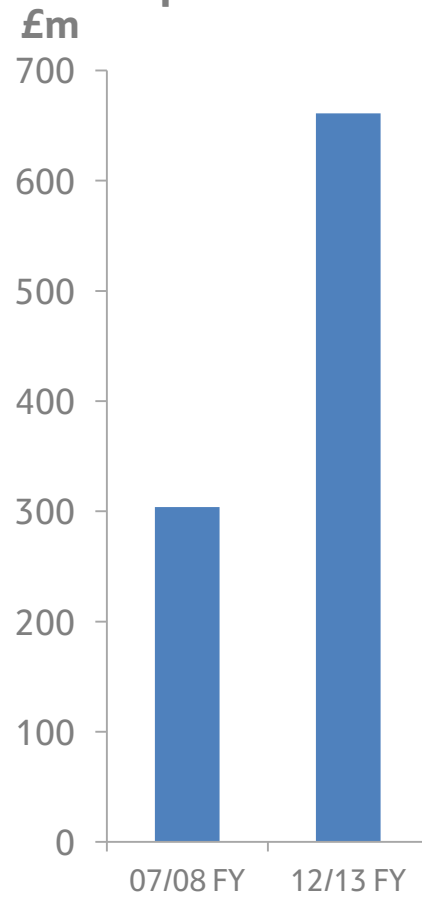
Source: Kantar Worldpanel Fashion 52w/e Total Market – Proportion bought on Full Price (% units) – 52 w/e to 4th August 2013

Asia

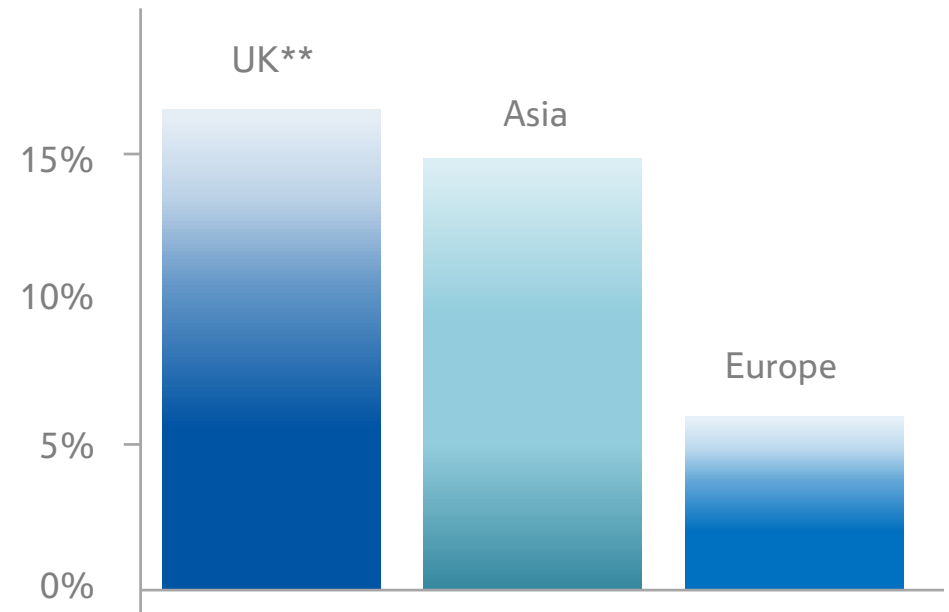
Asia sales
(inc. VAT)



Asia trading
profit



ROCE 12/13*



* Excludes one-off items

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

Asia

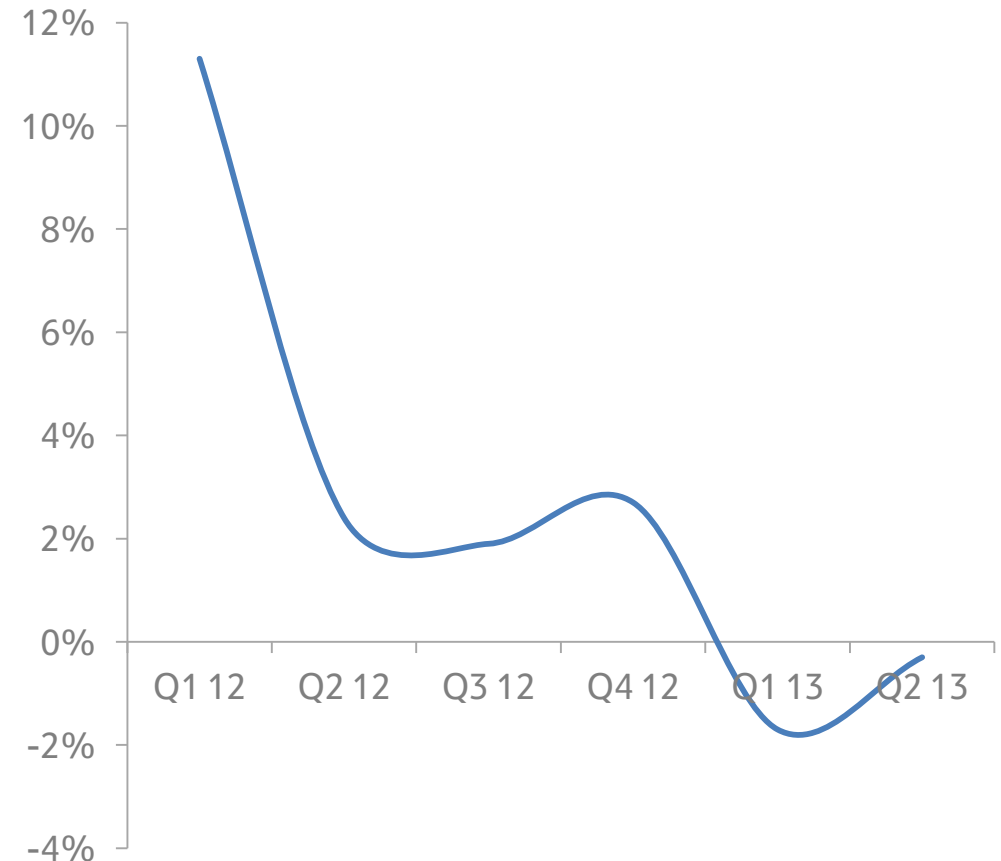
- Korea
 - Continued impact of regulations
 - Expect H2 profit growth

	Asia	
	Actual FX	Constant FX
Sales growth	7.7%	2.0%
LFL	N/A	(3.7)%
Trading profit	£314m	£297m
Trading profit growth	(7.4)%	(12.4)%
Trading margin	6.0%	6.0%
Trading margin change	(98)bp	(99)bp

Asia

- Korea
 - Continued impact of regulations
 - Expect H2 profit growth
- Thailand
 - Moved into recession
 - Competitor openings have increased
 - Clubpack issue in H1

