

16 April 2014

PRELIMINARY RESULTS

Agenda

- Introduction
- Financial review
- Business review and strategy
 - International
 - UK
 - Multichannel
- Q & A

Results headlines

- Results reflect challenges of transforming Tesco in rapidly changing and challenging trading environment:
 - Group sales of £71bn, up 0.3%
 - Group trading profit of £3,315m, down (6.0)%
 - Non-cash one-off charges of £(801)m
- Further strategic progress:
 - Completed exit from US
 - Significant capital reduction in Europe
 - Established partnerships with CRE in China and Tata in India

Winning in the new era of retail

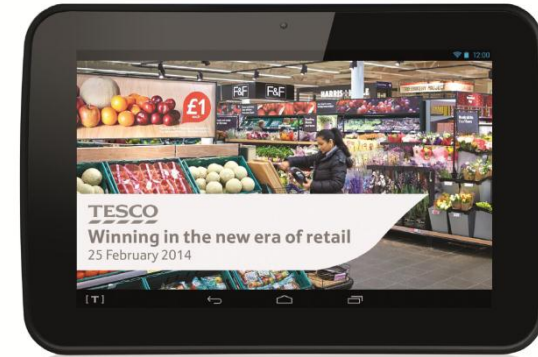
Seven weeks ago, we laid out our accelerated plans:

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

TESCO

17



Leading the industry

- Since February: competitive response, weak market
- Our plan remains the same:
 - 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
- And as we said, we are going faster...

FINANCIAL REVIEW 2013/14

Group performance

	13/14	vs. 12/13
Group sales	£70.9bn	0.3%
Group trading profit	£3,315m	(6.0)%
Underlying profit before tax (excluding profit/losses arising on from property-related items)	£3,054m	(6.9)%
One-off items	£(801)m	n/a
Group profit before tax	£2,259m	9.8%
Net finance costs*	£(315)m	Increased by 1.9%
Underlying diluted EPS	32.05p	(7.3)%**

Discontinued operations

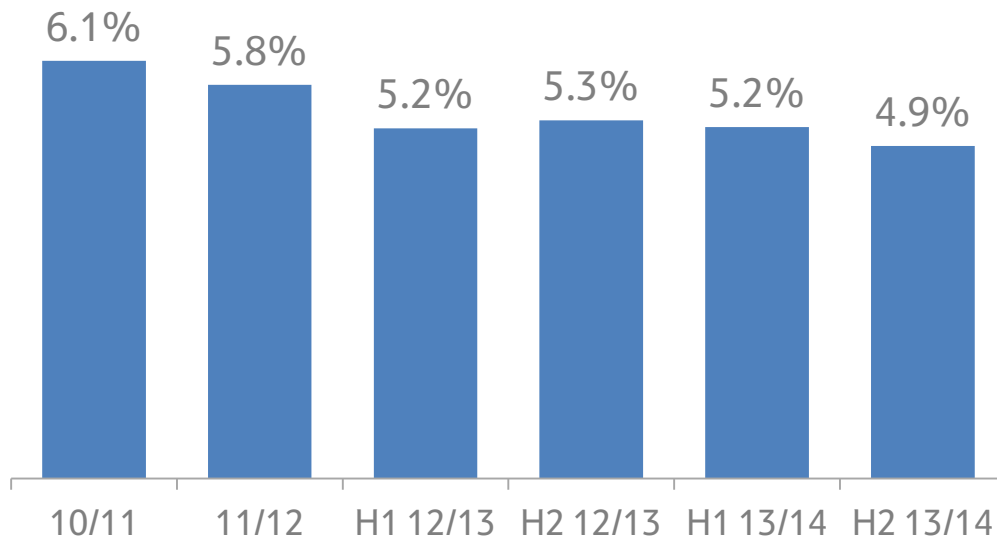
- United States
 - Concluded strategic review
 - Still fully provided for
- China
 - Announced partnership with CRE
 - Process on track
 - £(540)m write-down of goodwill



UK

- Weaker market
- Lower new space contribution
- Invested in customer offer

UK Margin

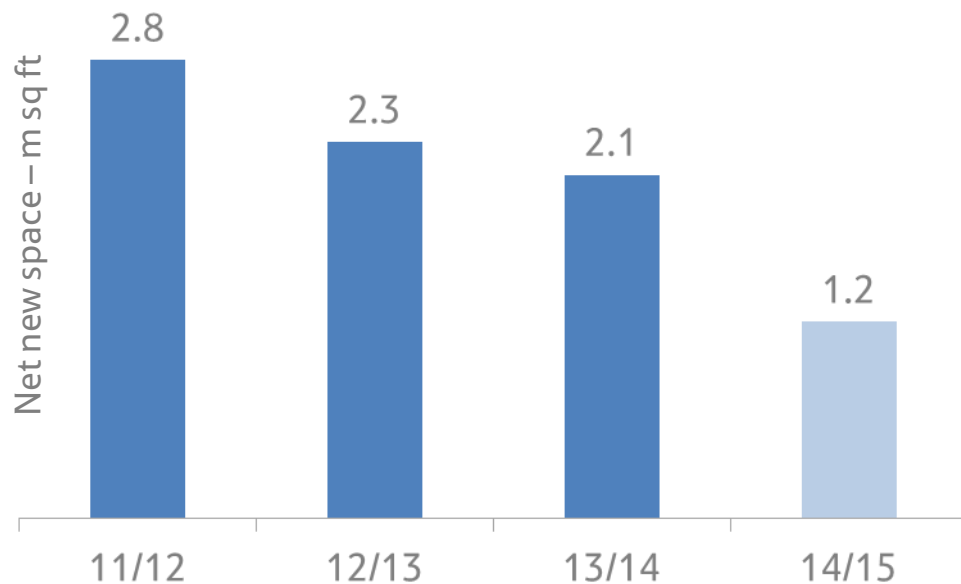


	UK
Sales growth (inc. VAT, exc. petrol)	0.8%
LFL (inc. VAT, exc. petrol)	(1.3)%
Trading profit	£2,191m
Trading profit growth	(3.6)%
Trading profit margin	5.03%
Trading margin change	(18)bp

Asia

- Regulatory impact in Korea
- Weaker trading in Thailand
- Negative Q4 currency impact

Net new space - Korea, Malaysia, Thailand



	Asia	
	Actual FX	Constant FX
Sales growth	2.7%	1.4%
LFL	N/A	(4.5)%
Trading profit	£692m	£683m
Trading profit growth	(5.6)%	(6.8)%
Trading margin	6.71%	6.71%
Trading margin change	(59)bp	(59)bp

Europe

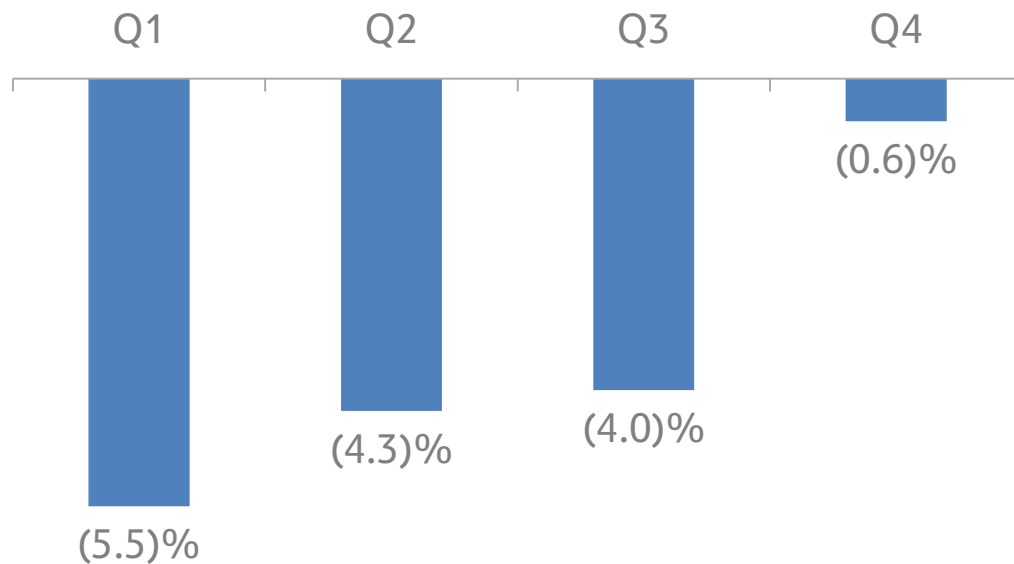
- Challenging conditions

	Europe	
	Actual FX	Constant FX
Sales growth*	(0.3)%	(1.9)%
LFL*	N/A	(3.5)%
Trading profit	£238m	£221m
Trading profit growth	(27.7)%	(32.8)%
Trading margin	2.57%	2.42%
Trading margin change	(96)bp	(111)bp

