



23 October 2014

## INTERIM RESULTS

Sir Richard Broadbent - Chairman, Dave Lewis - CEO, Alan Stewart - CFO

**TESCO**

# Introduction

- A company in transition
- New management
- Events of late September
- Priorities



# Agenda

- Introduction
- Commercial income investigation update
- 1H results
- Three priorities





# First seven weeks



Listening



Customers



Colleagues



# Two thoughts on...

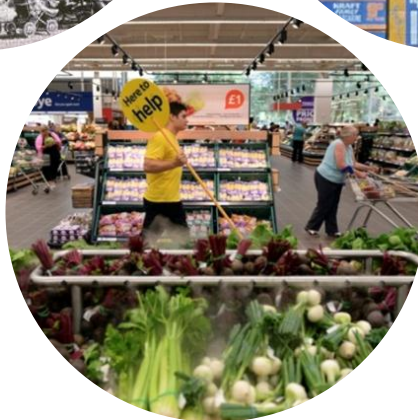
History

Competitive  
advantage

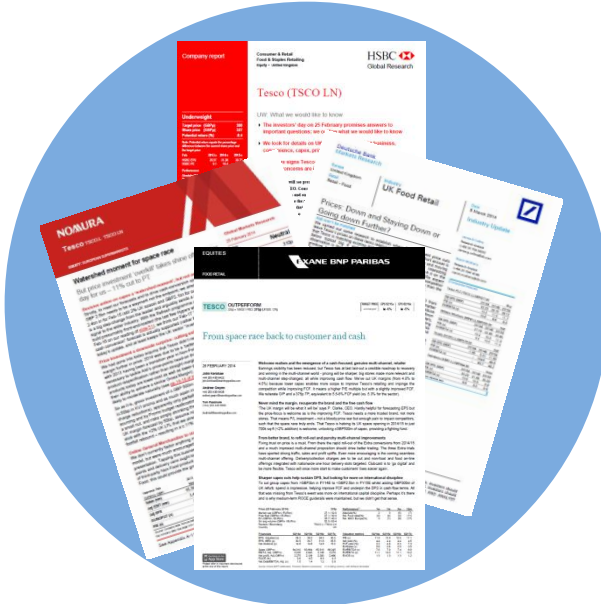




# History



# Competitive advantage

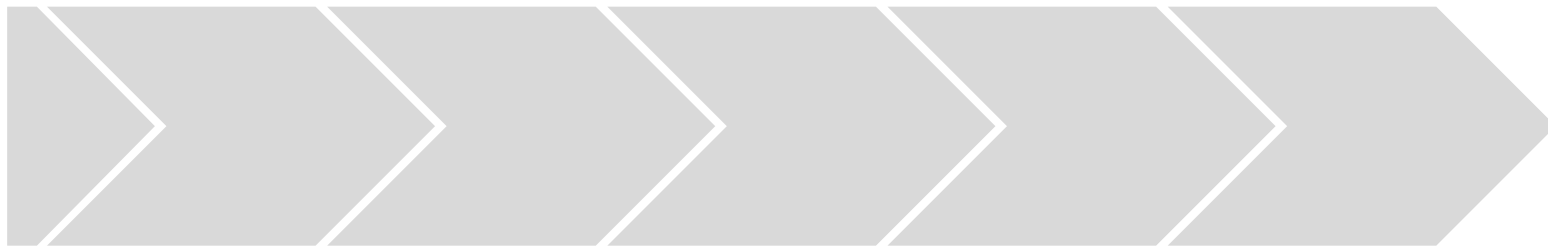




# Commercial income investigation update

# Commercial income investigation update

19 Sep A horizontal blue arrow pointing to the right, starting with a red dot at the date '19 Sep'.



- Internal paper £246m
- Crisis meetings
- Auditors informed
- PLC Board briefed
- Initial data capture

# Commercial income investigation update



- Crisis team formed
- Initial investigation launched in conjunction with Freshfields
- Deloitte appointed
- Business continuity planning

# Commercial income investigation update



- Launch of key work streams:

- Internal Audit
- Commercial
- Legal
- IT / data
- Finance
- International
- Liquidity

