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F&F
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£1
each
TESCO
Winning in the new era of retail
25 February 2014

Winning in the new era of retail

- Retail world is transforming more quickly than ever before
- Current challenges, long-term opportunities
- Tesco is uniquely placed to lead
  - Sustainable, competitive advantages built up over many decades
  - Anticipated the change – strong positions in convenience, online and digital
  - Reinventing and investing in physical stores
  - Developing and seamlessly integrating new channels

An unrivalled family of brands

dunnhumby

one stop

Tesco Free From

Tesco finest

Tesco mobile

H+H

Tesco Superstore

Tesco

Carousel

euphorium bakery

Tesco Everyday Value

thenutricentre

The most compelling offer for our customers

Tesco express

Tesco Metro

blinkbox

Tesco direct

Tesco Clubcard

F&F

Tesco extra

giraffe

Third party marketplace
Sellers at Tesco

Dobbies

hudl

Click & Collect

Tesco healthy living

Tesco Bank

Customer loyalty will be even more important in the new era

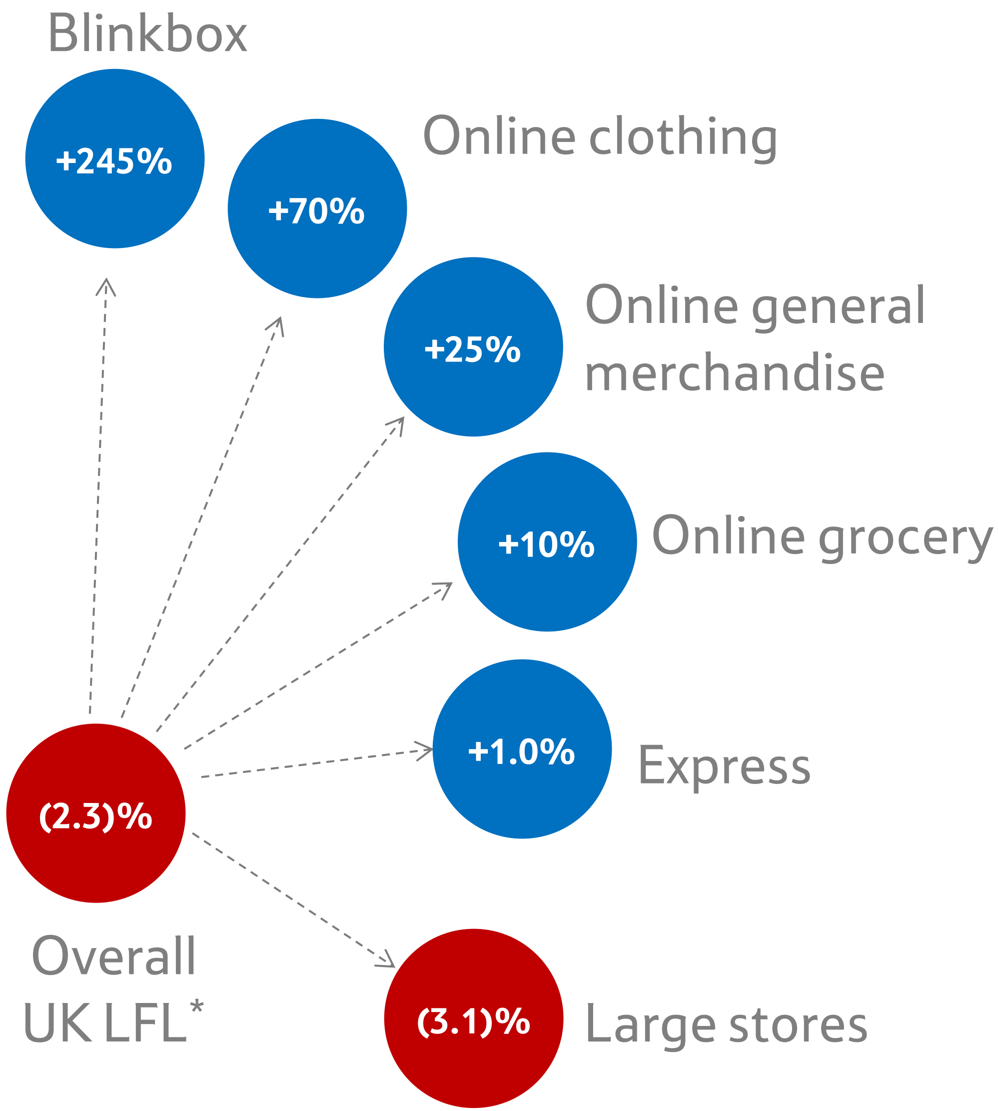
What does Tesco stand for?

- For everyone:
  - Delighting customers – whoever, wherever, whenever
  - Outstanding value – unique ability to understand each individual's needs
  - Ease and simplicity
  - Everyday needs met like no-one else can
- Most tailored and personalised offer
- To be loved by customers in a seamlessly connected world

What's changing?

- Accelerating growth in new channels
  - Investing to ensure we emerge as winners in the new era
- Allocating sufficient resources to deliver the most compelling customer offer today
  - Sharper prices, improved quality, stronger ranges, better service
  - Going faster with large-store refresh programme
- Further measures taken to free up resources
  - Group-wide capex reduced to $\leq$ £2.5bn per year, for at least three years
  - Productivity and overhead savings
- Financial framework remains appropriate for the medium term

Christmas highlighted the trends within the industry



Consumer-driven trends

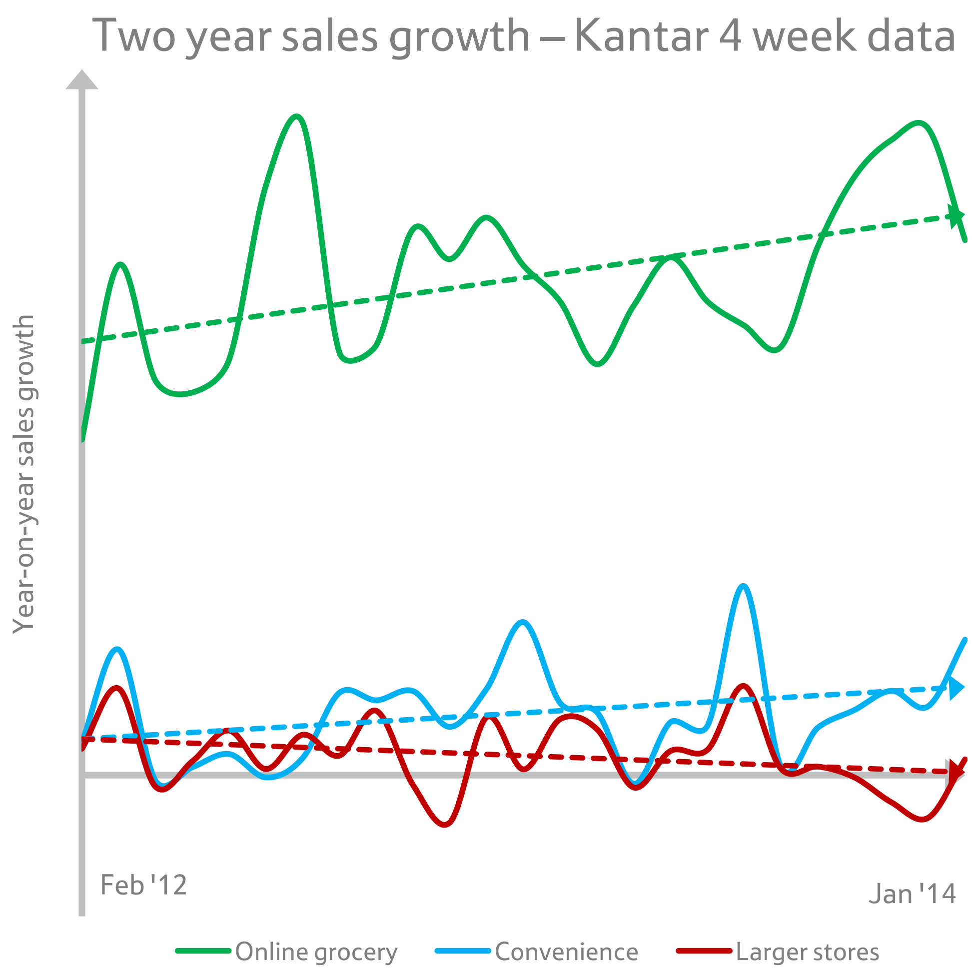
Strong growth in online
- Rapid online migration now a mainstream consumer trend
- Customers increasingly blurring boundaries between online and offline
- Smartphone and tablet penetration gaining pace

Strong growth in convenience
- Rise in small missions as more customers seek to buy local, little and often
- Fuel prices still an issue for many consumers
- Long-term trend towards smaller households continuing

Large out-of-town formats under pressure
- Affected by consumer channel shift to online and convenience
- Some customers appear to be adopting 'new norm' of frugality
- Increased levels of competition
- GM transformation programme holding back sales in short-term

*Overall UK LFL (Inc. VAT) includes statutory adjustments. Select sales statistics shown.

These consumer trends have been building for some time



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Source: Kantar Worldpanel 4 week Total Till Roll data to 5 January 2014.

We have a high level of exposure to larger stores

% of retailer space by store size (excluding stores <10,000 sq ft)

	10-30k sq ft	30-50k sq ft	50-70k sq ft	>70k sq ft
Tesco	20%	24%	27%	29%
Competitor A	8%	29%	39%	24%
Competitor B	22%	35%	30%	13%
Competitor C	28%	62%	10%	0%
Competitor D	88%	8%	4%	0%

- More than half of our space is in large stores
- Exposure compounded by existing space allocation
- Compared to our nearest large store competitor we still have:
  - c.2 times the space allocated to consumer electronics
  - Half as much space allocated to clothing

Source: Internal database and Local Authority records.

We have been clear about what we need to do for some time

- Sharper prices, improved quality, stronger ranges, better service
- A focus on building customer loyalty
- The reinvention of our large store formats
- The transformation of non-food – first Clothing and now GM
- Convenience stores tailored to their customers
- Provision of added value products and services
- Seamless connections for customers

- Building a Better Tesco has strengthened the foundations
- We are now accelerating the rate of improvement for customers

We leverage our skill and our scale in ways others cannot

- Global sourcing scale
- World-class supply chain and logistics
- Strong people, processes and systems
- Great store locations, multiple formats
- Profitable online grocery business
- Strong own-brands and services
- Unrivalled customer insight
- Most loyal customer base
- Banking and telecoms services

We will accelerate our rate of leverage with our new capabilities

• Global sourcing scale • World-class supply chain and logistics • Strong people, processes and systems • Great store locations, multiple formats • Profitable online grocery business • Strong own-brands and services • Unrivalled customer insight • Most loyal customer base • Banking and telecoms services	• Most compelling offer for our customers in the multichannel era • Differentiated, added-value services across the business • Multichannel leadership – everyday needs in one place • Seamless experience – connected elegantly

All underpinned by our focus on the most compelling offer for customers

• Global sourcing scale
• World-class supply chain and logistics
• Strong people, processes and systems
• Great store locations, multiple formats
• Profitable online grocery business
• Strong own-brands and services
• Unrivalled customer insight
• Most loyal customer base
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• Most compelling offer for our customers in the multichannel era
• Differentiated, added-value services across the business
• Multichannel leadership – everyday needs in one place
• Seamless experience – connected elegantly