**Thailand in recession:
quarter-on-quarter change in GDP**



Source:
Office of the National Economic and Social Development Board, Thailand

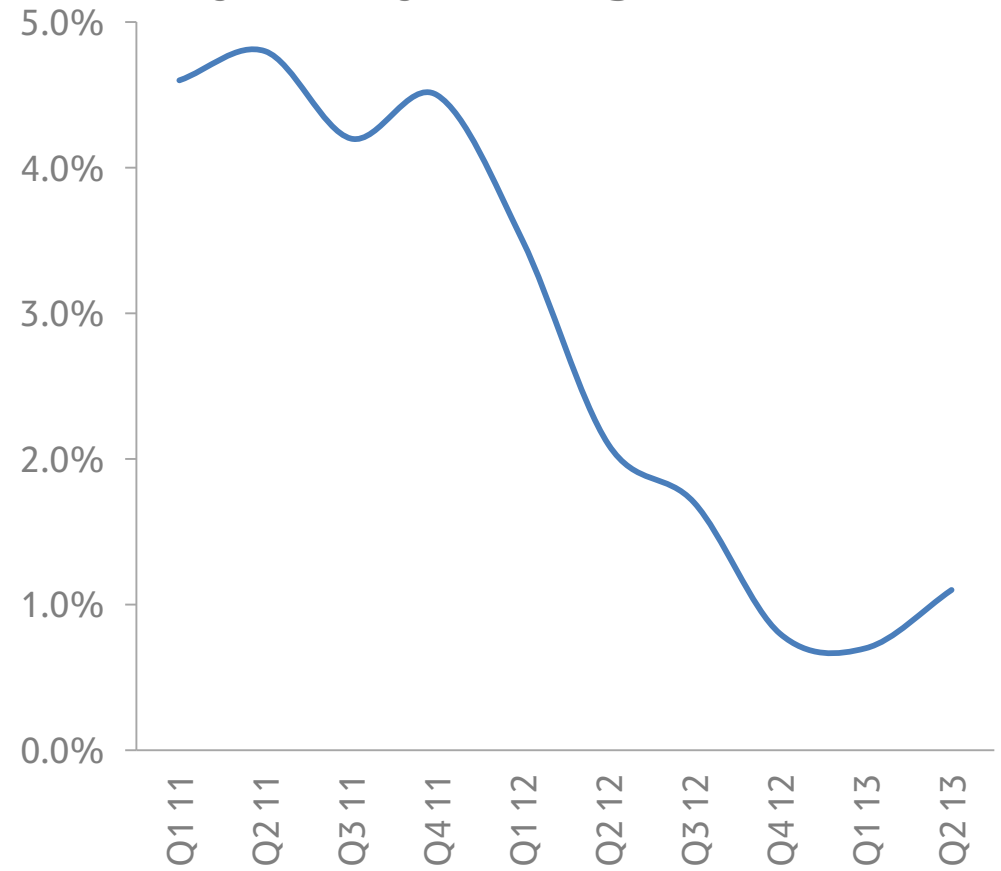
Europe

**Ireland in recession again:
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Source: Datastream

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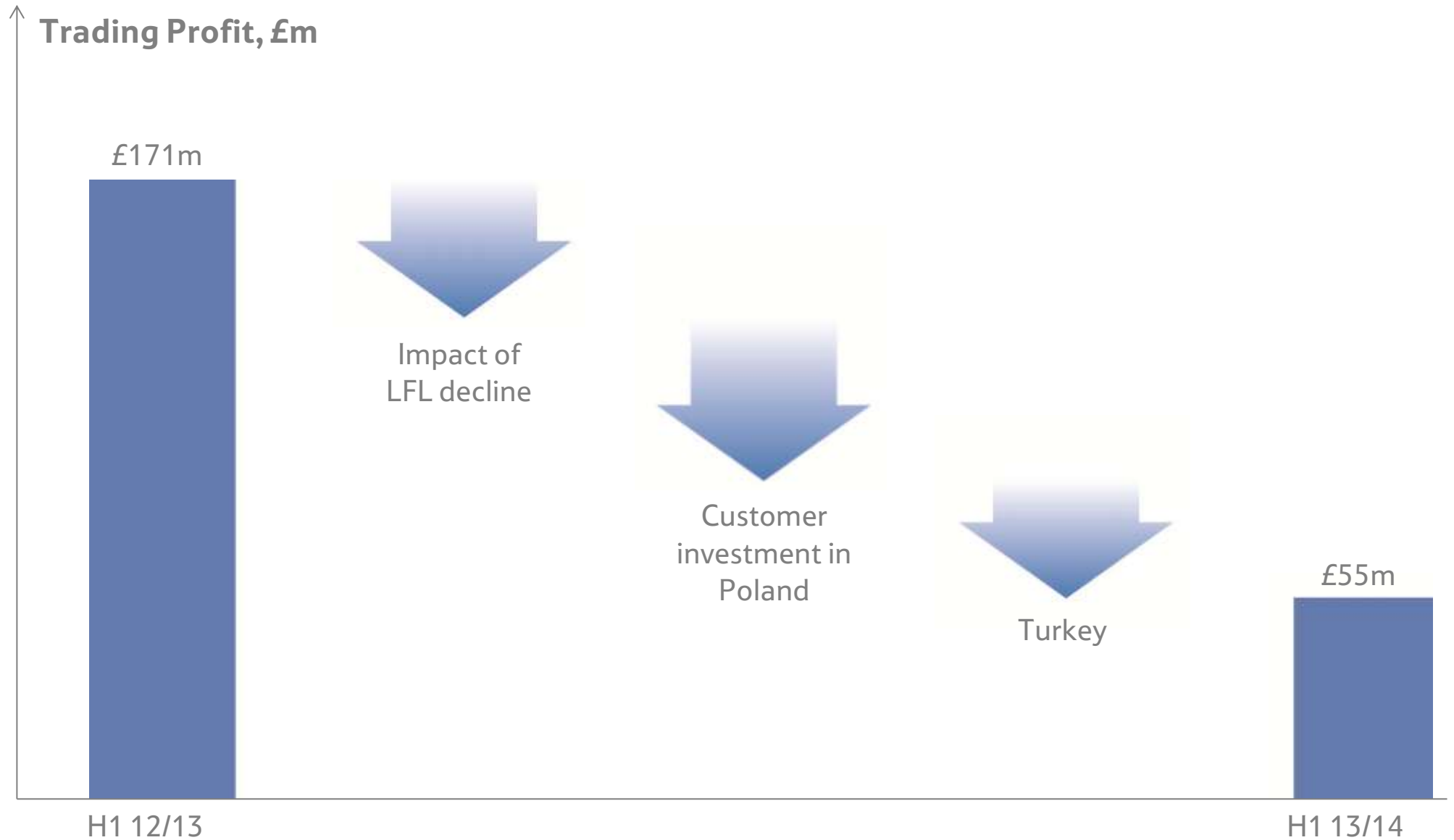
Europe

- Like-for-like sales down (5)%
- Improving through half
- Margins impacted

	Europe	
	Actual FX	Constant FX
Sales growth*	1.2%	(3.0)%
LFL*	N/A	(5.0)%
Trading profit	£55m	£50m
Trading profit growth	(67.8)%	(70.8)%
Trading margin	1.2%	1.1%
Trading margin change	(256)bp	(262)bp

