



## News release...

Wednesday 4<sup>th</sup> June 2014

# TESCO PLC FIRST QUARTER INTERIM MANAGEMENT STATEMENT

- **A quarter of significant improvement for customers, with a greater focus on building long-term loyalty, through:**
  - **Significant price cuts on the lines that matter most**
  - **Enhanced rewards through Clubcard Fuel Save**
  - **Cheaper online grocery services**
  - **Over 100 more stores refreshed**
- **UK LFL inc. VAT (exc. petrol) of (3.7)% – in line with last year’s exit rate despite the significant reduction in untargeted promotions and deflationary impact of investment in lower prices**
- **Group sales growth of (0.9)% (at constant rates, exc. petrol)**

### **Philip Clarke, Chief Executive:**

“Our accelerated plans are making a real difference for customers and we are more competitive than we have been for many years. Since February, we have cut prices on the products that matter most, cut home delivery charges and made Grocery Click & Collect free. We launched Clubcard Fuel Save nationwide in March and have already helped over a quarter of UK households cut the cost of filling their tanks. Our store refresh programme is on track to bring a new face of Tesco to 650 neighbourhoods this year including over 100 of our Extra stores.

As expected, the acceleration of our plans is impacting our near-term sales performance. The first quarter has also seen a continuation of the challenging consumer trends in the UK, reflecting still subdued levels of spending in addition to the more structural changes taking place across the retail industry. We are determined to lead in this period of change, building long-term customer loyalty and positioning the business to win in the multichannel era.

In our international businesses, we have applied the same focus to building loyalty and maintaining capital discipline. We have seen some improvement in overall like-for-like sales performance since the last quarter and have now completed the formation of our partnerships with CRE in China and Tata in India.”

### **UK performance**

Our work to sharpen prices included four main waves of price reductions in the quarter. We have been pleased with the reaction from customers so far, with volumes on the lines where we have focused our investment up over 28%. Our overall price index\* relative to our competitors has improved across the quarter, even with the increased level of activity in the market.

Clubcard Fuel Save will be a key point of difference in building long-term customer loyalty. Less than three months since launch it has already helped well over five million customers save an average of seven pence per litre. The scheme is driving clear changes in behaviour with a marked increase in fuel volumes towards the end of the month as customers seek to maximise the amount they can save.

\*Based on a sales weighted index covering all available comparable lines (most recent survey included up to 17,503 products).

Whilst these improvements will drive long-term loyalty, the associated reduction in the level of untargeted promotions and the deflationary impact from lower prices in the first quarter has affected our near-term sales performance. On price, the entire market has seen a step-down in growth since the end of last year largely driven by lower inflation, led by the actions we outlined in February. On promotions, we have chosen to reinvest for loyalty, helping customers manage their budgets on an ongoing basis rather than funding short-term, indiscriminate couponing. This step-down in couponing alone accounts for more than half of our underperformance relative to the grocery market compared to the final quarter of last year.

We refreshed just over 100 stores in the quarter and will refresh over 200 more by the end of the first half. As we described in April the disruption from our refresh programme will continue to have an impact on our like-for-like sales performance. This quarter has seen over double the number of weeks of refresh disruption compared to the same period last year.

We further strengthened our market-leading multichannel offer at the end of April with lower delivery and service charges for grocery home shopping. These included the introduction of free Click & Collect, £1 one-hour delivery slots and a lower priced, no-risk guarantee Delivery Saver subscription scheme. Since the launch of these initiatives we have fulfilled over 100,000 daily orders on four occasions; a milestone we had previously not reached, even during the Christmas period.

### **International performance**

Overall international sales increased by 0.5% at constant exchange rates, with a significant currency impact resulting in a sales decline of (8.0)% at actual rates.