Sharper prices	Improved quality	Stronger ranges	Better service

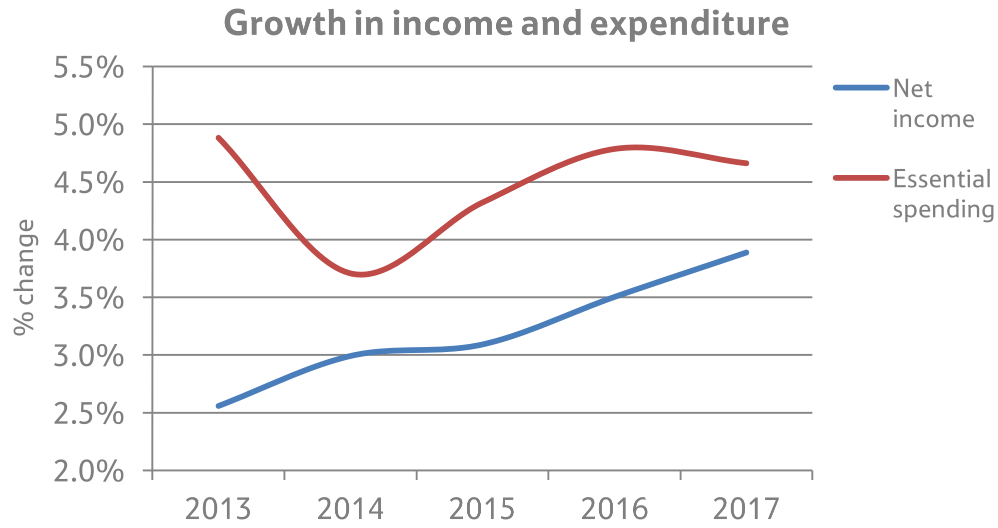
We have already taken important steps

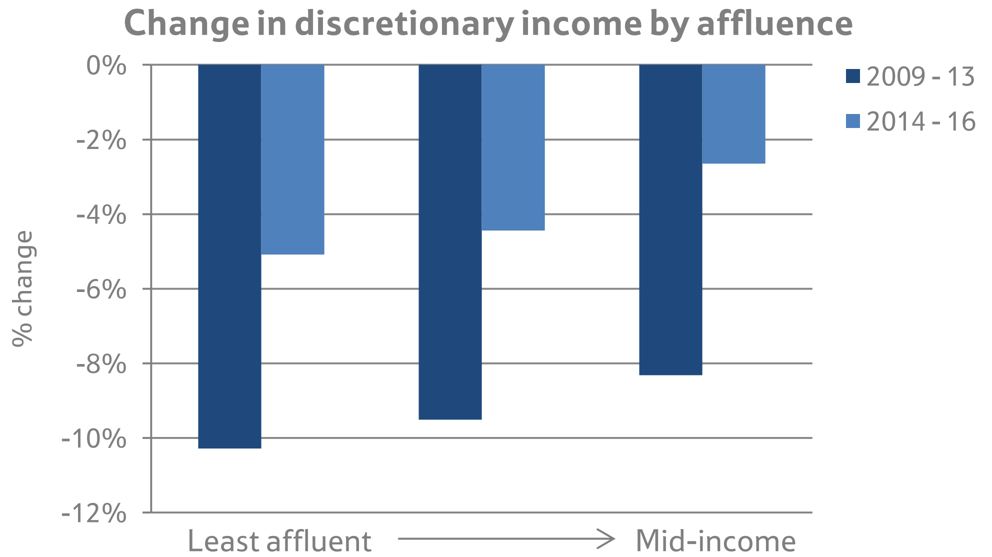
- Improvements across the offer under Building a Better Tesco plan
- Already reduced our investment in new space
  - From 2.5m sq ft per year at peak to c.1.4m sq ft in 2013/14*
- Transformed F&F
- Started our GM transformation programme
- Developed, trialled and piloted key ‘ingredients’

*2013/14 forecast comprises c.1.1m sq ft Tesco space, c.0.2m sq ft One Stop space and c.0.1m sq ft Dobbies space.

Customers are yet to feel the benefits of the emerging recovery

- Squeeze on discretionary income continues and will remain
  - Increasing cost of housing, especially utilities, means essential spending growth is likely to outstrip income growth
- Least affluent consumers seeking out new ways to limit overall spend
  - Cap on benefits means the least affluent will continue to be hard hit
- Middle-income families forced to make choices to maximise overall value





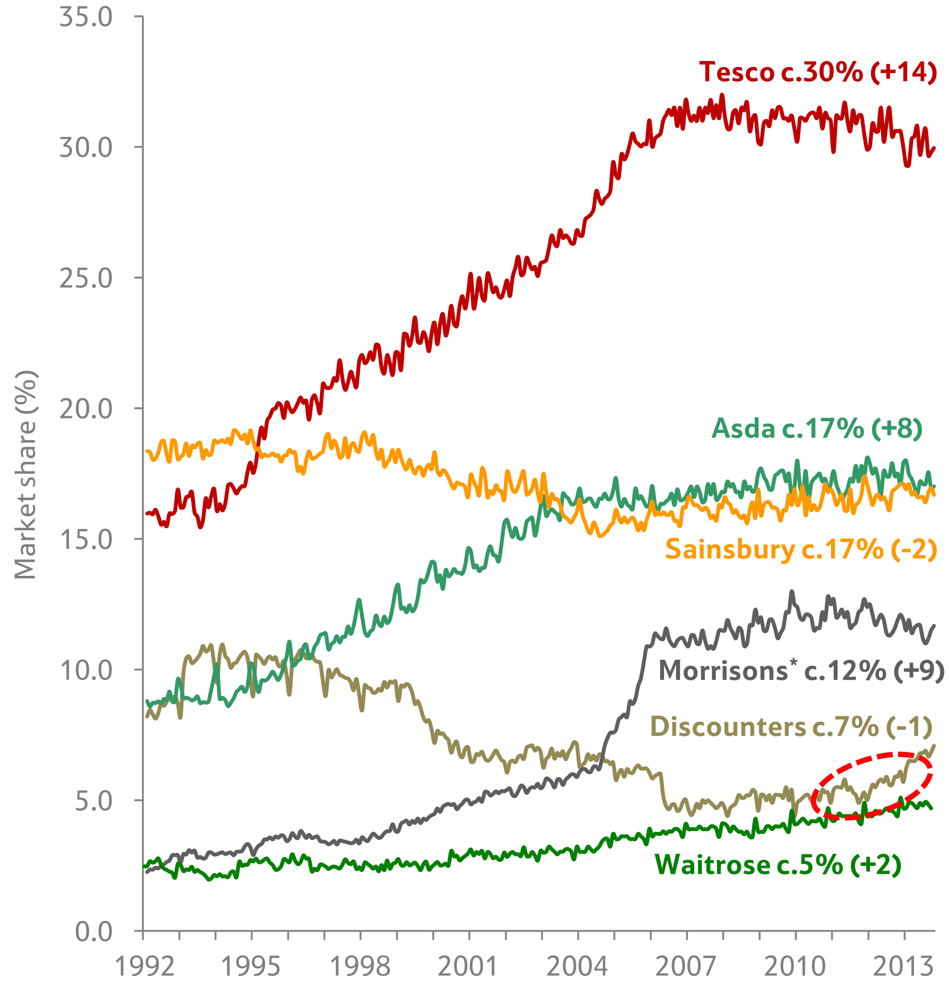
Source: Experian Income Tracker.

TESCO

The UK market is more competitive

- Increased promotional intensity
- Proliferation of price-led marketing
- Continued space growth
- Rapid growth and new entrants in convenience and online grocery
- Recent expansion of discounters and premium players

UK market share 1992 to 2013



Source: Kantar Worldpanel Share of Grocers 4 week Total Till Roll data to 5 January 2014.
*Including Safeway.
(x) = % pt market share movement since 1992.
Discounters = Aldi, Lidl, Netto, Kwiksave.

Uncertainties about the future remain

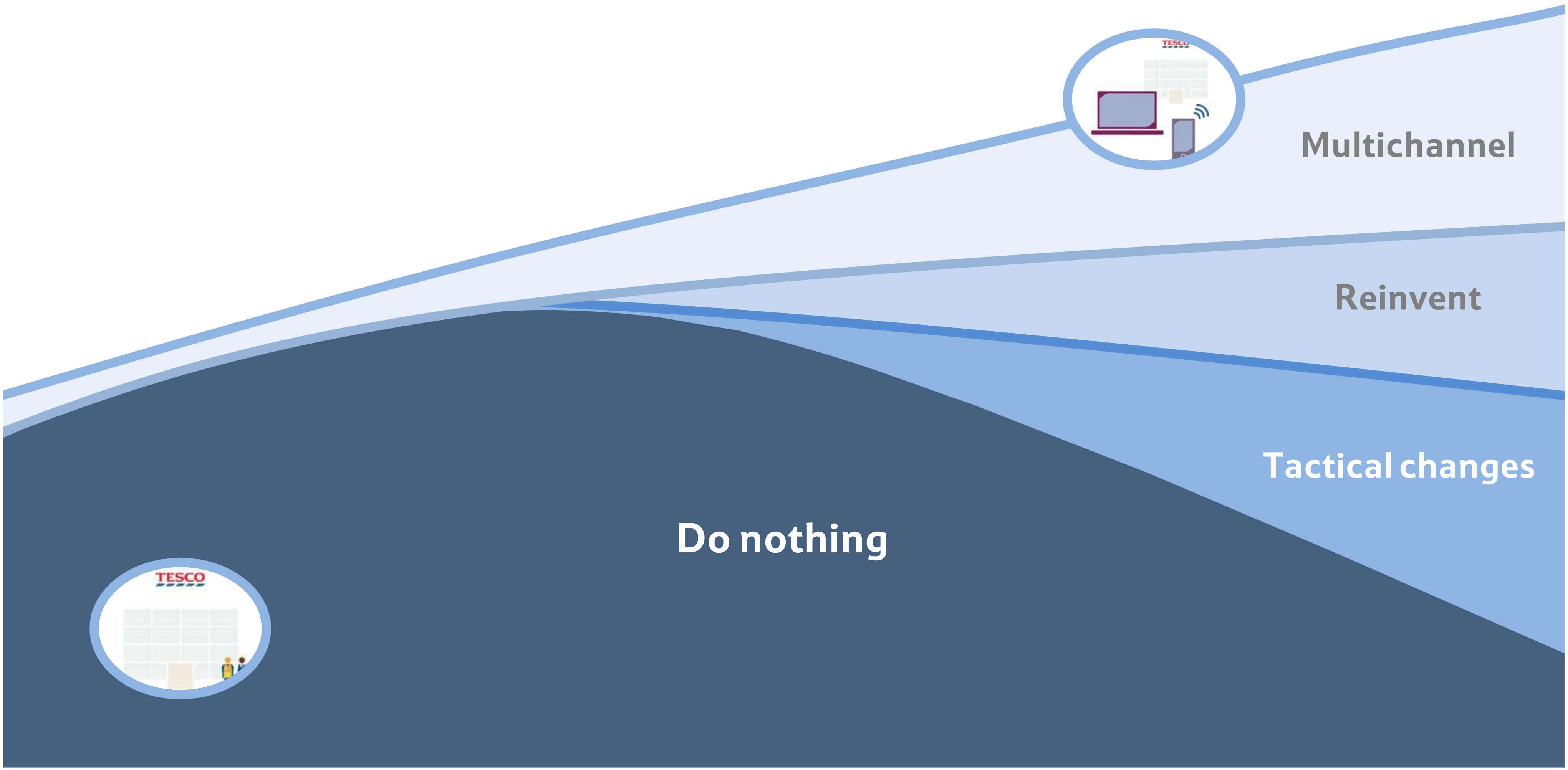
- Consumers are yet to benefit from the emerging economic recovery
- The pace of transition of consumers to online is still unclear
- The industry will remain intensely competitive

We are going to lead the industry

- We are focused on delivering the most compelling customer offer
- We are retaining the flexibility to act accordingly
- Having tested the ingredients, we are going faster
- We are spending much less on new space
  - Group-wide capex $\leq$ £2.5bn for at least three years
  - Further reduction in net new Tesco space in the UK to 0.7m sq ft in 14/15
- We will be the benchmark for multichannel service

We are moving from a first curve to a second curve

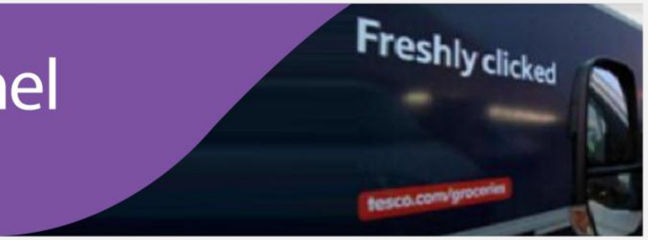
How businesses bridge the gap between the first and second curve is crucial



Our strategic priorities remain the same

1. Continuing to invest in strong UK business

2. Establishing multichannel leadership



3. Pursuing disciplined international growth

CONTINUING TO INVEST IN A STRONG UK BUSINESS

What does Tesco need to win?