* Excluding petrol

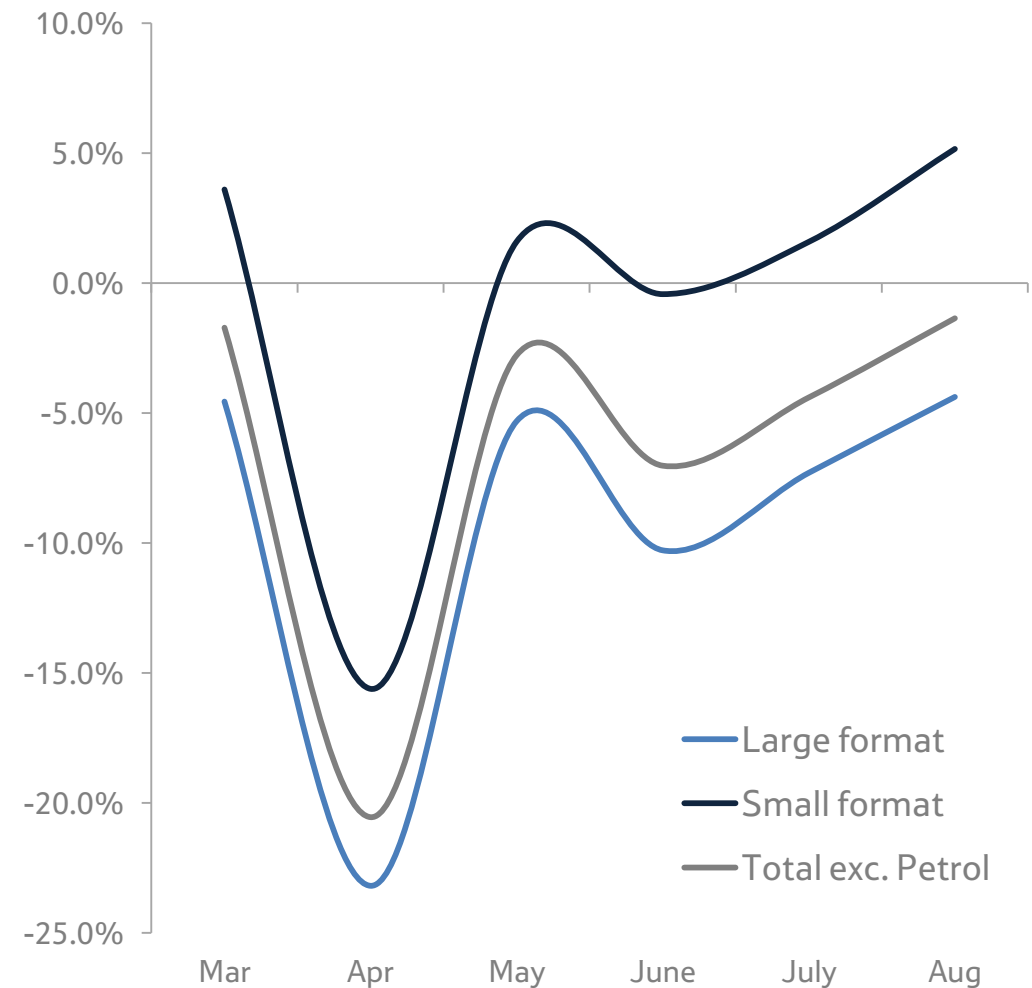
Europe



Poland

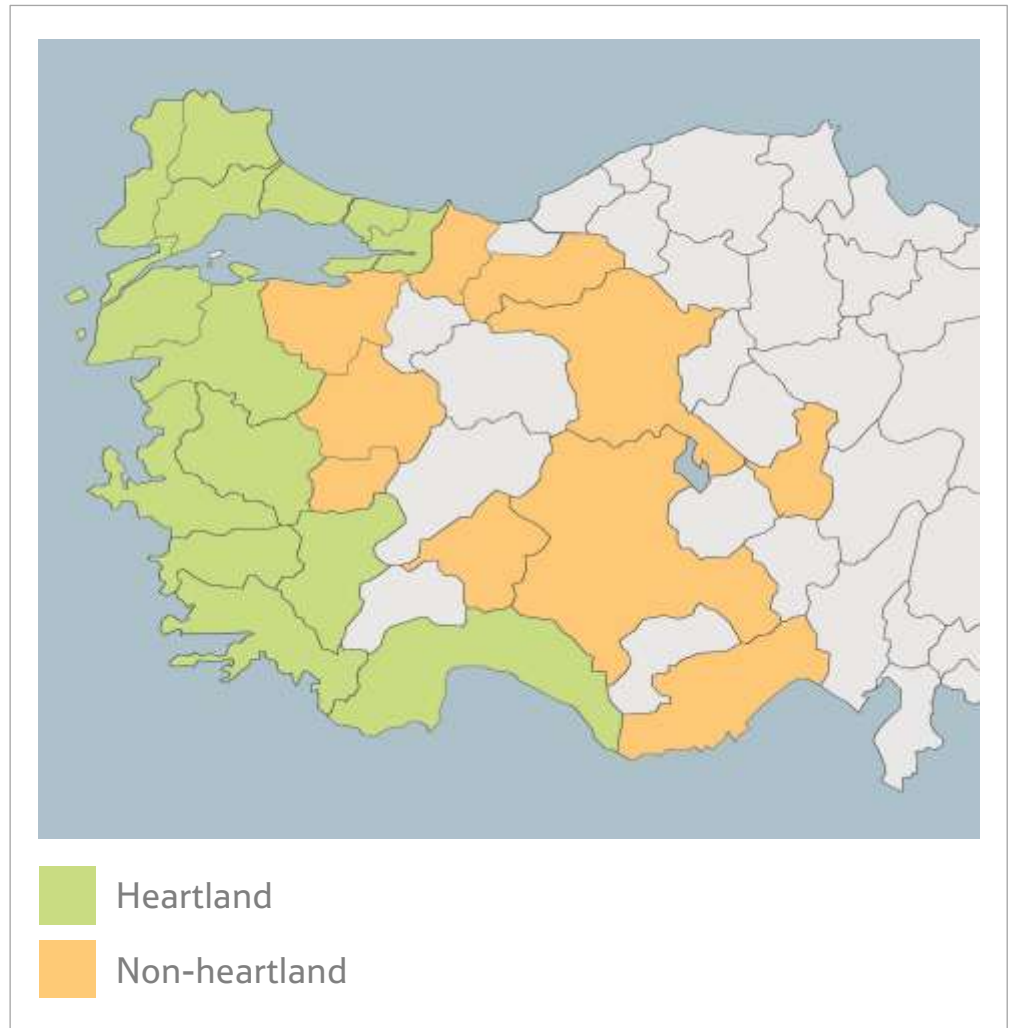
- Investment in our offer
- Showing encouraging signs
- Smaller formats exited H1 with positive like-for-like sales growth
- Overall like-for-like sales in positive territory in first few weeks of H2

Poland LFL by format - H1 2013/14



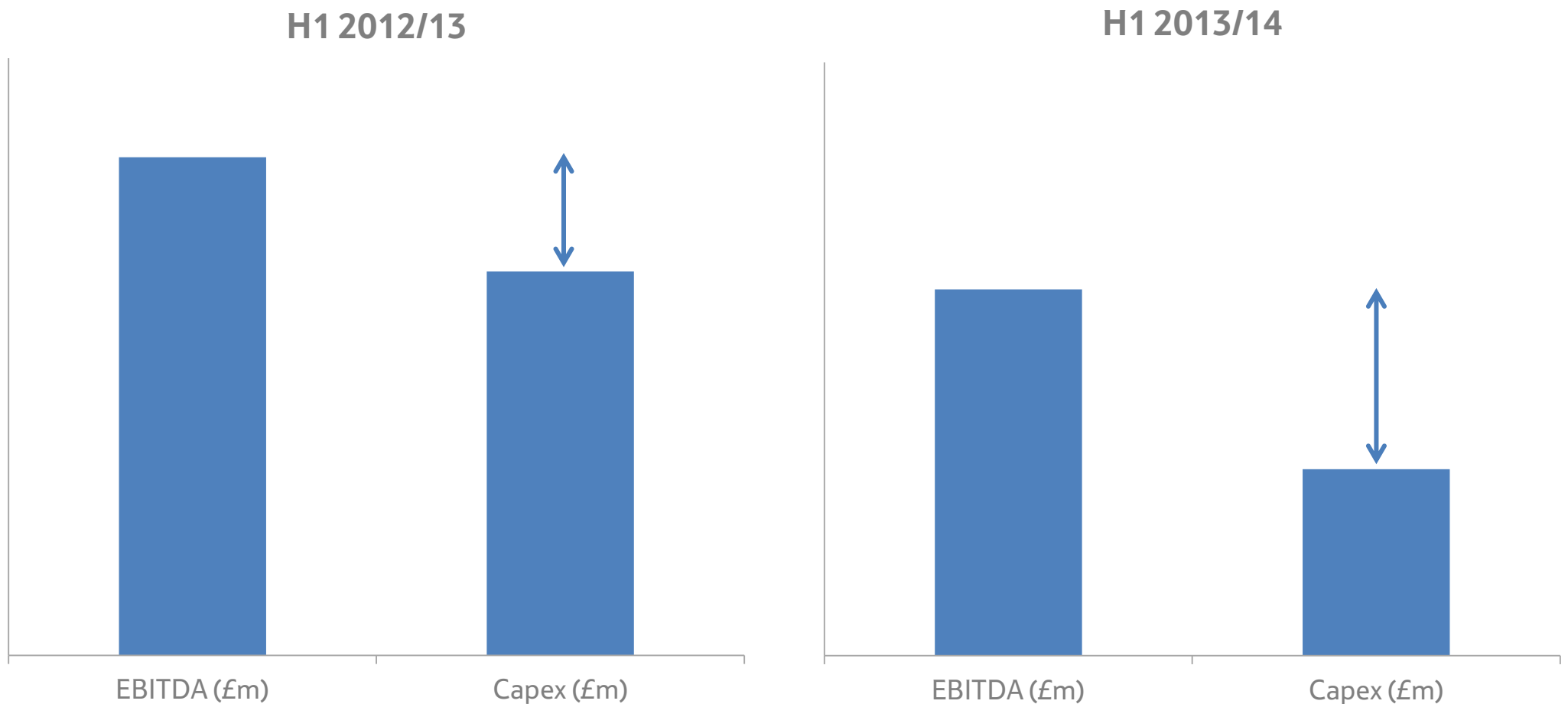
Turkey

- Heartland region
 - Better economics
 - Improved through H1
- Non-heartland
 - Largest stores
 - Lower sales densities
 - Closed 8 stores in H1
- Changes made to the business
- Improving like-for-like sales trend



Disciplined approach in Europe

- 75% reduction in net new space; focused on online and convenience
- Positive cash flow profile, despite challenges:



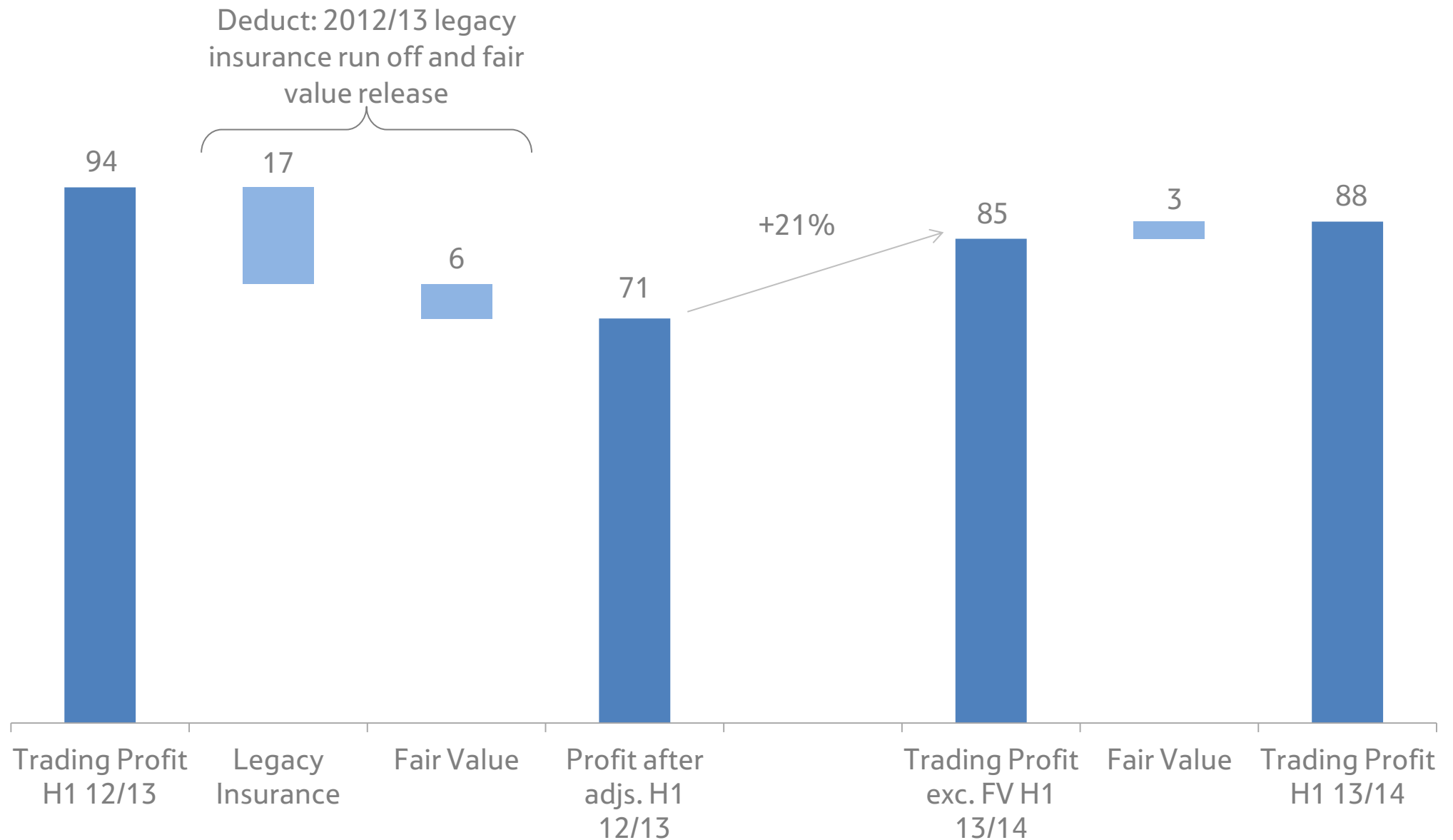
Europe

- Like-for-like sales down (5)%
- Improving through half
- Margins impacted
- Remained cash flow positive
- Better profitability expected in H2
 - Strong plans in Ireland
 - Benefits of investment coming through
 - Trends already improved in Turkey
 - Lower comparatives

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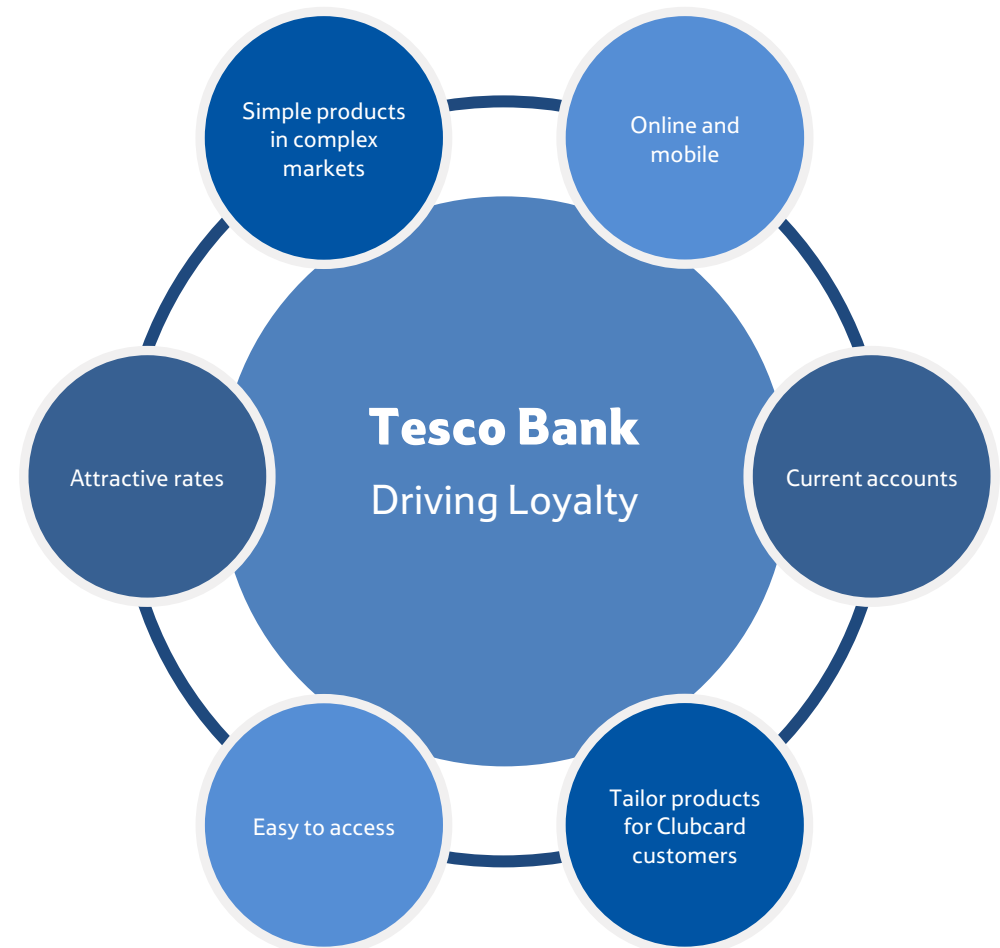
* Excluding petrol

Tesco Bank performance



Tesco Bank

- Strong growth in consumer lending
 - Supported by Funding for Lending Scheme
- Challenged insurance market
 - Market motor premiums down (15)%
- 90% of new insurance business from Clubcard holders



Strategic moves: Fresh & Easy

- Concluded strategic review
- Fresh & Easy sold to Yucaipa
- Total cash cost of exit no more than £150m
 - Includes loan to Yucaipa of c.£80m
- No ongoing liabilities
- US losses will cease



Strategic moves: China

- Entering into partnership with CRE
- Once completed, results will be shown on JV and associates line
- China business now accounted for as a discontinued operation^{*}
- Exchange losses for share of partnership result
- ROCE accretive
- Merged entity will be self-funding



^{*}In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of the China business for the period are required to be presented within discontinued operations.

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- Reduction of over £200m vs H1 2012/13
- Moving into targeted range in 2014/15

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- Reduction of over £200m vs H1 2012/13
- Moving into targeted range in 2014/15

Maintain a strong investment grade credit rating

- Net debt £7.0bn – down £0.2bn
- Achieved despite significantly lower property proceeds

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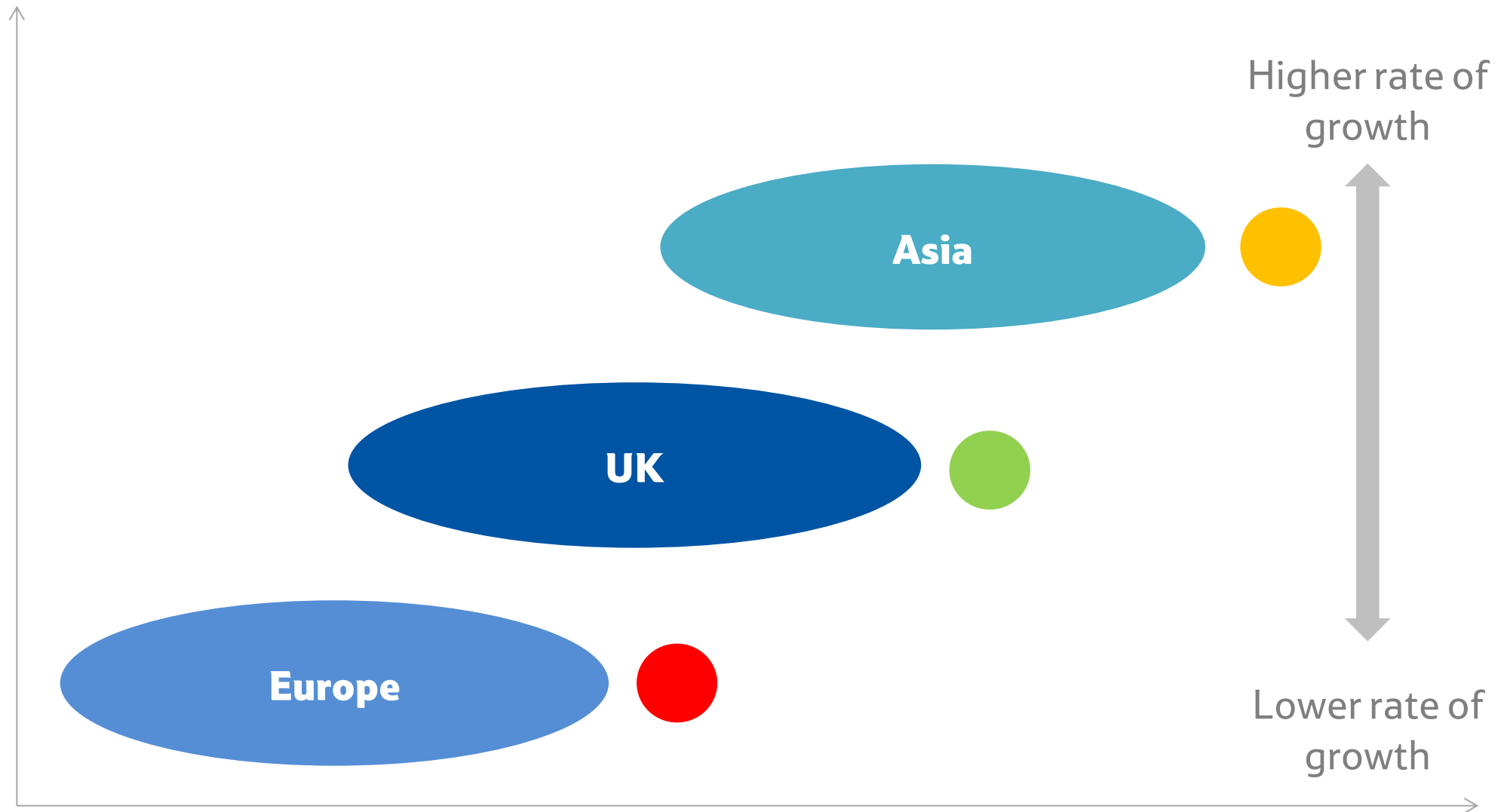
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Sustainable growth