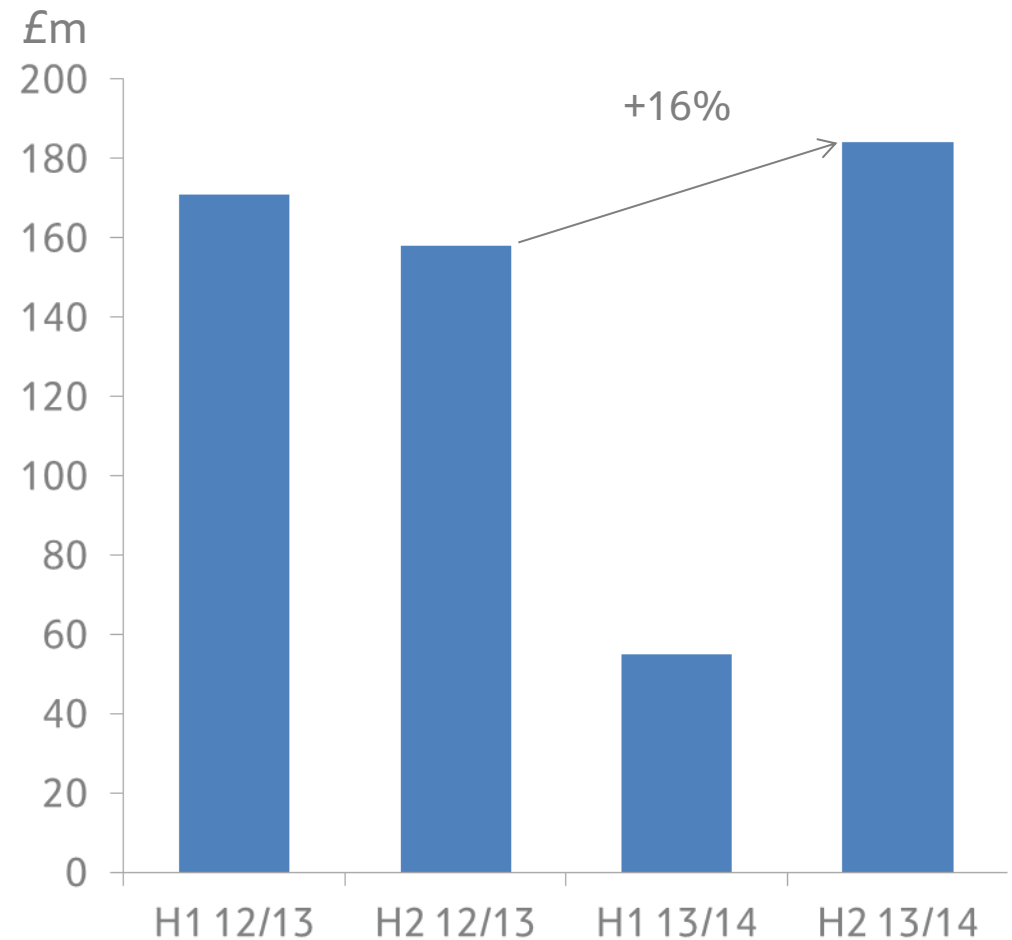
Europe

- Stronger second half
- Invested in the shopping trip

Europe like-for-like 2013/14**



Europe trading profit*



Europe

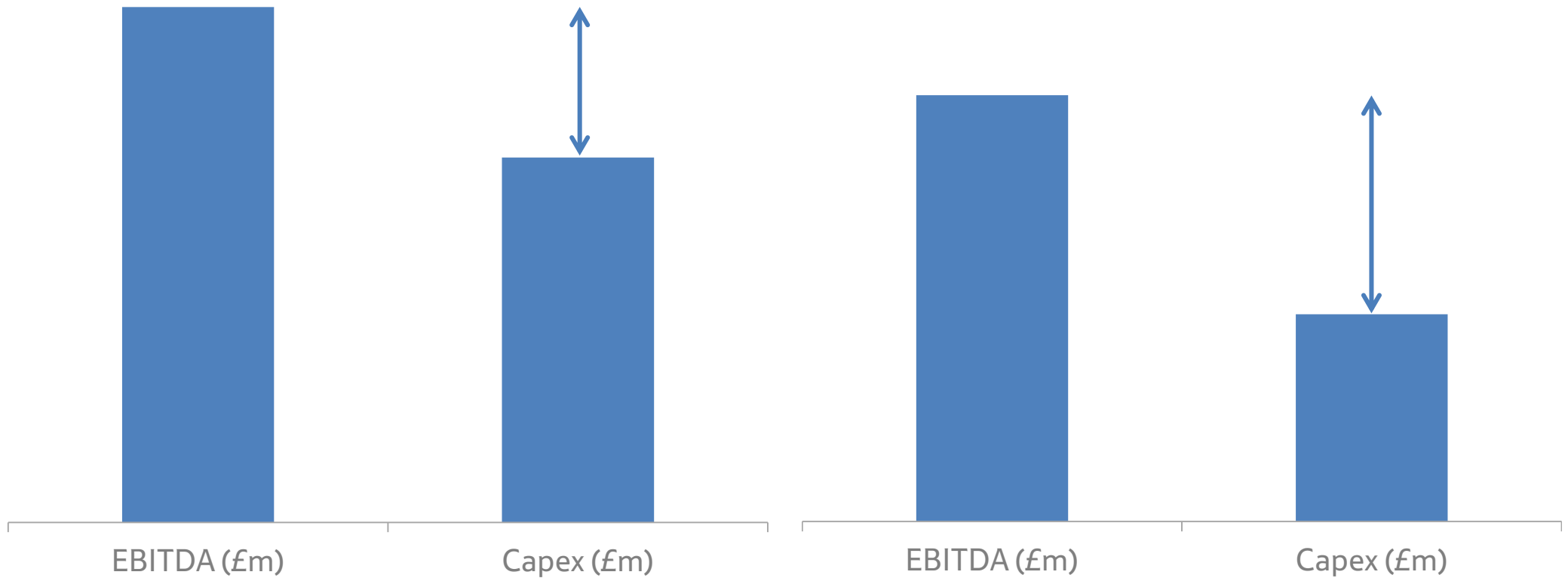
- Poland
 - Focus this year
 - Pleased with customer response
- Ireland
 - Difficult market
 - Significant impact on trading profit
- Turkey
 - Heartland improved
 - Continues to be a strategic focus
- £(734)m asset impairment

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Disciplined approach in Europe

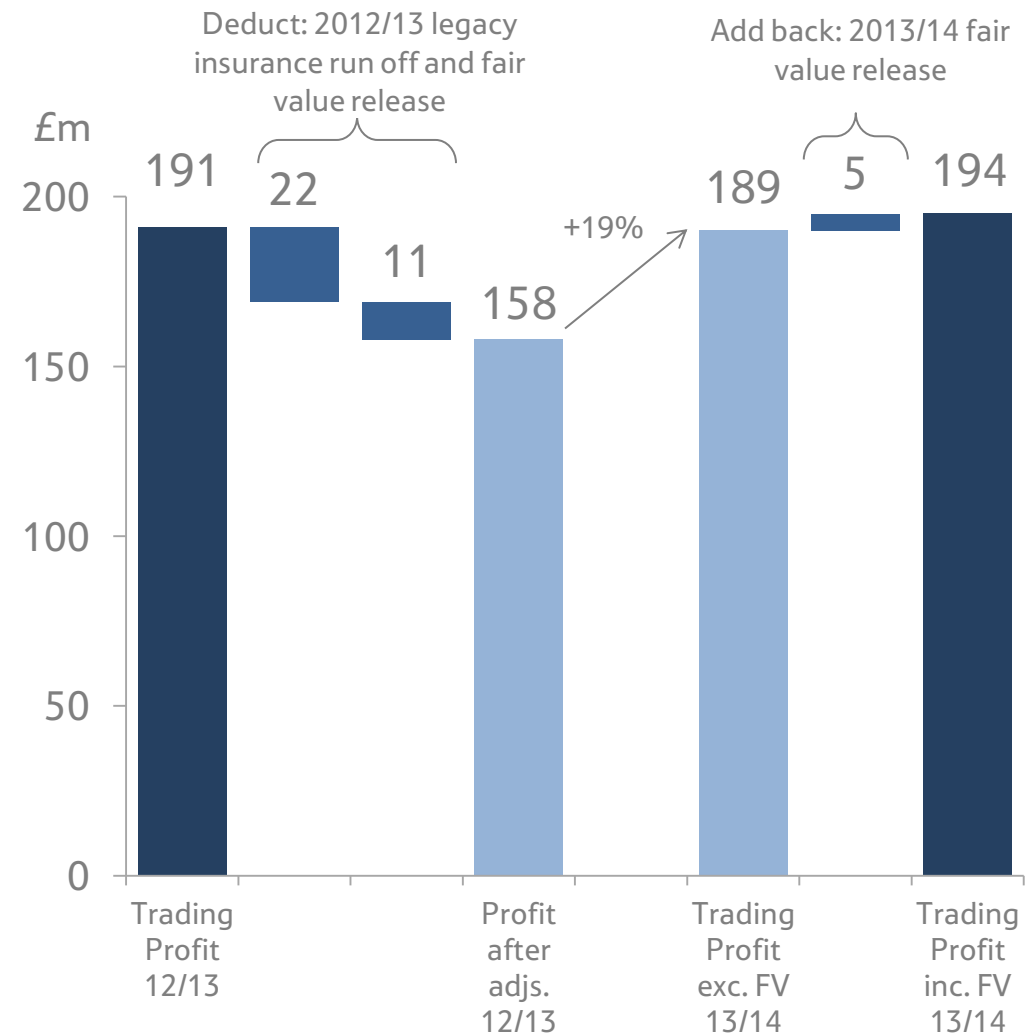
FY 2012/13

FY 2013/14



Tesco Bank

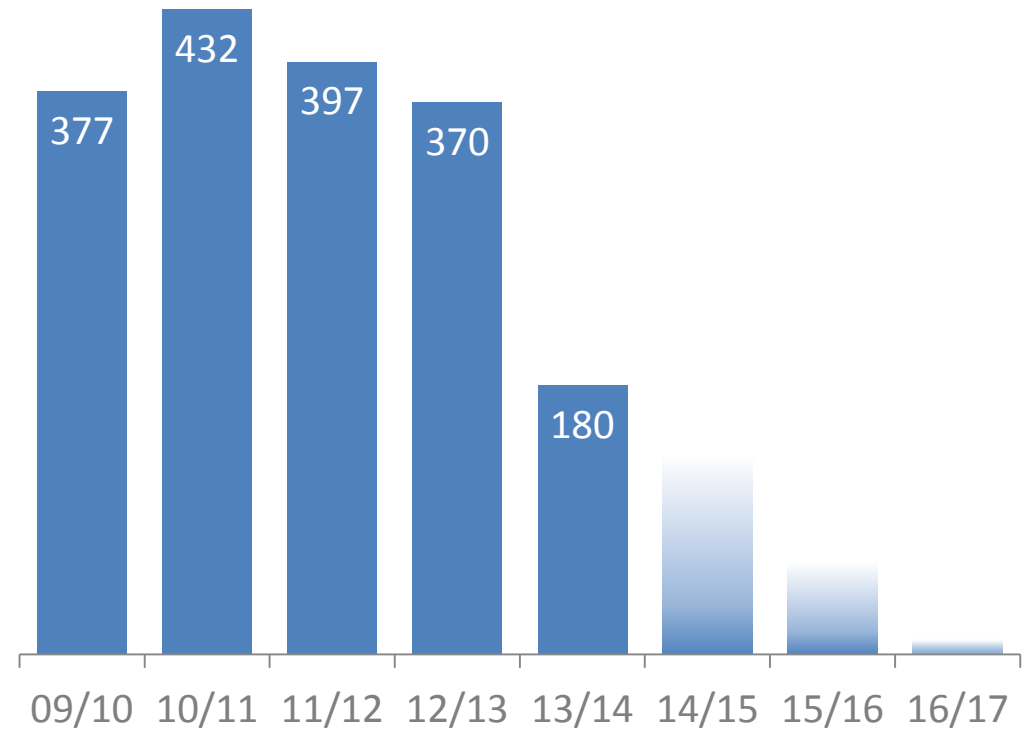
- Good banking performance
- Challenging insurance market
- Current account launch in H1
- Strong balance sheet
- Diversified funding



