TESCO

1Q Trading Statement 20/21

DELIVERING FOR CUSTOMERS

All sales on exc. VAT, exc. fuel basis	Sales £m	Total sales change (constant rates)	Like-for-like sales change
UK & ROI	**12,214**	**9.2%**	**8.2%**
UK	9,912	9.1%	8.7%
ROI	697	19.7%	20.5%
Booker	1,605	6.1%	0.6%
Central Europe (exc. Poland)	**968**	**3.3%**	**3.9%**
Tesco Bank	**198**	**(26.5)%**	**n/a**
Group	**13,380**	**8.0%**	**7.9%**

At actual rates, the Group sales change is 7.9%, UK & ROI sales change is 9.4% and Central Europe exc. Poland sales change is 0.8%.
These results have been reported on a continuing operations basis and exclude the results from our businesses in Thailand, Malaysia and Poland.

Dave Lewis, Chief Executive:

"Through a very challenging period for everyone, Tesco colleagues have gone above and beyond, and I'm extremely proud of what they've achieved. Their selfless efforts, combined with our embedded strategic advantages in stores and online, have helped to ensure that everyone can get the food they need in a safe environment.

In just five weeks, we doubled our online capacity to help support our most vulnerable customers and transformed our stores with extensive social distancing measures so that everyone who was able to shop in store could do so safely.

The costs of doing this have been significant and only partly offset by business rates relief and increased volume. We see the balance as an investment in supporting our customers at a time when they need it most."

Headlines (13 weeks ended 30 May 2020)

The strategic growth opportunities identified at the Capital Markets Day delivered:

- **Channels**
  - Online
    - UK +48.5% (incl. +90% May); ROI +50.9%; Central Europe +106.3%
    - capacity increased from 600k to 1.3m slots per week; capex £4m
    - sales run rate indicates c.£2bn sales growth this year (from c.9% to over 16% of sales at end 1Q)
    - 590k vulnerable customers added to customer base
  - Convenience
    - UK Tesco Express and One Stop growth +9.9%; ROI convenience growth +11.8%
    - Booker retail partners growth 23.5% (Premier, Londis, Budgens)
    - 54 One Stop conversions to Tesco Express; +42% avg. uplift
    - Jack's; all stores running at more than £100k sales/week; LFL +62%
- **Loyalty**
  - Pre COVID-19 impact of Clubcard Plus on buying behaviour c.3x the level anticipated pre-launch
  - Change in buying behaviour with lower transactions, bigger baskets enhances value of Clubcard Plus offer
- **Booker**
  - Strong retail sales (+23.5%) offset by declines in catering (down (32.1)%)
  - Best Food Logistics sales down (70)%; improving recently to c.(50)% as customers reopen for business
  - In severely challenged food service sector, Booker well-placed to emerge in a stronger relative position
- **Geography**
  - UK & ROI sales +9.2%
    - UK +9.1%
      - Shopping frequency down (32)%, basket size +64%
      - Significant investment in Aldi Price Match (now extending to c.500 lines)
    - ROI +19.7% driven by higher conversion of 'out of home' consumption
    - Booker +6.1%; includes c.5% contribution from Best Food Logistics
  - Central Europe exc. Poland sales +3.3%
    - Sale of Polish business to Salling Group A/S agreed[1]; completion expected this financial year
  - Sale of Thailand and Malaysia businesses approved by shareholders in May, completion expected in 2H
- **Tesco Bank**
  - Provision for potential bad debts increased to reflect updated macro-economic assumptions
  - Now expect an operating loss of £(175)m-£(200)m this year; capital ratios and liquidity remain strong

Trading update

To help investors and other stakeholders understand a little better what is happening we are sharing a one-off deeper insight into our 1Q 20/21 trading performance; the focus of which is our UK & ROI business. This is shared on our website at www.tescoplc.com/1Q2020

Total sales in our UK & ROI business increased by 9.2%. Growth was most marked in online with sales up 48.5% for the quarter as a whole and the rate of growth increasing to nearly 100% by the end of May. Sales in our convenience business grew by 9.5% including a particularly strong performance from One Stop. Our 896 large stores were well-placed to serve customers seeking to shop less frequently and buy more on each visit, with sales up 5.4%.

Throughout this period, we continued to invest in our everyday value proposition including the launch of 'Aldi Price Match' in March. As a result of this, in combination with the strength and relevance of our overall proposition, we saw net switching gains[2] to Tesco from Aldi for the first time in over a decade. Customers who saw our 'Aldi Price Match' campaign were more likely to visit our shops (+6%), rated our brand more highly (NPS +10%) and perceived Tesco as better value (+8%)[3]. We are extending 'Aldi Price Match' to nearly 500 Tesco and branded products and will continue to seek further opportunities to bring even greater everyday value to customers at this challenging time.