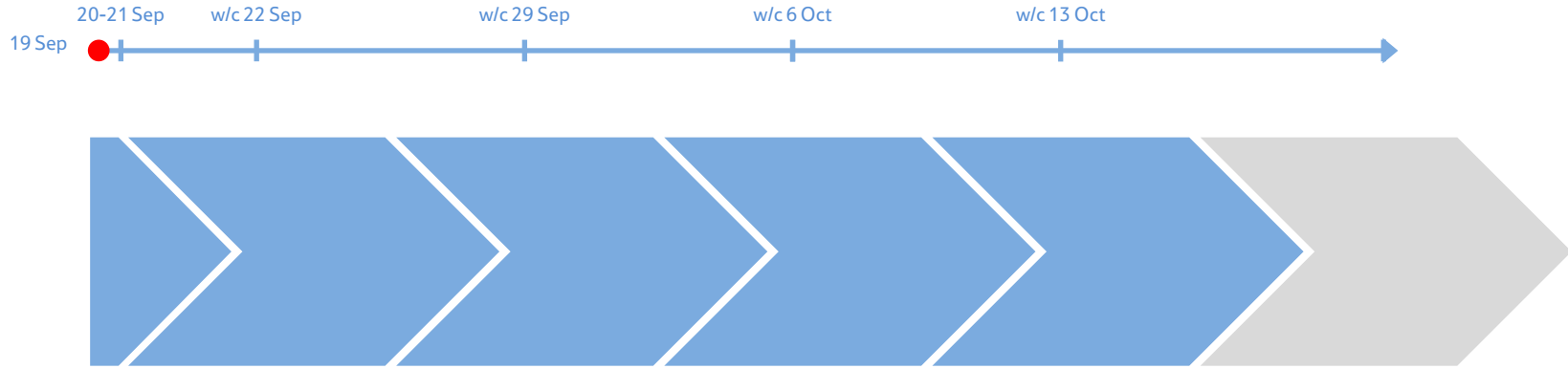
# Commercial income investigation update



- FCA investigation launched
- Triage process

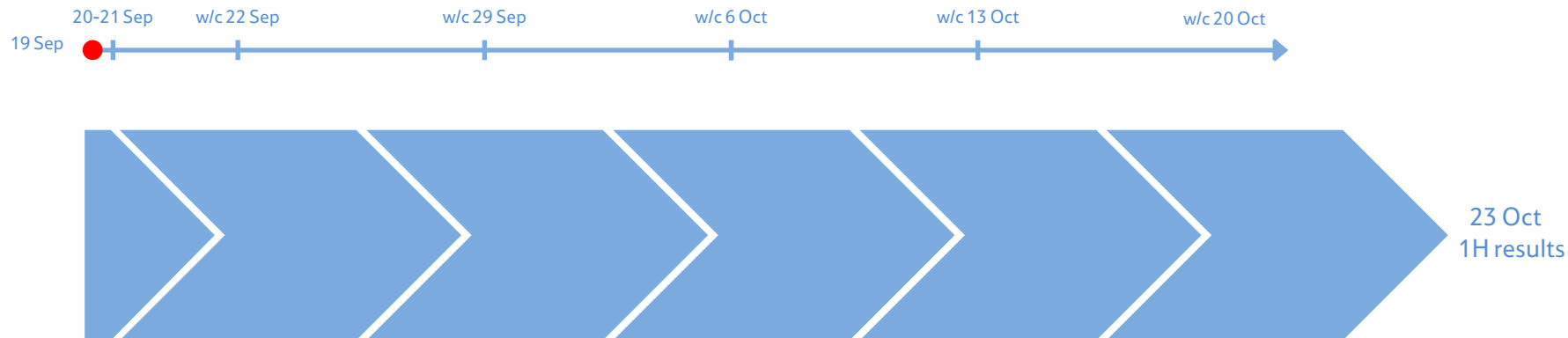


# Commercial income investigation update



- Audit Committee review of phase one investigation to date

# Commercial income investigation update



- Final verification of financial impact
- Deloitte report presented to Audit Committee
- Tesco / Deloitte investigation concluded
- Ongoing support for FCA investigation



# Commercial income investigation update

- Triage process
- 6.3 million documents captured
- 18,000 invoices reviewed
  - c.500 analysed in detail
- No evidence of material issues outside UK Food business
- Deloitte investigation now complete

# Commercial income investigation update

	Pre-13/14	13/14	1H 14/15
In year (P&L)	(75)	(70)	(118)
Cumulative (Balance sheet)	(75)	(145)	(263)

- No restatement of prior year accounts

$^1\text{H}$  results



# Group performance

Continuing operations	14/15	vs. 13/14
Group sales	£34,012m	(4.4)%
Group trading profit	£937m	(41.0)%
Underlying profit before tax	£783m	(46.6)%
One-off items	£(527)m	n/m
Group profit before tax	£112m	(91.9)%
Net finance costs <sup>*</sup>	£(171)m	(13.2)%
Underlying diluted EPS <sup>**</sup>	7.71p	(46.8)%

<sup>\*</sup> Underlying.