Sale and leaseback

- Scaling back
- Maximise value in most appropriate way
- Korea
 - Four Homeplus stores and malls

Profit/losses arising on property-related items
£m



Property, interest and tax

- Lower sale and leaseback
- Reduced capitalised interest
- Lower UK tax rate

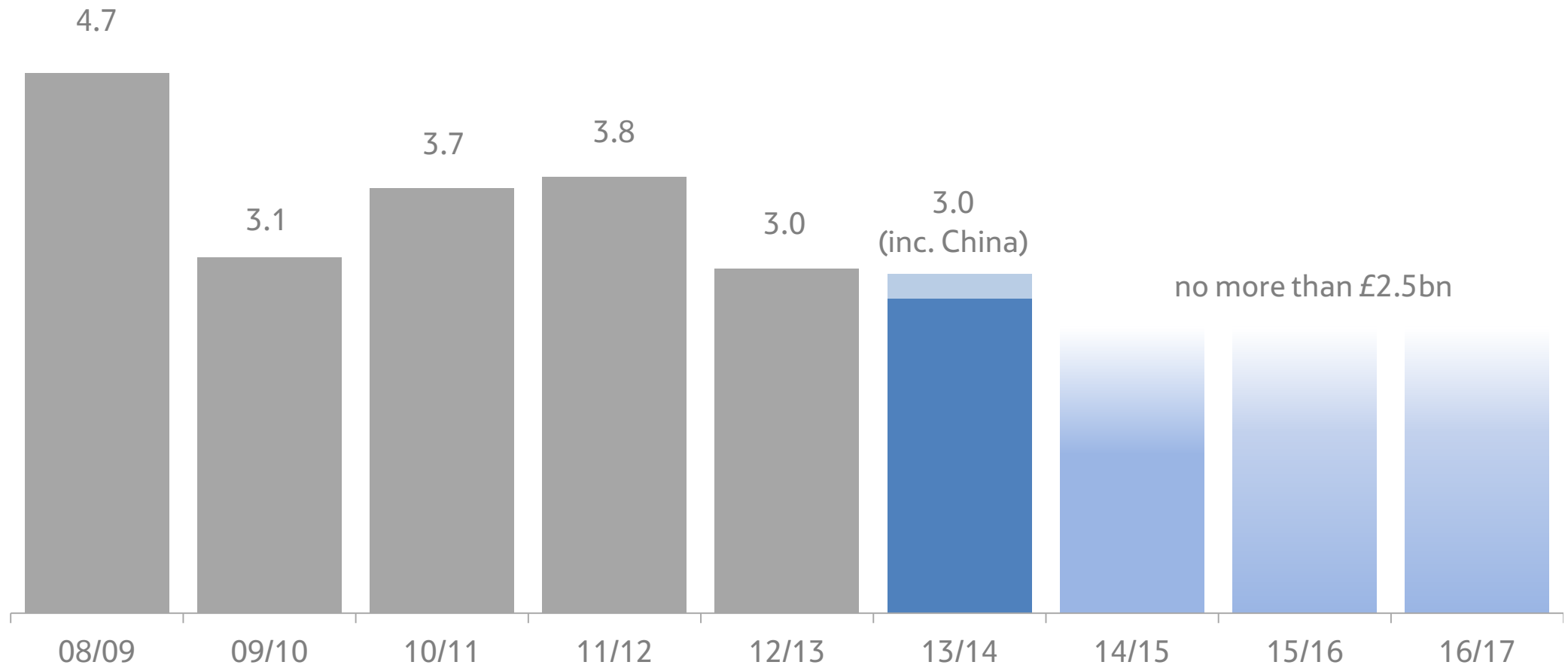
	13/14	vs. 12/13
Profits/losses arising on property-related items	£180m	(57.0)%
Net finance costs*	£(315)m	Increased by 1.9%
Effective tax rate	15.4%	n/a
Underlying diluted EPS	32.05p	(7.3)%**

Key cash flow items

Total retail operations	13/14	12/13
Cash flow from operations excluding working capital	£4,327m	£3,889m
(Increase)/decrease in working capital	£280m	£(1)m
Cash generated from operations	£4,607m	£3,888m
Interest and tax paid	£(1,102)m	£(988)m
Capex	£(2,774)m	£(2,850)m
<i>Free cash flow</i>	£731m	£50m

Capex

Capex (bn)



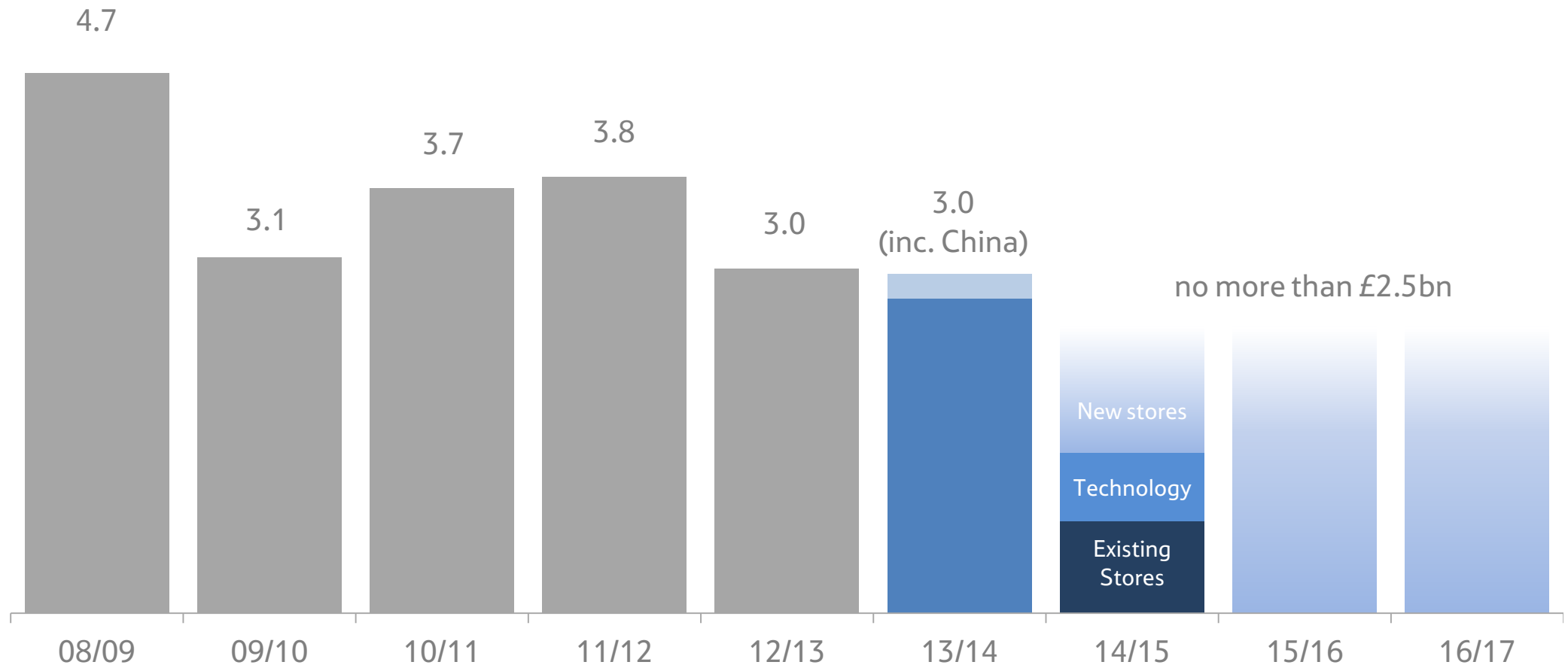
Allocate capital within range
of 4% down to 3.5% of sales



No more than £2.5bn capital
expenditure

Capex

Capex (bn)