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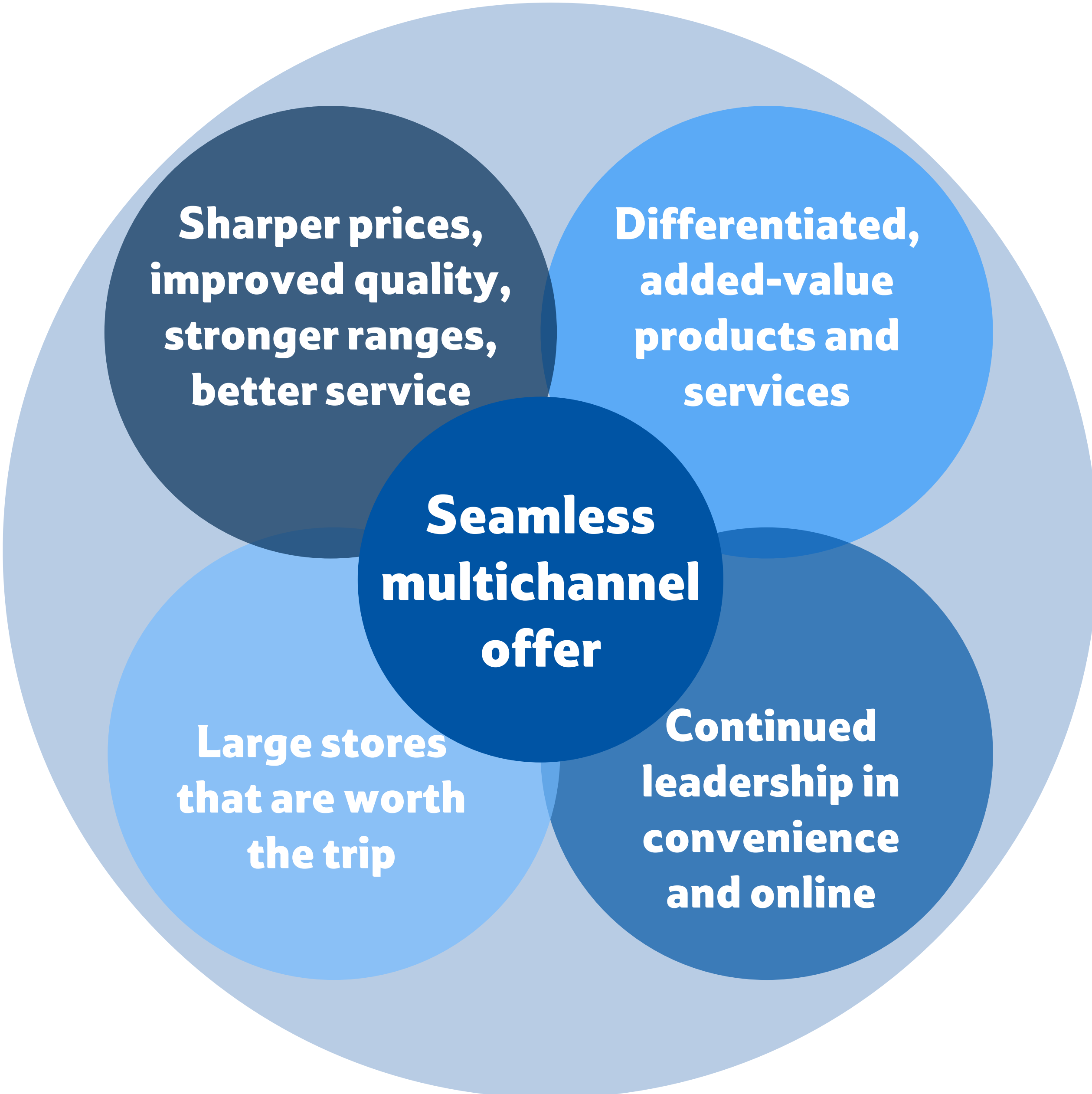


We began our journey to Build a Better Tesco in 2012

Service & Staff

Stores & Formats

Price & Value

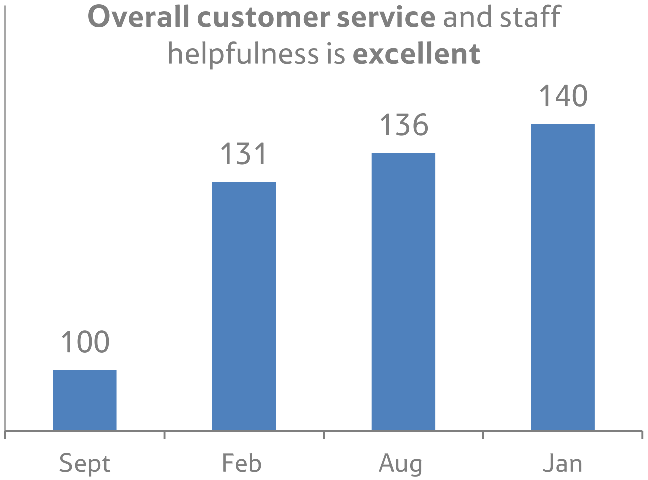
Range & Quality

Brand & Marketing

Clicks & Bricks

Strengthening the foundations

Service & Staff

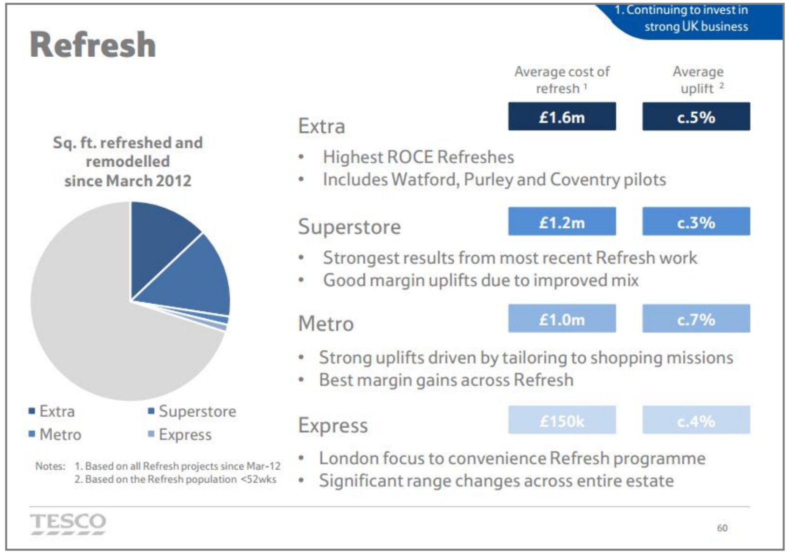


- Invested £200m in additional hours in 12/13
- Making Moments Matter – over 250,000 colleagues helped to give great service
- Right hours, right place – we have moved over 300,000 hours in last 12 months
- +40% increase in proportion of customers rating customer service and staff helpfulness as excellent

Strengthening the foundations

Stores & Formats

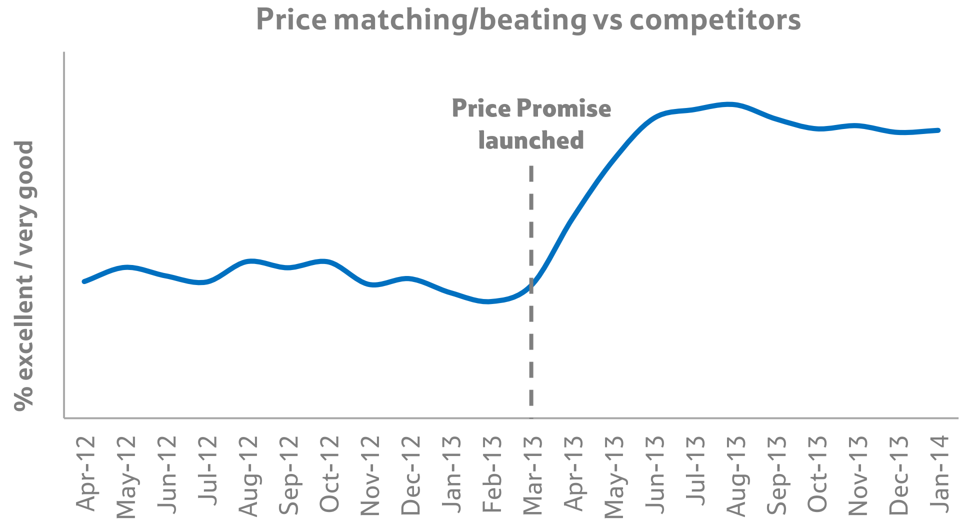
- Over a third of our estate has benefited from refresh programme in last two years
- Positive customer response
- Sales, profit and margin ahead of equivalent non-refreshed stores
- Developed and tested 'ingredients' for reinventing large stores across our estate



Strengthening the foundations

Price & Value

- A new price approach – trusted, stable, logical and competitive
- Reduced price errors by >50%
- Launched Price Promise
- Driven improvements in all customer price perception measures in-store and online



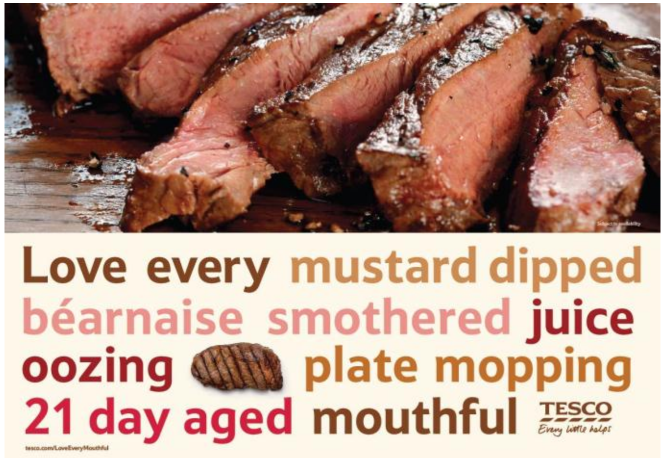
Strengthening the foundations

Range & Quality

- Materially improved 8,000 products in our core Tesco range
- Re-launched ranges – Everyday Value, finest*, Healthy Living
- Introduced industry-leading authenticity tests
- Fresh quality perception improved by over 6%
- Awarded Quality Food Awards Retailer of the Year 2013

Strengthening the foundations

Brand & Marketing



Strengthening the foundations

Brand & Marketing

- Food back at the heart of our communications
- Love Every Mouthful
- More value delivered to customers through Clubcard
  - Clubcard Boost and personalised couponing
  - Customer ratings up 6%

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- More value delivered to customers through Clubcard
  - Clubcard Boost and personalised couponing
  - Customer ratings up 6%
- Playing an important role in communities

Strengthening the foundations

Clicks & Bricks

- Grown online grocery share from strong lead
- Strengthened grocery home shopping offer
  - Over 190,000 Delivery Saver subscribers
  - One-hour delivery slots across 98% of the UK
  - Grocery Click & Collect in 232 locations
- Stabilised online general merchandise
  - Over 1,750 Click & Collect desks

We have achieved this thanks to the efforts of our 300,000 colleagues

Accelerating our plans to deliver the most compelling offer for customers

1. Every day low prices on the lines that matter most
2. Product innovation and quality that delights
3. Leading on service
4. Inspiring general merchandise ranges
5. The best, most relevant convenience retailer in town
6. Destination stores that are worth the trip
7. Exceptional value for customers delivered through Clubcard

Every day low prices on the lines that matter most

- We can do more to drive a change
- Lower, more stable prices
- Genuine deals that customers trust

Every day low prices on the lines that matter most

- Additional incremental investment of £200m

Every day low prices on the lines that matter most

- Additional incremental investment of £200m
- Price Promise will continue to reassure

Product innovation and quality that delights

- New product development back to the fore
- Produce category review underway – specifications, quality, taste
- Making convenience food ranges an even stronger point of differentiation
- Anticipating emerging trends – Health, Wellbeing, Fitness and Nutrition

Leading on service

- Further productivity improvements to free up more colleagues to serve customers in-store
- Prioritising fresh food departments
  - Ambition to have the best butchers, fishmongers and produce experts
- Focusing on in-store service points and customer delivery assistants
- Empowering colleagues – continuing the cultural change

Inspiring general merchandise ranges

- Anchored around family, food, cooking and home
- Rolling out across store estate and online
- Starting with Spring/Summer 2014 launch
- New products, new packaging, new merchandising
- Range transformation due to be completed in Autumn 2014

Inspiring general merchandise ranges

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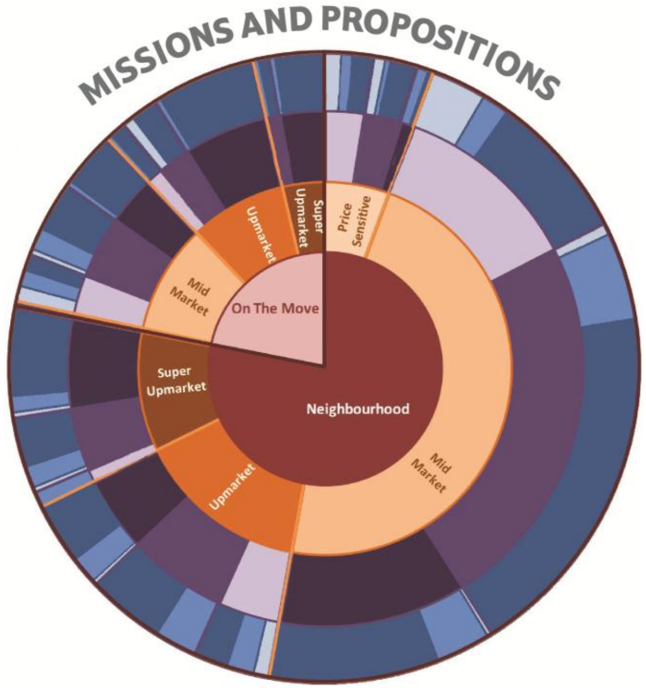
- Rolling out across store estate and online
- Starting with Spring/Summer 2014 launch
- New products, new packaging, new merchandising
- Range transformation due to be completed in Autumn 2014
- F&F – blueprint of what can be achieved
- Global sourcing capability – a major advantage