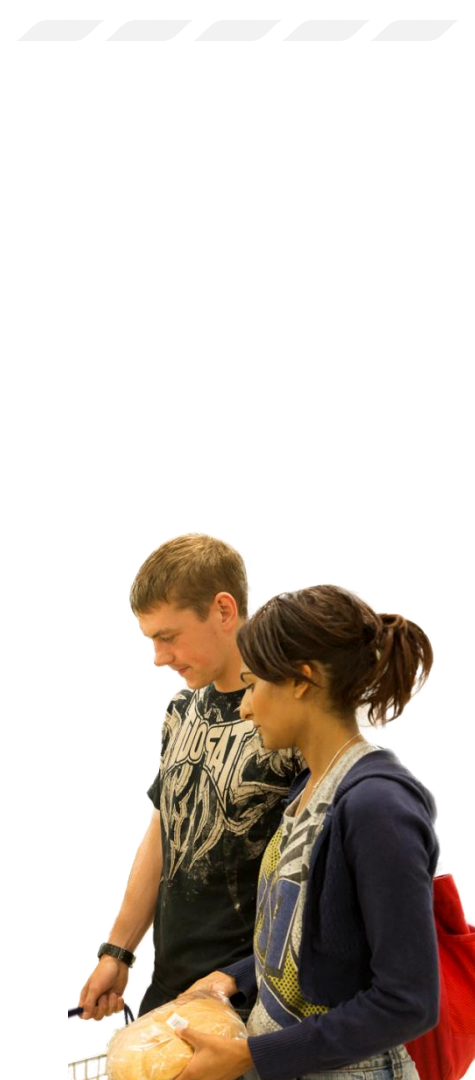
<sup>\*\*</sup> Underlying diluted EPS growth calculated on a constant tax rate basis.