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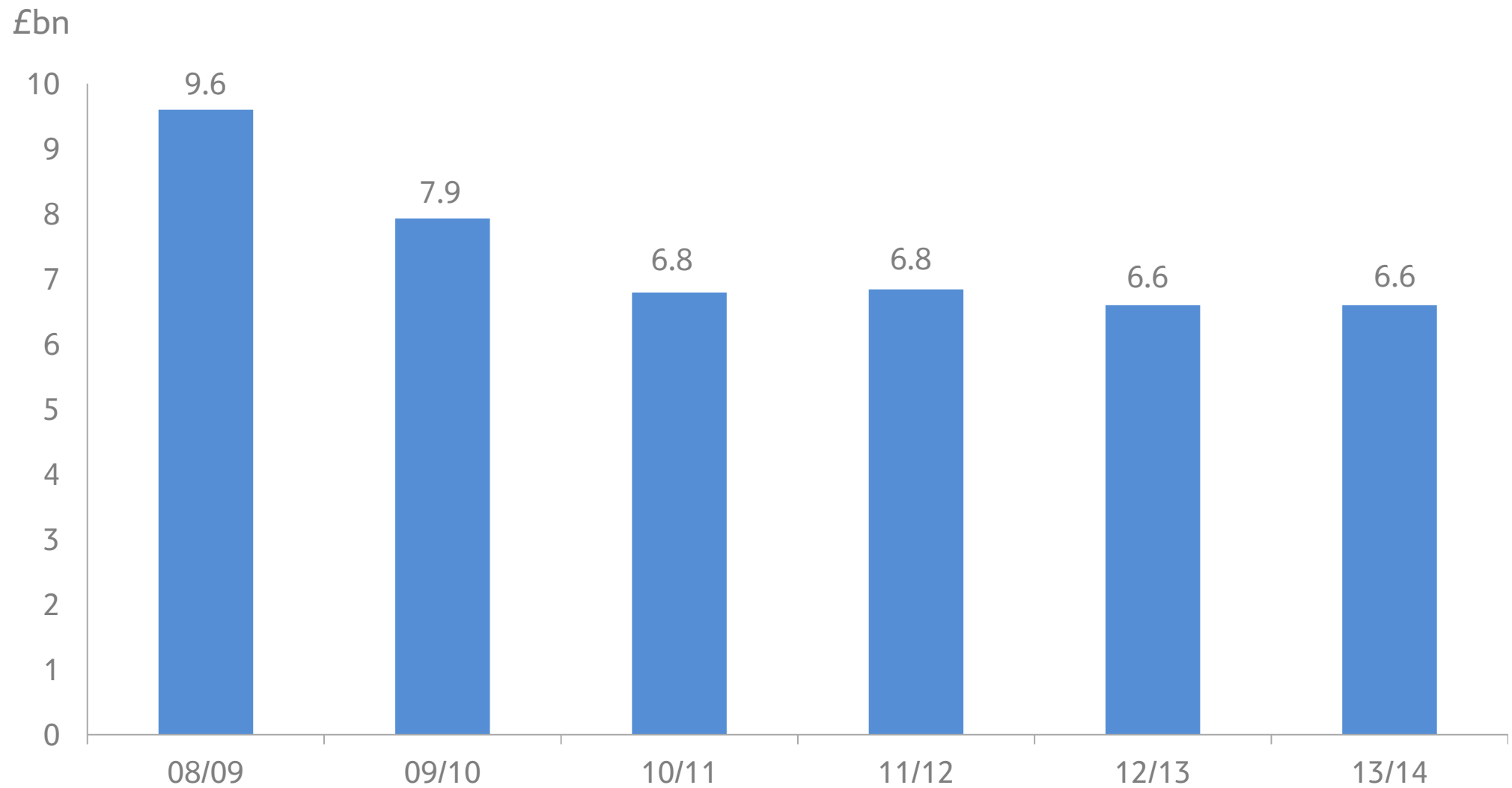


No more than £2.5bn capital
expenditure

Key cash flow items

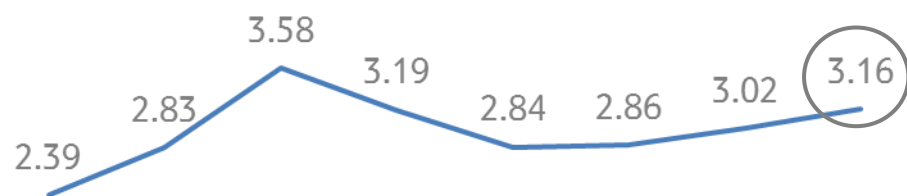
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Interest and tax paid	£(1,102)m	£(988)m
Capex	£(2,774)m	£(2,850)m
<i>Free cash flow</i>	£731m	£50m
Net acquisitions	£(13)m	£(72)m
Property proceeds	£568m	£1,351m
Dividends	£(1,189)m	£(1,184)m

Net Debt



Credit ratios

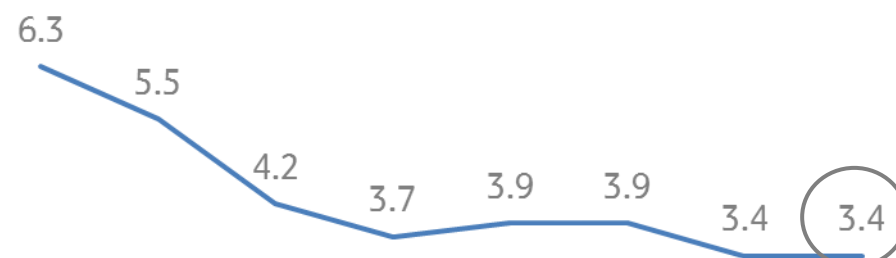
Net Indebtedness: Adjusted net debt/EBITDAR*



FY 06/07 FY 07/08 FY 08/09 FY 09/10 FY 10/11 FY 11/12 FY 12/13** FY 13/14***

Target of <2.5x

Fixed Charge Cover: EBITDAR/(Interest + Rent)

