TESCO

News release…
Thursday 8th December 2011

TESCO PLC
THIRD QUARTER INTERIM MANAGEMENT STATEMENT

7.2% GROWTH IN GROUP SALES

Philip Clarke – Chief Executive

"We have made good progress in our third quarter against the background of challenging conditions for consumers in many of our markets.

In the UK, our increased investment in the shopping trip for customers is starting to deliver. The Big Price Drop campaign, now in its second phase, has lowered prices significantly for hard-pressed families and we are now being rewarded with stronger food volume growth. We are also seeing positive customer reaction to the improvements in our general merchandise ranges. Whilst I am pleased with these early signs of stronger performance, a great deal more remains to be done and we are confident of delivering further improvements as we implement our plans.

Overall, we saw good growth internationally despite some of our markets in Asia being affected by difficult trading conditions. In particular, the disruption in Thailand caused by the flooding interrupted an otherwise strong sales trend and the response of our team there to the crisis has been outstanding – both for customers and for our staff. Elsewhere, both Central Europe and Fresh & Easy delivered further pleasing performances."

Group sales

Group sales for the thirteen weeks ending 26 November 2011 increased by 7.2% including petrol (7.3% at constant exchange rates) and by 5.4% excluding petrol (5.5% at constant exchange rates).

UK – Progress in a difficult market

Overall, our UK business continues to grow faster than the industry and its underlying health has strengthened despite the deflationary effect of our recently launched Big Price Drop campaign, which has significantly reduced the rate of inflation in the business.

UK consumers remain under pressure from rising unemployment, falling real wages and increasing living costs. At Tesco, we are doing what we can to help customers cope with these obvious challenges by reducing prices with the aim of driving more volume growth through our stores. After just 10 weeks the early results – from this fundamental, long-term shift in our pricing and promotional strategy – are promising.

We have seen a good improvement in our rate of customer and transaction growth in absolute terms and relative to our key competitors, with the result that we are being rewarded with a stronger grocery volume performance. Recent Kantar data also shows that Tesco's volume performance is now materially stronger and ahead of the market. Customers have noticed the difference in terms of pricing and our own tracking studies confirm that we are leading the market on perceptions that prices have fallen.

Our growth has been supported by a strong performance from new stores, which are performing ahead of our expectations – and also creating many new jobs.

Despite still weak demand levels in general merchandise, clothing and electricals, our performance in these markets has shown improvement in the quarter, resulting from the initial changes we have made to ranges, space allocation and merchandising in a number of our Extra stores.

Total sales including VAT and petrol grew by 6.7% and by 3.7% excluding petrol. Our like-for-like-sales growth including VAT and petrol was 3.4% in the period and excluding petrol, growth was 0.1%, representing a slightly stronger rate of growth than in the second quarter. Exc. petrol like-for-like sales excluding VAT were stable at (0.9)%. Online sales increased by nearly 10% in the third quarter, reflecting strong growth in Tesco Direct.

Tesco Bank migration nearing completion

Tesco Bank has continued to make steady progress, with total revenue growth in the quarter of 4.4%. Excluding the effect of fair value provision releases, revenue growth was over 10%. Customer account numbers grew well, including 7.7% growth in credit cards, 4.3% in savings and 2.1% in motor insurance. Balances grew strongly in credit cards, with retail card sales up 8.0%. Loan balances reduced temporarily as we focused on completing the migration of these accounts to our own systems platforms.

The transition of the remaining products to our own systems infrastructure is now complete, with the exception of credit cards, which are on track for migration in early 2012.

Continuing strong performance in Asia, Europe & at Fresh & Easy

Our businesses outside the UK have delivered strong growth.

The sales performance in Asia was strong in September and October, with continued robust like-for-like growth, coupled with a good programme of new store opening across the region. November's growth was impacted significantly by the disruption caused by the flooding in Thailand. Elsewhere, the warmest Autumn temperatures in northern Asia for 75 years affected seasonal merchandise sales, particularly in Korea and China. In Thailand, our team coped brilliantly with the major challenges posed by the flooding. With water levels around Bangkok now subsiding, normal operations there are beginning to resume, and we expect to have all stores re-opened by mid-January. Like-for-like growth in Asia slowed sharply during the quarter – to 0.8% – as a result of these short term effects. Total sales growth in Asia was 9.7% (8.9% at constant exchange rates).