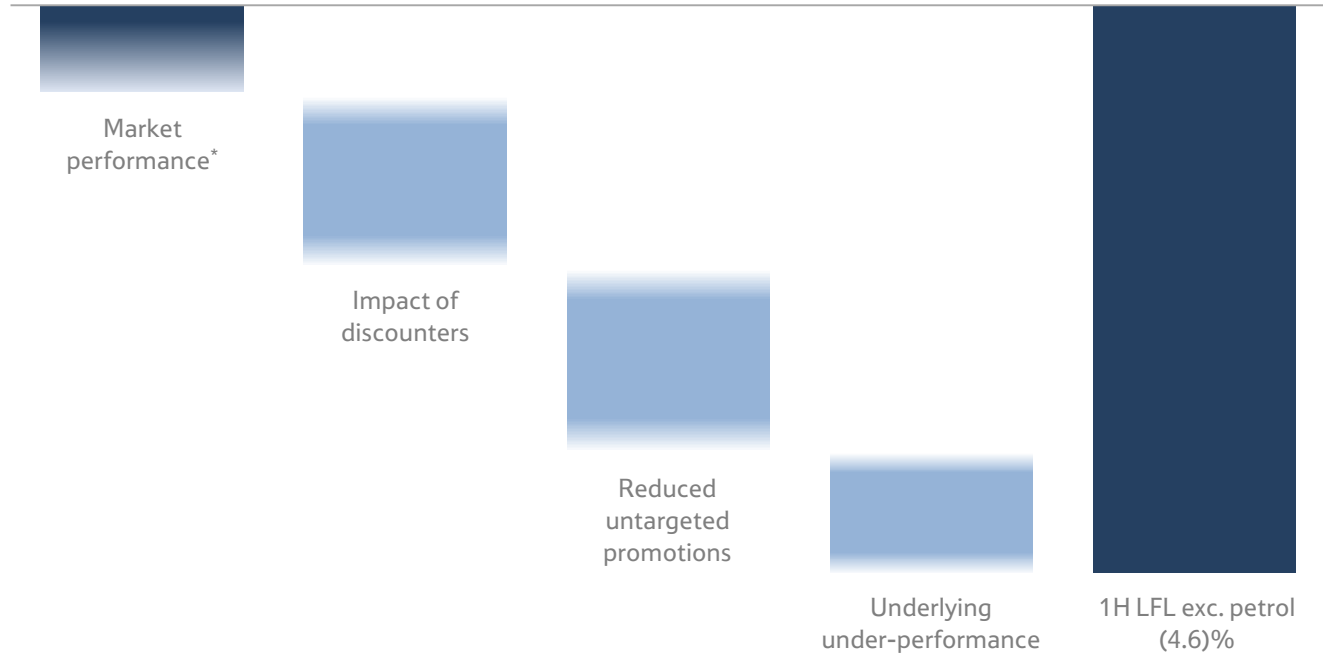
# Segmental performance

	14/15 Sales	Growth* %	14/15 Trading profit	Growth* %
UK	£23.6bn	(2.6)%	£499m	(56.0)%
Asia	£5.1bn	(0.5)%	£260m	(9.2)%
Europe	£4.8bn	(1.8)%	£76m	41.8%
Bank	£0.5bn	4.6%	£102m	15.9%
<b>Group</b>	<b>£34.0bn</b>	<b>(2.0)%</b>	<b>£937m</b>	<b>(39.4)%</b>

\* At constant exchange rates.



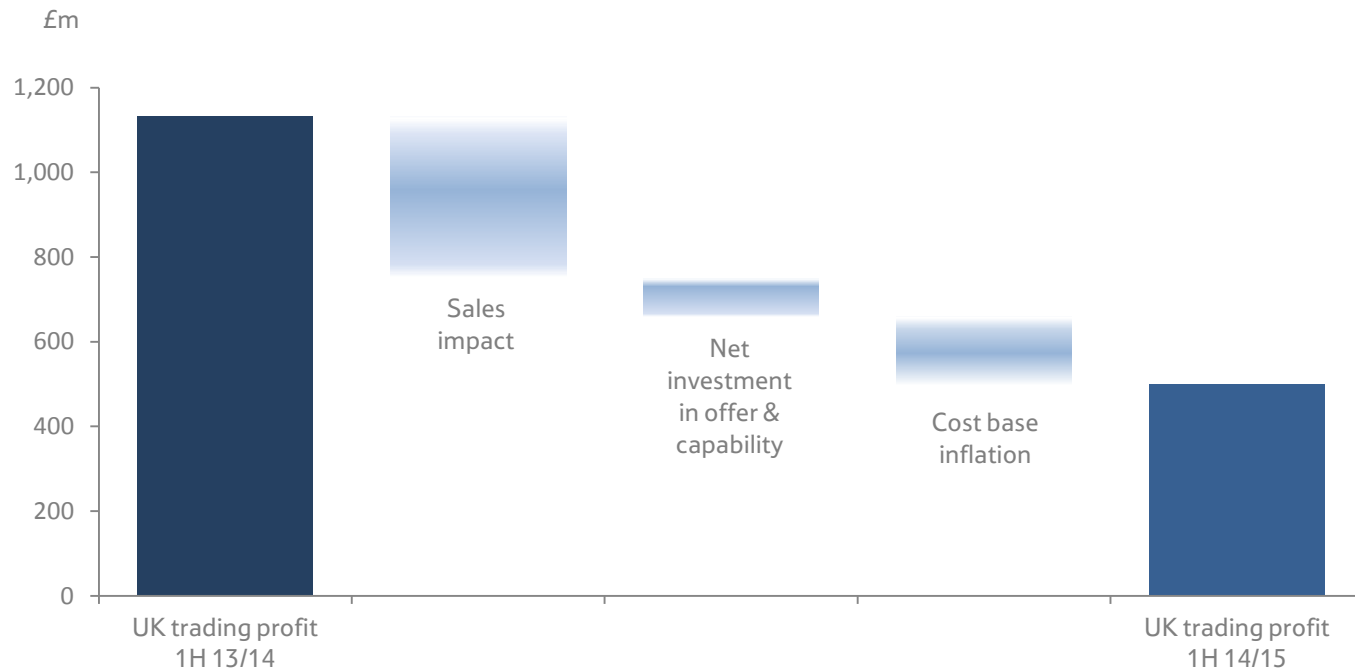
# UK like-for-like sales



\* Estimated market like-for-like sales growth using Kantar Worldpanel Total Till Roll data 24 w/e 17 August 2014 and a 2% estimate for net new stores contribution.