The best, most relevant convenience retailer in town

- Drive growth in convenience – around 150 stores per year
- Meeting local customers' needs and shopping missions better than anyone
- Tailored ranges introduced into every Express store already
- Continuous range review process now underway
- Refreshing 450 Express stores in 2014/15 alone



Destination stores that are worth the trip

- Bringing the best of Tesco to our largest stores
- Every location reviewed
- Missions and propositions approach
- Tailoring offer, range and layout for individual stores
- Rolling out relevant ‘ingredients’, creating compelling destinations


F&F
F&F
HARRIS
H+H
Customer Toilets
THE BAKERY PROJECT
£1
each
Ripen at Home Plums
Tangerine
Cantaloupe Melon
Braeburn Apple
Sweet nectarines. Sent with love from sunny Spain
Juicy Spanish grapes, lovingly hand-picked
Breathing life into your home
We only pick the Finest* flowers
Valentine's Day


DELI
Sliced to perfection
YOUR BUTCHER
Our olives are picked and stuffed by hand
THE CITY KITCHEN
CREATE YOUR MEAL IN 4 SIMPLE STEPS
GRAB 'N' GO £3.00
1 MAIN
4 VEG
Try before you buy
WATER LILY AND LIME

TESCO


euphorium bakery
the best of British baking
THE BAKERY PROJECT
OUR LOAF
HARRIS+HOOLE
H+R
BETTER COFFEE
FRESH THINKING
BAY 06
BAY 05
BAY 07
BAGUETTES
WORLD BREAD
LOCAL HEROES
Toast
EGGY
affection our dough would only
euphorium bakery
the best of British baking

TESCO


TESCO

TESCO


Add some
tones to your
Summer dining


Nutritional & Wellbeing Advice
thenutricentre
CARE
EXPERTISE
CARE
What your sore
is looking for
First aid
£8.29
£5.99
£8.99

Destination stores that are worth the trip

		To date^	Refresh roll-out	
Format	Total number of stores*	Refresh stores	14/15	Ongoing per year
Extra	247	82	c.110	c.60
Superstore	482	178	c.50	c.100
Metro	195	46	c.40	c.50
Express	1,672	309	c.450	c.375
Capex		c.£400m	c.£500m	c.£500m

- Extra is our priority for 2014
- Roll-out will incorporate latest learnings into all stores
- Plan to complete entire estate by 2017

^ From March 2012.
*As at 24 February 2014.

Exceptional value for customers delivered through Clubcard

- The best offers, prices and deals
- Personalised better than anyone
- Strengthening partner relationships
- Putting customers more in control
- Clubcard – a common currency across all of our brands and services
- Launch of 'The Orchard' social advocacy platform
- Digital Clubcard launches later this year

Exceptional value for customers delivered through Clubcard

1. Do your shopping.

From small to big, every shop counts.

2. Scan your Clubcard.

Use your Clubcard to get fuel savings and your regular Clubcard points.

3. Drive to a Tesco filling station.

Now's the time to remember if you're diesel or petrol.

4. Save up to 20p a litre.

The more you shop, the more you save.

Helping to fund our accelerated customer improvements

- Reshaping our promotions
- Accelerated global sourcing
  - £75m extra savings in 2014
- Technology-led productivity
  - Voice-guided picking in DCs
  - Latest generation dotcom centre automation
  - Further roll out of Scan as You Shop
- Replenishment innovations
  - Better, simpler, cheaper product presentation

TESCO

Tesco in the UK

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one stop

Tesco Free From

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ESTABLISHING MULTICHANNEL LEADERSHIP

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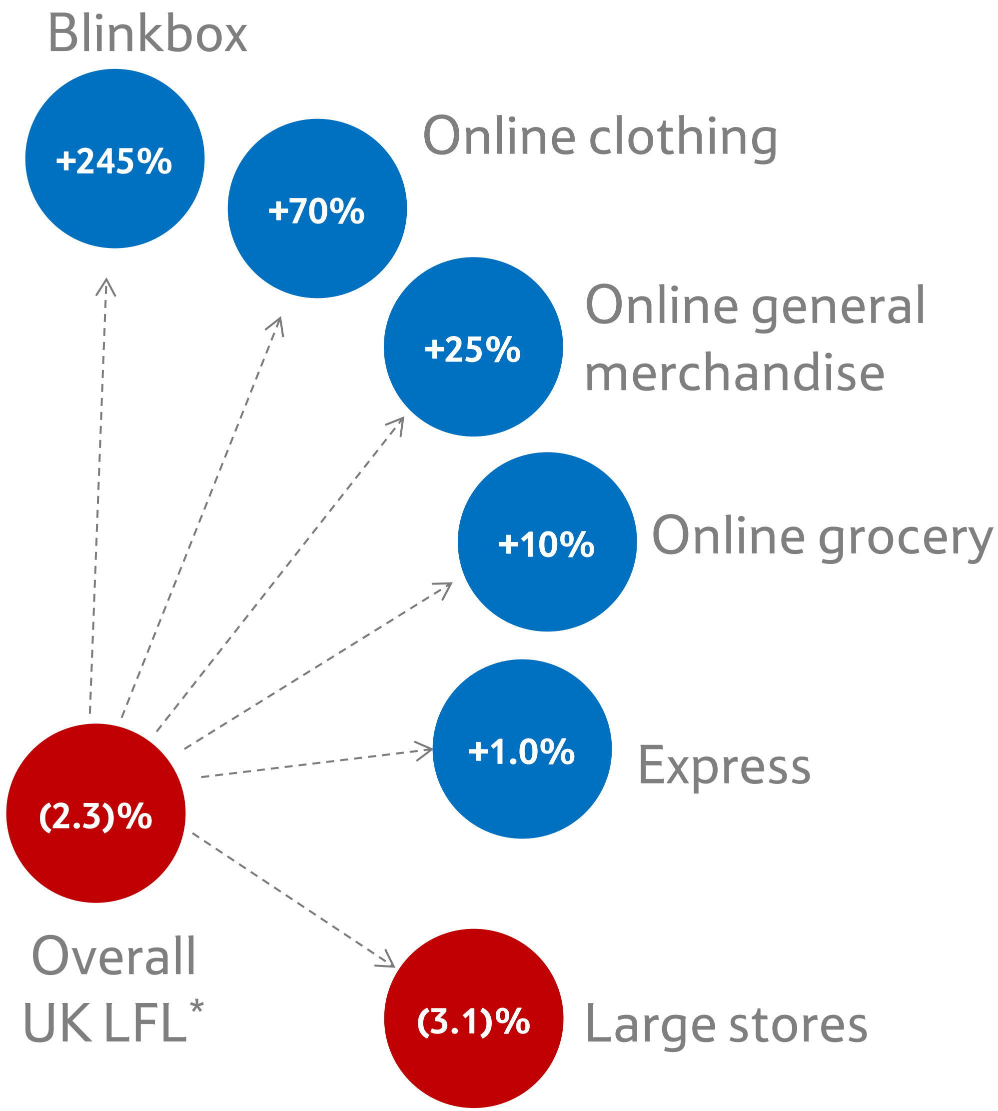

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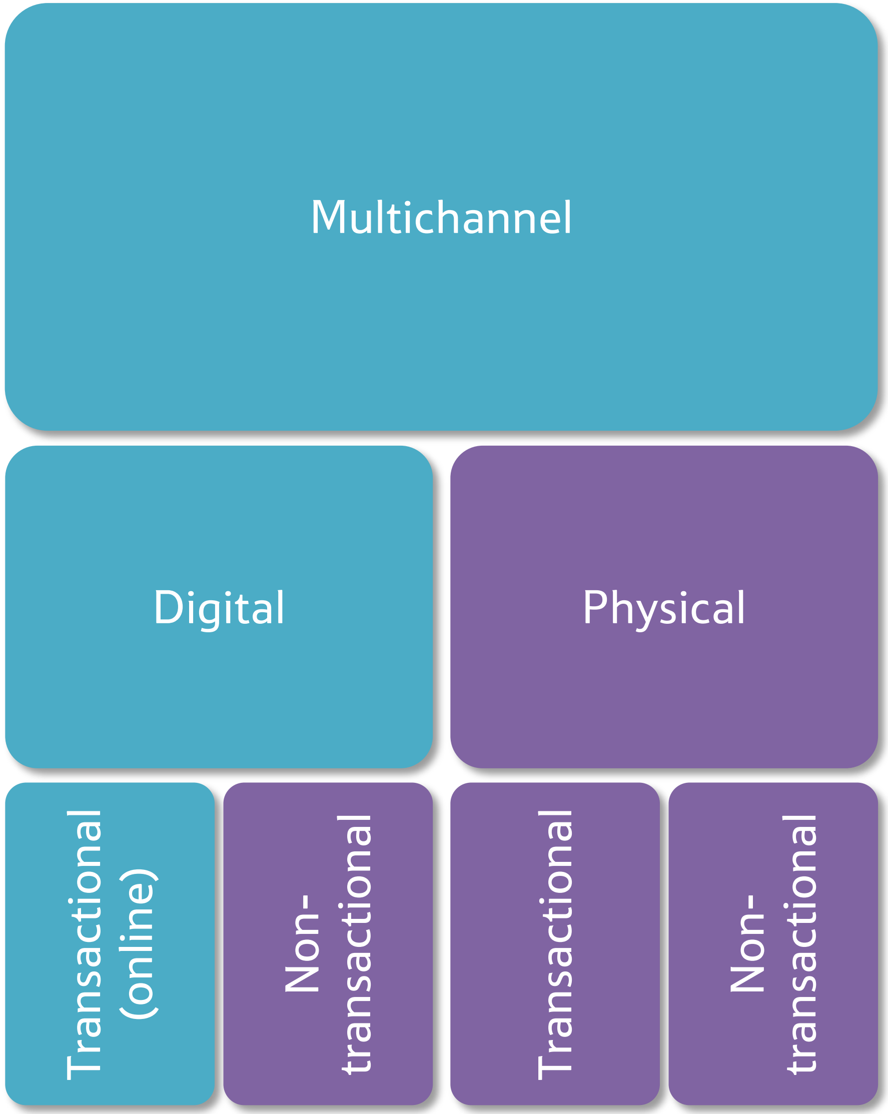
What is multichannel?



What is multichannel?

Putting customers at the heart of our business

Seamless customer experience

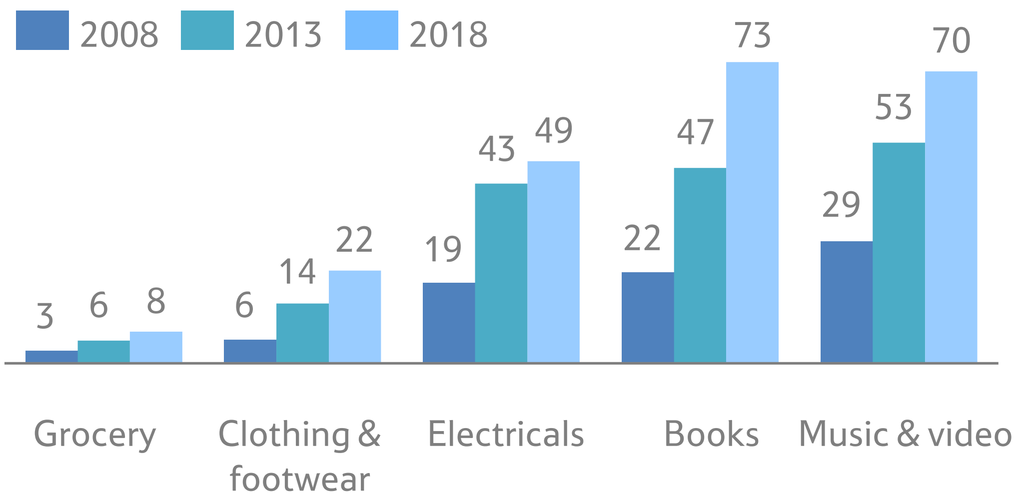
Consumer trends are moving rapidly towards multichannel

1 Online migration

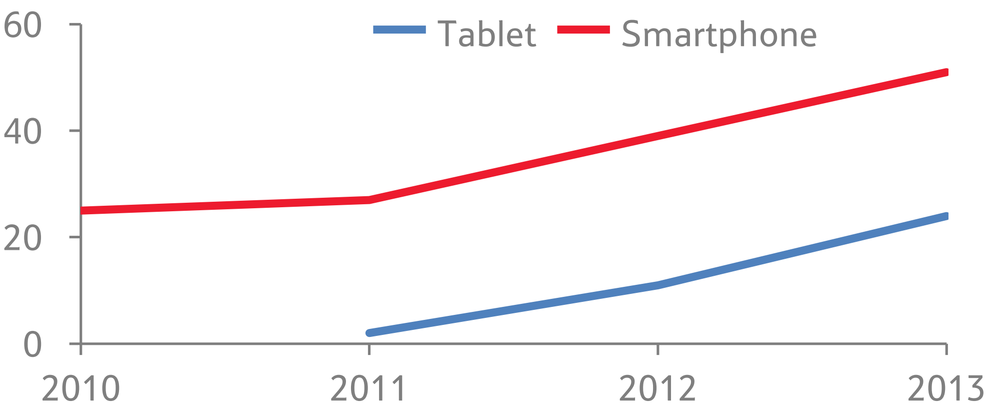
2 Blurring boundaries

3 Need for a seamless experience

Online share of category (%)