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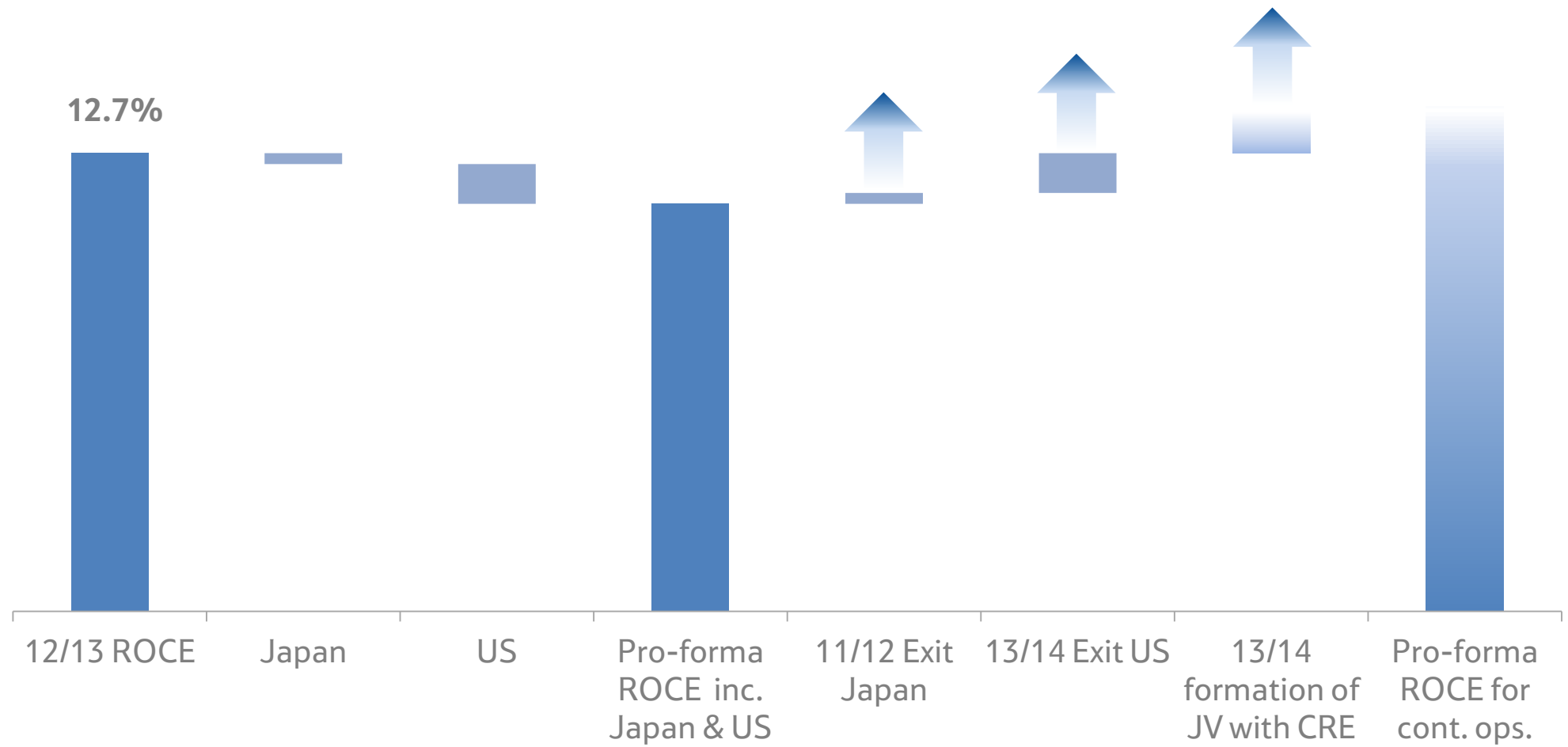
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ROCE



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Summary

- Good progress despite challenging conditions
- Expect better H2 performance
 - Continued UK progress
 - Improving international trends
- Committed to medium-term guidance and financial framework
- Focus on:
 - Disciplined capital allocation
 - Free cash flow generation
 - Improving returns

UPDATE ON GROUP STRATEGY

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

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strong UK business



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leadership

Freshly clicked

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UK – Building a Better Tesco



Service & Staff



Stores & Formats



Price & Value



Range & Quality



Brand & Marketing



Clicks & Bricks

Food sourcing

- 100% fresh British chicken
- 100% British or Irish beef across fresh, frozen and ready meals
- Producer Network extended to all dairy farmers
- Appointed new agricultural director



Love Every Mouthful



Love every mustard dipped
béarnaise smothered juice
oozing  plate mopping
21 day aged mouthful

tesco.com/LoveEveryMouthful

TESCO
Every little helps

Love Every Mouthful



Love every drumstick glazing
sizzle braving pinny wearing
smokey sauce soaked
British chicken mouthful



TESCO
Every little helps

tesco.com/LoveEveryMouthful

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Tesco in Society

Thank you, Newcastle.

Tesco have topped up all your donations by 30% and together we gave an impressive 12 000 meals to help feed people in need.



TESCO
Every little helps

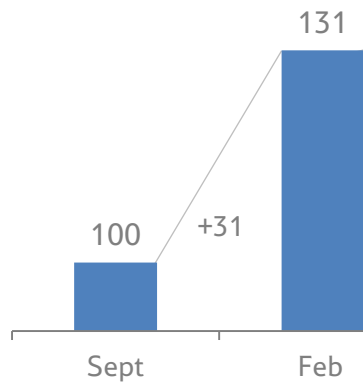


The meals listed are based on an estimated average weight of meals collected. Figures based on estimated value of meals collected only. The Trussell Trust also, in addition to FareShare, has 1180000. For further information including the need and all participating communities, go to www.trusselltrust.org

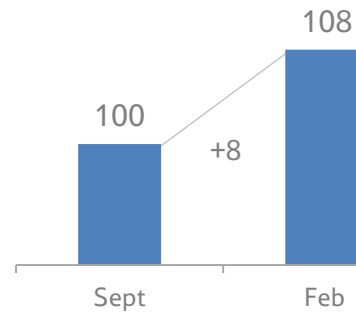


UK – customer feedback

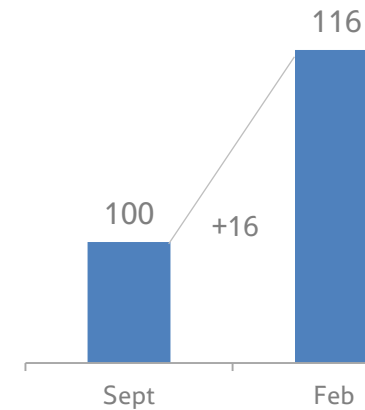
Overall customer service and staff helpfulness is **excellent**



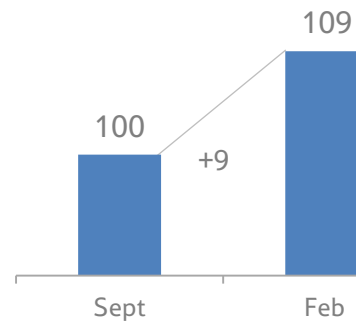
Length of wait at our checkouts is **very good**