# UK trading profit



# Asia

	Asia	
	Actual exchange rates	Constant exchange rates
Sales growth	(8.4)%	(0.5)%
LFL	n/a	(4.1)%
Trading profit	£260m	£285m
Trading profit growth	(17.2)%	(9.2)%
Trading margin	5.44%	5.49%
Trading margin change	(57)bp	(52)bp





# Europe

	Europe	
	Actual exchange rates	Constant exchange rates
Sales growth *	(9.1)%	(1.6)%
LFL *	n/a	(1.8)%
Trading profit	£76m	£78m
Trading profit growth	38.2%	41.8%
Trading margin	1.82%	1.73%
Trading margin change	63bp	54bp

\* Excluding petrol.

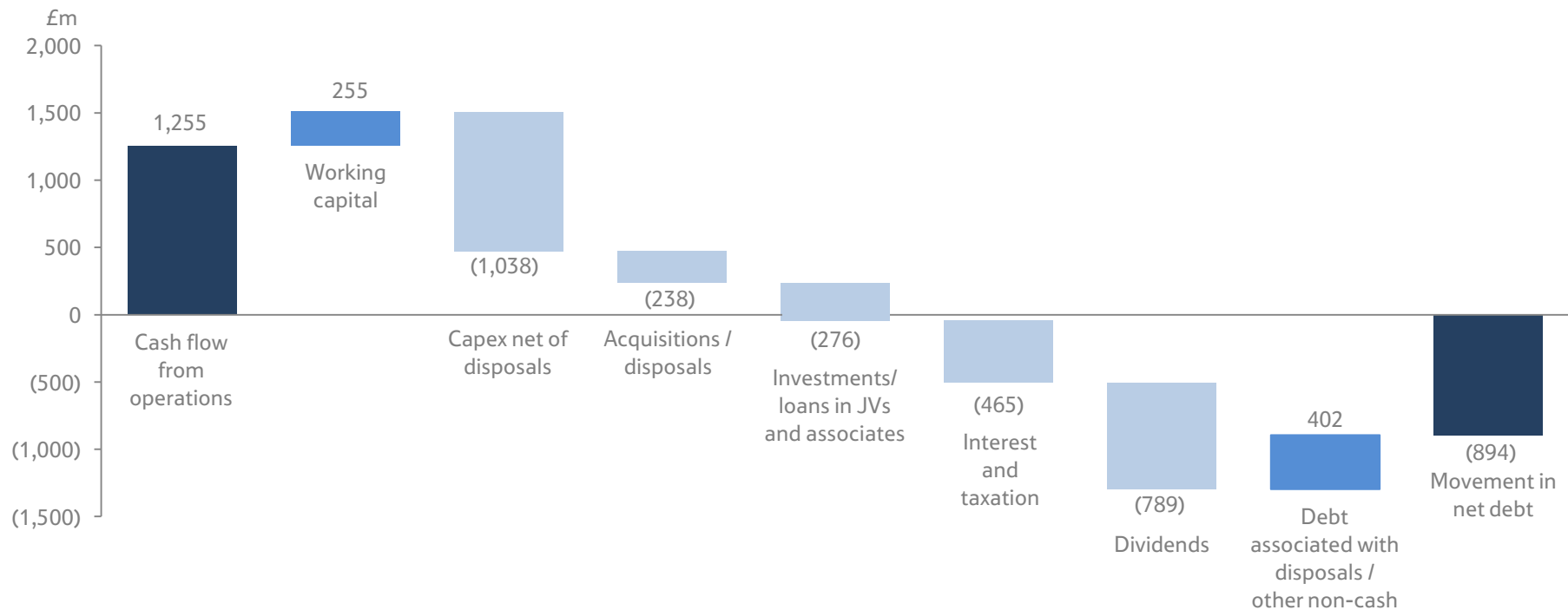


# Tesco Bank

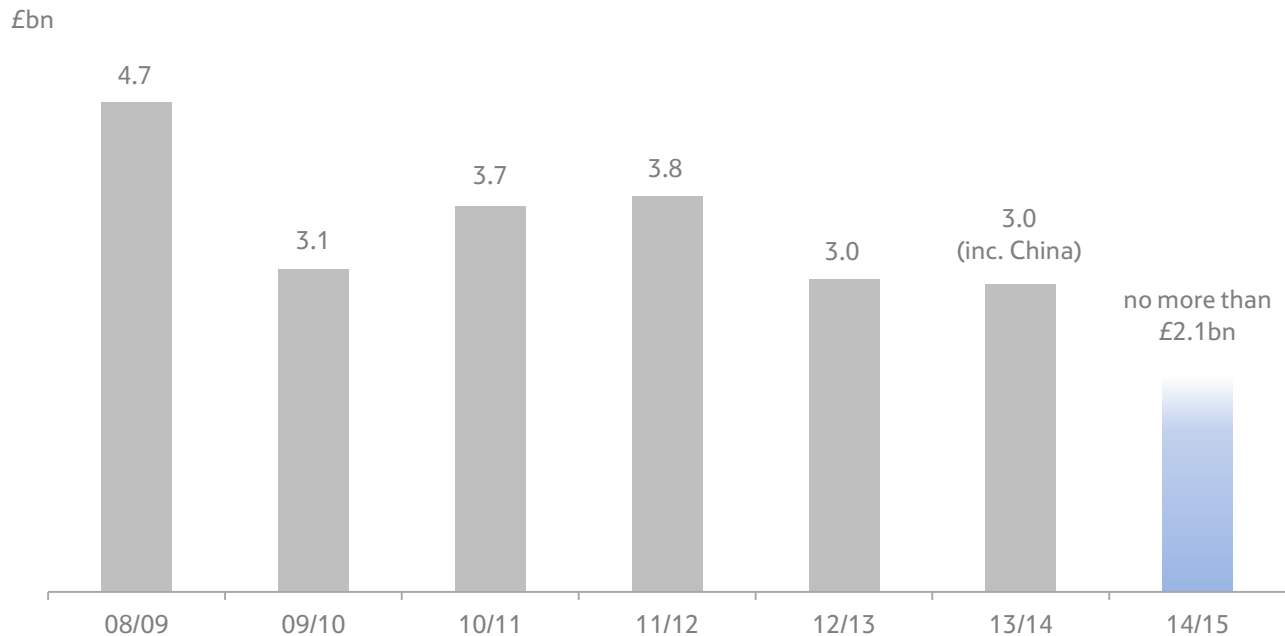
- Trading profit up 15.9% to £102m
- Customer accounts in core banking products up 14%
- Strong deposit base
- £1bn mortgage balances
- Personal current account launched in June
- Strong capital and liquidity ratios



# Cash flow



# Capital expenditure



# Liquidity and funding

- Reduction of interim dividend to 1.16p per share
- Leverage too high
  - £7.5bn net debt
  - £9.4bn discounted operating lease commitments
  - £3.4bn\* pension deficit
- Investment grade credit rating
- Strong funding and liquidity profile

\* On IAS 19 basis



Three priorities

# Three priorities

- 1 Rediscovering competitiveness in core UK business
- 2 Protecting and strengthening the balance sheet
- 3 Rebuilding trust and transparency