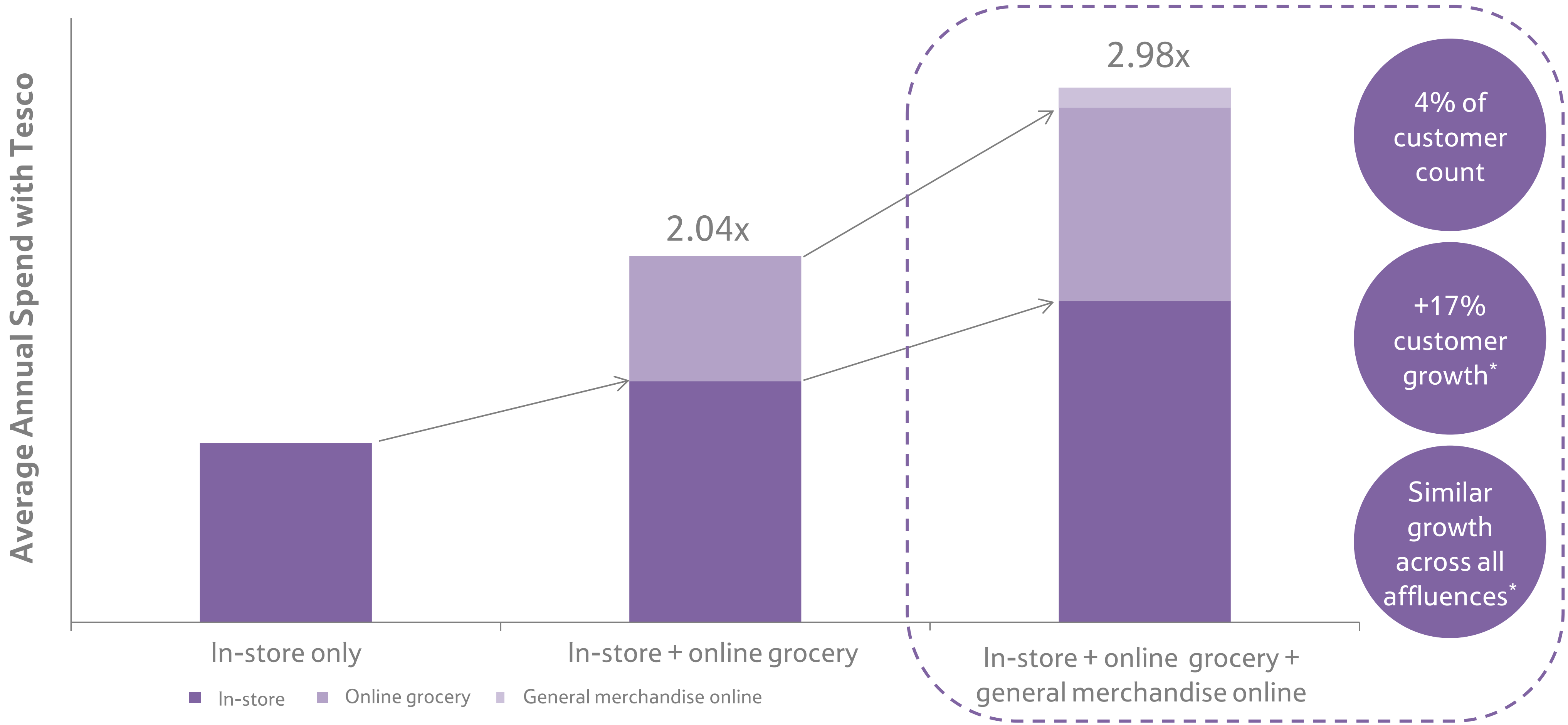
UK household tablet penetration and smartphone population penetration (%)



Source: Data extract from Verdict E-Retail in the UK, 30 January 2014

Source: Ofcom Communications Market Reports 2010-2013

Customers value retailers who get it right



All data shown is based on a sample of 2m Clubcard customers annual spend across in-store, online grocery and general merchandise online for the 52 weeks to 26 January 2014.
*Growth is versus the same period for the prior year.

What might it look like?

1 Browsing for ideas

Lia is searching the web for a recipe for Friday night and uses her app to find the right wine too.

2 Writing a list

Lia finds a recipe she likes and adds all the ingredients directly to her online basket. She chooses to 'Click & Collect'.

3 Collecting the order

Lia arrives at her local store. Her order has been pre-picked and is ready to go straight into the boot of her car.

4 Checking in & finding additional products

Lia would like a few additional products which she wants to choose herself. She enters the store, checks in and uses the map on her mobile to find them.

5 Product prompting

Whilst in store Lia is prompted for items she may like based on her previous purchases, for example the new Healthy Living range.

6 Scanning shopping

Lia scans her shopping as she goes. She can check the prices and her mobile lets her know about any relevant special offers.

7 Paying for shopping

As Lia scanned all her shopping herself, there is no need for her to queue at the checkout. She simply opens the digital wallet on her mobile and pays for her shopping.

8 Receiving a receipt

As Lia leaves the store her phone beeps. She's just received her automatic receipt and knows the payment went through.

The future is closer than you think

1 Browsing for ideas

Real Food magazine app available on Hudl and other tablets including customer recommendations and expert advice.

2 Writing a list

One-touch shopping button to add recipe ingredients straight to basket.

3 Collecting the order

Click & Collect Grocery available at 232 locations and general merchandise Click & Collect at more than 1,750.

4 Checking in & finding additional products

Trialling ‘Clubcard check in’. Already piloting in the UK is a map app which helps customers to find exact product locations in store.

5 Product prompting

Personalised Clubcard coupons to customers’ mobiles are already on trial in certain areas of the country.

6 Scanning shopping

Scan as you Shop Mobile currently on trial. It complements our wider Scan as you Shop initiative which is live in around 200 stores.

7 Paying for shopping

Our innovative digital wallet on customers’ mobiles will make the checkout experience quicker and simpler.

8 Receiving a receipt

For every transaction, customers will automatically receive a receipt and when they log into their account they will be able to see all their recent transactions.

We have created the building blocks for multichannel over the last decade

Strong store locations	Clubcard
Grocery home shopping	General merchandise online
Clothing online	Tesco Bank and Tesco Mobile
Digital capabilities	Devices

We have created the building blocks for multichannel over the last decade

Strong store locations
- Over 3,300 touch points with customers
- Multiple formats accessing all parts of the community
- Within 10 minute drive of 90% of the population

Clubcard
- 43 million Clubcard customers around the world
- dunnhumby – 2,500 colleagues, 60 clients, 17 other retailers – insight into habits of > 400 million households

Grocery home shopping
- 2013/14*: £2.5bn sales
- Over 1.6m active customers, 190k Delivery Saver subscribers
- 3,250 vans, > 300 sites, 1hr slots for 98% UK population

General merchandise online
- 2013/14*: £0.5bn sales
- Over 1,750 Click & Collect locations
- > 500,000-strong product range (including Sellers at Tesco)

Clothing online
- 1m weekly visits, 100 in-store kiosks, available in 70 markets
- New mobile website
- +70% growth over Christmas

Tesco Bank and Tesco Mobile
- Launched in 1997, now has 12% share of UK credit cards
- 7 million active customers, 80% product sales already online
- Tesco Mobile partnership over 10 years with 4m customers

Digital capabilities
- App development centre with 40 dedicated colleagues
- Supported by technical development team in Bangalore
- Mobile platforms involved in 35% of online grocery sales

Devices
- Started development in 2012
- Bespoke production capacity
- Nearly 500,000 hudl* units sold to date

TESCO

* 2013/14 financials refer to latest forecast data.

Grocery home shopping

- 17 years' experience
- Highly efficient picking model
- Excellent drop densities, 300 locations
- £2.5bn sales
- £127m trading profit
  - All direct costs fully-charged
- Increasing focus on customer profitability, rather than channel profitability
- New measures, new KPIs, new ambitions

We have ambitious goals

One hour delivery slots for <u>every</u> product

Tesco <u>and</u> 'Sellers at Tesco'

For <u>100%</u> of the UK

<u>Even more</u> Click & Collect locations

A bold plan for 2014

SHARPER PRICES

- Market-leading delivery pricing
- Free Click & Collect – including Grocery
- Delivery Saver guarantee
- Added-value subscriptions

BETTER SERVICE

- Twice the number of Click & Collect locations
- Alternative Click & Collect locations

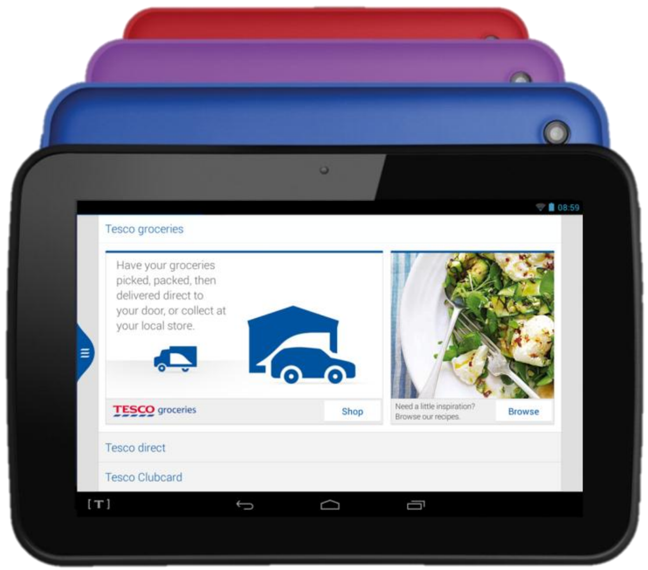
ADDED-VALUE PRODUCTS AND SERVICES

- Current Account
- Digital wallet
- blinkbox books

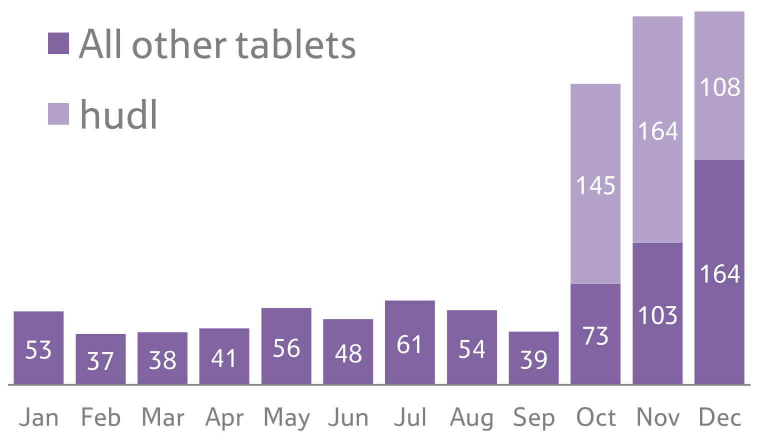
Connected devices are an essential ingredient

- Making tablets accessible to all
- Benchmarked against the best
- Open platform: access to over 1 million apps
- Fastest-selling tablet at Tesco
- Two years' extensive research and development
- Catapult for Tesco online and digital
  - 'T' button – seamless connection
  - Immediate mid-single digit increase in spend in-store and online
  - 9 times increase in blinkbox movies
  - 5 times increase in blinkbox music
- More to come…..

hudl



Tesco tablet sales in 2013 ('000 units)