As we refocused our offer on availability and everyday low prices, promotional participation reduced from 28% to 14%. We also saw major shifts in product and category mix as customers focused more of their purchases on essential items. In the UK, food sales grew at c.12%, whereas more discretionary categories such as clothing saw sales declines of c.(20)%. Following a sharp initial reduction, sales in general merchandise recovered through the quarter with some categories - toys, home, stationery and electrical – growing strongly year-on-year, as customers increasingly looked to add these items to their weekly shop. Fuel sales, which are excluded from our headline sales performance, declined by c.(50)%.

As a result of improvements in customer perceptions of Tesco across all key areas, including value +5.0pts and quality +3.7pts, the strength of our brand reached its highest level since 2011[4]. Following our focus on ensuring customer safety, 90% of our customers believe our stores are a safe place to shop[5].

Responding to the significantly increased demand for our online offer, we have grown that part of our business as quickly as possible. In just five weeks we doubled our online capacity and are now fulfilling over 1.3 million orders per week. Across the quarter as a whole, we delivered 12.6 million orders, including to a priority list of 590,000 vulnerable customers. In addition to providing more delivery slots for customers, we have also increased the availability of our click and collect service, which now represents around a quarter of online orders. As a result of the changes we have made, our online grocery business has grown from c.9% to over 16% of our total UK sales.

We originally set out a plan to double the capacity of our online business in the medium term, including the development of at least 25 urban fulfilment centres (UFCs). Whilst the construction of our first UFC in West Bromwich Extra was paused in March due to government restrictions, we were able to complete the work in June and our first customer order will be delivered next month. We are well positioned to capture market growth beyond our original ambition and will continue with the roll out of the UFC programme as we respond to the accelerated shift in customer demand.

Our response to COVID-19 has required significant changes to our operations which have led to a substantial increase in costs, with the main impact in the UK. The majority of these costs relate to payroll which includes the provision of twelve weeks' paid leave to 26,000 vulnerable colleagues, in addition to the recruitment of 47,000 temporary colleagues to cover absence and meet increased demand. We have also incurred costs in areas such as distribution, where we have needed to re-open previously mothballed distribution centres and property, where we have incurred costs to adapt the store environment and temporarily lost tenant income. The provision of safety-related consumables and personal protective equipment across all of our 3,628 stores in itself results in a charge of c.£(65)m. In total, our latest estimate of incremental costs for the UK for the full year is c.£(840)m. These costs will be partially mitigated by the UK business rates relief of £532m and a contribution from additional food sales.

Overall Booker's sales grew by 6.1% including a c.5% contribution from Best Food Logistics, which was acquired in early March. Booker saw a significant uplift in its retail business with sales growing by 24%

partially offset by a significant reduction in customer footfall for our catering business with sales falling by (32)%. In catering, we are already starting to see our competitive position strengthen and expect to exit the crisis with market share well beyond original levels. Booker has provided invaluable support to our grocery online business including by providing more than 100k additional click and collect slots and directly supplying nearly 18,000 deliveries to over 1,000 care homes.

In Central Europe, sales growth excluding Poland was +3.3%. Changes to customer shopping behaviour in the region were similar to the UK, with high demand for online grocery and a change in mix of sales towards more essential food items. In addition to the impact of similar operational changes to those we have made in the UK, financial performance in Central Europe will also be affected by the loss of income from the temporary closure of shopping malls from March to May.

Tesco Bank sales fell (26.5)% as activity in banking and money services reduced, including the temporary closure of our travel money business and significantly reduced ATM income.

Looking ahead

Our priority remains ensuring the safety of our customers and colleagues, and the consistent availability of food.

Whilst any forecast is inherently uncertain, based on an assumption of a continued easing of lockdown restrictions in the UK, our current expectation is that Retail operating profit in the current year is likely to be at a similar level to 2019/20 on a continuing operations basis.

Following revised macro-economic assumptions regarding GDP and unemployment levels, we have increased our provision for potential bad debts at Tesco Bank and we now expect to report a loss for the Bank of between £(175)m and £(200)m for the 2020/21 financial year. We will continue to review any changes made to macro-economic forecasts and this could result in releases from or additions to this provision. Whilst headline profitability is impacted in the short term, the Bank's capital ratios and liquidity remain strong.

More detail about our actions to provide food for all, safety for everyone, and support for our colleagues and communities is shared at www.tescoplc.com/covid-19.

Contacts

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A call for investors and analysts will be held today at 8.30am.

Dial in number: 0800 279 6619 (toll free) / +44 (0) 844 481 9752
Access code: 6329694#

All materials, including a transcript and playback facility, will be made available on our website.

We will report our Interim results on Wednesday 7 October 2020.

Notes

1. Subject to antitrust approval.
2. Kantar Worldpanel 12 w/e value switching data to 17 May 2020.
3. Survey by Hall & Partners; fieldwork dates 17 March to 1 April 2020.
4. YouGov.
5. Internal customer viewpoint survey.