# 1 UK core – a sea of opportunity



In-store



Team



Cost



Brand





# In-store



Service



Availability



Price



# Team



Expertise



Simplification



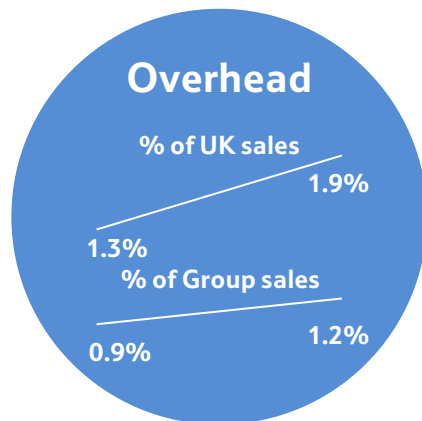
Synergy



# Cost



Customer



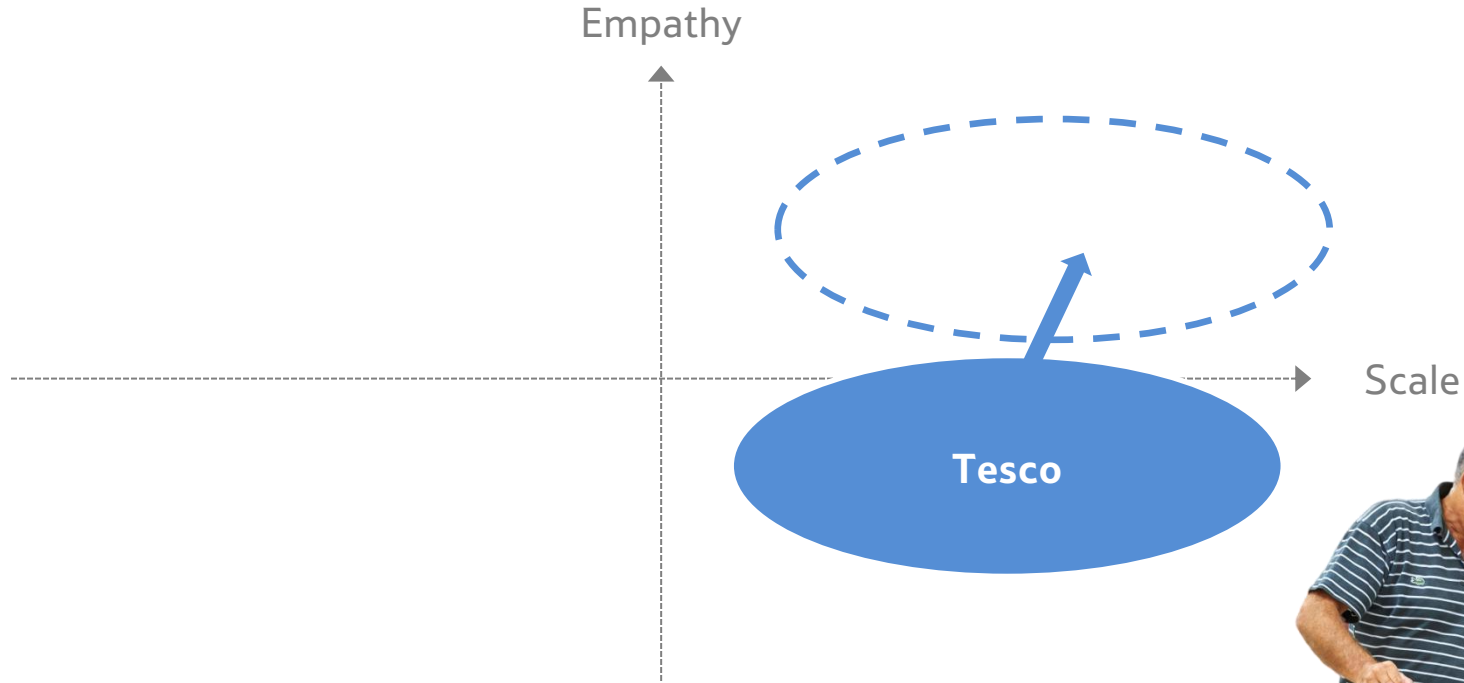
Infrastructure



Scale



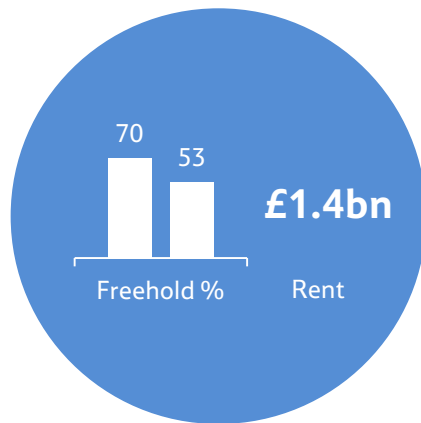
# Brand



## 2 Protecting and strengthening the balance sheet



Leverage



Property



Pension



## 2 Protecting and strengthening the balance sheet

Returns

Discipline



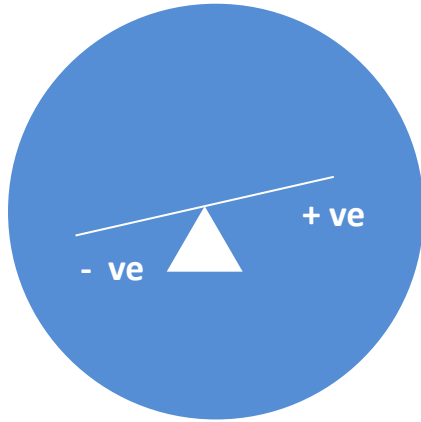
Portfolio

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Other



### 3 Trust and transparency



Brand



Ways of working



Investment case





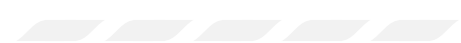




PUTTING OUR CUSTOMER FIRST



Q & A



# Disclaimer

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