Accelerating our efforts to create a seamless, end-to-end customer experience

dunnhumby

one stop

Tesco Free From

Tesco finest

Tesco mobile

H+H

Tesco Superstore

Tesco

Carousel

euphorium bakery

Tesco Everyday Value

thenutricentre

Technika

Tesco express

The most compelling offer for our customers

Tesco Metro

blinkbox

Tesco direct

Tesco Clubcard

F&F

Tesco extra

giraffe

Third party marketplace
Sellers at Tesco

Dobbies

hudl

Click & Collect tesco.com

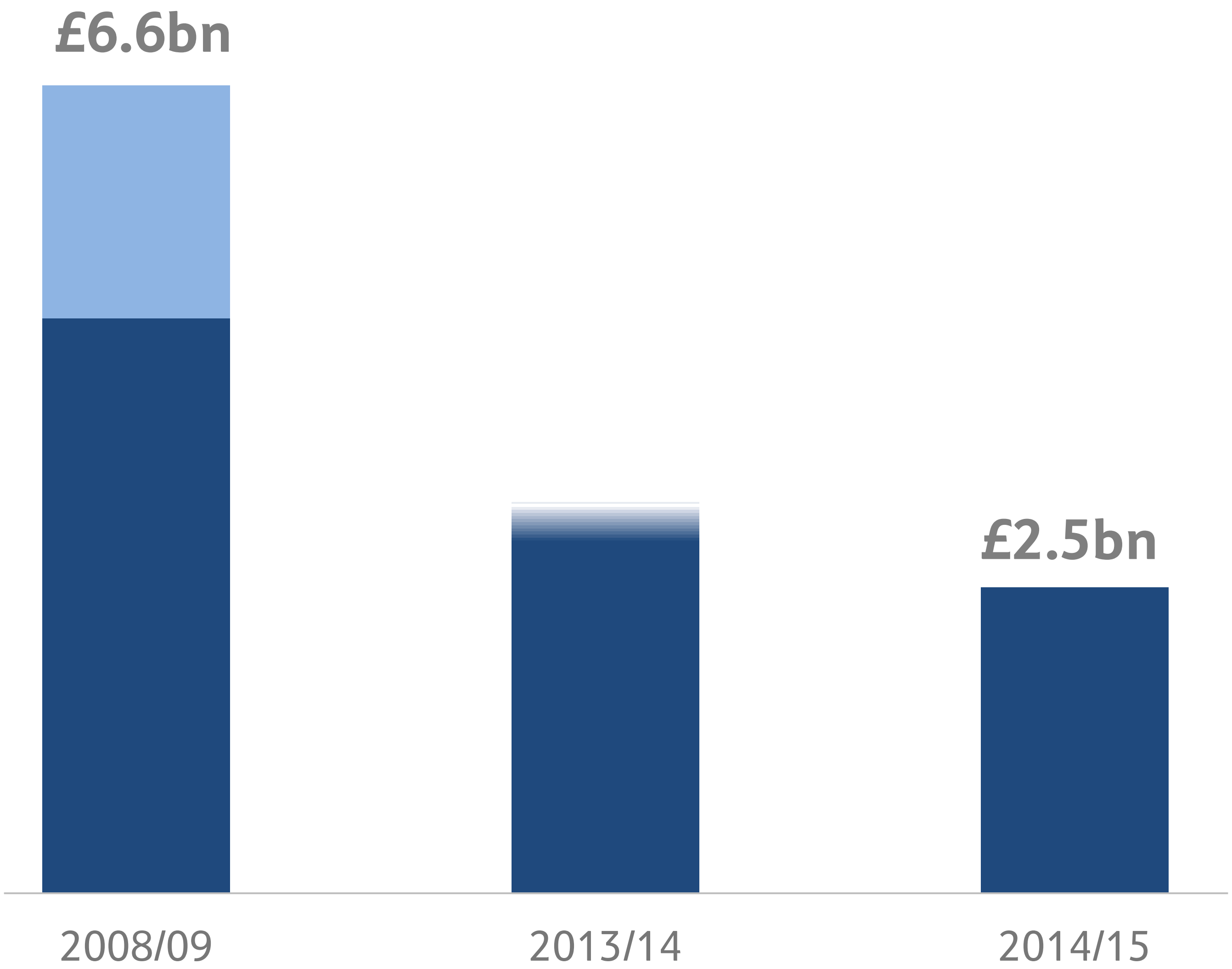
Tesco healthy living

Tesco Bank

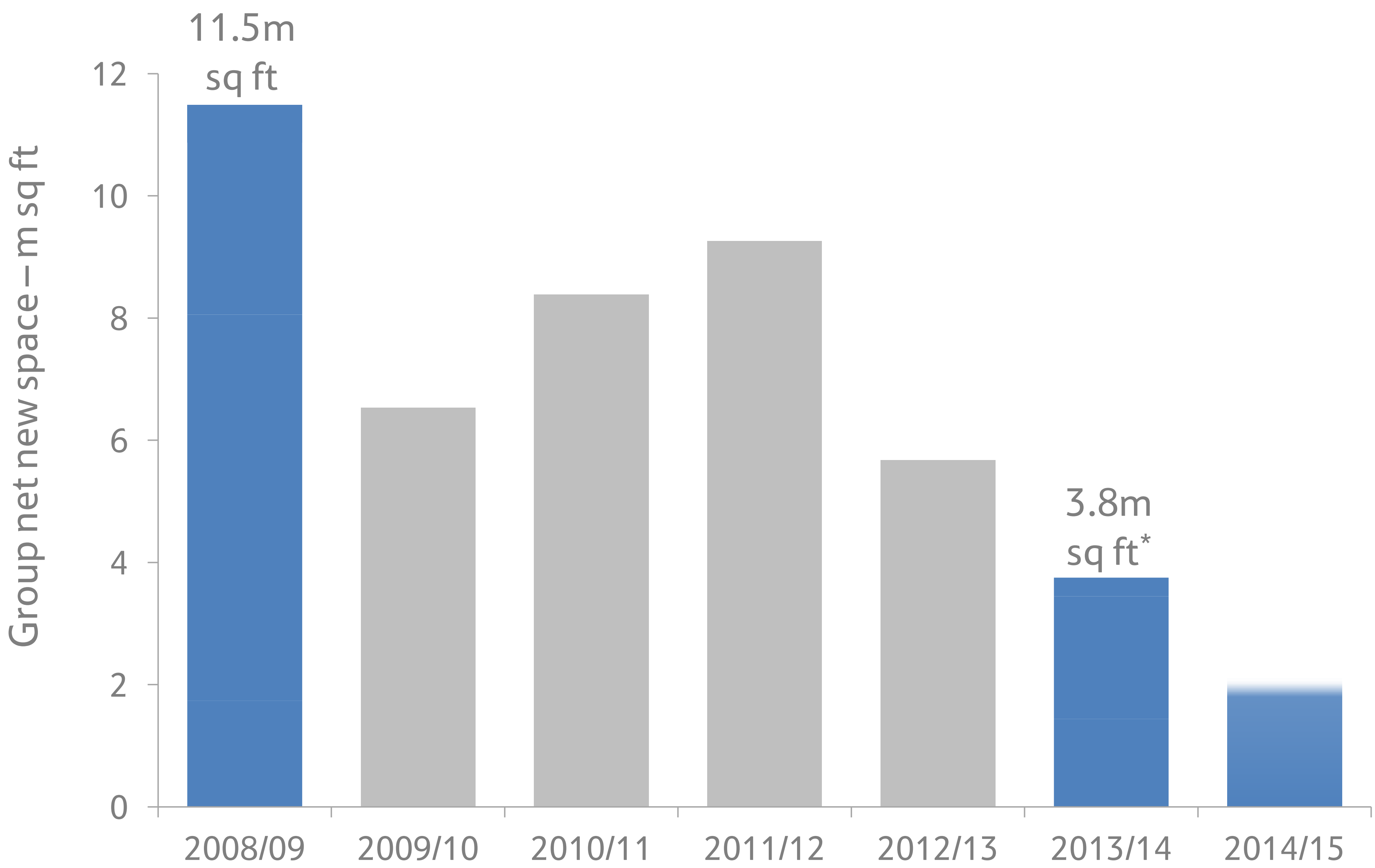
WINNING IN THE NEW ERA OF RETAIL

Tesco has changed

Capital expenditure



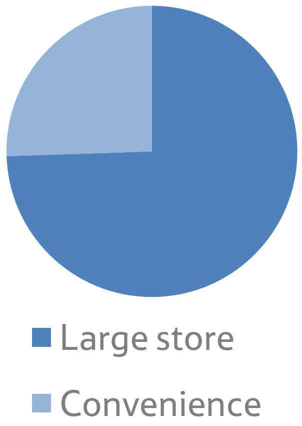
Tesco has changed



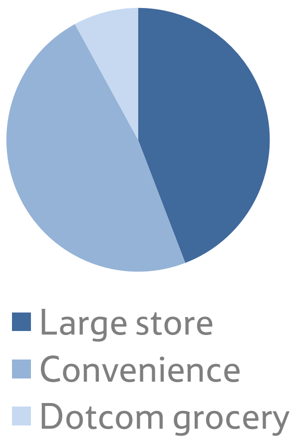
*2013/14 Group net new space forecast as per Interim Results 2013/14 Additional Information pack.