Our like-for-like sales performance in Asia has improved since the last quarter despite the continued effect of the political situation in Thailand. In Europe, like-for-like sales were positive in the Czech Republic, Hungary, Poland and Turkey. Whilst Ireland remains intensely competitive with high levels of untargeted couponing in the market, our performance there is starting to improve.

### **Outlook**

We are pleased by the early response to our accelerated efforts to deliver the most compelling offer for customers. We expect this acceleration to continue to impact our headline performance throughout the coming quarters and for trading conditions to remain challenging for the UK grocery market as a whole.

There have been no material events, transactions or changes in the financial position of the Group since the year end, other than as outlined in this statement.

## **Contacts**

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## Appendix 1 – Segmental Sales Growth Rates

Group	First Quarter 2014/15 Sales Growth					
	Actual rates		Constant rates		Like-For-Like	
	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol	Inc. Petrol	Exc. Petrol
<b>Group</b>	<b>(3.7)%</b>	<b>(3.8)%</b>	<b>(1.2)%</b>	<b>(0.9)%</b>	<b>(3.3)%</b>	<b>(3.2)%</b>
<b>International</b>	<b>(8.0)%</b>	<b>(8.0)%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>(2.2)%</b>	<b>(2.2)%</b>
Asia	(8.9)%	(8.9)%	1.5%	1.5%	(3.2)%	(3.2)%
Europe	(7.1)%	(6.9)%	(0.7)%	(0.6)%	(1.1)%	(1.0)%
<b>UK</b>	<b>(2.0)%</b>	<b>(1.7)%</b>	<b>(2.0)%</b>	<b>(1.7)%</b>	<b>(3.8)%</b>	<b>(3.7)%</b>
<b>Tesco Bank</b>	<b>3.6%</b>	<b>3.6%</b>	<b>3.6%</b>	<b>3.6%</b>	<b>n/a</b>	<b>n/a</b>

## Appendix 2 – UK Like-For-Like Growth

	First Quarter Like-For-Like Growth 2014/15	Fourth Quarter Like-For-Like Growth 2013/14
UK LFL (inc. VAT, inc. Petrol)	(3.8)%	(3.0)%
UK LFL (inc. VAT, exc. Petrol)	(3.7)%	(2.9)%
UK LFL (exc. VAT, exc. Petrol)	(3.8)%	(3.0)%
UK LFL (exc. VAT, exc. Petrol and IFRIC 13 compliant)	(4.0)%	(3.3)%

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

	First Quarter Like-For-Like Growth 2014/15	Fourth Quarter Like-For-Like Growth 2013/14
<b>Asia</b>	<b>(3.2)%</b>	<b>(5.6)%</b>
Malaysia	(2.3)%	1.2%
South Korea	(2.8)%	(4.9)%
Thailand	(5.3)%	(9.1)%
<b>Europe</b>	<b>(1.0)%</b>	<b>(0.6)%</b>
Czech Republic	1.6%	0.6%
Hungary <sup>^</sup>	2.7%	3.4%
Poland	0.5%	1.9%
Slovakia	(5.8)%	(3.0)%
Turkey	3.4%	1.7%
Republic of Ireland	(5.5)%	(6.4)%

<sup>^</sup> Following the introduction of legislation preventing large retailers from selling tobacco in mid-July 2013, Hungary like-for-like sales growth is shown on an excluding tobacco basis. Including tobacco sales, Q1 2014/15 LFL sales growth was 0.0% and Q4 2013/14 was 1.1%.

### Notes:

These results have been reported on a continuing operations basis and exclude the results from our operations in the US and China.

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

For UK and ROI, these results are for 91 days for both the current year and the previous year comparison, for the periods ended 24 May 2014 and 25 May 2013 respectively.

For Tesco Bank and India, these results are for 92 days for both the current year and the previous year comparison, for the periods ended 31 May 2014 and 31 May 2013 respectively.

For all other countries, these results are for 86 days for both the current year and the previous year comparison, for the periods ended 25 May 2014 and 26 May 2013 respectively.