In Europe, sales excluding petrol grew by 5.8% (7.7% at constant exchange rates). Growth in Central Europe was again pleasing, with particularly strong performances in Poland and Slovakia and good increases in market share. Whilst our performance in Ireland was very encouraging – ahead of the market and slightly better than during the last two quarters – like-for- like growth remains slightly below last year. Europe's overall like-for-like sales growth strengthened to 0.9%, from 0.1% in quarter two, with a growing contribution coming from our remodelled Extra hypermarkets.

We continue to be encouraged by the momentum in Fresh & Easy. Sales were up over 29% in the quarter (at both actual and constant exchange rates), with further, double-digit like-for-like sales growth of 11.9%, driven by both increased customer numbers and higher average spend. New store performance also continues to be pleasing, with good weekly sales per store, reflecting the fact that these stores incorporate all of the improvements to the offer for customers we have introduced in recent months.

Extra Format – Driving growth in Europe & Asia

Our programme of remodelling hypermarkets to our Extra format is delivering exciting results – in Europe and also now in Asia, with the success of our first converted store in Thailand. Sales uplifts in all the stores converted so far are averaging 17%. The first Extra conversions in Korea and China will be completed in the next few weeks.

Financial Position

We are performing broadly in line with market expectations for the Group and the outlook for the year as a whole remains unchanged, ahead of the important seasonal trading period.

Appendix 1 – Segmental Sales Growth Rates

	Third Quarter 2011/12 Sales Growth					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
Group	**7.2%**	**5.4%**	**7.3%**	**5.5%**	**2.6%**	**0.4%**
International	**8.2%**	**8.3%**	**8.8%**	**8.8%**	**1.2%**	**1.1%**
Asia	9.7%	9.7%	8.9%	8.9%	0.8%	0.8%
Europe	5.8%	5.8%	7.7%	7.7%	1.0%	0.9%
United States	29.2%	29.2%	29.6%	29.6%	11.9%	11.9%
UK	6.7%	3.7%	6.7%	3.7%	3.4%	0.1%
Tesco Bank	4.4%	4.4%	4.4%	4.4%	n/a	n/a

Appendix 2 – UK Like-For-Like Growth

	Third Quarter Like-For-Like Growth 2011/12	Second Quarter Like-For-Like Growth 2011/12
UK LFL (inc. VAT, inc. petrol)	3.4%	3.5%
UK LFL (inc. VAT, exc. petrol)	0.1%	(0.0)%
UK LFL (exc. VAT, exc. petrol)	(0.9)%	(0.9)%
UK LFL (exc. VAT, exc. petrol and IFRIC 13 compliant)	(0.9)%	(0.7)%

Appendix 3 – Country Like-For-Like Growth exc. Petrol

	Third Quarter Like-For-Like Growth 2011/12	Second Quarter Like-For-Like Growth 2011/12
Asia	**0.8%**	**3.9%**
China	3.4%	6.1%
Malaysia	(5.0)%*	5.4%*
South Korea	0.3%	0.9%
Thailand	1.4%	7.5%
Europe	**0.9%**	**0.1%**
Czech Republic	(0.3)%	0.0%
Hungary	1.2%	1.8%
Poland	4.0%	(2.2)%
Slovakia	5.7%	4.9%
Turkey	(2.6)%*	5.3%*
Republic of Ireland	(2.4)%	(3.0)%
United States	**11.9%**	**12.4%**

*Quarter-on-quarter movement in growth rates in Malaysia and Turkey are affected by the later timing of Ramadan in 2011

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Notes:

These results have been reported on a continuing operations basis and exclude the results from our operation in Japan which have been treated as discontinued following our decision to sell the business.

All figures quoted are at actual exchange rates and excluding petrol unless otherwise stated.

For UK, ROI and USA, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 26 November 2011 and 27 November 2010 respectively. For Tesco Bank the results are for 91 days for both the current year and the previous year comparison, for the periods ended 30 November 2011 and 30 November 2010 respectively. For all other International countries, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 27 November 2011 and 28 November 2010 respectively.