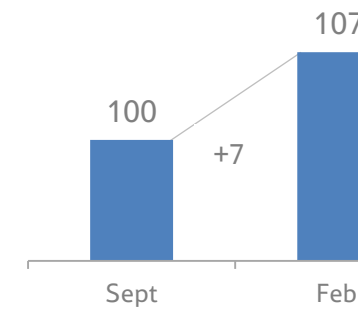
Staff are very **welcoming**



Staff are very **helpful**

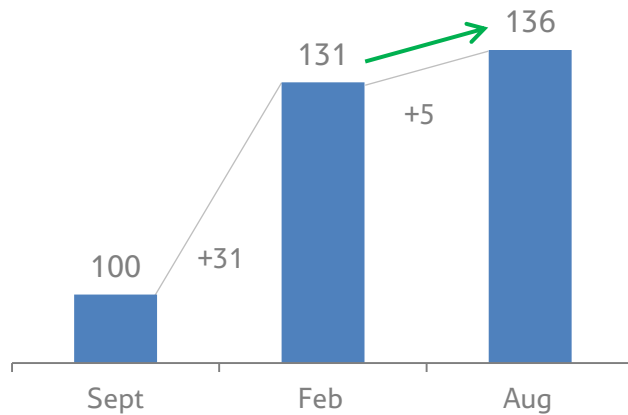


Availability is very **good**

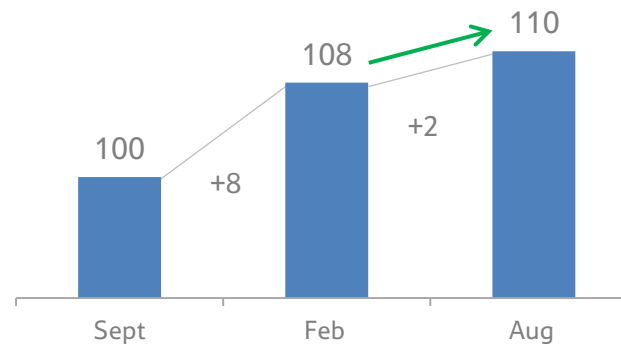


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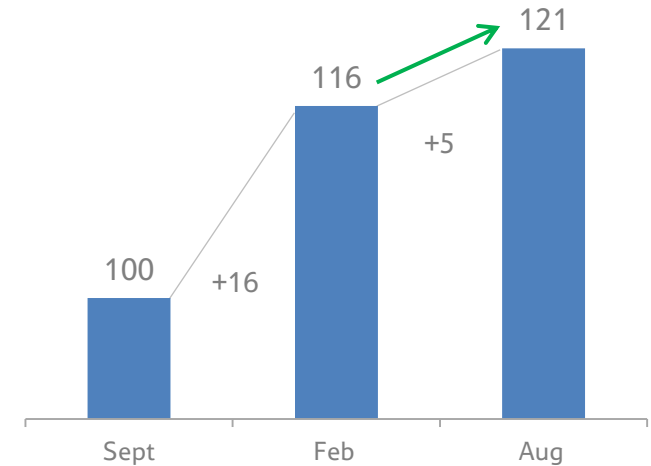
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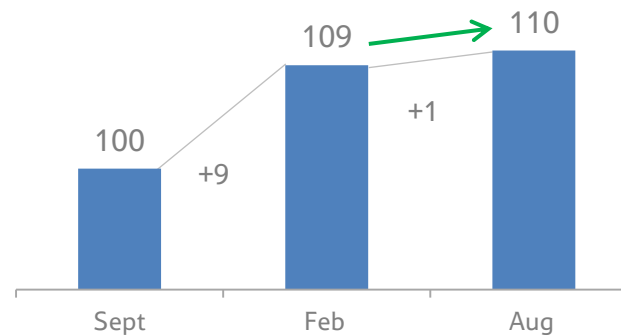
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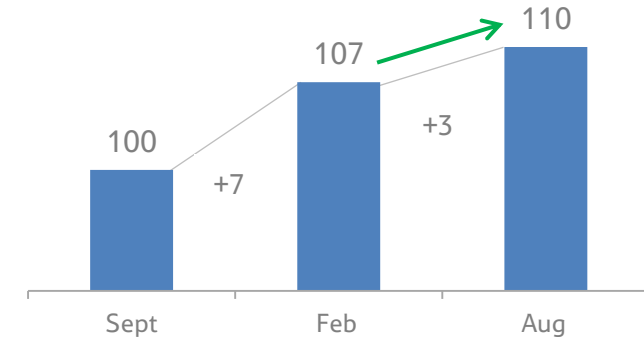
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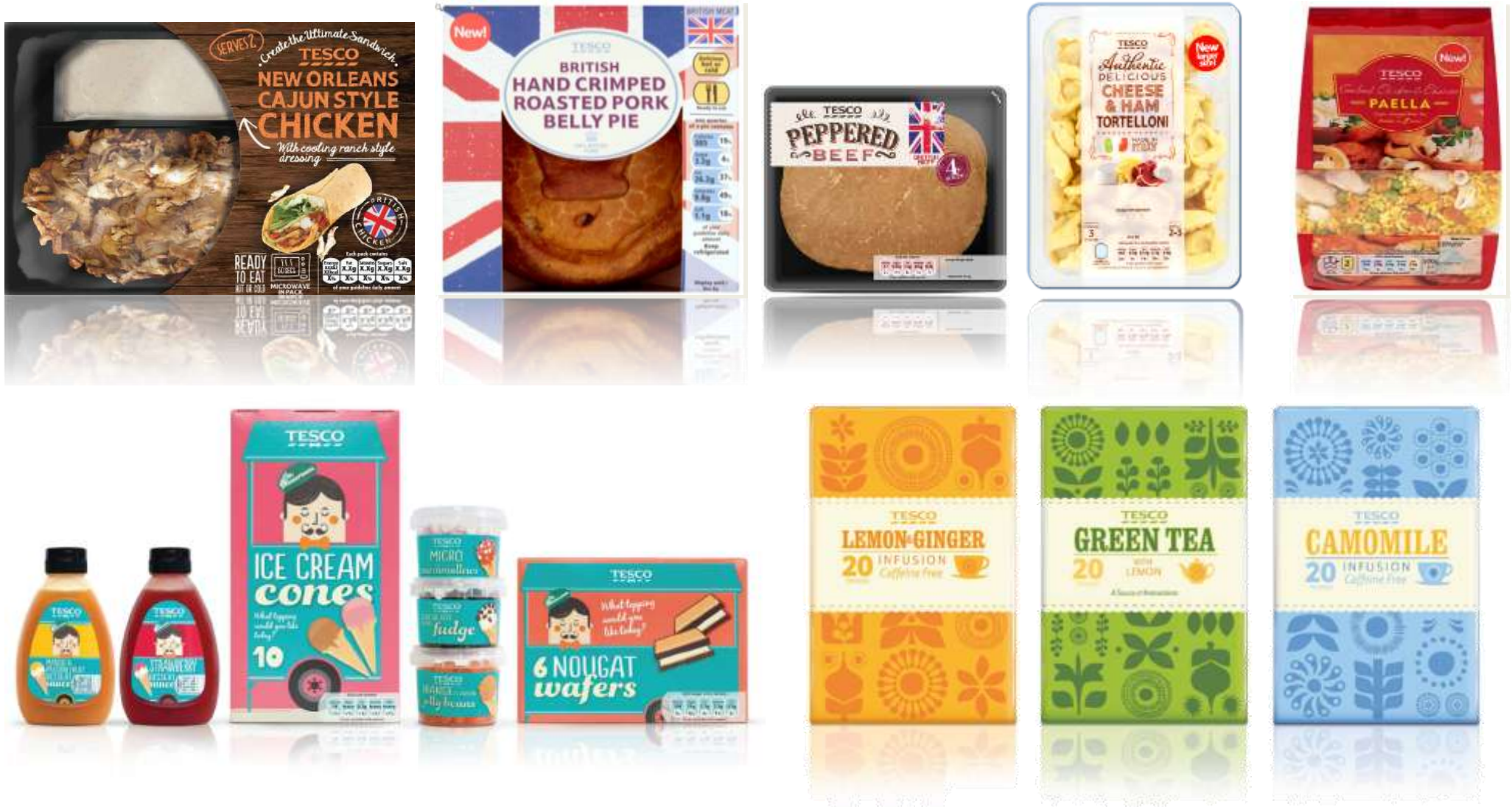
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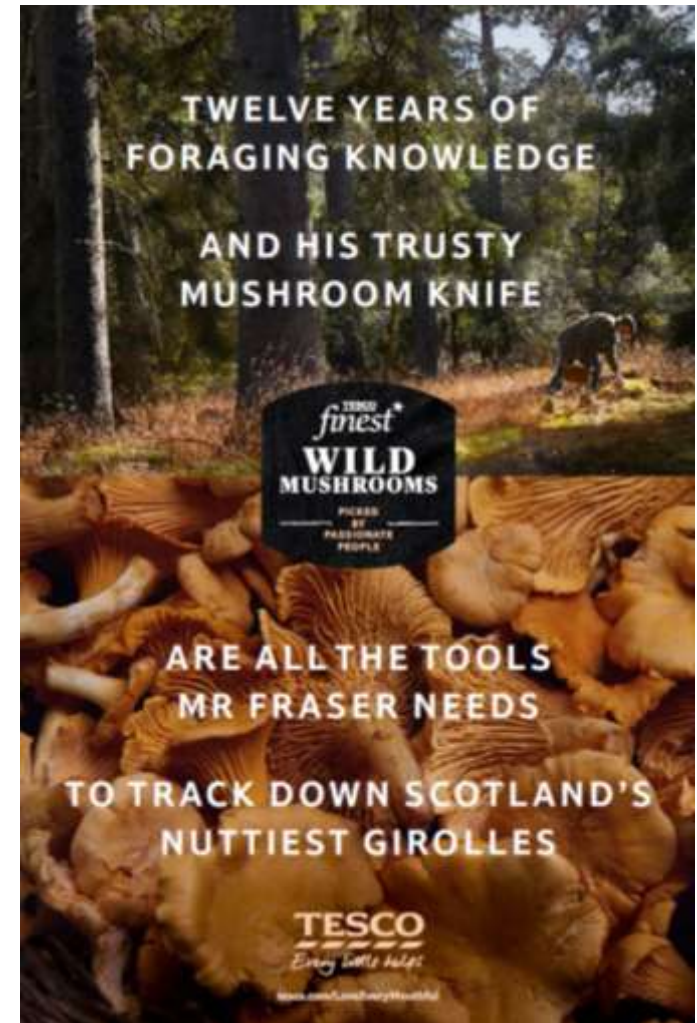
Availability is **very good**