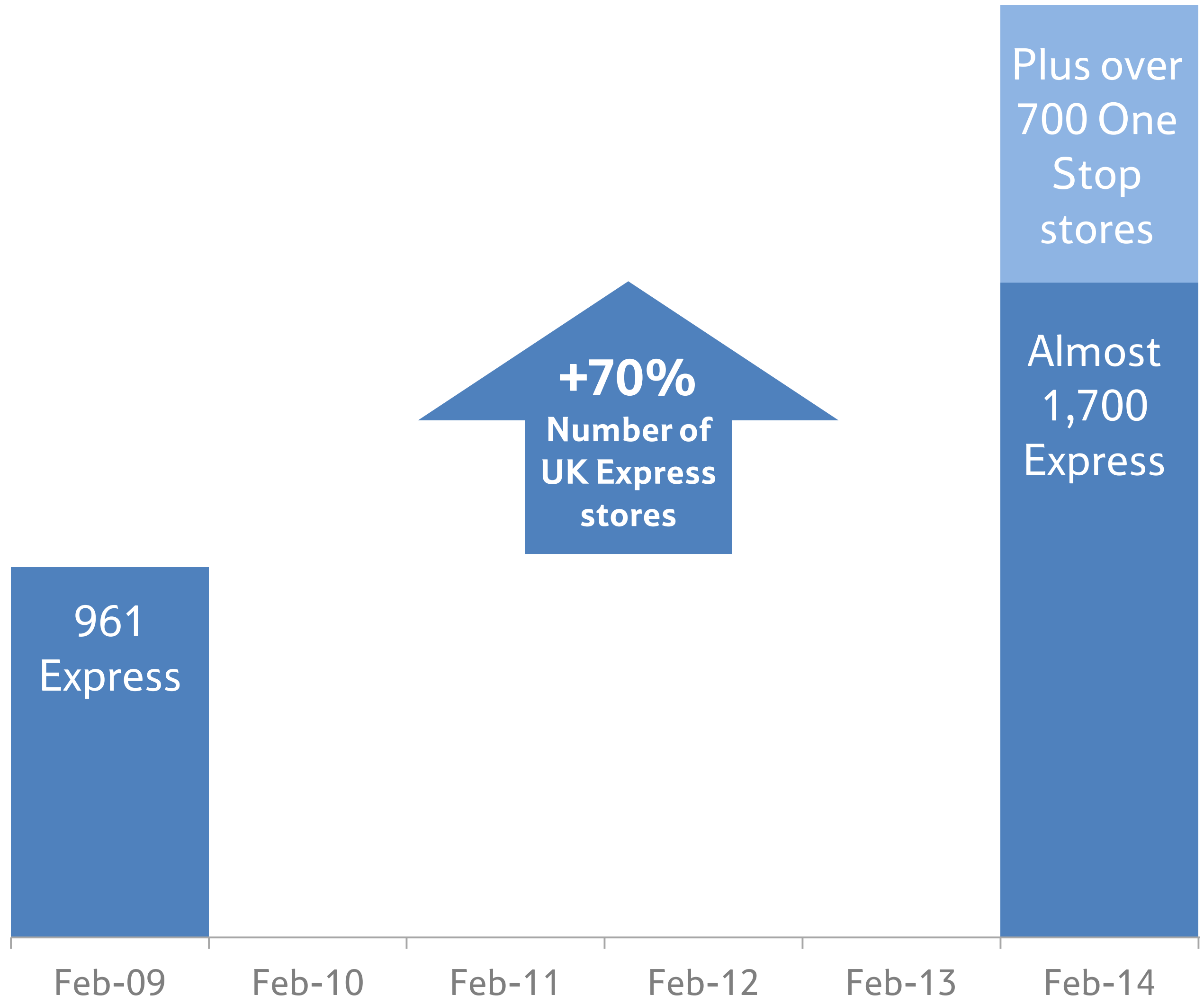
Tesco has changed

2008/09 New space



2013/14 New space





Tesco has changed

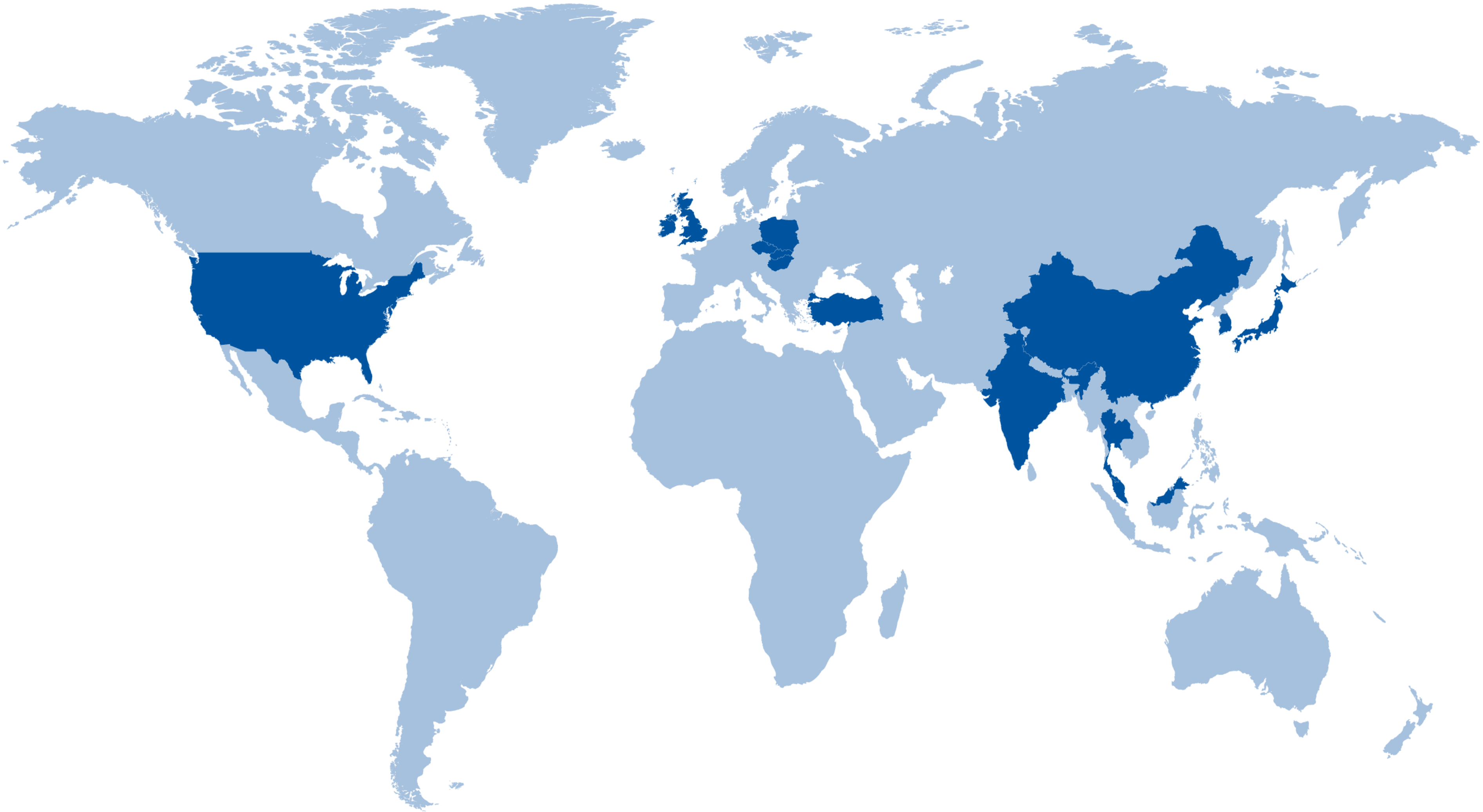
17 years

Over 230 locations

Over 1,750 locations

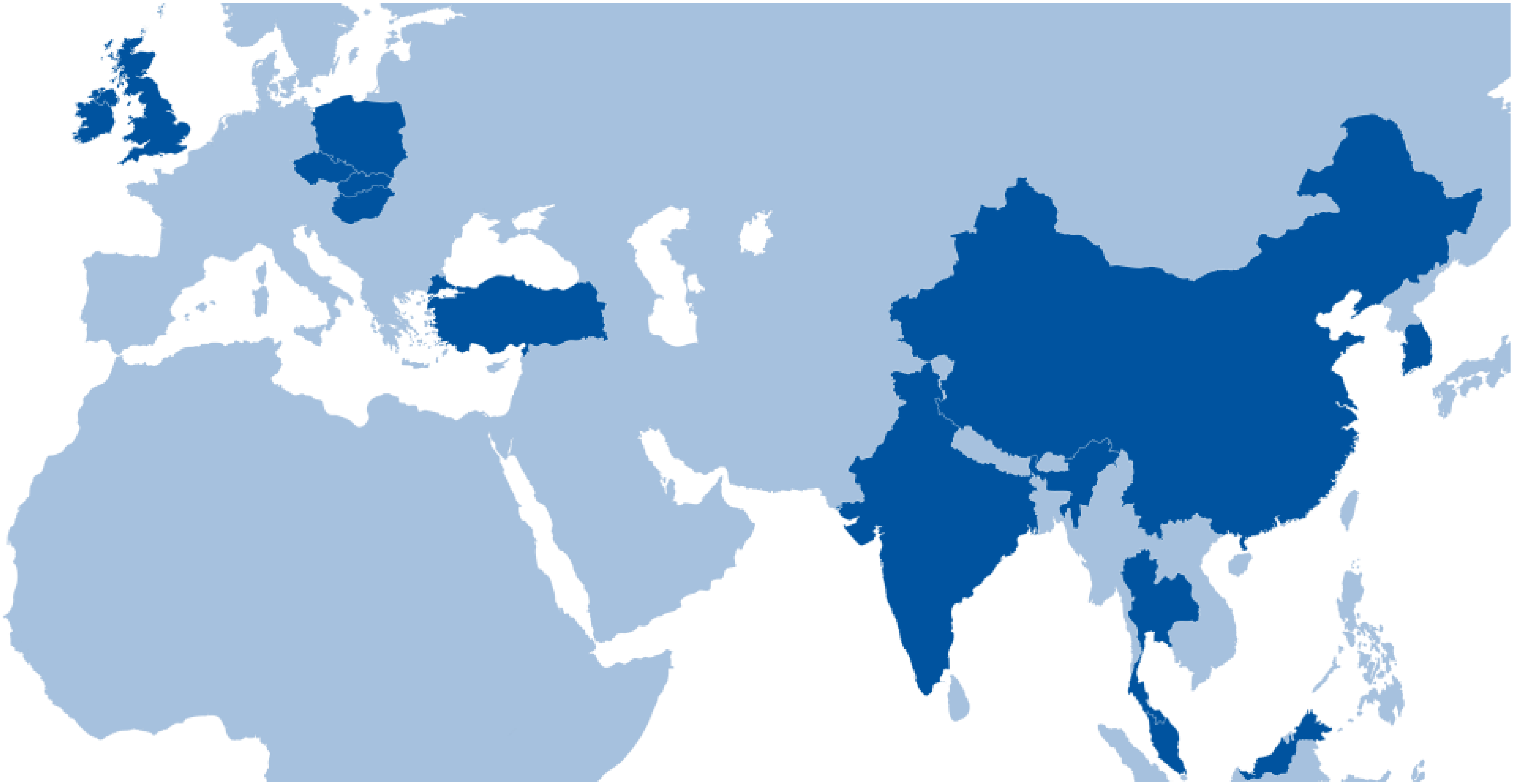
Tesco has changed

2010



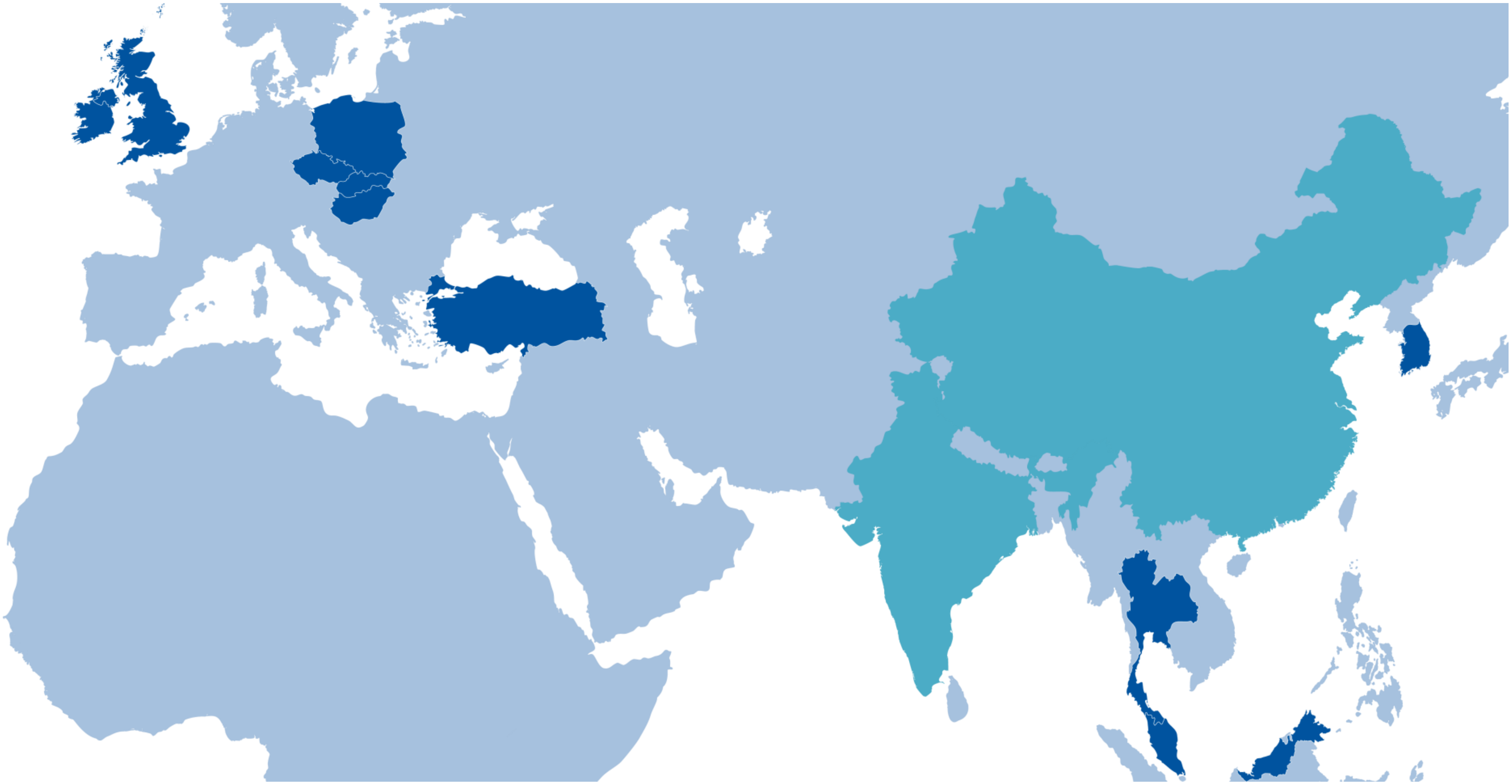
Tesco is more focused

2014



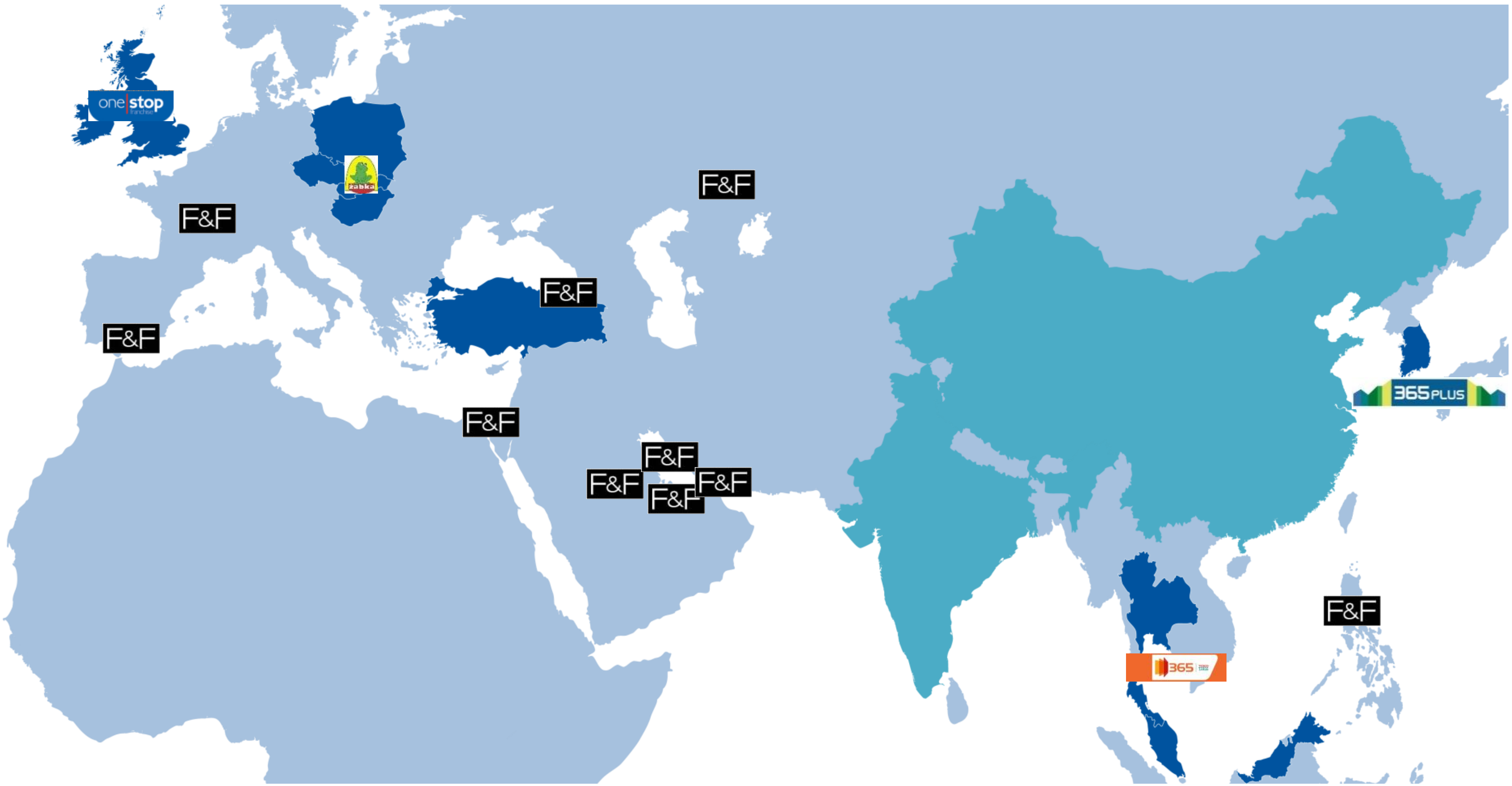
Tesco is more focused

2014



Tesco is more focused

2014



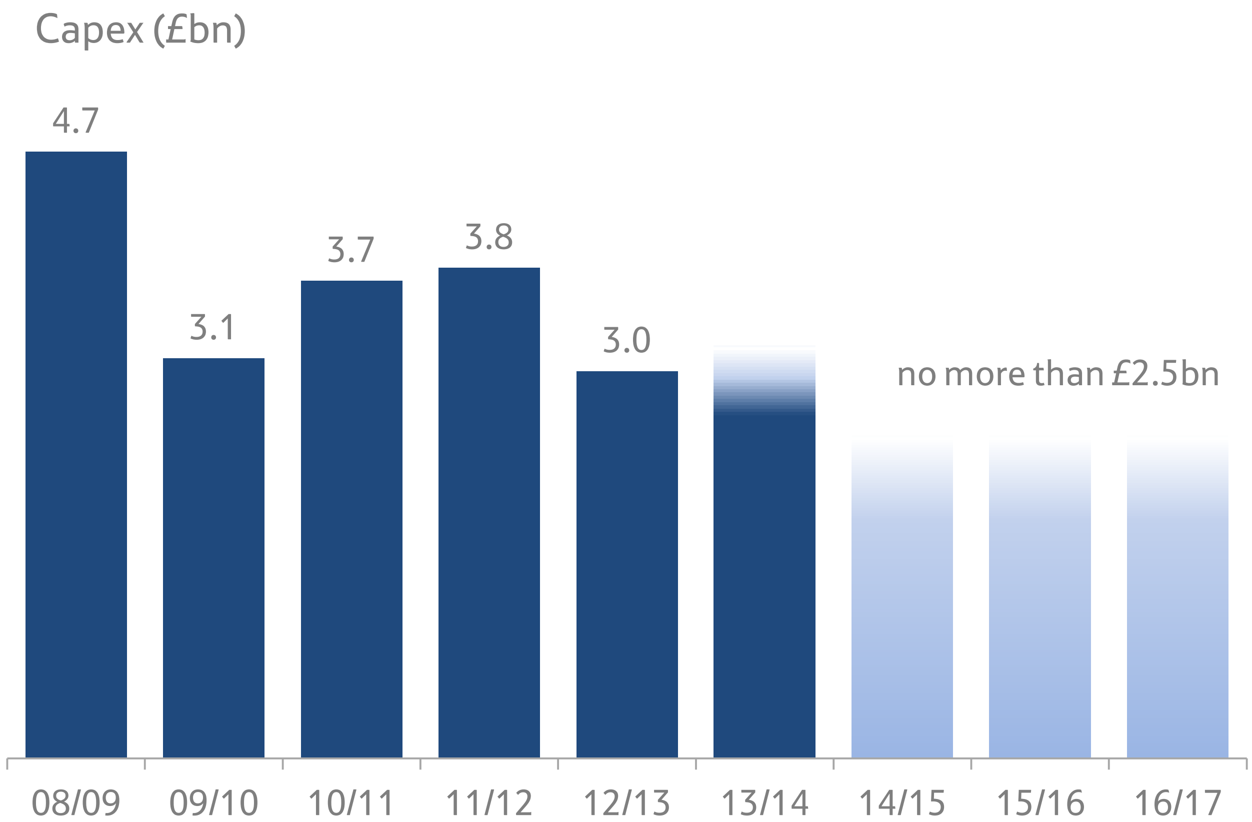
Financial framework remains appropriate for the medium term

Financial disciplines	Guiderails
Generate positive free cash flow	**Trading profit growth** • Mid-single digit
Allocate capital within range of 4% down to 3.5% of sales	**Sustainable ROCE** • 12 - 15% range
Maintain a strong investment grade credit rating	**Dividend growth** • In line with underlying EPS • Target cover of more than two times

Financial framework remains appropriate for the medium term

- Committed to achieving the guiderails in the medium term
- Prioritising delivery of the most compelling offer for customers
  - Accelerating investment in the customer offer and growth in new channels
  - Focused on increasing customer loyalty and improving sales
- Increased capital discipline underpins our focus on cash
- By putting the customer first, we are positioning Tesco to deliver attractive and sustainable profits and returns

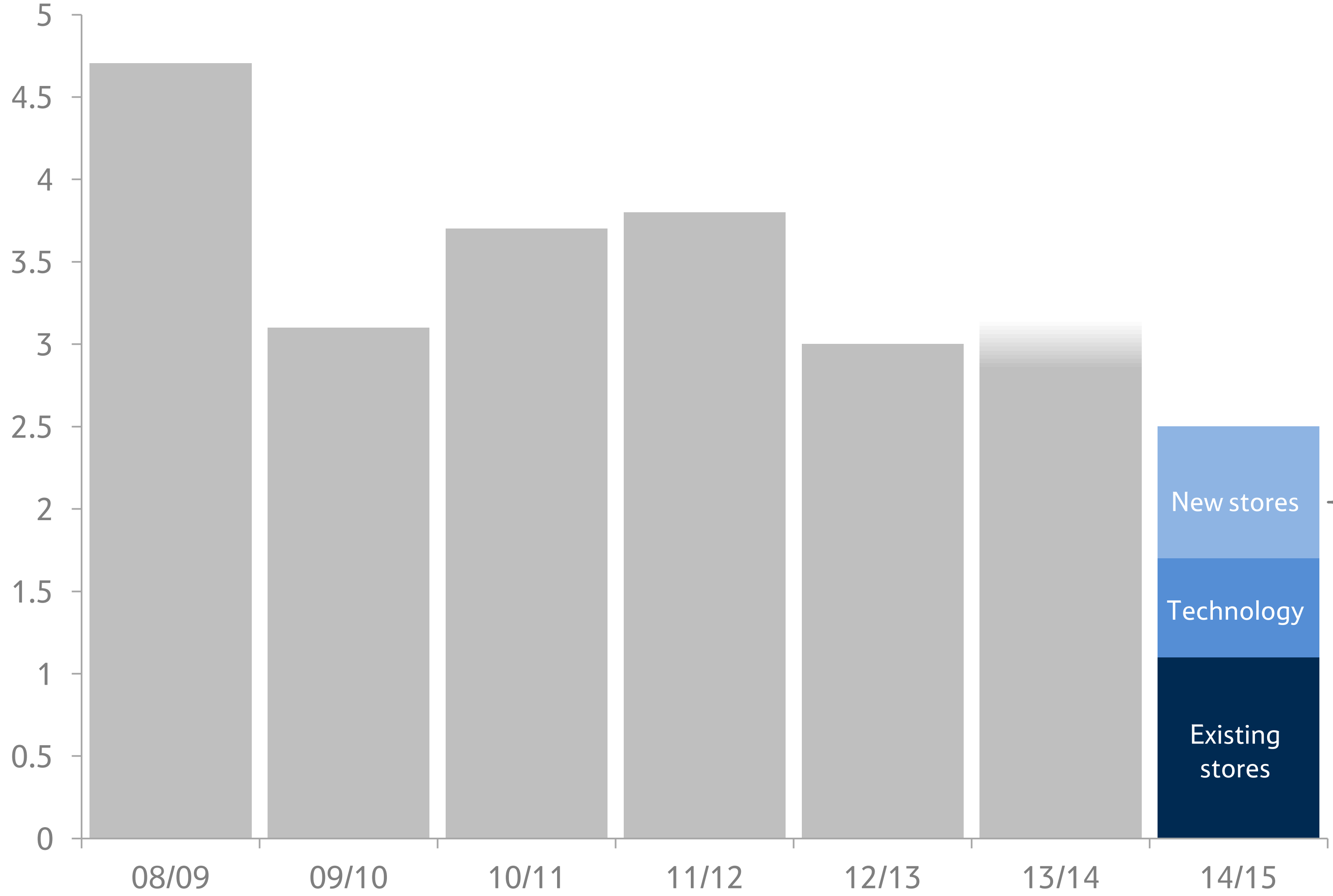