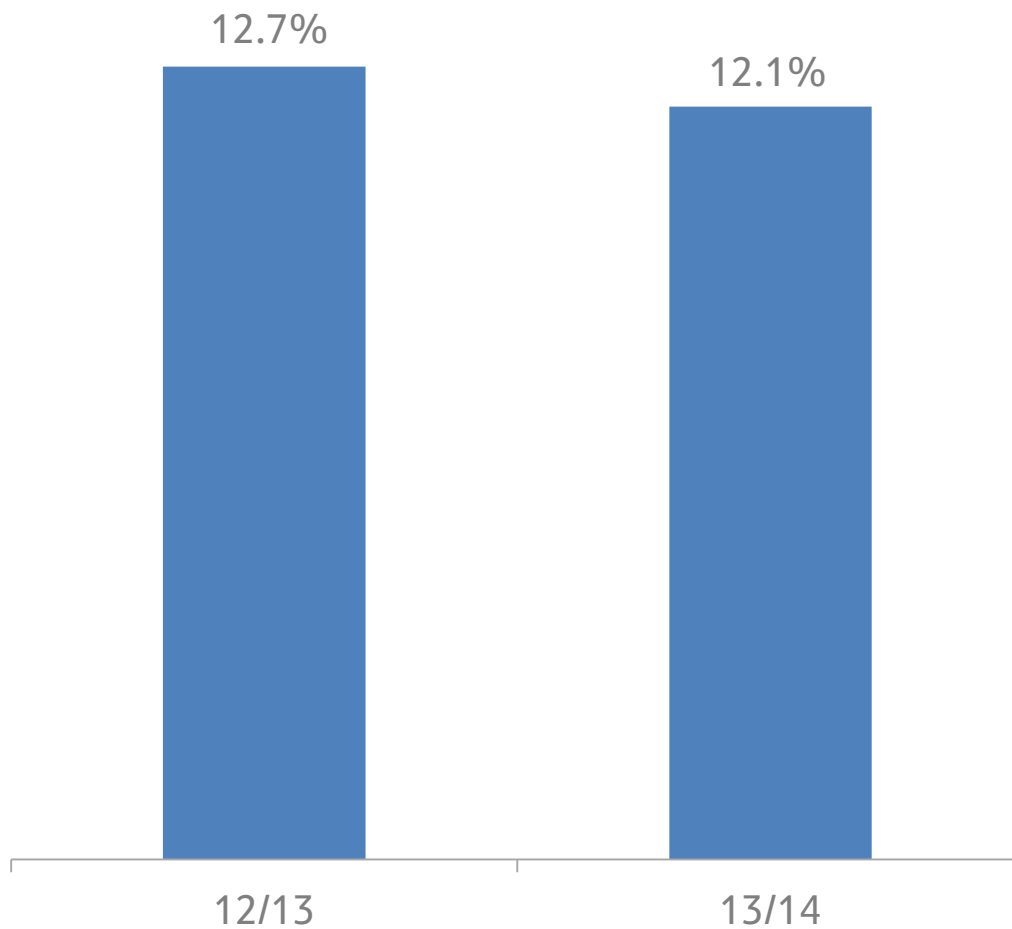


FY 06/07 FY 07/08 FY 08/09 FY 09/10 FY 10/11 FY 11/12 FY 12/13** FY 13/14***

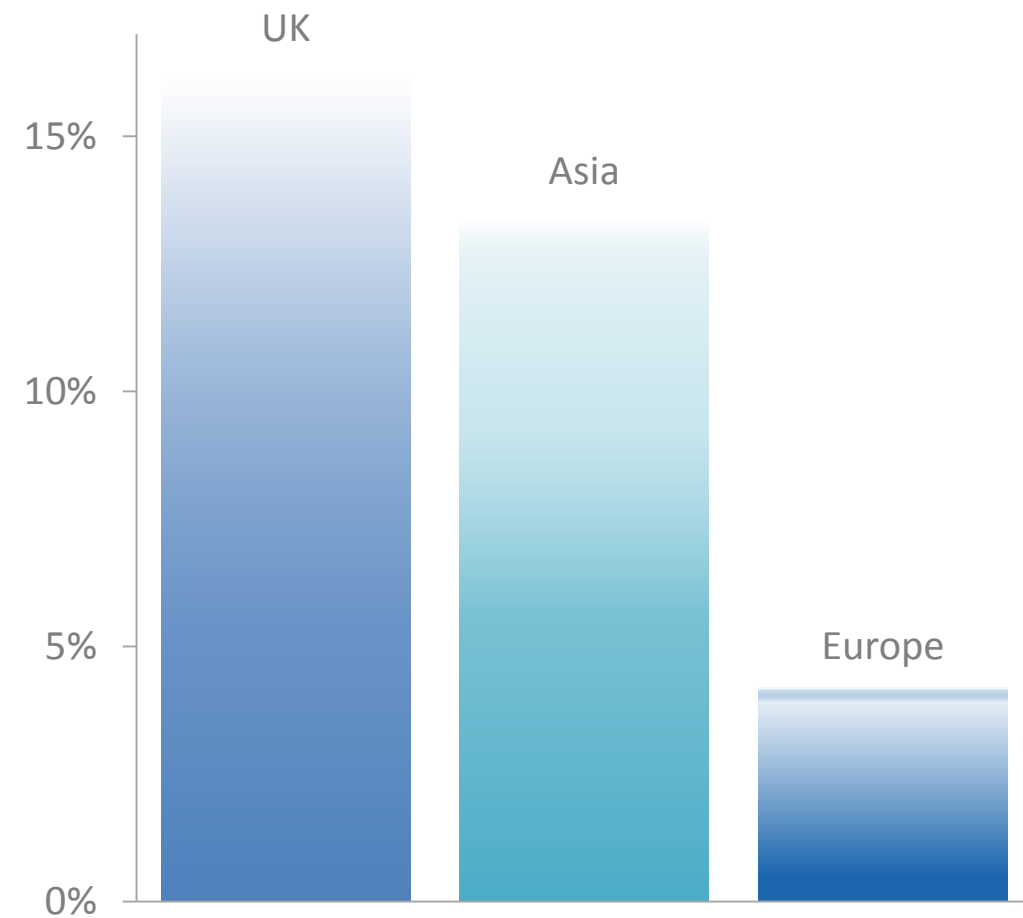
Target of 4.0 to 4.5x

ROCE

Group ROCE, %*



Segmental ROCE, %*



Our financial framework

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

BUSINESS REVIEW AND 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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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

Asia – Korea

- Sales and profit performance in line with peers
- Regulatory restrictions on opening hours
 - Continued sales volatility
 - As expected, no incremental H2 profit impact
- Refreshed seven larger hypermarkets – average CROI of over 29%
- Smaller ‘365 plus’ format performing well
 - Over 80 now trading – majority franchised
 - Plan to open around 200 in 2014/15



Asia – Thailand

- Political uncertainty further impacting consumer spending
- Corrective action taken to improve our offer
- Strengthened team
- Better placed despite tougher market
- Focus on:
 - Hypermarket refresh
 - Convenience expansion
 - Grocery home shopping



Asia – China and India

- Blending Tesco retail know-how with local expertise of our partners
- Accessing fast-growing and high potential markets in a capital disciplined manner
- China:
 - Final stages of approval process
 - Completion expected in the first half
- India:
 - Formalises our strong relationship with Tata
 - £85m investment to form JV



Europe

- Very tough backdrop
- Pan-European programme, leveraging skill and scale
- Stabilised performance
- Stronger customer offer:
 - Fresh food
 - General Merchandise
 - Clothing
- Grocery home shopping in every country

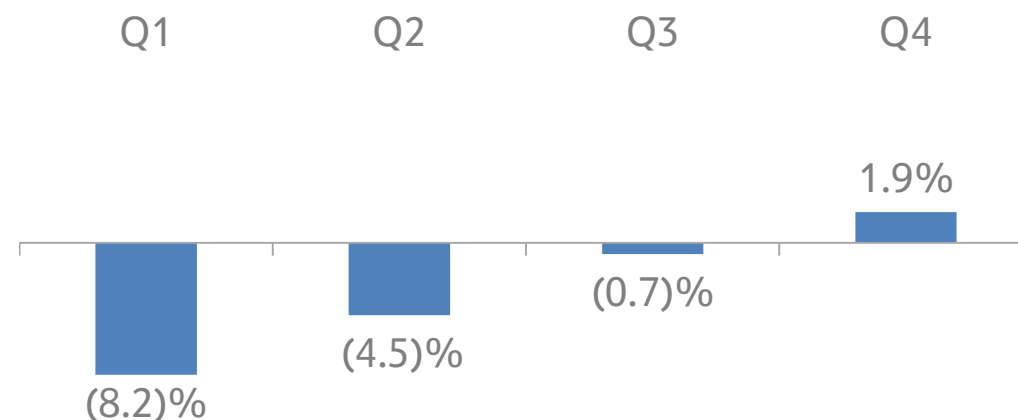


Europe – stronger offer in Poland

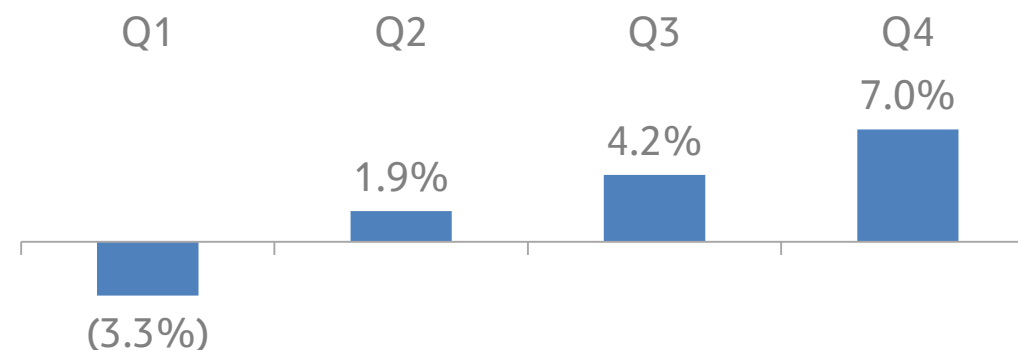
- Decisive reset
- Sharper prices, stronger fresh
- Sales improving, share stabilising
- Small stores recovered
- Customer metrics improving



Total Poland like-for-like sales growth 2013/14

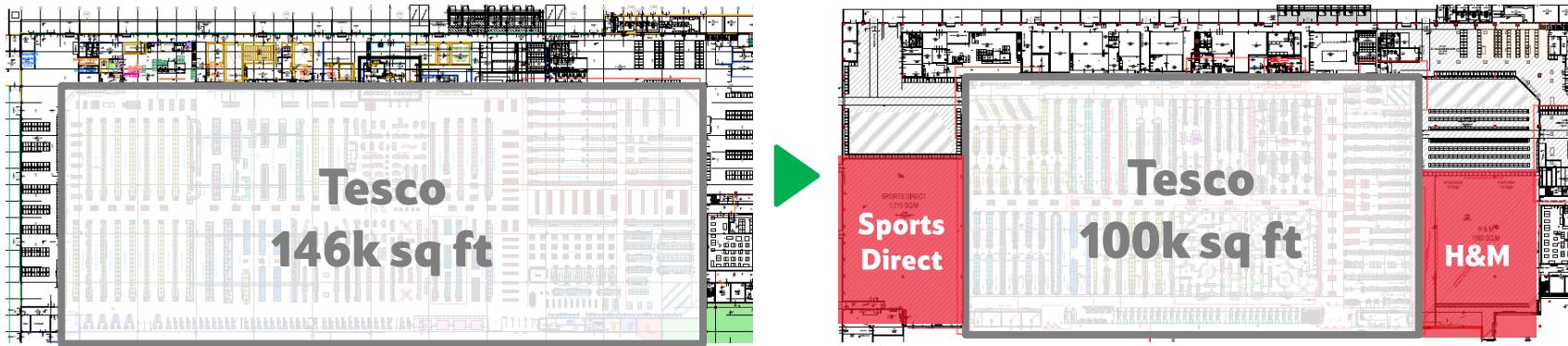


Small store Poland like-for-like sales growth 2013/14



Europe – remodelling large stores

Budaors, Hungary



+2.4% like-for-like sales uplift from c.30% smaller store

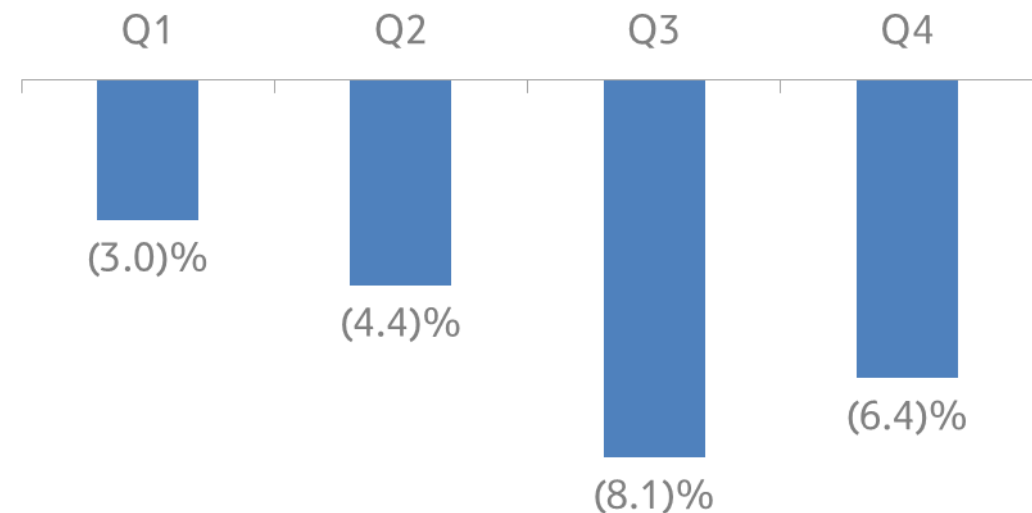
256,000 sq ft repurposed to mall space to date:

Banska Bystrica	Aydin Turkmall	Praha Skalka	Budaors	Zlate Piesky	Cesky Tesin
					
Cheb	Košice	Ostrava Hrabova	Brno Videnska	Karlovy Vary	Mersin
					

Ireland – still tough

- Seventh year of consumer pressures
- High level of vouchering by all competitors
- Focus on value: Price Promise and our points of difference
- Capital carefully constrained