Range & Quality









Price 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*

in store | online | mobile | tesco.com

Max voucher value £10. Exclusions may apply due to difference in size, weight, volume, flavour or quality. Selected UK stores. Prices checked at Asda.com, Sainsburys.co.uk and Morrisons (in store). Delivery charges apply online. Full terms & conditions at tesco.com/pricepromise

Price perception improvement

+5% 


Agree that “I trust what the store says about its prices”

+11% 

Strongly agree that “I can rely on the store to be competitive on price”

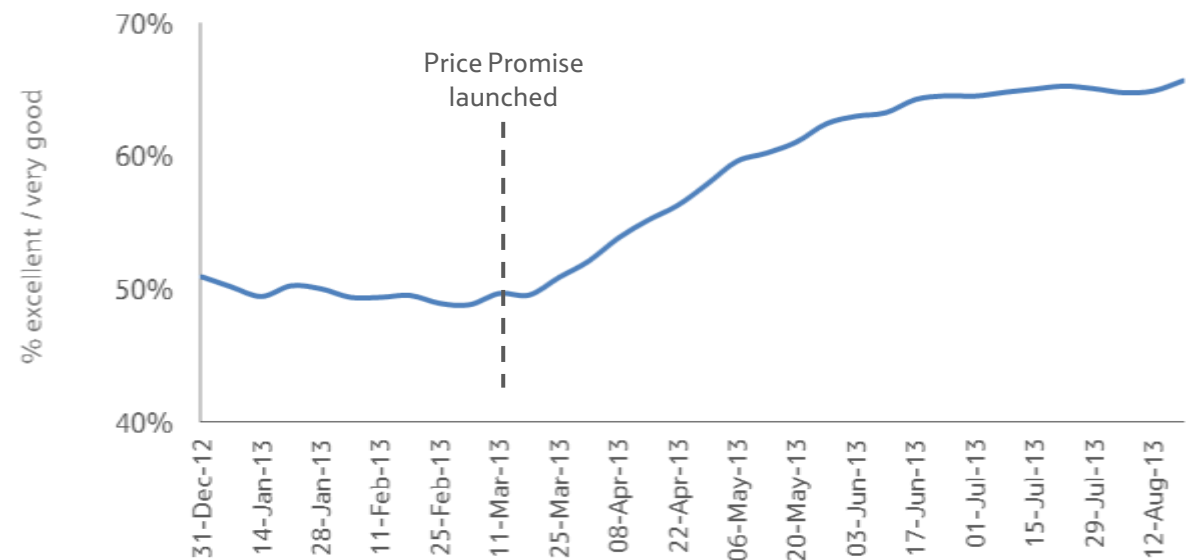
+5% 

“The prices of products I buy regularly” are excellent or good

+34% 

Rate the store as excellent or good for price matching/ beating vs. competitors

Price matching/ beating vs. competitors



Source: Competitor Pulse

Refresh

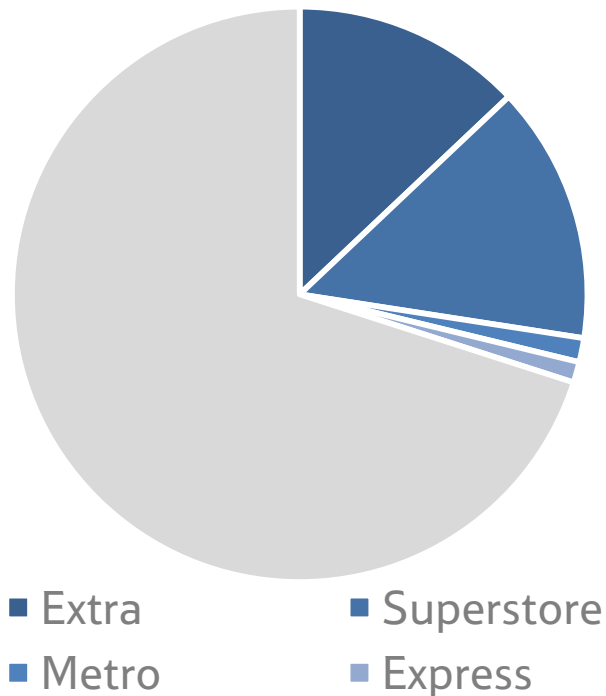
1. Continuing to invest in strong UK business



Refresh

1. Continuing to invest in strong UK business

Sq. ft. refreshed and remodelled since March 2012



Notes: 1. Based on all Refresh projects since Mar-12
2. Based on the Refresh population <52wks

Extra

- Highest ROCE Refreshes
- Includes Watford, Purley and Coventry pilots

Average cost of refresh ¹

£1.6m

Average uplift ²

c.5%

Superstore

- Strongest results from most recent Refresh work
- Good margin uplifts due to improved mix

£1.2m

c.3%

Metro

- Strong uplifts driven by tailoring to shopping missions
- Best margin gains across Refresh

£1.0m

c.7%

Express

- London focus to convenience Refresh programme
- Significant range changes across entire estate

£150k

c.4%

Refresh

1. Continuing to invest in strong UK business



London

1. Continuing to invest in strong UK business



From Regent Street...



...to Upton Park



General merchandise transformation

- Better, more sustainable margins
- Better cash profit
- Stronger sales densities
- Stronger profit densities
- New ranges more resilient to online

REFOCUSING OUR EXISTING SPACE





General merchandise transformation



F&F transformed



New space



Gateshead



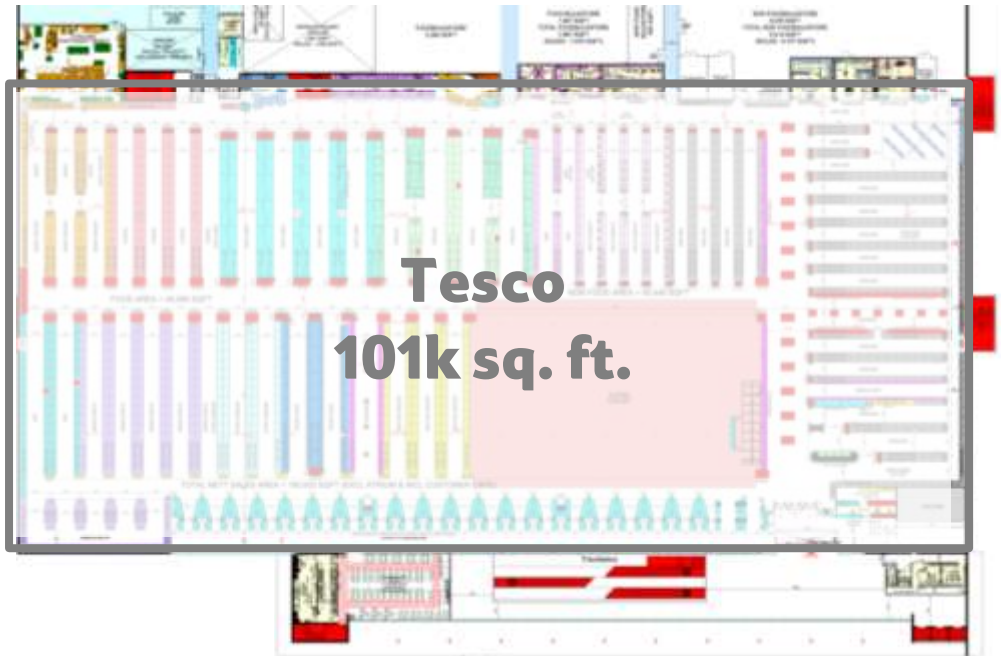
Sunderland



West Bromwich

Sunderland Extra

Initial plan



Final scheme:
30% less Tesco space



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Freshly clicked

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

3. Pursuing disciplined international growth



Extra remodel: Watford



Extra remodel: Watford



Extra remodel: Watford



Extra remodel: Coventry

Before



After



Extra remodel: Coventry

Before



After



Extra remodel: Coventry

Before



After



Extra remodel: Coventry

Before



After



Convenience

- Fast growing and a key focus in majority of markets
- Represented c.30% of UK net new space in H1
- Even larger proportion of new international space

UK new openings sq. ft.

International new openings sq. ft.

Smaller formats

Extras and
Superstores



Hypermarkets



Smaller formats

UK grocery home shopping

- UK sales up nearly 13%
- Market leader
- Click & Collect now in nearly 200 locations
- Sixth dotcom-only store opens later this month



*Improved
customer
satisfaction*



*Better
availability*



*Better delivery
service*

International grocery home shopping

- Now in more than 50 cities, across in nine markets outside the UK



Tesco Malaysia



Tesco Poland



Digital entertainment



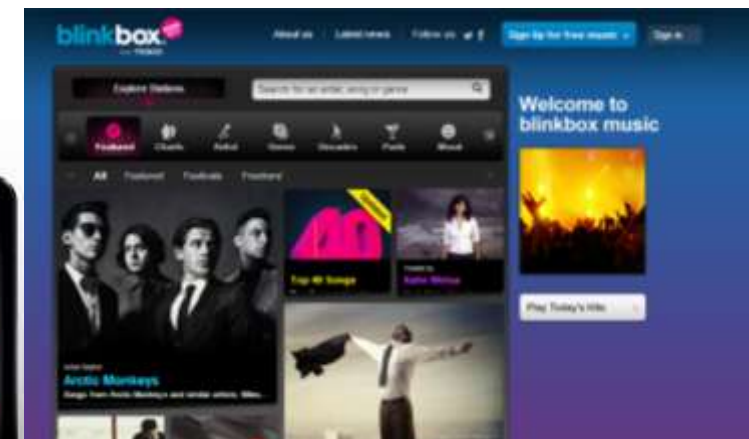
blinkbox books



Who we are

blinkbox is a group of three companies providing digital movies, music and books on as many platforms as possible.