We are reducing capex to £2.5bn for at least three years



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

No more than £2.5bn capital expenditure

We are reducing capex to £2.5bn for at least three years



- Reduced new space growth
- Little new investment in Europe
- Focus on high returning investments in Korea, Malaysia and Thailand

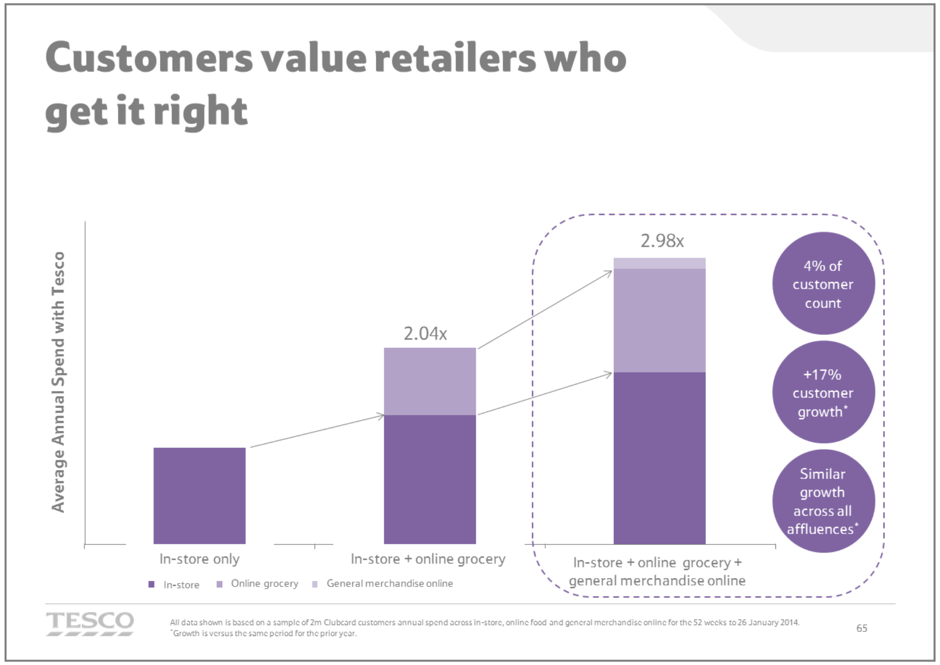
TESCO

A transitional period

- Lower-growth environment
- Acceleration of our plans – continuing to invest
- Customer focus will drive top-line growth over the longer term
- £ not % is the measure of margin success
- Delivering for customers will be the driver of future returns

Looking further ahead

- Efficiency and scale advantages
- New opportunities to serve customers
- New infrastructure and capabilities
- Valuable digital and physical assets
- Further differentiation for customers



Winners in the new era will generate healthy returns

WINNING IN THE NEW ERA OF RETAIL

Most compelling offer for customers

- A strong plan – some of which you have seen today
- More focused than ever on the most compelling offer
- Uncertainties about the future environment remain
- Retaining the flexibility to act accordingly

Tesco in the new era

- Excited about the future
- Unique capabilities will allow us to lead
- As ever, for everyone
- Outstanding value
- Meeting everyday needs, better than anyone

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.