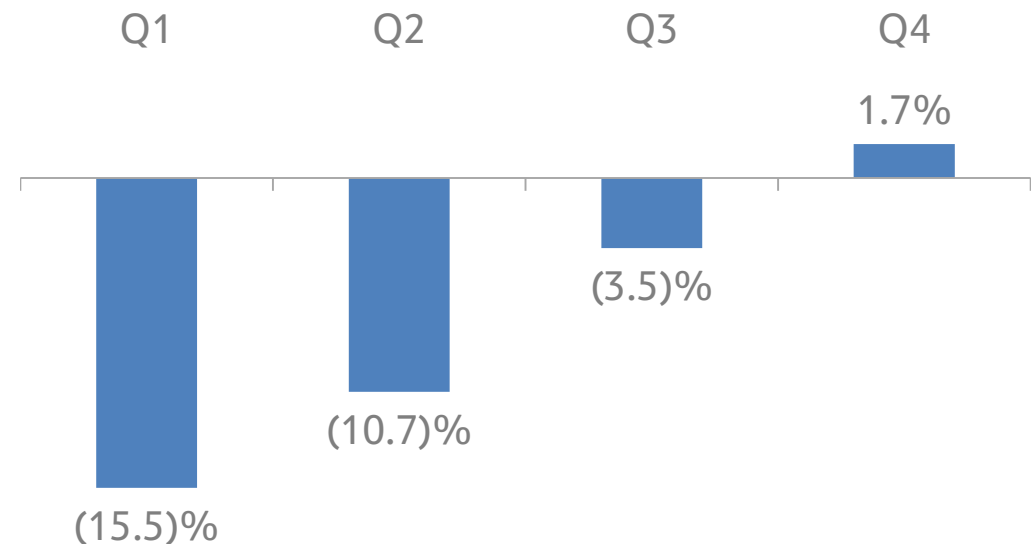
Ireland like-for-like sales growth 2013/14



Turkey

- Making progress:
 - Like-for-like trend improving
 - Rationalised head office
 - Nine loss-making stores closed
- Key programmes starting to deliver
- Early stage discussions with potential partners
- Realistic alternative options available

Turkey like-for-like sales growth 2013/14



Disciplined international growth – summary

- Focus on improving performance
- Leveraging skill and scale
- Store remodels driving customer metrics and improved returns
- Focus on customers
- Focus on capital discipline
- Determination to deliver real value

DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in
strong UK business



2. Establishing multichannel
leadership

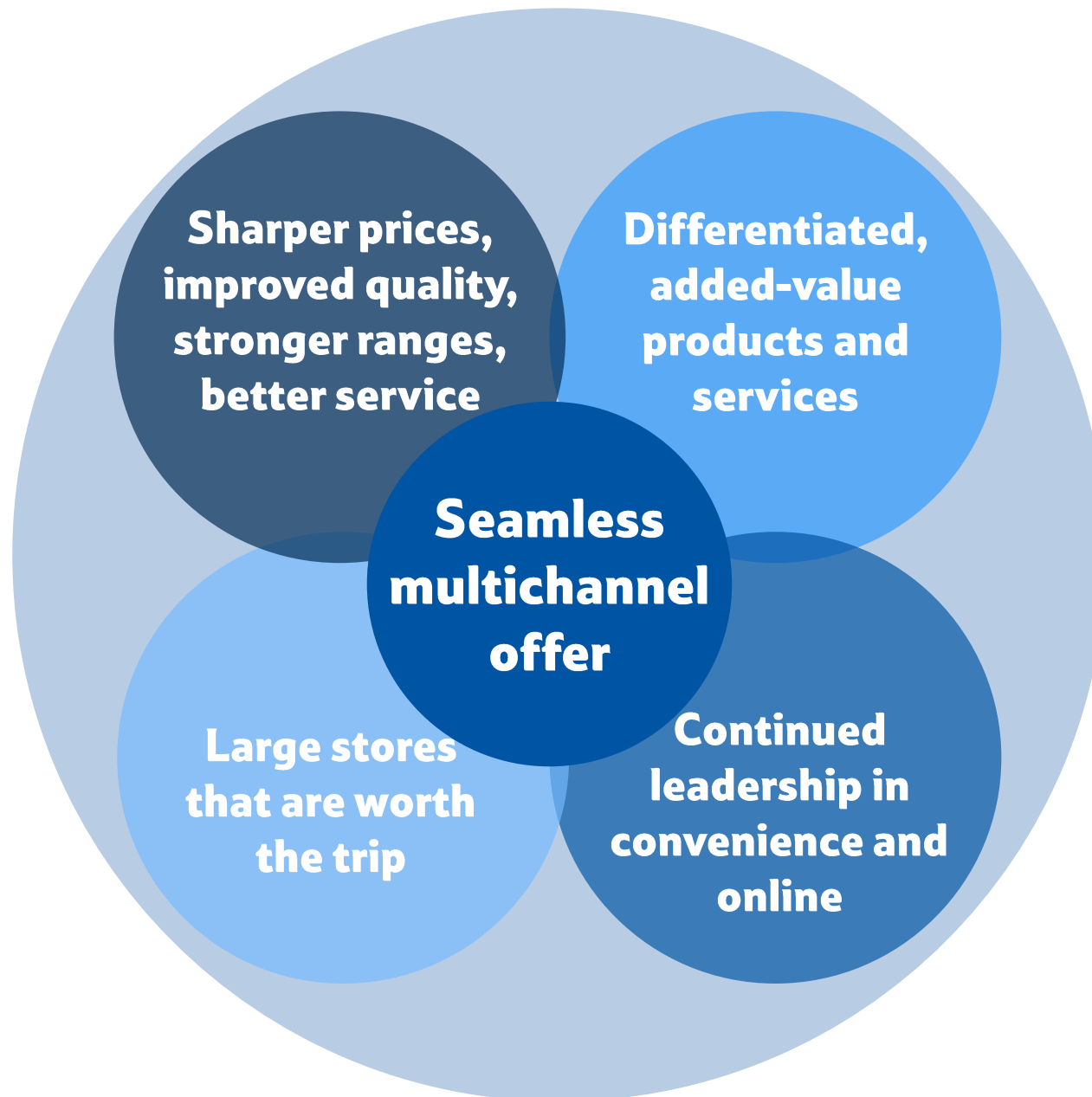
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[tesco.com/groceries](https://www.tesco.com/groceries)

3. Pursuing disciplined
international growth



What does Tesco need to win?



Large stores worth the trip

- 247 Extras and 482 Superstores
- All in prime locations
- Three year programme will complete the refresh of all of these 729 larger stores
- Ingredients of success are clear
- Missions and propositions store-by-store

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

TESCO

Source: Internal database and Local Authority records.

8

Reinventing our large stores

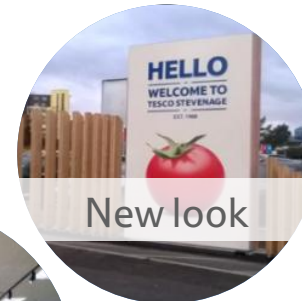
‘Ingredients’



Reinventing our large stores

‘Ingredients’

**Compelling
destinations**



Superstores

c.20,000 to 50,000 sq ft

- Focus on fresh: the best food store in town
- A store based around the family
- Everyday needs under one roof
- With appropriate services
- Only add General Merchandise / Clothing if there is space and a need

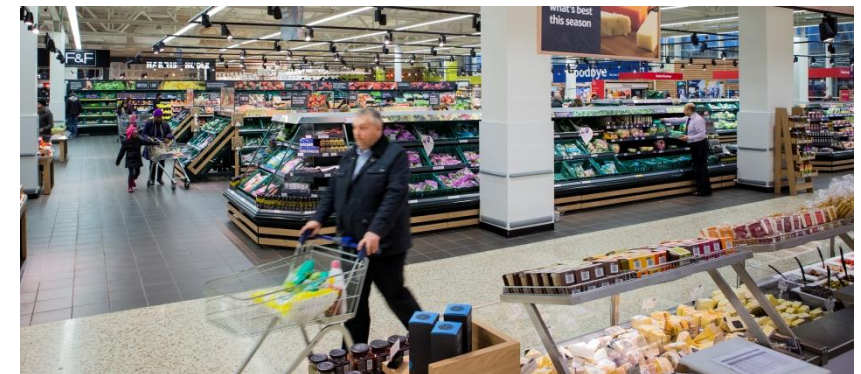


50 superstore refreshes this year, c.£1m to £1.5m each

Extras

c.50,000+ sq ft

- Stores which are worth the trip
- Food First
- Food to Go in specific locations
- Destination Clothing
- General Merchandise
- Appropriate and relevant New Food Experiences

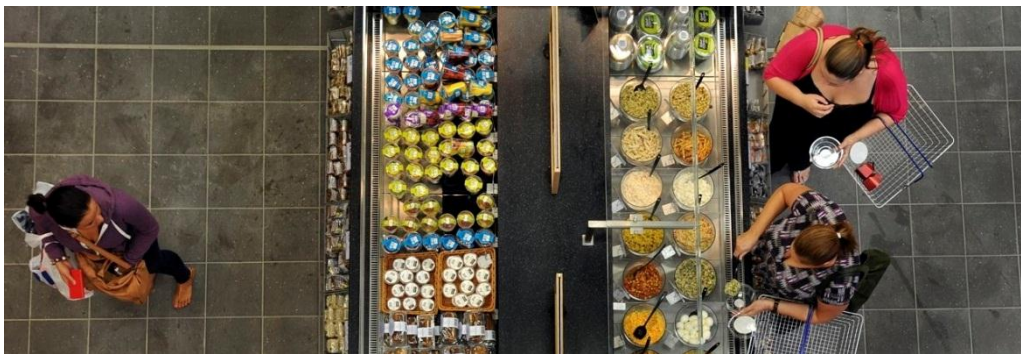


110 Extra refreshes this year, c.£1m to £4m each

Food First

Focus on Fresh

- Better products, better packaging, better merchandising
- Re-launched *finest** and Healthy Living
- Significant investment in colleagues
- Stronger counters: improved range, better service
- New fixtures: lower-level racking, wider aisles, improved lighting