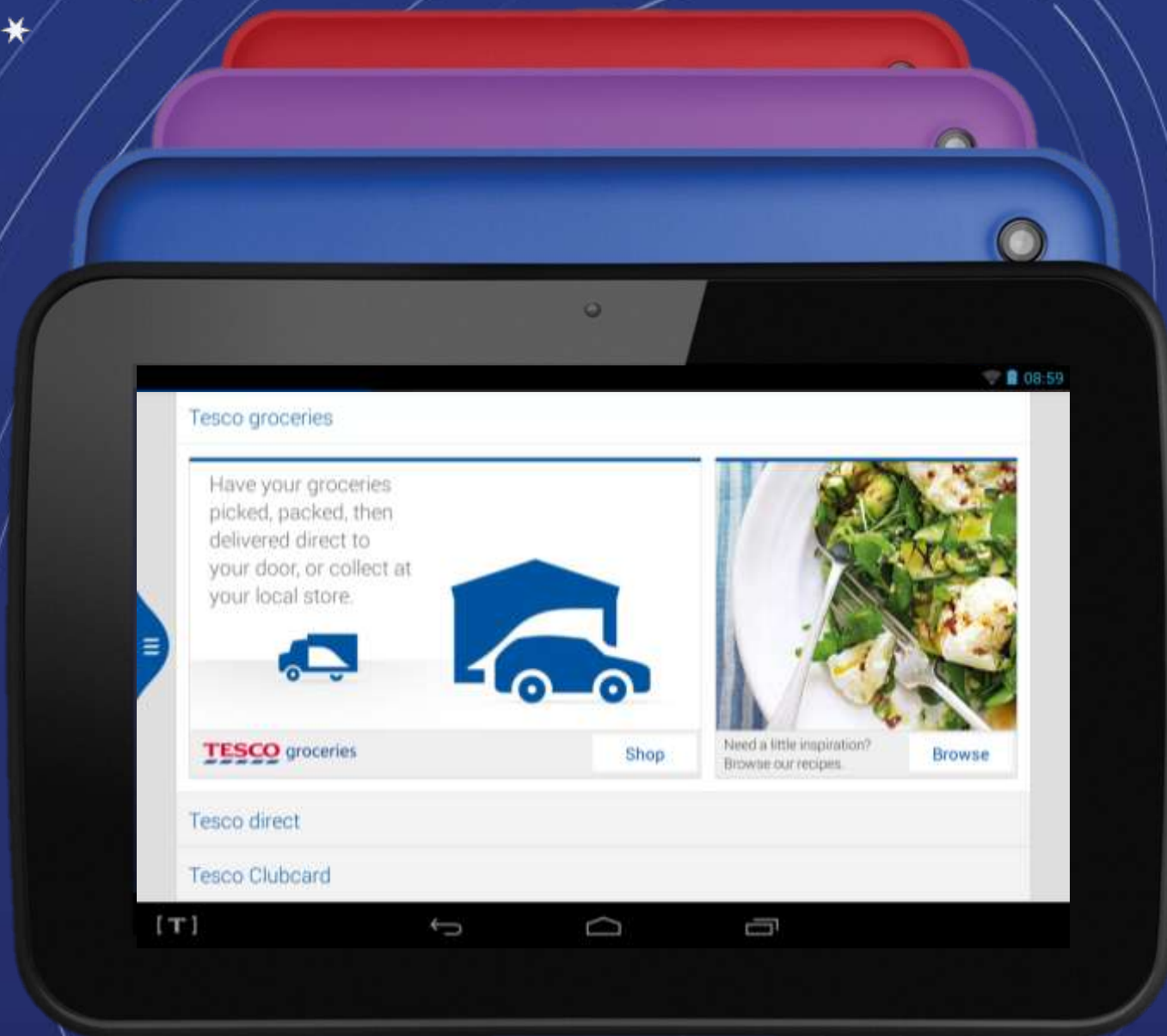
One part of this group, **blinkbox books**, is in the design stage after being bought by Blinkbox (Tesco's digital entertainment group) in late 2012. We're looking for feasible, passionate developers who will help us build Britain's most loved digital book service.

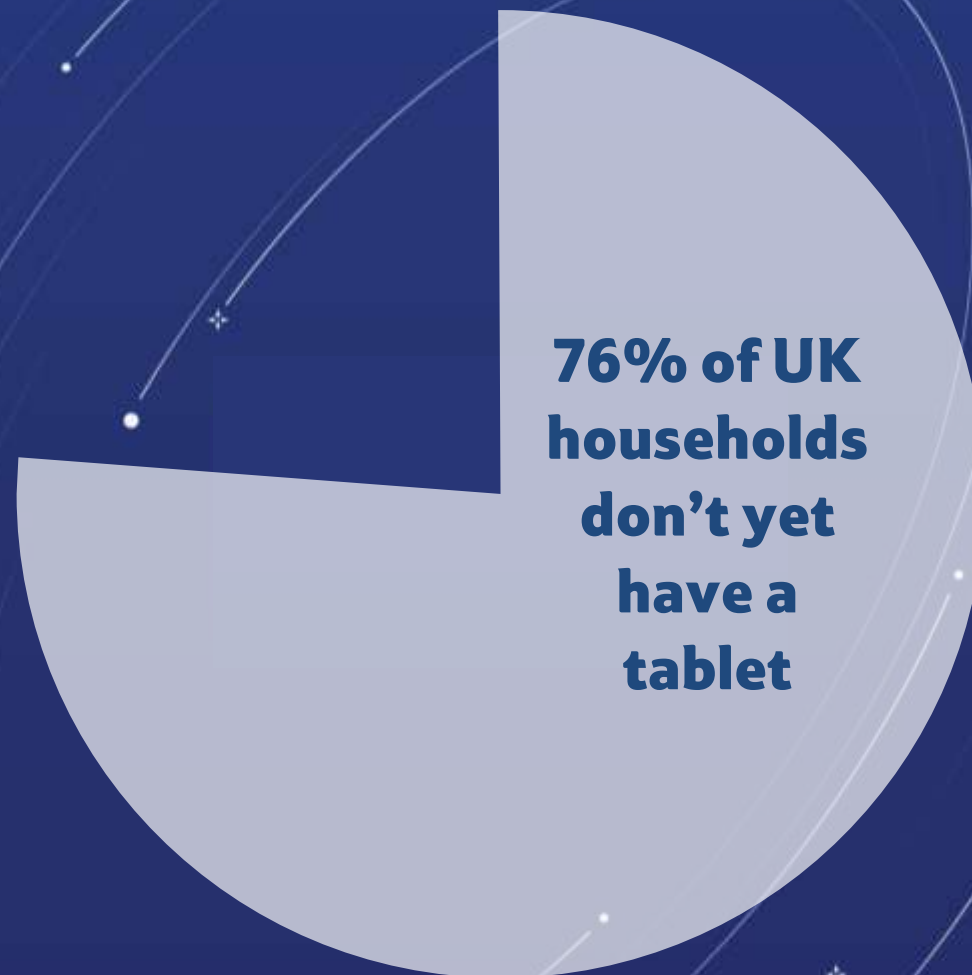


hudl*



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2. Establishing multichannel leadership

Freshly clicked

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

3. Pursuing disciplined international growth



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

The leading multi-format retailer in China



8 Ability to become the best operator



The perfect combination
 $1+1>2$



- ✓ Huge customer base
- ✓ Portfolio of well recognised and leading formats
- ✓ Deep understanding of local customers
- ✓ Established nationwide infrastructure
- ✓ Local sourcing capabilities
- ✓ Local business and government relationships



- ✓ Know-how of global best retail practices
- ✓ IT systems
- ✓ Customer analytics
- ✓ Private label offering
- ✓ Supply chain capabilities
- ✓ Training and management expertise

#1 multi-format retailer in China...

...with world class infrastructure and operations...

...leading to accelerated growth and continued profitability



The leading multi-format retailer in China

- Huge opportunity
- New model for Tesco
- Active partnership
 - Two seats on the board
 - Clearly defined rights
- Clear route to sustainable, profitable growth



Investment in Poland



Investment in Poland



Building a Better Tesco

- Difficult conditions in many markets
- We are focused on delivering changes required
- Strategy is on track, financial discipline in action
- Creating the most compelling offer for customers wherever we operate
- Boldness, discipline, imagination: foundations for success

Q&A

Disclaimer

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