Food to Go

- Already in 34 locations
- Tailored to customer needs
- Extensive range of hot and cold meals & snacks
- Part-day merchandising

Clothing

- 'Next Generation' offer now in 104 stores
 - Average like-for-like sales growth of 10.6%
 - 50 introduced as part of wider refresh
 - 42 individual department remodels
 - Introduced F&F to 12 additional stores
- 200bps gross margin improvement
- Plans for a further 140 stores in 2014/15



New Food Experiences

- Suite of tailored, compelling food offers
- In 2013/14 we introduced:
 - 4 Giraffe restaurants, 3 Decks carveries
 - H+H coffee outlets in 15 stores
 - 9 in-store bakery offers
- Very positive customer response
- 2014/15:
 - 80 new family dining offers (Giraffe, Decks, Café)
 - 50 new H+H in-store coffee shops
 - 110 new in-store bakery offers



General Merchandise

- New Spring/Summer 2014 ranges in store now – reflecting transformation work
- Focus on Home, Cook & Dine, Party
- Introduced over 4,000 new products
- Space reallocation work well underway – completion mid-2015



Stevenage Extra

Less capital-intensive: £1.5m

- Transformed – four-week rolling programme minimising disruption
 - Latest Clothing and GM offer
 - Food to Go
 - Particular focus on fresh food and services
 - Produce, counters, bakery
 - Pharmacy, Tesco Phone Shop
- Uplifts tracking ahead of plan in first six weeks

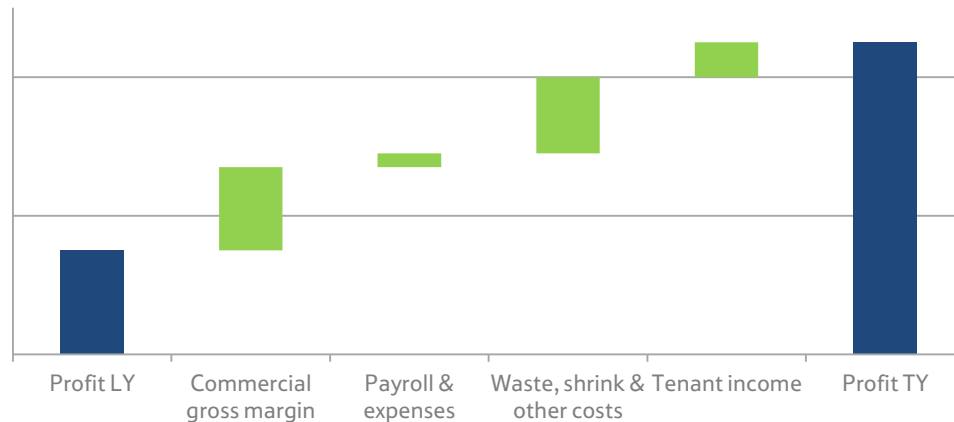


Newport Extra

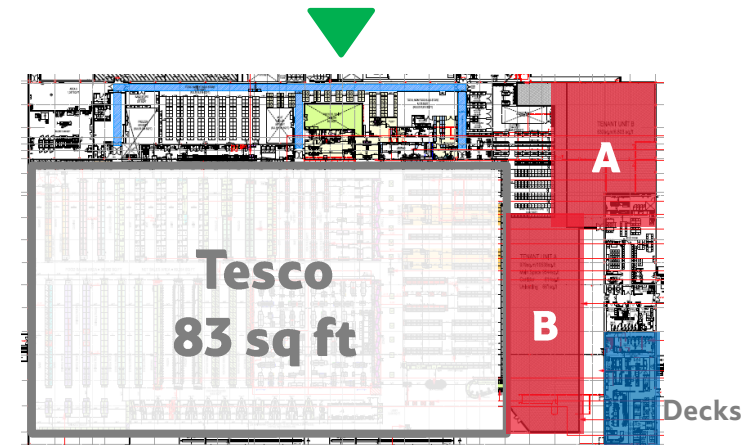
Downsized by 12%

- Reduced GM and Electrical space, better choice
- 'Next Generation' F&F Clothing
- Complementary retail tenants
- Five similar schemes planned for 2014/15

Newport profit progression year-on-year



£3m capital
CROI > 50%



Reinventing our large stores

Roll-out programme

		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

- On track to complete 50 Extra refreshes in H1
- Typical refresh work lasts up to 16 weeks
- Accelerated programme: short-term disruption, long-lasting uplift

A “new” Tesco to 650 neighbourhoods this year

DRIVING SUSTAINABLE GROWTH

1. Continuing to invest in strong UK business



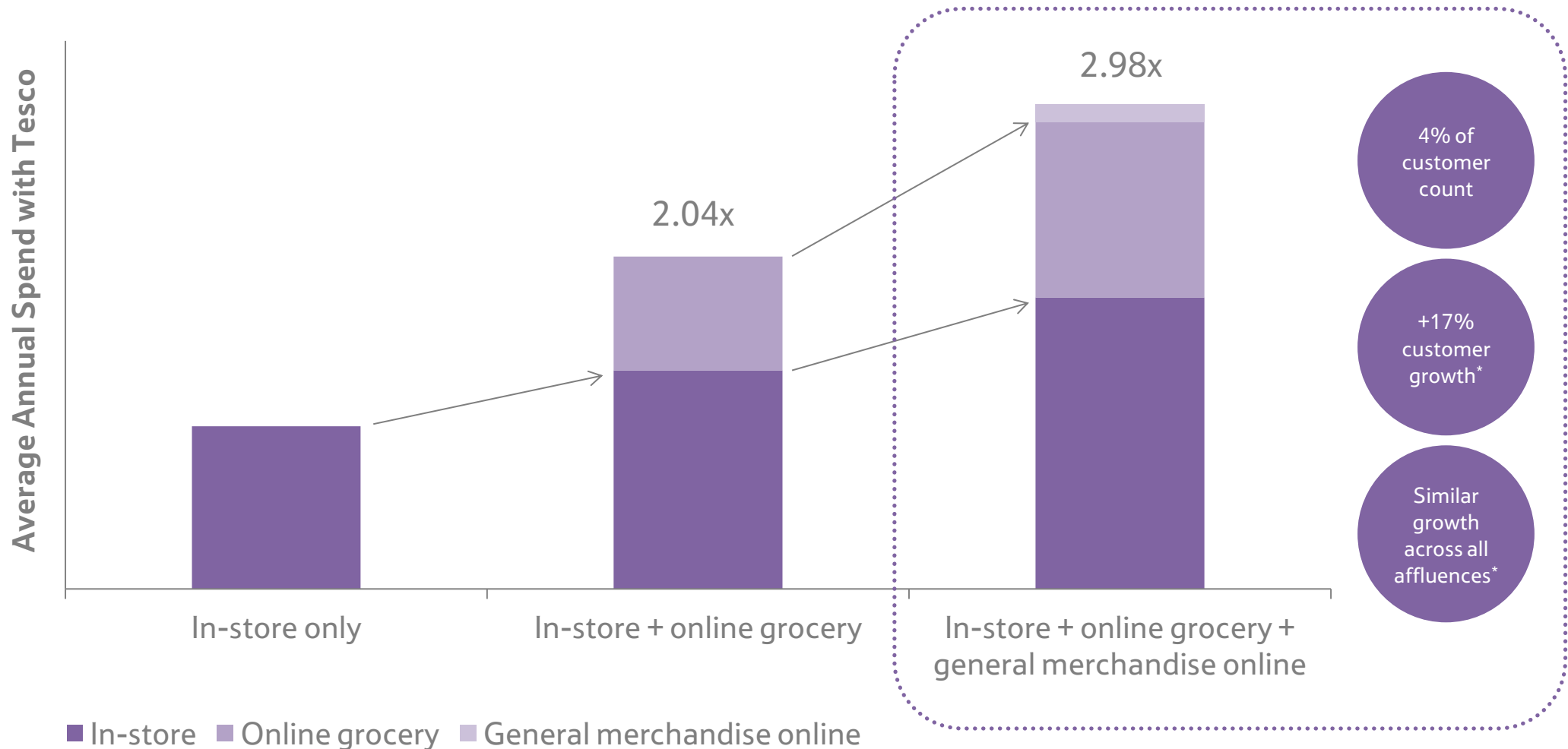
2. Establishing multichannel leadership



3. Pursuing disciplined international growth

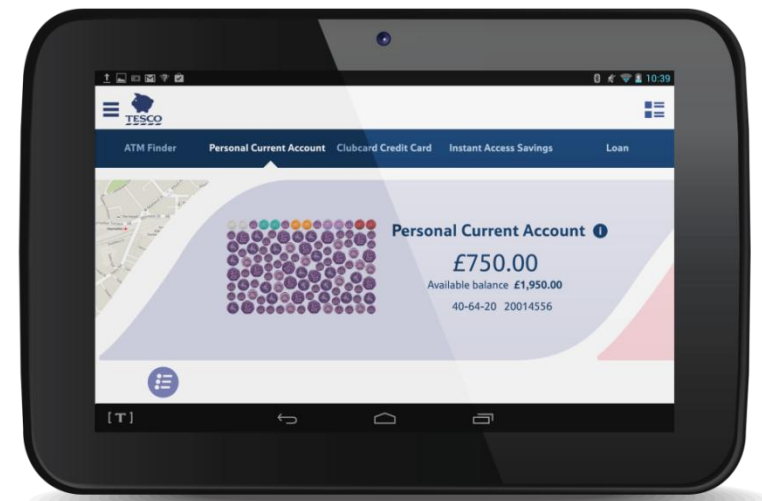


Customers value retailers who get it right



Current Accounts

- Current account launching in first half
- Strategic building block to offer full range of banking services
- Tailored to what matters to our customers
- Simple, transparent, convenient
- Rewards customers every day
- Strengthens loyalty and engagement with Tesco

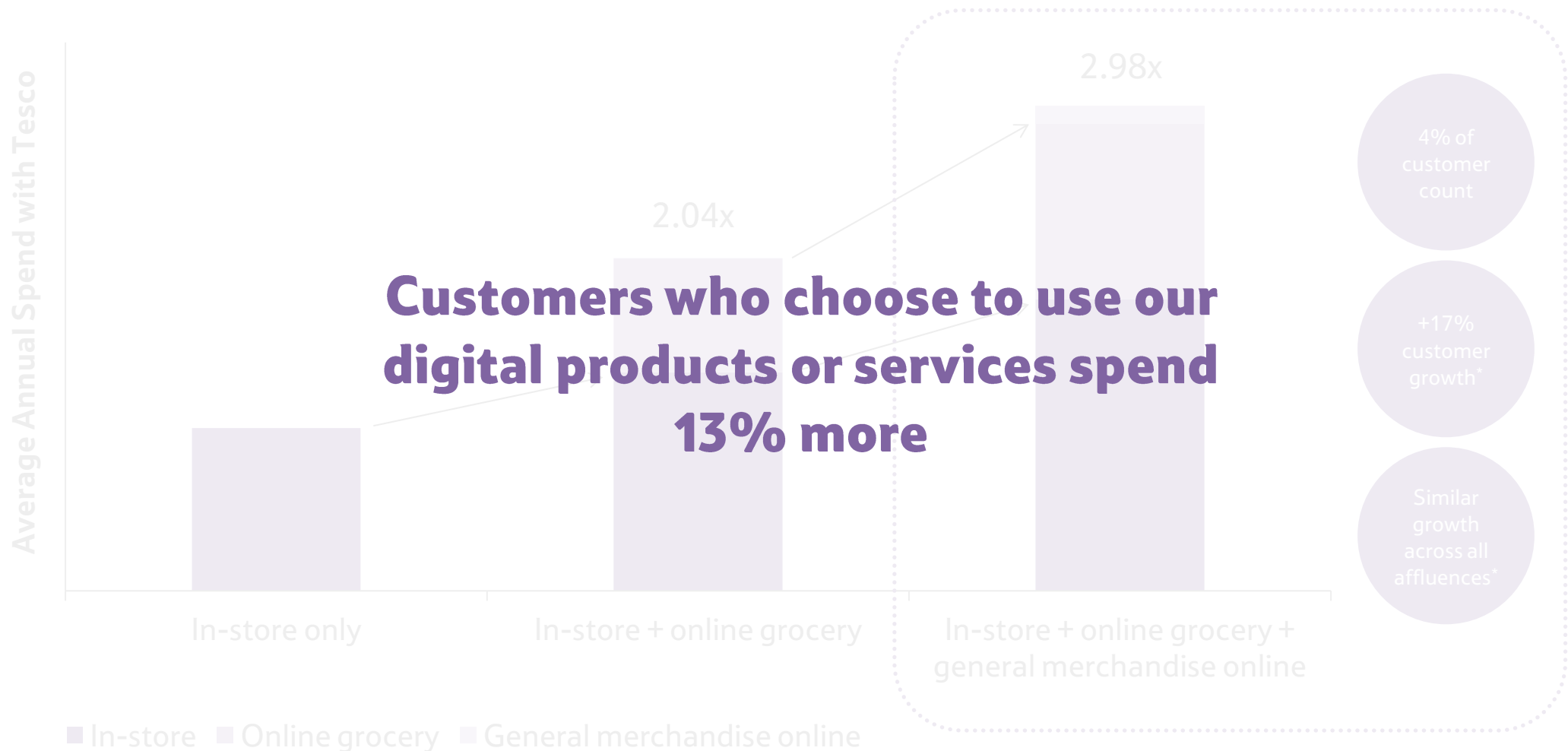


Digital & services

- Broader range of products and services that only we can offer
- Brought together in a seamlessly and connected way
- Enriching relationships with our customers
- Unrivalled digital capabilities
- Hudl – access to online shopping and digital services
- Added-value subscriptions



Customers value retailers who get it right



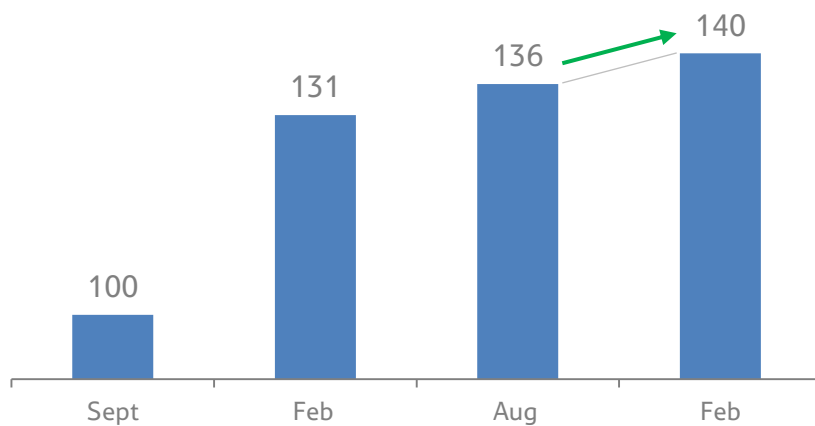
An unrivalled family of brands



Service and culture



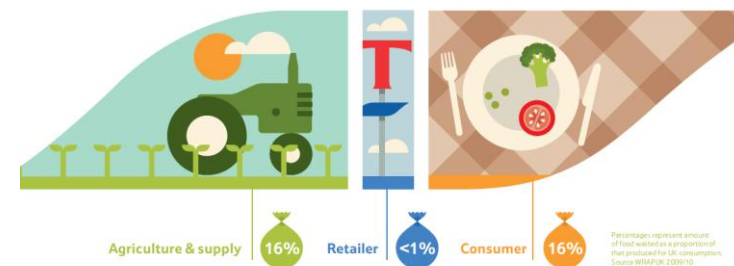
Overall customer service and staff helpfulness is **excellent**



Farm to Fork

Part of the
TESCO
Eat Happy Project

Total food waste along the value chain: 32%



Loyalty matters



- Retaining loyal customers
- Attracting more new customers
- Shopping across our channels
- And across our brands

Greater loyalty → Greater lifetime value

Loyalty – Clubcard Fuel Save



**More than
3 million**

customers have already
saved money on fuel

**6 pence
per litre**

average saving in the
first month

+22%

increase in Clubcard
signup

+8%

increased fuel volumes*

Price



Only
99p

Peppers down
and staying down



Mixed Peppers 3 Pack 500g
only 99p

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores - excludes Express. Delivery charges may apply online. 3p advised peppers 500g only 99p, 20p/100g. Price Promise terms & conditions at tesco.com/pricepromise

TESCO
PRICE
PROMISE



Only
69p

Salad tomatoes down
and staying down



Salad Tomatoes 6 Pack
only 69p

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores. Delivery charges may apply online. Salad tomatoes 6 pack only 69p. Price Promise terms & conditions at tesco.com/pricepromise

TESCO
PRICE
PROMISE



Only
49p

Spring onions down
and staying down



Spring Onions Bunch
only 49p

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores - excludes Express. Delivery charges may apply online. Spring onions bunch 100g only 49p. Price Promise terms & conditions at tesco.com/pricepromise

TESCO
PRICE
PROMISE

Price



**4 pint milk down
and staying down**



Tesco British
Skimmed Milk
4 pints only £1



Tesco British
Semi-Skimmed Milk
4 pints only £1



Tesco British
Whole Milk
4 pints only £1

TESCO
Every little helps

TESCO
PRICE
PROMISE

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores. Delivery charges may apply online. Tesco British Skimmed / Semi-Skimmed / Whole Milk: 4 pints only £1, 2.5p/pint. Price Promise terms & conditions at tesco.com/pricepromise



**Free range eggs down
and staying down**



British Free Range Eggs 6 Pack
only £1

TESCO
Every little helps

TESCO
PRICE
PROMISE

in store online mobile | tesco.com/groceries



**Butter down
and staying down**



Tesco English Salted
Butter 250g
was £1.49 now £1



Tesco English Unsalted
Butter 250g
was £1.49 now £1



Tesco English Slightly
Salted Butter 250g
was £1.49 now £1

TESCO
Every little helps

TESCO
PRICE
PROMISE

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores. Delivery charges apply online. Tesco English Slightly Salted / Unsalted / Salted Butter 250g was £1.49 now £1, 24kg. Price Promise terms & conditions at tesco.com/pricepromise

Price



**Beef mince down
and staying down**



Tesco British or Irish Beef Mince 500g
only £2

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores - excluding Express. Delivery charges apply online. Tesco British or Irish Beef Mince 500g only £2, 40p/100g. Price Promise terms & conditions at tesco.com/pricepromise



**Carrots down
and staying down**



Carrots 1kg
only 80p

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores - excludes Express. Delivery charges may apply online. Tesco Carrots 1kg only 80p, 80p/kg. Price Promise terms & conditions at tesco.com/pricepromise



**Chicken breast portions
down and staying down**



Tesco British Chicken Breast Portions 571g
only £4

TESCO
Every little helps

in store online mobile | tesco.com/groceries

Serving suggestion as illustrated. Subject to availability. Selected UK stores - excluding Express. Delivery charges apply online. Tesco British Chicken Breast Portions 571g only £4, 70p/100g. Price Promise terms & conditions at tesco.com/pricepromise



More to come

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



Back to leading...for customers

- Customers' expectations are changing
- We are firmly focused on the most compelling offer
- Customer focus will drive success
- Increasing loyalty is key
- Pace is accelerating



The most compelling offer

- Ingredients developed, roll-out underway
- Progressing towards multichannel leadership
- Bringing the new Tesco to communities across the UK
- Focused on the long-term success of Tesco
- Cash focus, returns focus, customer focus

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.